

THE HIDDEN PUBLIC COSTS
OF LOW-WAGE JOBS
IN CALIFORNIA

CAROL ZABIN
ARINDRAJIT DUBE AND
KEN JACOBS

CENTER FOR LABOR RESEARCH AND EDUCATION, UC BERKELEY

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EXECUTIVE SUMMARY

This report, produced by the UC Berkeley Labor Center for the National Economic Development and Law Center, is the second in a series of white papers informing policy solutions to working poverty in California. Over the past two decades, California's "new economy" has produced an hourglass pattern of job distribution, fostering far more growth among high and low wage jobs compared to middle-income jobs. A growing segment of Californians work year-round, but earn too little to provide for their families. As a consequence, these families must often resort to publicly funded safety net programs in order to supplement their earnings and meet their basic needs. Increasingly, public assistance is becoming an ongoing wage supplement for low-wage workers, rather than emergency assistance for those who find themselves unable to work.

Working families are not the only ones who bear the burden of increasing numbers of low wage jobs. Taxpayers also share the cost. This report focuses on an important outcome of the increase in low-wage work: the hidden costs for taxpayers when California's working families must rely on public assistance to meet their basic needs.

This report is based on an analysis of the participation of working families in the ten largest statewide programs that provide public assistance to low-income families. The study uses a data set that combines government administrative data on the enrollment in and costs of these programs for 2002 with detailed demographic and employment characteristics of program participants from the Current Population Survey (CPS). The study defines working families as those in which at least one member works at least 45 weeks per year. The study's key findings are:

- Many of the families receiving public assistance are receiving aid not because they are unable to work, but because the work they do does not pay them enough to meet basic needs. Working families (those with at least one member who works at least forty-five weeks per year) comprise over half (53%) of the families enrolled in at least one of the ten programs we analyzed. Of the \$21.2 billion of public assistance to low-income families received by California families in 2002, 48%, or \$10.1 billion, went to working families.

- Some of the largest programs supporting working families include medical care, the Earned Income Tax Credit (EITC), and child care assistance. Of the \$10.1 billion in public assistance expenditures that went to working families, 35% was for Medi-Cal, 27% for the EITC, and 12% for Child Care Assistance.
- The data indicate that most working poor are not employed in sectors that face competition from low-wage states or countries. Workers employed in the sectors that are more likely to face some out-of-state or international competition collectively received about \$2.9 billion of public assistance benefits, while those in the sectors that face little out-of-state or international competition received about \$7.2 billion.
- Public assistance was concentrated among workers in several sectors. For instance, workers in the retail industry collectively received about \$2 billion of public assistance, over twice the amount received by workers in any other sector.
- Most of the public assistance that went to working families went to families with workers earning very low wages: \$5.7 billion went to families whose workers had average wages of under \$8 per hour. Another \$1.9 billion went to those with wages between \$8 and \$10 per hour.
- Most of the public assistance to working families went to families with full-time workers, dispelling the notion that part-time work largely accounts for the low earnings of poor working families. Seventy-six percent (\$7.63 billion) went to single earner families with over 35 hours of work per week or dual earner families with over 70 hours of work per week. Moreover, 82 percent (\$8.26 billion dollars) of public assistance benefits went to families with the equivalent of at least one full-time job (over 35 hours per week).
- The simulation we conducted on wages predicts that a drop in public assistance payments from \$10.1 billion to \$7.4 billion (a \$2.7 billion difference) would occur if the current group of public assistance recipients earned at least \$8 per hour. Simply raising wages for these workers earning minimum wage and slightly above would help the working families and could potentially save billions of dollars in program expenditures.
- The simulation we conducted on employer-provided health insurance predicts that, at current wage levels, public assistance payments would drop from \$10.1 billion to \$7.9 billion (a \$2.2 billion difference) if the working families currently receiving assistance had access to affordable health insurance through their

employers. When combined with employer-provided health insurance, payments would fall to \$5.4 billion with a wage floor of \$8 per hour, \$4.4 billion with a wage floor of \$10 per hour, \$3.7 billion with a wage floor of \$12 per hour, and \$3.2 billion with a wage floor of \$14 per hour.

The findings in this report provide direction for current policy discussions focused on supporting the working poor. First, the findings in this report dispel a widely held misperception that part-time work largely accounts for the low earnings of poor working families. Instead, our analysis points to low wages as a primary factor leading workers to turn to public assistance. Pulling this set of families out of poverty and thus reducing their need for public assistance will likely be more dependent on finding ways to improve wages than on finding ways to increase the hours that they work. A different set of policy considerations apply to the 47% of public assistance recipients that are members of families with no year-round workers.

Second, our simulations show that savings in public assistance payments would be in the billions of dollars if the current group of recipients earned at least \$8.00 per hour (savings of \$2.7 billion) or had affordable employer-provided health insurance (savings of \$2.1 billion). Policies that improve wages and benefits would allow these programs to reach more families by moving people off waiting lists into current programs and extending eligibility.

Finally, the public assistance payments that flow to workers are of a magnitude that can change economic incentives for the businesses in which they are employed. This lends fuel to the growing concern that some assistance programs may be serving as de facto subsidies for low-wage employers, pushing down wages and providing disincentives for employers that might otherwise “take the high road.” This crowding out effect has long been recognized in the public health arena; recent research suggests that it may also apply to the EITC.

Given the prevailing low wages in many industries and the lack of health benefits in many jobs, the public assistance programs discussed in this report provide vital support for millions of California’s working poor. Certainly, increased funding for these programs could cover more poor families and improve the quality of living for many of our state’s neediest children. At the same time, this report suggests that these programs could be much more effective if they are combined with policies and programs that improve wages and increase access to affordable health insurance, so that public assistance does not itself encourage employers to reduce wages or benefits. Policies that would improve wages and benefits include: 1) establishing labor market standards, such as minimum, living and prevailing wage legislation, “pay or play” health care laws, and standards for economic development programs; 2) job creation and job upgrading efforts, particularly through sectoral partnerships that provide training and career paths in a multi-employer context; and 3) increasing access to and funding for education and vocational training.

I. INTRODUCTION

The plight of the working poor has emerged as a key public policy concern over the last decade. The growing numbers of working poor are a symptom of the nation's current trajectory of economic development, characterized by an hourglass pattern of job distribution. In the emerging hourglass economy of California, we see far more growth in high-wage and low-wage jobs than in middle-income jobs. This trend is particularly pronounced in California, where job creation over the last decade has produced wage inequality greater than the gap nationwide.¹

This report focuses on the hidden costs for taxpayers that result when working families in California earn too little and are forced to rely on public assistance to meet their basic needs. Although public assistance programs such as Temporary Assistance for Needy Families (TANF) and Medi-Cal were once limited to families whose primary wage earners were unemployed, the welfare reforms of the 1990s restructured many public assistance programs. States began to experiment with incentives designed to help low-skilled workers enter and remain in the workforce. The U.S. Congress expanded the Earned Income Tax Credit (EITC), a refundable tax credit that can be claimed by certain families earning less than \$34,600 (in 2003). Public assistance programs evolved to include greater subsidies for reliable child care in order to help mothers and fathers secure employment and stay on the job. To avoid the crisis threatened by the rapid rise of health care costs and the swelling ranks of uninsured families, states also invested in programs that enroll the children of the working poor in low-cost health insurance programs such as the Healthy Families Program in California.

Public assistance programs like TANF, EITC, and Healthy Families clearly provide much-needed support for some of California's poorest families. Nonetheless, there is increasing concern that some of these programs, meant to provide temporary relief to low-skilled workers entering the workplace, have become permanent supports needed to supplement low wages. In fact, some assistance programs may be serving as *de facto* subsidies for low-wage employers, pushing down wages and providing disincentives for employers to offer higher wages and benefits like health insurance.

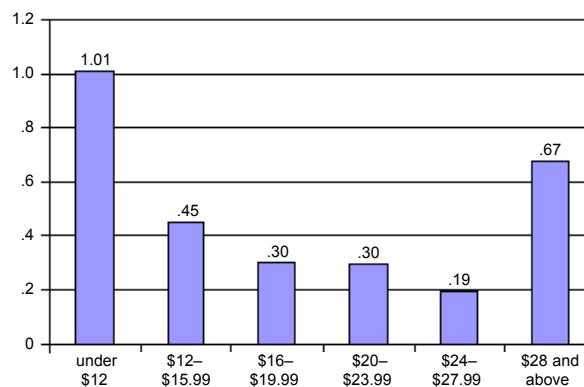
Projections from California's Employment Development Department indicate that continuing along California's current economic development path will only increase the ranks of families who are working but unable to make ends meet. Figure 1 shows the projected

¹ Ruth Milkman and Rachel E. Dwyer, "Growing Apart: The 'New Economy' and Job Polarization in California, 1992-2000," *The State of California Labor* 2 (2002): 3-35.

employment growth for the years 2000 to 2010, by various wage categories.² It illustrates that the fastest growth is occurring in the lowest wage jobs: over a million new jobs will pay under \$12 per hour, and another 400,000 will pay below \$16. There is much less growth in the middle wage categories.

Figure 1. Projected Employment Growth (in millions),
2000 to 2010, by Wages

Employment Development Department - 583 detailed occupations



This report explores the extent to which California's working families participate in selected public assistance programs and estimates the cost incurred by the government to provide these benefits. Using data compiled from the ten largest statewide public assistance programs, we assess the costs of the programs for working families and families with no year-round workers, documenting the distribution of costs by wage levels and hours worked. We also document the demographic and employment characteristics of working families that receive public assistance. Finally, we simulate the reduction in public expenditures that would occur were workers to receive higher wages.

This paper is part of a broader initiative focused on developing a new agenda for the working poor in the San Francisco Bay Area. With support from the Hewlett Foundation, the National Economic Development and Law Center (NEDLC) is publishing a series of four white papers, with a high-level policy convening structured around each paper. NEDLC has invited individuals and organizations from the San Francisco Bay Area and the state to participate in the four accompanying policy convenings, including representatives from philanthropic and nonprofit organizations, community advocates, legislators, and representatives from small business, large corporations, and organized labor. These individuals will use the research and analysis in the five papers to develop joint policy recommendations about how best to support the working poor. At the final forum, participants will be asked to contribute to a policy position paper that will be designed to generate better laws for working families during the 2005 California legislative session.

² We calculated the growth in jobs in each wage category by matching current median occupational wages to EDD's projection of employment growth by occupation for its 533 occupation categories.

II. BACKGROUND AND METHODOLOGY

This section describes the data set that we created to carry out our analysis and the public programs that we analyzed.

DATA AND METHODOLOGY

This report relies on two data sources: our compilation of administrative data on enrollment, costs, and eligibility requirements for ten public assistance programs in California (listed below), and data on the individuals and families that participate in these programs. We compiled administrative data for 2002 for each of the programs under study; these data were provided by the federal or state government (sources are listed by program in Appendix A). Individual and family data were compiled from the CPS Annual Demographic Supplement (often referred to as the March Supplement) for the years 2000 to 2002.³ The March Supplement asks respondents about receipts of cash and non-cash transfer payments during the past year and includes questions about the ten programs studied; it supplements the CPS's regular detailed information on individuals and households. We call this data set the "combined administrative and CPS data." Our two data sources complement each other: Although the administrative data on program enrollment are more accurate than the data drawn from the March Supplement, the administrative sources do not include detailed demographic and employment information on the individuals and families enrolled. Moreover, the CPS cannot be used alone because it does not have information on overall program costs, and because overall program enrollment is measured less precisely in the CPS than in the administrative data.⁴

Combining the two data sets for analysis requires two main adjustments (explained in detail in Appendix B). First, because there is a disparity between the enrollment data from administrative sources and the CPS, (CPS data contain an undercount in enrollment for most

³ We took a three-year sample to increase the number of observations—and hence the accuracy—that we could use in our analysis.

