Overlooked and Undercounted 2009

Struggling to make ends meet in California

United Way

UNITED WAY

United Way is a network of nearly 1,300 local non-profit organizations that work to advance the common good by focusing on education, income and health. In California, 38 United Ways throughout the state raise and invest more than $200 million each year to address the underlying causes of our state's largest social problems working with nonprofits, government and businesses to bring change.

The United Ways of California have worked to promote financial stability for decades. In 2003, United Way of the Bay Area adopted the Self-Sufficiency Standard developed by Dr. Pearce and urged the United Way system to do the same. The United Way system adopted it nationally in 2005 as it launched the Financial Stability Partnership™, which focuses on income, savings and assets.

To learn more visit www.unitedway.org, www.unitedwaysCA.org or contact your local United Way.

INSIGHT CENTER FOR COMMUNITY ECONOMIC DEVELOPMENT

Founded in 1969, the Insight Center for Community Economic Development is a national research, consulting and legal non-profit organization dedicated to building economic health and opportunity in low-income communities.

The Insight Center was one of four organizations that launched the Family Economic Self-Sufficiency Project and one of five organizations that launched the Elder Economic Security Initiative™, innovative, nation-wide efforts to help low-income families and retired elders reach economic security. The national effort is organized in partnership with Wider Opportunities for Women (WOW). For several years, Insight Center has worked with Dr. Pearce and a variety of partners to help close the gap between families' income and the rising cost of living.

Go to www.insightcced.org to learn more, or call (510) 251-2600.

CENTER FOR WOMEN'S WELFARE

The Center for Women's Welfare at the University of Washington's School of Social Work is devoted to furthering economic justice for women and their families. The main work of the Center focuses on the development of the Self-Sufficiency Standard. Under the direction of Dr. Diana Pearce, the Center collaborates with a range of government, non-profit, women's, children's and community-based groups to:

1) Research and evaluate public policy related to income adequacy;

2) Create tools to assess and establish income adequacy; and

3) Develop programs and policies that strengthen public investment in low-income women, children and families.

Go to www.selfsufficiencystandard.org to learn more, or call (206) 685-5264.

For specific questions about the data and methodology of this report, contact: Diana Pearce, PhD, Center for Women's Welfare, University of Washington, pearce@uw.edu or Denise L. Gammal, PhD, United Way of the Bay Area, stability@uwba.org.

OVERLOOKED AND UNDERCOUNTED 2009:

STRUGGLING TO MAKE ENDS MEET IN CALIFORNIA

Diana M. Pearce, Ph.D. • **December 2009**

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SCHOOL OF SOCIAL WORK, UNIVERSITY OF WASHINGTON

Prepared for

UNITED WAY OF THE BAY AREA (LEAD)
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ORANGE COUNTY UNITED WAY
UNITED WAY OF GREATER LOS ANGELES
UNITED WAY OF SANTA CRUZ COUNTY
UNITED WAY OF SILICON VALLEY
UNITED WAY OF VENTURA COUNTY
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UNITED WAYS OF CALIFORNIA

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Acknowledgements

Led by United Way of the Bay Area, eight California United Ways joined together to fund this report. To learn more about how they help low-income individuals and families reach financial stability in their communities, please visit their websites:

Orange County United Way
www.unitedwayoc.org

United Way of the Bay Area
www.uwba.org

United Way of Greater Los Angeles
www.unitedwayla.org

United Way of Santa Cruz County
www.unitedwaysc.org

United Way Silicon Valley
www.uwsv.org

United Way of the Wine Country
www.unitedwaywinecountry.org

United Way of Ventura County
www.vcunitedway.org

United Ways of California
www.unitedwaysca.org

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Copies of this report and related materials may also be downloaded at www.liveunitedca.org.

Preface

The Self-Sufficiency Standard used in this report was developed in 1996 by Dr. Diana Pearce, who was at that time Director of the Women and Poverty Project at Wider Opportunities for Women (WOW). The Ford Foundation provided funding for its original development.

This report would not have been possible without the 2008 update of the Self-Sufficiency Standard for all California counties, which was supported by the Insight Center for Community Economic Development. Information on the Standard in each California county is available at www.insightcced.org/communities/cfess/ca-sss.html.

