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Bridging the Gaps Between Earnings and Basic Needs in Massachusetts

RANDY ALBELDA AND JENNIFER SHEA

THE SUPPORT PROGRAMS THAT CAN AND SOMETIMES DO HELP PLUG THE HOLES IN HOUSEHOLD BUDGETS PROVE AN ILL FIT FOR THE BASIC NEEDS OF MANY OF THE STATE'S WORKING POOR.

This article is based on a report by the same name as part of a multi-state project. The report and more information about the project can be found at www.umb.edu/bridgingthegaps.

In the United States, it is generally assumed that people who hold a steady job are able to make ends meet. But, in today's labor market, where nearly a quarter of jobs pay low wages and do not offer benefits such as health insurance and retirement plans,¹ this could not be further from the truth for millions of workers and their families. In fact, most workers do not make ends meet on their wages alone. Even upper- and moderate-wage workers are not "self-sufficient" in a literal sense, as most receive on-the-job benefits, such as employer-provided health insurance or paid sick days, and are eligible for unemployment or disability insurance if they need it.

In contrast, workers in low-wage jobs find themselves with insufficient wages to cover their basic family needs while also typically lacking access to job-related benefits to supplement their earnings. Government work support pro-

grams meant to help poor and low-income working families fulfill basic needs, such as health care, child care, food, and housing — are intended to fill in the gaps and for many, they do.² But many families who struggle to bridge their resource gaps find that they make too much to be eligible for these work support programs. One reason for this problem is that many work support programs were established to assist very low-income, non-working families or single parents with very low, but steady, earnings. These programs were not typically designed to serve working families with earnings much above the official poverty threshold, even though many low-wage workers are not typically offered employment-based benefits. Moreover, even those who are eligible often do not receive them. These widespread problems are particularly acute for families with children, as well as those with only one adult earner. Our research suggests that program eligibility standards are too narrowly defined and inflexible and also fail to factor in actual costs for family households in Massachusetts. This leaves many in a state of serious financial insecurity.

In our study, we identify and document three types of gaps families with earners face in their ability to make ends meet. People in families who cannot make ends meet with

Working hard and playing by the rules does not mean that people in low-wage jobs can necessarily earn enough income or access the work supports they need to secure decent housing, find affordable child care, access adequate health care, get to and from work, pay their taxes, and feed their families.

their earnings coupled with public supports face a *hardships gap*. These people either work or live with family members who work but total family earnings coupled with public supports they receive do not lift them above the basic costs associated with living in Massachusetts. And while supports help, for a substantial number people they are not enough — one of out every four people in Massachusetts faces a gap between their resources and a no-frills standard of living. In addition, many in the hardships gap also face an *eligibility gap*. They live in a family that makes too much to get public work supports but earns too little to pay all their bills. The majority of those in the hardships gap also find themselves in the eligibility gap, unable to qualify for each of the six major work support programs we examine in Massachusetts. Finally, there is a substantial group who face a public support *coverage gap*. These are people (or sometimes families) who are eligible for work supports but for a range of reasons do not receive them. In the case of four of the six work supports we look at, about two-thirds of those eligible for those programs in Massachusetts do not receive them.

Recent health care reform in Massachusetts is an important step in redefining the social compact. The verdict is still out on whether this type of mandate can work; however, it recognizes the need for everyone — not just those who are poor enough to be eligible for Medicaid or are lucky enough to have employers pay for substantial portions of their insurance — to have affordable access to health care as a condition of employment and Massachusetts residency.

Here we document and provide measures of the hardships, eligibility, and coverage gaps for families in Massachusetts.³ We measure the hardships gap as the percentage of persons in families with earnings who cannot make ends meet even with public supports. We estimate who of this group is eligible for the six major work support programs available to assist economically distressed individuals and families: child care assistance; Earned Income Tax Credit (EITC); Food Stamps; housing assistance (Section 8 and public housing); Medicaid (MassHealth)⁴ and the State Children's Health Insurance Program (SCHIP); and Temporary Assistance to Needy Families/Transitional Aid to Families with Dependent Children (TANF/TAFDC).⁵

Using the 2004 eligibility rules, we measure the eligibility gap — the percentage of those families or individuals (depending on the eligibility requirements of the program) who are not able to make ends meet, but are also not eligible for public supports.⁶ Finally, of those eligible, we estimate the coverage gap — the percentage of those who are eligible but do not use these supports.

