

## The Consequences of Insufficient Household Income

Over 40 percent of U.S. households earn below the ALICE Threshold, which means that millions of families are forced to make difficult choices and risky trade-offs every day.

This online *Consequences of Insufficient Household Income* report explores:

- How ALICE and poverty-level families get by when they do not have enough income or assistance to afford basic necessities.
- How the six essential areas of a household budget — housing, child care and education, food, transportation, health care, and technology — as well as taxes affect financial decision-making for ALICE families. The larger the gap between income and expenses, the more extreme the decisions, and the greater the risks to a family’s immediate health, safety, and financial stability.
- How the tough decisions ALICE households make affect their broader communities, and how future trends may shape those decisions going forward.

This report **highlights how choices in one area invariably affect choices in other areas.** The problems are complicated and interwoven. With this clear documentation of the issues and how they are interconnected, community stakeholders can start to build solutions for their neighborhoods, towns and cities, counties, and states. **For solutions to be effective, they must be comprehensive and interconnected to address as many areas of struggle as possible.**

There are specific considerations in each area of the household budget:



### Housing

Housing is the cornerstone to stability, but it is also the most expensive item in most families’ budget. Without safe, affordable housing, families cannot maintain stability in other areas of life like school and work attendance, or access to health care and healthy food. They may also face long commutes to work, the inability to save for emergencies, and excessive stress. [click to view](#)



## Child Care and Education

Child care is essential for parents to work and children to be prepared for kindergarten, and education is one of the best predictors of financial well-being in the U.S. Yet child care is also the second most expensive item in the family budget, and ALICE families face challenges finding quality education at every level. Without quality child care, children may not be ready for school and can face health and safety risks, and parents cannot work. Without quality K-12 education, students do not gain the important skills they need to advance to sustainable jobs. And without affordable higher education, students incur debt and forgo job advancement. [click to view](#)



## Food

Food is the most basic of all needs. A healthy diet builds overall good health and fuels working and learning throughout the day. In the short term, food is the easiest place for a family to skimp on cost, but in the long term, the consequences of a poor diet or food insecurity can include developmental delays in children, compromised performance at school or work, and chronic disease in adults. ALICE families living in food deserts also face challenges in getting access to healthy foods, such as fresh fruits and vegetables. [click to view](#)



## Transportation

Transportation is necessary to get to jobs, housing, grocery stores, child care, school, and health care providers, as well as for social and faith-based activities. Though public transportation is cheaper than vehicle ownership, it is unavailable in much of the country, so owning a car is essential for many and a purchase most ALICE families struggle to afford. The consequences of buying less expensive vehicles include sacrificing reliability and safety, risking travel delays, and adding costs for repairs, insurance, registration, and traffic fines. [click to view](#)



## Health Care

Health care is the hardest item to budget and is both a consequence and a cause of financial instability. Depending on age, illnesses, and overall health, costs vary widely between families. While health insurance has become more available to lower-income families since the introduction of the Affordable Care Act in 2014, there are still millions without insurance and even more who cannot access quality, regular health care due to initial cost outlays, work and family obligations, and doctor shortages, particularly in primary care and in rural areas. [click to view](#)



## Technology

Technology has become an essential part of the modern economy, so families need access to basic technology, such as smartphones and home internet, in order to participate. Yet smartphones and home internet add costs to ALICE's budget. Without access, ALICE families are disadvantaged in job searches and job performance, school performance, accessing public benefits, and health care. Subsidized phone and internet programs exist, but there are significant limitations to performance, eligibility, and enrollment. [click to view](#)



## Taxes

Taxes are a necessary additional expense for working ALICE households. Because most ALICE families are not eligible for public assistance, they are net contributors and, on average, pay a higher rate of state and local taxes than households in the highest income bracket. Earned income and child tax credits provide important relief to working families, though primarily those with children under the age of 18. [click to view](#)

**Because the problems facing ALICE families are interconnected, effective solutions must be, too.** Working toward these solutions will require innovation and vision, to both recognize local factors and address as many areas of struggle as possible. With this clear documentation of how the issues

are interconnected, community stakeholders — family, friends, nonprofits, businesses, and the government — can start to work together to build solutions that are right for their neighborhoods, towns, cities, counties, and states. Ultimately, if ALICE households can become financially stable, state economies across the country will be stronger and communities more vibrant, improving life not just for ALICE, but for everyone.

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## CONSEQUENCES • HOUSING

Introduction Impact on ALICE Broader Costs Future Trends

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### INTRODUCTION

Where we live matters, impacting financial stability, current and future health and life expectancy, exposure to violence, access to resources, housing and transportation costs, educational opportunities, and future economic prosperity.<sup>1</sup> Yet ALICE families — whether they are homeowners or renters — are challenged to find affordable units and often spend a disproportionate amount of their income on housing. As a result, they are frequently forced to make difficult choices or sacrifices in other areas of their lives. Homelessness is the worst possible outcome when ALICE cannot afford basic housing, but there are less drastic consequences that also take a toll.

