

Iowa's Working Poor

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This paper explores the status of the working poor in Iowa economic trends and policies that have contributed to the problem, and policy options to address the issue.

Poverty despite work

Most poor families in Iowa work; they report some earned income. In the mid-1990s, 71 percent of the 47,000 poor families with children in which the parents were able to work, had one or more working parents. In addition, there were 50,000 poor non-elderly households without children in Iowa in which the adults were not ill, disabled, or retired. Of these households, 81 percent had one or more working adults. The work effort of Iowans exceeds that of all U.S. families and households. Sixty-five percent of all U.S. poor families with children in which the parents were able to work had a parent in the labor force; 76 percent of all non-elderly households without children had one or more workers.

Despite the fact that the majority of poor families in Iowa are working, they largely have been missing from recent policy debates. Welfare reform debates have focused primarily on the need to move families from welfare to work, while neglecting a range of other policy options that affect the income and quality of life of working families. Economic development efforts have often targeted an increase in the number of jobs and less attention has been given to the quality of those jobs.

A major reason behind this policy vacuum is the lack of easily accessible information on the working poor in Iowa. This paper presents information on the extent of work among poor families and individuals in Iowa using Census data. The data underscore the point that efforts to reduce poverty must include policies to assist low-income workers if they are to be successful.

Understanding the nature and extent of poverty among working Iowans is especially important now for several reasons. First, the problem of poverty while working has grown over the past two decades. Among families with children in which the household head

works, the poverty rate increased from 5.9 percent in the late 1970s to 9 percent in the mid-1990s. Second, the growing number of working poor families is a factor behind a long-term increase in income inequality. While the disparity between rich and poor in Iowa is not as great as it is in most states, the gap between the richest fifth and the poorest fifth in the income distribution of Iowa families with children widened between the late 1970s and the mid-1990s. Third, recent state and federal welfare reform legislation has focused on encouraging parents to make the transition from welfare to work. The success of these efforts depends on the ability of parents to adequately support their families through work. Finally, projected employment trends show that job growth in the near future will be concentrated in low-paying industries, adding to the difficulty in helping welfare families find work that can support a family.

Data

Most of the findings presented in this paper come from a special tabulation of data from the U.S. Census Bureau's Current Population Survey (CPS). The CPS is a survey conducted every month of roughly 50,000 households nationwide. The data in this report are from the CPS conducted each March, which includes questions on income and employment in the previous calendar year.

This paper presents the averages of the March CPS data covering the calendar years 1993 through 1995. Combining data from Iowa respondents in each of the three CPS surveys provides a larger sample and thus provides more reliable findings.

Definition of the poor

This paper examines families with incomes at or below the federal poverty threshold. The Census Bureau definition of income includes the earned and unearned income of all family residents.

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The poverty threshold varies by family size and is adjusted annually for inflation. In this paper, each family's income in a given year is compared with the poverty threshold for that year for a family of that size. To give a current sense of the poverty level, the estimated poverty threshold for 1998 is \$13,086 for a family of three and \$16,766 for a family of four.

Families with children and other poor households

Findings are presented separately for families with children and for households without children. There are two reasons for making this distinction. First, it is one that is often made in government programs and policy. Welfare reform, for example, has focused largely on families with children. Second, the higher poverty rate among children and its consequences merits giving special attention to working poor families with children.

For different reasons, it also is worthwhile to present data on working poor households without children. The data show that most poor working-age adults without children who are able to work are employed and rely primarily on earnings. Such households receive very little government assistance. Most do not qualify for federal cash assistance. Many unemployed adults aged 18 to 50 without children are eligible for only three months in a three-year period for the food stamps program due to the 1996 federal welfare reform legislation. Iowa's General Assistance does provide cash assistance to poor non-elderly households without children though this program is very restrictive in terms of benefits and eligibility.

Faces of the working poor

Working poor families share several characteristics of a broad cross-section of Iowa's population.

- Sixty-two percent of the working poor families with children in Iowa were headed by a married couple. Some 29 percent were headed by a single woman, and 9 percent were headed by a single man. The large majority (94 percent) were white, 4 percent were black and 2 percent were Hispanic.
- Eighty-one percent of working poor families lived in non-metropolitan or rural areas of the state. However, this figure is based on a sample size that falls below the minimum recommended by Census and should be used with caution.
- Forty-one percent of the family heads had a high school diploma, 25 percent had some post-secondary education, and 12 percent had a college degree or more. Just 21 percent had less than a high school education. These data suggest that 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.
- Ninety-five percent of working poor families with children are headed by someone age 25 or older, the prime working years. Just 5 percent of working poor families in Iowa had a head under age 25 in the mid-1990s.

