



WORKING HARD BUT STILL POOR

*An Agenda for Meeting the Needs
of Michigan's Low-Income Working Families*

Numerous strategies are available that, separately or together, can help families who are struggling to achieve self-sufficiency and become part of the economic mainstream. These strategies can provide the framework for a comprehensive policy agenda that can significantly improve the lives of low-income families and increase the likelihood of positive outcomes for low-income children in Michigan.

For the vast majority of Michigan families, education and employment have resulted in a reasonable degree of economic security, stability and positive outcomes for children. These families enjoy a level of income that is at least high enough to provide for economic self-sufficiency and to enable the family to accumulate assets such as a car, a modest home, and a small amount of savings. Across Michigan, however, hundreds of thousands of families have found the path to self-sufficiency and economic security to be one with many detours and roadblocks.

Nearly 6 percent of Michigan's working families live below the federal poverty level, and another 24 percent have earnings that put them above the poverty level but far short of providing even a modest standard of living. In total, nearly one-quarter of Michigan's working families live below the income level that is considered necessary to meet the family's basic needs. A large majority of these families have a full-time worker; others want full-time work but it is not available. Sadly, these low-income working families are struggling, with very meager resources, to meet the economic, emotional and physical needs of 384,000 children.

Unlike more economically secure families, low-income working families are constantly trying to make ends meet. Any setback—a job loss, reduced wages, an illness or injury, a car repair, or a higher than anticipated utility bill—can result in a major financial crisis including eviction or the loss of a home, and in many cases, turning to public assistance programs. The difficult choices about which bills to pay and which essential purchases to postpone or forego, are a part of daily life.

There are many reasons that so many families live on the economic edge despite employment. Often, the jobs in which they are employed pay very low wages and are part-time, temporary or seasonal. This is particularly true as the state's economy has shifted from high paying manufacturing jobs

to lower paying service sector jobs. Such jobs seldom provide health insurance and other benefits, are prone to cutbacks in work hours and layoffs, and do not offer opportunities to learn new skills in order to advance. Workers in low-wage jobs are also hindered in their efforts to obtain better jobs by lack of financial resources to pay for additional education and training, lack of transportation, and lack of access to affordable child care—particularly when work hours increase or the work shift changes.

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Michigan Should Expand Education and Training Opportunities for Low-Income Working Parents

Investing in education and training targeted to educationally disadvantaged adults is one of the more powerful ways a state can help low-income families achieve economic self-sufficiency. More highly educated and skilled workers receive higher wages and better benefits. They generally enjoy more job security and more opportunities for wage advancement. Workers lacking a strong education and strong work related skills are at a disadvantage in competing for jobs that pay high wages and provide benefits. The most educationally disadvantaged workers, those lacking a high school diploma or GED and having no technical training, are at a severe and usually insurmountable disadvantage in the competition for good jobs.

More than two and a half million working age adults in Michigan—44 percent of adults ages 18 to 64—lack the educational attainment levels that employers in high-wage businesses are seeking. Nearly one-third of working age adults have only a high school diploma or GED and, particularly troubling, more than one in ten working age adults has not completed high school or obtained a GED. Forty percent of adult workers in Michigan have no post-secondary education.

- A comprehensive state workforce development policy framework is needed that targets resources to low-wage workers and defines and measures outcomes.
- Michigan’s Work First program, which has seriously impeded access to education and training opportunities, should be replaced with a new approach that fits within an overall workforce development strategy for low-income workers. The guiding principles behind future policies should be skill development and wage growth.
- Education and training opportunities at Michigan Works! Agencies should be expanded and substantial portions of education and training funds should be targeted to low-wage workers.
- Adult Education and English as a Second Language (ESL) programs are vital to increasing the basic academic and workplace skills of educationally disadvantaged adults and access to these programs must be improved.
- Community colleges are a strategic resource in expanding vocational and post-secondary education for low-income adults and their role in an overall education and training framework for these workers should be increased.

Michigan Should Regularly Adjust the State’s Minimum Wage

The minimum wage was last adjusted in Michigan in 1997 and conforms to the current federal minimum wage of \$5.15 per hour. At current levels, however, the full-time earnings of a working parent in a three-person family are 29 percent below the federal poverty level. The family is unable to afford the basic necessities of life and must augment their earnings with assistance from public programs and local charities.