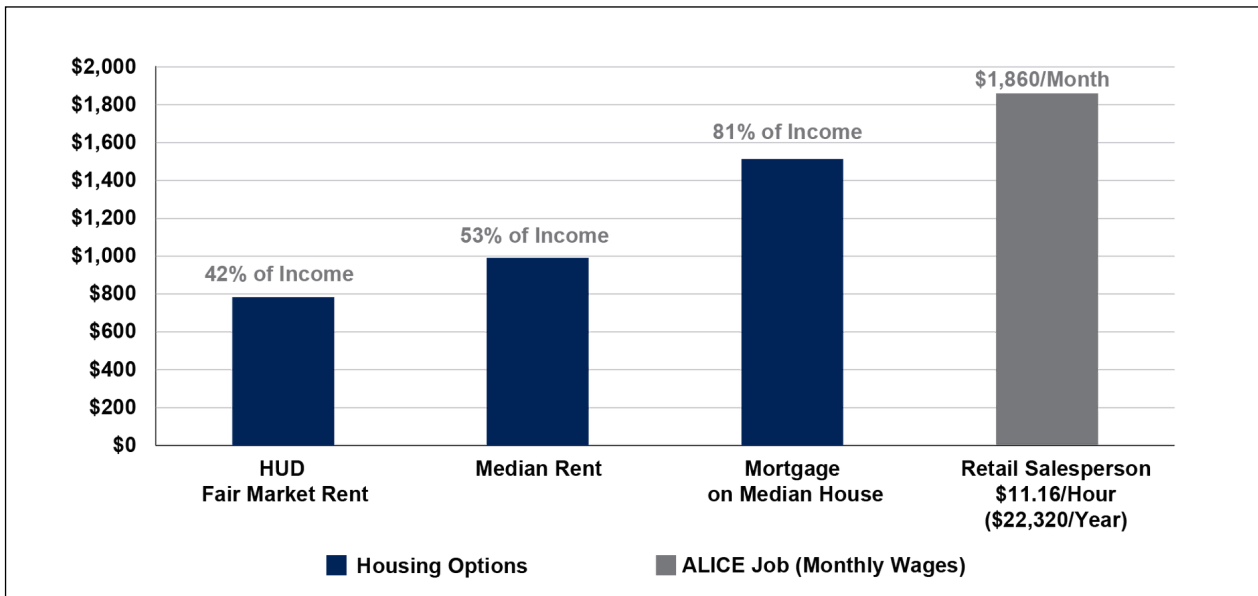
In 66 percent of U.S. housing markets in 2017, owning a home was more affordable than renting in the long term.<sup>2</sup> Yet the cost of a mortgage and down payment, maintenance, and real estate taxes makes home ownership out of reach for many ALICE families. This is especially true for households of color, due to racial and ethnic discrimination in home buying and mortgage qualification practices.<sup>3</sup>

The relationship between the cost of housing and what an ALICE worker earns is shown in the figure below. The figure compares three different monthly housing options for a family of four to the monthly salary of a full-time employee working in retail sales.<sup>5</sup> Retail sales is the most common occupation in the U.S. — more than 8.7 million jobs with an average hourly wage of \$11.16, or \$22,320 annually.

### HOUSING DISCRIMINATION

Nationally, there were 28,843 complaints of housing discrimination in 2017. The three most common types of complaints in 2017 were based on disability (57 percent), race (19 percent), and family status (9 percent).<sup>4</sup>

### Monthly Housing Costs and ALICE Worker Wage, 2017



Sources: American Community Survey. (2017). 1-, 3-, and 5-year estimates; Bureau of Labor Statistics. (2017). Occupational employment statistics. U.S. Department of Labor; U.S. Department of Housing and Urban Development. (2017). Fair market rents

Nationwide, there is a 7.2 million-unit shortage in affordable rental units for extremely low-income renters; there are only 35 affordable units for every 100 of these households.<sup>6</sup>

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## CONSEQUENCES • HOUSING

### IMPACT ON ALICE

#### What do families do if they can't afford adequate housing?

Despite wide national variation, housing costs for renters and owners consistently outpace wages. Faced with high housing costs, most ALICE households are considered housing burdened, meaning that housing costs more than 30 percent of their income. In 2017, households with lower incomes (less than \$50,000 per year) were more likely to be housing burdened than those with higher incomes (above \$75,000) across all housing types.

- Nearly three out of four lower-income renters — and the same share of lower-income owners with a mortgage — were housing burdened.
- The states with the highest rates of housing-burdened renters were California (53 percent), Florida (52 percent), and Hawai'i (52 percent). North Dakota had the lowest rate at 37 percent.<sup>z</sup>

#### ▼ Pay More Than Budget Allows

With the cost of housing consuming so much of a family's budget, ALICE families almost always have to make sacrifices in other areas.



#### Consequences



**Less money available for other needs:** As housing costs rise, families are often forced to forgo other basic needs, such as food, medicine, or child care.<sup>8</sup>



**Less ability to save:** As more money is spent on housing, less is devoted to saving for an emergency or other future needs, creating a vicious cycle of financial instability with higher long-term costs.<sup>9</sup>



**Greater risk of losing housing:** Rising housing costs result in more evictions and foreclosures. Nationwide in 2017, 10 percent of renters with income below the Federal Poverty Level (FPL) and 9 percent of those at 200 percent of the FPL could not pay all of their rent; across the two groups, 9 percent thought it was likely they would be evicted.<sup>10</sup>

While foreclosure rates have been down since 2010, the increased cost of living continues to push families to make this hard choice. In 2017, foreclosure rates ranged from 1 in every 17,560 homes in South Dakota to 1 in every 744 homes in Delaware.<sup>11</sup>

## ▼ Live in Less Desirable Locations

The cost — and quality — of housing varies greatly depending on location. For many ALICE families, the only housing they can afford is located in less desirable areas. These areas typically have one or more of the following issues: high crime rates, run-down infrastructure, little to no public transportation, or lower-quality schools. They are also often located far from jobs, full-service grocery stores, public services (such as parks and post offices), and other necessities.



