

State Policy Options for Promoting Family Economic Success

**Women in Government
Eastern Regional Conference Call**

Prepared by the *Policy Matters* Project
Sponsored by the Annie E. Casey Foundation

July 18, 2007



This presentation highlights information from:

Policy Matters

Twenty State Policies to Enhance State's Prosperity and Create Bright Futures
for America's Children, Families and Communities
2007 Data Update

Full data presentations, source documentation, and
research citations can be found in that report, available at

www.policymatters.us

Introduction

THE CHALLENGE

In today's economy, wage work provides less and less opportunity for families to succeed financially

POLICY OPTIONS

States can improve opportunities for hard-working families by

Removing barriers to employment

- A. Access to quality child care
- B. Access to health insurance
- C. State minimum wage
- D. Community college affordability

Allowing families keep more of their earnings

- E. Income tax thresholds and child care tax credits
- F. State earned income tax credit
- G. Protection against predatory lending

This page intentionally left blank



REMOVING BARRIERS
TO
EMPLOYMENT

This page intentionally left blank

A. Access to Quality Child Care

The Business Case - Research shows that:

- Parents with access to quality child care are more stable workers.
- U.S. businesses lose \$3 billion annually due to child care breakdowns for workers.
- Parents leaving welfare are more successful if they can access child care.
- Quality child care also enhances children's brain development during crucial early years, resulting in better adult outcomes (lower rates of incarceration and unemployment)
- Federal Reserve calculations show investments in quality child care yield a return of up to 16 percent.
- Many states fail to capitalize on federal matching funds for child care.

Policy Options

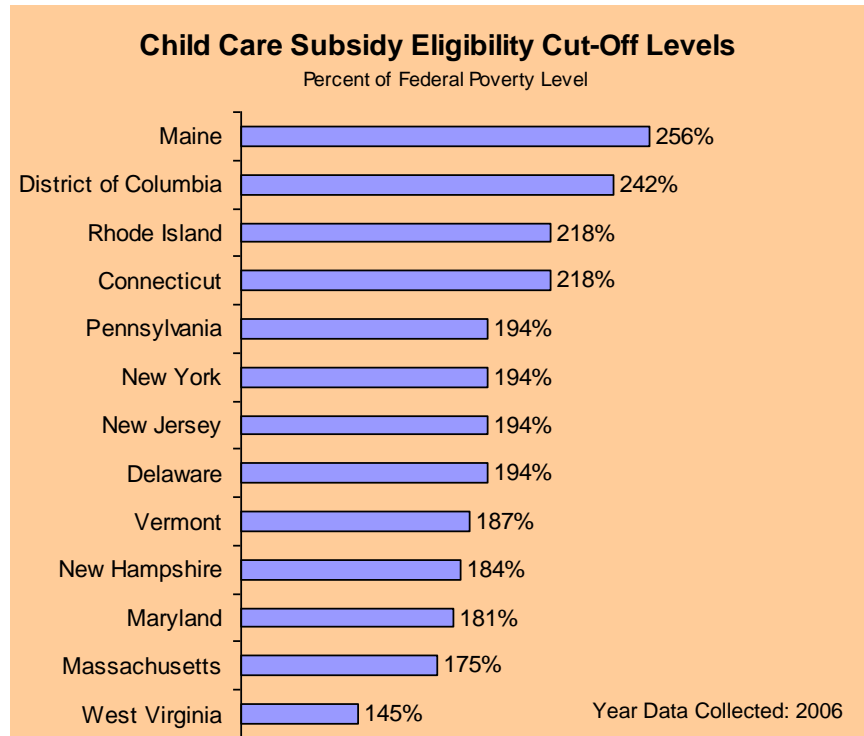
- A1. Child care work support - Eligibility
- A2. Child care work support - Co-payments
- A3. Pre-kindergarten
- A4. Full-day kindergarten



A1 Child Care Work Support - Eligibility

How it Works:

