**October 2016**

# The High Cost of Being Poor in Wisconsin

***Anti-Poverty Programs Help Alleviate Costs, But More Must Be Done to Reduce Burdens***

It is welcome news that the poverty rate in Wisconsin declined from 13.2 percent in 2014 to 12.1 percent in 2015 and declined nationally from 15.5 percent in 2014 to 14.7 percent in 2015.[1] Sustained economic gains, strengthened by federal and state policies that increase income or reduce expenses, have finally begun to reach our low-income neighbors.

The decline in poverty is good news, and with job growth continuing, we ought to be able to take steps to accelerate the pace of poverty reduction. But the precarious situation for the poor and near poor stands in the way of substantial progress. The fact is, it is expensive to be poor in the United States. New data released in September by the Census Bureau show that 678,000 adults and children remain in poverty in Wisconsin – and they need to pay every dime they have for necessities like rent, child care and groceries. They pay a premium for rent and food because of bad credit and inability to get to cheaper markets. Getting less value for their limited dollars, poor families are exposed to threats to health, child development, and employment. When expenses outstrip income, late fees and fines make things worse. For too many low-income Americans, predatory loans are a desperate attempt to stave off eviction or loss of a vehicle, leading instead to a trap of debt and poverty.

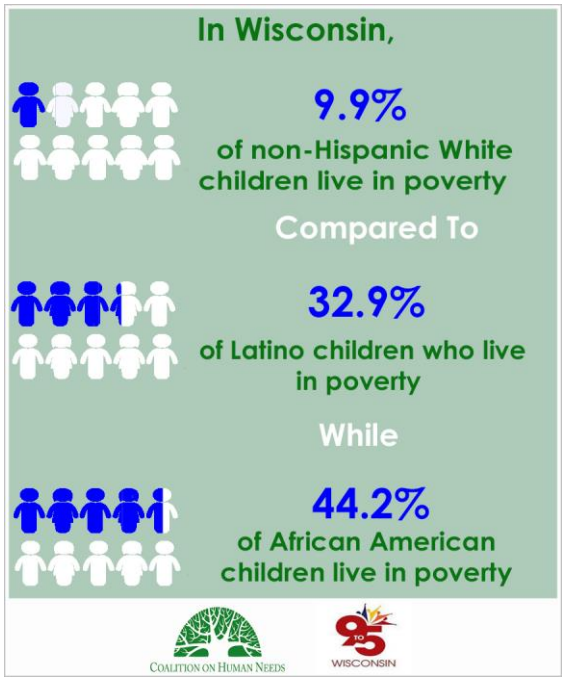
The new Census Bureau data also show that effective anti-poverty programs, like housing assistance, child care subsidies, and the Supplemental Nutrition Assistance Program, (SNAP, formerly known as food stamps) lift millions out of poverty and reduce the cost of poverty for millions more. But more needs to be done to reduce the burden of poverty even further, and for more Wisconsinites living in and near poverty every day.

***Progress to Build on***

There were 2 million fewer poor people across the U.S. in 2015 than in 2014 and 60,300 fewer poor Wisconsinites. From 2011 to 2015, unemployment declined nationally from 10.3 percent to 6.3 percent. The proportion of Americans without health insurance plunged from 15.1 percent to 9.4 percent over the same five years.

While communities of color in general saw substantial improvement, they remain disproportionately affected by poverty – and its associated costs. While 9.0 percent of non-Hispanic whites in Wisconsin were poor in 2015, the poverty rate was 33.2 percent for African Americans and 25.9 percent for Latinos.[2]

People aged 65 or older saw their poverty rate drop from 9.5 percent to 9.0 percent from 2014 to 2015 nationally, and in Wisconsin 7.1 percent of seniors were poor, statistically unchanged from the previous year. However, the Census Bureau's Supplemental Poverty Measure counts income and expenditures more fully, and the differing budgets of seniors (such as more medical expenses) leads to a nationwide poverty rate of 13.7 percent for this group using this alternative measure.




Children remain more likely to be poor in America than any other age group, with nearly one in six in poverty in Wisconsin in 2015 (16.4 percent), down from 18.4 percent in 2014. As with adults, children of color experience poverty at much higher rates that their white peers. In fact, African American and Latino children are three times more likely to be poor than white children. In 2015, 9.9 percent of non-Hispanic white children in Wisconsin lived in poverty, while 44.2 percent of African American and 32.9 percent of Latino children were poor.[3] While their parents struggle to pay for necessities, children in poverty may pay in other ways, from damage to brain development to poorer physical and mental health, education and employment outcomes.

