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**An Assessment of the Income and Expenses of America's
Low-Income Families Using Survey Data from the National
Survey of America's Families**

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**An Assessment of the Income and Expenses of America's Low-Income Families
Using Survey Data from the National Survey of America's Families**

by

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Introduction

The policy community is increasingly focusing attention on alleviating the strain on low-income working families, particularly those with children. Research has examined the size and characteristics of low-income working families, the amounts and sources of income available to them, and, to a lesser extent, the expenses that these families face, such as housing or medical expenses. This paper seeks to unify discussions of income and expenses, to see if low-income working families are able to meet their expenses with the limited resources at their disposal.

Relatively few data sets contain both detailed socioeconomic information and information on consumption expenditures for a large, nationally representative sample of low-income families. The National Survey of America's Families (NSAF) is a notable exception. We use data from the third round of the survey, conducted in 2002. The NSAF surveyed approximately 40,000 households, oversampling the low-income population. In addition to eliciting information about living arrangements, work, earnings, income, and program participation, the NSAF asked respondents about their expenditures in three key areas: health care, child care, and housing.

Using these data, we assess how family expenditures in these three areas vary by family type, income, and work status. We also compare estimates of these expenditures from the NSAF to those from other data sources. Finally, we incorporate information on family spending on other items such as food and clothing drawn from other data sources to present a more comprehensive picture on expenses for low-income families.

Initially, we assess the extent to which family incomes are in line with expenses for low-income families, distinguishing between families based on work status. Then, we

focus on low-income families with at least one full-time, full-year worker for several reasons: these families make up the majority of all low-income families with children, they have low incomes despite making a strong commitment to the labor market, and they are becoming a greater concern for policymakers as fewer families turn to public assistance for support and instead join the ranks of the working poor. Focusing on working low-income families we can address questions such as: Are low-income working single parent households spending a greater share of their incomes on child care than two-parent households? Do low-income households with full-time, full-year workers spend a greater share of their incomes on housing than middle-income families? Are working families with young children or working families headed by immigrants more likely to have expenses that are higher than their incomes than other families? These comparisons will help us understand how much of their incomes different types of low-income families are spending on health care, child care, and housing, and allow us to assess how much income these families have left to meet their other expenses.

Overall, we find that low-income working families with at least one full-time, full-year worker fare better than one might expect in 2001, thanks to their work effort, earned income, and a generous refundable Earned Income Tax Credit, but low-income families without a full-time, full-year worker do not appear to have enough income to cover their basic expenses.

Defining Low-Income Families by Work Status

Our research focuses on families with children under age 18 headed by nonelderly individuals. For the purposes of this study, we focus on families with incomes below 200

percent of the federal poverty level (FPL). Setting the low-income threshold comfortably above the official poverty level allows us to capture a large number of families with children that may be experiencing many hardships and are struggling to balance work and family responsibilities.¹ In addition to focusing on low-income families, we also compare low-income families with middle-income families (those with incomes between two and three times the FPL).

Rather than using the official definitions of “income” and poverty thresholds, we used modified definitions that better capture the resources and needs of low-income families. Most published work and federal statistics define income as gross money receipts including earnings, unearned income such as interest, and cash transfers, and excluding taxes and in-kind transfers.² Gross income, however, does not fully capture the resources available to low-income families. Working families must pay payroll taxes; conversely, they may receive substantial tax credits. In addition, low-income families may receive near-cash assistance through the Food Stamp Program, which is considered an in-kind transfer. Consequently, we discuss net income, which is gross income adjusted for federal and payroll tax liabilities (including negative liabilities, or rebates, due to refundable credits) and the reported cash value of food stamps.

Poverty thresholds are based on the number and ages of individuals living in the family. The family unit we are trying to capture is the group of individuals who can be relied on to help each other on a daily basis, those who share resources and can be

¹ There is considerable debate about how well the official poverty measure captures a family’s needs. For more information see Ruggles (1990) and National Research Council (1995).

² Gross income refers throughout to the sum of all money income received in the preceding calendar year. Sources of income include money wages or salary; net income from self-employment; Social Security; Supplemental Security Income; public assistance or welfare payments; interest and dividends, income from estates or trusts, net rental income, veterans payments, unemployment insurance benefits, or worker’s compensation; pensions; alimony or child support; regular contributions from persons not living in the household; and other periodic income. Amounts that are reported from the receipt of vouchers or coupons from the welfare office to pay for special expenses and food stamps are not included in the calculation of gross income.

expected to do so for some time. So we do not include everyone in the household (since these may include roommates or boarders who have no real social bond and do not share resources). We opt instead for the next-most inclusive definition, called the social family,³ which incorporates all related individuals living together, even if the relationships exist only through other family members (i.e., there is no direct relationship). While this definition results in smaller groups than a household-level analysis, it produces families larger than those identified in the Current Population Survey or by any concept of nuclear families.

For some analyses, we define family types based on the marital status of the head and the number of adults in the social family. Families with one adult are called “single-parent families.” Families with two married adults are called “married-couple families.” “Multiple-adult families” include families with two cohabiting adults, three-generation families, or more complex arrangements with more than two adults present.

Finally, because recent policy discussions focus on helping working families, we also divide our low-income families by work status. We break families into three groups: high-work, moderate-work, and low-work. We define families as high-work if any adult reports at least 1,800 hours of work in the prior year—approximately equal to 35 hours of work a week for 52 weeks in the year. We make this choice because we expect that the benefits associated with full-time, full-year work could make these families quite different from families where multiple adults working part-time achieve the same number of total hours. We classify families as moderate-work if adults average at least 1,000

³ The NSAF “social family” is more inclusive than the CPS “family.” The social family includes not only married partners and their children, but also unmarried partners, all their children, and members of the extended family (anyone related by blood, marriage, or adoption to the adult answering questions about children, his or her spouse or partner, or their children).

hours or the total hours worked is at least 1,800 hours, but no adult reports 1,800 hours of work in the prior year. Families that do not fulfill either criteria are low-work families.

For a single parent, the categories of labor force attachment have straightforward interpretations of full-time, part-time, or less than part-time. For families with two or more adults, the definition of high-work requires at least one full-time worker.

Consequently, a family with two adults each working 1,200 hours a year is a moderate-work family, but a family with one adult working 1,900 hours a year and one not working is a high-work family, even though the family with two workers is providing more total hours to the labor market. Thus, this definition places a premium on full-time, full-year work, reflecting the fact that full-time, year-round workers are more likely to be eligible for employer-sponsored benefits and more likely to experience wage growth than part-time or intermittent workers.

Throughout, statistics are reported weighted by respondent, the most knowledgeable adult (MKA) about children in the family, so they are roughly representative of the 39.7 million adults who were responsible for coresident children in the United States in 2001. Of these, 32.1 million were in high-work families, 2.5 million in moderate-work families, and 5.1 million in low-work. Of those 39.7 million MKAs (represented by 28,253 respondents in the NSAF), 13.1 million were in low-income families (represented by 9,704 respondents in the NSAF). In most families (98% of families with children), there is one MKA, so these figures are roughly representative of the number of families with children in the United States.

In the following sections, we first describe the population of low-income families with children. We then assess their sources of income and their expenses. Finally, we

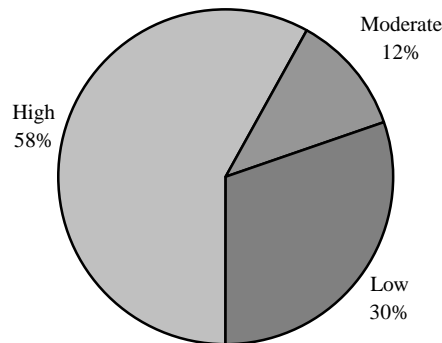
compare their incomes and expenses and analyze subgroups of the low-income population.

Characteristics of Low-Income Families

About one-third of all families with children have incomes below 200 percent of the federal poverty level. The majority of these low-income families are strongly attached to the labor market. Figure 1 shows that 58 percent of low-income families have at least one full-time, full-year worker and are considered high-work families. About 30 percent of families are low-work (families in which the adults combine to work less than 1,800 hours a year and each adults works less than 1,000 hours on average). The remaining 12 percent are moderate-work families.⁴ Among families that are not low-income, 92 percent are high-work, 4 percent are moderate-work, and 4 percent are low-work.

⁴ The size of the low-income working population is quite sensitive to the population considered (e.g., workers v. families), the precise definition of “low-income”, and the amount of work effort required to be considered working (e.g. \$1 in annual earnings versus full-time, full-year employment). For example, Schiller (1992) finds that only 2.5 percent of full-time, full year workers are poor while others find poverty rates that are twice as high when considering individuals working or looking for work for at least half the year (e.g., Gardner and Herz 1992; Hale 1997; Klein and Rones 1989; Mosisa 2003). Raising the income threshold above the official poverty line further increases the size of the low-income working population (e.g., Kim 1998; Schwarz and Volgy 1992). Finally, studies that consider all the individuals living in low-income families with a working family member find even higher proportions of the population in working low-income families, e.g. Acs and Nichols (2005); Acs, Ross Phillips, and McKenzie (2000, 2001); and Waldron, Roberts, and Reamer (2004).

Figure 1. Family Work Attachment for Low-Income Families with Children



Note: See text for definitions of Work and Income categories.
Source: National Survey of America's Families, 2002.

Lower-income families experience significantly higher levels of material hardship than families just one rung farther up the economic ladder—families with incomes between two and three times the federal poverty level. Table 1 shows that low-income families are nearly twice as likely as middle-income families to report cutting or skipping meals or not being able to pay for food (“food insecurity”), half again as likely to miss rent, mortgage, or utility payments (“housing insecurity”), and twice as likely to lack health insurance as middle-income families. Low-income families are also more likely to put off needed medical care due to financial hardship.⁵

⁵ A family is food insecure if it reported cutting or skipping meals due to lack of money, it worried food would run out before it got money to buy more, or the food bought just didn't last and it didn't have money to get any more, at any point in the prior 12 months. A family is housing insecure when the MKA reports there was a time in the prior 12 months when he or she was unable to pay the mortgage, rent, or utility bill in full because of lack of money, not including occasional cases where the respondent forgot to pay the mortgage, rent, or utility bills, and not including late payments that were paid in full within the usual 10- to 15-day grace period. A family is uninsured if the MKA has no health insurance at the time of the survey (not defined as any period of uninsurance in the prior year, nor as any lack of insurance looking across multiple individuals). A family put off needed care if anyone in the family postponed medical care last year for lack of health insurance or money.