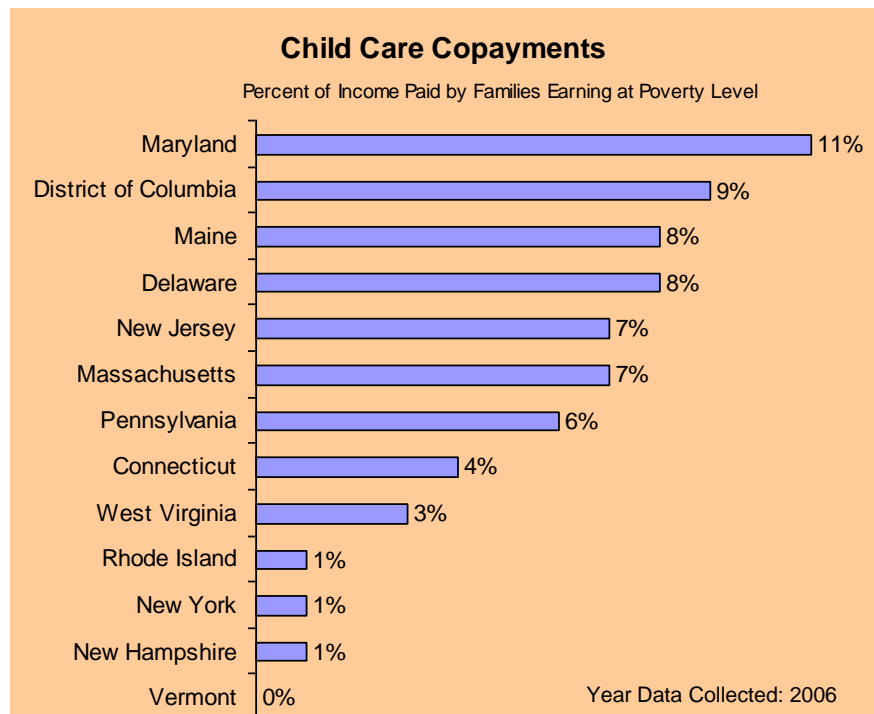
States determine the availability of federal child care subsidies to low-wage families. One key factor in allowing low-wage families to access this assistance is the income eligibility level that states adopt for their child care programs. Federal rules allow states to provide subsidies to families with incomes up to 85% of the state median income.



A2 Child Care Work Support – Co-payments

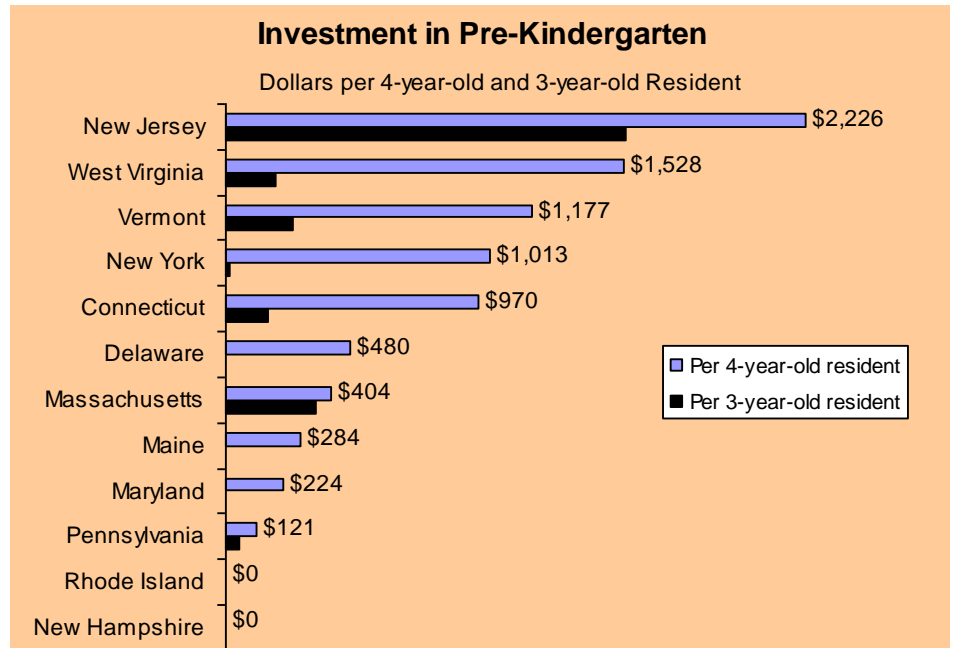
How it Works:

States often require low-wage families to share in the cost of child care by requiring co-payments, which can make it difficult for these families to afford child care and make ends meet. States generally set co-payments as a percentage of a family's income, and set different rates for families at 100 percent and 150 percent of the federal poverty level.



