

State of Connecticut

GENERAL ASSEMBLY



COMMISSION ON CHILDREN

Testimony before the Human Services Committee
Thursday, February 21, 2008
Senate Bill 163, An Act Concerning a State Earned Income Tax Credit

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Good Morning Senator Harris and Representative Villano and members of the Human Services Committee. My name is Liz Brown and I am here before you this morning representing the Commission on Children to speak in favor of the enactment of a state earned income tax credit. Senate Bill 163, An Act Concerning a State Earned Income Tax Credit.

The federal earned income tax credit has assisted many of Connecticut's low and moderate income working families since it's inception in 1975. The federal program has been widely praised for its success in supporting work and reducing poverty – it has been a strong and successful complement to welfare reform efforts across the country and in our own state. With many low income families working two and three jobs to make ends meet, the EITC acts as an incentive to these hard working families and bolsters household income.

The success of the federal program has led many states to enact a state Earned Income Tax Credit to supplement the federal credit. As policymakers, they recognize the continued importance of promoting economic stability for hardworking low income wage earners. In fact nineteen states, including each of our New England neighbors have enacted state EITCs and the poverty reduction results – particularly for children living in poverty - have been remarkable.

The Child Poverty and Prevention Council is charged with reducing child poverty by 50% by the year 2014. On December 7, 2007, national experts met in Connecticut and identified programs/ policies that research tells us helps low income wage earners augment their income. Top on the list is the Earned Income Tax Credit. Research indicates that it extremely effective in getting real dollars to low income families.

A state EITC would provide a boost in consumer spending which translates into an economic stimulus for the local economy as families have more disposal income available to them. The EITC economic policy has received bipartisan support as “the greatest anti-poverty measure”.

State EITCs have been shown to support the long term economic stability of low and moderate income families who have long since left the welfare roles or those who have never received welfare benefits – it has been demonstrated to be a successful “welfare prevention” initiative as well.

Research shows that many EITC families use their refunds to meet day-to-day expenses but also to make the kind of investments – like paying off debt, supporting educational pursuits and obtaining stable housing – that have been proven to enhance economic security, promote economic opportunity and reduce the need to return to welfare assistance.

The Commission urges the Committee to pass this law that has proven the test of “results based accountability” for helping low income working families. It is our hope that we can learn from neighboring states and national experts who have studied several models of financing a state earned income tax credit program and move forward to support low and moderate income Connecticut residents and their children by enacting Senate Bill 163.

Thank you for allowing me to testify today.

**Recommendations of the Expert Panel to
The Child Poverty and Prevention Council
December 7, 2007**

Background The State of Connecticut has enacted laws to reduce child poverty and to give priority to spending on prevention rather than crisis alleviation. Among other provisions, the laws (1) require state planning and implementation to reduce the number of children living in poverty by 50% by the year 2014; and (2) assign the Child Poverty and Prevention Council to oversee the state's work on poverty and prevention. The Council in turn made 67 recommendations to reduce child poverty in Connecticut in its Initial Plan. To help the Council and the state prioritize among its many recommendations, the Council invited a group of nonpartisan experts to review the 67 recommendations and offer recommendations about which among them have a sufficiently strong evidence base to support their potential effectiveness in reducing child poverty. The Expert Panel includes two economists, two developmental psychologists and two policy analysts, each of whom is committed to and capable of an evidence-based appraisal of the policies being considered by the Council.

The Panel has carefully reviewed all 67 recommendations and it has requested and reviewed additional data, reports, and other information provided by the Council. In addition, the Panel has met and deliberated twice by phone and once in person over the course of November-December, 2007. In this brief memo to the Council, we describe the results of our deliberations. First, we specify the criteria on which we based our recommendations. Second, we describe the policy recommendations which the Panel endorses as supported by evidence and likely to result in reductions in child poverty if implemented effectively. These are unanimous recommendations of the Panel.

Criteria by which Connecticut's Child Poverty Recommendations were Evaluated

The Panel began its work by first discussing and then deciding *a priori* on the main criteria by which we would evaluate the Council's 67 recommendations. The Panel agreed to scrutinize each policy recommendation based on three main criteria:

1. Evidence of Impact. Is there evaluation evidence to show that this policy has a positive impact? The evidence could be experimental or non-experimental. If there is evidence of impact, is there evidence of the potential magnitude of the impact?
2. Cost-Effectiveness. If there is evidence of impact, is there also evidence of cost-effectiveness of the recommendation?
3. Timeframe. In light of the goal to reduce child poverty by 50% by the year 2014, how likely is it that the recommendation would contribute to reduction of child poverty within that timeframe?