⁴ The CPS does include both some self-reported values of cash transfers (such as CalWORKs or Earned Income Tax Credit) and the estimated "fungible" values of some non-cash payments (such as Medicaid), but these are an unreliable measure of how much the benefits are costing taxpayers overall.

programs) we make an adjustment in the CPS enrollment data to reflect the aggregate enrollment in the administrative figures. Second, we use the administrative data to calculate the costs per enrollee, but we include an adjustment that reflects the fact that benefit amounts are likely to differ between working families and families with no year round workers. Thus, for each program we adjust individual CPS benefits to conform to the ratio of average administrative benefit level to average CPS benefit level for these two family types.

DEFINING “WORKING FAMILIES” AND “WORKING FAMILY MEMBERS”

For the analysis of the costs of public programs that accrue to working families, we use a specific definition of a working family that corresponds to the definitions used to determine eligibility for the programs under study. The “health insurance unit,” used for Medi-Cal, and “taxpaying unit,” used for the EITC program, are two such examples.⁵ Since our definition is similar to that of a nuclear family, extended family households that include adult siblings or other extended family members are considered to be multiple families.

We define an individual to be a working family member if one of the following conditions are met: (1) the individual is working; (2) his or her spouse is working; (3) the individual is under eighteen and one of his or her parents is working; or (4) the individual is under twenty-two, is a full time student, and one of his or her parents is working. A working family is a family composed of such individuals; families with no year round workers are all others. Under our definition a working family has a maximum of two adult earners, since other workers in the household are considered to be part of another family.

We make an additional restriction in our definition of working families to set a clear standard for worker’s employment throughout the year. An individual is considered to be “working” if he or she is presently employed *and* he or she worked for at least forty-five weeks in the past year.⁶ If individuals are presently employed but have worked less than forty-five

⁵ This differs from the normal CPS definition. The CPS defines a “family” as two or more individuals related by birth or marriage, a fairly broad definition. Based on this definition, one could determine whether a person receiving public assistance has a family member who is working and subsequently estimate what fraction of public assistance recipients are “working family members.” This definition of a family member is conceptually problematic, however, since it does not correspond well to the definitions utilized by most public assistance programs such as Medi-Cal, EITC, and others. The latter tend to be much narrower in who qualifies as a family member in determining family income, which guides program eligibility. For instance, an unemployed man living with his employed sister will not have his sister’s income counted towards “family income” for the programs we are considering. Therefore, if he receives public assistance, using the CPS definition of family, he would be considered a “working family member.” This is misleading since no family member considered for program eligibility was actually working. In the case just mentioned, the unemployed adult’s nuclear family would be considered to be separate from the employed sister and her nuclear family.

⁶ This avoids a problem arising from the timeframe of the CPS. Although most of the CPS questions regarding public assistance concern receipt over the past year, most questions regarding details about their employment refer to current labor force participation. Considering only current work status is problematic. It may be that a person was unemployed for eleven months over the past year, during which time he received public transfers, but is currently employed and not receiving such transfers. Categorizing him as a “working family” enrollee in a public program is thus misleading. Since respondents are asked about the number of weeks they worked over the past year, restricting our definition of “working” to those who worked forty-five weeks of the year assures that the family received benefits while one member was in fact working.

weeks in the past year, or if they are presently not employed even though they have worked between one and fifty-one weeks in the past year, they might best be considered “under-employed” and are part of the “families with no year round workers” category.

PUBLIC ASSISTANCE PROGRAMS IN CALIFORNIA

California, like other states, has a wide variety of public assistance programs funded by federal, state, and local governments. Each program has a unique purpose and specific eligibility requirements. For this study we examine programs that provide cash or other assistance to supplement the income or reduce the expenditures of poor families that reside in California. We focus on the largest means-tested programs that are available to individuals or families specifically because they have low incomes (whether or not they are employed). For this reason we exclude programs that offer benefits to those who are retired or disabled and thus are usually not part of the labor force. We also exclude programs designed to increase the skills and thus the future earning power of workers, such as programs that only provide subsidies for training and education.

We examine only income support programs for California residents that are represented in both of our two main data sources. Local programs such as General Assistance, county children’s health programs, and health care programs for indigents are significant taxpayer-funded programs that we were unable to include because the necessary data are not available. Thus, our estimates of taxpayer costs from inadequate wages and employer benefits are lower than their true magnitude. Our estimate of the subsidies that currently support working families in California is, therefore, quite conservative.

We analyze ten programs in this study (more program details, including eligibility guidelines, are provided in Appendix A).

1. The Earned Income Tax Credit (EITC) is a refundable federal tax credit for eligible individuals and families that work and have earned income under \$33,692 (\$34,692 for married individuals who file jointly) in 2003. The EITC reduces the amount of tax a worker owes, and it may result in a refund.
2. CalWORKs is California’s version of Temporary Assistance to Needy Families (TANF), commonly known as “welfare,” which gives cash aid and services to eligible needy California families.
3. The Low Income Home Energy Assistance Program (LIHEAP) is a federally funded block grant that provides eligible low-income persons with financial assistance to offset costs of heating and cooling their dwellings and of weatherizing their dwellings to make them more energy efficient.

4. The Section 8 Rental Voucher Program is a federal program that increases affordable housing choices for very low-income households through a subsidy that allows families to choose privately owned rental housing.
5. Child Care Assistance refers to a comprehensive array of state programs designed to meet the needs of a variety of parents and children.
6. Medi-Cal is California's Medicaid health insurance program. Supported by federal and state taxes, it pays for a variety of medical services for children and adults with limited income and resources. (For the purpose of this report, we consider only Medi-Cal enrollees who are not disabled or elderly since the vast majority of these enrollees are not labor force participants.)
7. The Healthy Families Program (California's name for the State Child Health Insurance Program or SCHIP) is a state- and federally funded health insurance program for children (up to the age of nineteen) in families with incomes that exceed the Medi-Cal eligibility threshold, provided that these children were without employer-sponsored health insurance in the last three months.
8. The Special Supplemental Nutrition Program for Women, Infants, and Children—better known as WIC—serves to safeguard the health of low-income women, infants, and children up to age five who are determined to be at “nutrition risk” by a health professional. The program provides nutrition, information on healthy eating, and referrals to health care.
9. The Food Stamp Program serves as the first line of defense against hunger, as it enables low-income families to buy food with coupons and Electronic Benefits Transfer (EBT) cards.
10. The National School Lunch Program is a federally assisted meal program operating in many public and nonprofit private schools and residential child care institutions.

According to our compilation of government administrative data, California residents received a total of \$21.2 billion dollars of public assistance through these ten programs in 2002.⁷ Figures 2-4 provide the enrollment and aggregate costs for each of these public

⁷ We did not include any administrative expenses in estimating program costs. Since we are fundamentally interested in estimating how much taxpayer expenses would fall if enrollment falls, it is prudent to not include expenses that have to be paid regardless of the number of enrollees (i.e., “fixed costs”). Since in reality administrative expenses are only partly “fixed,” our cost estimates are conservative in the sense that they understate how much costs would fall if current enrollees received better wages and benefits.

assistance programs. Administrative data are reported by individual for all programs except the Section 8 Rental Voucher Program (hereafter referred to as “Rental Assistance”) and LIHEAP (hereafter referred to as “Energy Assistance”), which document information by family.

Figure 2. Number of Enrollees (in millions) for Each Public Assistance Program, 2002
Administrative data

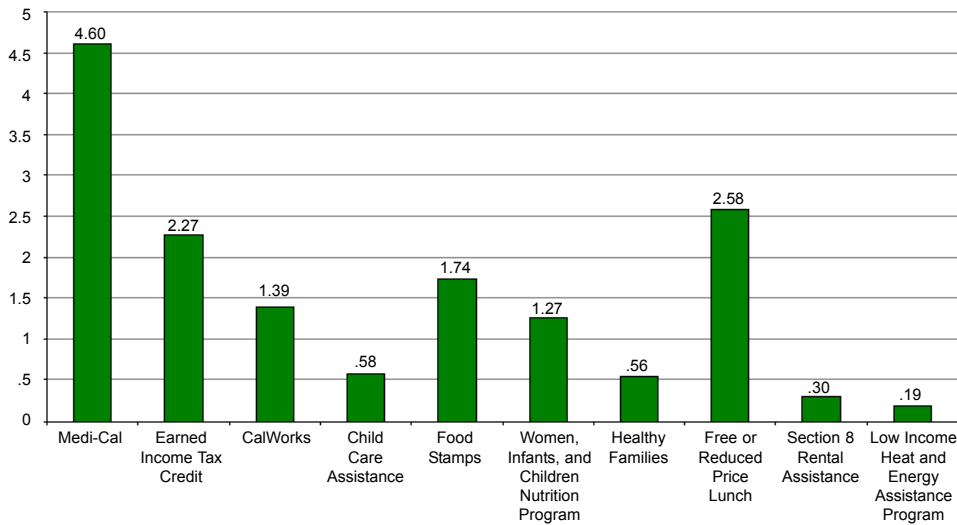


Figure 3. Total Cost (in billions) for Each Public Assistance Program, 2002
Administrative data

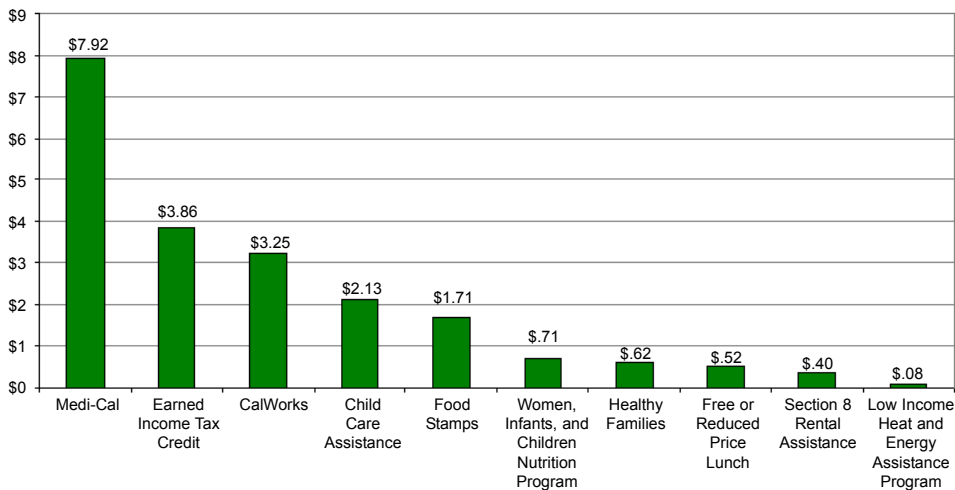
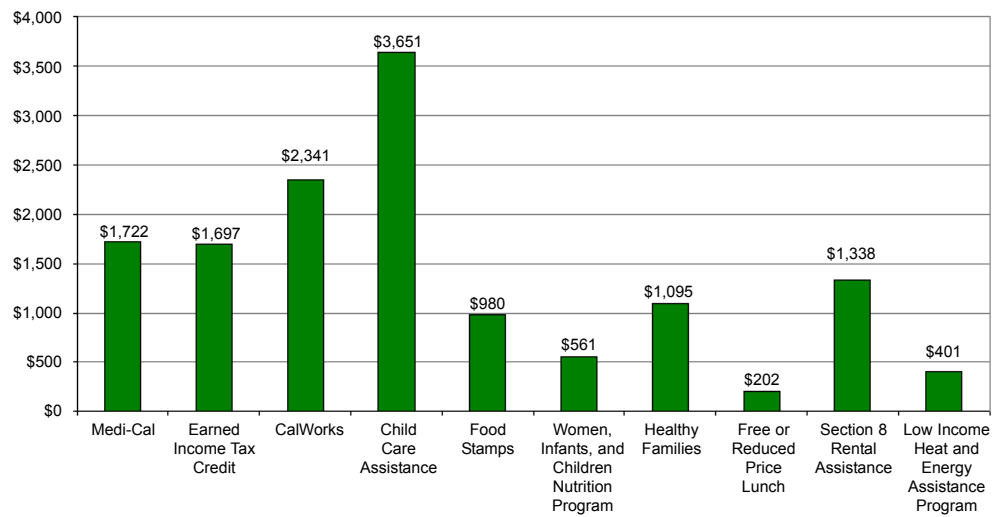


Figure 4. Average Cost per Beneficiary for Each Public Assistance Program, 2002

Administrative data



Of the ten programs analyzed here, Medi-Cal, EITC, and CalWORKs are the most expensive. Medi-Cal's cost reflects both a large number of enrollees and a high cost per enrollee. Cost per beneficiary is highest for Child Care Assistance, CalWORKs, and Medi-Cal. In contrast, the National School Lunch Program has over 2.5 million participants, but its costs are relatively low. The same pattern holds for the WIC and Food Stamp Programs.

