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ABSTRACT

Children are among the poorest of Maine's residents. Nearly 1 in 5 children under the age of 18, 19.3%, lived in families below the federal poverty line in the early 1990s. Most of these poor children lived in working families. The working poor are often missing from policy debates, but their numbers are likely to increase with welfare reform efforts. In Maine, working poor families represent a broad cross-section of the state's population. Job growth in Maine has been concentrated in industries with low average pay, and federal and state policies have contributed to working poverty. Because most poor children are in families with a worker, the high child poverty rate in Maine is unlikely to decline significantly without efforts to assist low-wage working families. Steps the state could take to help the working poor include: (1) enacting a state earned income credit; (2) raising the minimum wage; (3) modifying the rules for aid to families with dependent children to allow families to earn more without a loss of benefits; (4) strengthening the unemployment insurance system; and (5) responding to the child care and health care needs of the working poor. As these policies helped alleviate child poverty, they would promote the broad goals of welfare reform by helping parents support their families. (Contains nine figures and seven tables.) (SLD)

Maine's Families:

Poverty Despite Work

Center on Budget and Policy Priorities

Maine Center for Economic Policy • Maine Children's Alliance

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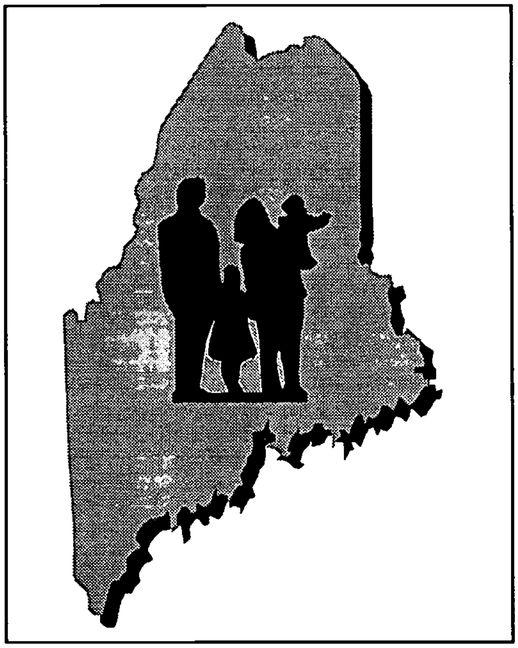
Edward B. Lazere



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Collaborating Organizations

The *Maine Center for Economic Policy* is a non-profit, non-partisan, research organization established in January 1994. The Center is dedicated to promoting a sustainable and equitable economy through analyzing and identifying solutions for Maine's economic and fiscal challenges.

The *Maine Children's Alliance* is a statewide organization formed in 1994. Its mission is to advocate for sound public policies to improve the lives of all Maine's children, youth, and families, under the knowledge that the future of Maine's communities is invariably linked to the well-being of their children.

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The author is solely responsible for the contents of this report.

Executive Summary

Children stand out as one of the poorest groups of Maine's residents. Nearly one of five Maine children under age 18 — some 19.3 percent — lived in families with incomes below the federal poverty line in the early 1990s. In addition, the child poverty rate in Maine increased one-fourth between the mid-1980s and the early 1990s. The high poverty rate among Maine's children is cause for concern, since there is strong evidence that poverty can hinder the cognitive and physical development of children and adversely affect their ability to become productive adults.

The majority of poor children live in working families. It is common to assume that poor children live in families where the parents could work but do not. Yet the majority of Maine's poor children live in working families. Earnings from work is the primary source of income among Maine's poor families with children.

The working poor are often missing from policy debates. Recent public discourse related to poor families with children has centered on the need to change welfare and encourage work. This report tells the story of Maine families that work but remain poor, a group that includes the majority of the state's poor families with children and that is likely to swell as more families leave welfare for work. The report identifies several policy steps Maine could take to boost the incomes of parents who work for low wages, including enacting a state earned income credit, raising the minimum wage, modifying AFDC benefit rules to allow welfare recipients to earn more without a loss of benefits, strengthening the unemployment insurance system, and responding to the child care and health care needs of the working poor. Such policies would help alleviate child poverty in Maine; they also would promote the broad goals of welfare reform by helping ensure parents can support their families through work.

Poverty Persists Despite Work

- **The majority of Maine's poor families with children work.** In 1989, nearly 19,000 Maine families with children in which the parents were not elderly or disabled had incomes below the poverty line. Some 13,100 — or 70 percent — of these poor families had one or more members who worked all or part of the year. Some 46,000 Maine residents lived in a working poor family with children in 1989. (The 1990 census, from which these 1989 figures were drawn, is the most recent comprehensive source of data on work and poverty in Maine.)

- **Earnings represent the major source of income for Maine's poor families with children**. Earnings from work constituted 57 percent of the income of all poor families with children in Maine, while only 28 percent of the income of these families came from public assistance, primarily Aid to Families with Dependent Children (AFDC).

- **Working poor families in Maine mirror a broad cross-section of the state's population.** Like Maine families as a whole, most working poor families are white, headed by a married couple, and live in rural areas of the state. A majority of working poor families have a parent of prime working age — 25 years or older — with at least a high school education.

- **Poor families with children in Maine do not fall neatly into categories of working and non-working.** In fact, most welfare recipients are also part of the working poor. Nearly two-thirds — 64 percent — of Maine families with children that received public assistance at some point during 1989 also worked at least part of the year. This group includes families that use public assistance as a temporary safety net when a job is lost, as well as families in which a parent works but the family remains eligible for assistance as a result of low earnings.

Economic Shifts Have Led to Growth in Low-Wage Work

- **Job growth has been concentrated in industries with low average pay.** Between 1982 and 1994, the highest rates of employment growth in Maine occurred in services and retail trade, the two lowest-paying industries in the state. Meanwhile, employment in manufacturing, with much higher average pay, *fell* 16 percent.

- **The number of working poor families is likely to have grown substantially since 1989, the year covered by the census data in this report.** This is true because 1989 represented the peak of an unusually strong economic recovery in Maine, which helped limit the number of working families that remained poor. Starting in 1989, the state entered a severe recession, and the resulting increases in unemployment and part-time work undoubtedly pushed a number of working families into poverty. Employment did not return to the pre-recession level until late 1995, and the Maine Planning Office forecasts very modest economic growth in 1996.

Federal and State Policies Have Contributed to Working Poverty

- **The value of the minimum wage has declined dramatically.** Full-time year-round work at the minimum wage pays only 71 percent of the 1996 federal poverty line for a family of three and only 55 percent of the poverty line for a family of four. *This level is as low or lower than in any year since 1955.* The purchasing power of the minimum wage has fallen because it was frozen from January 1981 through March 1990, during which period the cost of living rose 48 percent, and because it has been frozen again for nearly five years since the latest increase in 1991.

- **Changes in AFDC have made it less likely for families in Maine and other states to supplement their earnings with AFDC benefits.** Changes in federal law in the early 1980s sharply reduced the benefits working parents can receive under AFDC — the federal-state cash assistance program for poor families with children. In addition, the value of AFDC benefits has been reduced in Maine and other states, which has limited the income a family can receive and still qualify for aid. As a result, a parent with two children in Maine who has worked more than 12 months while receiving AFDC becomes ineligible for benefits to supplement earnings when her income reaches $643 a month, or just 61 percent of the poverty line.

- **Expansions of the federal earned income tax credit have offset only partially the drop in the value of the minimum wage and the restriction of AFDC benefits.** The earned income credit (EIC), a federal tax credit for low- and moderate-income workers, is designed to offset social security taxes, supplement the earnings of low- and moderate-income families, and help families make the transition from welfare to work. The EIC has been expanded three times in the last decade, and it has become

the central element of the federal efforts to "make work pay." Yet even with a substantial EIC, the income of a full-time minimum wage worker with two children will be $829 below the poverty line in 1996. The income of a four-person family will fall more than $4,300 below the poverty line. This stands in contrast to the 1960s and 1970s, when many families with a full-time minimum wage worker had above-poverty incomes.

- **Even if they receive food stamps, many working families will remain in poverty.** Nearly two-thirds of working poor families nationwide do not receive food stamp benefits, in part because many do not meet the program's outdated asset limits. In addition, many eligible families do not apply for food stamps, in part because they face barriers to participation. Among families that do receive food stamps, a family of three with a full-time minimum wage worker will have an above-poverty income in 1996. But the total income of a family of four — including food stamps — still will fall $390 below the poverty line, while a family of five with a full-time minimum wage worker will fall $2,400 below poverty.

Policies to Enhance Welfare Reform and Reduce Child Poverty

- **Because most poor children are in families with a worker, the high child poverty rate in Maine is unlikely to decline significantly without efforts to assist low-wage working families.** Future economic growth is unlikely to provide either higher-paying or more stable jobs to parents attempting to support their families through work. Employment projections from the Maine Department of Labor show that job growth and thus job opportunities through 2005 will continue to be concentrated in the lower-paying retail trade and service industries, while manufacturing employment will continue to decline.

- **The persistence of poverty despite work among families with children also has profound implications for welfare reform.** It is likely that many welfare recipients who find work will simply join the ranks of the working poor. The average hourly wage of AFDC recipients who gained private sector jobs between July 1995 and January 1996 after participating in Maine's ASPIRE program was $5.52. That wage level would be sufficient to raise a family of four just out of poverty, if the family also received food stamps and the EIC, but only if the job was full-time and year-round. Yet fewer than two of five ASPIRE recipients who found work were employed full-time.

- **Maine policymakers can boost the incomes of all working poor families by creating a refundable state earned income credit or increasing the state minimum wage, or by using a combination of the two approaches.** This would be consistent with efforts taken in other states in the region, since every other Northeastern state with the exception of New Hampshire has adopted one or both of these policies. In addition to these actions, Maine could help AFDC recipients make the transition to work by modifying AFDC benefit rules in ways that allow recipients to keep a larger share of their benefits when they work, and it could help prevent workers from falling into poverty when a job is lost by improving the unemployment insurance system.

State Earned Income Credits

In recent years, several states have enacted state earned income credits to build on the strengths of the federal EIC. More than 82,000 Maine families received a federal EIC in tax year 1994.

- **Only people who work can claim the EIC.** For families with very low earnings, the federal EIC benefit rises as earnings rise. In 1996, families with two or more children will qualify for a federal credit of 40 cents on every dollar earned up to about $8,900 — resulting in a maximum credit of $3,556. The maximum credit for families with one child will be $2,152 in 1996. Because the federal EIC is a *refundable* tax credit, families receive a refund if the credit amount is larger than their tax bill.

- **Seven states — Iowa, Maryland, Minnesota, New York, Rhode Island, Vermont, and Wisconsin — have state earned income credits.** In addition to helping bridge the gap between minimum wage earnings and the poverty line that remains even with the federal EIC, a state EIC can be used to offset the regressive effects of state sales and excise taxes. These taxes take a larger share of income of lower-income households than of those with higher incomes.

- **Maine could create an EIC based on the federal credit.** Like all of the states that currently have EICs, Maine could adopt the federal eligibility rules and express a state EIC as a specified percentage of the federal credit. A state EIC set at 15 percent of the federal credit would cost roughly $10 million to $12 million in fiscal year 1997, while the costs of a 25 percent state EIC would total $16 million to $20 million. A 15 percent credit would provide a credit of $530 to a single parent who has two children and works full-time at the minimum wage in 1996. The benefit

of a 25 percent state EIC for such a family — $884 in 1996 — would be sufficient to boost the family's income above the poverty line.

Minimum Wage

- **A state EIC alone will leave some families with a full-time worker in poverty. Thus, additional policies to raise the incomes of low-wage working parents, such as increasing the minimum wage, are important to reducing the ranks of the working poor.** Ten states and the District of Columbia have minimum wage levels above the federal requirement of $4.25 an hour. Most of these states have a minimum wage of $4.75 or higher.

- **A minimum wage increase would boost the incomes of low-wage workers.** Each 25 cent increase in the minimum wage would boost the earnings of a full-time minimum wage worker by $480 per year, after payroll taxes. An increase in the minimum wage to $5.00, for example, would mean an additional $1,440 in earnings after payroll taxes for a full-time minimum wage worker.

- **A minimum wage hike would provide substantial assistance to working poor families with children.** Over half of all the workers nationally who would be affected by President Clinton's proposal to raise the national minimum wage to $5.15 an hour are in the poorest 20 percent of families in terms of earnings. Contrary to the stereotype of a minimum wage worker as a teenager earning spending money, most minimum wage workers are age 25 or older, and they contribute nearly half of their family's earnings on average.

- **A moderate minimum wage increase is unlikely to lower employment.** The principal argument against raising the minimum wage is that it would price many workers out of the job market. While the potential employment effects of a minimum wage increase must be considered, the weight of the empirical evidence indicates that the effects of a moderate increase from the current level — including the President's $5.15 an hour proposal — are likely to be negligible. Recent studies of increases in the minimum wage in several states also found a negligible effect on employment.

Recommendation: A Public-Private Partnership to "Make Work Pay"

The combination of a state EIC and a moderate increase in the minimum wage would have the broadest impact on low-wage working families while sharing the burden between the public and private sectors. The following is the effect of a state EIC set at 15 percent of the federal credit and a minimum wage of $5.00 an hour on the incomes of families with one full-time minimum wage worker. These levels are well within the range of other states with state EICs or with a minimum wage above the federal level. While reforms in AFDC benefits for working families and in unemployment insurance are important elements of effort to assist the working poor, the options to be considered are numerous and complex, and exploring them goes beyond the scope of this report.

- A state EIC set at 15 percent of the federal credit and a minimum wage of $5.00 an hour would lift a family of four with one minimum wage worker more than $1,000 above the poverty line in 1996, if the family also received food stamps.

- For a family of four with one full-time minimum wage worker *not receiving food stamps*, a minimum wage of $5.00 per hour combined with a state EIC set at 15 percent of the federal credit would provide nearly $2,000 in additional income. This would eliminate almost half of the $4,300 by which such a family would fall below the poverty line without any state action.

- The income of a single parent who has two children and works full-time would be raised to $1,164 above the poverty line in 1996 by a combined minimum wage of $5.00 and a state EIC set at 15 percent of the federal credit.