### Consequences



**Living in unsafe neighborhoods:** Property crime and violent crime are both concentrated in low-income communities, even more so now than they were the 1970s. In 2017, households with income below the FPL were victimized at more than double the rate of high-income households (those above 400 percent of the FPL).<sup>12</sup>



**Increased transportation costs:** Many lower-cost housing units are located far from jobs and services. Low-income households that spend 30 percent or less of their income on housing are estimated to spend an average of \$100 more per month on transportation than those that allocate over half their income to housing.<sup>13</sup>

**Longer commutes:** Because 95 percent of workers do not have access to public transportation, they must drive a vehicle to get to work. While the average American's commute is under 30 minutes, more than 10 million Americans have a commute of at least an hour each way.<sup>14</sup> One analysis estimates that across the country's 50 largest metro areas, travel time alone costs workers \$107 billion per year.<sup>15</sup> Long commutes also contribute to physical and behavioral health issues, diminished productivity, and absenteeism.<sup>16</sup>

**Lower-quality schools:** Most high-performing schools are located in neighborhoods with more expensive housing, higher taxes, and more public amenities.<sup>17</sup>

**Closer to Environmental Hazards:** One of the reasons that housing may cost less is because it is located in flood prone areas or near polluting entities such as highways or incinerators.<sup>18</sup>

**Housing and Health:** Individuals who view their neighborhoods as unsafe are much more likely to suffer from depression and substance use disorders, which in turn are risk factors for cardiovascular disease and other serious illnesses.<sup>19</sup>

Children in low-income communities are more likely to suffer anxiety, lower school performance, and chronic health issues.<sup>20</sup>

### INCOME AND SAFETY

Studies have shown that low-income children who live in more socioeconomically diverse communities with lower levels of poverty are less likely to become the victims of crime.<sup>21</sup>

## ▼ Rent or Buy Substandard Housing

Given the high cost of quality housing, ALICE families are often forced to choose homes that are in substandard condition. Such housing presents a variety of health and safety risks including malfunctioning or absent heating, ventilation, and air conditioning systems; sub-par plumbing and leaks; and exposure to vermin or lead, mold, and other toxins.<sup>22</sup> In the U.S., 5 percent of the housing stock has severe problems, such as issues with plumbing, heating, or cleanliness.<sup>23</sup>



### Consequences



**Maintenance costs:** Poor quality or older housing requires additional costs for upkeep, and a costly repair can threaten the financial stability of an ALICE household.



**Physical and behavioral health risks:** Living in substandard units affects the health and well-being of residents. The risks include injuries, asthma, infections, and exposure to toxins such as lead.<sup>25</sup> For children and adults, living in unsafe housing for an extended period of time also causes prolonged, elevated stress — often called “toxic stress” — which has a negative impact on mental and physical health as well as on educational outcomes.<sup>26</sup>

## LEAD EXPOSURE

Lead impacts children in ALICE families. Nationwide, at least 4 million housing units with exposed lead have children living in them, and an estimated 500,000 children under the age of six have lead levels that are high enough to affect long-term cognitive and behavioral development.<sup>24</sup>

**For ALICE, even routine do-it-yourself repairs pose safety risks and can be expensive.** If the repairs are not made, families may face the risks of living in an unsafe environment, and the potential for injury can, in turn, increase the costs for health care services.<sup>27</sup> Senior homeowners with income less than 125 percent of the FPL pay an average of 15 percent of their income on maintenance.<sup>28</sup>

## ▼ Seek Housing Assistance

Another option is to seek homeowner or rental assistance. While a large number of ALICE households depend on this kind of assistance, it remains unavailable to many others. Approximately 4.8 million households (about 4 percent of all U.S. households) receive homeowner or rental assistance from the U.S. Department of Housing and Urban Development (HUD).<sup>29</sup> Yet only one-quarter of households eligible for federal rental housing assistance actually receive it. Federal housing subsidies:

- Go disproportionately to higher-income households
- Are deeply underfunded for rental assistance<sup>30</sup>



## Consequences

**Risk of losing assistance:** Because of eligibility cutoffs, ALICE and poverty-level families can lose their housing assistance if they get a better job, work more hours, or receive a raise that pushes their income above the cutoff. Some families make the difficult choice to forgo work or higher-paying jobs for fear of losing housing assistance, which is so hard to obtain in the first place.<sup>33</sup>

**Living in less desirable neighborhoods:** Public housing is often located in distressed, under-resourced neighborhoods with higher crime rates, less public transportation, and lower-quality schools than wealthier neighborhoods. Choice is limited by several factors, including tight market conditions, racial and ethnic discrimination, the lack of moderately priced rental housing, and landlords who are unwilling to accept voucher payments.<sup>34</sup>

## WAITING FOR SUBSIDIES

Over half of the 4,000 housing authorities across the country that provide subsidized rentals have waiting lists. In 2016, 50 percent of public housing and 11 percent of Housing Choice Voucher waiting lists were closed to the public.<sup>31</sup> In the same year, the median Housing Choice Voucher waiting list had a wait time of 1.5 years, with 25 percent of them having a wait time of three years or more.<sup>32</sup>

## ▼ Borrow at High Rates

ALICE families may decide to take out a high-interest loan to purchase a home. This option could be less expensive than renting in some locations, and offers a way to build equity. However, many potential ALICE homeowners do not qualify for competitive financing rates or do not have savings for a down payment. So that for ALICE households to buy, they are often forced to borrow at high rates or use risky financial products, with potential long-term

consequences.<sup>35</sup> Nationally, the two most common reasons renters cite for renting rather than owning a home are that they don't think they can afford the down payment (50 percent of respondents) or they don't believe that they will qualify for a mortgage (31 percent).<sup>36</sup>





## Consequences

**High-risk loans:** ALICE households who do not qualify for traditional mortgages often look for alternatives, leading to an increased use of “contract for deeds” or “rent-to-own” mortgages that charge higher interest rates and have less favorable terms for borrowers.<sup>37</sup> In each of these financing scenarios, the combination of a lower income and significantly worse financial terms puts borrowers at a far higher risk of foreclosure.<sup>38</sup>

**Greater hardship over time and stagnant assets:** High-risk loans may assist ALICE households in the short term, but in the longer term these loans incur both higher costs and lower returns on investment. In addition, the mortgage tax deduction, which has traditionally been one of the main tax benefits of homeownership, is negligible for low-income households.<sup>239</sup>