III. PUBLIC ASSISTANCE TO WORKING FAMILIES

This section analyzes the proportion of “enrolled families” or “recipient families” that are working families. For this analysis we define a “recipient family” or an “enrolled family” to be one that receives assistance through at least one of the ten programs. As stated earlier, working families are defined as those in which at least one member worked forty-five weeks or more in 2002.

Our analysis shows that 53% of the families that received benefits from at least one of the ten programs under study qualified as working families, as shown in Figure 5. In other words, individuals in 53% of families that received public assistance from at least one of the ten programs under study either worked for the entire year or had a spouse or a parent who did so. This sharply contrasts with the conventional wisdom that public assistance mainly serves as a safety net for those who cannot work or who are unable to find work.

Figure 5. Working Families Receiving Public Assistance, 2002
Combined administrative and CPS data

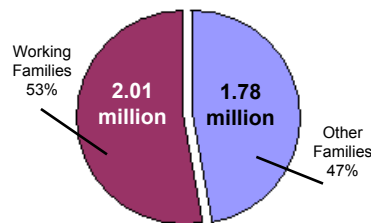
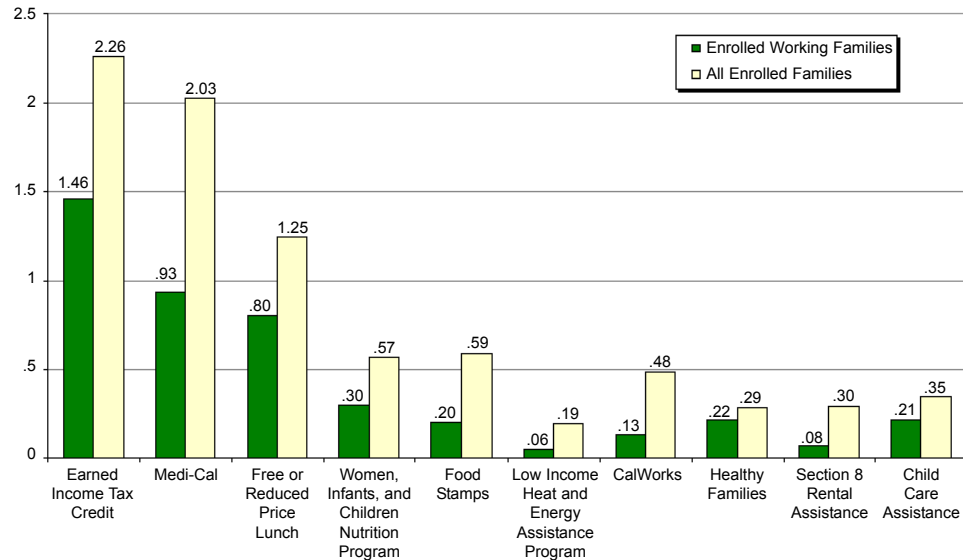


Figure 6 compares the number of working families to all families enrolled in each program (the numbers of enrollees differ from those in Figures 2-4 because the former figure uses data on families while the latter uses data on individuals). Proportions differ substantially by program. For example, over 64% (801,211 out of 1,245,860) of families utilizing School Lunch, EITC,⁸ and Healthy Families in 2002 had at least one family member who worked throughout the year.

⁸ Our data show that some families who receive EITC are not working families, even though only families with a member who worked at least part of the year are eligible. This may seem anomalous at first, since EITC only accrues from earned income. However, these recipient families only have members who worked for less than forty-five weeks out of the year. In this case, the family may qualify for EITC, but it is not considered to be a working family by our definition (which requires that at least one family member worked forty-five weeks during 2002).

On the other hand, working families comprised less than 27% of all enrollees in Energy Assistance, Rental Assistance, and CalWORKs. This is to be expected because the income eligibility criteria for the former set of programs are less restrictive than those for the latter. Since families with a working person are likely to have higher incomes than those that do not, we expect to find them concentrated in programs with less restrictive eligibility criteria.

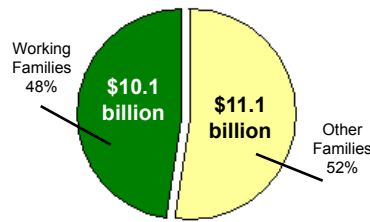
Figure 6. Program Enrollment (in millions) by Working Family Status, 2002
Combined administrative and CPS data



EITC had the largest number of enrolled families, followed by Medi-Cal and School Lunch. This ranking held regardless of family work status. Furthermore, the three smallest programs for both types of families were Child Care Assistance, Rental Assistance, and Energy Assistance. In other words, although the proportion of working families varied substantially by program, the same programs that enrolled the greatest or the fewest people for one type of family also did so for the other.

Figure 7 illustrates the cost (rather than the number of enrolled families) of public assistance for working families and families with no year round workers.

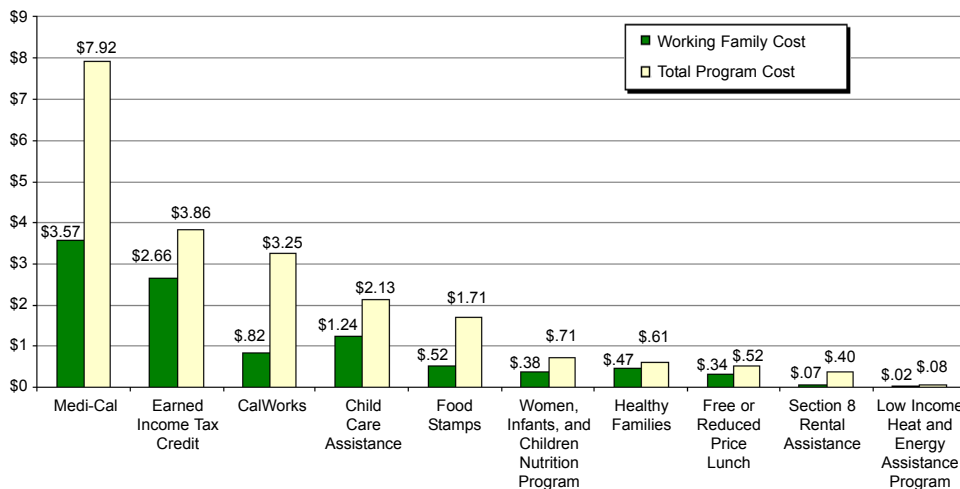
Figure 7. Share of Total Public Assistance for All Families, 2002
 Combined administrative and CPS data



In 2002 California residents received approximately \$21.2 billion in public assistance from the ten programs under study. This is the cost to taxpayers (excluding the fixed administrative costs of the programs) from state and federal expenditures. Notably, 48% of this sum, or \$10.11 billion, went to working families. While working families’ share of the cost was somewhat lower than their share of *enrollment* (53%, as noted earlier), they nevertheless received nearly half of all public assistance.

Figure 8 illustrates the cost of each program separately, for working families and for all recipients. Here, too, we find substantial variation among different programs, mirroring the variation in enrollment. Working families’ share of costs was greatest for Healthy Families, EITC, and School Lunch, and it was lowest for Rental Assistance, CalWORKs, and Energy Assistance. In terms of absolute numbers, Medi-Cal and EITC accounted for the largest portion of public assistance costs for working families.

Figure 8. Total Public Assistance (in billions) by Working Family Status, 2002
 Combined administrative and CPS data



Medi-Cal, Healthy Families, and Child Care Assistance are more expensive than would be suggested by enrollment numbers, as the cost per family in these programs is higher than average.

IV. DEMOGRAPHIC CHARACTERISTICS OF WORKING FAMILIES RECEIVING PUBLIC ASSISTANCE

This section analyzes the income and demographic characteristics of California's working families that received benefits from the ten public assistance programs under study. We analyze the family structure, ethnicity, and educational levels of working families and their members; we also examine how families receiving assistance are distributed across the state.

The structure of working families receiving public assistance differed significantly from that of all public assistance recipient families considered together. A comparison of figures 9 and 10 shows that the working families enrolled in these programs were substantially more likely to contain two parents (48%, versus 35% of all recipient families). In addition, working families were less likely to be without children (23% versus 37%). This bias toward families with children is, of course, partly a function of the fact that some programs, like Healthy Families and Child Care Assistance, are available only to families with children.

Figure 9. Family Structure of Working Families Receiving Public Assistance, 2002
Combined administrative and CPS data

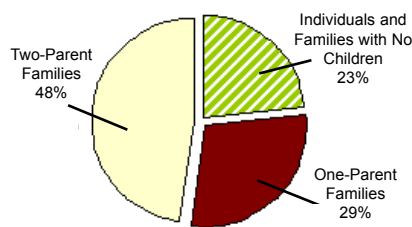
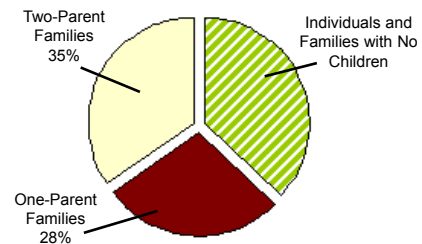


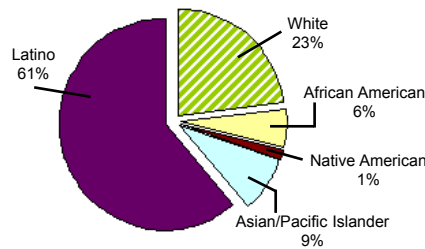
Figure 10. Family Structure of All Public Assistance Recipients, 2002
Combined administrative and CPS data



The ethnic composition of working families receiving assistance is shown in Figure 11. Latinos made up 59% of all public assistance recipients in California in 2002; Whites accounted for 24%, Asians and Pacific Islanders for 9%, African Americans for 6%, and Native Americans for 2% of all recipients. The proportion of Latinos in the pool of public assistance

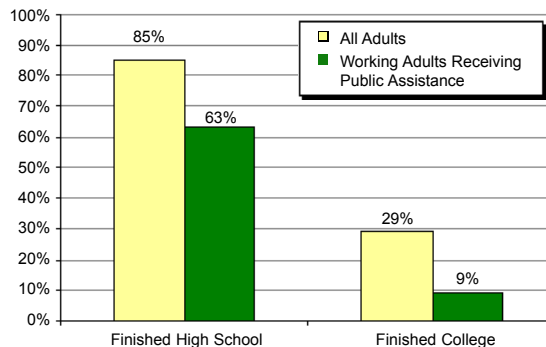
recipients was actually slightly lower than their proportion (61%) among all families that earned less than 250% of the federal poverty line.⁹

Figure 11. Ethnic Composition of Working Families Receiving Public Assistance, 2002
 Combined administrative and CPS data



Adults in families receiving public assistance had less education than did adults in the general population, as shown in Figure 12. Only 63% of adults in working families receiving public assistance finished high school, compared to 85% of all adults in California. Even more striking, only 9% of adults in working families receiving public assistance had a college degree, compared to 29% of all adults.