We wish to thank United Way of the Bay Area and its partners, which assisted in the development and editing of this report and its release, especially Denise L. Gammal, Ph.D., and Rangsiwan Fasudhani.

Finally, we would like to acknowledge the contribution to the development of the first "Overlooked and Undercounted" report of Rachel Cassidy, demographer, as well as the editorial contributions of Maureen Golga and Aimee Durfee.

The conclusion and opinions contained within this report do not necessarily reflect the opinion of those listed above or the United Way partners. Nonetheless, any mistakes are the author's responsibility.

Foreword

United Way believes that everyone deserves an opportunity to achieve the building blocks of a good life: a quality education that leads to a stable job, income that can support a family through retirement, and good health.

This report shows, in more detail than ever before, that there are many more Californians living in poverty than most people think. Poverty is grossly undercounted. This is largely because the Federal Poverty Level formula, established more than 45 years ago, was based on the cost of food. And in the decades since, the costs of housing, transportation, child care, health care and other family necessities have risen far more rapidly than food costs. Also, since most government and social service programs rely on variations of the Federal Poverty Level, rather than more accurate measures like the one we present in this report, many families remain overlooked. As a result, the true extent of families contending with poverty is hidden.

If nothing else, the least we can do to help those fighting their way out of poverty is to see them more clearly. That means not only uncovering the real number of households in each of our communities that are struggling, but also cutting through broadly held stereotypes about what those in poverty look like, what skills and education they hold and what needs they have. Poor Californians reflect the diversity that is our state and work hard as part of the mainstream workforce. As this report makes clear, hard work alone is not enough for many to meet their basic needs. We must think differently about our approach and adjust to changing realities for the people we mean to help.

While poverty reaches broadly across all lines, the findings reveal significant disparities—across household composition, educational achievement, geography, race and gender—that prompt provocative questions. We believe this information can help policymakers, employers, educators and service providers rethink our impact on those with whom we work or serve. What are the best investments to help struggling householders climb out of poverty? What can we do to reduce the effects of race or gender on income inadequacy?

This is not about the current economic crisis—for these individuals and families, poverty is an everyday crisis. They and their children are an important part of California's future. The well being of our communities depends, in part, on our ability to help struggling residents find pathways out of poverty.

We need leaders from every sector to join us as we strive to develop the best solutions for our communities and our state.

PETER MANZO
President and CEO
United Ways of California

Executive Summary

Three in ten California households—almost *2.9 million households*—lack enough income to cover "bare bones" living expenses. According to America's official poverty measure, the Federal Poverty Level (FPL), however, only one in ten households is officially considered poor or in need. Because many federal and state programs provide support only to those with incomes below the FPL, a large and diverse group of individuals and families experiencing distress are routinely overlooked and undercounted. Many of these hidden poor find they earn too much income to qualify for most supports, yet still struggle to meet their most basic needs, especially as the costs of housing, health care, and other necessities continue to rise faster than wages.

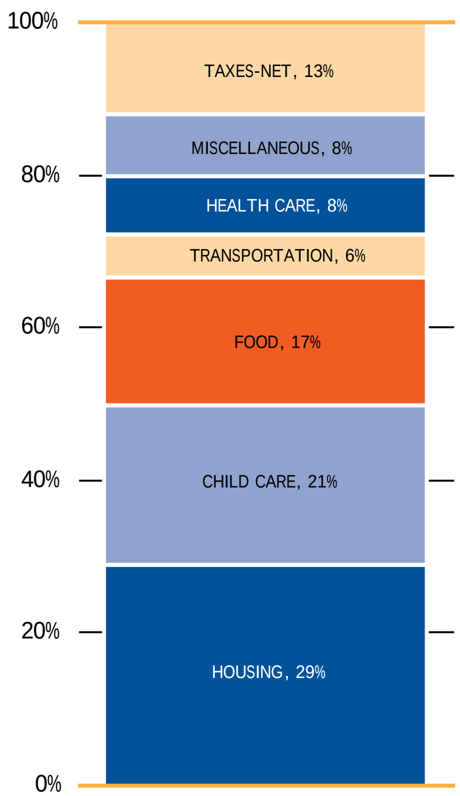
The purpose of the Self-Sufficiency Standard and this report is to present a more accurate picture of poverty in California. Focused on the 9,267,711 households headed by non-disabled adults age 18 to 64, including both family and non-family households, this report examines demographic and other characteristics of those whose incomes are insufficient. Using the Self-Sufficiency Standard for California to analyze U.S. Census Bureau data, this report addresses several questions:

- How many individuals and families in California are working hard yet are still not able to pay for their basic needs?
- Where do people with inadequate income live and what are the characteristics of their households?
- How do education, occupation, and employment patterns affect the chances of having adequate income?
- What can we learn about these individuals and families to help inform the work of policymakers, employers, educators, and service providers?