The Hardships Gap

Working hard and playing by the rules does not mean that people in low-wage jobs can necessarily earn enough income or access the work supports they need to secure decent housing, find affordable child care, access adequate health care, get to and from work, pay their taxes, and feed their families. In fact, we find that just under 900,000 people in families with earners — one out of every four persons in families with earners — face a hardships gap.

Federal poverty standards present a major challenge to assessing and adequately responding to need because they do not adequately reflect a minimum standard of living. True income needs in Massachusetts are, in fact, far higher than federal poverty standards would intimate. That is why in coming up with a defensible standard of need we turn to the Massachusetts Family Economic Self-Sufficiency Standard (FESS) developed by the Crittenton Women's Union. The FESS budgets calculate the cost of those things minimally necessary at market prices in various locations across the state for various family types. Expenses in the FESS family budgets include child care, food, health care, housing, taxes (including tax credits), transportation, and miscellaneous basic personal items. These budgets do not include expenses for paying off debt, savings for retirement or a child's college education, or for eating out or entertainment. Figure 1 provides a sample of costs for three different family types in four different locations in Massachusetts.

The particular budgets we use in Massachusetts are guided by the areas identified in the Survey of Income and Program Participation (SIPP) data set.⁷ The FESS includes budgets for families with one or two adults, both without children and with one to three children under the age of 18. The costs assume parents work full time and need to pay for child care for children until the age of

12. Housing and child care costs (for families with children) together account for between 40 and 57 percent of monthly expenses.

To calculate the hardships gap we compare the family resources (income plus value of public supports) of people in Massachusetts working families to the FESS budgets instead of the federal poverty threshold for a variety of reasons. The self-sufficiency standards measure the actual costs of attaining a safe and decent standard of living at market prices while not having to rely on public work or employer supports. Scholars agree that U.S. poverty thresholds are outdated and do not adequately capture true income needs.⁸ The poverty thresholds are based on findings from the 1950s that families spent about one-third of their income on food. The poverty line was calculated by multiplying a bare-bones food budget by three, adjusting for family size. Since the 1960s, this threshold

has been adjusted for inflation, but has not incorporated significant changes in family economics over time. The self-sufficiency standards are also preferred because they are geographically specific. Costs vary across the state, in particular those for housing, transportation, and child care. Using one national poverty threshold does not capture the local cost of living.

To put these needs in a context, we have assembled FESS budgets together with the closest comparison set of median family income estimates for the entire population.⁹ The comparisons should be seen as illustrative.

The “Percent” reported in the final column of Figure 2 results from dividing the FESS budget by the median income for the region. The data suggest that, in Massachusetts, it takes a four-person family of two adults and two school-aged children between 60 percent and nearly 67 percent of median income to cover basic life expenditures.¹⁰

Figure 1. FESS budgets for three family types in four areas in Massachusetts

	Housing	Food	Child Care	Transportation	Health Care	Other	Taxes (includes credits)	Monthly Total	Annual Total
FAMILY TYPE 1: One adult, one preschooler and one school-aged child									
Boston	\$1,304	\$522	\$1,490	\$71	\$343	\$373	\$742	\$4,844	\$58,133
Fall River area	\$965	\$503	\$1,220	\$280	\$312	\$328	\$552	\$4,161	\$49,938
Springfield	\$766	\$504	\$1,207	\$300	\$321	\$310	\$473	\$3,881	\$46,573
Franklin County	\$681	\$504	\$1,207	\$249	\$320	\$296	\$413	\$3,670	\$44,035
FAMILY TYPE 2: Two adults, no children									
Boston	\$1,111	\$455	\$0	\$142	\$362	\$207	\$474	\$2,751	\$33,014
Fall River area	\$827	\$439	\$0	\$532	\$332	\$213	\$500	\$2,843	\$34,120
Springfield	\$603	\$439	\$0	\$573	\$341	\$196	\$430	\$2,582	\$30,983
Franklin County	\$550	\$439	\$0	\$470	\$340	\$180	\$377	\$2,356	\$28,275
FAMILY TYPE 3: Two adults and two school-aged children									
Boston	\$1,304	\$773	\$972	\$142	\$397	\$359	\$533	\$4,480	\$53,760
Fall River area	\$965	\$746	\$695	\$539	\$366	\$331	\$422	\$4,064	\$48,766
Springfield	\$766	\$747	\$793	\$579	\$375	\$326	\$393	\$3,978	\$47,742
Franklin County	\$681	\$747	\$793	\$476	\$374	\$307	\$312	\$3,690	\$44,277