Figure 12. Education Levels of All Adults and Adults in Working Families Receiving Public Assistance, 2002
 Combined administrative and CPS data

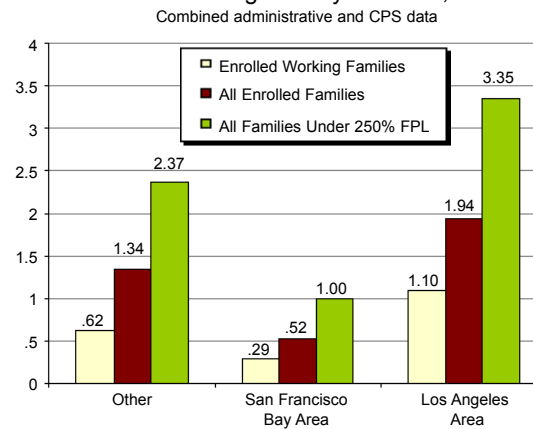


The geographic spread of public assistance recipients corresponded roughly to the geographic spread of population and poverty in the state, as shown in Figure 13. Over half of all recipient families were in the greater Los Angeles area (Los Angeles, Riverside, and Orange Counties), while about 14% were in the nine-county San Francisco Bay Area. Working fami-

⁹ 250% of the federal poverty line reflects a more accurate measure of the income a family needs to be self-sufficient in California than does the federal poverty line itself, and is used in this document as needed. See NEDLC's first white paper, "The Bay Area Working Poor: Crafting a New Policy Agenda for Working Families."

lies in the Los Angeles area and the Bay Area together made up over half of the total number of public assistance recipients; less than half of the recipients in the rest of the state were in working families. The number of working and families with no year round workers was much smaller in the Bay Area than in the Los Angeles area, not only because the former has a smaller population but also because it has a smaller proportion of families that earn less than 250% of the federal poverty level. Overall then, because Bay Area residents are less poor, they were somewhat less likely than were residents in other parts of the state to receive public assistance. Over half of Bay Area public assistance recipients were in working families. We should be cautious to draw too much inference from this geographic pattern, as the CPS data at the sub-state level are less reliable than are data for the whole state.

Figure 13. Family Enrollment (in millions) in Public Assistance Programs by Location, 2002



V. INCOME, EMPLOYMENT, AND INDUSTRY CHARACTERISTICS OF WORKING FAMILIES RECEIVING PUBLIC ASSISTANCE

This section first documents the income that working families receiving public assistance earn and the contribution that public assistance makes. It then provides a profile of the types of businesses that employ workers from families that receive public assistance. We document the industries in which these workers are employed and the quantity of public resources flowing to those workers. We estimate the distribution of employees by firm size as well. Finally, we document workers' wages and hours worked. In this section we use data on program enrollment and on program cost.

FAMILY INCOME, PUBLIC ASSISTANCE CONTRIBUTION, AND SELF-SUFFICIENCY

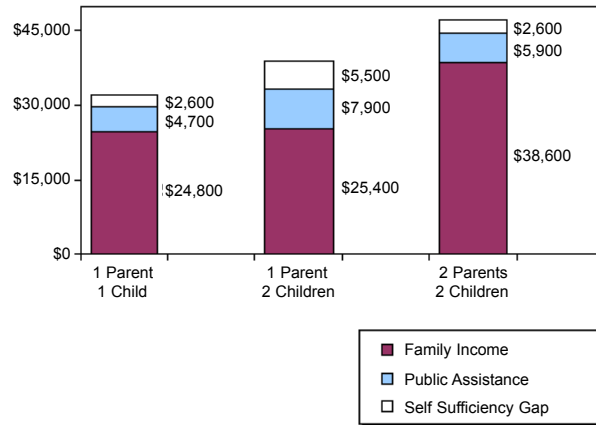
Public assistance provides essential support to the millions of working families who are able to enroll in programs they are eligible for (many programs have long waiting lists and have to turn eligible families away). Even with public assistance, however, many working families are unable to bring their families to income levels that meet their basic needs.¹⁰ Figure 14 shows the income levels families receive from their own earnings, the contribution they receive from public assistance, and the remaining income gap that is needed to bring them to self-sufficiency, for several family types.¹¹ Using the example of California families with one adult and one child, the figure shows that average family income in 2002 was \$24,800. On average, these families received \$4,700 in benefits from the ten programs we studied. This brought them close to self-sufficiency, but there was still an average gap between their

¹⁰ As a measure of the income levels that families need to meet their basic needs, we use the county level "self-sufficiency" income levels developed for NEDLC's 2003 report, *Overlooked and Undercounted: New Perspectives on the Struggle to Make Ends Meet in California*. The federal poverty level has been discredited as an accurate measure of the income needed to meet basic needs, as it ignores regional variations in living costs and has a host of other problems. See *ibid* for a discussion of the accuracy of different measures.

¹¹ The figure uses CPS data on income and public assistance for working families and the county-level self-sufficiency standards for 24 family types. We report income, public assistance and the self-sufficiency gap for 3 broad family types by computing a weighted average across counties and the more detailed family types.

incomes and the self-sufficiency standard in their county (the self-sufficiency standard is calculated for each county in California). Likewise for families with one adult and two children, or two adults and two children, public assistance brought families closer to self-sufficiency but there remained a gap, showing that even with these vital supports families are not able to meet all their basic needs.

Figure 14. Family Income, Public Assistance and Self Sufficiency for Working Families Receiving Public Assistance
CPS and NEDLC's Self-sufficiency Standards

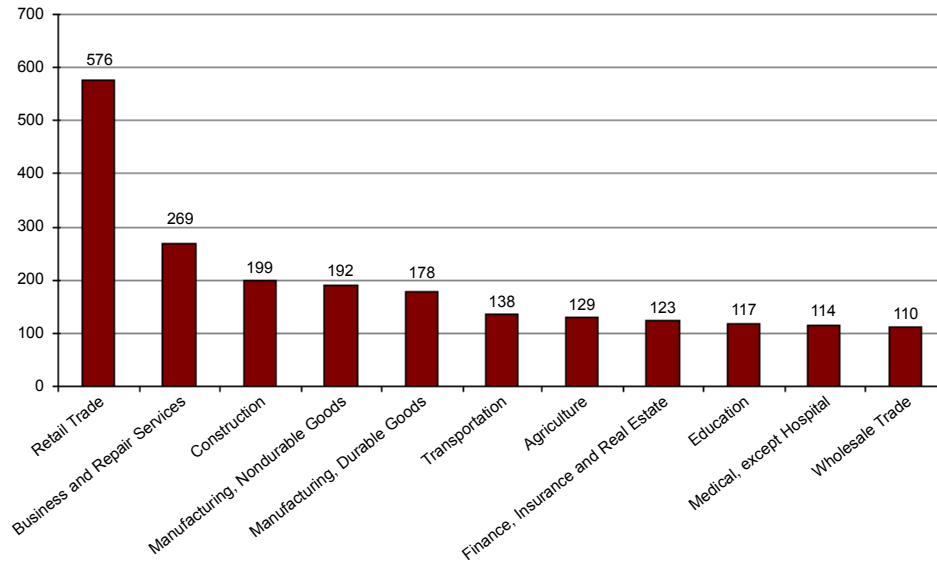


INDUSTRY AND FIRM CHARACTERISTICS

Figure 15 shows the ten industries that employed the greatest number of workers in families receiving public assistance. Retail trade is the clear frontrunner, employing almost 600,000 workers, or, as Figure 16 shows, about 22% of all enrollees. Other large concentrations of these workers were in business and repair services,¹² construction and nondurable manufacturing.

¹² Business and repair services include both high-end professional services such as IT consulting and low-end services such as janitorial and security services.

Figure 15. Top 10 Industries by Number of Employees (in thousands) Receiving Assistance, 2002
 Combined administrative and CPS data



Program enrollees were disproportionately concentrated in some sectors, as shown in Figure 16. Workers in families receiving public assistance were substantially more likely to be employed in the retail sector than were workers as a whole. Other sectors with disproportionate numbers of program enrollees included agriculture, nondurable goods manufacturing, social services, private household services, and personal services.

Figure 16. Industry Composition and Public Assistance, 2002

Combined administrative and CPS data

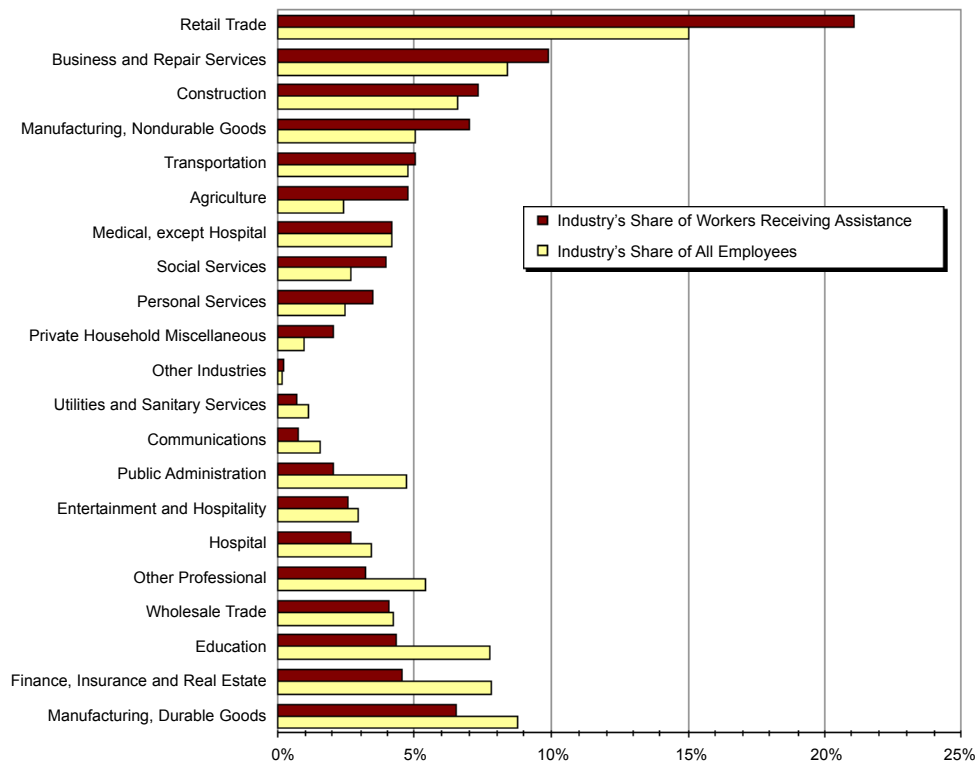


Figure 17 shows the annual total cost of the public assistance that workers received in California, aggregated by industry.¹³ The importance of the retail sector is again apparent: workers in this industry received more than \$2 billion in taxpayer-funded public assistance in 2002, over twice that of any other sector. Other important sectors include business and repair services, whose workforce received about \$850 million in means-tested public assistance, and construction, which received over \$700 million in public assistance.

¹³ When a family had members working in different industries, we allocated its total public assistance to its workers proportionate to each worker's hours. Then we aggregated this per-worker value by industry.