This report finds that California families struggling to make ends meet are neither a small nor a marginal group, but rather represent a substantial and diverse proportion of the state. Individuals and married couples with children, households in which adults work full time, and people of all racial and ethnic backgrounds account for substantial portions of those struggling to make ends meet in California.

FIGURE 1. Basic Needs as a Percentage of the Standard Two Adults and One Infant: Alameda County, CA 2008

Figure 1 illustrates the proportion of income spent on each basic need for families, using a family with one child living in Alameda County as an example family. Families with young children generally spend about half (or more) of their income on housing and child care expenses alone.



Source: Pearce, D. (2008) *The Self-Sufficiency Standard for California 2008*. Available at http://www.selfsufficiencystandard.org

It is our hope that a better understanding of the challenges faced by struggling individuals and families can enable steps to be taken to address these challenges and help Californians living in poverty close the gap toward financial security.

THE SELF-SUFFICIENCY STANDARD: A MEASURE OF ADEQUATE INCOME

Though innovative for its time, many researchers and policy analysts have concluded that the official poverty measure, developed over four decades ago, is not only methodologically out of date, but also no longer accurately measures poverty. Even the Census Bureau now characterizes the federal poverty measure as a "statistical yardstick rather than a complete description of what people and families need to live." Likewise, current legislation introduced by Representative Jim McDermott (WA) and Senator Chris Dodd (CT), *The Measuring American Poverty Act of 2009*, further recognizes that the FPL is outdated and that revised measures of poverty and adequate income, including a "Decent Living Standard" modeled on the Self-Sufficiency Standard, are necessary to accurately provide guidance to policymakers, program decisions, and targeting of anti-poverty resources.

The Self-Sufficiency Standard (Standard) was developed to provide a more accurate, nuanced, and up-to-date measure of income adequate for basic needs. While designed to address the major shortcomings of the FPL, the Standard also reflects the realities faced by today's working parents, such as child care and taxes.

The Standard is a "bare bones" budget appropriate to family composition; it does not include any restaurant or take out food, savings, emergency funds, or credit card or loan payments. The Standard is calculated for 37 states and the District of Columbia. It uses data that are drawn from scholarly and/or credible sources such as the U.S. Census Bureau, and that meets strict criteria of being accurate, regularly updated using standardized and consistent methodology, and which is age- and/or geography-specific. For California, the Standard is calculated for all 58 counties and 156 possible household combinations.

FINDINGS

With more than three out of ten California households lacking enough income to meet their basic needs, the problem of inadequate income is extensive, affecting families throughout California, in every racial/ethnic group, among men, women, and children, in urban, rural and even suburban areas. Nevertheless, inadequate income does not affect all groups equally.

INADEQUATE INCOME IS GREATER IN SOME COUNTIES THAN OTHERS

Families struggling to make ends meet live in every California community. With two out of five (43%) households below the Standard, the counties of Colusa, Glenn, Tehama, and Trinity have the highest income inadequacy rates in the state. The highest concentration of households with inadequate income is, by far, Los Angeles County. With an income inadequacy rate of 37%, well above the state average, Los Angeles County is home to nearly one-third (907,630) of all households in California with incomes below the Standard. At the same time, even in the counties with the lowest levels of income inadequacy, about one in five households lack sufficient income.

INADEQUATE INCOMES CHALLENGE FAMILIES FROM SOME RACIAL/ETHNIC GROUPS MORE THAN OTHERS

California's families with inadequate income reflect the diversity for which the state is well known. Nevertheless, people of color are *disproportionately* likely to have inadequate incomes, particularly Latinos. With 52% of households with insufficient income, Latinos have the highest rate of income inadequacy. The next highest percentage of households with insufficient incomes is found among African Americans (39%), followed by Native American and Alaska Natives (34%), Native Hawaiian and Pacific Islanders (31%), Asians (26%), and Whites (18%).