- Under current policy, a Maine parent who has two children and no earnings qualifies for $750 a month in AFDC and food stamp benefits, which is $3,900 below the 1996 poverty line on an annual basis. Such a family would not benefit from a state EIC or an increase in the state minimum wage. If the parent works half-time at the minimum wage, however, the family's income would rise $636 — to $313 above poverty — through a combination of earnings at a $5.00 minimum wage and a 15 percent state EIC. If the parent moves to full-time work at the higher minimum wage, these policies would boost the family's income more than $1,400.

I. Poverty Despite Work in Maine

Children stand out as one of the poorest groups of Maine residents. Nearly one of five Maine children under age 18 — some 19.3 percent — lived in families with incomes below the federal poverty line in the early 1990s. By contrast, the poverty rate for all state residents during roughly the same period was 13.5 percent. In addition, child poverty in Maine has grown substantially and much faster than in most other states in recent years. The proportion of Maine's children living in poverty in the early 1990s was roughly one-fourth higher than in the mid-1980s, when 15.3 percent of the state's children were poor. In the mid-1980s, Maine's child poverty rate was lower than in all but nine states. By the early 1990s, more than half of the states had a lower child poverty rate than Maine.[1]

The high poverty rate among Maine's children is cause for concern, since there is strong evidence that poverty can hinder the development of children and adversely affect their ability to become productive adults. Important research from the University of Michigan, for example, has found children under age five who have experienced at least one year of poverty have significantly lower IQ scores than children in families that were never poor. The researchers also found that the longer young children live in poverty, the greater the lag in IQ scores. The relationship between poverty and lower IQ scores remained even when factors such as the mother's education and the family

[1] These figures are based on data from the Current Population Survey conducted by the U.S. Census Bureau. Because the sample sizes in the CPS are too small in Maine to provide reliable figures for a given year, the figures cited above reflect averages of data pooled from several years. The figures on child poverty in Maine and other states were calculated by the Annie E. Casey Foundation for its *1995 Kids Count Data Book.* The early 1990s figure for each state is an average of data from 1989 through 1993, and the mid-1980s figures are averages from 1982 through 1986. The figure on the overall state poverty rate reflects a 1990-1992 average calculated by the Census Bureau.

structure were taken into account. The authors conclude that there is "little doubt that child poverty...is scarring the development of our nation's children."[2] Other research shows that poor children are more likely to score poorly on indicators of cognitive development, to be short for their age, and to be underweight than children in higher-income families.[3]

Deborah Gibson
Maine's Working Poor

Deborah Gibson (not her real name) is a divorced mother of three children living in Farmington. She is 47 years old, has a high school diploma, and worked full-time in 1995 as a secretary. She earned $10,720 that year and also qualified for a federal earned income tax credit of $3,110. Deborah's family did not receive food stamps because the value of her 1991 car, which her family bought before the divorce and which she needs to get to work, exceeds the food stamp program's asset limits. The family's total disposable income after payroll taxes was $13,010, or $2,570 below the federal poverty threshold of $15,580 for a family of four.

This family was drawn from responses to the 1990 census. Its income has been adjusted for inflation to equal 1995 dollars. See box on page 6 for more information.

The Gibson's 1995 Income

Earnings	
less payroll tax	$9,900
EIC	3,110
Total Income	$13,010
Poverty Line	$15,580
Shortfall	2,570

The Majority of Poor Families in Maine Work

It is common to assume that poor children live in families where the parents could work but do not. Yet this does not fit the profile of most poor families with children in Maine as detailed in the 1990 census, the only recent source of comprehensive information on Maine's poor families. The large majority of poor families with able-bodied parents have one or more workers. Many of these families have a worker employed full-time year-round, and the major source of income for poor families as a whole is earnings from work.

- In 1989, nearly 19,000 Maine families with children in which the parents were not elderly or disabled had incomes below the poverty line. Some 13,100 — or 70 percent — of these poor families had one or more members who worked for all or part of the year in 1989. Roughly 46,000 Maine residents lived in a working poor family that year. The federal poverty threshold, which varies by family size and is adjusted for inflation annually, is estimated to be $16,047 for a family of four in 1996.

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[2] Greg Duncan, Jeanne Brooks-Gunn, and Pamela Kato Klebanov, "Economic Deprivation and Early Childhood Development," *Child Development* (65), 1993.

[3] Jane Miller and Sanders Korenman, "Poverty, Nutritional Status, Growth, and Cognitive Development of Children in the United States," Princeton University's Office of Population Research Working Paper Series, June 1993.

- Among working poor families, the head-of-household worked an average of 31 weeks, or roughly seven months, out of the year.[4] Working two-parent families that were poor had a combined average of 48 weeks of work, nearly the equivalent of a full-year job.

- Some 3,400 poor families with children — 18 percent of all poor families with children — had one or more *full-time, year-round* workers. This includes 450 families in which two parents worked the equivalent of one full-time, year-round job although neither parent alone worked full-time and year-round. Nearly 14,000 Maine residents lived in families with children that were poor despite being supported by one or more full-time, year-round workers.[5]

- Only 30 percent of the poor Maine families in which the head was not elderly or disabled — some 5,500 families — had no working members. Half of these families were headed by single parents with children under age six; such parents are likely to face great difficulty balancing work and family responsibilities. In 21 percent of the poor families without a worker, including single-parent families with young children, the head-of-household was looking but unable to find a job.

The extensive work effort of poor Maine families with children also is reflected in the fact that earnings from work constitutes the major source of income among poor families.[6] Earnings provided 57 percent of the income of all poor Maine families with children in 1989. Only 28 percent of the income of poor families in which the parents were not elderly or disabled came from public assistance — primarily Aid to Families with Dependent Children, the main cash assistance program for poor families with

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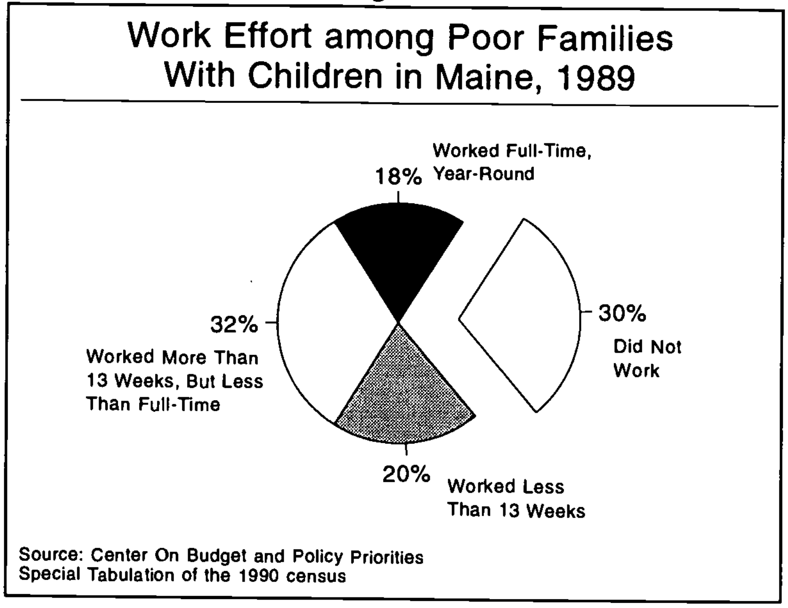
4 In this report, the family "head" refers to the person designated in the census as the "householder." The householder is the person in whose name the home is owned or rented, or in the case of joint ownership, the person whose name is listed first. Among married-couple households, the householder can be either the wife or the husband.

5 The Census Bureau defines full-time, year-round workers as those who work at least 50 weeks *and* at least 35 hours per week. In this report, families are considered to have a full-time, year-round worker if either the head or spouse worked full-time year-round or if the combined work of the head and spouse exceeded 50 weeks at an average of at least 35 hours per week.

6 These income figures reflect cash income as counted by the Census Bureau. They do not count the value of in-kind benefits, such as food stamps, or the impact of federal and state income and payroll taxes, including the impact of the federal Earned Income Credit. The effects of federal payroll taxes, food stamp benefits, and the federal EIC on the incomes of working poor families are discussed in Chapter III.

Figure 1



children, or Supplemental Security Income, the federal cash assistance program for low-income elderly or disabled individuals or families.[7]

It should be noted that poor families with children do not fall neatly into categories of working poor and non-working poor. In fact, most families that receive public assistance have recent work experience. This group includes families that use public assistance as a temporary safety net when a job is lost due to a layoff, disruption in child care or transportation arrangements, illness, family crisis, or other factors. Many of these families remain on assistance for relatively short periods of time. In other families, a parent is working but the family remains eligible for assistance as a result of low earnings.

- Nearly two-thirds — 64 percent — of Maine families with children that received public assistance at some point during 1989 also worked at least part of the year.

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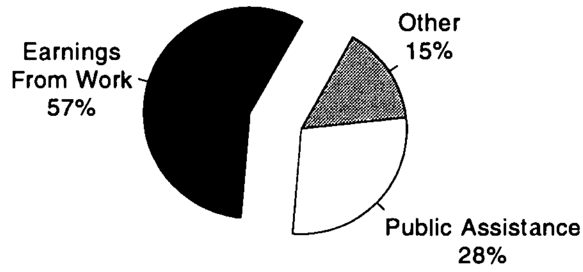
[7] The remaining income came from Social Security (three percent), income from household members other than the head and spouse (five percent), and a number of smaller sources such as interest and dividends, retirement, and disability payments.

It is likely that most of the public assistance income received by these families came from AFDC. Few of the families in this analysis, which includes only families in which the parents were not elderly or disabled, were likely to be eligible for SSI. Nevertheless, some of these families may have received SSI based on the disability of a child or other relative living with the family.

Figure 2

Sources of Income for Poor Families With Children in Maine, 1989



Source: Center on Budget and Policy Priorities
Special tabulation of the 1990 census

- According to the Maine Department of Human Services, nearly one in six AFDC families in January 1995 — 16 percent — had a working parent.

Majority of Poor Households without Children Also Work

This report focuses primarily on working poor families with children, because poverty can have significant adverse effects on a child's development and because children in Maine are much more likely than other residents to be poor. Nevertheless, it is worth noting that more than 17,000 non-elderly households without children in Maine were poor in 1989. This group includes married couples without children, people living alone, and unrelated individuals living together.[8] In nearly two of every five such households (39 percent), the head-of-household was disabled and unable to work full-time. In the large majority of the remaining poor households, however, one or more household members worked during the year.

- Some 69 percent — or 7,400 — of the 10,700 poor Maine households without children in which the household head was not disabled or elderly had one or more workers, and 12 percent had one or more full-time, year-

[8] The total number of poor persons without children in Maine is higher than indicated in the text. The Census Bureau determines the poverty status separately for each individual in households consisting of unrelated individuals. But the data on unrelated individuals used in this report only include information on the householder and the householder's spouse, if present. This means that the data set does not include information on poor unrelated individuals when those individuals are not the householder.

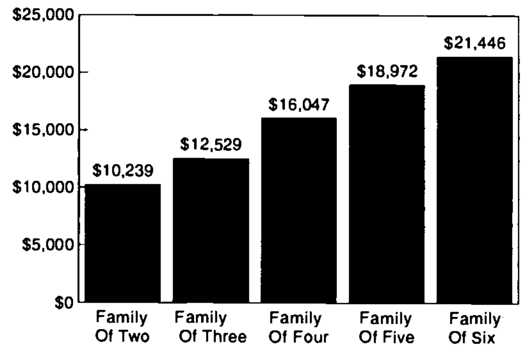
The Data Used in This Report

This analysis is based on data from the 1990 census, the only recent source of comprehensive information on the working poor.[a] It is restricted to Maine households with related children in which the family head (and spouse in two-parent families) is under age 65 and not disabled, so as to reflect the work experience of households in which the parents normally could be expected to work.

The descriptions of four families in this report (in boxes in chapters I through IV) also were drawn from the 1990 census. Their names and other details of their lives have been added, but the basic information on work experience and industry of the head and spouse, total family income, family size and structure, and age and education of the head and spouse is from the census. The receipt of food stamps and the earned income credit, information not included in the census data, was assumed to be consistent with national participation rates among eligible families.

The analysis includes families whose income, both earned and unearned, falls below the federal poverty threshold.[b] Earned income includes income from wages and salaries, farm employment, and self-employment. Unearned income includes public assistance (AFDC, SSI, or General Assistance), Social Security, investment earnings, and retirement income. The Census Bureau's income measure does not count the value of in-kind benefits, such as food stamps, or the effect of taxes on disposable income. The estimated 1996 poverty threshold for a family of four is $16,047.

The 1996 Poverty Thresholds* For Families of Various Sizes



Center on Budget and Policy Priorities
* 1994 U.S. Census Bureau poverty thresholds adjusted for estimated inflation

The federal poverty threshold is used here because it is the most commonly accepted measure of low-income status. Nevertheless, the poverty line has been criticized for being out of date — the basic formula has not been changed since 1966 — and many analysts believe it should be raised. A recent report from the National Research Council, for example, recommends a new method for measuring poverty; this method, which among other things deducts child care and work-related expenses from countable income, would result in an increase in the number of working families considered poor.[c] In addition, some researchers have estimated the income level needed to afford basic items in a household budget, such as housing, food, transportation, health care, and child care. An analysis of such costs in Maine concluded that a single parent with two children would need $20,500 (measured in 1996 dollars), or nearly two-thirds more than a "poverty" income, to meet a "basic needs budget."[d]

[a] More recent data sources on the working poor, such as the Census Bureau's Current Population Survey, have insufficient sample sizes in smaller states such as Maine to allow detailed analysis.
[b] The official poverty threshold used for statistical purposes by the Census Bureau differs slightly from the "poverty guideline" set by the United States Department of Health and Human Services, which is used to determine eligibility for benefits in federal means-tested programs. For example, the poverty guideline for a family of three was $12,590 in 1995, compared with an estimated poverty threshold of $12,164.
[c] National Research Council, *Measuring Poverty: A New Approach*, 1995.
[d] Stephanie Seguino, Margaret Chase Smith Center for Public Policy, *Living on the Edge: Women Working and Providing for Families in the Maine Economy, 1979-1993*, January, 1995.

round workers. On average, the workers in these households were employed more than seven months in 1989.