Figure 17. Annual Amount (in billions) of Public Assistance to Working Families by Industry, 2002
 Combined administrative and CPS data

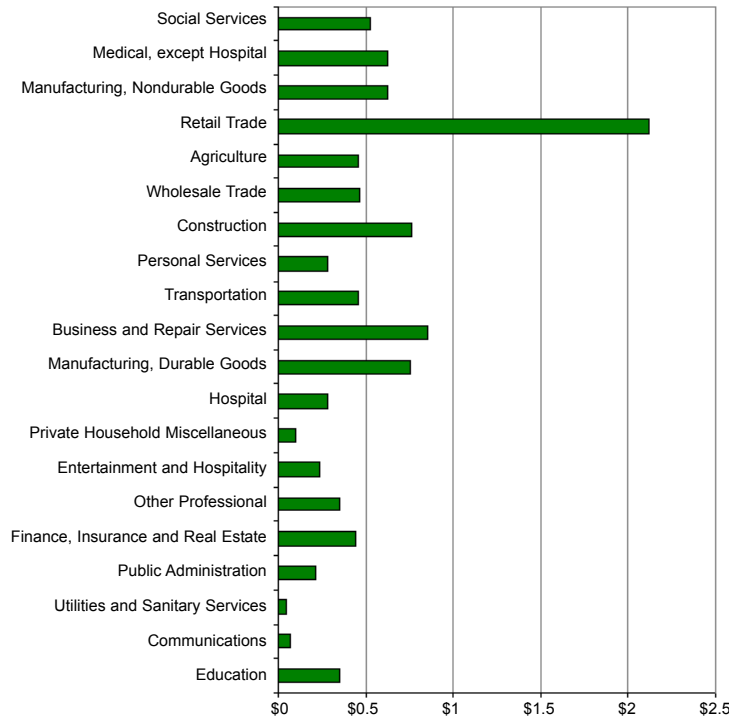


Figure 18 shows the distribution by program of public expenditures on benefits to workers in the retail industry. EITC and Medi-Cal furnished 70% of the assistance for workers in retail. In comparison, EITC and Medi-Cal accounted for approximately 57% of the ten program costs for all working families (see Figure 3).

Figure 18. Percentage of Program Costs for Retail Industry, 2002
 Combined administrative and CPS data

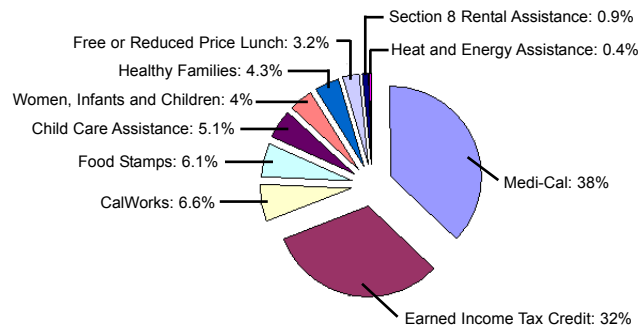


Figure 19 shows the number of employees from families receiving public assistance, distributed by the size of the firms in which they worked. These workers were concentrated in very small and very large businesses. It is notable that over 25% of these recipients—almost 700,000 workers—worked at firms with more than 1,000 employees. Figure 20 compares the percentage of these workers with all workers in each category of firm size. Public subsidy recipients were disproportionately concentrated in smaller firms.

Figure 19. Employees Receiving Assistance (in thousands) by Firm Size, 2002
 Combined administrative and CPS data

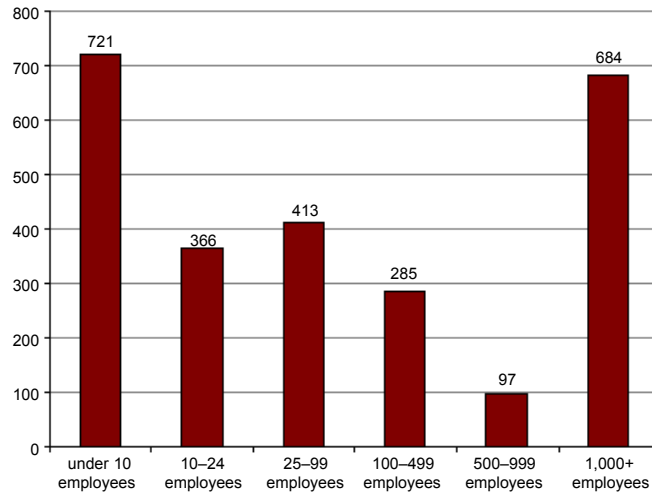
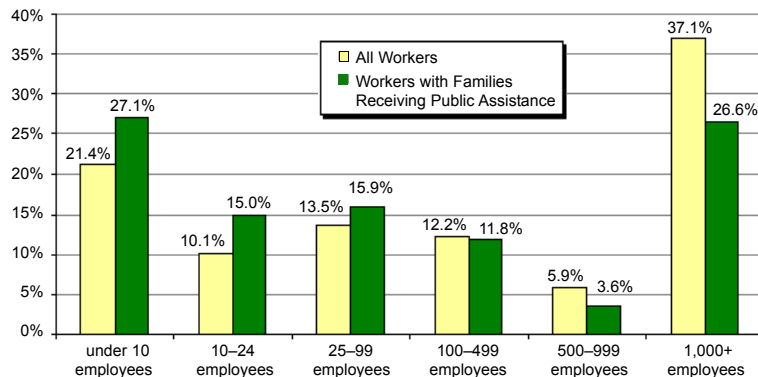


Figure 20. Firm Size Composition and Public Assistance, 2002
 Combined administrative and CPS data



HOURS AND WAGES

Working families that participate in public assistance programs meet the means-tested eligibility requirements because their members either work but earn low wages or work few hours (or a combination of both). In addition, since income requirements differ by family size, the more dependents a family has, the more assistance they may qualify for at any given level of income. This section assesses the importance of each of these factors in the distribution of the \$10.1 billion of public assistance payments made to working families in California.

Figure 21 shows the number of workers from families receiving public assistance, distributed by wage level.¹⁴ The largest number earned \$8.00 per hour or less—not much more than the current minimum wage of \$6.75 per hour.

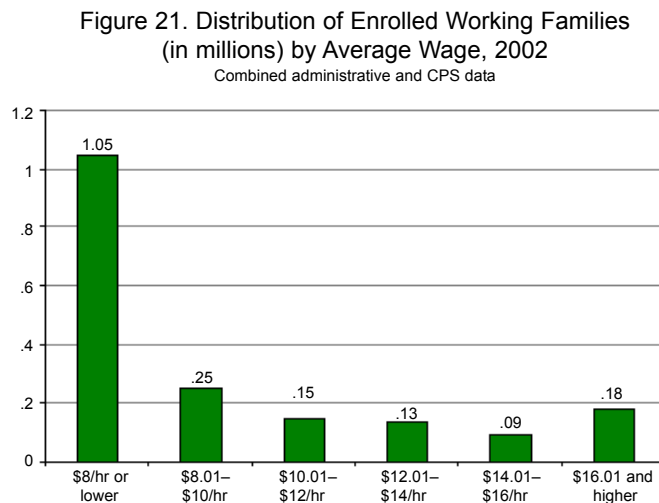
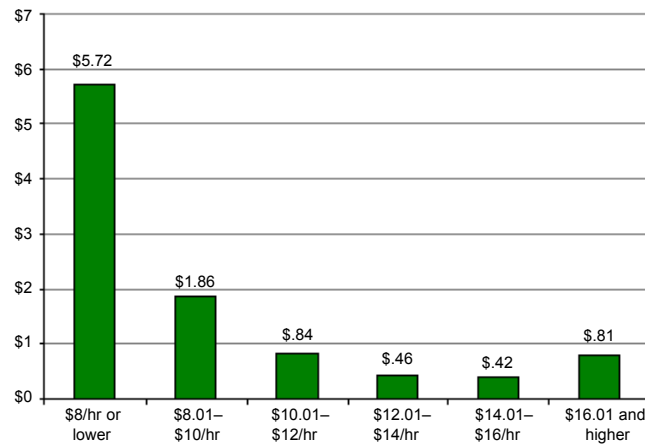


Figure 22 shows the cost of public assistance received by working families, distributed by the wage level of the family members who worked in 2002. Families with workers earning \$8.00 or less received by far the largest portion of public assistance payments, totaling over \$5.5 billion. This follows directly from the previous graph, since most of the workers in families that receive public assistance also fall in this low-wage category.

¹⁴ In multi-earner families, wage levels were calculated as the weighted average (by hours worked) of the wages received by all wage earners.

Figure 22. Distribution of Public Assistance Receipts (in billions) by Average Wage, 2002
 Combined administrative and CPS data



The next figures address the question of whether or not workers in working families work part-time or full-time. For the sake of clarity, we distinguish between families with one earner and families with two earners, since the number of hours they can potentially work differs. Figures 23 and 24 show expenditures for public assistance, distributed by the number of hours worked per week for single- and for dual-earner families.¹⁵ For both types, the greatest proportion of benefits went to families in which earners worked full time (at least thirty-five hours a week for single earners, and seventy hours for dual earners). For single-earner families, \$1.8 billion of assistance went to families in which earners worked less than full time. For dual earner families, only \$38 million went to families whose workers together worked less than the equivalent of one full-time job, and 1.31 went to families whose two workers together worked 70 hours or more, the equivalent of two full-time jobs. Aggregating both single and dual worker families, 82 percent (\$8.26 billion dollars) of public assistance benefits went to families with at least one full-time job. Moreover, 76% (\$7.63 billion) went to single earner families with over 35 hours of work per week or dual earner families with over 70 hours of work per week.

¹⁵ This discussion addresses the issue of part-time employment, but not labor force participation. Our calculation of average family work hours does not include all adults, but rather only those adults that work.

Figure 23. Public Assistance Receipts (in billions) for Single Earner Families by Hours Worked, 2002
 Combined administrative and CPS data

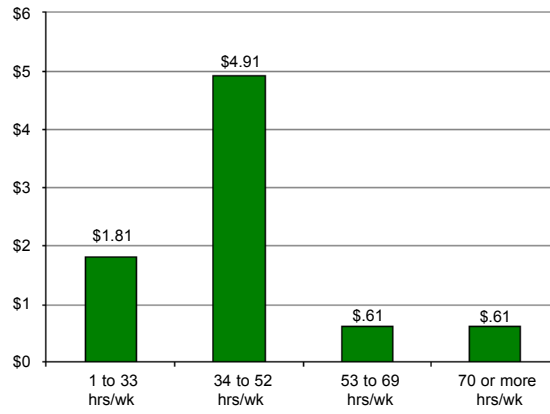
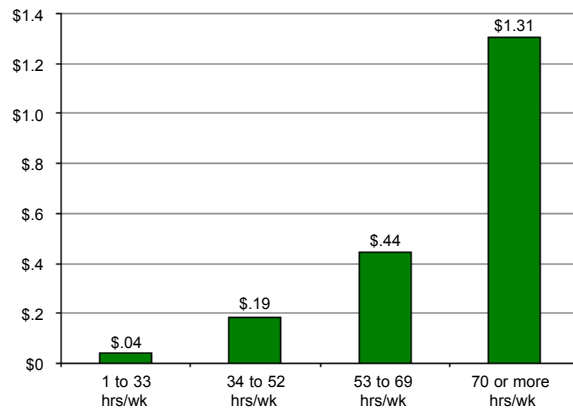


Figure 24. Public Assistance Receipts (in billions) for Dual Earner Families by Hours Worked, 2002
 Combined administrative and CPS data



VI. SIMULATING ALTERNATIVE LABOR MARKET STANDARDS

To get a clearer idea of what might reduce working families' reliance on public assistance, we simulate the impact of five labor market standards (LMS). The first four are wage standards of \$8, \$10, \$12, and \$14 per hour. The fifth is an employer-sponsored health insurance mandate (ESI); this analysis simulates a scenario in which all employers provide their employees with affordable family health coverage.¹⁶

We predict public assistance receipts under these LMS scenarios by utilizing a regression model.¹⁷ This model allows us to compare how public assistance values vary as we change wages or benefits, adjusting for differences in family structures, demographic and geographic factors, and hours of work. For this exercise we assume that the number of hours worked is the same for all individuals—in other words, we assume that there will be no changes in labor supply or demand as a consequence of the LMS. We do not mean to suggest that imposing, say, a minimum wage of \$14 per hour would have no other impact on the labor market; rather, these simulations suggest the changes that would be needed to make a dent in the current reliance of working families on assistance programs.

We find that working families' receipts of public assistance would fall from \$10.1 billion to \$7.4, \$6.3, \$5.2, and \$4.5 billion for wage standards of \$8, \$10, \$12, and \$14 per hour, respectively, as shown in Figure 24. As suggested by our earlier tabulation of transfers by wage and hour categories, there is a substantial drop (\$2.7 billion) in public assistance payments when wages are brought up from the current minimum wage to \$8 per hour. Consistent with our earlier findings, a movement to \$14 per hour reduces transfers by 5.6 billion dollars.