A3 Pre-Kindergarten

How it Works: Many states have increased investments in prekindergarten services in schools and child care centers to improve school readiness and reduce educational achievement gaps. A state's spending on pre-k per 4 year old in the state is generally an important measure of access to pre-k services for children.



Year Data Collected: 2004-05

A4 Full-day Kindergarten

How it Works: State funding formulas can create incentives and disincentives for local school districts to provide full-day kindergarten based on the amount the state allocates to districts for full-day kindergarten programs.

STATE	Incentive Provided for Full-day Kindergarten in State Funding Formula
New York	Strong Incentive
Connecticut	Incentive
Maine	Incentive
Massachusetts	Incentive
Vermont	Incentive
West Virginia	Incentive
Delaware	Disincentive
District of Columbia	Disincentive
Maryland	Disincentive
New Hampshire	Disincentive
New Jersey	Disincentive
Rhode Island	N/A [c]
Pennsylvania	N/A [b]
Year Data Collected	2005

B. Access to Health Care

The Business Case - Research shows that:

- Adult illness negatively impacts workers and employers, causing billions of dollars in lost wages and productivity each year.
- Children's illness also disrupts parent's work attendance and productivity.
- States that do not help families access preventive health care often pay much greater amounts for emergency treatments and hospitalizations when minor ailments worsen.
- States can leverage federal funds when investing in Medicaid.

Policy Options

- B1. State Children's Health Insurance Program (S-CHIP)
- B2. Parental eligibility for Medicaid



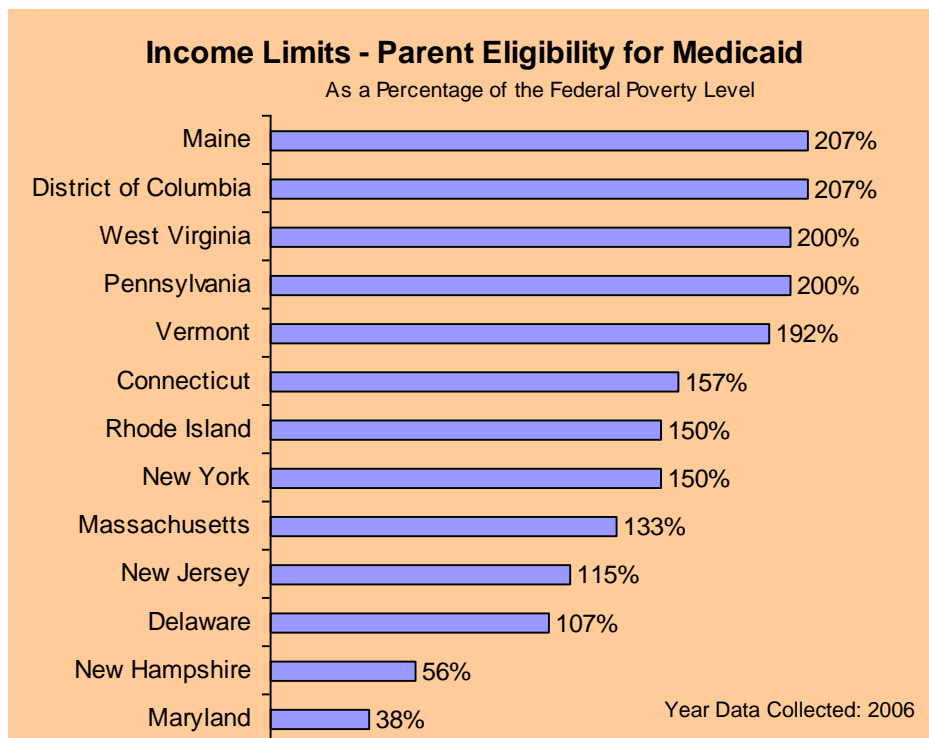
B1 Health Insurance Access for Children - SCHIP

How it Works: States determine the availability of government-funded medical insurance to children in low-wage families, most critically through the income eligibility level that they set for their Medicaid and State Child Health Insurance Programs (SCHIP).