Source: FESS 2006 data obtained from Crittenton Women’s Union

**Figure 2. Family of four (two adults and two school-aged children)
FESS budget vs. four-person family median income, 2006**

	FESS Budget	Regional Median Income
	2 adults, 2 school-aged children	4-person family
		FESS Budget as percent of Regional Median Income
Boston	\$53,760	\$84,100
Fall River area	\$48,766	\$73,200
Springfield	\$47,742	\$71,700
Franklin County	\$44,277	\$71,700

Source: FESS 2006 data and U.S. Department of Housing and Urban Development

Figure 3. Share of people below their basic Family Economic Self Sufficiency Standard using various definitions of income

Income definition	Percent below FESS
1. Including only earnings	31%
2. Including cash income except cash value of EITC, Food Stamps, and TANF	27%
3. Including all cash income	25%
4. All cash income and the six work supports — definition of income used to measure the hardships gap	24%

Note: Percentages apply to share of people in families with earned income.

Sources: *Bridging The Gaps* project analysis of the 2001-2003 Survey of Income and Program Participation (SIPP), U.S. Bureau of the Census

The ability to meet basic needs in Massachusetts can also be viewed from another perspective. Figure 3 depicts the percentage of people in families with earners whose income falls below the FESS budgets using various definitions of income. Counting income that comes from earnings alone, 31 percent of all people in families with earners would fall below their basic standard of need. Adding forms of income other than work supports — for example, social security payments, interest, and rent — the share falls to 27 percent.¹¹ Next we add in the work supports that are distributed like cash. Including the dollar value of the Earned Income Tax Credit (EITC), Transitional Assistance to Needy Families (TANF), and Food Stamps, 25 percent would not meet their standard of need. Finally, when we include the value of all six work supports, 24 percent cannot meet their basic needs.

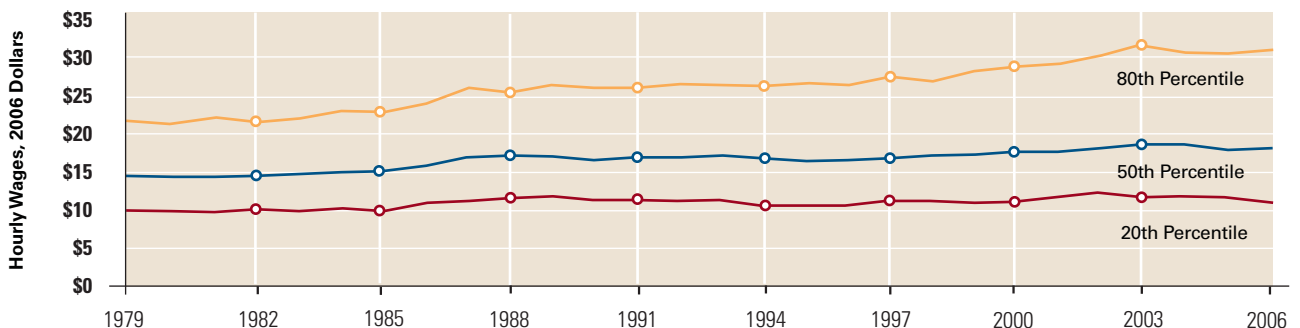
All the people in the hardships gap either have a job or live with someone who does. Further, the majority of people in the hardships gap are not officially poor. The median annual family *earnings* of those with a hardships gap in 2004 are \$25,255, an amount 167 percent of the poverty income level for a family of three. Work supports help close some of the gaps and are much needed. However, we find that many low-income working families are either ineligible for work supports or do not receive the supports to which they are entitled. The problem is three-fold: too many jobs offer inadequate pay and benefits to support a family; public work supports often exclude

working families who are unable to make ends meet; and these supports do not reach all who are eligible for them.