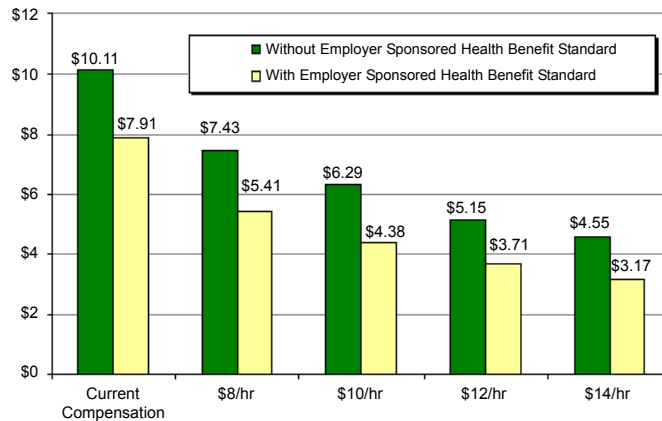
¹⁶ We do not assume that all current enrollees for Medi-Cal and Healthy Families who are working family members will stop taking up public health with the ESI mandate. We allow take-up of "wrap-around" public coverage as it empirically occurs for similar families who currently take up employer-provided family health coverage.

¹⁷ The regression utilizes data from 2000-2002, but predictions are made only for 2002. We run separate regressions for each program. For each regression the outcome variable is total current public assistance received. Since the outcome variable is censored at zero, we use a censored normal regression model. The key independent variables are twenty-eight categories of family wages and hours interaction, and ESI. Control variables include: family structure, family size, number of children below six years of age, race composition, gender composition, age composition of adults, income other than earnings and public assistance, presence of disabled individuals in the family, year variables, and county of residence. After estimating the model, we simulate public savings under alternative LMS by changing workers' wages while holding constant their hours of work. Finally we aggregate over all ten programs. By considering the twenty-eight categories of wages and hours interaction, and by considering each program separately, we allow for a varied impact of wages on public assistance for each program and family work configuration.

In other words, although upgrading minimum-wage jobs to \$8 or \$9 per hour substantially reduces working families' reliance on public assistance, given the structure of families, creation of and access to "middle-income" jobs (for example, those paying \$14 per hour and above) is needed as well. Conversely, replacing jobs paying \$14 per hour with those paying \$9 per hour is likely to prove costly not only to working families but also to taxpayers at large.

Figure 25 also illustrates, for each simulated wage level, the decline in public assistance if employers were to provide affordable health insurance. We find that with a mandated ESI, public assistance to working families would fall by an additional \$2.1 billion without any additional wage standards, \$1.9 billion with a wage standard of \$8 per hour, and so on.

Figure 25. Current (2002) and Predicted Total Public Assistance to Working Families (in billions) under Alternative Wage and Benefits Standards
Combined administrative and CPS data

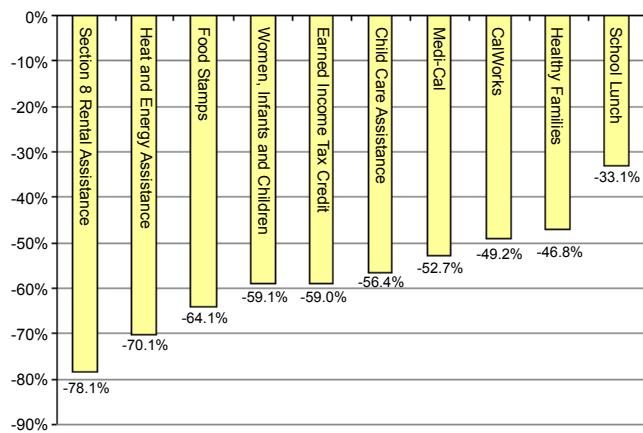


This drop in payments occurs because the costs of Medi-Cal and Healthy Families would be reduced substantially. The savings from an ESI mandate decline when wages increase because both wage and benefits standards can reduce public health enrollment—the former through reducing eligibility and the latter through reducing take-up.

Figure 26 shows the predicted reduction in public assistance with a wage floor of \$14 per hour for each of the ten programs under study. Decreases in program payments range from a greater than 30% reduction in School Lunch costs to an almost 80% reduction in Rental Assistance.

Figure 26. Predicted Reduction in Public Assistance
with a \$14 per Hour Wage, by Program, 2002

Combined administrative and CPS data



VII. FINDINGS, IMPLICATIONS, AND POLICY RECOMMENDATIONS

The analysis of the ten public assistance programs studied here reveals the following key findings:

- Working families (those with at least one member who works at least forty-five weeks per year) comprise over half (53%) of the families enrolled in at least one of the ten programs. Of the \$21.2 billion of public assistance received by California families in 2002, 48%, or \$10.1 billion, went to working families.
- Of the \$10.1 billion in public assistance expenditures, 35% was for Medi-Cal, 27% for EITC, and 12% for Child Care Assistance.
- Workers employed in the sectors that are most likely to face out-of-state or international competition (using a very broad classification of “tradable” sectors, i.e. durable and nondurable manufacturing; finance, insurance, and real estate, or FIRE; hospitality and entertainment; and other professional services and agriculture) collectively received about \$2.9 billion of public assistance benefits, while those in the sectors that face much less international competition (construction, transportation, government, trade, and a variety of service sectors) received about \$7.2 billion.
- Workers in the retail industry received about \$2 billion of public assistance, over twice the amount received by any other sector. Medi-Cal and EITC accounted for 70% of the expenditures on public assistance for families with workers in the retail sector.
- Most of the public assistance for working families went to families with workers earning very low wages: \$5.7 billion went to families whose workers had average wages of under \$8 per hour, and another \$1.9 billion went to those with wages of \$8 to \$10 per hour.

- Most of the public assistance to working families went to families with full-time workers. Seventy-six percent (\$7.63 billion) went to single earner families with over 35 hours of work per week or dual earner families with over 70 hours of work per week. Moreover, 82 percent (\$8.26 billion dollars) of public assistance benefits went to families with at least one full-time job.
- The simulation we conducted on wages predicts that public assistance payments would drop from \$10.1 billion to \$7.4 billion (a \$2.7 billion difference) would occur in public assistance payments if the current group of public assistance recipients earned at least \$8 per hour. Simply raising wages for these workers earning minimum wage and slightly above would help the working families and could potentially save billions of dollars in program expenditures.
- The simulation we conducted on employer-provided health insurance predicts that, at current wage levels, public assistance payments would drop from \$10.1 billion to \$7.9 billion (a \$2.2 billion difference) if the working families currently receiving assistance had access to affordable health insurance through their employers. When combined with employer-provided health insurance, payments would fall to \$5.4 billion with a wage floor of \$8 per hour, \$4.4 billion with a wage floor of \$10 per hour, \$3.7 billion with a wage floor of \$12 per hour, and \$3.2 billion with a wage floor of \$14 per hour.

The findings in this report inform policy discussions about the plight of the working poor in several ways. First, they suggest that low wages, rather than part-time work, generally account for the low earnings of poor working families and lead to the reliance of working families on public assistance. Pulling this set of families out of poverty and thus reducing their need for public assistance will likely be more dependent on finding ways to improve wages than on finding ways to increase the hours that they work. (A different set of policy considerations apply to the 47% of public assistance recipients that are in non-working families or in those without year-round work.)

Second, this report reveals the substantial amount of public assistance payments that flow to workers, reaching magnitudes that can change economic incentives for the businesses in which they are employed. This lends fuel to the growing concern that some assistance programs may be serving as de facto subsidies for low-wage employers, pushing down wages and providing disincentives for employers that might otherwise “take the high road.” Of the \$21.2 billion of public assistance received by California families in 2002, 48%—\$10.1 billion—went to working families. Of that, \$5.7 billion went to families whose workers had average wages under \$8 per hour, underscoring the growing evidence that some public assistance programs may transfer resources not only to the needy but also (inadvertently) to their employers.

This phenomenon, known as “crowding out,” has been well documented in the public health field. Researchers have found that, in the current economic environment, expanding eligibility requirements for Medi-Cal or Healthy Families not only insures the uninsured; it also leads to the public insuring workers and family members previously covered by employers. This may happen either because employees take up Medi-Cal because it is cheaper than employer-provided benefits (especially since employee contributions for health benefits are now increasing at double-digit rates), or because employers of low-wage workers cease to offer health coverage, knowing that their workers can enroll in public programs. Overall, researchers estimate that as much as 50% of the enrollment increases generated by the expansion of eligibility requirements for programs like Healthy Families may be a result of crowding out.¹⁸

A similar phenomenon occurs with EITC. Policymakers have known that, in theory, some of the EITC transfers (like any wage subsidy) may be “passed through” to employers by reducing wages. Recent research shows that this is an empirical reality. Leigh’s (2003) careful study of state-level EITC programs found that a 10% increase in the generosity of EITC benefits leads to a 4% reduction in wages of those most impacted by such an increase.¹⁹ Evidently, the extent of pass through to employers is substantial, which raises serious concerns about the efficacy of using *only* wage subsidies (as opposed to combining subsidies with labor market standards) to address the issue of poverty. While the EITC has been lauded as an incentive to work, this positive element must be weighed against the unintended consequences cited here.

The fact that both Medi-Cal and EITC have been shown to subsidize employers, albeit indirectly, is particularly important because the two programs together account for 62% of public assistance benefits to working families. Crowding out of health benefits and pass through of transfers to employers are wasteful from a public finance perspective since a significant part of an added public dollar ends up benefiting firms and not their employees. Moreover, they also subsidize employers that pay inadequate wages vis-à-vis their more generous competitors. In a market-based economy, employers that can rely on the public to provide health insurance to their workers, and that can lower wages knowing that the public will make up the difference, have little incentive to be more generous to their workers. Competing firms, which pick up part of the costs through higher taxes and increased health care premiums, face economic pressure to follow suit. In contrast, with stronger labor market standards such as higher minimum wages and mandated benefits, employers do not face the choice (or the pressure) to respond to such public benefits by cutting private compensation. The standards allow a more targeted and less wasteful use of public resources, and they ensure that public assistance programs do not negatively affect wages and benefits.

¹⁸ Anthony B. LoSasso and Thomas C. Buchmueller, “The Effect of the State Children’s Health Insurance Program on Health Insurance Coverage” (NBER Working Paper 9405) (Cambridge: National Bureau of Economic Research, 2002).

¹⁹ Andrew Leigh, “Who Benefits from the Earned Income Tax Credit? Incidence among Recipients, Coworkers, and Firms” (SSRN Working Paper) (SSRN Electronic Library, 2003). Available at <http://ssrn.com/abstract=473445>.

Third, our simulations show that savings in public assistance payments would be in the billions of dollars if the current group of recipients earned slightly higher wages or had affordable employer-provided health insurance. The first white paper in this series showed how current eligibility levels for public assistance programs leave out many working families that earn less than self-sufficiency wages. At the same time, many of these programs, hindered by current budget allocations, cannot meet existing demand, and they are at risk of further cuts. Policies that improve wages and benefits would allow these programs to reach more families by moving people off waiting lists into current programs and extending eligibility.

Policies to improve compensation fall into two main categories. One set of policies creates a floor on wages and benefits by raising labor market standards. The other improves productivity and competitiveness through workforce development policies and programs that improve workers' skills. The two can be seen as complementary strategies: instituting labor market wage and/or benefit standards removes employer incentives to pass through the costs of health care and non-self-sufficiency wages to the taxpayer, and industrial upgrading and worker training can help companies absorb the costs of higher wages and/or benefits.