- Earnings from work represented 66 percent of the income received by poor Maine households without children that were not elderly or disabled. Public assistance accounted for only three percent of income of these poor households, while Social Security benefits provided 16 percent of total income.

II. The Faces of the Working Poor in Maine

Working poor families with children in Maine mirror a broad cross-section of the state's population. Like Maine families as a whole, the head in most working poor families has at least a high school education and is 25 years or older. A majority of working poor families with children are headed by a married couple and live in rural areas of the state. Working poor households are nearly equally divided between homeowners and renters. The jobs held by the parents in working poor households cover a wide range of industries, although nearly half work in either retail sales or services, industries with a large concentration of low-paid jobs.[9] (See Figure 3.)

- Nearly three of five working poor families with children in Maine — 57 percent — were headed by a married couple. Some 37 percent were headed by a single woman, and six percent were headed by a single man. Nearly half (47 percent) of the working poor married-couple families had two workers, which suggests that even the presence of two earners does not assure that families with children can escape poverty.

- Some 56 percent of working poor families in Maine lived in non-metropolitan, or rural, areas of the state. The remaining 44 percent lived in the Portland, Lewiston, or Bangor metro areas, or in the Maine portion of the Portsmouth, New Hampshire metro area.[10]

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[9] The following figures reflect the characteristics of all poor families with children in which the total number of hours worked by the head-of-household and spouse was 520 or greater. This is the equivalent of one calendar quarter of full-time work or a half-year of work at 20 hours per week. This cutoff point was chosen to include all families with a clear connection to the job market.

[10] Metropolitan areas are defined by the Census Bureau to include central cities and surrounding areas (continued...)

- The parents in most working poor families have a high school education or better. Some 51 percent of the heads-of-household and spouses in working poor families had a high school diploma, and 28 percent had at least some post-secondary education. Just one in five parents in working poor families had less than a high school education. A lack of skills may limit some workers to low-paying jobs, but the lack of higher-paying positions appears to keep many workers with skills in poverty.

- Most working poor families in Maine are headed by someone in their prime working years — age 25 or older. Just 14 percent of working poor families had a head under age 25.

- Slightly more than half of all working poor families — 53 percent — owned their homes, although most of these families were still paying off a mortgage. The remaining 47 percent of working poor families were renters.

Bob and Jane Wilson
Maine's Working Poor

Bob and Jane Wilson (not their real names) live with their two children in Bangor. Bob, age 32, works full-time as a custodian for a small church. Jane stays at home to care for their three children, two of whom are pre-school age. She is not looking for work because the costs of child care and of buying a second family car would consume nearly all of earnings she could expect to receive. Bob earned $12,415 in 1995, and the family qualified for the federal earned income credit, giving them a $2,883 tax refund. They did not receive food stamps because they thought that working families were not eligible for benefits. Their total income after payroll taxes, $14,348, fell more than $4,000 below the 1995 poverty line for a family of five — $18,419. The family's income would have been below-poverty even if it had received food stamps.

This family was drawn from responses to the 1990 census. Its income has been adjusted for inflation to equal 1995 dollars. See box on page 6 for more information.

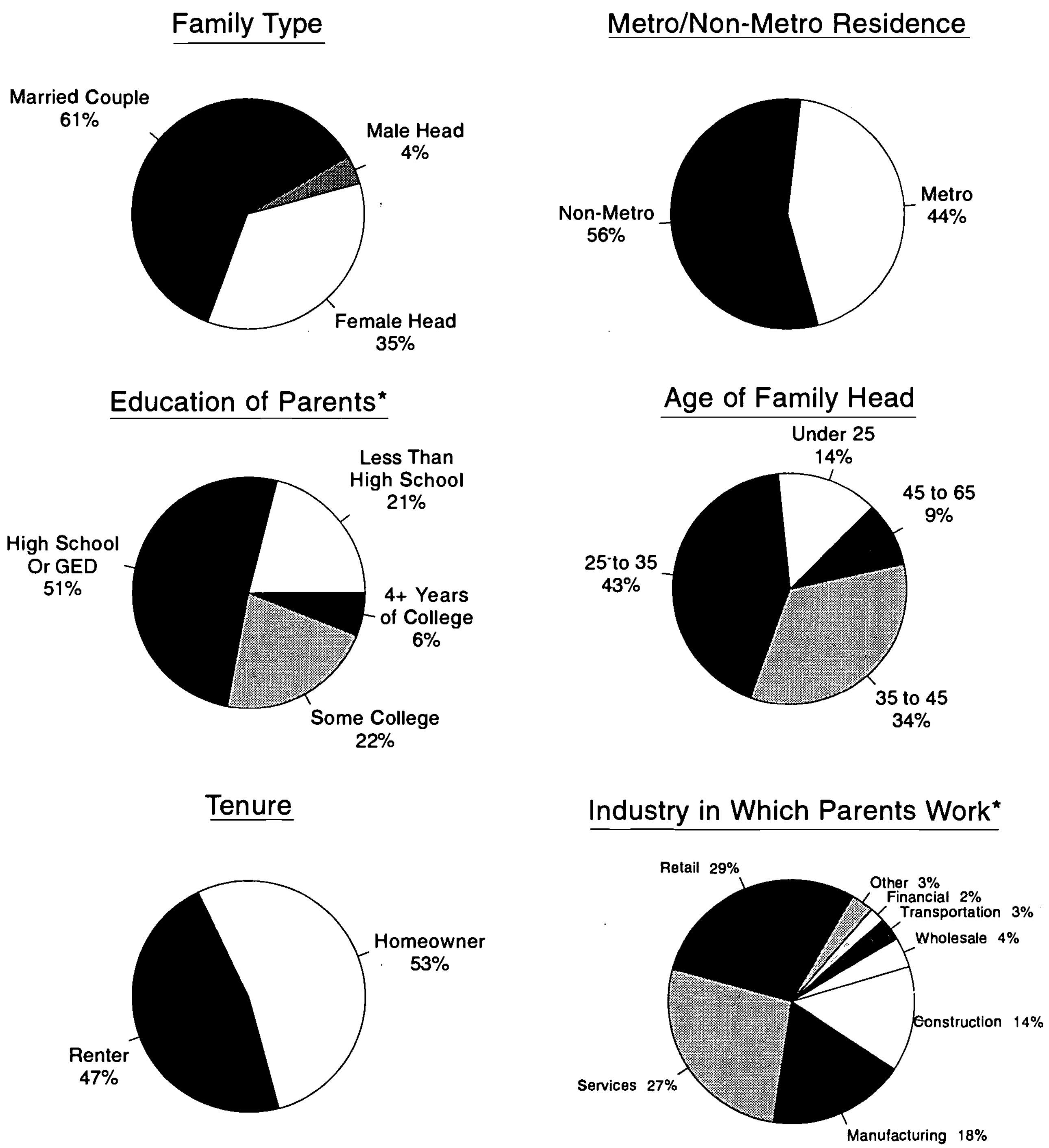
The Wilson's 1995 Income

Earnings	
less payroll tax	$11,465
EIC	2,883
Total Income	14,348
Poverty Line	$18,419
Shortfall	4,071

10 (...continued)
(in New England states, this refers to surrounding cities and towns) that are economically integrated with the central city. All areas that are not part of a metropolitan area are defined as non-metropolitan.

Figure 3

The Faces of Working Poor Families with Children in Maine, 1990



* In two-parent families, the educational attainment and the industry of both parents are included.

- The workers in poor Maine families with children are employed in a wide range of industries, although more than half worked in either retail trade (29 percent) or services (27 percent) in 1989. This suggests that the relatively low wages paid in these industries, discussed further in Chapter III are a significant factor behind working poverty in Maine.

  While the parents in working poor families are concentrated in low-paying industries, 32 percent worked in either construction or manufacturing, industries with relatively high pay on average. The limited earnings for these workers are likely to reflect in part the seasonal or irregular nature of work in construction and in some portions of the manufacturing industry, which means that many workers are not employed full-time year-round. In addition, there are some types of manufacturing companies that offer relatively low wages on average. For example, production workers in the textile industry in Maine earned $296 a week in 1994. This is less than two percent higher on an annual basis than the poverty threshold for a family of four.

III. Economic Changes, Government Policies Have Contributed to Working Poverty in Maine

The contradiction of poverty despite work among Maine families with children largely reflects a shift towards low-wage work in the Maine economy in recent years. This shift has been compounded by a dramatic drop since 1981 in the value of the minimum wage and by reductions in the AFDC program that have limited benefits for working families with modest earnings. The federal earned income tax credit has been expanded dramatically in recent years, boosting the incomes of millions of low-wage workers nationally, but these increases have not made up entirely for wage erosion and cutbacks in other assistance programs.

Moreover, economic factors have almost certainly resulted in an increase in the number of working poor families since 1989, when the data in this report were collected. After several years of exceptional economic growth, which helped reduce the number of working poor families, the state's economy entered a severe recession in 1989. The economic downturn led to a substantial rise in unemployment and in the number of workers who could find only part-time work. This means the number of working families with limited incomes likely increased as well.

The ranks of the working poor in Maine are likely to increase in the near future as well, as a result of slow economic growth and federal policy changes. Economic growth in Maine is expected to continue to be sluggish, with job growth concentrated in lower-paying industries. In addition, cuts in assistance to low-income families that are likely to occur as part of federal welfare reform and deficit reduction efforts may reduce the incomes of working poor families in Maine and other states.

Economic Shifts Have Led to Growth in Low-Wage Work

The large number of Maine families with limited earnings partly reflects a shift in the economy away from higher-paying jobs in manufacturing and other industries to lower-paying jobs in services and retail sales, as well as wage erosion at the low end of the wage scale. Nationally, these trends have contributed to a long-term stagnation in wages. Data from the U.S. Department of Labor indicate that after adjustment for inflation, average hourly wages paid to non-supervisory workers in 1993 and 1994 were lower than in any year since 1964.

While similar data on earnings in Maine are unavailable, it is clear that job growth in Maine has been concentrated in recent years in industries with low average earnings, while employment has increased more slowly or even fallen in industries with relatively high average pay. (See Figure 4.) For example:

- Service employment in Maine increased 73 percent between 1982 and 1994, the largest rate of employment growth for any industry in the state. In 1994, the average weekly pay for service jobs was $394 in Maine, or second lowest among the state's major industries.[11] The average pay for several types of

Tom and Julie Woodside
Maine's Working Poor

Tom and Julie Woodside (not their real names) live in Pittsfield with their two children. Tom, age 29, has a high school education and works as a logger. He worked full-time for 10 months in 1995. Julie works part-time as a hotel maid while the children are in school. She does not work in the summer months because she is not able to find affordable child care. Despite having two workers and receiving the federal earned income credit, the family's disposable income of $14,876 fell more than $700 below the poverty line for a family of four — $15,580. They did not apply for food stamps because they thought their income was too high to qualify.

This family was drawn from responses to the 1990 census. Its income has been adjusted for inflation to equal 1995 dollars. See box on page 6 for more information.

The Woodside's 1995 Income

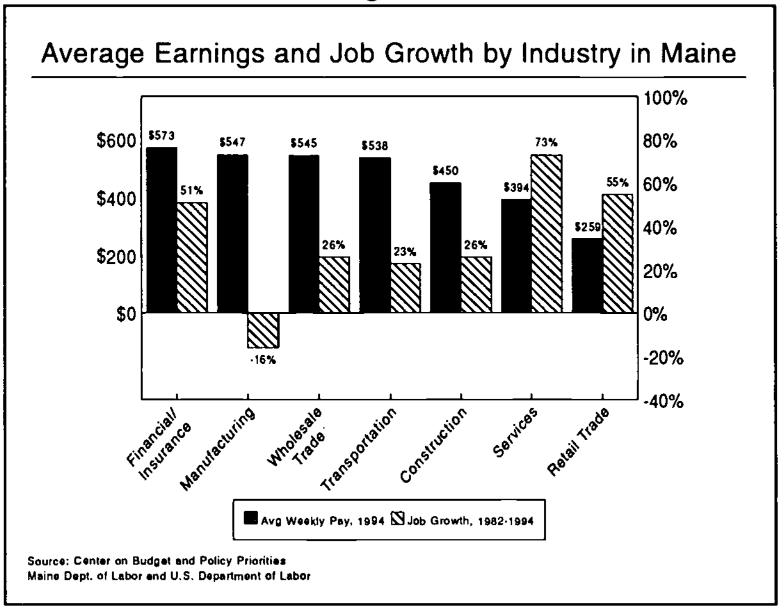
Earnings	
less payroll tax	$12,141
EIC	2,735
Total Income	14,876
Poverty Line	$15,580
Shortfall	704

[11] The data on employment and earnings are from the Maine Department of Labor. The figures on average weekly earnings, from data on workers covered by unemployment insurance, include both supervisory and non-supervisory workers. The earnings of workers in non-supervisory jobs, the types of jobs most likely held by workers in low-income families, are likely to be lower on average than the figures presented here.

service jobs, such as child care, entertainment, and hotels, falls well below this level.[12]

- Retail sales, the industry with the lowest average weekly pay in Maine, experienced the second largest rise in employment in the state during this period. Year-round work at the average pay for Maine workers in retail sales — $259 per week in 1994 — yielded an income nearly $1,600 below the poverty line for a family of four that year.

Figure 4



- By contrast, manufacturing employment *fell* 16 percent during this period. The loss of manufacturing jobs in Maine — including the departure of major employers such as Statler Paper, John Roberts, and Supreme Slipper — is significant because the average manufacturing job paid $547 per week in Maine in 1994. This is twice the average pay in retail sales and 39 percent higher than the average weekly earnings in services.[13]

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[12] Data on average wages in Maine for various types of services jobs are unavailable, but data on service employment nationally provide an indication of the wide variety in wages in the services industry. For example, the average weekly earnings for child care workers stood at $201 in 1994, while workers in amusement services earned $231 per week on average. These are well below the average weekly earnings for all workers in services, which stood at $360 in 1994.