STATE	Child Eligibility Level (As a % of FPL)	Cost-Sharing Mechanism [a]	
		Co-payments Charged for Children's Health Insurance Services	Premiums Charged for Children's Health Insurance Services
Massachusetts	300 (400+) [d]	-	Yes
New Jersey	350	Yes	Yes
District of Columbia	300 [c]	-	-
Connecticut	300	Yes [k]	Yes
Maryland	300	-	Yes
New Hampshire	300	Yes	Yes
Vermont	300	-	Yes
New York	250	-	Yes
Rhode Island	250	-	Yes
West Virginia	220 [f]	Yes	Yes
Pennsylvania	200 (235) [d]	-	Yes
Delaware	200	-	Yes
Maine	200	-	Yes
Year Data Collected	2006	2006	

B2 Parental Access to Health Insurance – Medicaid

How it Works: Parental health insurance coverage is not only important for a parent's own health, research indicates that parental coverage is a strong predictor of a child's use of health services. States determine the income eligibility level for parents separately from decisions about children's eligibility.



C. State Minimum Wage

The Business Case - Research shows that:

- Without a reasonable wage, workers and their face multiple stresses that can result in illness, unemployment, and homelessness.
- Minimum wage increases can be enacted without significant job loss, even during economic downturns.
- The value of current minimum wage of \$5.15 an hour (adjusting for inflation) is 20 percent lower than its value in 1979 – despite four increases in the 1990s.
- A full-time worker earning minimum wage earns \$10,712 per year, slightly more than ½ federal poverty level

Policy Options

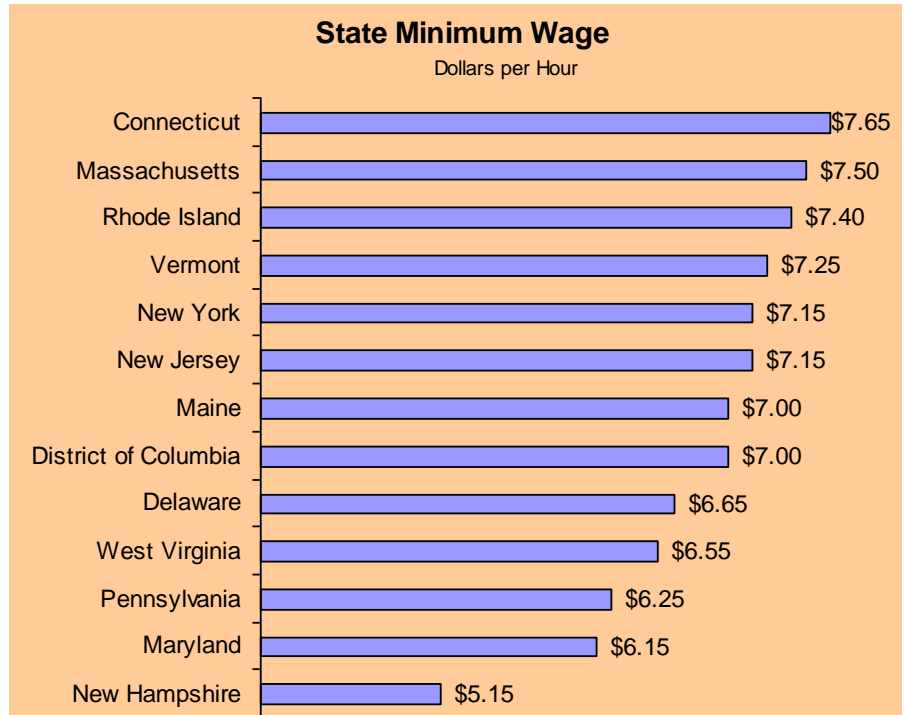
- C1. State minimum wage rate
- C2. Method for updating the state minimum wage

C1 State Minimum Wage Rate

How it Works: A state minimum wage can be set above the federal minimum wage. States can also apply their minimum wage to categories of employees and industries excluded from coverage under the federal law.