Table 1. Economic Hardship Rates (%) by Work Status				
	High	Moderate	Low	All
Low-Income				
Food insecurity	27.6***	40.5	38.8***	32.5
Housing insecurity	28.2***	40.5*	35.5***	31.8
Uninsured	35.9**	41.4***	31.7**	35.3
Put off needed care	8.6**	13.8**	8.7	9.2
Middle-Income				
Food insecurity	16.1***	24.0***	23.6***	17.1
Housing insecurity	18.9***	35.5	26.7**	20.5
Uninsured	16.1***	18.3***	32.4	17.2
Put off needed care	6.3**	10.0	9.9	6.7
<i>Note:</i> Significance tests in the first panel (low-income families) are across work category: tests for the difference in proportions, for the first column high vs. moderate, second column moderate vs. low, and third column low vs. high (one star indicates significance at the 90% level, two 95%, and three 99%). Significance tests in the second panel (middle-income families) are across income category, testing difference between low-income and middle income within each work category. See text for definitions of work and income categories. <i>Source:</i> National Survey of America's Families, 2002.				

Work status does affect economic hardships even among low-income families. For example, high-work, low-income families are less likely to experience food and housing insecurity than moderate- and low-work, low-income families (table 1). But even high-work, low-income families experience more hardship than middle-income families. It is also important to note the differences in the hardships experienced by low-income families with different levels of work effort are not necessarily due to differences in work but are also influenced by differences in the average characteristics of families across work status groups.

We hone in on the characteristics of low-income families by work status to see what distinguishes high-work, low-income families from other low-income families. We also compare high-work, low-income families with their middle-income counterparts to identify factors that might contribute to their lower economic positions. Keep in mind

that the differences in the characteristics of low- and middle-income families do not necessarily *cause* or explain the differences in their economic status and may themselves result from differences in work and income. For example, more single-parent families may be low-income than married-couple families. The lack of a second potential earner may contribute to this difference, but it is also possible that the inability of two parents to achieve middle-income status may lead the couple to break up. Nevertheless, understanding the how families differ by work and income status is a useful exercise.

Differences among Low-Income Families by Work Status

There are many important differences that set high-work, low-income families apart from other low-income families. The most striking revolve around family structure. As table 2 shows, high-work, low-income families are far less likely to be headed by a single parent living alone than are moderate- and low-work, low-income families (22 percent compared with 62 and 39 percent, respectively). This suggests that having two or more adults in a family greatly enhances the chances that at least one adult will work full-time.

The number of children in a family likely affects the family head's ability to work, and one might expect that low-income families with more children would be less likely to be high-work families than those with fewer children. Table 2 shows this is not the case. High-work, low-income families are less likely to have only one child than moderate- and low-work, low-income families; they are also more likely to have large families with three or more children.

The educational attainment of family heads differs between high- and low-work, low-income families: nearly two in five low-work, low-income families is headed by a high school dropout, compared with just over one in four high-work families. But the

educational attainment of high- and moderate-work families is very similar. Thus, schooling differences cannot explain the difference between part-time and full-time work among low-income families. They may, however, help explain why some low-income families manage to maintain at least steady part-time work while others work erratically or not at all.

Table 2. Characteristics of Low-Income Families by Work Status				
	Percent in Category			
	High	Moderate	Low	All
Family Type				
Single parent alone	21.7***	62.2***	38.6***	31.5
Married couple	45.9***	19.3*	23.5***	36.0
Other adults present	32.4***	18.6***	37.8***	32.4
Number of Children				
One	24.2***	36.3	34.6***	28.7
Two	35.8*	31.6	33.1	34.5
Three or more	39.9**	32.2	32.3***	36.7
Education of Head				
HS dropout	27.6**	20.8***	39.1***	30.3
HS grad (or GED)	39.1	43.4***	33.9***	38.0
Some postsecondary	25.4	28.5***	20.9***	24.4
College grad	7.9	7.3	6.1**	7.3
Race of Head				
White	59.4**	53.6**	45.6***	54.5
Black	18.7***	28.2	28.7***	22.8
Hispanic	19.0**	14.6	16.7	17.8
Other	2.9	3.7***	8.9***	4.8
Immigrant Status of Head				
US-born citizen	68.6***	79.7	75.5***	72.0
Foreign-born, naturalized US citizen	8.9***	5.1	6.9**	7.8
Foreign-born, noncitizen	22.6***	15.2	17.5***	20.2
Age of Head				
18–29	25.0***	35.5**	28.8**	27.4
30–39	45.5**	38.8	34.4***	41.3
40–49	23.6	20.1*	25.0	23.6
50+	5.9	5.6***	11.8***	7.7
<i>Note:</i> Significance tests are across pairs of work categories: for the first column, high vs. moderate; second column, moderate vs. low; and third column, low vs. high (one star indicates significance at the 90% level, two 95%, and three 99%). See text for definitions of work and income categories. <i>Source:</i> National Survey of America's Families, 2002.				

The racial and ethnic composition of low-income families varies by work status as well, with the most consistent differences appearing between high- and low-work

families. For example, of every ten high-work, low-income families, six are headed by whites and two by blacks. In contrast, among low-work, low-income families, almost five in ten are headed by whites and more than one in four by blacks.

Immigration status also plays a role. While eight in ten moderate- and low-work, low-income families are headed by U.S.-born citizens, only seven in ten high-work, low-income families are headed by U.S.-born citizens. This means 30 percent of high-work, low-income families are headed by immigrants, and interestingly, over two-thirds of these immigrant families are headed by noncitizens. Language barriers or immigration status may confine these family heads to low-wage jobs and hinder their upward mobility.

Finally, high-work, low-income families are more likely to be headed by a prime-age worker (age 30–49) than moderate- and low-work, low-income families. Almost 70 percent of high-work, low-income families are headed by a prime-age individual, compared with 58.9 percent of moderate work, low-income families and 59.4 percent of low-work, low-income families. Compared with their high-work counterparts, moderate-work, low-income families are more likely to have heads under 30. Their lower work levels may be related to age, with some adults in these families combining work with some training or school. Low-work, low-income families are more likely to be headed by someone over age 50 than high-work, low-income families, suggesting that age and infirmity may account for their low work status. Indeed, about 16 percent of the heads of high-work, low-income families report being in fair or poor health compared with about 25 percent of those in moderate-work families.

Differences between High-Work, Low- and Middle-Income Families

Next, consider what distinguishes low-income families from middle-income families. Here we focus exclusively on “high work” families. Middle-income families have incomes between two and three times the federal poverty level; these families have achieved a degree of economic security and well-being that eludes their lower-income counterparts.

High-work, low-income families are more likely to be headed by single parents than high-work, middle-income families. The difference, though significant, is modest, 21.7 versus 15.7 percent (table 3). Similarly, high-work, low-income families are less likely to be headed by a married couple than high-work, middle-income families, 45.9 versus 55.1 percent. The fact that high-work, middle-income families are more likely to have two or more adults and two married adults than high-work, low-income families may account for some income differences between the two groups.

High-work, low-income families tend to have more children than high-work, middle-income families. Indeed, about two in five high-work, low-income families have three or more children compared with about one in four high-work, middle-income families. This is not surprising—if the adults in the two families work the same jobs at the same wages, the families will have the same gross income but the larger family will have greater needs and thus be more likely to be low-income.

Table 3. Characteristics of High-Work Families by Income-to-Needs Category		
	Low-income	Middle-income
Family Type		
Single parent alone	21.7%	15.7% ***
Married couple	45.9%	55.1% ***
Other adults present	32.4%	29.2% **
Number of Children		
One	24.2%	36.6% ***
Two	35.8%	37.3%
Three or more	39.9%	26.0% ***
Hourly Wage of Head	\$9.59	\$15.01 ***
Education of Head		
HS dropout	27.6%	11.3% ***
HS grad (or GED)	39.1%	37.9%
Some postsecondary	25.4%	32.7% ***
College grad	7.9%	18.0% ***
Race of Head		
White	59.4%	74.3% ***
Black	18.7%	14.9% ***
Hispanic	19.0%	8.9% ***
Other	2.9%	1.9% *
Immigrant Status of Head		
US-born citizen	68.6%	85.0% ***
Foreign-born, naturalized US citizen	8.9%	6.9% *
Foreign-born, noncitizen	22.6%	8.0% ***
Age of Head		
18–29	25.0%	18.2% ***
30–39	45.5%	39.5% ***
40–49	23.6%	35.5% ***
50+	5.9%	6.9%
<i>Note:</i> Significance tests are across income-to-needs categories (one star indicates significance at the 90% level, two 95%, and three 99%). Low-income families have gross income less than twice the federal poverty level (FPL), middle-income have at least twice but less than three times the FPL. <i>Source:</i> National Survey of America's Families, 2002.		

But the differences between high-work, low-income and high-work, middle-income families are not confined to family type and family size. The heads of high-work,

low-income families are far less educated than their counterparts in middle-income families. While 27.6 percent of high-work, low-income families are headed by a high school dropout, only 11.3 percent of high-work, middle-income family heads failed to earn a high school degree. Similarly, only 7.9 percent of high-work, low-income family heads are college graduates, compared with 18.0 percent of high-work, middle-income families.