[13] Production workers in manufacturing have higher average weekly salaries because they have higher hourly earnings than service or retail workers, but also because they work more hours each week. Nevertheless, the average hourly pay for many service and retail sales jobs nationally — and most likely in Maine as well — would have provided less than a poverty-level income for a family of four even if the

(continued...)

Many Working Families Live Close to Poverty

This report focuses primarily on working families living below the federal poverty threshold. Yet there are thousands of Maine families with children whose incomes fall modestly above the poverty line. Virtually all of these families have one or more workers, and the overwhelming majority have one or more full-time, year-round workers. The problems associated with low wages and limited job opportunities thus are not limited to households with incomes below the federal poverty line.

- In addition to the 18,600 poor families with incomes below the poverty line, 14,000 Maine families with children had income between the poverty line and 150 percent of the poverty line. Nearly all of these families — 97 percent — had one or more workers, while 65 percent had one or more full-time, year-round workers.

- An additional 17,900 Maine families with children had income between 150 percent and 200 percent of the federal poverty line. More than 98 percent of these families had one or more workers, and 79 percent had one or more full-time year-round workers.

The high incidence of working poverty in Maine also reflects the fact that many workers are unable to find full-time work. According to the Maine Department of Labor, roughly one-fifth of Maine workers at all income levels who worked part-time in 1993 did so because they could not find full-time work. It is likely that the proportion of *poor* Maine workers who are underemployed is much higher than the overall proportion.

Number of Working Poor Likely to Have Grown in Recent Years

Economic factors are likely to have led to a substantial increase in the number of working poor families in Maine since 1989, the year covered by the census data presented in this report. This is true because 1989 represented the peak of an unusually strong period of economic growth in Maine, which helped limit the number of working families that remained poor. Starting in 1989, however, the Maine economy experienced a serious downturn, and the resulting increases in unemployment and part-time work undoubtedly pushed a number of working families into poverty.

Between 1982 and 1989, a period of recovery following the 1981-82 recession, employment in Maine rose 30 percent, and job growth occurred in all industries other than manufacturing. The state's unemployment rate reached a 36-year low in 1988 and was well below the national unemployment rate. The economic growth was led by a

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[13] (...continued)
worker had been employed full-time.

tremendous build-up in federal defense spending and a boom in real estate activity, with resulting increases in construction and financial transactions.

During this period, incomes rose for Maine residents at all levels, and the economic boom helped limit the number of working poor families. Nevertheless, the average income gain among lower-income residents in Maine was modest, especially when compared with the income growth among middle- and upper-income residents. An analysis of data from the 1990 and 1980 censuses shows that:

- Between 1979 and 1989, the average income of the bottom fifth of Maine families with children rose four percent, after adjusting for inflation. By contrast, the average income of the bottom fifth of families fell in most other states.

- During the same period, the average income of the middle fifth of families rose 20 percent, also adjusting for inflation. This is significant when compared with middle-income families in other states, where incomes typically rose only modestly during this period.

- The greatest income gains were experienced by higher-income Maine families. The average income of the top fifth of families rose 31 percent between 1979 and 1989, adjusting for inflation. In addition, the average income in 1989 of the top five percent of Maine families with children — $147,700, measured in 1996 dollars — was 42 percent higher than the average income of the top five percent of families in 1979, after adjusting for inflation.

As might be expected from the very strong record of economic growth, the number of working poor families with children declined in Maine during this period. While the total number of Maine families with children remained roughly the same between 1979 and 1989, the number of families that were poor despite having one or more workers fell from 14,000 to 12,100, a decline of nearly 14 percent.[14] In addition to improved economic conditions, this reduction was also the result of a substantial increase in work effort among spouses in married-couple families; for example, the number of spouses working full-time rose 62 percent during this period. Yet despite the strong economy and the increased family work effort, the problem of working

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[14] These figures on the number of working poor families with children differ slightly from those presented in Chapter I. The 1980 census includes information on families with "own children," those with children of one or both spouses, while the 1990 census includes families caring for children related in any way to one or both spouses. The figures presented in Chapter I cover families with related children, while the figures presented here cover just families with own children.

Working Poor Often Lack Health Insurance

Low-wage work not only leaves many families in Maine in poverty, it also leaves many without health insurance. A substantial proportion of poor workers and their families have no health insurance, primarily because their employers do not offer insurance coverage or because the premiums are not affordable. Of all children in working poor families in Maine that were not receiving public assistance, just 41 percent had employment-related health coverage in the early 1990s.[a]

Poor workers and their families are much less likely than other workers to receive health insurance through their employers. Nationally, 36 percent of poor workers had employment related health insurance in 1994. By contrast, 86 percent of non-poor workers had employment-related health insurance that year.

Medicaid covers some poor workers, and recent Medicaid expansions in Maine — a combination of federal requirements and state election of optional coverage — have extended coverage to all children in working poor families. More than half — 56 percent — of children in working poor families in Maine were covered by Medicaid in the early 1990s. Despite the substantial expansion of Medicaid to poor children, 18 percent of children in working-poor families in Maine lacked any health insurance, from public or private sources, in the early 1990s. The proportion that lacked health insurance for part of the year is likely to have been much higher. The large number of uninsured poor children in Maine is likely to reflect a lack of awareness among parents that their children are eligible for Medicaid.

The Medicaid expansions were limited primarily to children, which means that the proportion of adults in working poor families without health insurance is likely to be significantly higher than the proportion of children with no health coverage.

The Medicaid expansions for working poor children that are required by federal law are being phased in through 2002. But proposed changes in Medicaid, including a large reduction in federal funding, may halt the expansions or even reverse gains that have been made to date. If Medicaid funding reductions place fiscal pressure on Maine and other states with broader coverage than required under federal law, those states may consider limiting coverage among working poor families as one way of achieving Medicaid savings.

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[a] These figures, based on CBPP calculations of data from the Census Bureau's Current Population Survey, refer to children in poor families that do not receive cash assistance from AFDC or SSI. It is likely that most of these families have one or more workers.

poverty remained widespread in 1989, further suggesting that the economic boom had a limited impact on workers with low wages.

The severe recession that began in 1989 is likely to have reversed the modest reduction in the ranks of Maine's working poor that occurred in the 1980s. Between

1989 and 1992, the state lost 30,000 jobs — or 5.5 percent of total employment. By 1993, the most recent year for which data are available, the number of Maine workers who were unemployed or under-employed totaled 90,000, or nearly twice as high as in 1989, when 50,000 workers were unemployed or under-employed. (Under-employed workers are those who worked part-time because they could not find full-time work).[15] This undoubtedly pushed a number of working families into poverty, because workers who experience a period of unemployment or who can only find part-time work are more likely to fall into poverty than those employed full-time, year-round.

Moreover, the number of working poor families is likely to remain at a relatively high level as a result of poor economic growth in the near-future. The recession was deeper in Maine, as in most New England states, than in the rest of the nation. Since then, according to the State Planning Office, the recovery "has been painfully slow and sporadic."[16] Total employment in the state did not return to the pre-recession level until 1995. By contrast, the job losses experienced nationally during the recession were recovered by January 1993, more than two years earlier than in Maine. Finally, economic forecasts from the Maine Planning Office suggest that economic growth will continue to be modest in the near future, with job growth concentrated in lower-paying industries.

The limited drop in the number of working poor families in Maine during a period of nearly unparalleled economic growth, combined with the state's weak economic performance since 1989, suggests that working poverty will remain a serious problem in Maine unless specific policy measures are established to assist the working poor.

Rural Areas Especially Affected by Economic Shifts

For many working poor families in Maine, the lack of good-paying job opportunities, rather than limited education or job skills, is a major cause of their poverty. This is especially true in the state's nonmetropolitan, or rural areas, where 56 percent of the working poor families live.

- For all Maine family heads who worked full-time, those living in nonmetropolitan areas on average earned nine percent less than those

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[15] United States Department of Labor, Bureau of Labor Statistics, *Geographic Profile of Employment and Unemployment: 1993*, July 1994, Table 13.

[16] Maine State Planning Office, *The Maine Economy: Year-End Review and Outlook, 1995*, December 1995, p. 10.

living in metropolitan areas. Earnings are lower in nonmetropolitan areas than in metropolitan areas even for workers at the same educational level.

- The average wage in York and Cumberland counties, the state's two most urbanized counties, is 12 percent higher than the average wage in the rest of the state.[17]

- Employment grew 45 percent in Cumberland County and 33 percent in York County between 1982 and 1994, compared with employment growth of 23 percent in the rest of the state.

Federal and State Policies Have Contributed to Working Poverty

Over the past decade, there has been a solid consensus among policymakers at the national level that government policies should provide a greater reward for work and reduce poverty among working families. As part of this strategy — often described as the "making work pay" agenda — both liberals and conservatives have espoused the specific goal that a family with a parent working full-time and year-round should not fall below the poverty line. In support of this goal, the federal earned income credit (EIC), discussed below, was expanded in 1986, 1990, and again in 1993.

Nevertheless, federal and state policy developments in two other areas — the minimum wage and welfare — have made it more difficult to escape poverty for families with children in which a parent works, and these changes have outweighed in many ways the benefits of the EIC expansions.

The Declining Value of the Minimum Wage

Full-time, year-round work at the minimum wage — currently set at $4.25 an hour — pays only 71 percent of a poverty-line income for a family of three in 1996, leaving such a family $3,690 below the poverty line on a yearly basis. For a family of four, full-time minimum wage work pays just 55 percent of a poverty-level income, falling short by $7,200. *The value of the minimum wage in 1996 is as low or lower than in any year since 1955.*[18]

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[17] Dennis Watkins and Thomas Allen, *Firm Foundation: Firm Failure and Competitiveness: An Overview of Maine's Entrepreneurial Economy*, University of Maine, 1994.

[18] The value of the minimum wage in 1996 is lower than in any year since 1955 other than 1989. That year, the value of the minimum wage was $4.24 per hour when measure in 1996 dollars, or roughly the same as the 1996 level.

The low level of the current minimum wage stands in sharp contrast to its value in the 1960s and 1970s, when earnings from full-time year-round work at the minimum wage were sufficient in most years to lift a family of three above the poverty line. The value of the minimum wage has fallen because it was frozen from January 1981 through March 1990, during which period the cost of living rose 48 percent. The minimum wage was increased in 1990 and 1991, but these increases compensated for less than half the ground lost to inflation during the 1980s. And because the minimum wage has been frozen since 1991, it has again lost ground to inflation.

Table I
Minimum Wage Earnings
And the Poverty Line, 1996

	Family Of Three	**Family Of Four**
Minimum Wage[a]	$8,840	$8,840
1996 Poverty Line[b]	12,529	16,047
Gap	-3,689	-7,207
Minimum Wage As Percent of Poverty Line	70.6%	55.1%

[a] 52 weeks at 40 hours/week
[b] 1994 federal poverty threshold adjusted for estimated inflation to equal 1996 dollars.

The decline in the value of the minimum wage has had a significant impact on working poor families. The majority of workers who are poor earn at or near the minimum wage.[19] And minimum wage workers often contribute a large share of their family's earnings. An analysis of workers affected by the increases in the federal minimum wage in 1990 and 1991 found that minimum wage workers accounted for nearly half — 45 percent — of the total earnings of their households.[20]

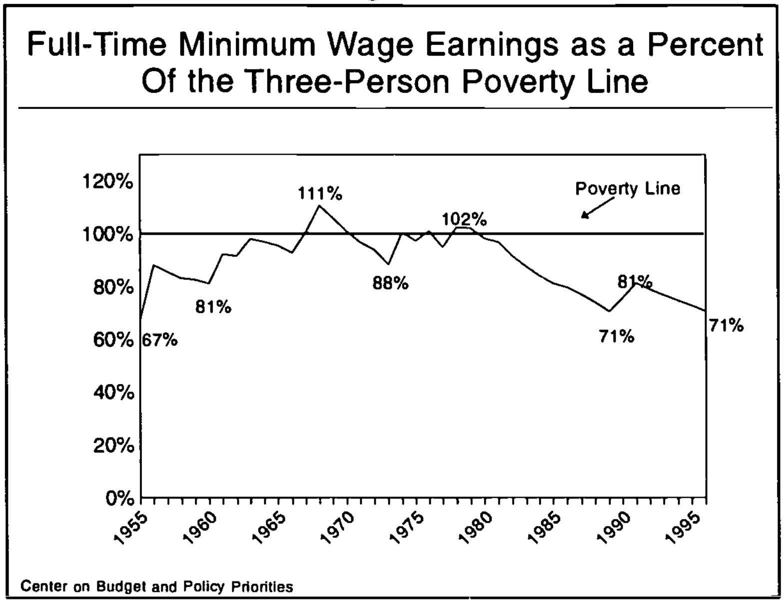
Restrictions in AFDC

Changes in Aid to Families with Dependent Children, the federal-state cash assistance program for low-income families with children, have made it less likely for families in Maine and other states to supplement their earnings with AFDC benefits. In 1996, a mother with two children in Maine who has worked for more than a year while receiving benefits becomes ineligible for AFDC benefits once the family's income reaches $643 a month, or just 61 percent of the poverty line. In 1970, by contrast, such a

[19] An analysis of data from the Census Bureau's Current Population Survey shows that 24 percent of poor workers had earnings at or below the minimum wage in 1991. Another 34 percent were paid between $4.26 and $5.00 an hour, and nine percent were paid between $5.00 and $5.50 an hour. Just 33 percent were paid more than $5.50 an hour.

[20] David Card and Alan Krueger, *Myth and Measurement: The New Economics of the Minimum Wage*, Princeton University Press, 1995.

Figure 5



family would have been eligible for some AFDC benefits until its income exceeded 90 percent of the poverty line.

The reduction in the ability of families to combine work with welfare benefits in Maine has occurred for two reasons. First, the value of AFDC benefits in Maine has fallen, as it has in most states. The maximum AFDC benefit for a family of three in Maine fell 21 percent, adjusting for inflation, between 1970 and 1995; most of the decline resulted from five reductions in AFDC benefit levels since 1991. As benefits fall in the AFDC program, so does the maximum amount of income a working family can receive and still qualify for aid. In addition, the method used to count earnings when determining AFDC benefits was changed in the early 1980s as a result of federal law changes. This had the effect of reducing sharply or even eliminating AFDC benefits for recipients who find work, even if it is part-time work at modest wages.