FMW increases:

2007 \$5.85
2008 \$6.55
2009 \$7.25



Year Data Collected: Jan. 2007

C2 Method for Updating State Minimum Wage

How it Works: As inflation rises and the cost of living increases, minimum wages fail to keep pace with inflation. States can prevent this erosion by establishing laws that automatically increase the state minimum wage to keep pace with increases in inflation, which is measured by the Consumer Price Index (CPI). Alternatively, states can index the state minimum wage to an amount incrementally higher than the federal minimum wage (e.g., \$1 above the federal minimum wage), or to the federal minimum wage itself.

STATE	Statutory Method of Adjusting Minimum Wage
Vermont [a,q]	Automatically replaced by FMW if FMW is raised above SMW, and adjusts annually for inflation and cost of living. [v]
District of Columbia	Automatically set at \$1 above FMW if FMW is raised above SMW
Massachusetts	Automatically set at \$0.10 above FMW if FMW is raised to or above SMW
Connecticut	Automatically set at 0.5% above FMW
Delaware	Automatically replaced by FMW if FMW is raised above SMW
Maine	Automatically replaced by FMW if FMW is raised no more than \$1 above SMW
Maryland	Automatically adopts FMW
Pennsylvania [d]	Automatically adopts FMW
New Hampshire	Automatically replaced by FMW if FMW is raised above SMW
New York	Automatically replaced by FMW if FMW is raised above SMW
West Virginia [a]	Automatically adopts FMW if FMW is raised above SMW
New Jersey [m]	Advisory committee will be established to review SMW annually
Rhode Island [y]	No policy
Year Data Collected	2007

D. Higher Education Affordability

The Business Case - Research shows that:

- Higher education is more and more necessary for employment.
- On average, a community college degree adds \$14,800 in annual earnings.
- Promoting higher education promotes economic growth.

Policy Options

- D1. Community college tuition and need-based financial aid
- D2. Four-year college tuition and need-based financial aid

D1 Community College Affordability

How it Works:

Access to two-year colleges provides a critical opportunity for families to provide better futures for their children. This access is strongly influenced by affordability, as determined by tuition levels and the availability of need-based financial aid.

State	Two-Year Colleges		
	State Need-based Financial Aid as a % of Federal Aid	Tuition	Relative Affordability
Delaware	43%	\$2,240	Greater
New Jersey	95%	\$2,711	Moderate (High Tuition)
New York	89%	\$3,180	Moderate (High Tuition)
Vermont	84%	\$4,012	Moderate (High Tuition)
Pennsylvania	83%	\$2,989	Moderate (High Tuition)
Maryland	53%	\$2,832	Moderate (High Tuition)
Massachusetts	51%	\$2,927	Moderate (High Tuition)
Connecticut	48%	\$2,536	Moderate (High Tuition)
Maine	32%	\$3,048	Moderate (High Tuition)
Rhode Island	27%	\$2,470	Moderate (High Tuition)
West Virginia	25%	\$2,471	Moderate (High Tuition)
New Hampshire	12%	\$5,719	Lower
Year Data Collected	2005-06		

D2 Four-year College / University Affordability

How it Works:

Access to higher education is strongly influenced by its affordability, particularly for students from low-wage families. The affordability of four-year schools for many is determined by tuition levels and the availability of need-based financial aid.

State	Four-Year Colleges/Universities		
	State Need-based Financial Aid as a % of Federal Aid	Tuition	Relative Affordability
New Jersey	95%	\$8,664	Moderate (High Tuition)
New York	89%	\$4,995	Moderate (High Tuition)
Vermont	84%	\$9,239	Moderate (High Tuition)
Pennsylvania	83%	\$8,729	Moderate (High Tuition)
Maryland	53%	\$7,058	Moderate (High Tuition)
Massachusetts	51%	\$7,307	Moderate (High Tuition)
Connecticut	48%	\$6,710	Moderate (High Tuition)
Delaware	43%	\$7,101	Moderate (High Tuition)
Maine	32%	\$6,030	Moderate (High Tuition)
Rhode Island	27%	\$6,343	Moderate (High Tuition)
West Virginia	25%	\$3,807	Moderate (Low Aid)
New Hampshire	12%	\$8,499	Lower
Year Data Collected	2005-06		

