

# A New Safety Net for Low-Income Families

Number 1



*America's low-income working families are struggling to get by, too often making impossible choices among food, housing, and health care because their incomes do not stretch far enough. Government safety nets were reformed in the mid-1990s with the promise that work would pay. But that promise remains unfulfilled for many families. This series of essays explores the challenges these vulnerable households face and suggests ways to protect them and help them thrive—urgent goals with far-reaching benefits for our children, our families, and our economic future.*

## Making Work Pay Enough— Summary

*Gregory Acs and Margery Austin Turner*

Work alone is not paying enough for many low-income families to cover basic expenses, weather emergencies, or secure a foothold on the path to long-term self sufficiency. “Making work pay” should mean that working families can consistently afford the basics—housing, health care, food, and child care—and see real benefits to continuing and stepping up their work effort.

How can we make work pay enough for all low-income families to get by? We propose a package of reforms and policy initiatives that tackle both the income side and expenditure side of family budgets. Our approach rewards families for working more, raises their purchasing power, and cuts the cost of big-ticket necessities like housing, where costs are rising higher than wages.

### PUBLIC PROGRAMS FALL SHORT

Low-income working families are supported by a complex web of public assistance programs and tax credits, including the earned income tax credit (EITC), child care subsidies, and Temporary Assistance for Needy Families. But benefits from these programs are quickly scaled back as incomes rise, penalizing families for their extra effort. Once a family has at least one part-time worker, working more doesn't pay a great deal more. Also, many families don't know how or don't want to take full advantage of available benefits. Further, help for housing and child care (two of the largest expenses) only serves a fraction of those in need.

Federal housing assistance serves about one in five low-income families that rent and virtually no low-income homeowners. Average rents nationwide have been growing faster than inflation over the past decade. Half of all working households with incomes roughly between 100 and 200 percent of the federal poverty level spend more than 30 percent of their monthly income for housing; close to one-sixth spend more than 50 percent of their income. The mismatch between wages and housing costs is the worst for families living in more prosperous metropolitan areas.

### RECOMMENDATIONS

Our recommendations aim to raise the disposable incomes of low-income working families while preserving incentives to move up the economic ladder.

- *Increase families' purchasing power:* Phase out the EITC more slowly for families with two or more children, matching the phase-out rate for families with one child. This would be an efficient and low-cost way to boost the take-home pay of low-income working families. We also recommend a complementary tax change that would make the federal child tax credit (CTC) refundable starting with the first dollar of earnings, instead of requiring a family to have at least \$11,300 in income before seeing any benefit from the credit. Combining this with a 10 percent phase-in rate would allow families earning \$10,000 to receive the full credit.
- *Boost purchasing power for housing:* Create a refundable tax credit for working parents who rent or own but do not receive federal housing subsidies. The credit would help fill the gap between the cost of decent housing and what low-wage workers can reasonably

afford to spend, with a maximum benefit determined by local housing costs. To encourage and reward work, the credit's value would be greatest for families earning at or above the full-time minimum wage, complementing the CTC and EITC by phasing in as they reach their maximum, and providing a steady bonus for work to encourage families to continue moving up the economic ladder. We also recommend phasing down this credit slowly to avoid an abrupt "benefit cliff" that characterizes many programs for low-income families. The same approach could also be adapted to provide assistance to low-income working families facing unusually high costs for other essentials, such as child care.

- *Expand the supply of moderate-priced housing:* Increase the supply of affordable housing where it is in short supply. Federal incentives could encourage local land use regulations that are "affordable housing friendly" and promote moderately priced homes close to jobs,

rather than in areas with an excess of subsidized housing. We propose expanding and redirecting the federal Low Income Housing Tax Credit to cover states short on rental housing. We also suggest creating an incentive fund for state and local jurisdictions that helps expand the supply of moderately priced homes in communities where they are in demand.

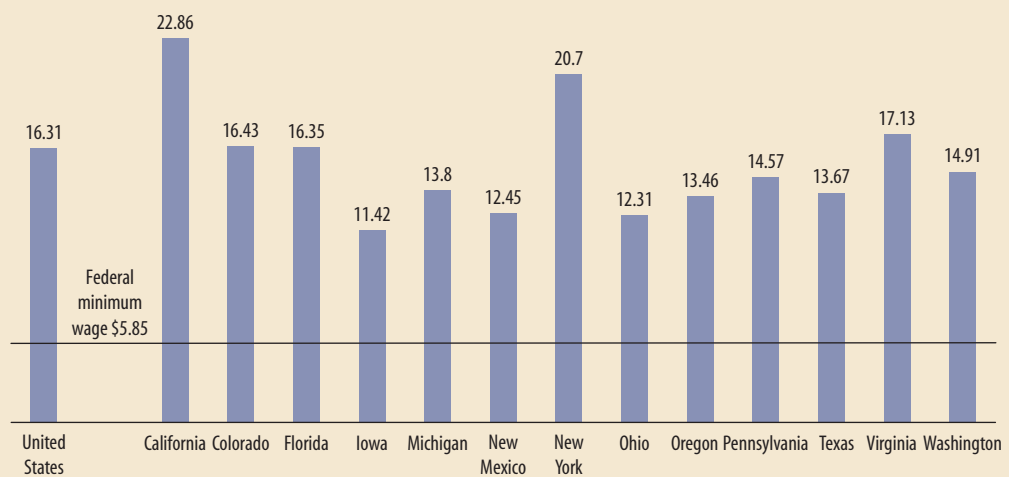
### OUTCOME

Together, these reforms could significantly raise the standard of living for low-income working families, especially those with high housing expenses, while further encouraging employment. Too many of these families have made a substantial commitment to work but find themselves burdened by debt, cutting meals because they cannot afford to pay for food, and living on the brink of bankruptcy or homelessness. Public policy can and should do more to help these families make ends meet and reward their work effort.

#### HOURLY WAGE NEEDED TO AFFORD A TWO-BEDROOM HOME AT FAIR-MARKET RENT

Source: National Low Income Housing Coalition (NLIHC). 2006. *Out of Reach 2006*. Washington, DC: NLIHC.

Note: Some states set minimum wages higher than the federal requirement.



For the full report, see "Making Work Pay Enough: A Decent Standard of Living" by Gregory Acs and Margery Austin Turner.

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