Although Latino households represent only 30% of the population in California, because of their high rate of income inadequacy, about half of California households lacking adequate income are Latino—representing over 1.4 million households. Nevertheless, even though poverty is often portrayed in our media and culture as primarily a problem for minorities, it is experienced by households of every racial group in California. While the *largest group* of families with inadequate income in California are Latino, the second largest group of struggling householders is White. Although White households are the least likely to fall below the Standard—less than one in five White compared to one in two Latino households lack adequate income—this still amounts to nearly 840,000 White families who lack sufficient income. Likewise, reflecting their large proportion of California's population, the next largest racial group with incomes below the Standard is that of Asian and Pacific Islanders, with over 315,000 Asian and Pacific Islander households with incomes below the Standard.

FOREIGN-BORN HOUSEHOLDERS HAVE MORE TROUBLE MAKING ENDS MEET

While native householders have an income inadequacy rate of 23%, the likelihood of having inadequate income is significantly higher if the householder is foreign-born (46%), and even higher if the householder is not a citizen (59%). Among immigrants or "non-citizens" of different ethnic backgrounds, Latinos have an even higher rate (71%) of income inadequacy than non-citizen immigrants of non-Latino backgrounds (34%).

CALIFORNIA CHANGES OVER TIME

These results are not a result of just one snapshot in time, but are an enduring feature of the economic picture in California. This is the second study of households living below the Self-Sufficiency Standard in California. In 2000 as well, three in ten households in California experienced income insufficiency. That is, seven years later there has been no significant change in the rate of households experiencing income inadequacy.

In addition, most of the findings cited above are strikingly similar to those in the earlier study, suggesting that the inequality and income inadequacy described here is an enduring character of the California economy. The exceptions to this demographic profile of income inadequacy are troubling as well: the proportion of those households who lack adequate income who have workers in them has risen (even though the proportion who lack adequate income has stayed at about three out of ten households), while the proportion who receive cash assistance or food stamps has fallen.

HOUSEHOLDS WITH CHILDREN ARE AT A GREATER RISK OF NOT MEETING THEIR BASIC NEEDS

Families with children—particularly families with children under six years of age—are more likely to have insufficient income to meet their needs. The presence of young children is associated with increased costs of basic needs, particularly full-time child care. Thus, nearly two out of three households below the Standard have children, over half (56%) of them with children under six.

HOUSEHOLDS HEADED BY SINGLE MOTHERS HAVE HIGH RATES OF INCOME INADEQUACY

Single parents have a greater likelihood of income inadequacy than married couples, but the effect is much greater for single mothers, nearly two thirds (64%) of whom lack adequate income compared to about one half (47%) of single fathers, and one third (36%) of married couples with children. Single mothers are more likely to be very poor—meaning their incomes are not only below the Standard, but also below the (much lower) FPL—implying deep poverty. In addition, single mothers who are women of color have the highest rates of income inadequacy: 77% for Latinas, 70% for African Americans, and 53% for Asian and Pacific Islanders, compared to 45% for Whites.

While single mothers have the highest rates of income inadequacy, the majority of households with children in California that lack adequate income are married couples. Over 1.8 million households with children have inadequate income in California—1,086,332 are married couple households, 597,770 are single mother households, and 184,286 are single father households.