In all, almost one-quarter of people in families with at least one earner do not make enough from earnings alone to close the hardships gap. This fact is not surprising given that, in 2004, of the close to 6.5 million people in Massachusetts (including those without earnings), 25 percent live in a family whose income is less than \$28,000 (only slightly above the median earnings of families with hardship gaps). And while 10.2 percent of the population is poor, 25.1 percent live in a “low-income” family (with incomes twice the federal poverty line).¹²

Wages for those at the bottom of the earnings ladder are insufficient to meet the cost of living in Massachusetts. A worker at the bottom 20 percent of earners in Massachusetts made at most a little over \$10.00 an hour in 2006, while the median worker (at 50 percent) made \$17.24 an hour.¹³ Over the last 25 years, wages for half the workers in Massachusetts have improved only marginally, especially when compared with workers at the top. Figure 4 depicts the wages of a worker at the bottom 20 percent of earners, the median earner, and at the top of the earnings ladder (i.e., at the 20th, 50th, and 80th percentile, respectively) from 1979 through 2006. While the wage trends in these three different percentiles are similar — rising slightly in the mid 1980s, growing very slowly through most of the 1990s, and then increasing some in the late 1990s and early 2000s — the gains are clearly

Figure 4. The Widening Wage Gap in Massachusetts



Source: Data from Massachusetts Budget and Policy Center (2007) and reported in *State of Working Massachusetts 2006*

greatest for high earners and minimal for the bottom 20 percent. This trend occurs despite tremendous economic growth in Massachusetts over this period.

Although workers who are moderately or highly paid often receive benefits, such as health insurance, paid time off, and retirement plans from their employers, low-wage workers generally do not. In Massachusetts, 46 percent of workers report not having or using employer-sponsored health insurance, 51 percent do not have an employer-sponsored retirement plan, and 53 percent lack paid sick days at work.¹⁴

The Eligibility Gap

Even though most families living below their FESS are far from being officially poor, they cannot afford to purchase all of the goods and services necessary for meeting a basic standard of need. For some, government work support programs help fill the gap; however, many living in low-wage families are excluded from these supports. This exclusion is in part due to the fact that most of the programs currently perceived as work supports were not originally intended to serve low-income working families, but rather were aimed at very poor or non-working families.

Figure 5 shows the eligibility gap — measured as the percentages of those in families with earnings who are living below their family standard of need but are not eligible for public supports. While many people in working families with income below their FESS budget may be eligible for at least one work support, very few are eligible for a full package of benefits. The majority of those with incomes below their FESS are not eligible for every one of the six programs. Most families (63 percent) living in the hardships gap are eligible for at least one of the six work supports, although the variability across programs is wide.

The program that covers most struggling families is the earned income tax credit (EITC), followed closely by Food Stamps, child care assistance, and MassHealth. Only 10 percent of those in working families who cannot make ends meet are also eligible for the Massachusetts cash assistance program Temporary Assistance to Families with Dependent Children (TAFDC), followed by housing assistance.¹⁵ In all, two-thirds of those in the hardships gap (i.e., not meeting their basic family budget, despite employment) are eligible for any of the six programs.

One reason so many struggling people are ineligible for public support is that the eligibility rules for several of the programs are pegged to the federal poverty line, not the cost of living.