Indeed, among high-work families, the difference in income between low- and middle-income families is not due to work effort, nor is it simply a function of family size. Family heads of middle-income families have more education and earn higher hourly wages than the family heads of low-income families. As table 3 shows, the average hourly wage rate for the heads of high-work, low-income families is \$9.59, compared with \$15.01 for the heads of high-work, middle-income families.

There are also significant and substantial differences in the racial, ethnic, and immigration status of high-work, low- and middle-income families. Nearly three-quarters of high-work, middle-income families are headed by non-Hispanic whites, compared with nearly three-fifths of high-work, low-income families. Among high-work families, those with low incomes are more likely to have a Hispanic head of household than middle-income families, 19.0 versus 8.9 percent. Consistent with the findings on race and ethnicity, high-work, low-income families are less likely to be headed by a U.S.-born citizen than high-work, middle-income families (68.6 versus 85.0 percent). And high-work, low-income families are almost three times more likely to have noncitizen heads than their middle-income counterparts (22.6 versus 8.0 percent).

The heads of high-work, low-income families tend to be younger than the heads of high-work, middle-income families. One-quarter of high-work, low-income families are headed by someone under the age of 30, compared with 18.2 percent of high-work, middle-income families. Thus, to a certain extent, low-income status among high-work families may be due in part to youth and inexperience. However, the vast majority of high-work, low-income families (75.0 percent) are headed by someone age 30 or over; it is unlikely that these families will naturally move up the income scale as their heads age and gain experience.

This comparison of the socioeconomic characteristics of high-work, low- and middle-income families offers several insights as to why some families remain low-income despite having at least one full-time, full-year worker while others achieve more economic security. First, high-work, low-income families have low incomes primarily because of low wage rates. The hourly wage rates of the heads of high-work, low-income families are only 64 percent of the wages of the heads of high-work, middle-income families. Differences in education levels, race/ethnicity, and immigration status may account for some of the wage rate differentials. Second, high-work, low-income families have more children and thus need more money in absolute dollar terms to cross the low-income threshold than their middle-income counterparts. Recall that the low-income thresholds vary by family size and larger families need more money than smaller families to gain middle-income status. Finally, high-work, low-income families are more likely to be headed by a single parent than high-work, middle-income families. The presence of a secondary worker whose earnings exceeds his or her needs could help move some high-work, low-income families up into middle-income status.

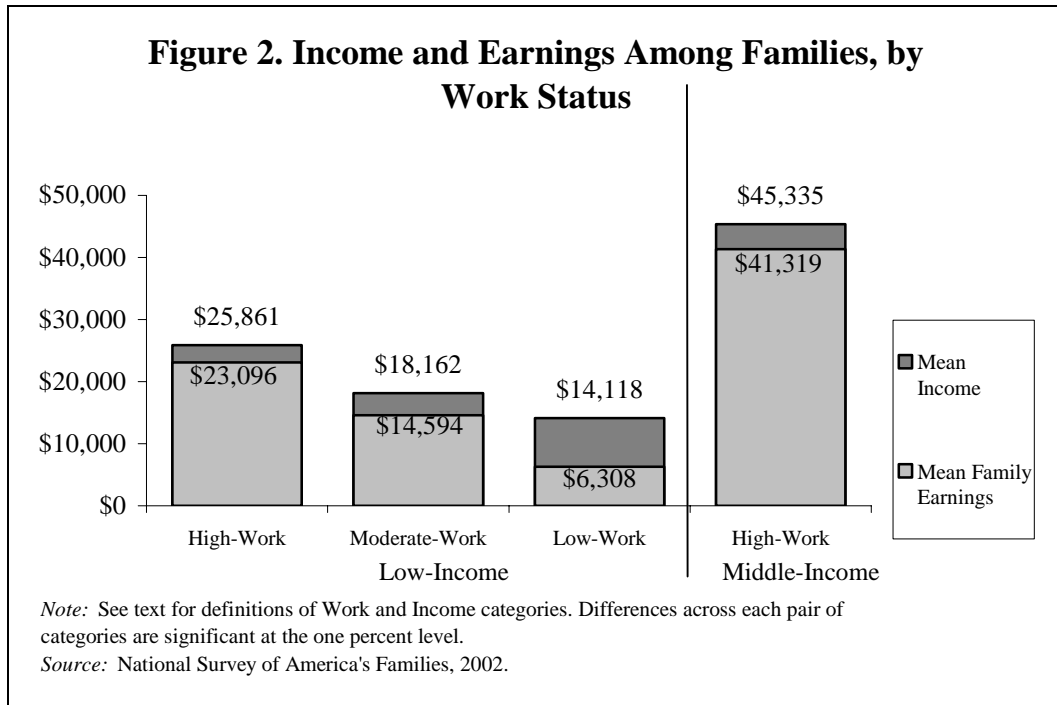
Next we take a closer look at the incomes and expenses of low-income families to better understand their sources of income and to see how effectively they can meet their expenses.

Income and Expenses of Low-Income Families

Family incomes come from many sources. We begin by assessing gross cash income—money a family receives through earnings; public cash transfer programs, including welfare or Social Security; any interest, dividends, or rent; and private cash transfers, such as child support, alimony, and gifts from family and friends. We then assess families' incomes net of taxes and food stamps (a near-cash public assistance program).

Gross Income

Income before taxes and expenses varies across low-income families in much the way one would expect. Figure 2 shows that the mean gross income of high-work, low-income families is \$25,861 in 2001. The bulk of that income (89 percent) comes from earnings. The income of moderate-work, low-income families is somewhat lower (\$18,162), and 80 percent comes from earnings. Among low-work, low-income families, income is even lower (\$14,118), and only 45 percent comes from earnings. By definition the income of high-work, middle-income families is higher than that of high-work, low-income families (\$45,335 versus \$25,861), but both groups receive a similar share of their income from earnings (about 90 percent).



Public assistance programs do not provide much cash income to working families largely because most high-work, low-income families are not poor. As a result, working families may be ineligible for many of these programs or eligible for such a small benefit that they choose not to participate. For example, only 5 percent of all low-income families with a full-time, full-year worker receive welfare. In addition, 15 percent of moderate-work, low-income families receive TANF, and 25 percent of families that do minimal or no work report receiving TANF benefits. Similarly, about one in 20 high-work, low-income families receives SSI; it is important to note that SSI is targeted at families in which someone is disabled. Nevertheless, the benefits families receive through these cash assistance programs are counted in cash income.

In-Kind Transfers

In-kind transfers such as public health insurance, food stamps, housing assistance, and WIC are more common sources of support for low-income working families than

cash assistance programs, and the value of these programs is not captured in cash income. For example, one in five high-work, low-income families receives food stamps, one in ten receives housing assistance, and just over one in five participates in government-sponsored health insurance programs including Medicaid and SCHIP. Nevertheless, these public assistance programs are targeted at families lower down the income scale than the typical high-work, low-income family. Indeed, among low-work, low-income families, half receive food stamps, a quarter receive housing assistance, and over half are enrolled in government health insurance programs.⁶

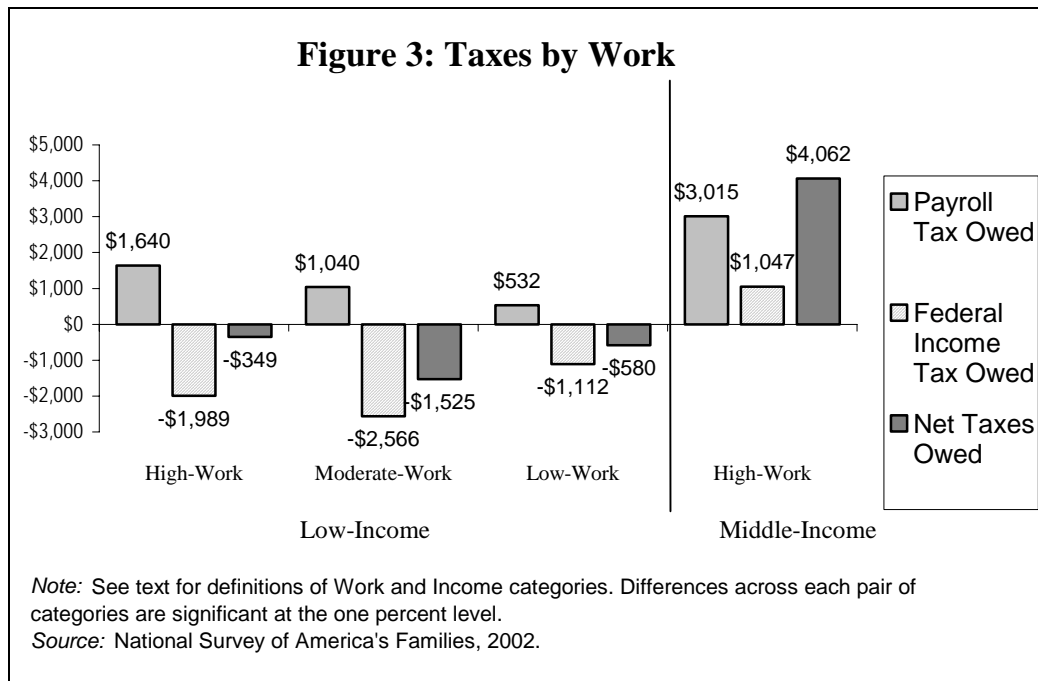
It is exceedingly difficult to place a cash value on in-kind transfers such as Medicaid; however, it is fairly straightforward to add in the cash value of food stamps to a family's income. Among families receiving food stamps, the mean annual reported benefit is \$2,440 for low-work, low-income families; \$1,972 for high-work, low-income families; and \$1,492 for high-work, middle-income families.

Taxes

Taxes play a significant role in determining families' net incomes.⁷ All working families are subject to payroll taxes, and the more they work the more they must pay. Figure 3 shows that, on average, high-work, low-income families pay \$1,640 in federal payroll taxes a year, compared with \$1,040 for moderate-work, low-income families and \$532 for low-work, low-income families. High-work, middle-income families pay an average of \$3,015 in payroll taxes.