Under standard national AFDC rules, recipients who find employment initially are allowed to keep the first $120 in monthly earnings plus one-third of the remainder of their earnings without losing any benefits. After they have worked for just one year, however, they face a dollar-for-dollar reduction in benefits for every additional dollar earned above the first $90 a month.[21] As a result, many welfare recipients who get a job

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[21] Under federal law, the amount of income disregarded changes with the length of time the AFDC recipient has been working. Those who have worked for less than four months can earn up to $120 a month without losing any benefits, and benefits are reduced by 67 cents for every dollar earned above this level. Those who have worked for more than four months (but less than a year) can earn $120 a month (continued...)

find that nearly all of the gains from working are soon offset by losses in AFDC benefits. As discussed in Chapter IV, a number of states have undertaken efforts to modify these rules, but strong work disincentives continue to exist in state AFDC programs.

Maine AFDC rules allow welfare recipients to earn somewhat more than the standard rules without a loss of AFDC benefits, but the Maine provisions still give limited assistance to families with low-wage workers. For example, a welfare recipient with two children in Maine who has worked for more than 12 months faces a dollar-for-dollar loss in AFDC benefits for any earnings above $225 a month, the equivalent of roughly 12 hours of minimum wage work per week.

Furthermore, the earnings level a welfare recipient in Maine can keep without losing AFDC benefits has been reduced in recent years as a result of state budget cuts. This earnings level has fallen from $349 a month in 1990, measured in 1996 dollars, to the current level of $225 a month. As a result, some AFDC recipients with earnings have lost up to $1,500 in AFDC benefits per year.

Despite these restrictions, nearly one in six Maine AFDC families — 16 percent — had a working parent in January 1995. In 1993, the most recent year for which national data are available, the proportion of Maine AFDC families with earnings was 71 percent higher than in the nation as a whole.[22] This is likely to reflect the fact that few states at that time had altered the AFDC rules to phase out benefits more gradually for recipients with earnings. Since then, a large number of states have implemented new benefit formulas for some or all AFDC recipients, and the proportion of AFDC recipients with earnings in those states is likely to have grown.

The Earned Income Credit

In contrast to the erosion in the minimum wage and AFDC benefits for the working poor, the federal earned income credit has been expanded three times in recent years. The EIC is a federal tax credit for low- and moderate-income working people that is designed to offset the sizable burden of the Social Security payroll tax on low-wage workers, supplement the earnings of low- and moderate-income families,

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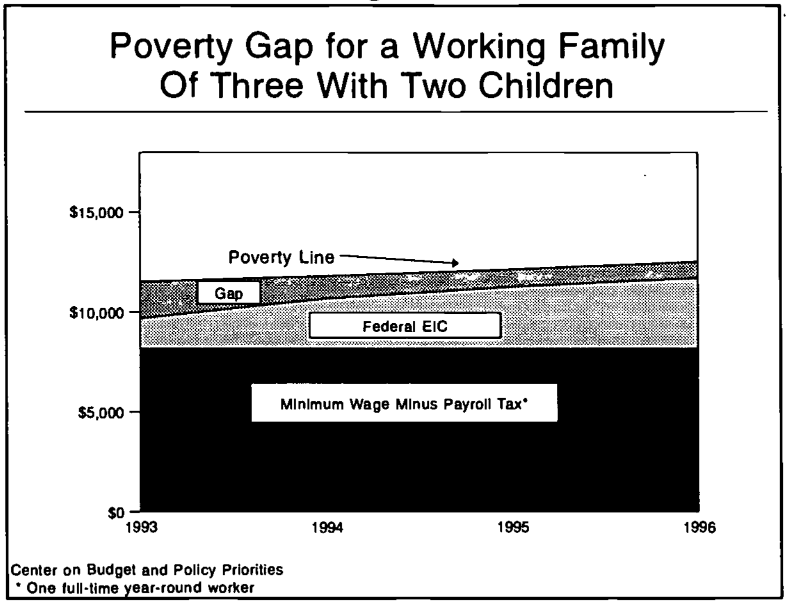
[21] (...continued)
without a reduction in benefits and then face a dollar-for-dollar reduction in benefits for earnings above this level. After one year, there is a dollar-for-dollar reduction for earnings above $90.

[22] U.S. Department of Health and Human Services, *Characteristics and Financial Circumstances of AFDC Recipients: 1993*, Table 38.

Figure 6



and complement efforts to help families make the transition from welfare work. The EIC has become the central element of the "making work pay" agenda. (See box on page 26 for a discussion of EIC reductions considered in 1995.)

The EIC is extremely well targeted on working poor families, with the maximum benefit going to families with earnings approximating full-time year-round minimum wage work. In 1996, the maximum EIC benefit will be $3,556 for families with two or more children and $2,152 for families with one child. The federal EIC is a refundable credit, which means that families receive the full amount of the credit for which they qualify whether or not they owe federal income tax. Thus, the EIC acts as a wage supplement for low-wage workers. But even at these substantial levels, the EIC is not large enough to guarantee that families with a full-time worker will not be poor. For example, a family of three with two children and a parent working full-time at the minimum wage will fall more than $800 below the poverty line in 1996, even after the EIC is taken into account. And the "poverty gap" — the difference between income including the EIC and the poverty line — is more than $4,300 for a family of four with two children.[23]

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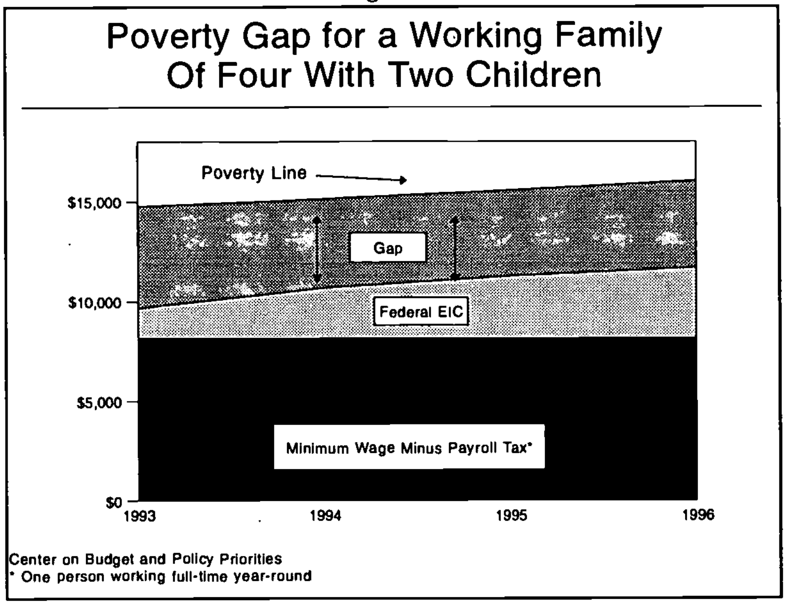
[23] These calculations count the minimum wage, less payroll taxes, plus the EIC. For example, a family of four would have minimum wage earnings of $8,840, less payroll taxes of $676, plus an EIC of $3,536 for a total income of $11,700. This is $4,347 below the estimated $16,047 poverty threshold for a family of four for 1996. This level of disposable income would fall $829 below the poverty line for a family of three, estimated to be $12,529 in 1996.

It should be noted that this income measurement differs from the measurement used by the Census (continued...)

Figure 7



These estimates of the "poverty gap" do not include the value of food stamps, which are nearly equivalent to cash, because most working poor families do not receive food stamp benefits. Many working poor families are not eligible because they do not meet the program's somewhat stringent asset limits. In addition, some eligible families in Maine do not apply for food stamps, in part because they face barriers to participation such as a limited number of food stamp offices and limited hours of operation at these offices. Nationally, just 38 percent of working poor households received food stamps in 1992, even though all had incomes below the food stamps eligibility limit.

Receipt of food stamps would raise a family of three with one or two children and a full-time worker at the minimum wage above the poverty line in 1996. *But families of four or larger with minimum wage income would fall below the poverty line even if they receive food stamps and the EIC.* For example, the available income of a family of

[23] (...continued)
Bureau in its official poverty calculations. The official federal poverty threshold is based on cash income, both earned and unearned, but does not include the value of in-kind benefits or the effects of taxes on disposable income. Nevertheless, many analysts agree that the payroll taxes and EIC benefits should be counted in addition to wages for the purpose of determining how far a family with a full-time minimum wage worker falls below the poverty line. Several other issues concerning how income should be defined, including whether food stamps should be counted as income, are more controversial. The following analysis provides figures that reflect cash income (wages, EIC, and payroll taxes), as well as figures that also include the value of food stamp benefits.

Congressional Proposals to Reduce the EIC Were Unsuccessful in 1995
Only Minor or No Reductions Are Expected in 1996

During 1995, proposals to reduce the size of the federal earned income credit were considered as part of some congressional plans to balance the federal budget. Some of these proposals, including one contained in the budget bill passed by Congress and vetoed by the President, would have reduced the EIC substantially. The congressional budget "reconciliation" bill, if enacted, would have cut the $32 billion from the EIC over seven years and would have affected 7.7 million households.

It now appears that large EIC reductions are unlikely. During budget negotiations between Congress and the White House, congressional leaders offered to scale back substantially the EIC reductions passed by Congress last fall. In addition, President Clinton opposes most EIC reductions.

As a result, any EIC changes that are agreed to as part of a budget settlement are expected to be small, especially insofar as families with children are concerned. As part of a final budget settlement, it is possible that some forms of income not currently considered taxable — such as Social Security benefits received by low- or moderate-income families — could be counted in whole or in part when a family's income is calculated for EIC purposes. This could reduce EIC benefits for between five and 10 percent of EIC families. In addition, it is possible that small reductions could be made in the EIC benefits of families with children that have incomes above $11,610. Finally, the modest EIC now provided to very poor workers without children could be dropped.

Even if enacted, these changes would preserve the basic structure of the EIC for families with children and would avoid substantial benefit reductions for the large majority of such families.

four with a full-time minimum wage worker would fall nearly $390 below the poverty line in 1996 if the family received food stamps along with the federal EIC, while a family of five would fall $2,400 below the poverty line.[24]

The current failure of minimum wage earnings plus government assistance to lift many families out of poverty stands in sharp contrast to the 1970s, when many families with a full-time year-round minimum wage worker had above-poverty incomes. This means that the recent federal EIC expansions, though significant, have not fully compensated for the erosion in the purchasing power of the minimum wage nor for the decline in AFDC benefits for working poor families. An analysis conducted by the U.S. Department of Health and Human Services shows that in 1996, the available income of

[24] The food stamp calculations use the average shelter costs of all Maine food stamp recipients with earnings in 1993, adjusted for inflation to 1996, for the purposes of determining the excess shelter deduction component of the food stamps benefit formula.

a mother with two children who works full-time at the minimum wage will be $1,600 lower than a similar family would have had in 1972, adjusting for inflation. (The income counted in this analysis includes wages, average AFDC benefits nationally, food stamps, the EIC, and federal income and payroll taxes.)

Moreover, federal policies are likely to add to the ranks of the working poor in the near future, for two reasons. First, the minimum wage is not indexed for inflation and will continue to lose purchasing power if it is not increased. As a result, the gap between minimum wage earnings and the poverty line will grow each year. Second, working poor families are likely to face reduced benefits in several programs slated for cuts as part of federal welfare and deficit reduction efforts. Expected cuts in food stamps and energy assistance would have a direct effect on the available incomes of many working poor families. In addition, pending welfare legislation would replace AFDC with a block grant to states with funding set below levels needed under current law. This may lead to a reduction in cash assistance benefits, including those for families with one or more workers. Finally, expected reductions in funding for the Medicaid program may require states to limit eligibility or services for working poor families. This could lead to increased out-of-pocket health expenses for some families.

IV. Policies to Reduce Child Poverty and Enhance Welfare Reform

Because most poor families with children in Maine have one or more parents who work, with a substantial proportion working full-time year-round, the high poverty rate among Maine's children is unlikely to decline significantly without additional efforts to assist low-wage working families. As noted in Chapter I, the failure to alleviate poverty among working families is a cause for concern because of the evidence that poverty has long-term negative effects on the development of children.

Moreover, the persistence of poverty among families with children in Maine despite the substantial work efforts of their parents has profound implications for welfare reform in Maine. The primary goals both of federal welfare reform proposals and of welfare legislation enacted in Maine in recent years are to reduce welfare caseloads and to encourage parents to make the transition from welfare to work. Yet as noted in Chapter I, many AFDC recipients already have recent work experience, including families that use AFDC as a temporary safety net and those that work but remain eligible for benefits because of their low earnings. In other words, many families who receive welfare also are part of the state's working poor population.

In addition, it is likely that many other welfare recipients who find work will simply join the ranks of the working poor. This is supported by evidence from the state's current welfare-to-work program. The average wage of AFDC recipients who gained private sector employment between July 1995 and January 1996 after participating in Maine's ASPIRE program was $5.52. That wage level would be sufficient to raise a family of four just above the poverty line, but only if the job was full-time and year-round and if the family received both the federal EIC and food

stamps. Yet fewer than two of five ASPIRE participants who found work were employed full-time.

Employment projections from the Maine Department of Labor show that job growth and thus job opportunities through 2005 will continue to be concentrated in the lower-paying retail trade and service industries, while manufacturing employment will continue to decline.[25] This means that economic growth alone is unlikely to provide either higher-paying or more stable jobs to parents attempting to support their families through work.

Policies designed to assist working poor families are needed to avoid swelling the ranks of Maine's working poor as welfare reforms move forward. Such policies would not only help alleviate child poverty in Maine, they also would promote the broad goals of welfare reform by helping families that may be just one or two paychecks away from needing to rely on public assistance.

Maine policymakers can act to boost the incomes of all working poor families by creating a refundable state earned income credit or increasing the state minimum wage, or by using a combination of the two approaches. Such efforts would help bridge the gap between full-time minimum wage earnings and the poverty line — a gap that remains even with the recently expanded federal EIC. These policies also would be consistent with efforts taken in other states in the region, since every other Northeastern state with the exception of New Hampshire has a state EIC, a minimum wage that is higher than the federal minimum wage, or both.