Those with jobs are not immune – the Census Bureau data also show that in 69 percent of poor Wisconsin families, at least one person worked, although not always full time or year round. Even when work and other income helps people to live up to twice the poverty line (up to $37,742 for a family of three), most people recognize that making ends meet is not that easy for those this near poverty. Here, 29 percent of Wisconsinites are trying to get by with incomes this low. High costs affect them too, and may lead to the downward spiral to debt and poverty that the right policy choices can prevent.

***The High Cost of Being Poor***

The poor pay more in many different areas of daily living. The Census data show that 58 percent of Wisconsin households with incomes less than $20,000 a year spend more than half of their income on rent alone.[4] On average, low-income households face slightly higher food prices than other households face for the same basket of food,[5] forcing them to choose lower quality items to reduce the cost. They get less for what they have to spend, and still end up spending a larger portion of their income on food than higher-income families.

The high cost of being poor is a major burden for all living in poverty, but for those in deep poverty – living below half of the federal poverty line – the burden is that much heavier to bear. For a family of four in 2015, the official poverty line was $24,257. According to the Census Bureau, 6.8 percent of Americans – 20.4 million people – live in deep poverty. Nearly 1 in 11 children is this deeply poor. That's down from the previous year, but a higher proportion than in 2007, before the Great Recession. Locally, more than 292,400 Wisconsinites live in deep poverty.[6] These families are especially prone to late fees for unpaid rent and eventual evictions, leading to frequent moves. Once they do find new housing, they

often start out in the hole with a new landlord because they can't afford the first and last month's rent along with a security deposit.[7]


Tenants with evictions on their records can also be banned from affordable housing programs and often lose their only possessions as a part of the eviction.[8] Young children living in poor housing conditions and/or subject to frequent moves or homelessness are more likely to suffer health problems. For example, a Boston area study found that infants and toddlers in low-income families that had moved two or more times in the past year were 59 percent more likely to be hospitalized than similar children in more secure housing.[9] Rental vouchers limiting the amount low-income families pay for rent make a tremendous difference in child health, educational outcomes, and future earnings, but since 2004, the number of families with children receiving rental vouchers dropped by 250,000 nationwide (a 13 percent decline).[10] Families do not have to be deeply poor to risk eviction, although they are likely to be among the quarter of low-income tenants across the U.S. who are paying at least 70 percent of their income on rent, and so are especially at risk of being unable to pay each month. However, even among Wisconsin households with incomes up to $35,000, 38 percent are paying half or more of their income on rent.

Low-wage workers are more likely to lack paid sick days and paid leave, and they are less likely to have predictable work schedules, leaving them with even less money to cover expenses. The formerly incarcerated face added obstacles to employment with the box on employment applications asking about previous convictions; at least in Milwaukee, there are organizing efforts underway to ban the box on city job applications. Some gains for low-wage workers have been made in cities and states that have raised the minimum wage and adopted paid sick leave and other family-friendly policies, but not all states have taken these steps, and Wisconsin's proposal for paid family and medical leave insurance hasn't been passed yet. Meanwhile, national standards leave too many low-wage workers out in the cold. Their struggle to pay rent each month can also take its toll on employment. The Milwaukee Area Renters Study found that workers leaving housing involuntarily were 20 percent more likely to lose their jobs afterwards than comparable workers who did not have to leave their dwellings.[11]

Quality, affordable child care is critical for both the economic security of low-income parents, as it allows them to work, and for the development of children. Yet the cost puts quality child care out of reach for many families. The average cost in Wisconsin for an infant in a child care center is more than $11,500 a year; for an infant and a 4-year-old, it's more than $21,000.[12] A family at the poverty line with an infant and toddler in child care would therefore have to spend 87 percent of its income on child care, if paying the state average cost. Without a subsidy, low-income families have no choice but to make cheaper and often less reliable arrangements, and the amount of low-income child care assistance available in Wisconsin has been slashed in recent years.

