

EXECUTIVE SUMMARY

This report looks closely at three serious challenges in our country. First, poverty rates are higher among children than any other age group. Second, thousands of working parents are unable to reach economic self-sufficiency; that is, they cannot obtain an adequate standard of living for their families. Third, despite the strong value our culture places on work, work often does not provide a way out of poverty.

Under these conditions, it is important to understand the extent of poverty among working families, the economic trends that contribute to poverty, and the characteristics of working poor families. A fuller picture of the state of affairs for working poor families suggests policy changes to help more families achieve economic self-sufficiency.

Although the common belief is that people are poor because they do not work, the reality is quite different: **most poor families are working families.**¹

- Nationally, 70% of poor families in which parents are able to work contain working parents and one-fourth include a full-time, year-round worker. Working poor parents work an average of nine and a half months during the year.²
- In Minnesota, 95% of poor families with children include parents who are able to work. Of these families, 65% include a parent who worked at some point during the year.

Children are the poorest age group in the U.S. Nationally, 20% of children under age 18 were poor in 1997, compared to 13% of the population as a whole.

- Between 1979 and 1997, the poverty rate among all workers grew nearly 16% and among working families with children the poverty rate increased 42%. By 1997, 11% of working families with children lived in poverty.
- Although Minnesota's child poverty rate of 14% is lower than is seen nationally, it is significantly higher than the state's overall poverty rate of 9.5%.

Working poor parents struggle to obtain full-time work and to advance in the workplace. Working poor parents often find that their **work and training opportunities are limited.** Official figures such as the unemployment rate disguise the extent of these problems.

- In 1997, a national unemployment rate of 4.9% masked an **underemployment** rate of 8.9%.³ The underemployment rate not only counts the unemployed (those actively seeking work), but also includes persons who are involuntarily working less

¹ Poor families are defined as families with incomes at or below the federal poverty line for the year analyzed. The 1997 poverty line was \$12,802 for a family of three and \$16,400 for a family of four. For more information about our methodology, see Appendix 1: Data and terminology.

² Our primary source of data for this report is Center on Budget and Policy Priorities, *The Poverty Despite Work Handbook*, 1999. This publication is an analysis relying mainly on data from the U.S. Census Bureau's Current Population Survey for 1995 to 1997. All additional sources are footnoted.

³ Lawrence Mishel, Jared Bernstein, and John Schmitt, *The State of Working America 1998-1999*, Economic Policy Institute, 1999.

than full-time or who have given up looking for work because of lack of opportunities.

- In Minnesota, 90% of welfare recipients have no post-secondary education and 43.5% do not have a high school degree or equivalent,⁴ yet only 12.8% of adult welfare recipients who are not exempt from work requirements are enrolled in education or training.⁵

Working poor parents require adequate work supports, such as affordable housing, health care, and child care, to find and sustain employment. Without these work supports, parents are often unable to succeed in the workplace or provide an adequate standard of living for their families.

- **Affordable housing** is a critical component to employment success and family stability. In Minnesota, extremely low vacancy rates and a sharp rise in rents exacerbate a shortage of affordable housing. From 1998 to 1999, average rents in the Twin Cities increased nearly 11%. At the same time, metro area vacancy rates dropped to 1.7% — much lower than the 5% rate that is considered healthy.⁶ At the end of 1999, average monthly rent in the Twin Cities was out of reach for families earning less than \$29,160 per year.⁷
- Many working poor families have no **health insurance**. Nationally, 27% of children in working poor families are uninsured. In Minnesota, 5% of children under age 19 with incomes under 200% of the poverty line — approximately 67,000 children — are uninsured.⁸
- Parents cannot go to work until they have secured **child care** for their children. Many working poor parents cannot find affordable and reliable child care. In January 2000, 4,175 Minnesota families were on waiting lists for Basic Sliding Fee child care assistance, due to funding shortfalls.⁹

Two economic trends in particular have contributed to poverty among working families in the U.S. First, a substantial and increasing proportion of **working parents had low hourly wages** in the mid-1990's. Second, **job growth has been concentrated in low-paying industries**, particularly service and retail. A third contributing factor has been the **decline in the value of the minimum wage**.

- Nationally, the proportion of full-time workers with low hourly earnings¹⁰ grew nearly 20% from 1979 to 1997. By 1997, 14.4% of full-time workers and 21% of working heads of households had low hourly earnings. In Minnesota in the mid-

⁴ Minnesota Department of Human Services, *Characteristics of Minnesota Family Investment Program (MFIP) Participants and Cases in December 1999*, May 2000.

⁵ Calculation using data from Minnesota Department of Human Services, *MFIP Monthly Report*, February 2000 data.

⁶ "Rental prices rise as vacancies fall to just over 1.7 percent by year's end," *Star Tribune*, January 22, 2000.

⁷ This calculation uses the Department of Housing and Urban Development's definition of affordable housing as housing that consumes no more than 30% of family income. The average monthly rent figure is reported in "Buyers face stiff competition for homes under \$140,000," *Star Tribune*, April 8, 2000.

⁸ U.S. Census Bureau, *Low Income Uninsured Children by State: 1996, 1997, and 1998*.

⁹ Minnesota Department of Children, Families and Learning.

¹⁰ Low hourly earnings are defined by the Census Bureau as hourly wages that, on a full-time, year-round basis, are insufficient to lift a family of four to the poverty line.

1990's, 12% of parents who worked full-time, year-round, and 19.5% of parents who worked at some point during the year had low hourly earnings.

- In the U.S., employment in services¹¹ grew 89.5% and retail employment grew 45% from 1982 and 1997. In Minnesota, the number of service sector jobs increased 84% over this time period, by far the largest rate of job growth in any industry and nearly double the rate of total job growth in Minnesota. The Minnesota Department of Economic Security estimates that between 1996 and 2006, the service sector will increase its share of all jobs in Minnesota while all other sectors will see their share of total jobs decline.¹²

A final factor leading to poverty among working families is the **decline in the buying power of the minimum wage**. During the 1960's and 1970's, the earnings of a full-time, year-round minimum wage worker typically were enough to lift a family of three out of poverty. In 1999, full-time, year-round minimum wage earnings only equaled 80% of the poverty line for a family of three. To have the same purchasing power as in the 1970's, the minimum wage would need to be \$6.40 an hour, rather than the \$5.15 it is today.

The working poor are often not who we think they are. The majority of working poor families in Minnesota are white, contain a married couple, and are headed by someone over age 25 with at least a high school education. Just over half of Minnesota's working poor families live in the state's metropolitan areas.

The persistence and scope of the three problems discussed above — high poverty rates among children, the lack of an adequate standard of living for many families, and a significant portion of workers unable to lift their families out of poverty through work — does not mean that these problems are inevitable. Policy changes can be taken to address these problems. This report concludes with seven policy strategies to enable more Minnesota families to reach economic self-sufficiency. These recommendations are:

- Address the state's affordable housing crisis,
- Improve access to health care programs,
- Provide child care assistance to more working families,
- Increase access to education and training,
- Raise the state's minimum wage,
- Ensure tax fairness for low-income families, and
- Reform Unemployment Insurance.

¹¹ The service sector includes business services, repair, entertainment and recreation, educational services, social services, health services, and hospitals.

¹² Minnesota Department of Economic Security, *Minnesota Employment Outlook to 2006*, 2000.