⁶ For more detailed information on public benefits and low-income working families, see Zedlewski et al. (2005).

⁷ Taxes are computed based on family composition, income, and earnings using applicable payroll and federal income tax laws for 2001. Calculation of income tax liability relies on Feenberg and Coutts (1993).



For lower-income families, refundable tax credits such as the Earned Income Tax Credit offset payroll taxes and actually boost net income. Among low-income families, high-work families receive almost \$2,000 in net federal income tax credits, while low-work families receive over \$1,000. The biggest beneficiaries of these refundable federal tax credits are moderate-work, low-income families; they receive over \$2,500. In contrast to low-income families, high-work, middle-income families have federal tax liabilities that average over \$1,000 a year. On net, federal income and payroll taxes increase the annual gross incomes of low-income, high-, moderate-, and low-work families by \$349, \$1,525, and \$580, respectively, while they decrease the gross income of high-work, middle-income families by \$4,062.

Post-Tax, Post-Food Stamp (Net) Income

In-kind transfers from food stamps augment the incomes of low-income families, and they are particularly important for low-work, low-income families. On average, a low-

work, low-income family's net income would increase from \$14,698 to \$15,917 if food stamps are added to after tax income. In contrast, adding in food stamps would increase the net income of high-work, low-income families from \$26,209 to \$26,593 and the net income of high-work, middle-income families from \$41,273 to \$41,345. This largely reflects the fact that few high-work families receive any food stamp benefits regardless of their gross income levels.

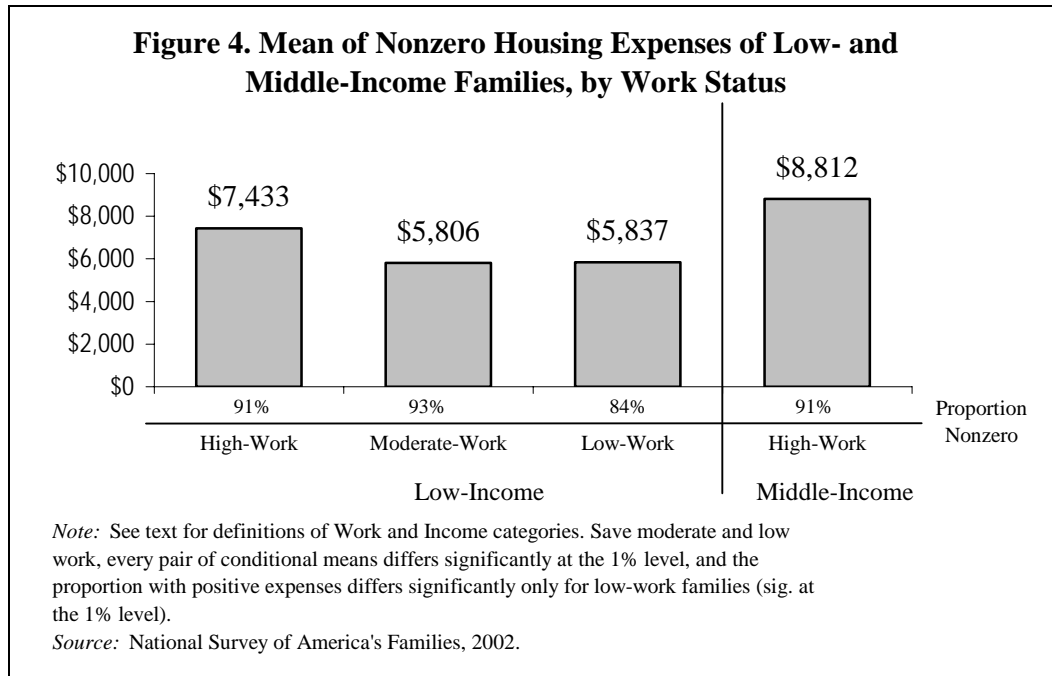
Expenses of Low-Income Working Families

Out of their net incomes (gross income adjusted for taxes and food stamps), families must meet their basic expenses; working families must also meet their work-related expenses. Reliable data on the spending patterns of low-income working families are quite limited. The NSAF contains data on three major expenses incurred by families (housing, health care, and child care), and we examine how these expenses vary by the work status and income of families with children. Spending on such other items as food and clothing can be inferred from data sources like the Consumer Expenditure Survey.

Housing

More than nine in ten high-work, low-income families pay for their own housing (figure 4). This is virtually identical to the shares of high-work, middle-income and moderate-work, low-income families paying for housing. It is only slightly higher than the share of low-work, low-income families that pays for housing. By and large, families in the NSAF that report spending nothing on housing say their home is "paid for." Other reasons for having no housing expenses include living "rent free" as guests (either with or without the owner or lessee) or receiving housing assistance that covers all shelter costs.

The share of low-income families with no housing costs in the NSAF is roughly comparable to data from the American Housing Survey. According to tabulations on published data from the American Housing Survey, 7.6 percent of all renter-occupied units with annual incomes under \$35,000 report paying no cash rent (AHS 2003, table 4.21).



Housing is the single largest expense for most families, and the amount spent on housing among those reporting expenditures varies by work status and income.⁸ High-work, low-income families spend more on housing than their moderate-work and low-work counterparts (\$7,433 versus \$5,806 and \$5,837, respectively). In turn, high-work, middle-income families spend \$8,812 on housing. Data from the Consumer Expenditure Survey (CEX) also indicate that housing costs represent the largest single expenditure for low-income families, although reported levels of income and housing expenditures are

⁸ As noted earlier, the expenses reported on the NSAF are net of government assistance—that is, if a family is receiving help paying for rent, the amount reported will be the lower amount after the government subsidy. So this analysis reflects the amount families spend *after* public help is taken into account.

somewhat lower in the CEX than in the NSAF. NSAF data indicate that high-work, low-income families spend an average of 28 percent of their pre-tax cash income on housing; moderate-work, low-income families spend 32 percent; and low-work, low-income families spend 41 percent. In contrast, high-work, middle-income families spend an average of 19 percent of their income on housing. These figures are comparable to those from the CEX that estimate families in the bottom two income quintiles spend 25 to 30 percent of their income on housing (Duly 2003) and families with incomes below 150 percent of the federal poverty level spend nearly 40 percent of their incomes on housing (Liao 2002).⁹

The U.S. Department of Housing and Urban Development's measure of housing affordability suggests that families should pay no more than 30 percent of their incomes for housing. On average, working low-income families are clearly balanced right on the edge of affordability even after public rental assistance is taken into account. As a result, they may face more frequent moves and attendant disruptions than their middle-income counterparts. In addition, the housing low-income families can afford may be of marginal or poor quality.

Assessing whether low-income working families' spending on housing is "adequate" is inherently subjective, and we cannot directly address this question. However, it may be useful to compare the spending of low-income families with the spending of middle-income families. The more the spending of low-income families lags behind the spending of middle-income families, the greater the concern about adequacy

⁹ The CEX housing measure includes the cost of utilities, furnishings, and upkeep. On average, the shelter component represents about 60 percent of total housing expenditures (authors' tabulations on CEX data reported in BLS 2004). Although the shares are similar, the income and shelter housing expenditures reported in the CEX are lower than those reported in the NSAF. Mean income in the bottom two quintiles of families in the CEX is only \$14,739 and housing expenditures for shelter are only \$4,526 (US DoL 2004).

for low-income families. High-work, low-income families spend 84 percent as much on housing as high-work, middle-income families. Keep in mind that low-income families tend to be larger than middle-income families, so their expenses have to cover more people. On the other hand, middle-income families are less likely to receive public housing assistance than low-income families.

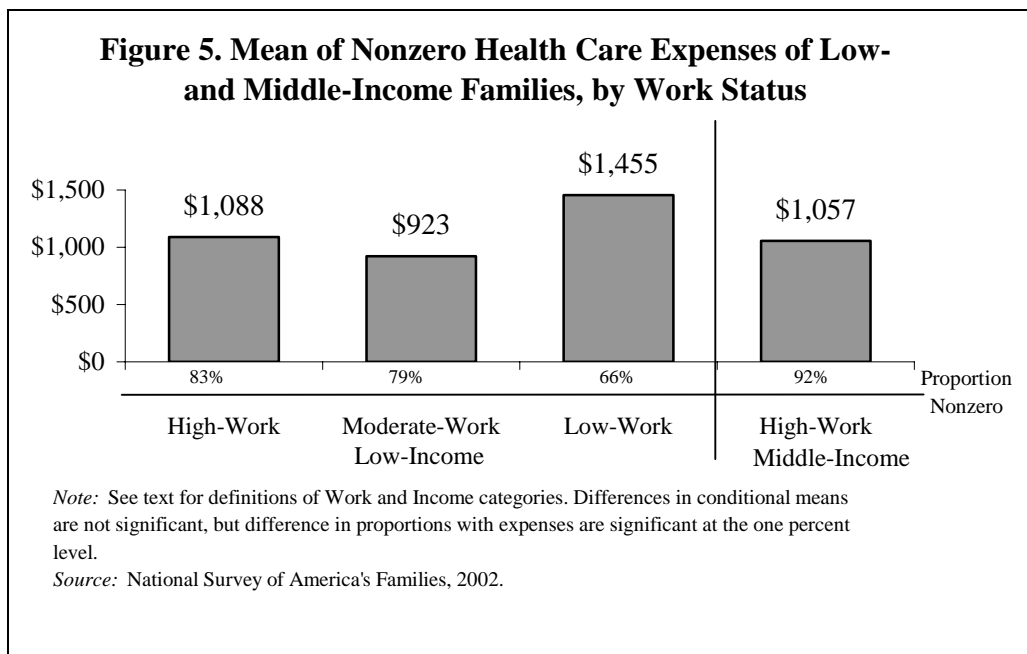
Out-of-Pocket Health Expenses

Families pay for health care in many ways. Some portion of their health care may be paid by private or public health insurance plans, and workers pay for their insurance both directly through premiums and indirectly through reduced wages. We have no information on the premiums paid by or on behalf of workers and families in the NSAF. However, we do have information on their direct out-of-pocket expenditures on health care goods and services.