June Rowe
Maine's Working Poor

June Rowe (not her real name) is a divorced mother of two children living in Presque Isle. The 35 year-old worked full-time at the minimum wage as a grocery clerk in 1995, but she left her job six months into the year when her 15-year old daughter was in a car accident. The child needed daily care at home, and June did not have health insurance through her employer. As a result, she applied for and received Medicaid and Aid to Families with Dependent Children. She had been receiving food stamps while she was working and continued to receive them after she left her job. She also was eligible for the earned income credit. Her total disposable income in 1995 was $11,481, or $683 below the $12,164 federal poverty line for a family of three.

This family was drawn from responses to the 1990 census. The mother's earnings were adjusted to reflect the increase in the minimum wage since 1989. See box on page 6 for more information.

The Rowe's 1995 Income

Earnings	
less payroll tax	$4,082
AFDC (6 mo.)	2,508
Food Stamps (12 mo.)	3,300
EIC	1,591
Total Income	11,481
Poverty Line	$12,164
Shortfall	683

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25 Maine Department of Labor, *Industrial and Occupational Employment Projections for Maine, 1992 to 2005*, February 1995, p. 23.

Two other reforms would help boost the incomes of important categories of working poor families. First, current AFDC rules limit the income gain families experience when they work, as benefits are reduced substantially for families with even modest earnings. Modifying cash assistance benefits in ways that would allow recipients to keep a larger share of their earnings without losing benefits would help families that work. Second, many working families fall into poverty as a result of a period of unemployment and lost wages, especially during economic downturns. Although Maine has a relatively strong unemployment insurance system when compared with other states, a majority of unemployed workers in Maine do not receive unemployment insurance. This means that efforts to strengthen the unemployment insurance system in Maine could help reduce poverty among workers and their families.

Finally, efforts to assist working poor families should include access to child care and health insurance. Without such assistance, the costs of these services often are prohibitive for working poor families. As a result, access to affordable child care and health insurance is an important element of enabling parents to work.

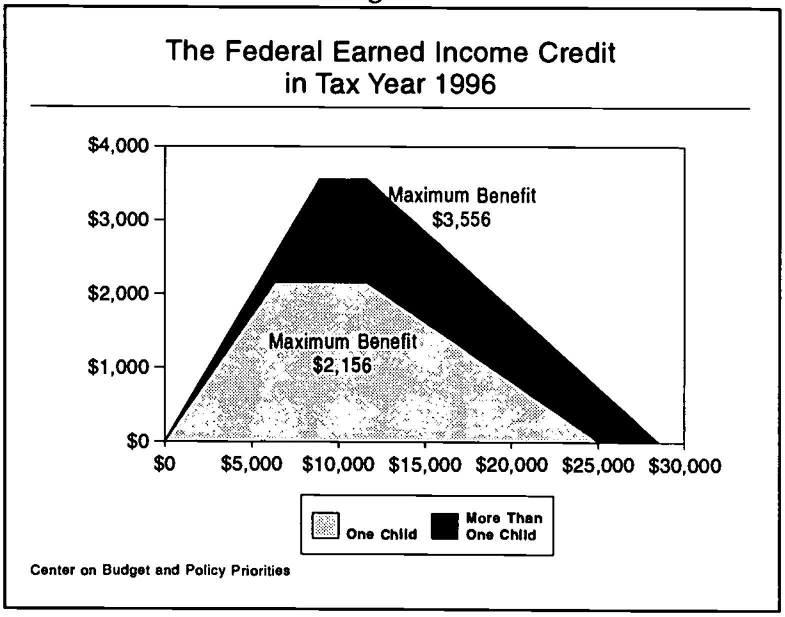
The remainder of this chapter considers in detail potential policies for a state earned income credit, a state minimum wage increase, revisions in the cash assistance benefit structure for families with a worker, and unemployment insurance reforms.

State Earned Income Credit

In recent years, several states have created their own EIC to build on the strengths of the federal EIC.

The federal earned income credit is a tax credit for low- and moderate-income workers. As noted in Chapter III, the EIC originally was intended to offset the burden of Social Security payroll taxes on low-income workers. It has been expanded over the years as a key element of the "making work pay" agenda — i.e., the effort to supplement the earnings of families with low-wage workers and assist families making the transition from welfare to work. Preliminary estimates from the U.S. Treasury Department show that nearly 82,000 Maine households received the federal EIC for 1994.

Figure 8



The EIC is a *refundable* credit, which means that if the credit amount is larger than a family's tax bill, the family receives a refund check. For example, a parent with two children and earnings of $15,000 in 1995 would have $263 in federal income taxes withheld during the year. The family also would qualify for an EIC of $2,360. The EIC would allow the family to get back the $263 it paid in income taxes and to receive an additional refund of $2,097.

Earnings from work are treated very differently for determining EIC benefits than for welfare benefits. The federal EIC provides a strong incentive to work because only people who work can claim it. In fact, for families with very low earnings the value *increases* as earnings rise. (See Figure 8.) In 1996, families with two or more children will receive 40 cents for each additional dollar earned until earnings reach nearly $8,900, for a maximum benefit of $3,556. This means that parents with very low incomes who are able to increase their work and earnings also receives a higher EIC benefit. Welfare benefits in most states, on the other hand, fall quite dramatically as earnings rise and phase out entirely at incomes far short of the poverty line.

The maximum credit for families with two children is larger than the maximum credit for families with one child — $2,152 in 1996 — in recognition of the fact that larger families face higher living expenses. Workers with no qualifying children also are eligible for an EIC, but the credit for these workers is much smaller than the credit for families with children. The maximum credit for this group will be $323 in 1996, and it will go to workers with incomes between roughly $4,200 and $5,300.

The value of EIC benefits is reduced gradually as incomes rise above the level at which the maximum benefit is received. A family with two or more children, for

example, will be eligible for some EIC benefit for 1996 if its income is less than $28,500. The targeting of the federal EIC on low- and moderate-income workers makes the credit effective both in boosting the incomes of working poor families — helping them remain self-sufficient — and in helping families make a successful transition from welfare to work. The targeting of the EIC also helps limit its overall costs, especially when compared with other forms of tax relief.

The first state with an EIC was Rhode Island.[26] Since 1987, six states — Iowa, Maryland, Minnesota, New York, Vermont, and Wisconsin — have adopted EICs. State EICs can build on the goals of the federal EIC by bridging the gap between minimum wage earnings and the poverty line that remains even with the federal credit. In addition, a state EIC can help offset the effects of sales and excise taxes levied by state and local governments, which consume a larger share of the income of lower-income households than of those with higher incomes.

Like each of the states that currently has its own EIC, Maine could establish an EIC that piggy-backs on the federal credit — that is, a credit that uses the federal eligibility rules and is expressed as a specified percentage of the federal credit. This method is relatively easy for a state to administer and also is easy for families claiming the EIC. To determine its state EIC benefit, a family need only write its federal benefit on its state return and then multiply the federal amount by the state EIC percentage.

Table II
State EICs, 1996

States with Refundable EICs	**Percentage of Federal Credit, 1996**
Minnesota	15%
New York	20%
Vermont	25%
Wisconsin	4% - One Child
	14% - Two children
	43% - Three+ children
States with Non-refundable EICs	
Iowa	6.5%
Maryland	50%
Rhode Island	27.5%

To help working poor families, a Maine EIC would have to be *refundable*, which means families that earn too little to owe state income taxes could receive the credit as a refund. A non-refundable EIC, by contrast, could only be used to offset income taxes owed. Families that owe little or nothing in state income taxes, which would include all working poor families in Maine, would receive little or no benefit from a non-refundable EIC. Four of the seven states with a state EIC — Vermont, Minnesota, Wisconsin, and New York — have made their credits refundable. The EICs

[26] Rhode Island is one of three states in which income tax liability is a specified percentage of federal income tax liability. Rhode Island is the only one of these states that bases its calculations on federal tax liability *after* tax credits have been applied. Thus, Rhode Island effectively has a state EIC without explicitly acknowledging an EIC policy.

in these states generally range from 15 percent to 25 percent of the federal credit, with the exception of the Wisconsin EIC for families with three or more children, which equals 43 percent of the federal credit.[27]

A refundable Maine EIC set at 15 percent of the federal credit would cost roughly $10 million to $12 million in fiscal year 1997, while the costs of a 25 percent state EIC would total $16 million to $20 million.[28] At these levels, a state EIC would provide a substantial benefit to working poor families. (See Table III.) For example, a family of four with two or three children and one minimum wage worker will qualify for a federal EIC of $3,536 in 1996. If the family lives in a state with a 25 percent state EIC, the family would receive an $884 state credit. If the state credit were set at 15 percent of the federal credit, the family's state credit would be $530.

Thus, a state EIC could provide a significant increase in income for working poor families and make substantial progress toward "making work pay" enough to support a family. For example, the addition of a 25 percent state EIC to the federal credit would boost income above the poverty line for a single parent who has two children and works full-time at the minimum wage.

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[27] As noted in the table, families with fewer than three children in Wisconsin are eligible for a much smaller EIC. Wisconsin officials estimate that on average the state EIC will equal 17 percent of the federal credit in 1996.

[28] A rough estimate of the budgetary cost of a refundable state EIC can be calculated as follows: A) Multiply the share of federal EIC benefits that go to families in Maine (0.35% in tax year 1993) by the estimated cost of the federal EIC nationally in a future year to approximate the total value of the federal EIC in Maine in that year. Estimates based on data from the Congressional Budget Office indicate the federal EIC will cost $22.8 billion in fiscal year 1997. This means that Maine residents will receive approximately $80 million in federal EIC benefits in fiscal year 1997. B) Multiply the result of step A) by the percentage of the federal credit at which the state EIC is set. For more information, see *A Hand Up: How State Earned Income Credits Help Working Families Escape Poverty*, Center on Budget and Policy Priorities, January 1996.

The estimated cost of a 25 percent state EIC is .25 times $80 million, or $20 million. A 15 percent state credit would cost .15 times $80 million, or $12 million. Based on the experience of other states that have implemented an EIC, it is reasonable to assume that only 80 percent of eligible families will file for the state credit in its first year of implementation. This means that the first-year cost likely would be $16 million for a 25 percent state EIC in Maine and $10 million for a 15 percent EIC.

Table III
Earned Income Credit Benefit Levels for Families at Different Income Levels, 1996

	Gross Earnings	Federal EIC	25% State EIC	15% State EIC
Families of Four, Two or Three Children				
Half-Time Minimum Wage	$4,420	$1,768	$442	$265
Full-Time Minimum Wage	8,840	3,536	884	530
Wages Equal Poverty Line	16,047	2,622	656	393
Wages Equal 150 Percent of Poverty	24,071	932	233	140
Families of Three With One Child				
Half-Time Minimum Wage	$4,420	$1,503	$376	$225
Full-Time Minimum Wage	8,840	2,152	538	323
Wages Equal Poverty Line	12,529	2,005	501	301
Wages Equal 150 Percent of Poverty	18,794	1,004	251	151

Center on Budget and Policy Priorities

Minimum Wage

Although a state EIC can provide a substantial income boost to low-wage workers and their families, a state EIC alone will leave many working families in poverty, including some families with a full-time worker. This is true because the gap between minimum wage earnings and the poverty line is substantial for many families, especially families of four or more. While a family of three with a full-time minimum wage worker would be lifted out of poverty by a 25 percent state EIC, a family of four with a full-time minimum wage worker would remain more than $3,500 below the poverty line in 1996.

Thus, additional policies to raise the incomes of low-wage working families, such as increasing the minimum wage, are important to reducing the number of working poor families. Currently, 10 states and the District of Columbia have a minimum wage above the federal requirement of $4.25 an hour. (See Table IV.) In most of these states, the minimum wage level is at least 50 cents higher than the federal requirement. In Maine, however, the minimum wage remains $4.25 per hour.

A higher state minimum wage is an effective way to increase the incomes of working poor families. Each 25 cent increase in the minimum wage would boost the

income of a full-time minimum wage worker by $480 per year, after payroll taxes.[29] Thus, for example, raising the minimum wage to $5.00 an hour — a 75 cent hourly increase — would mean providing an additional $1,440 in earnings after payroll taxes for a full-time minimum wage worker. In addition to raising the earnings of minimum wage workers directly, an increase in the minimum wage may lead to wage increases for some workers earning a wage only slightly higher than the new minimum, many of whom are likely to be poor or near-poor. This is because the minimum wage can act as a basis for low-wage work in general. Employers may increase the wages for workers earning slightly more than the new minimum wage in an effort to maintain a gap between these workers and minimum wage workers.

Table IV
State Minimum Wage Levels Higher Than the Federal Requirement, 1996

State	Minimum Wage
District of Columbia	$5.25
Hawaii	5.25
New Jersey	5.05
Washington	4.90
Alaska	4.75
Massachusetts*	4.75
Oregon	4.75
Vermont	4.75
Iowa	4.65
Rhode Island	4.45
Connecticut	4.27

Source: U.S. Dept. of Labor, 1995
* will rise to $5.25/hour in 1997

Opponents make two principal arguments against raising the minimum wage. First, critics claim that raising the minimum wage would price many workers out of the job market, as employers would limit hiring in response to the increase in their labor costs. While the potential employment effects of a minimum wage increase must be considered, the weight of the empirical evidence indicates that the effects of a moderate increase from the current minimum wage level are likely to be negligible. This conclusion is based on a number of recent studies, including analyses of minimum wage increases in the 1960s and 1970s as well as of the increases in the early 1990s. The studies examined the effects of raises in the federal minimum wage nationally and in selected states, as well as the effects of increases in the state minimum wages in several

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[29] For someone working 40 hours per week and 52 weeks per year at the minimum wage, a 25 cent increase would yield a *gross* annual wage increase of $0.25 times 2,080, or $520. After payroll taxes of 7.65 percent are deducted, the net gain is $480.