Medical costs can have devastating effects on already-strapped family budgets. The Census data show that 11.2 million more people across the U.S. would be in poverty if out-of-pocket medical costs were taken into account, showing the importance of quality, affordable health insurance. Medical costs are

even more of a burden for the poor in states that have not taken advantage of the Affordable Care Act option to use federal Medicaid dollars to expand health coverage to low-income adults. Low-income adults in the 19 states that have not made this move are uninsured at nearly twice the rates of those in states that have taken this step to expand coverage.[13] They are too poor to qualify for health insurance subsidies through the Affordable Care Act, but are denied Medicaid, leaving them at even greater risk for overwhelming medical costs and, too often, forcing them to forgo necessary medical treatments. In Wisconsin, the percentage of uninsured people has declined from 9.0 percent in 2011 to 5.7 percent in 2015. Wisconsin covers adults up to 100 percent of the federal poverty level in Medicaid, less than the ACA expansion. The state is losing hundreds of millions in federal Medicaid dollars by not adopting the expansion.

With few other options, many low-income Americans in a majority of states feel they must turn to payday loans and similar practices to cover these higher expenses. Unfortunately, this leads to higher costs still. These predatory lenders target low-income Americans and communities of color – nearly half of payday borrowers have a family income of under $30,000. Nearly one in five borrowers relied on Social Security or some other form of government assistance.[14] Payday lenders have been shown to be 2.4 times more concentrated in African American and Latino communities.[15] Payday loan companies charge exorbitant interest rates – between 300 and 400 percent, on average, and fees that quickly rack up when borrowers are forced to take out loan after loan just to repay the previous loan. This traps the borrower in a cycle of debt. In fact, the average payday loan customer who borrows $400 for a loan to help them get by until their next paycheck winds up paying back $950 over 11 loan cycles in a year.[16] In one-third of these cases, the borrower is forced to overdraw his or her checking account to pay off the loan, thereby incurring additional fees.[17]

Vehicle title borrowers are similar to payday borrowers, but the consequences of failing to pay back a loan can be even more severe. One in five car title loan borrowers who agrees to repay the loan in a lump sum, plus interest and fees, loses his or her car,[18] creating an even larger burden when he or she can't get to work, to school or to the child care center. Every form of debt gets worse when it's passed along to collection agencies. In December 2015, 29 percent of consumers in low- and moderate-income neighborhoods in Wisconsin had debt in collections.[19]

While the cost of poverty is extremely high for those in poverty, it is also high for our society as a whole. In fact, child poverty alone costs the U.S. economy an estimated $672 billion each year, or 3.8 percent of our gross domestic product (GDP).[20] Child poverty results in a less-educated workforce, which reduces productivity and economic output years later. It raises the incidence – and cost – of crime, while also increasing physical and mental health costs.

***Effective Anti-Poverty Programs Reduce the Cost of Being Poor***

The Census Bureau's Supplemental Poverty Measure, which counts income sources such as federal tax credits and food and housing assistance, shows that federal programs increase incomes for millions of Americans, lifting them out of poverty and reducing the burdens of poverty for millions more. More than 9 million people were lifted out of poverty by low-income refundable tax credits in 2015 nationally; 2.5 million fewer were poor because of housing subsidies.[21] Other analyses show 110,000 Wisconsinites were lifted out of poverty by low-income tax credits each year on average from 2011 to 2013 and 44,000 fewer were poor, each year on average from 2009 to 2011, because of housing subsidies.[22]

The Supplemental Nutrition Assistance Program lifted 130,000 Wisconsinites out of poverty each year on average from 2009 to 2011, and lifted 4.6 million Americans out of poverty in 2015. The Women, Infants and Children (WIC) program served more than 8.6 million women, infants and children across the U.S. in 2013[23] and lifted 371,000 of them out of poverty last year. More than 21 million children nationally received free and reduced-priced lunch during the 2014-2015 school year through the National School Lunch Program,[24] lifting 1.3 million people out of poverty.

Child care subsidies reduce the cost of care, allowing parents to go to work or school and providing children with quality educational experiences in the critical early years. Single mothers were more likely to be employed, more likely to be employed full time, and more likely to have stable employment when receiving child care subsidies.[25] Nationally, families headed by single mothers with at least one full-time, year-round worker had a poverty rate of 11.5 percent, while similar families where workers only had part-time or part-year employment were five times as likely to be poor (55.3 percent rate).[26]

States that raised their minimum wage saw faster wage growth for low-wage workers in 2015 than states without an increase.[27] More money in the pockets of low-income workers resulting from a higher minimum wage and more paid, predictable hours is better for workers, their families, and our economy.