Whether paying for over-the-counter or prescription drugs or meeting co-pay or deductible requirements when seeing a physician, virtually all families face some health care costs.¹⁰ About four in five high- and moderate-work, low-income families have out-of-pocket health expenses (figure 5). Among families with health care expenses, spending is somewhat higher for high-work than moderate-work families (\$1,088 versus \$923), although this difference is not statistically significant. Only two-thirds of low-work, low-income families report out-of-pocket health expenses, but those with expenses are spending more than other low-income groups, \$1,455. The high-work, middle-income group has the highest prevalence of out-of-pocket health care spending. Nine in ten high-work, middle-income families report spending on health care. Among those with health

¹⁰ Measures of out-of-pocket health care spending exclude any contributions toward health insurance premiums.

care spending, their expenditures are virtually identical to those of high-work, low-income families (\$1,057 versus \$1,088).



In general, self-reported out-of-pocket health care spending in the NSAF is slightly higher than in the Medical Expenditure Panel Survey, but for low-income working families the two data sources are comparable. Given that low-income families tend to be in worse health and are more likely to be uninsured than middle-income families, the fact that their out-of-pocket health spending is at or below the levels of middle-income families may indicate that they are forgoing some needed or preventive care.

Health spending from the NSAF, however, does not line up particularly well with the CEX. Data from the CEX indicate that the average family spent \$2,350 on health care in 2002 (BLS 2004). Families in the bottom two income quintiles (roughly equivalent to low-income families) spent a bit less, \$1,792. Health care spending in the NSAF is about

half the amount reported in the CEX, in part because NSAF spending does not include insurance premiums.

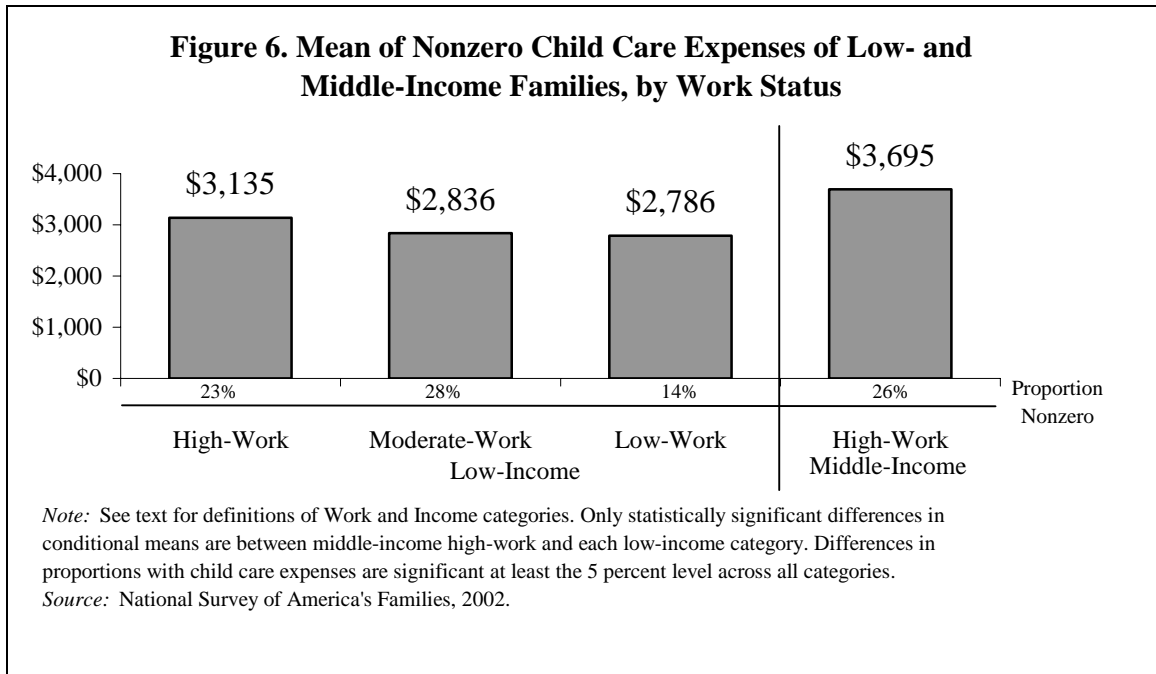
It is also important to note that health care spending varies considerably even across families with positive expenditures. Most families will have modest health expenses while a few families will have extraordinarily high expenses in any given year. In 2001 among low-income high-work families paying for some health care, the mean expenditure is about \$1,100 but the median expenditure is only \$400. In other words, meeting health care expenses is manageable for most families but challenging for a minority of families that incur unusually high costs. Even for families that fit out-of-pocket health care expenditures into their budgets, these data cannot tell us if they must forgo recommended care to do so.

Child Care

The final major expenditure category we consider is spending on child care. Understanding what child care means for low-income families by work status is challenging. For example, a low-work, low-income family may have no child care expenditures because the adults in that family are not working. However, the proximate cause of their joblessness may be their inability to afford child care. Similarly, working families may have very low or even no child care expenses because their older children no longer need care or a friend or relative provides unpaid care, but it is only because child care is inexpensive that they can “afford” to go to work.¹¹

¹¹ As with housing assistance, families that receive public subsidies for child care will report expenditures on the NSAF net of these subsidies: they will report no expenditures if the subsidy covers their expenses or lower expenditures if they have partial help (for example, a copayment). So the findings reported here are *after* families get help. Reported child care expenses are for all children under 13, so expenses for older children are not included.

Figure 6 shows that the vast majority of low-income and even middle-income families have no child care expenses. Twenty-three percent of high-work, low-income families pay for child care, compared with 28 and 14 percent of moderate- and low-work, low-income families. Twenty-six percent of high work, middle-income families pay for child care.¹²



At first, these proportions may seem low to those acquainted with research on child care. Keep in mind that child care research focuses on families that need child care—for example, families with children under the age of 13 and employed mothers—and does not necessarily distinguish between low-income and higher-income families. This paper focuses on low-income families but includes families in which all children are teenagers and families in which the father works full-time while the mother provides care to the children. When comparing similar populations from the NSAF and other data

¹² Giannarelli and Barsimantov (2000) report that 40 percent of low-earning working families with children under age 12 pay for child care in 1997. Here we consider all families with children under age 17; thus, we expect to find a lower share of families paying for child care than do Giannarelli and Barsimantov (2000). Nonetheless, our findings are broadly consistent with theirs.

sources such as the Survey of Income and Program Participation (SIPP), the findings are quite similar. For example, SIPP data suggest that 33 percent of low-income families with children under age 15 are paying for child care (Smith 2002), a figure only slightly higher than the roughly 25 percent found in the NSAF. Further, the NSAF data indicate that in low-income single-parent families where the one adult works full-time, full-year, 44 percent pay for care, a figure comparable to the 47 percent of employed mothers with children under age 15 who report paying for care in the SIPP (Smith 2002).

For those who report paying for child care, the expense represents a significant share of their incomes. High-work, low-income families that pay for child care spend \$3,135 a year on average, or 12 percent of net and gross incomes. Moderate- and low-work, low-income families that pay for child care spend about \$2,800 a year on child care, or 14 and 18 percent of net incomes, and 16 and 20 percent of gross incomes. These findings are broadly consistent with Giannarelli and Barsimantov (2000), who report that low-earning families with children under age 12 spent about \$2,600 dollars, or 16 percent of their earnings, on child care in 1997. The findings are also consistent with information in the SIPP (Smith 2002). Keep in mind that the child care expenses reported here are net of any subsidies received and include payments for part-time care, such as after-school programs for older children.

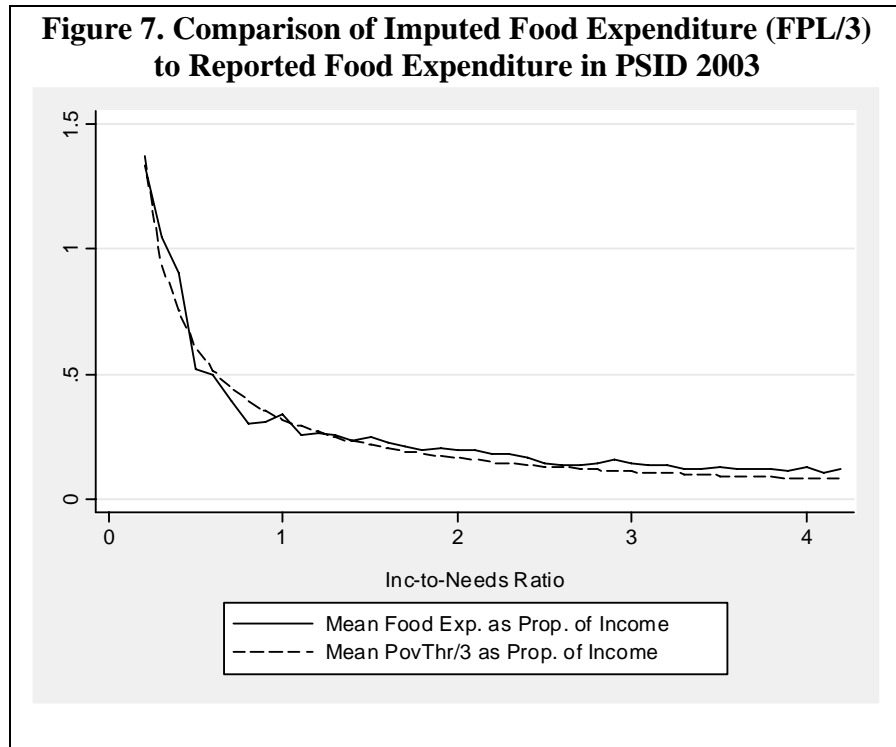
High-work, middle-income families with child care expenses spend an average of \$3,695 a year on child care, representing about 8 percent of net income and 9 percent of gross income. That high-work, middle-income families are spending more on child care than high-work, low-income families may indicate that low-income families are more

likely to receive help to pay for child care, use different child care arrangements, use lower-cost (and potentially lower-quality) care, or some combination of these factors.