There are numerous political and technical challenges to the passage and implementation of evidence-based policies. While we discussed and were cognizant of these important feasibility challenges, the Panel endeavored to restrict itself to the evidence base for its recommendations (assuming effective implementation), leaving political and technical challenges to the political and policy processes in the state.

With our three criteria as our guideposts, we have identified four major areas of policy and thirteen specific policies for which there is evidence to support their likely effectiveness in short-term child poverty reduction. In addition, we make one critical process recommendation. It is to these recommendations which we now turn.

A. FAMILY INCOME AND EARNINGS POTENTIAL

The Panel notes very strong support in the research literature for the notion that work is the principal path out of poverty in the U.S. States and the nation face the challenges of how to raise employment rates among poor families, including low-skilled, low-education parents; to assure that work in even low-wage jobs helps families escape poverty; and to support parents' continued development of their earnings potential. We offer four policy recommendations to help the state meet these challenges and thereby reduce poverty.

1. Income tax-based assistance for workers. Among the most successful strategies to incentivize low-wage work and thereby reduce child poverty are those that create incentives to enter employment and increase hours of work through an earned income tax credit structure. Connecticut should:

- Mount new awareness and outreach activities to increase the uptake of the federal Earned Income Tax Credit by eligible families.
- Establish a refundable state Earned Income Tax Credit to supplement the earnings of low-wage parents.

2. Child Care

In order to incentivize low-income parents to work full-time and full-year (which is necessary to escape poverty), affordable, accessible and good quality child care is indispensable. Good evidence exists for the general proposition behind the Council's recommendations in this area, that increasing access to affordable child care will help reduce child poverty by lowering the cost of work. Subsidies should be available for all low-income families, at least up to 200% of the poverty line.

3. Housing Subsidies

In a state with high housing costs, rental assistance is critical to improve low-income families' ability to meet basic needs and to reduce residential instability. The panel recommends that the state find ways to expand rental assistance, structured in ways to both increase poor families' income and their incentives to work.

4. Health Care

Lack of health insurance coverage among low-income parents discourages adults from leaving welfare and going to work, and also affects the health of children because adults without health insurance are less likely to take their children for preventive health care. Out-of-pocket medical expenses also create economic burdens for low-income parents. We are impressed with the health care coverage now available to low-income adults and children in Connecticut. We recommend efforts to assure that all eligible parents and children actually receive the health care for which they are eligible, and that the state

make efforts to further expand coverage to non-parental caretakers with whom children reside.

B. EDUCATION

The research evidence strongly supports the efficacy of a second path out of poverty: education. Clearly, while state legislation sets child poverty reduction goals in the short-term (50% by 2014), improvements in education will likely require a longer-term time horizon to achieve a reduction in child poverty. We recommend three education policy strategies which the research literature supports:

1. Early Childhood Education

High-quality early education has the potential to narrow the poverty and race gaps in school achievement and thereby improve life chances and reduce child poverty in the long run. In addition, evidence suggests that making preschool full-day, full-year and making K-3 education full-year will increase female labor supply and thereby support work as a principal path out of poverty in the near term as well.

2. Teacher Quality

Among the most urgent problems facing K-12 education is the unequal distribution of high-quality teachers. If the state were able to significantly increase the proportion of highly qualified teachers in low-income schools, the achievement of low-income children would improve. While there is no clear evidence of how best to achieve this goal, the state should build upon promising strategies that have been developed in communities across the nation.

3. Secondary and Post-Secondary Education

While early education and teacher quality strategies necessarily entail longer time horizons to achieve their full impact, one set of evidence-supported education strategies can help reduce child poverty in the shorter term. The Council's recommendations

designed to increase cash assistance and other forms of support for post-secondary education have a strong evidence base supporting potential effectiveness. Strategies to provide assistance for community college, vocational education and English as a Second Language instruction are supported by both experimental and non-experimental research findings on the increasing return to post-secondary education.

Many youth still cannot enter post-secondary education because they drop out before completing high school. The Panel notes several evidence-based strategies to reduce school drop-outs that we recommend to increase the proportion of poor youth who are prepared to enter post-secondary education options.