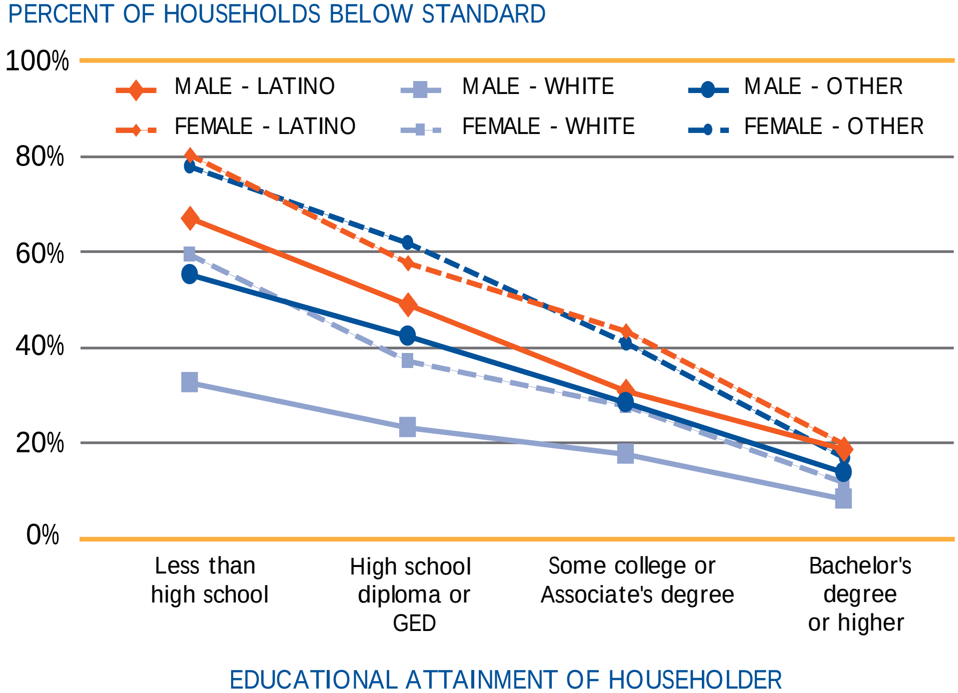
EMPLOYMENT IS KEY TO INCOME ADEQUACY, BUT IT IS NOT A GUARANTEE

As with education, households headed by people of color, women, and/or single mothers also experience lesser returns to work effort, even full-time year-round work. For example, even when single mothers work full time, year round, over half of their households lack adequate income.

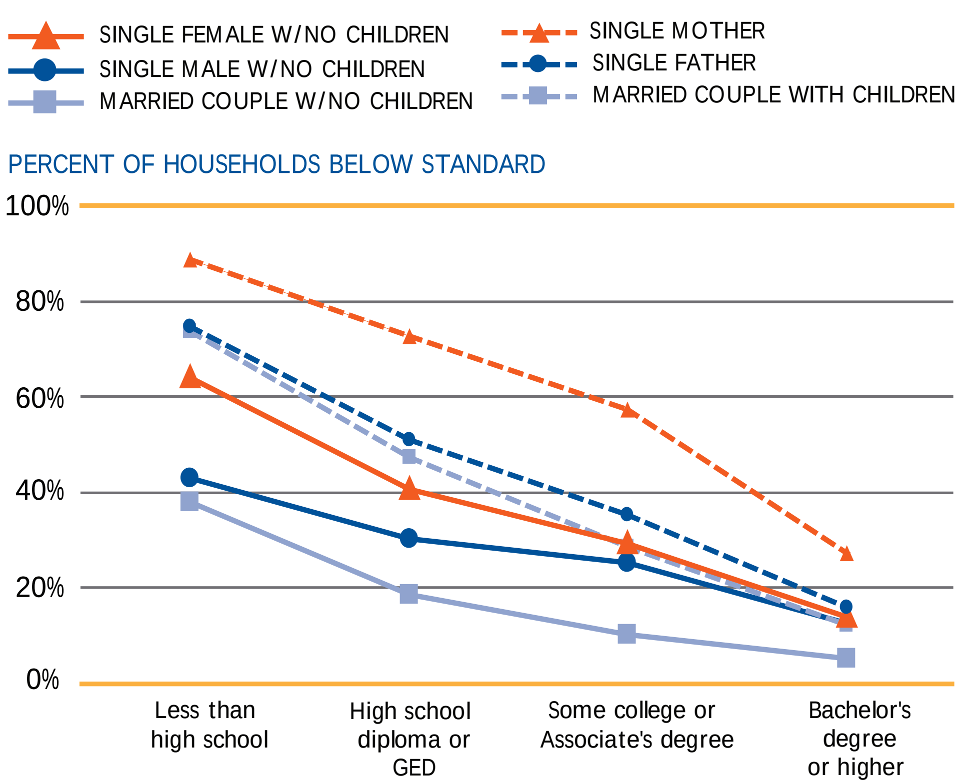
OF THE NEARLY 2.9 MILLION CALIFORNIA HOUSEHOLDS WITH INADEQUATE INCOMES, 89% HAVE AT LEAST ONE WORKER.