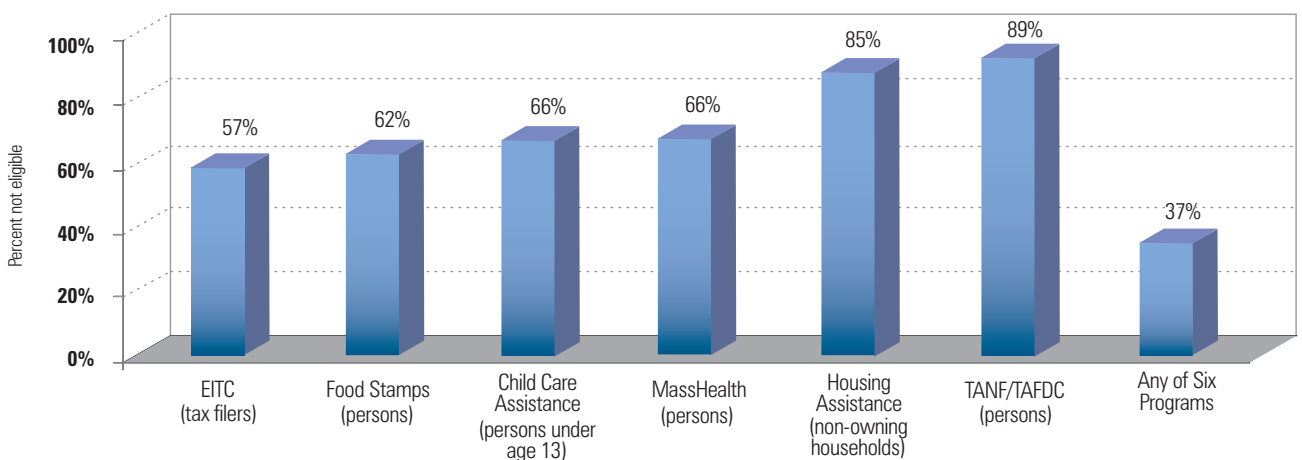
The Coverage Gap

Even families or individuals who are eligible for work supports may find themselves unable to access these programs. They face a *coverage gap*: qualifying for the support but not receiving it. The reasons for this problem are as varied as the programs and their rules.¹⁶ Some lack information about the work supports that are available. Some find the application process invasive and cumbersome. Others may be diverted from applying. Some families or individuals are on waiting lists because there are insufficient funds available for them to access the benefit. Some may find the value of benefits too low to bother applying. Some simply cannot find a health care or child care provider or landlord who will accept their coverage or voucher.

Figure 6 depicts the coverage gap — the percentage of those who are eligible for but do not receive each of the six programs.¹⁷ According to 2004 eligibility rules, every work support has a coverage gap. But, by a considerable amount, the EITC and MassHealth (Medic-

Figure 5. The Eligibility Gap in Massachusetts

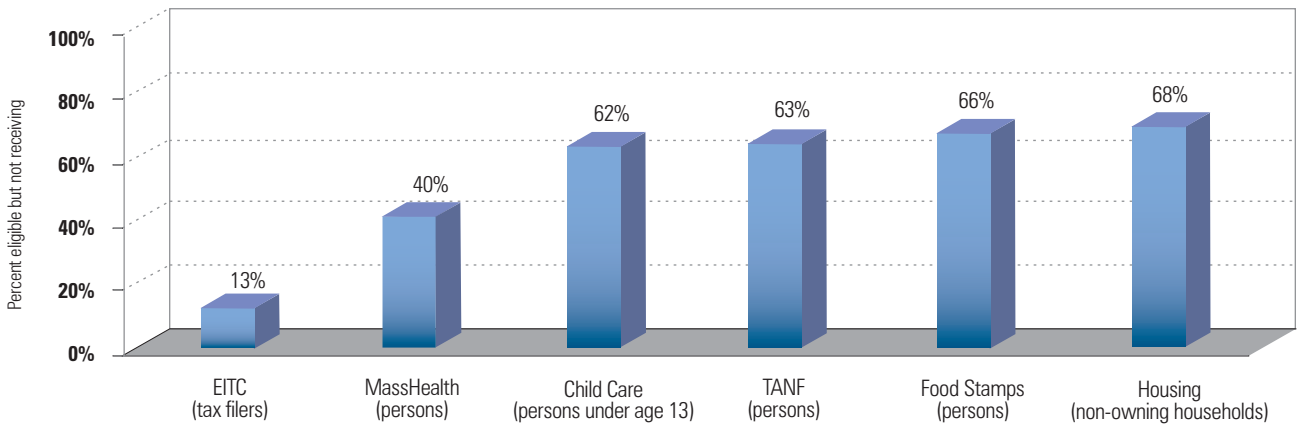
Low-income families not eligible for public supports