Families receiving AFDC benefits or food stamps would benefit to a smaller extent from an increase in the minimum wage because part of the additional earnings would be offset by benefit reductions. The disposable income of an AFDC recipient who works half-time at the minimum wage, for example, would rise just $108 per year as a result of a 25 cent increase in the minimum wage. More than half of the $240 increase in earnings after payroll taxes would be lost to AFDC and food stamp benefit reductions. As discussed below, the net gain from greater work effort can be increased through changes in the AFDC benefit structure. A family with one full-time minimum wage worker in Maine that receives food stamps but no AFDC benefits would have a net income gain of $324 per year from a 25 cent increase in the minimum wage. Roughly one-third of the $480 increase in earnings after payroll taxes would be lost to food stamp benefit reductions.

states.[30] Of particular note, a study of the increase in the state minimum wage in New Jersey found no evidence of a negative effect on employment, even when compared with neighboring states that did not raise the minimum wage.[31]

Second, critics argue that an increase in the minimum wage does not benefit low-income families because workers earning the minimum wage generally are not supporting a family or are secondary workers in families that are not poor. Yet the reality is very different from the stereotype of a minimum wage worker as a teenager working mainly to pay for entertainment. As noted in Chapter III, minimum wage workers on average contribute nearly half of their family's earnings. In addition,

- Less than one in three minimum wage workers in 1993 were teenagers, while nearly half were age 25 or older.

- An analysis of the impact of President Clinton's proposal to raise the minimum wage to $5.15 an hour shows that most affected workers are in low-income families. Over half of the affected workers are in the poorest 20 percent of families in terms of earnings. Nearly three-fourths are in the poorest 40 percent of families.[32]

The positive impact on low-income families of raising the minimum wage was highlighted in a 1995 statement by a group of leading economists — including three recipients of the Nobel Prize in Economics and seven past presidents of the American Economics Association — that endorsed a moderate increase in the federal minimum wage.[33] The statement notes that such an increase, including President Clinton's proposal to raise the minimum wage to $5.15 an hour, would "provide a much-needed boost in the incomes of many low- and moderate-income households... without significantly jeopardizing employment opportunities." The economists' statement does not address the issue of increases in state minimum wages, but it does refer to the

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[30] See, for example, Alison J. Wellington, "Effect of the Minimum Wage on the Employment Status of Youths: An Update," *The Journal of Human Resources*, Winter 1991, and David Card, "Using Regional Variation in Wages to Measure the Effects of the Federal Minimum Wage," *Industrial and Labor Relations Review*, October 1992.

[31] David Card and Alan Krueger,"Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania," *American Economics Review*, September 1994.

[32] Lawrence Mishel, Jared Bernstein, and Edith Rasell, "Who Wins with a Higher Minimum Wage," Economic Policy Institute, 1995.

[33] "Statement of Support for a Minimum Wage Increase,"released by the Center on Budget and Policy Priorities and the Economic Policy Institute, Washington, D.C., October 1995.

evidence of the negligible employment impact of increases in the state minimum wage in a number of states.

AFDC Benefit Structure for Families with Earnings

As noted in Chapter III, federal and state changes in AFDC benefit levels and benefit calculations have made it harder for recipients to supplement modest earnings with welfare benefits. Under standard national AFDC rules, AFDC recipients who have worked for more than one year while receiving AFDC are allowed to keep the first $90 in monthly earnings without losing any benefits, but they face a dollar-for-dollar reduction in benefits for every dollar earned above this level.

Maine is one of more than two-thirds of the states that have implemented or sought permission from the federal government to implement provisions that phase out benefits more gradually for recipients with earnings. The improvements Maine has made in the benefit phase-out formula, while beneficial to welfare families with earnings, are relatively limited. Families still face a dollar-for-dollar reduction in benefits for every dollar earned above a very modest level. For example, an AFDC family of three in which the mother has been working for more than one year faces a dollar reduction in benefits for every dollar earned above $225 a month, or 22 percent of a poverty-level income. The Maine earnings provision is less beneficial to working AFDC recipients than similar provisions other states have adopted for all or part of the state.

The "enhanced earnings disregards" states have implemented generally may be categorized as one of two types.[34] In some states, like Maine, AFDC recipients are allowed to earn more than the standard amount per month without losing any AFDC benefits. Above that new amount, however, benefits are reduced as in the standard formula — by one dollar for every dollar earned. Other states have revised their AFDC benefit formulas to phase out benefits by less than one dollar for every dollar earned. Some of the states that have enhanced earnings disregards use a combination of these two approaches. Michigan, for example, allows recipients to earn $200 without any loss of benefits and then reduces benefits at a rate of 80 cents for every dollar of income above this level.

[34] This refers to states with "fill-the-gap" budgeting for AFDC benefits, including Maine, which is an option under the current federal law governing AFDC. It also includes states that have submitted a waiver request to the federal government to exempt themselves from a portion of federal AFDC rules for some or all of their AFDC recipients.

Health Insurance and Child Care Assistance Also Are Important For Working Poor Families

In addition to policies that would boost the incomes of working poor families, broadening health insurance coverage among low-wage workers and improving access to affordable child care are important ways to assist working poor families. The limited availability of employment-related health coverage and child care assistance has a significant impact on the ability of poor parents to accept a job or to keep an existing job.

- Recent research shows that the extension of Medicaid coverage to some children in working poor families in the late 1980s had the effect of raising the labor force participation of single female parents and lowering AFDC caseloads. The study concluded that the possibility of losing health insurance may deter a welfare recipient from working.[a]

  As noted in Chapter III, nearly one-fifth of working poor children and a much higher proportion of working poor adults in Maine lacked any health insurance, public or private, in the early 1990s. This is true in large part because low-wage workers typically do not receive health coverage from their employer, because adults in working poor families in Maine are not eligible for Medicaid, and because some families are unaware that their children are eligible for Medicaid.

- Disruptions in child care and the difficulty in finding affordable child care often lead working parents to lose their jobs. A 1994 survey of AFDC recipients in Maine, for example, found that 31 percent of those who had left a previous job did so because of child care difficulties.[b] A 1994 General Accounting Office report concluded that affordable child care is a "decisive" factor in "encourag[ing] low-income mothers to seek and keep jobs."[c]

Thus, efforts to improve health insurance coverage and to provide access to affordable child care should be considered as part of reforms aimed at assisting the working poor. These policies would not only prevent health care and child care costs from consuming an inordinate share of income for working poor families, they also would help families remain in the workforce.

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[a] Aaron Yelowitz, Massachusetts Institute of Technology, "The Medicaid Notch, Labor Supply and Welfare Participation: Evidence from Eligibility Expansions," 1994.

[b] Seguino, op. cit., p. 49.

[c] United States General Accounting Office, *Child Care Subsidies Increase Likelihood That Low-Income Mothers Will* Work, December 1994, p.2.

The enhanced earnings disregards that several states have adopted, either statewide or in part of the state, allow affected AFDC recipients who find work to keep a larger share of their AFDC benefits than the Maine benefit rules allow. This is particularly true in states that phase out benefits by less than one dollar for each additional dollar of earnings. These provisions also increase the income level at which AFDC eligibility ends, which allows recipients to remain eligible for some benefits for a longer period of time — thereby easing the transition from welfare to work.

- An AFDC recipient in Maine who has two children and earns $500 a month would keep $420 more in AFDC benefits per year if the state's benefit formula were replaced by the Michigan benefit formula. (These examples assume the parent has been working for more than 12 months while on AFDC.)

- Illinois reduces AFDC benefits 33 cents for every dollar earned. If this formula were applied in Maine, an AFDC family of three with monthly earnings of $500 would retain nearly $1,100 more in AFDC benefits per year than under the existing Maine benefit formula.

- A family of three in Maine loses eligibility for AFDC benefits entirely when income reaches 61 percent of the poverty line. If Maine were to adopt the Michigan earnings disregards, eligibility for some AFDC benefits would remain until income reached 69 percent of the poverty line. Using the Illinois benefit formula, the family would remain eligible for some benefits until its income exceeded the poverty line.

Policy reforms allowing families to keep a greater share of their AFDC benefits when earnings rise boost the incomes of AFDC recipients as they begin to work. By improving the net income gain families experience when earnings rise, such a change would encourage more families to find work, support the transition to self-sufficiency for some families, and help families meet the added costs associated with work such as transportation and child care.

Unemployment Insurance Reform

A large number of workers — even those with moderate wages — fall into poverty because they experience a spell of unemployment. This is especially true during periods of weak economic growth, when many workers are laid off and face limited prospects of finding new employment. Intermittent unemployment is also likely to be a significant cause of workers falling into poverty in states like Maine that have a high level of seasonal employment, such as in agriculture or tourism.

The unemployment insurance system, administered jointly by the federal and state governments, is an important part of the safety net designed to prevent such poverty. Unemployment insurance helps workers who lose their jobs by replacing a portion of their former earnings while they are looking for a new job or waiting to be called back to their old job, frequently preventing the unemployed from falling into poverty or from needing to rely on AFDC. It also acts as an "automatic stabilizer" by injecting funds into communities with high numbers of unemployed workers. Without such funds, a rise in unemployment would lead to an especially sharp drop in demand, thereby hurting local businesses further and possibly leading to a further rise in unemployment.

While Maine's unemployment insurance system provides broader protection than in many other states, roughly six of 10 unemployed workers did not receive unemployment benefits in 1994.[35] Unemployment insurance is primarily intended to cover unemployed people who lose their jobs through no fault of their own, such as due to layoffs or a plant closing. It is not intended to cover workers who are unemployed for other reasons, such as those who leave work voluntarily. Even so, there were just three unemployment insurance recipients in Maine in 1994 for every four who were involuntary "job losers" as defined by the Census Bureau.[36]

There are policy reforms Maine could undertake to improve unemployment insurance coverage. Such protections are especially important in light of the direction of efforts to reform welfare by establishing strict time limits on the receipt of cash assistance. Because some workers who formerly received AFDC may not qualify for cash assistance if they lose a job, the unemployment insurance system should be sufficiently strong to ensure that workers who lose their jobs through no fault of their own qualify for unemployment compensation.

- **Good Cause for Voluntarily Leaving Work:** As noted above, workers who leave a job voluntarily generally are not eligible for unemployment benefits, but all states allow workers who leave with "good cause" to remain eligible for benefits. The good cause provisions in Maine and most other states, however, can be quite restrictive; for example, they do not include workers who leave work due to the loss of child care or

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[35] The percentage of unemployed workers receiving unemployment benefits in Maine in 1994 was higher than in all but 12 states.

[36] This figure compares the number of workers receiving unemployment insurance benefits with the number of unemployed workers who lost their jobs or were laid off temporarily. The latter figure is from the U.S. Bureau of Labor Statistics, *Geographic Profiles of Employment and Unemployment, 1994*, table 21. Because the data on job losers is based on a survey with a relatively small sample size for Maine, these figures are subject to a moderate margin of error. This means that the ratio of unemployment insurance recipients to job losers could be somewhat higher or lower than the figure presented here.

transportation. Yet many single parents are unable to keep working when child care or transportation arrangements collapse. In these cases, the decision to leave work is not truly "voluntary." As noted in the box on page 39, nearly one-third of AFDC recipients with prior work experience left their job because of a problem with child care arrangements. As the number of working single parents increases as a result of welfare reform efforts, Maine should consider broadening the list of acceptable reasons for leaving work "voluntarily."

- **Seasonal Workers:** Maine is one of a minority of states that treats seasonal workers differently — and more harshly — than other workers in determining eligibility for unemployment insurance. In every state unemployed workers must have at least a specified level of recent work experience to be eligible for unemployment benefits, and recent earnings are used to determine the amount of unemployment benefits a worker receives. But the earnings a worker accrues in seasonal labor in Maine are not counted towards eligibility or benefit levels for unemployment in the off-season. Thus if a Maine resident has significant recent work experience that includes seasonal employment but cannot find work in the off-season, he or she may not be eligible for unemployment insurance benefits. This provision was originally implemented at a time when many workers chose to work only seasonally and leave the labor force for part of the year, and some restrictions on unemployment benefits for this group were seen as reasonable. But with large and increasing numbers of workers, especially low-wage workers, able to find only seasonal work, this policy makes less sense today. This is especially true considering that seasonal workers who choose not to work in the off-season are not eligible for unemployment compensation, since unemployed workers must be looking for work actively to qualify for benefits. Maine policymakers should consider treating seasonal work no differently from other work for purposes of unemployment insurance.

- **Extended Benefits During Periods of High Unemployment:** In Maine as in most states, unemployed workers are eligible for basic unemployment benefits for a maximum of 26 weeks. When a state's unemployment rises substantially, such as during a recession, it may qualify to pay "extended benefits" beyond 26 weeks to unemployed workers. The extended benefits program, under which the federal government pays 50 percent of benefit costs, is intended to ameliorate the income loss among the long-term unemployed that occurs during an economic downturn.

  In 1993, Congress established a new optional formula, or "trigger mechanism" under which states could qualify for the extended benefits

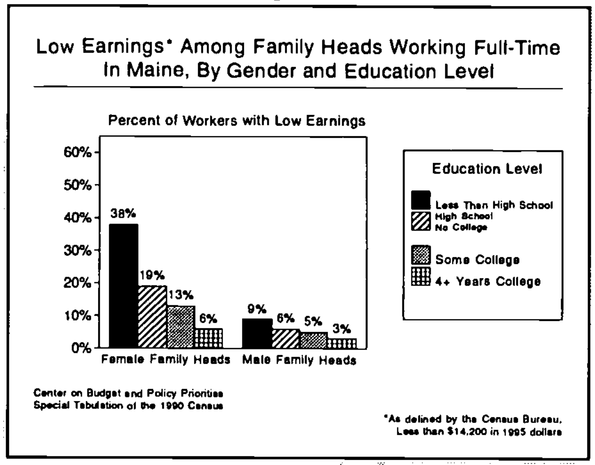
Education Important to Welfare Reform, Fighting Poverty in the Long-Term

While most working poor families include a parent with at least a high school education, a significant proportion — one in five — do not. Families in which the parents have a limited education are much more likely to be poor than families in which one or both parents have a more advanced education. Educational improvement is especially important for the increasing number of families headed by single women, because women on average earn much less than men of similar educational levels. (See Figure A.) Improving the educational achievement of all Maine children will help in the long-term to reduce the number of working poor families.

Improving educational levels is also important to helping AFDC recipients become economically self-sufficient. AFDC families in Maine are overwhelmingly headed by women, many with limited educations.