**Foreclosure:** ALICE families who own their homes are more susceptible to foreclosure than higher income families. They are more likely to have sub-prime mortgages, which are granted to individuals with poor credit ratings. These households now make up the majority of foreclosures.<sup>40</sup> Households of color are also more likely to face foreclosure. From 2007 to 2013, 29 percent of Black homeowners and 32 percent of Hispanic homeowners were foreclosed on, compared to 11 percent of White homeowners.<sup>41</sup>

**Longer-term financial instability:** When ALICE families have a home foreclosed on, they not only lose a stable place to live and their primary asset, but their credit rating drops. This creates barriers to future home purchases and even rentals, especially for low-income families. A low credit rating, combined with a lack of funds for a down payment or security deposit, means that ALICE households recovering from foreclosure often have difficulty finding new housing.<sup>42</sup>

**Homelessness:** Ultimately, if an ALICE household can no longer afford their home, or it becomes too unsafe to live in, they can become homeless. Homelessness has a ripple effect across many aspects of life and may lead to issues including:<sup>43</sup>

- Gaps in schooling for children; lower academic performance
- Difficulties with transportation to work and school
- Short- and long-term physical health issues due to unsafe living conditions
- Increased emotional and behavioral problems, especially in children and youth

### HOMELESS RATE IN THE U.S.

In 2017, there were 553,742 homeless people on a single night, a rate of approximately 17 homeless people for every 10,000 people in the general population. <sup>44</sup>

### LGBTQ+ YOUTH AND HOMELESSNESS

Lesbian, Gay, Bisexual, Transgender, Queer (LGBTQ+) youth are disproportionately represented in homeless populations, largely due to rejection by family members, stigma, and discrimination. At least 40 percent of homeless youth identify as LGBTQ+, despite making up only 7 percent of the general population. These youth are also more likely to be victims of violence.<sup>45</sup>

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## CONSEQUENCES • HOUSING

[Introduction](#)   [Impact on ALICE](#)   **[Broader Costs](#)**   [Future Trends](#)

[Other Sections](#)

### BROADER COSTS OF UNAFFORDABLE HOUSING

When ALICE households pay too much for housing or make other choices that compromise their living situation or financial stability, communities feel the impact both economically and socially:

- **The local economy suffers** because ALICE families have less to spend on other goods and services in the community. They may also not have enough resources to maintain their homes, which impacts entire neighborhoods.
- **When poor housing causes health problems, communities incur higher costs.** Poor-quality housing, as well as living in unsafe neighborhoods or having long commutes, can cause serious health problems for residents. Treating chronic health issues raise health care and coverage costs for all.<sup>46</sup>
- **More traffic is created** when affordable housing is located far from jobs, leading to increased wear and tear on roads, higher costs for road maintenance, and an increased likelihood of accidents and delays, which affect all commuters.
- **Long commutes reduce worker productivity and performance**, as well as reducing new hire retention. This in turn affects co-workers and customers, impacting the business bottom line and state economic competitiveness.<sup>47</sup>
- **As families move farther away from urban centers, taxpayers incur higher costs** because the resulting suburban development requires additional infrastructure and services such as roads, public transit, and sewage. It is estimated that urban sprawl costs the U.S. economy more than \$1 trillion per year.<sup>48</sup>
- **Run-down housing affects neighborhoods.** Housing units that have not been maintained add public safety risks and detract from the appearance of public spaces.<sup>49</sup>
- **Homes in foreclosure impose costs on neighborhoods and local government agencies**, reducing property values for neighbors and increasing costs for the whole community. Neighbors of foreclosed-on homes lose value in their home, with higher loss rates in neighborhoods of color. Foreclosures are also bad for many local banks, as both lenders and investors lose money on them.<sup>50</sup>

- **Communities bear the cost of caring for homeless families.** Chronic homelessness for one person is estimated to cost taxpayers as much as \$30,000 to \$50,000 per year.<sup>51</sup> New York City, with the nation's largest sheltered homeless population, spent \$1.3 billion on services to the homeless between July 2015 and June 2016.<sup>52</sup> These costs are much greater than the cost of preventing homelessness: It costs four times less to house homeless people than to provide them with temporary services, with more savings for housing those with severe physical or mental health issues.<sup>53</sup>

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## CONSEQUENCES • HOUSING

### FUTURE TRENDS: HOUSING FOR ALICE FAMILIES

**The cost of small and lower-cost housing will continue to increase in many markets**, adding pressure to ALICE households.<sup>54</sup> Projections also show that the housing burden for low- and middle-income households will become significantly worse over the next 10 years. Households that are severely rent burdened, meaning their rent makes up more than 50 percent of their income, will grow by at least 11 percent, to 13.1 million in 2025.<sup>55</sup>

**Geography, economics, and, in some places, zoning laws limit the potential for new small or low-cost units** to be built in economically prosperous areas (primarily metropolitan areas), where ALICE workers' jobs are often located. For this reason, long-distance commuting will be part of life for more ALICE families in the coming years.<sup>56</sup>

**Availability of affordable housing will decrease as many of these units are vulnerable to disasters and redevelopment.** The impact of natural and human-made disasters is felt more by ALICE and low-income communities nationwide, in part because affordable homes tend to be located in vulnerable areas. With an increase in extreme weather, more units will be affected and many ALICE families will not be able to fully repair them, or will see increased rent as landlords pass along repair costs.<sup>57</sup>

As housing units age, especially low-cost houses and apartment buildings, they are more likely to be torn down. Nationally, 5.6 percent of the rental stock was demolished between 2001 and 2011, but the loss of units with rent under \$400 per month (i.e., those most affordable for ALICE households) was more than twice as high, at 12.8 percent.<sup>58</sup>

**Millennials and seniors will drive demand for more low-cost homes and rental units.** Young workers are delaying buying their own homes, choosing to rent smaller units instead. At the same time, with the population aging, more seniors are downsizing their homes and moving to smaller units or eldercare.<sup>59</sup> Many of these households are ALICE, and as demand grows, prices will increase, making it more difficult for ALICE to afford housing over time.