- Twelve states have minimum wage laws above the federal minimum wage. Of these, nine have minimum wage levels above \$6.00 per hour.
- Twenty-one states currently have minimum wage laws indexed to the federal wage rate and/or inflation. Without indexing minimum wage rates to at least the rate of inflation, the increased cost of living erodes the purchasing power of the wage and increases the economic vulnerability of these workers and their families. In Michigan, inflation since 1997 has reduced the purchasing power of the \$5.15 minimum wage by approximately 16 percent to \$4.33.
- Despite ongoing debates over the economic impact of increasing the minimum wage, research indicates that the actual job losses due to the increases are minimal and are far outweighed by the benefits, as workers have more money with which to meet basic needs, resulting in more income being spent in local economies.

Over one-half million households in Michigan receive the federal EITC benefit and would qualify for a Michigan benefit if legislation were enacted. If Michigan enacted a state EITC based on 25 percent of the federal credit, a single parent with two children with earnings of \$5.96 per hour, or \$14,494 per year—the federal poverty threshold—would receive a state EITC benefit of \$990; a married couple with two children, with earnings of \$10.00 per hour, or \$20,800 per year would receive an EITC refund of \$693.

Michigan Should Improve the Fairness of Its Tax System and Target Relief to Low-Income Working Families

Michigan's tax policies do little to address the economic challenges facing low-income working families and in some cases directly contribute to those challenges. Although the federal government in the 1980s removed families with incomes below the poverty level from federal income taxation, Michigan continues to levy state income taxes on families well below the federal poverty level. Despite regular adjustments in Michigan's personal exemption, Michigan's income tax threshold in tax year 2003 (the point at which a family starts paying state income tax) for a family of four was \$13,600, compared to the federal poverty level of \$18,660—the 7th lowest income tax threshold in the country.

Michigan's income and sales taxes also have an adverse impact on low-income working families. Michigan is one of only six states with a flat income tax rate. A flat income tax rate results in a significantly lower percent of discretionary income available to working families after payroll deductions and taxes. Further, the increased sales tax resulting from the change in the sales tax rate from 4 percent to 6 percent in 1994 is particularly regressive, in that far less spending by low-income working households is discretionary and low-income families purchase more goods, which are taxed, rather than services that are not currently taxed.

One way to target tax relief to low and moderate-income working families would be to enact a state Earned Income Tax Credit (EITC).

- Sixteen other states, the District of Columbia, and two local governments, have established EITCs modeled after the federal EITC. The federal refundable EITC, established by Congress in 1975 with strong bipartisan support, has been credited as being one of the most highly effective tools in reducing poverty in the United States because it rewards work and provides an important wage supplement to low and moderate-income working families. The federal EITC has been expanded three times since its inception.
- Over one-half million households in Michigan receive the federal EITC benefit and would qualify for a Michigan benefit if legislation were enacted. If Michigan enacted a state EITC based on 25 percent of the federal credit, a single parent with two children with earnings of \$5.96 per hour, or \$14,494 per year—the federal poverty threshold—would receive a state EITC benefit of \$990; a married couple with two children, with earnings of \$10.00 per hour, or \$20,800 per year would receive an EITC refund of \$693.
- A state EITC would provide highly targeted tax relief to low-income working families. Because it would be directly linked with the federal EITC, it could be administered without creating additional red tape and strains on the Michigan Department of Treasury.
- Because low-income working families have immediate needs to address with their earned income, the federal EITC refunds tend to be spent, rather than saved, bringing as much as \$1 billion into local economies throughout Michigan in tax year 2002. A state EITC based on 25 percent of the federal credit would bring an additional \$261 million into local economies.

Michigan Should Improve Access to Quality and Affordable Child Care

Almost half of Michigan's working families with children under the age of 13 have out-of-pocket expenses for child care. Child care costs represent a significant expenditure in the family budget, often exceeded only by the cost of shelter. Working parents who need to purchase child care in Michigan pay on average \$500 a month for full-time care for a preschool child. Michigan's low-earning families spend a larger share of their income on child care than their counterparts nationwide (20 percent vs. 16 percent) and triple the share of higher-income families. The average Michigan low-income family spends more than one of every five dollars they earn on child care.