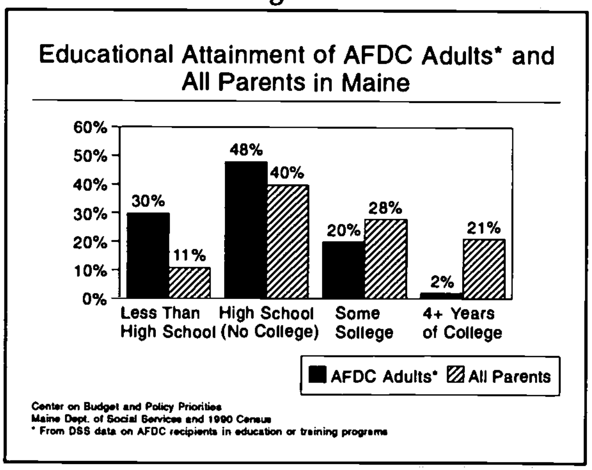
- Some 30 percent of adults in AFDC families in Maine have less than a high school education, compared with 11 percent of all parents in families with children.
- Some two percent of AFDC adults have a college education or better, while 21 percent of all parents in families with children have an advanced education.

Figure A



A 1994 survey of Maine AFDC recipients found that among those with recent work experience, those with college degrees earned 20 percent more per hour than those with less than a high school education.[a] This suggests that access to post-secondary education can enhance the ability of welfare recipients to escape poverty through work. Maine's AFDC program currently provides opportunities for post-secondary education, but these efforts are threatened by federal welfare reform legislation that would not allow most educational activities to count toward stringent "work activities" participation requirements. In addition, recent welfare reform efforts in Maine have placed a heavy emphasis on job search activities. By squeezing resources that might otherwise be available for other employment development activities, this effort could limit access to post-secondary education for welfare recipients.

Figure B



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program. Maine adopted this trigger on a temporary basis, allowing it to qualify for extended benefits during the recent recession, but that legislation has since expired. Under the standard trigger, however, some states experiencing a rise unemployment may not qualify for extended benefits. For example, 25 states that did not meet the standard extended benefit trigger in 1991 — during the last recession — would have been eligible for this program under the new, optional trigger.[37] Thus Maine should consider adopting the optional trigger on a permanent basis.

Recommendation: A Public-Private Partnership to Make Work Pay

Of the policy options discussed above, the combination of a state EIC and a moderate minimum wage increase would have the broadest impact on the incomes of low-wage working families. This combination also would share the burden of assisting the working poor between the public and private sectors. Attempts to help working families escape poverty solely through a state EIC would place a larger burden on the state's budget than if an EIC were combined with a minimum wage increase. Achieving this goal solely through the minimum wage would require a substantial increase in this wage level. In addition, a minimum wage increase would be less effective than the combination in reaching families that are poor because the parents can find only seasonal or intermittent work.

These policy changes also would be consistent with efforts taken in nearly every other Northeastern state to assist the working poor in recent years.

- Vermont and Rhode Island have both state EICs and state minimum wages higher than the federal level of $4.25 an hour. (See Figure 9.)
- New York has a refundable state earned income credit.
- Massachusetts and Connecticut have minimum wage levels above the federal level, although the Connecticut minimum wage of $4.27 an hour is only slightly higher than the federal wage floor.
- Only New Hampshire and Maine have neither of these provisions.

Described below is the effect of a state EIC set at 15 percent of the federal credit and a minimum wage of $5.00 an hour. These levels are well within the range of other

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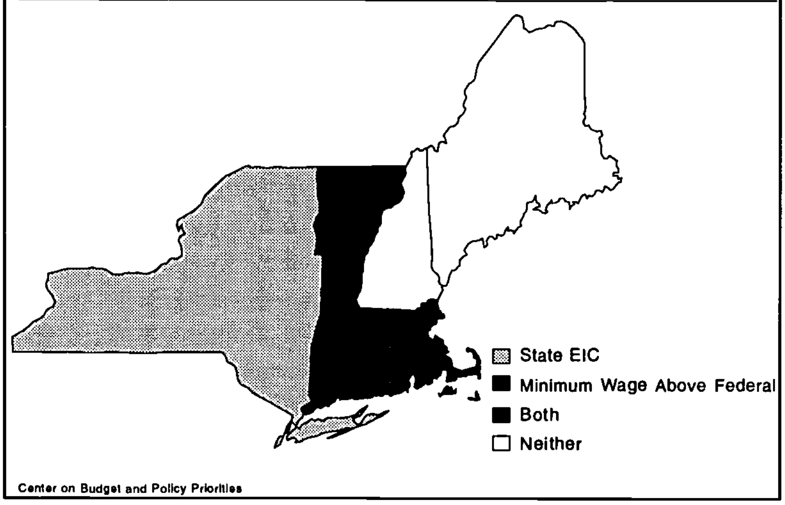
[37] For more information, see Center on Budget and Policy Priorities, *Unemployment Insurance Protection in 1994*, May 1995.

states with state EICs or with a minimum wage above the federal level. This combination would provide a significant income boost to many families, lifting some out of poverty while bringing many others closer to the poverty line. The analysis considers the effect on three different types of families with at least one full-time minimum wage worker and on a family receiving AFDC in which the parent works half-time at the minimum wage. While reforms in AFDC benefits for working families and unemployment insurance are critical elements of efforts to assist the working poor, the options to be considered are both more complex and more numerous than in the case of a state EIC or minimum wage increase. Exploring these options and their impact on a typical family is a sizable task that goes beyond the scope of this report.[38]

Figure 9

Northeastern States With a State EIC or A Minimum Wage Set Above the Federal Level, 1996



A Family of Four with Two Children

A family of four that has one full-time minimum wage worker and qualifies for and receives food stamps and the federal EIC will fall roughly $390 below the poverty line in 1996. Such a family could be lifted out of poverty either by the creation of a state EIC or by a minimum wage increase.

- A state EIC set at 15 percent of the federal credit would increase the income of a family with one minimum wage worker $530 in 1996. If the family received food stamps, its income would be roughly $140 above the poverty line.

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[38] The available options and the examples provided by other states for modifying AFDC benefit rules are numerous, and no typical or mid-range option exists. In addition, the potential creation of a federal block grant to states that would replace AFDC would give states tremendous flexibility to alter their assistance programs, and a variety of new options may emerge. Thus, changes in the AFDC earnings disregards in Maine should be made by comparing the advantages and disadvantages of these numerous possibilities. In the case of unemployment insurance, the added income a typical family would receive as a result of broader eligibility for benefits is difficult to quantify because the level of unemployment benefits a family receives is affected by the worker's employment history and the length of unemployment.

Table V
Effects of Various "Make Work Pay" Options on a Maine Family of Four with Two Children And One Full-Time Minimum Wage Worker, 1996

	Current Policy	15% State EIC and $5.00 Minimum Wage	15% State EIC	$5.00 Minimum Wage
Income Source				
Earnings less payroll tax	$8,164	$9,604	$8,164	$9,604
EIC	3,536	4,089	4,086	3,556
Food Stamps	3,960	3,396*	3,960	3,396*
TOTAL INCOME	$15,660	$17,090	$16,190	$16,556
Difference from Current Policy	NA	+1,430	+530	+896
Amount Above/Below Poverty ($16,047 for family of four)	-387	+1,043	+143	+509

* The reduction in food stamp benefits for these families is the result of the higher earnings provided by an increase in the minimum wage, since food stamp benefits decline as income rises. State EIC benefits do not affect food stamp benefit levels, because state EIC benefits are not counted as income for food stamp benefit determinations.

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- A minimum wage of $5.00 would raise such a family's income to more than $500 above the poverty line.

- Together, a 15 percent state EIC and a $5.00 minimum wage would boost the income of a family with two children and one minimum wage worker to $17,090, or roughly $1,000 above poverty. The overall income gain for this family would be more than $1,400.

As noted earlier, most working poor families do not receive food stamps, and a family of four with one full-time minimum wage worker that does not receive food stamps will fall more than $4,300 below the poverty line in 1996. While it is unlikely that any state actions could lift such a family above the poverty line, the combination of a state EIC and a minimum wage increase would bring such families closer to the poverty line. Furthermore, some families with earnings modestly above those received by one full-time minimum wage worker — such as families with more than one worker or families in which the worker earns slightly more than the minimum wage — would be lifted from poverty by these changes.

- A minimum wage of $5.00 per hour combined with a state EIC set at 15 percent of the federal credit would provide nearly $2,000 in additional income to a family of four with one full-time minimum wage worker, if

the family does not receive food stamps. This would represent a 17 percent increase in the family's available income, and it would eliminate nearly half of the $4,300 by which such a family would fall below the poverty line without any state action.

- Without a change in policy, a two-parent family of four not receiving food stamps would remain poor even if one parent worked full-time and the other worked half-time at the minimum wage. The combination of a minimum wage of $5.00 an hour and a 15 percent state EIC would boost such a family's income nearly $2,000 in 1996, to almost $1,500 above the poverty line.

A Family of Three with Two Children

A family of three consisting of a single parent working full-time at the minimum wage and two children will fall $829 below the poverty line in 1996, if the family does not receive food stamps.[39]

- A combined minimum wage of $5.00 and a state EIC set at 15 percent of the federal credit — the same combination that would lift a family of four getting food stamps above the poverty line — would boost the income of a full-time working single parent with two children to $1,164 above the poverty line in 1996.

- This family's income also would exceed poverty as a result of a $5.00 minimum wage alone. A 15 percent state EIC would leave the family nearly $300 below poverty.

A Family of Three with One Child

A family of three consisting of a married couple and one child, which would receive a smaller EIC than a family with two or more children, will fall nearly $2,200 below the poverty line in 1996 if it is supported by one full-time minimum wage worker. The combination of a state EIC set at 15 percent of the federal credit and a minimum wage of $5.00 hour would bring this family closer to, but not above, the poverty line.

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[39] A three-person family with a full-time minimum wage worker that receives food stamps would have above-poverty income in 1996, when the federal EIC expansions will be fully phased in, without any changes in state policies.

Table VI
Effects of Various "Make Work Pay" Options on a Maine Family of Three with Two Children
With One Full-Time Minimum Wage Worker, 1996

	Current Policy	15% State EIC and $5.00 Minimum Wage	15% State EIC	$5.00 Minimum Wage
Income Source				
Earnings less payroll tax	$8,164	$9,604	$8,164	$9,604
EIC	3,536	4,089	4,086	3,556
TOTAL INCOME	$11,700	$13,693	$12,230	$13,160
Change from Current Policy	NA	+1,993	+530	+1,460
Amount Above/Below Poverty ($12,529 for family of three)	-829	+1,164	-299	+631

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- The income of a family of three with one child and one minimum wage worker would be boosted nearly $1,800 by the combination of a 15 percent state EIC and a minimum wage of $5.00 hour. That would erase four-fifths of the amount by which such a family would otherwise fall below the poverty line.

An AFDC Family of Three

The combination of a state EIC and a minimum wage increase would help AFDC families working their way off welfare. The income boost these policies would provide would enhance the rewards of work, help parents meet the added costs associated with work, such as transportation and clothing, and help stabilize families by bringing their income closer to or above the poverty line.

- Under current policy, a Maine parent with two children and no earnings qualifies for $720 a month in AFDC and food stamp benefits in 1996. This is $3,900 below the poverty line for a family of three on an annual basis. Such a family would not qualify for the EIC and would not benefit from a state EIC or an increase in the minimum wage.

- If the parent in an AFDC family works, on the other hand, the family would benefit from these state actions. Under current law, a Maine AFDC family of three with a parent who has worked half-time at the minimum wage for more than a year will have $12,200 in available income in 1996. (Income includes earnings less payroll tax, food stamps, AFDC benefits, and the federal EIC.) This is $3,600 higher than the

Table VII
Effects of a "Make Work Pay" Option on Maine AFDC Families of Three
At Various Levels of Earnings

Earnings Level	Income* under Current Policy	Income* under 15% State EIC and $5.00 Minimum Wage	Increase in Income
No Earnings	$8,640	$8,640	$0
Half-Time Minimum Wage	$12,206	**$12,842**	$636
Full-Time Minimum Wage	**$14,652**	**$16,082**	$1,430

The figures in **bold** refer to income levels above the federal poverty line, which is estimated to be $12,529 for a family of three in 1996.

* For families with less than full-time work, income equals earnings less payroll tax, AFDC, food stamps, and EIC. For families with a full-time worker, income does not include AFDC, since families with earnings at this level are not eligible for AFDC in Maine. These examples assume an AFDC recipient has been working for more than one year.

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income of a family in which the parent does not work, but it is more than $300 below the poverty line.

The family's income would rise $636 through the creation of a state EIC set at 15 percent of the federal credit and a minimum wage increase to $5.00 an hour, which would be sufficient to raise the family's income to $313 above the poverty line.

- The combination of a 15 percent state EIC and a $5.00 minimum wage would be even more beneficial to AFDC families in which a parent is able to move from part-time work to full-time work, even though the family would lose eligibility for AFDC benefits entirely. The income of such a family, which would be above the poverty line without any state action if the family receives food stamps, would rise $1,400 as a result of a 15 percent state EIC and a hike in the minimum wage to $5.00 per hour.

V. Conclusion

The effort to reform welfare in Maine through helping low-income families become economically self-sufficient presents an opportunity to examine the broader issue of poverty among children in Maine. This analysis identifies and focuses on low earnings as a major cause of poverty among Maine's families with children, because 70 percent of poor Maine families with children were supported at least in part by one or more workers. Any effort to reduce the high rate of child poverty and to help welfare recipients make the transition to work must consider avenues to increase the incomes and provide other supports for parents faced with only low-wage job opportunities.

This report identifies policies that would support AFDC recipients who are preparing for work or seeking to increase their earnings. These policies also would provide ongoing assistance to working families that may be one or two paychecks away from needing to rely on public assistance. All of the recommended strategies — a state earned income credit based on the federal EIC, an increase in the state minimum wage, benefit reforms for working AFDC families, and improvements in the unemployment insurance system — have been implemented in a number of states. Together, these changes would greatly enhance the ability of poor families with children in Maine to support their families through work.

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