Other Expenses

The NSAF does not estimate spending on the full gamut of basic expenses facing low-income families, but these expenses can be inferred from other sources. The most significant additional basic expense is spending on food. We use a very simple method to impute food expenditures: because the poverty level equals three times a family's basic food needs and adjusts for variation in family size, we assign each family food expenses at one-third of its poverty-level income. For a family of four, this means spending about \$6,000 a year on food to meet its nutritional requirements; data from the CEX indicate that, on average, families spent \$5,375 on food in 2002 (U.S. Department of Labor 2004).

To further assess how well one-third of the federal poverty level (FPL/3) measure compares with actual expenditures, we compare reported food expenditures from 2003 PSID data with our computed FPL/3 measure of food expenditures. Figure 7 shows that mean food expenditure and FPL/3 are very close, with no obvious bias toward over- or underestimation below twice the poverty level. Further, the imputed measure of food expenditures is within 20 percent of the mean reported measure for almost every category.

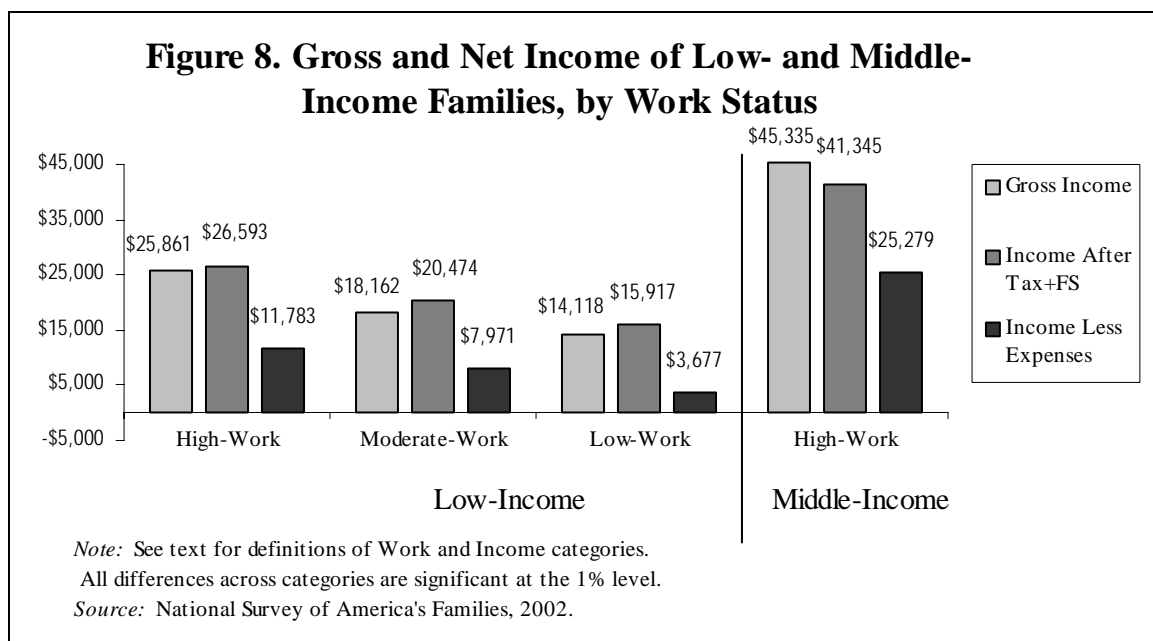


Other major expenses for families include clothing and transportation. According to data from the CEX in 2002, families in the bottom 40 percent of the income distribution spent \$1,061 on apparel and \$4,149 on transportation (U.S. Department of Labor 2004). Thus, even after accounting for housing, child care, health care, and food spending, families still must spend over \$5,000 a year on average to meet the balance of their expenses.

Making Ends Meet? Comparing the Income and Expenses of Low-Income Families

Taking taxes, food stamps, and observed expenditures on housing, health care, child care, and imputed food expenses into account, we can assess how much income low-income working families have left to meet their other expenses, including clothing, utilities, and transportation costs. Figure 8 compares the average gross, net, and post key-expense incomes of low- and middle-income families by work status. On average, after

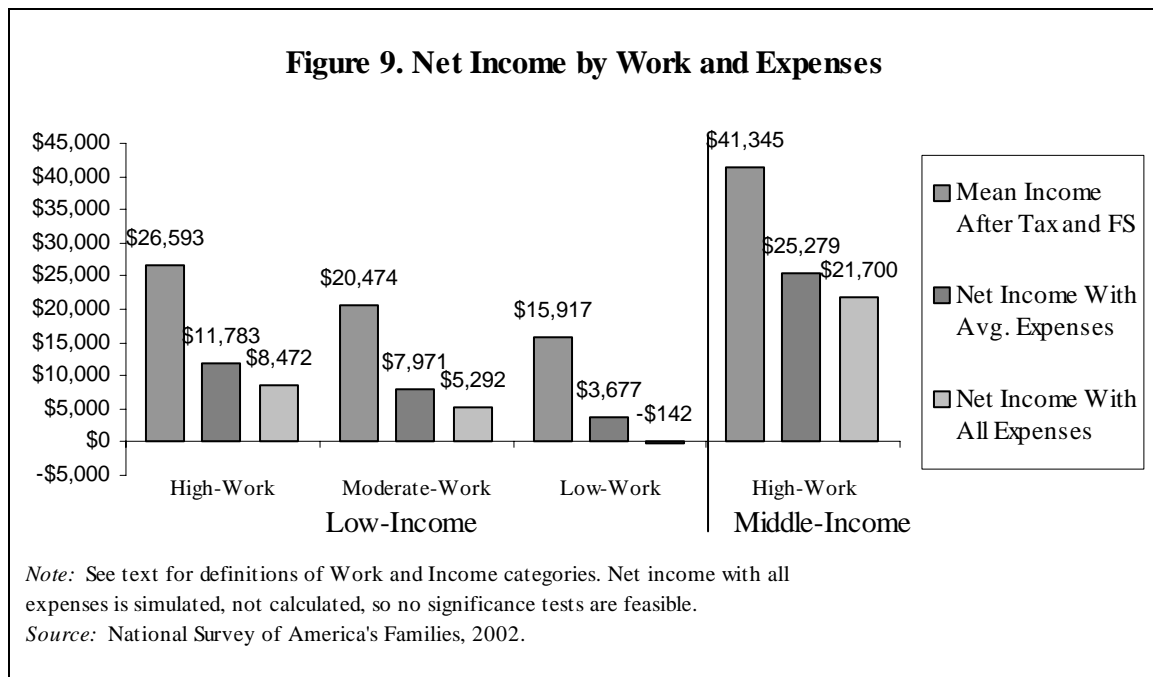
taxes, food stamps, and key expenses, high-work, low-income families have \$11,783 of their \$25,861 gross income left to meet their additional expenses. Moderate- and low-work, low-income families have \$7,971 and \$3,677 left, respectively, to meet these expenses. High-work, middle-income families have \$25,279 left over to meet their additional expenses. Indeed, the difference in income for additional expenses between high-work, low- and middle-income families is quite large: \$13,496, or almost 15 percent more than the after-expense income of high-work, low-income families.



Low-income families can expect to pay another \$5,000 for clothing and transportation expenses based on spending patterns from the CEX. These additional basic expenditures essentially wipe out the remainder of income in moderate- and low-work, low-income families. High-work, low-income families fare somewhat better; they still have about \$7,000 left over to spend on other items such as utilities, purchase and repair of appliances and household furnishings, health insurance premiums, children's needs

(including educational expenses), and personal care products. Even after these expenses, these high-work, low-income families may have some money left over for savings.

Families that do not incur certain expenses will be that much better off than average, while families that must pay for housing or child care will be worse off. Consider the after-expense income available to the average family (some of which have expenses, and some of which do not), compared with the hypothetical after-expense income of families with positive expenditures for all four major categories we consider: housing, health care, child care, and food. Figure 9 compares after-expense income by work and expenses, assuming the same amount of net income, and subtracting the mean conditional on positive expenses within each category of expense.



For high-work, low-income families, those who must pay for all these items will have \$8,472 in after-expense income—less than the after-expense income available to the average high-work, low-income family. Having all these significant expenses tightens the budgets of these families considerably. However, even after allocating money for

clothing and transportation, these families still have about \$3,500 left to pay for health insurance premiums, personal care products, and other items. In contrast, if moderate-work, low-income families must incur housing, health care, child care and food expenses, their after-expense incomes fall to \$5,292, and clothing and transportation expenses could more than exhaust their incomes. Low-work, low-income families cannot even meet the four basic expenses considered here if they must spend the average amounts that families incurring these expenditures are spending.

This analysis of the incomes and expenditures of low-income families leads to several interesting conclusions. First, the majority of low-income families without at least one full-time worker have very limited net incomes, and their expenditures exhaust or even exceed their incomes. In contrast, low-income families with at least one full-time worker (high-work families) have incomes that are, on average, roughly in line with their major expenses in any given year. It is also important to note that the average high-work, low-income family is in a far more precarious position than a family just one rung up the economic ladder.

Even if the incomes of low-income families with a full-time, full-year worker line up with their expenses, on average, it does not mean they are fully able to meet their needs. As the data on food and housing insecurity and forgone medical care suggest, some families may achieve the balance in expenditures and incomes by trimming expenditures that middle-income families would see as non-discretionary. And even for families that do meet their bills, the quality of what they buy may be seriously compromised: their child care spending may be lower than needed to purchase good-quality care for their children, and the quality of their housing may be questionable.