This page intentionally left blank



ALLOWING LOW-WAGE FAMILIES TO
KEEP MORE OF THEIR EARNINGS

E. Income Tax Thresholds and Child and Dependent Care (CADC) Tax Credits

The Business Case - Research shows that:

- Reducing income taxes for low-wage workers can help offset the child care and transportation costs incurred as they try to work their way out of poverty
- The CADC rewards work and provides tax relief to low-wage families
- The CADC also helps families afford quality child care, which has many economic benefits, as explained in the early care and education section of this report.

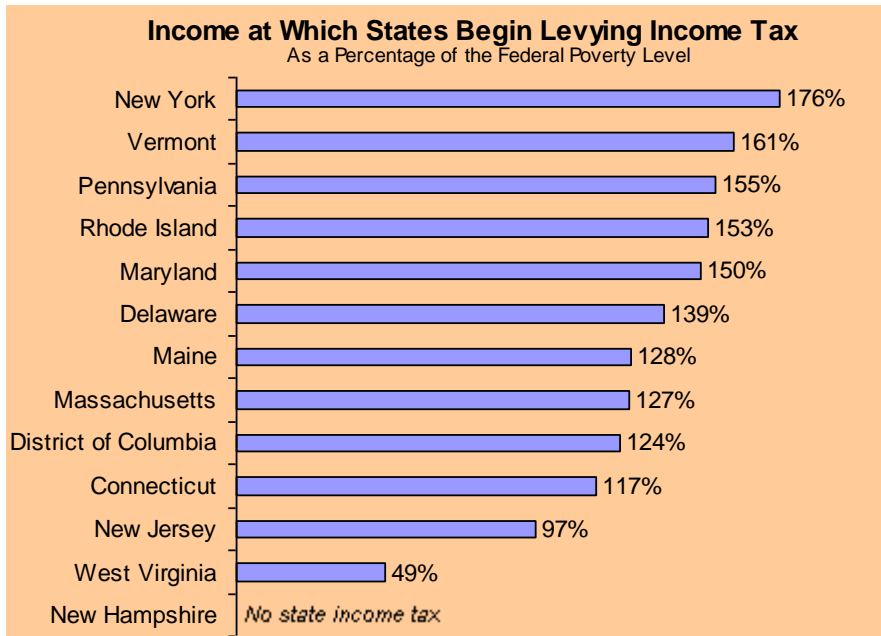
Policy Option

- E1. Income Tax Threshold
- E2. Child and Dependent Care Tax Deduction or Credit

E1

Income Tax Thresholds

How it Works: States seeking to ensure their tax structure encourages and rewards work can reduce the tax burden on families with incomes near the federal poverty level (FPL). A key method for doing so is to raise the income threshold at which family income becomes subject to the state income tax. This policy also reduces the tax burden for other low-wage families by eliminating the tax liability for the portion of their income that falls near the income tax threshold.



Year Data Collected: 2006

E2

Child and Dependent Care Tax Credit

How it Works: States can supplement the federal child and dependent care credit, which allows low-wage families with child and dependent care expenses to subtract a portion of those expenses from their federal tax liability. Enacting a state version of this credit allows low-wage families to continue working and access higher quality care for their children.

STATE	Maximum Value of Child and Dependent Care Credit (NR = Non-Refundable)	
	Dollar Amount	As a % of Refundable Federal Credit
New York	\$2,310	110%
Vermont	\$1,050 [i]	50%
Delaware	\$1,050 (NR)	
Maine	\$903 (of which up to \$500 refundable)	24%
Maryland	\$683 (credit, NR); \$285 (deduction, NR) [g]	
District of Columbia	\$672 (NR)	
Rhode Island	\$525 (NR)	
Massachusetts	\$509 (deduction, NR)	
Connecticut	Not Offered	
New Jersey	Not Offered	
Pennsylvania	Not Offered	
West Virginia	Not Offered	
New Hampshire	No state income tax	
Year Data Collected	2005	

F. Earned Income Tax Credit (EITC)

The Business Case - Research shows that:

- The EITC rewards work and provides tax relief to low-wage families.
- The EITC is considered the most effective program in history for helping families rise out of poverty (2 million adults + 2 million children per year).
- Approximately 20 percent of eligible families do not claim the EITC.