Note: Family income includes all income except cash work supports (EITC, Food Stamps, and TANF)

Source: *Bridging the Gaps* project analysis of SIPP 2001-2003

Figure 6. The Coverage Gap in Massachusetts
Those that qualify for support but do not receive it



Source: *Bridging the Gaps* project analysis of SIPP 2001-2003 panel

aid/SCHIP) are the most effective programs in terms of closing that gap. Eighty-seven percent of those eligible for the EITC in the state receive this benefit, and 60 percent of those eligible for key MassHealth programs (including SCHIP) get them.¹⁸ In contrast, by considerable amounts, housing and child care assistance are the least effective in reaching those who are eligible, followed closely by TANF/TAFDC, then Food Stamps, with about two-thirds of those eligible not receiving these work supports.¹⁹

Explaining the Coverage Gap Three of the programs we examine, the EITC, Food Stamps, and most portions of MassHealth (Medicaid/SCHIP), are available to everyone who meets the eligibility requirements because funding is guaranteed. As such, these work supports are often referred to as entitlements.²⁰ Most often, coverage gaps stem from the application process. Several of these programs have lengthy applications that must be accompanied by significant amounts of documentation and redocumentation and they often require face-to-face interactions with caseworkers or administrators on a regular basis.

The other three work supports have limited federal or state funding so access for the eligible is allocated through priority lists, lotteries or queues, which also helps explain why the coverage gaps are so high. This is certainly the case for housing and child care assistance: the need for these programs far exceeds the amount government provides with the problem further compounded by the limited stock of housing and child care facilities.

Conclusions

Much of the foundation for today's work support system is based in policies originally developed to help poor, often non-working families. Smaller, targeted programs have the advantage of creating clear constituencies and being

seen as "affordable," especially important in eras of high budget deficits. However, the U.S. economy has changed over the past thirty years in ways that should push us to rethink this model. In the same time span, labor markets have become increasingly polarized, with families at the bottom having seen little or no net wage gains with the exception of the period of extraordinarily low unemployment in the late 1990s. At the same time, employers have reduced health insurance coverage for workers and, even more dramatically, for their dependents. Low- and moderate-income families are feeling an economic squeeze. Meanwhile, the work support system, in not recognizing that most families lack a stay-at-home parent, fails to provide access to safe, affordable, and enriching child care in adequate measure or to take into account that employed adults often do not have the time needed to access and stay enrolled in these support programs. The strong policy emphasis on employment for poor and low-income families has pushed many adults into jobs with no affordable health insurance coverage, not recognizing that having a job may not be enough to ensure that a family can meet its basic needs. The current reality is that many work supports do not adequately jibe with low-wage jobs.

The work support system does a reasonable job of reaching many of the neediest, but it does not do enough to confront the decline in living standards among low-wage workers and their families. Some work support programs do a good job at helping low-wage workers bridge the gaps between earnings and needs — but too many working families still find themselves facing a hardships gap they cannot bridge. Several things need to change in order to improve the situation. These include: the expansion of jobs with decent wages plus the extension of employer-sponsored benefits to all workers; the expansion of public supports to those further up the income ladder; getting supports to those who are eligible

through outreach efforts, streamlining application and reapplication procedures; and increasing funding streams for child care and housing assistance. ◀