C. INCOME SAFETY NET

We recommend two evidence-supported strategies to improve the income safety net:

1. High-Risk Families

There is clear evidence that a growing proportion of single mothers are neither employed nor receiving cash assistance. Most of these parents experience multiple barriers to work. Without intensive case management and employment-related services to both identify and reduce barriers, some parents will remain both unemployed (no earnings) and out of the safety net (no other cash welfare). This places their children at risk of deep and persistent poverty. Our primary recommendation is for the state to consider helping the high-risk population of parents who have the most serious difficulties sustaining employment, both those receiving and not receiving TANF.

2. Other Safety Net Programs

Many low-income working families are eligible for (primarily federally funded) income support benefits which they do not receive. We recommend that the state work to increase uptake among eligible families in food stamps, child nutrition, SSI, energy assistance, and other programs that provide income support.

D. FAMILY STRUCTURE AND SUPPORT

Children in married couple families experience about one-fifth the poverty rate experienced by children in female-headed families. Poverty would fall and child development would be augmented if a larger share of Connecticut children were in low-conflict married-couple families.

1. Reducing Teen Births

Reducing teen births is one way to lower the share of children in single-parent families.

There are a number of programs for youth that have been shown to reduce teen births and promote healthy development. As many youth as possible, especially poor and minority youth, should be enrolled in these programs.

2. Marriage Penalties

The Connecticut tax code should be scrutinized to ensure that all marriage penalties are removed.

3. Avoiding Abrupt Benefit Changes

Connecticut welfare programs should be amended so that parents receiving welfare benefits, especially Temporary Assistance for Needy Families, food stamps, Medicaid, and housing, do not face an abrupt loss of benefits.

4. Improving the Prospects of Fathers

There is increasing evidence that young, especially minority, males are dropping out of school and failing to enter the work force and that these problems are contributing to low rates of marriage, the rise of lone parenting, high child poverty, and a disturbing share of children whose fathers are imprisoned. Programs should be adopted that help males complete high school and make the transition to the labor force. Policies that increase work incentives, such as wage subsidies, should also be considered. The nation's welfare policies have focused almost exclusively on mothers; it is time that we broaden our scope and create policies that will also help struggling fathers. Connecticut deserves credit for

increasing the amount of child support given directly to families when families receive TANF assistance. With the agreement of custodial mothers, child support policy on arrearages could be modified to help fathers who agree to pay in the future.

There is strong evidence to support the contention that one of the driving forces behind high child poverty rates is the decline of marriage through non-marital births, divorce and declining rates of marriage. However, at this point, there is still relatively little known about effective strategies for promoting healthy marriages. Connecticut would do itself and the nation a considerable service to mount creative new efforts to develop and test new strategies on these fronts. At the same time, the state should be mindful of the realities that a significant share of low-income children are in and are likely to be in single-parent families, and that a strategy to address child poverty must assist and not disadvantage these families and children.

E. AN IMPROVED MEASURE OF POVERTY TO MEASURE PROGRESS IN CONNECTICUT

The current U.S. official measure of poverty is inadequate as a measure of progress. It is based only on cash income and does not reflect in-kind income (such as food stamps, child care subsidies, or housing subsidies) or tax-based income (either taxes paid or tax refunds received through the EITC). Moreover, the thresholds used in the current measure are based on data about family expenditures in the 1950s, and have only been adjusted for inflation since originally established in the 1960s. In order to measure progress in the resources available to low-income families, Connecticut needs to utilize an alternative measure of poverty, such as that recommended by the National Academy of Sciences. The benchmark from which progress is measured should be based on this alternative measure, as well as any future change in poverty. The state may want to use a “depth of poverty” measure rather than a “count of the poor” measure. It may also want to utilize other measures of progress, such as student achievement, high school graduation, or health status.

FINAL COMMENTS: IMMEDIATE VS. LONG-TERM CHANGES

The most immediate impacts on child poverty will be achieved in three key areas: tax-based work supports, child care assistance, and safety net programs. Expenditures in each of these areas are likely to be directly correlated with the alleviation of hardship among children and families. In addition, the potential for increasing enrollments of eligible children and families in programs financed, wholly or in part, by the federal government presents attractive opportunities for the state to make progress in reducing child poverty through relatively modest investments in these areas.

At the same time, it is important for the State of Connecticut to make progress in areas of education and family structure and support that can enhance future earnings, bolster family stability, and reduce the need for work supports and safety net programs over time. The evidence in support of high-quality early childhood programs is particularly strong, but investments in such programs by themselves cannot be expected to produce significant child poverty reductions by 2014. Other initiatives designed to improve education and work-related skills and to foster growth in the number of two-parent families also deserve careful consideration for their potential long-term impacts.