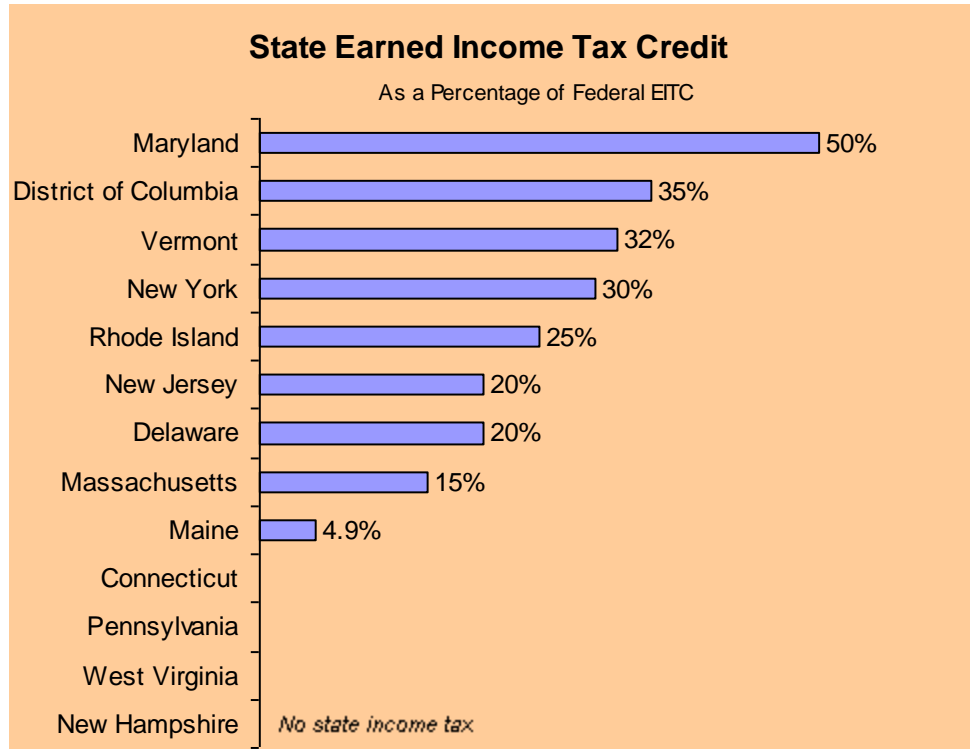
Policy Options

- F1. State earned income tax credit
- F2. Outreach for federal EITC

F1 STATE Earned Income Tax Credit (EITC)

How it Works:

States can reward work by supplementing the federal earned income tax credit, which is a tax credit that reduces the tax burden on low-wage workers. This tax credit is considered the most effective policy in history for lifting children in working families out of poverty.



Year Data Collected: Jan. 2007

F2 Outreach for the FEDERAL EITC

How it Works. States can:

- States can increase awareness of the EITC by airing public service announcements and posting information in public places, using the Internet to disseminate information, and holding briefings and other events.
- Publicize the availability of free tax preparation services.
- Support the expansion of free tax preparation services.
- Use the EITC as a vehicle for building assets by offering EITC filers financial literacy classes, providing them information on credit repair, and linking them with opportunities to establish bank accounts.

Source: National Governors Association

G. Protection Against Predatory Lending

The Business Case - Research shows that:

Mortgage lending

- Predatory mortgage lending costs America's families \$9.1 billion each year.
- In almost all states, foreclosures of sub prime mortgages are estimated to exceed 16 percent in 2006. In nine states (including CA and NY) the estimate is 21 to 24 percent.