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## INTRODUCTION

### Child Care

Typically, one or more adults in an ALICE household must work to support the family budget and enhance their future earning potential. As a result, the demand for child care is widespread. Program offerings include both informal and formal care arrangements for children from birth through age four, and they vary widely in terms of setting, cost, availability, and quality.<sup>1</sup>

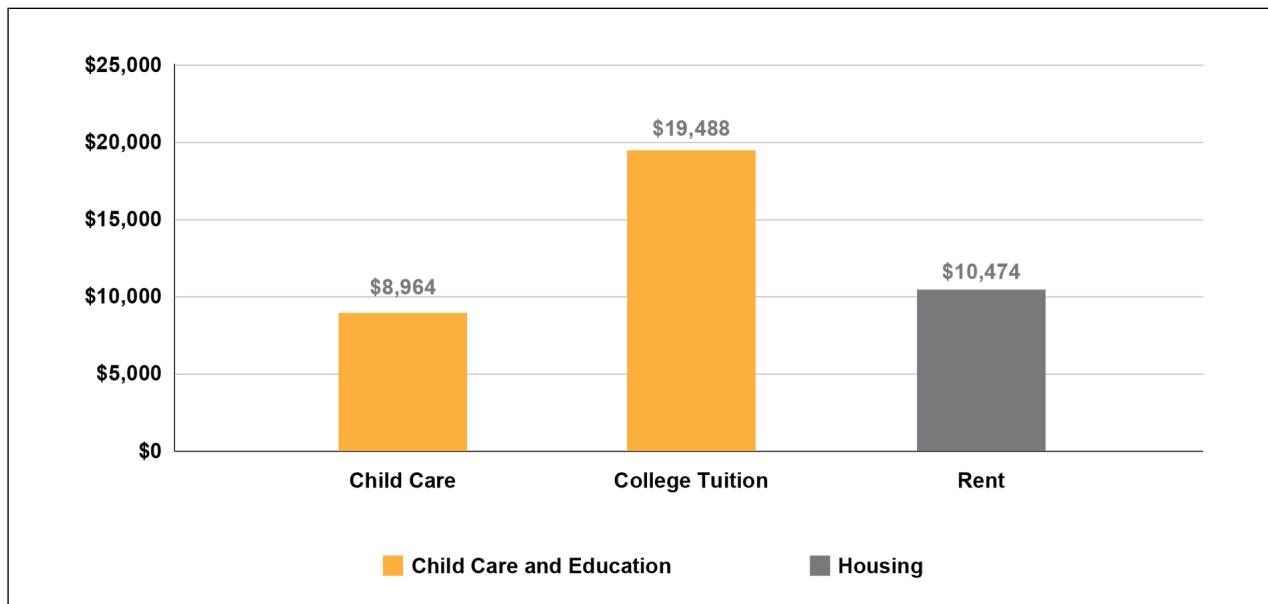
A family’s choice of child care may depend on many factors. There is no “best” or “optimal” kind of care, just care that works for the individual family’s situation. However, certain kinds of early care — especially ones that offer enrichment programs or activities — have been shown to foster healthy, appropriate cognitive development in young children.

While there is a lot at stake for ALICE families in finding appropriate and quality child care, barriers to affordability, access, eligibility for assistance, and scheduling can put such care out of reach.<sup>2</sup>

**Challenges in one area of a family’s budget have consequences in other areas.** Nowhere is this more apparent than in child development, which requires safe housing; reliable transportation; nutritious food; and quality child care, education, and health care. When there is not enough income to provide these essentials, children’s development and future potential can be negatively impacted.

Child care is often the second most expensive item in the ALICE family budget, after the cost of housing. And each of these costs is dwarfed by the cost of college tuition. As shown in the figure below, nationwide in 2017, the average annual cost of a two-bedroom apartment at HUD’s Fair Market Rent was \$10,474; family-based child care for a 4-year-old was \$8,964; and college tuition at a four-year public university was \$19,488 per year.

## Housing and Education Annual Costs, U.S., 2017



Sources: Child Care Aware of America. (2018). *The US and the high cost of child care: Appendices*; National Center for Education Statistics. (2017). *Table 330.20: Average undergraduate tuition and fees and room and board rates charged for full-time students in degree-granting postsecondary institutions, by control and level of institution and state or jurisdiction: 2015-16 and 2016-17*; U.S. Department of Housing and Urban Development. (2017). *Fair market rents*.