The Child Development and Care Program of the Michigan Family Independence Agency assists low-income families with child care costs, but the current structure and the level of payment limit options for care. For example, licensed providers usually require full or half-day commitments for care and payment in advance, but the subsidy payment is based on the number of hours actually provided, as attested to by the care provider. Furthermore, the program's ability to significantly assist families in accessing child care is being compromised by inflation. The last inflation adjustment in subsidy rates was based on the 1996 market rate survey, now almost ten years old. The current subsidy for a toddler in a day care center ranges from \$1.90 to \$2.50 per hour, compared to the average actual cost of \$3.06.

There are numerous ways to improve access to quality, affordable child care for low-income working families in Michigan.

- Consistent inflation adjustments to the child care subsidy payment would provide more choices for low-income

working families when selecting a child care provider. While many parents may prefer to rely upon family members and in-home aides, the low child care subsidy rate prevents others from choosing more expensive center or licensed home care if they believe that is the better option for their children. Inflation-adjusted payments would also allow providers to attract and keep trained child care personnel.

- Structuring child care subsidy payments to half-day or full-day payments would allow access to a broader provider market. Child care providers, like other businesses, must be able to cover their costs. Hourly payments place families and providers at a disadvantage. Families have difficulty purchasing hourly care when the market is structured on a half-day and full-day fee schedule.
- Infant care is particularly expensive and often difficult to secure. While federal legislation requires mothers receiving cash assistance to seek work when their child reaches 12 months of age, Michigan law requires that mothers seek work when the infant is just three months old. Research consistently shows the importance of early bonding between a mother and child and the importance of these early months in a child's development. Given the importance of the first year of a child's life, and the shortage of quality, affordable infant care, Michigan should offer parents receiving cash assistance the opportunity to stay at home with their children until they reach age one.
- Before and after school programs provide a safe and developmentally important child care alternative for many families and can be particularly important for school age children for whom child care options are limited. Funding for these programs should be expanded across the state.

- For many low-income families licensed care options in child care centers, family homes or group family homes are not readily available in their neighborhoods. It is important that, on a state and local level, the development of licensed child care options in low-income communities be encouraged and supported.

Michigan Should Improve Access to Health Care For Parents in Low-Income Families

Broadening health insurance coverage among low-wage workers is critical to assisting low-income working families. The limited availability of employment-related health care coverage and publicly-funded Medicaid coverage for adults in Michigan has a direct bearing on the ability of parents to maintain employment, and also on family and child-well being. Currently in Michigan, 76 percent of the state's uninsured population is working full or part-time, with 44 percent working full time, all year.

There are many reasons that access to health care is limited. Employer-based coverage is often unavailable or unaffordable. Smaller employers, in particular, are less likely to offer health insurance to their employees, because the cost of premiums is so expensive. Approximately 18 percent of Michigan workers are employed by firms with fewer than 20 employees. Even when employers do offer health insurance, the employee share of the premium and co-pays are not affordable for low-wage workers. In addition, part-time workers are generally not eligible for insurance. High unemployment also contributes to additional people becoming uninsured. Unfortunately, purchasing health insurance on the private market is generally prohibitively expensive, particularly for low-income families and individuals.

- Expansion of Medicaid to cover working parents with incomes below the poverty level would reduce the number of uninsured in Michigan. Low-income working parents who exit the cash assistance system for employment receive Medicaid coverage for 12 months through the Transitional Medicaid Program. At the end of that period, however, the parent is without coverage, even though income is well below the poverty level. Federal Medicaid matching funds could help to expand Medicaid eligibility to working parents below the poverty level.
- Expansion of local government/private sector partnerships such as those operating in Ingham and Muskegon Counties could help to reduce the medical insurance gap. These plans are generally based on nearly equal contributions to the health care premium by the employer, the employee and state or local government.
- Stronger health planning and disease prevention efforts can help to reduce the incidence of many adverse health conditions in the state such as obesity and diabetes that contribute to high health care costs.

Michigan Should Support Initiatives in Local Communities to Enact Living Wage Ordinances

Living wage ordinances are being adopted across the country and in communities across Michigan as a recognition that the minimum wage paid to workers cannot adequately support a family. These ordinances require businesses that receive special tax considerations, or that contract with a local unit of government to provide goods or services, to pay the living wage rather than a lower wage. Living wage

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ordinances are generally designed to pay a worker enough to lift a family of four above the poverty level. Typically, a living wage ordinance sets the wage base at approximately \$8.00 or \$9.00 per hour if health insurance is provided, and \$10.00 to \$12.00 without insurance.