Payday lending

- The payday lending model is designed to keep borrowers in debt.
- America's families lose \$4.2 billion per year in predatory fees.
- Eleven states saved families an estimated \$1.4 billion in 2006 by capping interest rates at approx. 36 percent.

Policy Options

- G1. Protection against predatory mortgage lending
- G2. Protection against predatory payday lending

G1 Protection Against Predatory MORTGAGE Lending

How it Works: States can prohibit mortgage lending abuses such as negative amortization, prepayment penalties, financing of credit insurance, refinancing of home loans to the detriment of the consumer, high interest rates not justified by risk factors, and excessive foreclosures. Federal laws provide minor protection against these tactics, but state laws can provide additional protections that are minimally or significantly stronger.

STATE	Predatory Mortgage Lending Protection beyond Federal Law
Massachusetts	Significant
New Jersey	Significant
New York	Significant
Rhode Island	Significant
West Virginia	Significant
Connecticut	Minimal
District of Columbia	Minimal
Maine	Minimal
Maryland	Minimal
Pennsylvania	Minimal
Delaware	-
New Hampshire	-
Vermont	-
Year Data Collected	2006

G2 Protection Against Predatory PAYDAY Lending

How it Works: States can restrict payday lending abuses through two primary strategies. First, they can enact protective regulations like small loan interest rate caps, anti-usury laws, and specific prohibitions on check cashing. Second, they can prohibit local companies from partnering with out-of-state banks as a way of circumventing local restrictions.

STATE	Payday Lending Restrictions
Maryland	Restricts Lending and Prohibits Out-of-State Partnering
Massachusetts	Restricts Lending and Prohibits Out-of-State Partnering
New York	Restricts Lending Only [b]
Pennsylvania	Restricts Lending Only [b]
Connecticut	Restricts Lending Only
Maine	Restricts Lending Only
New Jersey	Restricts Lending Only
Vermont	Restricts Lending Only
West Virginia	Restricts Lending Only
Delaware	Allows Payday Lending Under Current Law
District of Columbia	Allows Payday Lending Under Current Law
New Hampshire	Allows Payday Lending Under Current Law
Rhode Island	Allows Payday Lending Under Current Law
Year Data Collected	2006

Technical Assistance for State Legislators

About *Policy Matters*

In today's economy, many families are working harder and still struggling to make ends meet. Effective state policy is critical to improving their opportunities to succeed.

Policy Matters is a report that summarizes research on state policies that can make a difference for these families and their children. This report also provides state-specific data that identifies which policies have been adopted in each state. *Policy Matters* is a project of the non-profit, non-partisan Center for the Study of Social Policy in Washington, D.C., and this work is funded by the Annie E. Casey Foundation. *Policy Matters* reports are available at www.policymatters.us.

Technical Assistance Available

As state legislators seek to learn more about these policy options, *Policy Matters* staff are available to provide various forms of technical assistance:

- **State policy scans.** As policy makers develop a legislative agenda, *Policy Matters* staff can help by identifying opportunities for strengthening state policy. Staff can prepare state-specific reports that include assessments of state policy based on current research, and based on comparisons with neighboring or similar states.
- **Facilitating an agenda-setting process.** *Policy Matters* staff have worked with policy makers and community leaders in multiple states to convene a caucus or coalition and facilitate discussions on developing a shared policy agenda. In these processes, *Policy Matters* staff serve as an information resource and facilitator only, and decisions regarding policies to include in the agenda are made only by state policymakers participating in the process.
- **Policy focus on specific populations.** For policy makers focused on specific populations within their state, *Policy Matters* can provide a focused set of policies. For example, target populations may include families involved in the child welfare system or formerly incarcerated individuals returning to their communities.
- **More detailed information in a specific policy area.** As policy makers seek more detailed information in a particular policy area, *Policy Matters* staff can engage issue-area experts to provide more detailed data, policy research, or in-depth technical assistance.

For more information, please contact Noel Bravo at (202) 371-1565 or noel.bravo@cssp.org



For more information, contact:

Center for the Study of Social Policy
1575 Eye St., NW Suite 500
Washington, DC 20005
(202) 371-1565
www.cssp.org

Noel Bravo
Senior Associate

(202) 454-4104

noel.bravo@cssp.org