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NOTES

- Schmitt, John. *The Good, The Bad, and the Ugly: Job Quality in the United States over the Three Most Recent Business Cycles*, Washington DC: Center for Economic and Policy Research, 2007.
- There is not uniform agreement on what are considered the major work support programs in the United States. Here we define them as the EITC, Food Stamps, Medicaid and SCHIP, child care assistance, housing assistance, and TANF.
- Estimates of the three gaps were conducted by researchers at CEPR based on the set of eligibility rules we provided.
- We include only those eligible for and using MassHealth Standard, MassHealth Family Assistance, and MassHealth CommonHealth based on 2004 requirements for receipt.
- For the eligibility rules we apply to programs, refer to Appendices of the Technical Report available at <http://www.bridgingthegaps.org/publications/technicalreport.pdf>. We measure the cash assistance portion of TANF.
- We use different “units of analysis” for the different programs that mirror the way in which the supports are dispensed. For Medicaid/SCHIP, Food Stamps, and TANF we measure individual usage (since individuals in families receive these supports and sometimes not all family members get them); for child care assistance we look at children under age 13; for the EITC we use the tax unit, and for housing assistance we measure household usage for households who do not own their own home.
- They include those living in the Boston/Lawrence/Worcester metropolitan areas and Springfield. This leaves 12 percent of the state without a specific area of residence, with two-thirds reporting living in a metropolitan rather than rural area. For all metropolitan residents who are not geographically identifiable, we assign the budgets of a reasonable urban proxy (in this case, the Fall River area) and assign everyone who lives in a rural area the rural statewide budget (in this case Franklin County).
- See, for example, Constance Citro and Robert Michael. *Measuring Poverty: A New Approach*, Washington, DC: National Academy Press, 1995.
- The median income figures, especially for sub-state areas, should be viewed with caution, as they are subject to sampling error. In addition, the “Type 3 Family,” which includes two adults and two school-aged children, may not be completely comparable to the four-person family as reported by the Census Bureau.
- By comparison, the official poverty income level for a family of four is between 25 percent and 29 percent of median family income.
- Other estimates of the share of families below a basic needs standard typically include all cash (and near cash) income, and so they include income from the EITC and TANF and the dollar value of Food Stamps.
- These data are from the 2001-2003 panel of the SIPP, which is the same source we use to measure hardships, coverage, and eligibility gaps.
- Massachusetts Budget and Policy Center, *The State Of Working Massachusetts 2006: As the Economy Moves Forward, Wages Fall Back*. Boston, Mass.: Massachusetts Budget and Policy Center, 2007.
- Pension and insurance data from John Schmitt’s analysis of the 2004–2006 Current Population Survey’s Annual Social and Economic Supplement. Paid sick days are reported by Vicky Lovell, 2005, *Testimony of Dr. Vicky Lovell, Institute for Women’s Policy Research, before the Joint Committee on Labor and Workforce Development of the 184th General Court of the Commonwealth of Massachusetts, May 4, 2005*. Retrieved August 29, 2007, at <http://www.iwpr.org/pdf/testimony.pdf>.
- We use the low-income eligibility criteria for determining eligibility for housing (30 percent of local family median income) since the majority of new housing assistance is targeted toward this group.
- Due to data limitations, we measure the coverage gaps for everyone, not just those in families with earnings.
- The coverage gap is calculated in the following way: the number of those (families or people) who actually receive each of the work supports divided by those who are eligible multiplied by 100.
- The data do not allow us to determine whether some of those in the coverage gap have employer-sponsored health insurance, so some of those in the MassHealth coverage gap may have employer-sponsored insurance. Further, for some households, MassHealth may be in place reducing premiums and co-pays and covering deductibles and services not covered by the private health insurance. As a result, our estimates are not reflective of the full array of MassHealth programs.
- Our usage rate estimates differ slightly from other estimates because we use different estimation techniques. An explanation of our methods and a comparison of our estimates to that of others can be found in *Bridging the Gaps: A Technical Report on Data and Methods* at www.bridgingthegaps.org and www.umb.edu/bridgingthegaps. For example, our Food Stamp usage estimates are derived from applying eligibility rules, including asset limitations, onto a sample from the SIPP 2001-2003, while those calculated by Mathematica for the USDA are based on predicted usage rates using other data sets, and do not include asset rules.
- State and federal budget cuts have resulted in changing eligibility rules to MassHealth (Medicaid/SCHIP) over the years to restrict usage when funds available have shrunk.