The characteristics of working poor households without children in Iowa are similar in many ways to those of working poor families with children. For example, most have at least a high school education and are of prime working age, and the majority are white. Nevertheless, some differences are worth noting.
- Eighty-three percent of the non-elderly working poor without children in Iowa are not married, while two-thirds of working poor families with children were headed by a married couple.
- Working poor households without children are much more likely to be under age 25 than heads of working poor families with children (28 percent versus 5 percent). Working poor households without children also are more likely to be over age 45 than the heads of working poor families with children (28 percent versus 15 percent).

Majority of poor families with children work

Earnings from work constitute the major source of income among poor families with children, yet children stand out as one of the poorest groups in Iowa.

- Fifty-six percent of poor families received a majority of their income from earnings, while only 26 percent received most of their income from welfare.
- Sixty percent of the poor families with children who received welfare benefits in a given year also had a parent who worked at least part of the year.
- Nearly 15 percent of children under age 18 in Iowa lived in families with incomes below the federal poverty line in the mid-1990s. By contrast, the poverty rate for all state residents stood at 11.1 percent.

The poverty rate among 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. Research 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 (Duncan, Brooks-Gunn, & Klebanov, 1993). 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 family structure were taken into account.

It is common to assume that most poor families include adults who could work but do not. Yet this does not fit the profile of most poor families in Iowa.

- In the mid-1990s, 47,000 of Iowa families with children in which the parents were not retired or disabled had incomes below the poverty line. Seventy-one percent of these poor families had one or more working parents. Some 148,000 Iowa residents, including 88,000 children, lived in a working poor family in the mid-1990s.
- The parents in working poor families with children worked on average a combined total of 48 weeks, or roughly over ten and a half months out of the year. For married couple families, this refers to combined work of both spouses.
- Some 14,000 poor families with children — 30 percent of all poor families with children — had a full-time year round worker. This figure includes a small number of married couples whose combined work effort equaled one full-time year round job. However, another way of viewing this same data is to focus on the fact that 70 percent of all poor families with children do not have a full-time year round worker. This raises serious questions about the job skills and employment barriers facing these families.

Majority of poor households without children also work

Some 62,000 non-elderly families and individuals without children in Iowa were poor in the mid-1990s. This group includes married couples without children, people living alone, and unrelated individuals living together. Nearly one in five poor non-elderly adults without children was ill, disabled, or retired and did not work as a result. This is significantly higher than the 4 percent of poor families with children in which the

parents were ill, disabled, or retired. In the large majority of the poor households without children that were able to work, however, one or more adults worked during the year.

Eighty-one percent of the 50,000 poor Iowa households without children that were not disabled or retired had one or more workers, and 24 percent had one or more full-time, year-round workers. On average, the workers in these households were employed 42 weeks, or roughly nine and one half months in each year in the mid-1990s.

Many working families live close to poverty

The previous discussion focused on families with incomes at or below the federal poverty threshold. This measure is used because it is the most commonly accepted measure of low-income status for both federal and state programs. Nevertheless, the basic formula for determining the poverty threshold has not been changed since 1966, and it has been criticized on several grounds in recent years. Some critics argue that the failure to include in-kind benefits underestimates the actual income of many low-income families. On the other hand, many analysts think the thresholds should be raised. A recent report from the National Academy of Sciences, for example, recommended substantial changes in the way poverty is measured that would most likely raise the poverty threshold (Citro & Michael, 1995). The recommended measure for counting income would result in a particularly large increase in the number of working families considered poor.

One way to address this issue in the absence of an improved poverty measure is to identify the number of working families that have incomes between the poverty line and 200 percent of the poverty line.

- In addition to the 47,000 poor families with children in the mid-1990s in which parents were not ill, disabled, or retired, 80,000 families with children in Iowa had incomes between 100 percent and 200 percent of the poverty line. Nearly all of these families (99 percent) had one or more workers. The vast majority (82 percent) had at least one full-time year-round worker.
- An additional 80,000 non-elderly households without children had incomes between 100 percent and 200 percent of the poverty line. Of these, 95 percent had a worker, and 44 percent had a full-time year-round worker.