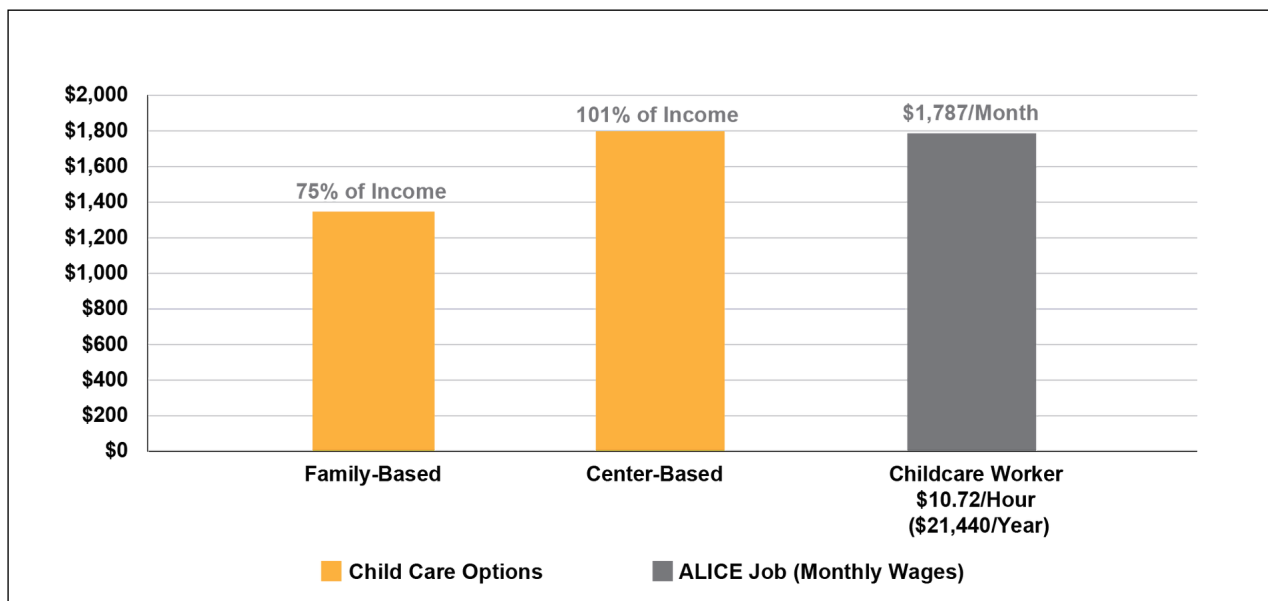
In all United for ALICE partner states, when a family has two or more children in child care, that becomes the most expensive household budget item.

The gap between the cost of child care and what an ALICE worker earns is shown in the figure below, which compares the 2017 cost of child care for an infant and a 4-year-old to the monthly salary of a full-time child care worker whose average hourly wage nationally was \$10.72 (or \$21,440 annually if full time, year-round).<sup>4</sup>

### WORKING FAMILIES

More than 65 percent of children under six years old live in families where all available caregivers are working, making access to quality, affordable child care essential.<sup>3</sup>

## Monthly Child Care Costs (1 Infant, 1 Preschooler) Versus ALICE Earnings, 2017



Sources: Bureau of Labor Statistics. (2017). *Occupational employment statistics: OES data*. U.S. Department of Labor; Child Care Aware. (2018). *The US and the high cost of child care: 2018*.

# Education

A quality education is the best predictor of professional and financial success in the U.S., and the earliest years of a child's education lay a critical foundation for this success. Lack of quality preschool can impact success in kindergarten — and far beyond. This is especially true for children from low-income families, who tend to be 12 to 14 months behind their classmates in pre-literacy and language skills when they enter kindergarten, and who are:

- Less prepared for kindergarten
- More likely to repeat grades and use special education services
- Less likely to graduate high school
- Less likely to achieve higher education degrees
- Less likely to be successful in their careers<sup>5</sup>

As with child care, ALICE also faces obstacles in accessing appropriate education beyond the early years including:

- Achievement and opportunity gaps for economically disadvantaged groups and populations of color, especially in K-12 education<sup>6</sup>
- The often-prohibitive cost of higher education<sup>7</sup>

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## CONSEQUENCES • CHILD CARE AND EDUCATION

Introduction **Impact on ALICE** Broader Costs Future Trends

Other Sections

### IMPACT ON ALICE • CHILD CARE

Types of child care differ greatly in terms of cost and quality:

- **Family-based care:** Child care provided in a home setting for one or more unrelated children. Most states have regulatory guidelines for family child care homes based on the number and ages of children they serve as well as the number of hours their business operates. This type of care is unregulated in some states; is regulated to certain standards in many others; and, in a few states, is even licensed or included in state educational quality rating systems. But in most states, family-based child care is not held to the same standards for health, safety, and current or future learning outcomes as center-based care.<sup>8</sup>
- **Center-based care:** Child care provided in nonresidential group settings, including public or private schools, churches, preschools, day care centers, or nursery schools. Center-based care is usually licensed, and many are accredited by state or nonprofit early childhood organizations.<sup>9</sup>
- **Preschool:** Programs that provide early education and care to children before they enter kindergarten, typically from ages two-and-a-half to five years. Preschools may be publicly or privately operated and may receive public funds. They may be housed in schools, faith-based settings, or commercial spaces.

#### PUBLIC PRESCHOOLS

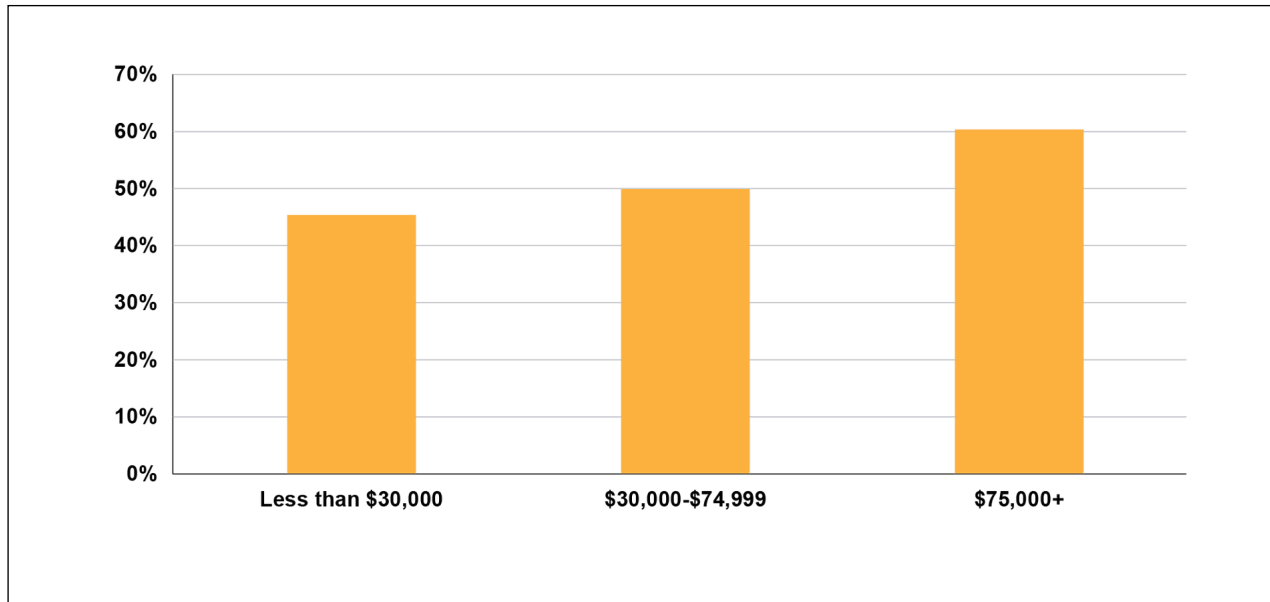
Public preschool programs have been found to improve learning, especially for economically disadvantaged children.<sup>10</sup> Between 2016 and 2017, state-funded preschool programs collectively served over 1.5 million children nationwide.<sup>11</sup> However, the programs vary in terms of quality, and even these programs are not always affordable to ALICE because of costs of transportation and before- and after-school care.<sup>12</sup>