Finally, these assessments are based on group averages. Even though high-work families—those with at least one full-time worker—have enough money on average to make ends meet in a single year, certain subsets of these families may be falling short. In the next section, we consider how the circumstances of high-work, low-income families vary by family type, comparing low-income, high-work families headed by single parents, married-couple families, and families with other adults present. Then we consider subgroups that may be particularly at risk for financial hardships: (1) high-work families with incomes below the poverty level; (2) families with children under age 6; and (3) families headed by a foreign-born parent.

Income and Expenses of High-Work, Low-Income Families by Family Structure

Single parents living alone tend to have very different patterns of work, income, and expenses from their married or cohabiting counterparts. Table 4 shows that work attachment varies significantly by family structure. Married couples are significantly more likely than both other groups to have at least one full-time, full-year worker (high-work category), and significantly less likely to dip below part-time into the low-work category. Families with other adults present have similar rates of moderate work attachment to married couples, and similar rates of low work attachment to single parents living alone. More than a third of single parents living alone exhibit low work attachment, and about four in ten have at least one full-time, full-year worker.¹³

¹³ Approximately 16 percent of families in our sample are single-parent families, 54 percent are married-couple families, and the remaining 30 percent are classified as multiple-adult families. Among low-income families, the sample is nearly equally divided: 31 percent single-parent, 37 percent married-couple, 33 percent multiple-adult.

Table 4. Family Work Attachment by Family Structure, Low-Income Families with Children				
	Single parent alone	Married couple	Other adults present	All low-income
High	39.5% ***	73.4% ***	57.5% ***	58.2%
Moderate	22.5% ***	6.2%	6.5% ***	11.6%
Low	38.0% ***	20.5% ***	36.0%	30.3%
<i>Note:</i> Significance tests for the first column test single vs. married, second column married vs. other, third column other vs. single (all within low-income high-work). One star indicates significance at the 90% level, two 95%, and three 99%. See text for definitions of work, income, and family structure categories. <i>Source:</i> National Survey of America's Families, 2002.				

Table 5 demonstrates that the income and expenses of high-work, low-income families vary across family types, with single-parent families having the lowest annual gross incomes (\$19,773) and other multiple-adult families having the highest (\$29,063). Married-couple families have gross incomes that are lower than those of other multiple-adult families (\$26,337). Because single-parent families tend to be smaller than two-parent and other multiple-adult families, differences in family income relative to needs across family types are not quite so large. While high-work, low-income single parent families have lowest income-to-needs ratios of all three family types (1.32), they are only slightly worse off than two-parent and other multiple-adult families (1.37 and 1.33, respectively). For all high-work, low-income families, the bulk of their income comes from earnings, ranging from 84 percent for other multiple-adult families to 94 percent for two-parent families.

Table 5. Income and Expenses of High-Work Low-Income Families with Children by Family Type

	Single parent	Married couple	Multiple adults	All
Mean Gross Income	\$19,773 ***	\$26,337 ***	\$29,063 ***	\$25,861
Mean gross income to needs	132% **	137%	133%	135%
Mean earnings	\$17,354 ***	\$24,838	\$24,287 ***	\$23,096
Mean federal income tax	-\$2,743 ***	-\$1,800	-\$1,776 ***	-\$1,989
Mean payroll tax	\$1,264 ***	\$1,649 ***	\$1,868 ***	\$1,640
Mean Net Taxes Paid	-\$1,480 ***	-\$151 **	\$91 ***	-\$349
Mean Food Stamps	\$609 ***	\$262 **	\$413 **	\$384
Percent with food stamps	29% ***	14% ***	21% ***	19%
Mean positive food stamps	\$2,094	\$1,825	\$2,008	\$1,972
Mean Net Income after Tax and FS	\$21,862 ***	\$26,750 ***	\$29,385 ***	\$26,593
Mean Housing Expenses	\$5,308 ***	\$7,251	\$6,915 ***	\$6,736
Percent with housing expenses	93% *	90%	89% **	91%
Mean positive housing expenses	\$5,689 ***	\$8,034	\$7,733 ***	\$7,433
Percent with housing assistance	22% ***	4% ***	8% ***	9%
Mean Health Expenses	\$536 ***	\$1,092	\$865 ***	\$902
Percent with health expenses	81% *	85% **	80%	83%
Mean positive health expenses	\$662 ***	\$1,278	\$1,077 ***	\$1,088
Mean Child Care Expenses	\$1,355 ***	\$523	\$557 ***	\$708
Percent with child care expenses	44% ***	16%	18% ***	23%
Mean positive child care expenses	\$3,105	\$3,191	\$3,107	\$3,135
Mean Imputed Food Expenses	\$5,105 ***	\$6,474 ***	\$7,320 ***	\$6,465
Mean Net Income after Expenses	\$9,558 ***	\$11,410 ***	\$13,728 ***	\$11,783
<i>Note:</i> Significance tests for the first column test single vs. married, second column married vs. other, third column other vs. single (all within low-income high-work). One star indicates significance at the 90% level, two 95%, and three 99%. See text for definitions of work, income, and family type categories.				
<i>Source:</i> National Survey of America's Families, 2002.				

Among high-work, low-income families, single-parent families are more likely than other families to receive in-kind government supports. Nearly three in ten high-work, low-income single-parent families receive food stamps, and among recipients, the value of the food stamps exceeds \$2,000 annually. In contrast, only one in seven high-work, low-income married parent families receives food stamps, and the average annual

benefit is \$1,825. Other multiple-adult families fall between single- and married-parent families, with 21 percent receiving food stamps and their average annual benefit just over \$2,000. Similarly, single-parent high-work, low-income families are more likely to receive housing assistance (22 percent) than married and other multiple-adult families (4 and 8 percent, respectively).

Married-couple and other multiple-adult high-work, low-income families have virtually no net tax liability. Their payroll taxes are almost exactly offset by federal earned income and other credits. On net, other multiple-adult high-work, low-income families must pay \$91 in taxes while married-couple families receive a credit of \$151. In contrast, single-parent high-work, low-income families receive \$2,743 in federal income tax credits and owe \$1,264 in payroll taxes. On net, they come out almost \$1,500 ahead after these taxes are considered.

Because of taxes and in-kind transfers, the apparent income disadvantage of single-parent high-work, low-income families compared with married-couple and other multiple-adult families is greatly diminished. Further, because their income is used to meet the needs of fewer people, single-parent high-work, low-income families are not necessarily worse off than other families with children in terms of net income.

Expenses vary by family type as well. Although virtually all families incur housing expenses, the expenses of single-parent families are markedly lower than those of other families. Single-parent high-work, low-income families with housing expenses pay on average only \$5,689 a year, compared with \$8,034 for married couples and \$7,733 for other multiple-adult families (see table 5). It is unclear whether the lower housing

expenses reflect greater receipt of housing subsidies, the use of smaller dwellings, or differences in housing quality.

More than four in every five high-work, low-income families have some out-of-pocket health care expenditures regardless of family type. Single-parent families have the lowest level of out-of-pocket health spending at \$662 a year. Married couples have the highest at \$1,278, and other multiple-adult families with health expenses spend an average of \$1,077 a year.

All families paying for child care pay about the same amount: about \$3,100 a year. However, there are large differences in the share of families actually paying for child care across family types. Less than 20 percent of married-couple and other multiple-adult high-work, low-income families pay for child care. In contrast, 44 percent of single-parent high-work, low-income families incur child care expenses.

We assume all families incur food expenses, and the variation across family types solely reflects differences in family size. The expenses, especially food-related expenses, for married-couple and other multiple-adult families are likely higher than those for single-parent families as the former have more members on average.

Taking housing, health care, child care, and food expenses along with taxes into account, single-parent high-work, low-income families have \$9,558 after expenses to pay for clothing, transportation, and other expenses. Married couples have \$11,410 left over and other multiple-adult families have \$13,728 left (table 5).

Based on the expenditure patterns discussed in the previous section, these data suggest that on average high-work, low-income families regardless of family type have incomes approximately in line with their expenses. This points out the need to examine

the barriers to work for single-parent families, as single parents who are able to work full-time are in the same boat as married couples and other multiple-adult families in terms of income and expenses.

Income and Expenses of High-Work, Low-Income Families for Key Subgroups

We focus now on three types of families that may face bigger obstacles to making ends meet. First, we look only at families whose gross income falls below the federal poverty level. While they are typically eligible for more aid and may face lower expenses, these families are the worst off on the traditional measure of gross income, and we expect they will have the hardest time making ends meet. Second, we look at families with children under age 6, who likely have greater need of child care. Third, we look at families whose head of household was born outside the United States and may face obstacles to finding jobs, housing, or aid.

As can be seen from table 6, about one-third of poor families are high-work and half are low-work. On the other hand, families with kids under the age of 6 work more than families without young children, and families with immigrant heads have significantly higher work attachment than their native-born counterparts.

As in the previous section, we examine the income and expenses for the high-work families within each family type, but instead of comparing across three mutually exclusive categories, we will compare each category to its complement within high-work, low-income families with children. The significance tests in table 7 for poor high-work, low-income families compare their income or expenses to high-work families with incomes between 100 and 200 percent of the poverty level, called high-work, near-poor families. High-work, low-income families with children under 6 are compared to those

without children under 6, and high-work, low-income families with immigrant heads are compared to their native-born counterparts.

Table 6. Family Work Attachment by Family Type, Low-Income Families with Children				
	Poor	Kids under 6	Head foreign-born	All low-income
High	33.7% ***	59.7% **	65.5% ***	58.2%
Moderate	13.2% ***	11.1%	8.0% ***	11.6%
Low	53.1% ***	29.2% ***	26.5% ***	30.3%
<i>Note:</i> Significance tests in each column test the null that the difference between the families in the specified category versus all other low-income high-work families (the complement) is zero. One star indicates significance at the 90% level, two 95%, and three 99%. See text for definitions of work, income, and family type categories. <i>Source:</i> National Survey of America's Families, 2002.				