Economic trends and government policies

The contradiction of poverty despite work among Iowa families with children largely reflects a shift toward low-wage work that has been occurring for several decades. This shift has been compounded by the real value of the minimum wage and a 46 percent drop in the Family Investment Program — formerly called Aid to Families with Dependent Children — benefits since the early 1970s (Committee on Ways and Means, 1966). The federal earned income tax credit has been expanded dramatically in recent years and Iowa has instituted a non-refundable earned income tax credit, boosting the incomes and/or reducing the tax burden of many low-wage Iowa families, but these increases have not made up entirely for wage erosion and benefit erosion in other assistance programs.

- Between the late 1970s and mid-1990s, the average income of the bottom fifth of Iowa families with children declined 12 percent, after adjusting for inflation. By contrast, the average income of the top fifth of families in the income distribution rose 18 percent (Larin & McNichol, 1997).
- The number of poor families with children in which the household head worked rose from 23,000 in the late 1970s to roughly 34,000 in the mid-1990s. This was a time period in which the state's population actually declined.
- To reach the purchasing power it averaged in the 1970s, the minimum wage would need to be \$6.24 an hour in 1998, or more than \$1 per hour higher than the legislated level of \$5.15.

A growing number of working poor families also reflects the fact that many low-wage workers are unable to work as much as they would like due to limited economic opportunities. The Bureau of Labor Statistics defines two groups of workers who are considered underemployed for economic reasons. They are workers employed less than full-time for at least part of the year because full-time work was not available and workers employed less than 52 weeks of the year because they were laid off, unemployed and looking for work, or unemployed and not looking for work because none was available.

- Thirteen percent of Iowa's 43,000 working parents in poor families worked part-time, even though they wanted to work full-time in the mid-1990s.

- Twenty percent or 9,000 of Iowa's working parents were unable to work throughout the entire year because they were laid off or otherwise unemployed for part of the year.
- Twenty-five percent of working parents worked less than they would have liked because they were unable to find sufficient work.

The robust nature of Iowa's economy has almost certainly resulted in an increase in the number of working families who have been able to find full-time employment since the 1993-1995 period when these data were collected. However, because the greatest job growth has occurred in Iowa's metropolitan areas and the majority of the working poor live in rural areas, it is likely that large numbers of Iowans continue to face limited economic opportunities.

Policies to help working poor

Because most poor, able-bodied families in Iowa have one or more workers, with about one-third working full-time year-round, the number of the working poor is unlikely to decline significantly without additional efforts to assist low-wage working families. In particular, the failure to alleviate poverty among working families with children 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 despite the work efforts of their parents has profound implications for welfare reform in Iowa. The primary goals both of federal and state welfare reform initiatives in recent years are to reduce welfare caseloads and to encourage self-sufficiency through work. Yet many FIP recipients already have recent work experience and those that work but remain eligible for benefits do so because of low earnings. In other words, many families who receive welfare also are part of Iowa's working poor population.

If past trends continue, economic growth alone is unlikely to provide sufficient numbers of higher-paying or more stable jobs to parents attempting to support their families through work. Iowa has taken steps to bolster the resources available to low-income families by expanding work incentives in the FIP program, as well as extending child care subsidies and availability of health insurance for children of the working poor. If the state wishes to avoid growth in the ranks of Iowa's working poor as welfare reforms move forward,

additional state-level policies aimed at directly increasing income should be considered. Policy options include:

- Grow the number of higher-paying jobs. Iowa has expanded the number of jobs available, but critics question the quality of those jobs.
- Invest in human capital through education and job training. A long-term strategy to improve the quality of life for Iowa's families and children is to raise the skill levels of the labor force. In the long term, consideration should be given to a two-pronged strategy of addressing both the supply of better-paying jobs and a well-trained workforce.
- Address barriers to employment and needed support systems for working families. Issues of transportation, quality child and dependent care available beyond the traditional 8 to 5 shift, access to health insurance and inflexible work hours limit many Iowans' abilities to raise families and hold full-time jobs.
- Enhance the state Earned Income Tax Credit (EITC). Iowa currently has a non-refundable EITC that uses the federal EITC eligibility rules and equals 6.5 percent of the federal credit. In the case of a non-refundable credit, when the credit exceeds the amount of tax owed, the difference is not remitted to the individual. Increasing this percentage and making the state EITC refundable is another strategy to make work pay — to assist and supplement the incomes of low-wage workers. Consideration should be given to restructuring the state income tax so that tax liability is not imposed on families who are not self-sufficient, that is, due to limited incomes they remain eligible for various income subsidies.
- Increase in the state minimum wage. Iowa has used this strategy in the past, however the current state minimum wage equals the federal minimum wage. Using a minimum wage as a policy lever to improve the welfare of low-income families is a highly contentious issue. Proponents argue that raising the minimum wage is an effective way to increase the incomes of working poor families and has negligible negative employment effects. Two main arguments are made against raising the minimum wage. First, critics claim that raising the wage will price workers out of the job market, as employers would limit hiring in response to the increase in their labor costs.

Second, critics argue that an increase does not benefit low-income families because minimum wage workers are not supporting families.

It is beyond the scope of this paper to assess the benefits and costs of each of these policy alternatives. Some of these alternatives are long-term strategies to deal with a seemingly intractable societal problem. Yet, the time clock on welfare reform is ticking and if policy makers want to address a growing number of working poor among those who become ineligible for cash assistance, consideration should be given to increases in the minimum wage and expansion of the state EITC.

Table 1 (page 6) helps illustrate the interaction between various income sources of working poor families. It shows the income from all sources of a hypothetical family of four with a worker earning the federal minimum wage under current law and under a 50 percent refundable state EITC. It also shows these relationships under a scenario in which the minimum wage is set at \$5.65 — a \$.50 per hour increase over the current wage rate. The effects of these policies on total income are compared to the poverty line and also 185 percent of poverty. This higher level is defined as a level of self-sufficiency because it is the upper cut-off point for school lunch subsidies and a proposed child health insurance program for Iowa families.

Note that the combination of an enhanced and refundable state EITC and a moderate minimum wage increase would result in bringing the hypothetical family of four to the poverty line, but leave them far short of the defined income providing for self-sufficiency. This combination of policies would share the burden of assisting the working poor between the public and private sectors.

Conclusion

This paper identifies and focuses on low earnings as a major cause of poverty among Iowa's families with children, because 71 percent of poor Iowa families with children were supported at least in part by one or more workers in the mid-1990s. In the long run, the complex issue of poverty can only be addressed by careful consideration of benefits and costs of a wide range of policy options. In the short run, the minimum wage and the Earned Income Tax Credit may be policy levers that can enhance the ability of Iowans to support themselves and their families through work.

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Table 1. Total income, poverty¹ and self-sufficiency² status of a family of four³ under various minimum wage and Iowa EITC scenarios.

	With a full-time worker at minimum wage ⁴		With a full-time worker at \$0.50 minimum wage increase	
	Under current tax law ⁵	With 50% refundable Iowa EITC	Under current tax law	With 50% refundable Iowa EITC
Earnings	\$10,712	\$10,712	\$11,752	\$11,752
Payroll taxes ⁶	(819)	(819)	(899)	(899)
Federal EITC	3,656	3,656	3,656	3,656
State EITC	0	1,618	(22)	1,806
Total income	13,549	15,167	14,487	18,315
Amount below Poverty (\$16,050)	2,501	883	1,563	(265)
Income as % poverty	84%	94%	90%	102%
Amount below 185% poverty (\$29,693)	16,144	14,526	15,206	13,378
Income as %	46%	51%	49%	55%

¹ The calculations in this table use 1997 HHS Poverty Guidelines.

² Self-sufficiency is defined as total income equal to or greater than 185% of the poverty guidelines. This income level is used as a cutoff for several government assistance programs.

³ Family consists of married couple and two children.

⁴ Current federal minimum wage is \$5.15.

⁵ Calculations are based on 1997 Iowa and federal tax rates. Iowa currently has a nonrefundable EITC set at 6.5% of the federal EITC.

⁶ Payroll taxes, also known as FICA, are 7.65% of employee gross wages.

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Endnote

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Mission Statement

- Generate grass roots interest in and discussion of the topic of quality jobs. Bring research-based information about the subject to the public's attention.
- Help communities design economic development strategies which are consistent with the values and aspirations of the whole community.
- Enable professional community developers to facilitate the Quality Jobs for Quality Communities process with communities.

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