The data further demonstrate that the uncertain returns to employment efforts are not due to the occupations held by those with inadequate incomes. In fact, seven of the "top ten" occupations (the occupations with the most workers) for households with incomes below the Self-Sufficiency Standard are also among the top ten occupations for households with incomes above the Standard. Therefore, employment within these seven occupational groupings results in adequate income for some households, but inadequate income for others. Whether the householder is male or female, regardless of his/her race/ethnicity, the difference in wage levels *within* occupational fields rather than the difference in wage ranges *between* occupations, has the most impact on the rate of income inadequacy.

FIGURE 2. Households below the Self-Sufficiency Standard by Educational Attainment and Race/Ethnicity, Gender and Household Type: California



Source: See Appendix B, Table 24



Source: See Appendix B, Table 25

EDUCATION AND SELF-SUFFICIENCY

This research confirms that education has a strong relation to income inadequacy. Those who acquire more education, particularly at the post-secondary level, see substantial "returns"—meaning increased income—for each additional year of education.

Education reduces the rate of income inadequacy substantially and dramatically. Householders with less education are much more likely to have insufficient incomes. More than two-thirds (68%) of householders with less than a high school education have incomes below the Standard. The rate drops quickly as education increases, falling to 12% for those with a Bachelor's degree or higher. Similar patterns hold across racial/ethnic groups, gender, and household types (see Figure 2).

While increased education increases income adequacy for all racial/ethnic groups, gender, and household types, two findings should be highlighted. First, returns for increased education are greatest for women of color. Second, given differential race/ethnicity and gender-based labor market returns, women and people of color need *more* education to achieve the *same* level of economic self-sufficiency as White men. Women of color with a Bachelor's degree or more have rates of income inadequacy equal to that of White men with some college education (about 18%)

IN 42% OF HOUSEHOLDS BELOW THE STANDARD, THE HOUSEHOLDER IS EMPLOYED FULL TIME, YEAR ROUND.

Nor are differences in earnings explained by hours worked. While full-time, year-round work (regardless of the occupation) is one factor that may help protect against income inadequacy, households with incomes above the Standard work only about 4% more hours than those below. However, their wage rates vary greatly. The hourly wages of householders above the Standard are more than twice those below the Standard ($24.04 per hour versus $10.00 per hour, see Table A). If householders with incomes below the Standard increased their work hours to match those with incomes above the Standard, that would only close about 3% of the wage gap, while earning the higher wage rate of those above the Standard, with no change in hours worked, would close 97% of the gap.

Thus, families are not poor because they lack workers or work hours, or because they are working in the "wrong" occupations, but because their wages within their occupations are inadequate to meet basic expenses.

Table A. The Self-Sufficiency Standard by Earnings and Hours Worked of Householder: California

	BELOW SELF-SUFFICIENCY STANDARD	ABOVE SELF-SUFFICIENCY STANDARD
Median hourly pay rate of working householders	$10.00	$24.04
Median hours worked by working householders	2,000	2,080

Source: See Appendix B, Table 16

HOW CALIFORNIA COMPARES TO OTHER STATES

To date, demographic reports have been done on six other states besides California: Colorado, Connecticut, Mississippi, New Jersey, Pennsylvania, and Washington. In five of these states (the exception being Mississippi), the proportion of households with inadequate income is strikingly similar, about one out of five (non-elderly, non-disabled) households lacks adequate income, using the Self-Sufficiency Standard. In Mississippi, the proportion is 32%, very similar to that of California.

California and Mississippi are very different states in many respects, particularly in terms of the cost of living as the Standard is generally much higher in California, even in (relatively) less expensive rural counties, while it is quite low in Mississippi. At the same time, these two states share one characteristic in common, and that is that they each have a substantial proportion of their population that is either African American (Mississippi) or Latino (California), and in both instances these "minority" groups have very high rates of income inadequacy. Not only are the proportions of population which are "minority" higher in these two states than in the other five, but the income inadequacy rates are higher among these groups than in the other five states, thus contributing to the higher overall rates of income inadequacy—in spite of the very different costs of living. (Note that the difference in the poverty rates between these states are quite different, with California having FPL rates only slightly higher than the other five states, while Mississippi is considerably higher.)