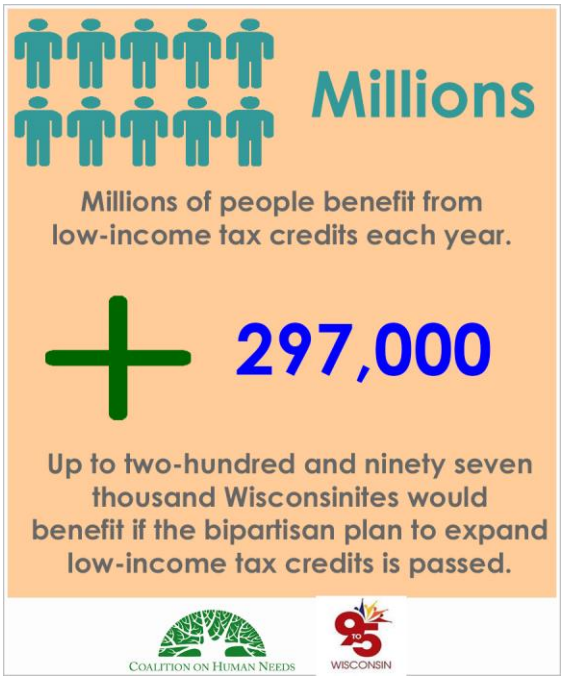
But safety net programs and low-wage work don't fit well together, and low-income families often lose important public supports when they find employment, even when that employment doesn't pay enough to cover the basics.

9to5 Wisconsin member Raina shares her story, "The case manager responsible for handling my SNAP and Wisconsin Shares child care subsidy benefits told me that my new job put me over the limit to receive any benefits by $1/year. After that call, I walked into my supervisor's office visibly shaken and did do something I never thought I'd have to or want to do. I asked for a *decrease* in pay.

Here I was a recent college graduate with an infant son, when I discovered that I too, live on the margins. For me, living on the margins meant that I earned too much to receive any government assistance. And in return, I didn't earn enough to pay rent, utilities, buy food and pay for childcare so that I could go to work and have peace of mind that my son was being taken care of in a quality environment."

Many of these effective programs also do not reach enough of the people they are designed to help, and others, like SNAP, could do more good if their benefits were higher. Across the country only one in four qualifying renters receives rental assistance because Congress has not provided enough funding.[28] Nationally, only one in six low-income children who ate a school lunch during the regular 2014-2015 school year were reached by federal summer nutrition programs.[29] More than 10 percent of Wisconsin households without children experienced food hardship in 2014-2015. Households with children in Wisconsin fared worse: 16.1 percent suffered food hardship over the same period.[30]

More than six out of seven children eligible to receive federal child care assistance nationally are not getting any help,[31] and 5,200 Wisconsin children in need have lost access to child care since 2006,[32] leaving families to struggle to pay for care or forego jobs to stay home and provide care. In addition, while the 2014 reauthorization of the Child Care and Development Block Grant (the primary source of federal funding for child care subsidies for low-income working families) included many improvements that were long overdue, the bill did not include a guarantee of federal funding to implement the changes. This lack of funding threatens care for even more children.




The Earned Income Tax Credit (EITC), an extremely effective anti-poverty and pro-work tax credit, provides far less help to low-income workers who aren't raising children. This group has an unenviable distinction as the only group of Americans who are taxed into poverty. Expanding the EITC to these workers would benefit up to 297,000 Wisconsinites.[33] Similarly, families with children earning under $3,000 a year are excluded from claiming the Child Tax Credit (CTC), denying help to children because their parents, despite working, are too poor. Expanding the CTC to these poorest children and families would benefit millions across the U.S. every year.

Because predatory lending practices are so hurtful to low-income people, 14 states and the District of Columbia have restrictions against payday lending, and the consumer watchdog agency the Consumer Financial Protection Bureau (CFPB) issued a proposed rule in June to rein in predatory payday, car title, and certain high-cost installment loans. The proposed rule would require lenders to determine whether borrowers can afford to pay back their loans, known as the ability-to-repay requirement. While the CFPB proposed rule is a necessary first step, it contains loopholes pushed for by payday lenders that could hurt consumers in all states. For example, the proposal exempts six high-cost payday loans from the ability-to-repay requirement and doesn't go far enough to ensure that, after repaying the loan, the borrower will have enough money left over to cover other basic living expenses without reborrowing.[34] This leaves consumers in states that have restrictions against payday lending vulnerable, as a weak CFPB rule will give the payday lending industry a leg up in trying to get states to weaken or even undo their existing laws. Protections that have helped low-income people out of the debt trap could be eroded.