Several factors impact child care options:

- **Affordability:** Quality child care is very costly, and increases with the number of children in a family. In 2016, 32 percent of parents with difficulties finding child care said cost was the primary challenge:<sup>13</sup>
- **Quality:** There is a huge variation in the quality of care, which impacts a child's ability to reach developmental milestones.
- **Assistance:** Eligibility for state child care assistance is tied to income, and many ALICE families do not qualify.
- **Availability:** Child care center hours often fall short of the coverage needed by working parents.
- **Proximity:** Just over half of low-income parents of children under age six reported that they have good choices for child care in their community, compared to almost 70 percent of high-income parents.<sup>14</sup>

Nationally, child care attendance remains closely tied to income. In 2017, 3- to 5-year-olds in families with income above \$75,000 were 30 percent more likely to be enrolled in pre-K or preschool programs than those with income of less than \$30,000. There are also differences by race/ethnicity, with Hispanic children less likely to be enrolled in center-based care compared to other groups.<sup>15</sup>

### Percent of Children Enrolled in Early Learning Programs by Household Income, U.S., 2017



Sources: *Child Trends' original analysis of data from the Current Population Survey, October Supplement, 1994-2017 Appendix 2*; *Child Trends. (2014). Early childhood program enrollment*

## What do families do if they cannot access child care or preschool?

Quality child care or preschool function as cornerstones to a child's healthy development, as well as to a family's income stability and growth. Yet many ALICE families struggle to obtain this essential need, for reasons including affordability, quality, assistance, and availability. Here are strategies that different ALICE families try:

### ▼ Seek Less Costly Care

One option is to choose a home-based care center, with a lower average cost compared to center-based care. Nationally in 2017, the average cost of home-based care was \$8,729 annually for a toddler, compared with \$10,096 for center-based care.<sup>16</sup> However, home-based care centers may have different regulatory requirements and can vary greatly in terms of quality.



#### Consequences



**Lack of school readiness:** Families who choose low-cost informal, home-based care may not receive the same level of academic preparation as children in center-based care programs, which equip children with higher levels of math and reading skills as they enter kindergarten.<sup>17</sup>

**Health and safety risks:** Children in non-accredited facilities tend to have more respiratory and other infections and more playground injuries than children

in accredited care settings. In 2015, an estimated 90 percent of injuries sustained at child care facilities could have been prevented through better safety awareness and prevention.<sup>19</sup>

#### EDUCATIONAL QUALITY OF CHILD CARE

Nationally, 11 million children younger than age five are in some form of organized child care, including home-based and center-based care. However, a mere 10 percent of these arrangements met all educational quality guidelines in 2016.<sup>18</sup>

## ▼ Pay More than Family Budget Allows

Another choice may be to pay more than is affordable for child care, in order to access higher-quality care or extended coverage (“wraparound care”). This choice can solve the immediate need of accessing quality care, but can also have a long-term ripple effect across many aspects of family life:



### Consequences



**Less money available for other necessities:** ALICE families who spend more on child care have less money to spend in other areas of their budget. For instance, a family may be pushed to spend less on food, or move to a less desirable area to save on housing costs in order to continue paying for child care. Not having enough healthy food or living in a less desirable area may in turn lead to increased health risks, and greater health care costs.<sup>20</sup>