- Since 1998, fifteen local units of government in Michigan have enacted a living wage ordinance and several others are in the process of considering ordinances.
- Living wage ordinances follow the lead of state policy. According to the Michigan Economic Growth Authority Act, employers who receive state tax breaks must pay an average of 150 percent of the federal minimum wage. For qualified high tech business, the jobs must pay 400 percent of the federal minimum wage.
- Studies of living wage ordinances find that local communities benefit from the ordinances as a result of a reduction in poverty and the resulting economic health of the community. Further, studies show that contract costs to local municipalities actually decreased as a result of the higher productivity that results from lower employee turnover and absenteeism.

Michigan's Unemployment System Should be More Responsive to the Needs of Low-Income Workers and Their Families

Michigan's economy has changed significantly over the past two decades. In today's economy there are more low and moderate-income wage jobs in the service and retail sectors and fewer high-wage manufacturing jobs. Further, the current economy includes more part-time and temporary jobs, and

more job changes over the life of a worker. In addition, more single mothers are now in the workforce as well as more two-parent families with a part-time worker whose earnings are essential to the family's well-being.

Unemployment benefits provide an emergency safety net for workers who temporarily lose their jobs, yet Michigan's Unemployment Insurance (UI) system as it is currently structured does not meet the needs of a significant portion of unemployed workers. In the fourth quarter of 2003, 57 percent of Michigan's unemployed workers were not receiving unemployment benefits.

Unemployment benefits in Michigan have not kept up with the cost of living, even though the maximum benefit was raised to \$362 per week in 2002. The average weekly UI benefit in Michigan of \$289 in the last quarter of 2003 was 81 percent of the poverty level of \$359 per month for a two-parent family with two children. Further, the method of determining eligibility for UI in Michigan is among the nation's sternest—claimants must earn \$1,998 in one calendar quarter. A single mother earning the minimum wage and working 29 hours per week would not be eligible for UI benefits, nor would a mother earning \$7.50 per hour and working 24 hours per week.

In addition to the strict monetary requirements for UI eligibility, Michigan's UI rules require that workers must be available for and seek full-time work, regardless of their work history or the validity of their reasons for desiring part-time work. Lower-wage and female workers caring for children disproportionately fall into the ranks of part-time workers. Approximately 20 percent of all employment in Michigan is part-time.

Several changes in Michigan's UI system could ensure that it better meets the needs of low-income working families in Michigan.

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- The UI system should be restructured to make unemployment insurance benefits a more substantial replacement of wages, thereby protecting vulnerable families and children from significant hardship during times of unemployment.
- UI eligibility should be expanded to cover part-time workers. This is particularly important as families, especially single parents and low/moderate income two-parent families in which one or both parents work part-time, must balance income earning responsibilities with child-raising responsibilities.
- UI eligibility should also be expanded to cover workers who experience frequent periods of unemployment due to employment in industries that are seasonal and/or employ large numbers of temporary workers.

Michigan Should Develop Initiatives that Can Increase the Supply of Affordable Housing for Low-Income Families

Housing prices have increased nearly 45 percent since 1995 yet the income of working families has grown at a significantly lower rate. In Michigan, an extremely low-income household can afford monthly rent of no more than \$461, while the Fair Market Rent for a two-bedroom unit is \$692. Nearly three-quarters of very low-income families use more than half of their income for housing, leaving little for food, clothing, health care, transportation, and other necessities. The housing problems of low-income working families are compounded when the supply of affordable housing is not located near available employment opportunities.

The inability to secure decent, affordable housing contributes directly to increased homelessness, which in turn results in additional social service needs to assist families in communities across the state. In recent years, emergency shelter providers across Michigan report seeing an increase in the number of homeless families and individuals who are employed.

- Establishment of a Housing Trust Fund in Michigan would help to support the development of housing for low-income families by leveraging public and private resources to produce affordable housing in local communities. Such a fund would help households with the greatest housing need.
- Financial support for Individual Development Account Programs (IDAs) can expand home ownership opportunities for low-income working families. IDAs are savings accounts in which deposits are made by eligible low-income individuals and are matched by public or private resources. IDAs help low-income families and individuals save for a down-payment on a home, improving their education or starting a business.
- Strong linkages between housing programs and social services programs can be particularly effective in helping very low-income working families maintain the stability needed to maintain employment, keep children in school and avoid health risks posed by substandard housing.
- Many communities in Michigan enjoy growth and prosperity, while the cities, inner suburbs and small towns experience population loss, declining tax bases and increased concentrations of poverty. As a result, there is an uneven distribution of affordable housing. Regional cooperation in developing sound land use policies with respect to planning, zoning and regulation can help to

ensure an adequate supply of affordable housing, thereby deconcentrating poverty in urban areas and helping people access jobs in suburbs.