As table 7 shows, gross income is low among high-work, poor families: \$14,067 a year, with an income-to-needs ratio of 0.69 (about two-thirds of the poverty level). High-work, poor families' gross income is only 54 percent of the gross income of all high-work, low-income families with children. Compared with all high-work, low-income families, these high-work, poor families owe less in payroll taxes and receive larger tax credits. They are also more likely to receive food stamps (36 versus 19 percent) and to receive higher amounts of food stamps. Nevertheless, the net income of high-work, poor families is 64 percent of the net income of all high-work, low-income families.

On the expense side, high-work, poor families are just as likely to have housing expenses and slightly less likely to have health care and child care expenses than high-work, near-poor families. Their average spending on these items is somewhat lower, but their expenditures represent a much larger portion of their net incomes. And their food expenses are slightly higher because they have slightly larger families. As a result, the after-expense incomes of high-work, poor families is only one-quarter that of all high-

work low-income families. Clearly, this subgroup of high-work, low-income families is not making ends meet despite having at least one full-time, full-year worker. These families are no better off than even the average low-work, low-income families. The fact that the average poor high-work family has less income left over after measured expenses (\$2764) than the average low-work, low-income family (\$3677) may reflect both the low-wage job opportunities faced by some families and the costs associated with higher work attachment.

Table 7. Income and Expenses of High-Work Low-Income Families with Children by Family Type				
	Poor	Kids under 6	Head foreign-born	All
Mean Gross Income	\$14,067***	\$26,447**	\$25,686	\$25,861
Mean gross income to needs	69%***	134%	128%***	135%
Mean earnings	\$12,444***	\$24,049***	\$23,790**	\$23,096
Mean federal income tax	-\$2,879***	-\$2,037*	-\$2,019	-\$1,989
Mean payroll tax	\$869***	\$1,699***	\$1,743***	\$1,640
Mean Net Taxes Paid	-\$2,010***	-\$338	-\$277	-\$349
Mean Food Stamps	\$897***	\$390	\$260***	\$384
Percent with food stamps	36%***	22%***	12%***	19%
Mean positive food stamps	\$2,522***	\$1,799**	\$2,116	\$1,972
Mean Net Income after Tax and FS	\$16,975***	\$27,174***	\$26,222	\$26,593
Mean Housing Expenses	\$6,221***	\$6,995**	\$8,067***	\$6,736
Percent with housing expenses	91%	94%***	96%***	91%
Mean positive housing expenses	\$6,822***	\$7,476	\$8,439***	\$7,433
Percent with housing assistance	15%***	9%	7%***	9%
Mean Health Expenses	\$676**	\$815	\$562***	\$902
Percent with health expenses	73%***	82%	76%***	83%
Mean positive health expenses	\$928	\$997	\$740***	\$1,088
Mean Child Care Expenses	\$533***	\$951***	\$621	\$708
Percent with child care expenses	19%*	28%***	21%*	23%
Mean positive child care expenses	\$2,747*	\$3,364**	\$3,025	\$3,135
Mean Imputed Food Expenses	\$6,781***	\$6,665***	\$6,774***	\$6,465
Mean Net Income after Expenses	\$2,764***	\$11,748	\$10,198***	\$11,783
<i>Note:</i> Significance tests in each column test the null that the difference between the families in the specified category versus all other low-income high-work families (the complement) is zero. One star indicates significance at the 90% level, two 95%, and three 99%. See text for definitions of work, income, and family type categories.				
<i>Source:</i> National Survey of America's Families, 2002.				

Next, consider families with children under age 6. Like all low-income families, about three in five low-income families with young children are high-work families. These families merit special attention because they are more likely to need child care in order to go to work.

The gross income of high-work, low-income families with children under age 6 is slightly higher than the average gross income for all high-work, low-income families (\$26,447 versus \$25,861). The differences in net tax liability and food stamp benefits between these two groups are small although sometimes statistically significant. Overall, the net income of high-work, low-income families with young children is slightly higher than average: \$27,174 versus \$26,593.

Compared with all high-work, low-income families, those with young children have similar housing expenses but slightly lower health care expenses. As expected, a higher proportion of families with young children incur child care expenses, and their expenses are higher than the average high-work, low-income family. But it is striking to note that only 28 percent of high-work, low-income families with children under age 6 actually pay for child care. Again, this likely reflects the fact that many of these families are married-couple or other multiple-adult households in which one adult works full-time, full-year and other adults stay home with the children.

Taking these known expenses into account, table 7 shows that the after-expense income available to high-work, low-income families with young children is virtually identical to the after-expense income available to the average high-work, low-income family (\$11,748 versus \$11,783). Again, this money must go toward clothing, transportation, and other items. Nevertheless, low-income families with young children

and at least one full-time, full-year worker have incomes roughly in line with their expenses.

Finally, consider families in which the head is an immigrant. Nearly two-thirds of low-income immigrant families are high-work. These families may have a harder time making ends meet than the average high-work, low-income family because language barriers may relegate them to lower-paying jobs and they may be less likely to qualify for or take up public benefits.

The average gross income of high-work, low-income immigrant families is virtually identical to that of the average high-work, low-income family (\$25,686 versus \$25,861) but this income has to meet the needs of slightly larger families. As such, the income relative to needs of immigrant families is lower than the income to needs of the average high-work, low-income family (1.28 versus 1.35).

The net tax liability of high-work, low-income families with foreign-born heads is similar to that of the average high-work, low-income family, but they are less likely to receive food stamps (12 versus 19 percent). Nevertheless, differences in net income between the two groups are modest, with immigrant families having \$26,222 while the average high-work, low-income families has \$26,593.

In terms of their expenses, immigrant high-work, low-income families are more likely to pay for their housing and to pay more for their housing than the average high-work, low-income family. This could reflect the facts that families with foreign-born heads may be less likely to have extended family resources in the United States than families with U.S.-born heads and that immigrant families may cluster in higher-cost urban areas. Interestingly, immigrant-headed families are less likely to have out-of-

pocket expenses for health care than the average high-work, low-income family; even those with spending spend less. The incidence and level of child care expenses are similar across the two groups. Thus, on net, the after-expense income available to immigrant high work, low-income families is about 87 percent of the after-expense income available to the average high-work, low-income family (\$10,198 versus \$11,783). On average, immigrant-headed families that have low incomes despite having a full-time, full-year worker live closer to the economic edge than the average high-work, low-income family but their incomes likely come close to meeting their basic expenses.

This analysis of high-work, low-income families in three key population subgroups (poor families, families with young children, and families headed by immigrants) clearly shows that the poorest low-income families are in dire straights despite having a full-time, full-year worker. High-work, low-income families headed by immigrants have slightly lower after-expense incomes than the average high-work, low-income family but their expenses do not appear out of line with their resources. Finally, despite being more likely to incur child care expenses, high-work, low-income families with young children have after-expense incomes very similar to those for the average high-work, low-income family and thus have incomes roughly in line with expenses in any given year, at least on average.

Caveats and Future Directions

Although it provides information on only a limited set of expenditures, the NSAF partners this information with detailed data on income for a sample of 40,000 households. As such, it is an important source of information for assessing the net economic position

of American families. Nevertheless, not all expenses are covered in the NSAF, and some imputations we use in this paper are quite crude. For example, to approximate food expenditures, we assume that families spend exactly as much as it would cost to purchase the items in USDA's thrifty food plan—the basis for the federal poverty level. Although this does account for variation in family size, it is unclear whether families spend this amount, especially extremely low income families. In future work, it would be useful to use regression-based imputations based on food expenditures observed in other data sets such as the PSID.

Another expense that is likely to be quite important for working families is health insurance premiums. These are not measured in the NSAF, although it would be possible to impute premiums using information about whether a working family member has employer-sponsored or private health insurance coverage and the occupation/industry in which the worker is employed (though issues related to the employer and employee cost of insurance, the incidence of tax benefits, the cost of copays, and the pecuniary value of insurance would make this type of imputation difficult at best).

Another concern with our analysis is that we define low-income families based on income to needs ratios. Although it is clear that some adjustment should be made for family size and composition, our approach is likely to result in a disproportionately high number of large families falling into our low-income group, and the absolute dollar value of the family's income might be quite high. For example, a two-parent family with six children would be low-income even with an annual income of \$64,000 (in 2005 dollars).

Finally, it is important to note that we make comparisons across broad subgroups and do not take into account differences in the composition of those subgroups. For

example, when we compare high-work to moderate-work families and find significant differences in material well-being, we cannot conclude that these differences are due to work status; they may be due to differences in the characteristics (education, marital status, etc.) of the work subgroups (of course, it could be that the influence of these characteristics on well-being operate through their effects on work status). Similarly, differences between single-mother and other high-work families in their net incomes may be due to differences in characteristics other than marital status. In future work, it will be useful to assess differences across subgroups in a multivariate context to gain a better understanding of how and why subgroup differences appear.

Conclusion

This paper uses data from the 2002 round of the NSAF to carefully examine the incomes and certain expenses of high-work, low-income families to see if these families are making ends meet and how much better off low-income families with a full-time, full-year worker are than families with lower levels of work effort. We find that, on average, expenses are in line with income for these families in a single year. After subtracting known expenses for housing, health care, and child care as well as inferred expenses for food, clothing, and transportation, factoring in federal income and payroll taxes, and accounting for the cash value of food stamps, we find that high-work, low-income families have about \$8,000 a year left over to spend on other items such as utilities, purchase and repair of appliances and household furnishings, health insurance premiums, children's needs (including educational expenses), and personal care products.

Gross income (before taxes and transfers) varies substantially by the level of work attachment and by other characteristics, and net income (after taxes and transfers) varies only slightly less. However, there is surprisingly little variation in expenses, so families with lower work attachment have substantially less income left over for discretionary spending or saving, and may even find themselves running up debts to cover basic needs.

It is also important to note that while the average high-work, low-income family has income to cover its expenses, many do not. For example, poor high-work families have incomes that are not sufficiently high to cover all their essential expenses. Other subgroups of high-work, low-income families such as those with young children, on average, have incomes that are in line with their typical expenses; and high-work, low-income families headed by immigrants are only slightly worse off.

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