***We Can Further Reduce the Cost of Poverty***

We can – and should – do more to further reduce the high cost of poverty on millions of Americans. **To achieve this goal, 9to5 Wisconsin and the Coalition on Human Needs recommend the following:**

- **Increase federal funding for housing subsidies and child care subsidies.** As Congress continues its Fiscal Year 2017 appropriations process, it should increase funding to provide millions more low-income Americans in need with access to safe, stable housing and quality, affordable child care. One analysis estimates that an additional $1.2 billion investment is needed in FY17 funding to allow for full implementation of improvements contained in the reauthorization of the Child Care and Development Block Grant without the loss of additional spots for children.[35] Additional funding over FY16 levels is also needed to ensure existing housing vouchers keep pace with inflation and to expand the supply of vouchers for those left out in the cold. Beyond these immediate needs, proposals such as President Obama's call for $82 billion over 10 years to fund child care assistance for children younger than four and $11 billion to end family homelessness by 2020 (providing housing for 550,000 families) should be implemented.

- **Expand the Earned Income Tax Credit to workers not raising children and expand the Child Tax Credit to families making less than $3,000 a year.** President Obama, House Speaker Paul Ryan (R-WI), and Senator Sherrod Brown (D-OH) are among the bipartisan supporters of expanding the EITC, so helping workers without dependent children should be a top priority for Congress. Congress should also act to ensure all low-income children benefit from the CTC.

- **Increase SNAP benefits and pass a Child Nutrition Reauthorization bill to ensure that low-income children have access to healthy and nutritious foods.** As part of the reauthorization, Congress should streamline and expand the summer food program, expand WIC eligibility for children not in full day kindergarten from age five to age six, reject attempts to deny free and reduced-priced meals to students in high-poverty schools, and reject attempts to block grant school meal programs. Congress should also protect SNAP from cuts, increase SNAP benefits to align with the cost of the Low-Cost Food Plan rather than the inadequate Thrifty Food Plan currently used, and end the harsh time limits on SNAP benefits for certain jobless adults willing to work. SNAP and other safety net programs should be more accessible to those with records, and should be integrated with low-wage work to provide the income families need.


- **States that haven't yet expanded health coverage to low-income Americans by drawing down federal Medicaid dollars should do so**. Governors of states that have continued to deny health coverage to low-income residents should end this costly failure to take advantage of federal dollars on the table to provide necessary health care to those who can least afford it.

- **A strong rule from the Consumer Financial Protection Bureau**, without loopholes, is needed to stop predatory lending, help low-income Americans break out of the dangerous debt trap, and ensure that consumers in states where the practice is already restricted remain protected from these harmful practices. Low-income advocates should encourage the CFPB to strengthen the rule to protect all low-income consumers. The CFPB is accepting public comments on its proposed rule until October 7.

- **Raise the minimum wage and help workers get more paid hours through paid sick days, paid family and medical leave and more predictable hours.** Low-wage workers need more hours and higher pay. The federal government, along with states that haven't already done so, should increase the minimum wage and adopt paid sick days requirements, paid leave programs and predictable scheduling laws. The Wisconsin legislature should pass the Wisconsin Family and Medical Leave Insurance Act to provide partial wage replacement when workers need time to care for their own or a family member's serious illness or for childbirth or adoption.

As Election Day draws nearer, we should be thinking hard about our priorities as a nation. Reducing poverty and the high costs of being poor clearly should be a top priority. The evidence from 2015 shows

that proven anti-poverty programs like SNAP, housing assistance, and low-income tax credits are effective at lifting millions of people out poverty, reducing the costs associated with poverty and building family economic security. Other research and common sense tell us that child care, by helping parents to work and helping children to develop and thrive, can spur poverty reductions over two generations. But as overall poverty and child poverty rates in Wisconsin remain higher than in 2007, before the Great Recession,[36] we must invest more to reduce the burden of poverty even further, and for more Wisconsinites. And if we are concerned about trapping people in poverty, we need to stop harmful practices like predatory lending that prey on low-income people and aim to keep them down.

*This report was prepared by 9to5 Wisconsin and the Coalition on Human Needs.*

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