Michigan Should Ensure that Families Receive Child Support Payments from Non-Custodial Parents by Improving the Child Support and Payment Systems

Since the 1970s every state has operated a program to help locate absent parents and establish paternity, as well as establish, periodically modify, and enforce child support orders. As a result of divorce and an increase in the number of never-married single parents, more children than ever before depend on the state's child support collection system. More than a quarter of the children under 18 in Michigan are covered by court-ordered child support. However, of the non-custodial parents who were obligated to provide financial support to minor children in 2002, only half had made at least one payment during the first six months of the year. For low-income single-parent households, child support payments are a vital source of income that bolsters employment earnings and keeps families financially afloat. When required child support payments are not received, these families are at even greater financial risk and often suffer much higher rates of poverty.

- Efforts should continue to establish paternity and aggressively pursue collection of unpaid child support by non-custodial parents.
- The state's mandated Child Support Enforcement System (CSES) has finally been certified by the federal government, but many problems with the new system are

preventing families from receiving child support payments in a timely manner. The state must resolve these problems in order to ensure that families are not without the support necessary to help them meet basic needs.

- Michigan currently has \$40 million in child support payments that have been made by non-custodial parents, but have not been distributed to parents of children for which the payments were intended. Every effort should be made to ensure that these payments are disbursed.
- Many non-custodial parents earn very low wages and often face the same barriers to full participation in the workforce as the low-income custodial parent. A majority of fathers with children receiving cash assistance have income below \$20,000 and more than half have incomes below \$6,000. More needs to be done to help non-custodial parents develop skills, access training and locate employment in order that child support payments can be made.

Michigan Should Encourage and Adopt Policies that Increase Access to Transportation

Transportation is frequently cited by low-income workers as the greatest barrier to getting and keeping a job. It is also a problem that has no easy solutions because the lack of transportation affects families in many different ways, depending on where they live and the circumstances of their employment. Cars—the mainstay of our transportation system here in Michigan—are expensive to own and operate. While a low-income worker may be able to purchase an older, inexpensive car, the cost of keeping it repaired, insured, and filled with gas can be well out of reach for many low-wage workers. The alternative—public transit—is non-existent in many communities, particularly rural areas. In urban areas,

public transit systems may help in getting to jobs within certain neighborhoods and during certain hours, but may not help the worker who works past the last bus run or who finds work in outlying suburbs.

As the cost of automobiles continues to rise, and as more jobs are located in suburbs rather than in central cities, transportation will continue to be an issue that must be addressed if low-income and low-wage workers are to be successful in the labor force.

- An important source of transportation assistance for families moving into jobs after receiving cash assistance has been through Temporary Assistance for Needy Families (TANF) funding. Increasingly, this federal block grant provides more funding for work supports, such as day care and transportation, than financial assistance—a reversal of the way funds were used when the block grant was implemented as part of the 1997 federal welfare changes. Michigan, like most states, limits TANF funded transportation assistance to families currently receiving cash assistance and, for three months, to those who have left welfare for employment. Transportation assistance should be available to all low-income working families—not just those with a recent connection to the cash assistance system.
- All states permit the use of TANF funds for mileage reimbursement or gas vouchers for work-related transportation expenses. Michigan, however, provides only 20 cents per mile for such expenses—a level that should be increased.
- Strong regional transportation systems should be encouraged and supported. Such systems are critical to the ability of business to attract workers, but are particularly important for workers for whom the cost of personal transportation, and lack of access to transportation alternatives, represent significant barriers to employment.

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As Michigan's economy continues to change, the contribution of all workers will be important to the state's economic viability, and ultimately, the quality of life of all of the state's residents. The challenges facing low-income workers and their families in Michigan are complex. For many families, solving one or two problems can put the family on the road to success. For other families, a myriad of issues may have to be addressed before they can become part of the economic mainstream. The strategies outlined here provide a clear direction for state policy development that can ensure an opportunity for the state's low-income working families to share in the economic success of the state and realize the economic security that they seek through their hard work.

Publication of this report was made possible through a grant from the Annie E. Casey Foundation

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