In all other respects, California is quite similar to the other six states in terms of the relative rates of insufficient income among various demographics, i.e., rates of income inadequacy are highest for African Americans and Latinos, for families with children, and particularly for single mother families. Likewise, increased education reduces the likelihood of inadequate income, as does having more workers in the household and/or full-time year-round workers. Occupational "segregation" does not contribute substantially to lower levels of income inadequacy, but lower wage rates characterize householders below the Standard in all states. However, given the higher overall level of income inadequacy, the actual rates for any given demographic group, such as single mothers, are generally higher in Mississippi and California.

CONCLUSION

These data show, in more detail than ever before available, that there are many more people in California who lack enough income to meet their basic needs than most people think or than our government and social service programs count. Poverty is grossly undercounted largely because most American systems do not utilize the more accurate measures and tools available today for what it takes any given individual or family in any given community to lead a life of basic dignity.

Not only do we currently underestimate the number of households that struggle to meet basic needs, but broadly held stereotypes about what those in poverty look like, what skills and education they hold, and what needs they have harm the ability of our systems to think differently and adjust to changing realities for the people we mean to help. Californian households with inadequate income reflect the diversity that is our state: they come from every household composition, represent every racial and ethnic group, and work hard as part of the mainstream workforce.

This is not about a particular economic crisis—for these families, poverty is an everyday crisis. They and their children are an important part of California's future, needed to drive our state's economic engine.

These findings should guide public policy, economic investment, education, and service provision that enable California households to achieve and sustain economic self-sufficiency while supporting the advancement of the California economy. ***Our challenge is to make it possible for all California households to earn enough to meet their basic needs.***

IMPLICATIONS FOR CALIFORNIA

The data presented in this report illuminate the circumstances of California residents living in poverty. The disparities revealed—across household composition, geographic variation and race/ethnicity and gender—prompt provocative questions that can help policy makers, employers, educators and service providers rethink our impact on those with whom we work or serve:

- What can we do as the cost of living outpaces wage increases?
- How can we improve the earning power of low-income Californians and help them advance toward stability?
- What can we do to reduce the effects of race/ethnicity and gender on income inadequacy?
- What are the best investments to help struggling householders climb out of poverty?

These questions and others prompted by the data could prompt leaders to re-examine the policies and systems they manage. For instance, if it is our collective goal to reduce this high percentage of people who do not have income adequate to their most basic needs, we need to find ways for people to move toward self-sufficiency.

Education is clearly one way to move out of poverty. As a short-term solution, income and work supports can help bridge the gap between low wages and the cost of basic needs. However, if only 7% of California households below the Standard receive public benefits, is the system reaching those it is meant to or should the change to work-based poverty and sometimes transitory nature of individual crises suggest possible ways to redesign the delivery of those services? Because many public assistance programs are tied to the Federal Poverty Level (FPL) or some multiple of it, few households below the Standard are able to access them, leaving these households on their own to make ends meet. Seventy percent of California households with incomes below the Standard have incomes above the FPL which, in most cases, are too high (above the FPL) to qualify for most of these programs. With more than nine in ten households with inadequate income unable to take advantage of these "safety net" programs, the usage of the FPL as the basis of eligibility continues to leave these households struggling to make ends meet.

Another possibility worth examining is whether investment might be shifted solely from job attainment to also investing in skills that lead to job advancement. Many workforce development models focus solely on job attainment. While they are effective in placing individuals in jobs, they do so regardless of whether the job has the potential to develop into a career or if the individual possesses the skills to advance in that job. Readiness and placement in career path jobs open up opportunities to occupations with higher wage levels and increased benefits. Workforce development models such as bridge training programs prepare low-skilled individuals to enter and succeed in postsecondary education and training, which enables individuals to advance to better jobs and further their education and training.

The composition and work patterns of families have shifted considerably since the development of the FPL more than 40 years ago. We have the opportunity to utilize much more sophisticated calculations of living costs today and, armed with a better understanding of the circumstances surrounding income inadequacy, to make a difference in how we build ladders to help hard working Californians advance in their careers.