LABOR MARKET STANDARDS

A wide variety of policies can serve to raise the floor on wages and benefits, including minimum wage laws, living wage policies, benefits mandates, and policies that improve workers' rights to organize and bargain collectively. Minimum wage increases apply across the board to all businesses. Other policies are targeted to specific industrial sectors; prevailing wage laws in construction provide one example. The recently passed California Health Care Insurance Act (which will be put before the voters in November 2004) would function as a health benefits mandate, requiring firms with more than 50 workers to provide individual health benefits, and firms with 200 or more workers to provide family benefits.

Another set of policies in this category promotes the creation of new jobs and upgrading of existing jobs that allow workers to become self-sufficient. In contrast, traditional state and local economic development strategies focus on attracting jobs without considering wages and benefits. Cities and counties around the country have passed living wage ordinances requiring firms that receive public subsidies to meet wage standards. Several California cities and counties are considering policies that would require community impact reports for economic development projects receiving public subsidies that include consideration of wages and health insurance along with other community benefits. In 2002 California distributed \$5.5 billion in economic development subsidies to businesses, yet recipients did not—and currently do not have to—offer any accounting of how many jobs were created by

the subsidies or what wages and benefits were provided.²⁰ Nine states have passed disclosure requirements for economic development projects.²¹

The costs of labor market standards are greatest when employment is concentrated in sectors that face competition from regions or countries with lower wages. Our findings show that the bulk of workers receiving public assistance are employed in sectors that do not face significant international or even out-of-state competition, reflecting the distribution of low-wage work in the economy at large. In this context, higher wages and benefits are much less likely to result in a significant loss of employment. The disproportionate share of payments to workers in the retail sector suggests that sector-specific strategies, which may be combined with productivity-improving workforce training programs, could be successful. That 30% of the total payments to working families—\$3 billion a year—go to workers (and family members) in firms with 500 or more employees suggests that policies could be established that would address crowd out without negatively impacting small businesses. To make effective use of public resources, labor standards are best coupled with public assistance programs for low-wage workers and their families. Along these lines, the city of San Francisco, which recently instated an \$8.50 per hour minimum wage, is considering a local EITC.

POLICIES TO IMPROVE LABOR PRODUCTIVITY

Improving workers' skills is another strategy for improving wages and benefits. Higher skill levels increase workers' access to good-paying jobs and increase firms' productivity and their ability to compete. Successful strategies along these lines include sectoral training partnerships, which link training with complementary efforts to improve the productivity and competitiveness of entire industries within a region. These encourage collaboration among companies in a specific industry and harness the resources and expertise of organizations such as unions, community-based nonprofits, community colleges, and others. Sectoral partnerships have a strong record of retaining well-paying jobs, which provide career ladders for incumbent workers and good opportunities for new workers. In a complimentary approach, some Workforce Investment Boards have begun using the self-sufficiency standard as an assessment tool to evaluate the success of their One-Stop centers in moving workers into self-sustaining jobs.

The findings also highlight the importance of improving access to education, a strategy with one of the strongest relationships to income adequacy. Only 9% of adults in families enrolled in public subsidy programs had a college degree, compared to 29% of all adults. Budget shortfalls triggered cuts in course offerings in California's community college system

²⁰ California Budget Project.

²¹ Minnesota, Maine, Connecticut, North Carolina, Louisiana, Texas, West Virginia, Ohio, and Nebraska. See Greg LeRoy et al., *No More Secret Candy Store: A Grassroots Guide to Investigating Development Subsidies* (Washington, D.C.: Good Jobs First, 2002). Available at <http://www.goodjobsfirst.org/research/title.pdf>.

that fell disproportionately on vocational education and resulted in an enrollment drop of 90,000 students in 2003.²² Proposed cuts in the California State University and University of California systems would require a 10% reduction in the incoming freshman classes in 2004. These cuts, coupled with tuition increases at all levels of higher education in California, will disproportionately impact the access of low-income working family members to higher education. The cuts bring immediate savings to the state budget, but the long-term effect on family income, job attraction, and social service costs must be considered.

In summary, improving conditions for the working poor in California will require a combination of policy and program solutions. The public assistance programs discussed in this report provide vital support for millions of California's working poor, and many of these programs are facing probable budget cuts at the very moment that the economic downturn has increased demand for their services. In this context, a fiscally responsible policy approach for improving the lives of the working poor in the state would combine targeted income support programs with policies that establish labor standards, promote the development of self-sufficiency jobs, and increase access to education and training.

²² Community Colleges Chancellor's Office, Fall 2003 Preliminary Enrollment Report (Sacramento: California Community Colleges Chancellor's Office, 2003). Available at http://www.cccco.edu/news/press/press_2003/press_november/fall_enrollment.pdf.

APPENDIX A: DESCRIPTION OF THE PUBLIC ASSISTANCE PROGRAMS

EARNED INCOME TAX CREDIT

The Earned Income Tax Credit (EITC) is a refundable federal tax credit for eligible individuals and families that work and have earned income under \$33,692 (\$34,692 for married filing jointly). The EITC reduces the amount of tax a worker owes, and it may result in a refund.

To qualify for the credit a worker must have earned income during the year. Total earned income and modified adjusted gross income must be less than:

- \$11,230 (\$12,230 for married filing jointly) with no qualifying children, or;
- \$29,666 (\$30,666 for married filing jointly) with one qualifying child, or;
- \$33,692 (\$34,692 for married filing jointly) with more than one qualifying child.

Workers also must have less than \$2,600 in investment income to be eligible for the credit.

Married persons filing separate returns and qualifying children of another person are ineligible. Members of married couples filing jointly cannot be qualifying children of another person. A qualifying child cannot be used by more than one person to claim the EITC. Detailed information about the EITC is available at <http://www.irs.gov/individuals/article/0,,id=96466,00.html>.

CALWORKS (TANF)

CalWORKs is a welfare program that gives cash aid and services to eligible needy California families. The program serves all fifty-eight counties in the state and is operated locally by county welfare departments. A family that has little or no cash and needs housing, food, utilities, clothing, or medical care may be eligible to receive immediate short-term help. Families that apply and qualify for ongoing assistance receive money each month to help pay for housing, food, and other necessary expenses.

CalWORKs payments are issued in the form of a check. The amount of a family's monthly assistance payment depends on a number of factors, including the number of people who are eligible and the special needs of any of those family members. The income of the

family is considered in calculating the amount of cash aid the family receives.

Specific eligibility requirements take into account an applicant's citizenship, age, income, resources, assets, and other factors. Generally, services are available to:

- Families with a child (or children) in the home who has been deprived of parental support or care because of the absence, disability, or death of either parent.
- Families with a child (or children) and both parents in the home, but the principal earner is unemployed.
- Needy caretaker relatives of a foster child (or children).

More information about CalWORKs is available at <http://www.deltacollege.edu/dept/calworks>.

LOW INCOME HEAT AND ENERGY ASSISTANCE PROGRAM

The Low Income Home Energy Assistance Program (LIHEAP) Block Grant is funded by the federal Department of Health and Human Services (DHHS). It provides two basic types of services. Eligible low-income persons, via local governmental and nonprofit organizations, can:

1. Receive financial assistance to offset the costs of heating and/or cooling dwellings, and/or
2. Have their dwellings weatherized to make them more energy efficient.

This is accomplished through three program components:

1. The Weatherization Program provides free weatherization services to improve the energy efficiency of homes, including attic insulation, weather-stripping, minor housing repairs, and related energy conservation measures.
2. The Home Energy Assistance Program (HEAP) provides financial assistance to eligible households to offset the costs of heating and/or cooling dwellings.
3. The Energy Crisis Intervention Program (ECIP) provides payments for weather-related or energy-related emergencies.

Eligibility for the program components is determined by a verified monthly and annual income adjusted for household size. A detailed table of income guidelines is available at <http://www.csd.ca.gov/incometable.html>.

SECTION 8 RENTAL VOUCHER PROGRAM

The Section 8 Rental Voucher Program increases affordable housing choices for very low-income households by allowing families to choose privately owned rental housing. The public housing authority (PHA) generally pays the landlord the difference between 30% of household income and the PHA-determined payment standard—about 80% to 100% of the fair market rent (FMR). The rent must be reasonable. The household may choose a unit with a higher rent than the FMR and pay the landlord the difference or choose a lower cost unit and keep the difference.

HUD contracts with housing authorities to provide Section 8 assistance to very low-income households, households already assisted under the Housing Act of 1937, and households with incomes up to 80% of the area median that qualify to receive a voucher in connection with other HUD programs. HUD determines median income levels for each area annually. Further details are available at <http://www.hud.gov/progdesc/voucher.cfm>.

CHILD CARE ASSISTANCE

California provides a comprehensive array of child development programs to meet the needs of a variety of parents and children. Relevant programs for this analysis include:

- General Child Care and Development.
- Migrant Child Care and Development.
- Campus Child Care and Development.
- State Preschool Program.
- State Preschool Full-Day Program.
- School Age Community Child Care Program (Latchkey).
- CalWORKs Child Care.

By statute, all eligible children must be under the age of thirteen, or under age nineteen if physically or mentally incapable of self-care, or under court supervision; children must also (1) reside with a family (a) whose income does not exceed 85% of the State Median Income (SMI) for a family of the same size and (b) in which the parent (or parents) is working or attending a job training or educational program, or (2) receive or need to receive protective services. Income counted to determine eligibility includes all sources of income to the family except:

- Earnings of a child under eighteen years of age.
- Loans, grants, and scholarships obtained under conditions that preclude their use for current living costs.
- Grants or loans to students for educational purposes made or insured by a state or federal agency.

- Allowances received for food, shelter, or uniforms or other work-required clothing.
- Business expenses for self-employed family members.
- Income of a recipient of federal supplemental security income benefits pursuant to Title XVI of the Federal Social Security Act and state supplemental program benefits pursuant to the Federal Social Security Act and the Welfare and Institutions Code.

According to California Education Code a family is “income eligible” if a family’s adjusted monthly income is at or below 75% of the SMI, adjusted for family size, and adjusted annually. Further details are available at http://www.cde.ca.gov/cyfsbranch/child_development/downloads/finalplan0405.pdf.

MEDI-CAL (MEDICAID)

Medi-Cal is California’s Medicaid health care program. This program pays for a variety of medical services for children and adults with limited income and resources. Medi-Cal is supported by federal and state taxes. Once eligibility is established, Medi-Cal benefits are available as long as eligibility requirements are met.

An individual is automatically eligible for Medi-Cal if she or he receives cash assistance under one of the following programs:

- SSI/SSP (Supplemental Security Income/State Supplemental Program).
- CalWORKs (California Work Opportunity and Responsibility to Kids).
Previously called Aid to Families with Dependent Children (AFDC).
- Refugee Assistance.
- Foster Care or Adoption Assistance Program.

Individuals not receiving cash assistance may be eligible for Medi-Cal if they are one of the following:

- Age sixty-five or older.
- Blind.
- Disabled.
- Under twenty-one years of age.
- Pregnant.
- Diagnosed with breast or cervical cancer.
- In a skilled nursing or intermediate care facility.
- A person with refugee status during a limited period of eligibility. Adult refugees may or may not be eligible depending upon how long they have been in the United States.

- A parent or caretaker relative of a child under twenty-one years of age.
- A child whose parent is:
 1. The primary wage earner and unemployed or underemployed; or
 2. Deceased or doesn't live with the child; or
 3. Incapacitated.

Further details are available at <http://www.dhs.ca.gov/mcs/medi-calhome/FAQs2.htm>.

HEALTHY FAMILIES PROGRAM (SCHIP)

The Healthy Families Program is a state- and federally funded health coverage program for children up to the age of nineteen whose family incomes are above the level eligible for no-cost Medi-Cal and below 250% of the Federal Income Guidelines (\$38,160 for a family of three) and who have been without employer-sponsored health insurance in the last three months.

Parents, legal guardians, stepparents, foster parents, or caretaker relatives may apply for insurance for a child living in their home. Only the parents' income will be considered. The income of a legal guardian, stepparent, foster parent, or caretaker relative who lives with a child will not be used to qualify the child for the program. Additional qualification criteria are available at http://www.healthyfamilies.ca.gov/English/about_join.html.

NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN

The Special Supplemental Nutrition Program for Women, Infants, and Children—better known as the WIC program—serves to safeguard the health of low-income women, infants, and children up to age five who are individually determined to be at “nutrition risk” by a health professional. WIC provides nutritious foods, nutrition counseling, and referrals to health and other social services to participants at no charge.

WIC is not an entitlement program; that is, the U.S. Congress does not set aside funds to allow every eligible individual to participate in the program. Instead, WIC is a federal grant program for which Congress authorizes a specific amount of funding each year for program operations. The Food and Nutrition Service, which administers the program at the federal level, provides these funds to WIC state agencies (state health departments or comparable agencies) to pay for WIC foods, nutrition counseling and education, and administrative costs.

To be eligible, an applicant's income must fall at or below 185% of the U.S. Poverty Income Guidelines (currently \$33,485 for a family of four). A person who participates or has family members who participate in certain other benefit programs, such as the Food Stamp Program, Medicaid, or Temporary Assistance for Needy Families, automatically meets the income eligibility requirement. Detailed information about the program is available at <http://www.fns.usda.gov/wic/aboutwic/default.htm>.

FOOD STAMP PROGRAM

The Food Stamp Program serves as the first line of defense against hunger. It enables low-income families to buy nutritious food with coupons and Electronic Benefits Transfer (EBT) cards. Food stamp recipients spend their benefits to buy eligible food in authorized retail food stores. The program is the cornerstone of the federal food assistance programs, and it provides crucial support to needy households and to those making the transition from welfare to work.

Households may have \$2,000 in countable resources, such as a bank account. Households may have \$3,000 if at least one person is age sixty or older or is disabled. Certain resources are not counted, such as an applicant's home and lot and the resources of people who receive Supplemental Security Income (SSI) or benefits under the Temporary Assistance for Needy Families (TANF) program. Detailed eligibility guidelines are available at http://www.fns.usda.gov/fsp/applicant_recipients/fs_Res_Ben_Elig.htm.

NATIONAL SCHOOL LUNCH PROGRAM

The National School Lunch Program is a federally assisted meal program operating in more than 99,800 public and nonprofit private schools and residential child care institutions. It provides nutritionally balanced, low-cost or free lunches to more than 26 million children each school day. In 1998 Congress expanded the National School Lunch Program to include reimbursement for snacks served to children (through eighteen years of age) in after-school educational and enrichment programs.

The Food and Nutrition Service administers the program at the federal level. At the state level, the National School Lunch Program is usually administered by state education agencies, which operate the program through agreements with school authorities.

Any child at a participating school may purchase a meal through the National School Lunch Program.

- Children from families with incomes at or below 130% of the poverty level are eligible for free meals.
- Those with incomes between 130% and 185% of the poverty level are eligible for reduced-price meals, for which students can be charged no more than forty cents.
- Children from families with incomes over 185% of the poverty level pay full price, although their meals are still subsidized to some extent. Local school authorities set their own prices for full-price (paid) meals, but they must operate their meal services as nonprofit programs.
- After-school snacks are provided to children on the same income eligibility basis as school meals. However, programs that operate in areas where at least 50% of students are eligible for free or reduced-price meals serve all snacks free.

Additional details are available at <http://www.fns.usda.gov/cnd/Lunch/default.htm>.

APPENDIX B: THE COMBINED ADMINISTRATIVE AND CPS DATA SET

To carry out our analysis we needed to combine the detailed information available in the CPS with the government administrative data on program enrollment and costs. This is necessary because the administrative data are a more accurate source of enrollment and cost information than the CPS, since the administrative data are derived from the programs themselves, rather than the self-reported responses of a small sample of California households. In addition, the CPS's self-reported values of cash transfers (such as CalWORKs or Earned Income Tax Credit) and the estimated "fungible" values of non-cash payments (such as Medicaid) are unreliable measures of how much the benefits are costing taxpayers. We assume that although the CPS may result in an over- or undercount of program participation, this discrepancy is evenly distributed vis-à-vis the CPS' household and demographic characteristics, resulting in an unbiased sample of households across all the other variables we use in this analysis.

Therefore, our task is to adjust the CPS enrollment figures to reflect official administrative statistics. The discrepancy can be substantial for particular programs. To quantify this potential discrepancy, we compiled specific administrative enrollment and benefit costs for California for the ten programs examined in this report.

As shown in the table below, there are indeed substantial differences between the CPS based estimates and administrative figures for enrollment and benefit costs.

	Administrative Data	CPS Data	CPS Over- or Undercount
Individual Level Data			
Medi-Cal (Medicaid)	4,598,047	3,692,319	-19.7%
Earned Income Tax Credit (EITC)	2,272,298	2,084,120	-8.3%
CalWORKs (TANF)	1,390,529	1,023,126	-26.4%
Child Care Assistance	584,385	162,446	-72.2%
Food Stamp Program	1,741,007	1,572,003	-9.7%
Nutrition Program for Women, Infants, and Children	1,266,813	1,345,075	6.2%
Healthy Families (SCHIP)	561,631	489,566	-12.8%
National School Lunch Program	2,582,835	2,215,934	-14.2%
Family Level Data			
Section 8 Rental Voucher Program	295,588	195,138	-34.0%
Low Income Heat and Energy Assistance Program (LIHEAP)	191,963	227,310	18.4%

Most programs have an undercount in the CPS of between 8% and 34%. Two notable exceptions are Energy Assistance, which has an 18% overcount, and Child Care Assistance, which has a very large undercount of 72%.

To address this discrepancy, we adjust the CPS data on enrollment and benefit costs using the administrative figures. Using administrative enrollment, we compute the proportion of enrollees who are working family members using the CPS. In addition, since the benefit amounts are likely to vary between working family members and members of families with no year-round workers, for each program we adjust the individual CPS benefits by the ratio of average administrative benefit level to average CPS benefit level. Details of this adjustment vary somewhat from program to program and are provided below. Note that whereas we feel comfortable with this adjustment for most programs, the severity of the undercount in the case of Child Care Assistance means that one should be cautious regarding estimates for that program.

PROGRAM ENROLLMENT VARIABLE CONSTRUCTION AND COST ADJUSTMENT METHODOLOGY

EARNED INCOME TAX CREDIT

The CPS identifies EITC recipients in the data set at the individual level using the *EIT-CRED* variable to report the total credit received. Administrative data report enrollment

at the individual level. The *EIT-CRED* value is assigned to the individual recipient and applicable family members as both a yes/no variable (p_eitc , f_eitc) and a total value (p_eitc_v , f_eitc_v). The adjusted CPS value (f_eitc_a) is calculated by multiplying the ratio of p_eitc_v to its mean by the per capita cost of administrative cost to CPS reported enrollment, then aggregating the result (p_eitc_a) to the level of the family (f_eitc_a).

SECTION 8 RENTAL VOUCHER PROGRAM

The CPS identifies Section 8 recipients at the family level using the *FHOUSSUB* variable and the monthly value of the benefit using *FHOUSVAL*. Administrative enrollment is based on the number of vouchers in use, which are usually given to the family's reference person. Because our construction of the family variable is more restrictive than that used in the CPS data, it may be possible that more than one "family" is receiving benefits under one voucher and that some cases are double-counted during the calculation of the CPS's total annual amount. To remedy this problem we identify individuals in families receiving the benefit (p_sec8) and calculate the annual per person per family cost of Section 8 benefits (p_sec8_v) using the CPS's original family ID, then sum the values to the level of our new family ID to create a new family designation (f_sec8), which corresponds to the *FHOUSSUB* variable and a correct annual cost (f_sec8_v). This then allows us to calculate the adjusted CPS value (f_sec8_a) using the methodology described above.

LOW INCOME HEAT AND ENERGY ASSISTANCE PROGRAM

The LIHEAP program is coded at the household level for both enrollment (*HENGAST*) and value (*HENGVAL*) in the CPS. Administrative enrollment figures are also at the household level. This variable presents a similar situation as above, and we use the same methodology to calculate the per-person, per-family benefit value (p_heap_v) and family-adjusted value (f_heap_a).

CALWORKS (TANF)

The CPS reports CalWORKs recipients at the individual level as both a yes/no variable (*PAWYN*) and a total value (*PAWVAL*) for all recipients. Administrative enrollment is reported at the individual level. Persons are assigned both a yes/no variable (p_tanf) and value (p_tanf_v). Families are assigned a corresponding yes/no variable (f_tanf) and a total value (f_tanf_v), which is the sum of p_tanf_v for all family members. Using the methodology described above, the adjusted CPS value (p_tanf_a) is the product of the ratio of p_tanf_v to its

mean and the per capita cost of administrative cost to CPS reported enrollment. The values are summed across the family to calculate the f_tanf_a variable.

MEDI-CAL (MEDICAID)

The CPS reports Medicaid take-up (*MCAID*) and market value (*P-MVCAID*) at the individual level. Administrative enrollment is reported at the individual level with different average costs for children under eighteen and adults, and separately for those who are elderly or disabled. Each recipient is identified either as a youth (*py_caid*) or an adult (*pa_caid*). Families are assigned a value of the sum of *P-MVCAID* for all recipients in the family who are (a) not disabled, and (b) not 65 years of age or older. Adjusted CPS values at both the individual (*pa_aid_a*, *py_aid_a*) and family levels (*f_caid_a*) are calculated using the same methodology described above.

FOOD STAMP PROGRAM

The CPS reports food stamp recipients at the household level (*HFOODSP*) and market value at the family level (*F-MV-FS*). Administrative enrollment figures are for all persons in a family receiving benefits. To calculate adjusted CPS costs all persons with a family food stamp market value above zero are assigned yes/no (*p_fs*) and value (*p_fs_v*) variables. The methodology described above is used to calculate an adjusted individual value (*p_fs_a*), which is then summed across the family (*f_fs_a*).

NATIONAL SCHOOL LUNCH PROGRAM

The CPS reports take up of free and reduced-price school lunches at the household level (*HFLUNCH*) and market value of school lunches at the family level (*F_MV_SL*). Administrative data report enrollment as the number of children receiving the benefit. In addition to the inconsistency between the units of measure for CPS and administrative enrollment, there is a wide discrepancy between the family and household variables in the CPS since some families with a positive school lunch market value are not identified as being in households receiving a free or reduced-price lunch. To correct for this all eligible children in households receiving the benefit or in families with a positive market value are assigned the variable *p_sl2*. The sum of enrolled children is aggregated to the level of the family (*f_sl2_n*), which allows the calculation of the per capita CPS (*p_sl2_v*) and adjusted CPS (*p_sl_a*) values of school lunch benefits using the methodology described above. The adjusted value is summed to the level of the family (*f_sl2_a*).

CHILD CARE ASSISTANCE

The CPS identifies the persons (adults) who received child care assistance benefits (CCAYN) in 2001 and the number of persons in a household receiving the benefit (HRNUMCC), whereas the administrative data report the number of children served annually. To reconcile these two data sets, the eligible children in households receiving the benefit were identified as p_cca then aggregated at the family level as f_cca . Since there is no CPS reported market or fungible value for the assistance benefits, each case is assigned a ratio of 1 when using the methodology described above for calculating the total family value.

HEALTHY FAMILIES (S-CHIP)

The CPS identifies children who were enrolled in the State Child Health Insurance Program in 2001 (PCHIP). Administrative data specify the number of children enrolled in the program. Since there is no CPS reported market or fungible value for the assistance benefits, each case is assigned a ratio of 1 when using the methodology described above for calculating the total family value.

NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN

The CPS identifies mothers and pregnant women receiving WIC benefits (WICYN), but not their children. Administrative data provide enrollment figures for all persons in the program. Children of enrolled mothers are identified based on eligibility and, along with their mothers, assigned a yes/no value (p_wic). Since there is no CPS reported market or fungible value for the assistance benefits, each case is assigned a ratio of 1 when using the methodology described above for calculating the total family value.

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