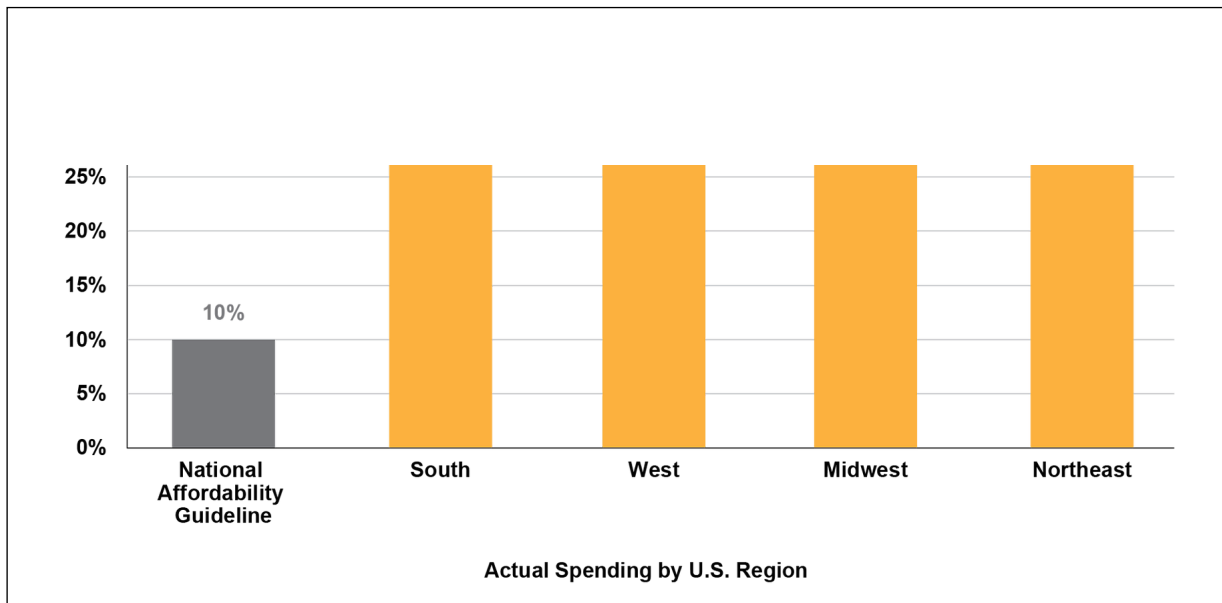
**Lack of savings:** ALICE families who pay more than they can afford for child care are often not able to save for their child’s and family’s future — for instance, for higher education or an unforeseen emergency.

**Increased debt:** ALICE families with access to credit may borrow — often at high rates — to pay child care costs, assuming that if they continue working they will have enough income to pay off the debt.<sup>21</sup>

### AFFORDABILITY GUIDELINE

Many ALICE families pay more for child care than they can afford. The national affordability guideline for household spending on child care is 10 percent of annual income, but as the figure below shows, families across the country typically spend far more.

## Average Percent of Income Spent on Child Care, U.S., 2017



Sources: Child Care Aware. (2018). *The US and the high cost of child care: 2018*; U.S. Department of Health and Human Services. (2013). *Child Care and Development Fund (CCDF) program: Proposed Rule*. Federal Register, 78(97)

## ▼ Find a Publicly Funded Preschool

A public preschool can offer significant cost savings and improve learning outcomes.<sup>22</sup> However, there are downsides to this option, related to funding, quality, and scheduling.



## Consequences

**Underfunded and under-resourced public preschool programs:** ALICE and poverty-level families seeking public preschool may not have access. Only 3 percent of 3-year-olds and 33 percent of 4-year-olds nationwide were served by state-funded preschool programs.

**Variable quality:** Even for ALICE families who are eligible, finding a quality public preschool can be difficult. Only five state programs met all 10 of the National Institute for Early Education Research quality benchmarks; while nine state programs met fewer than half. Inconsistent quality in preschool programs particularly affects families who live in low-income or rural areas, which are less likely to have high-quality preschool facilities.<sup>23</sup>

**Persistent gaps in care:** ALICE families usually need wraparound care before and after school hours, or summer care, which most publicly funded preschool programs do not provide.<sup>24</sup>

## FUNDING VARIES ACROSS STATES

State spending for early-learning programs ranged from \$1,000 to \$12,000 per student, with the majority of states spending between \$5,000 and \$7,000.<sup>25</sup>

## ▼ Seek Assistance

You could seek state child care assistance, provided you meet eligibility requirements. Eligibility for child care is tied to family income: in most states, it is approximately 200 percent of the Federal Poverty Level (FPL), and as high as 250 percent in some states.<sup>26</sup>



## Consequences

**Long wait.** With underfunded child voucher programs in many states, families may be forced to put work plans on hold until assistance is available. Nationally in 2017, 20 states had waiting lists or freezes on accepting new children.<sup>28</sup>

**Trading income growth for assistance.** ALICE families who receive a child care subsidy have to keep their income low enough to retain eligibility. This pushes parents to forgo working extra hours at their job, or decline a raise or job offer in order to keep their income at or below the eligibility threshold.<sup>29</sup> The “benefits cliff” or “income cliff effect” occurs when a household loses all their public benefits once it earns above the eligibility level.

## CHILD CARE ASSISTANCE

Of all children who qualify for child care assistance, only one in six receive it.<sup>27</sup>

**Loss of work-related child care benefits:** In many states, child care assistance for low-income families requires documentation of work schedules, income, and care hours that match a consistent number of working hours. This requirement can prevent workers with volatile hours and inconsistent income from qualifying for subsidies.<sup>30</sup>

## ▼ Find Alternate Means of Care

There are a number of alternatives to formal child care, such as staying home with your child or children, or asking a relative, friend, or neighbor to care for them. The advantages to these options include saving money and flexibility of coverage. However, informal child care situations may have less-than-optimal, long-term repercussions.

**Lack of school readiness:** While care by a stay-at-home adult may be the best option for some ALICE families, children who don't attend preschool or other early education programs may not develop the pre-academic skills necessary for success in kindergarten and beyond. These educational gaps tend to be much more costly and difficult to close as children advance through elementary, middle, and high school.<sup>31</sup>

**Possible loss of family income:** If one adult in an ALICE household has to stay home to care for children, there are impacts on income stability, future earning potential, and saving for future needs. Nationwide, it is estimated that families who do not have access to affordable child care and paid family leave lose a combined \$28.9 billion in wages over their lifetimes.<sup>32</sup>

## LIFETIME EARNINGS DEFICIT

It would cost a 26-year-old mother \$467,000 in lifetime earnings to take five years off from a median-paying job to care for her children full time — an amount equal to a 19 percent reduction in lifetime income.<sup>33</sup>

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**Asset Limited, Income Constrained, Employed**



## CONSEQUENCES • CHILD CARE AND EDUCATION

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### IMPACT ON ALICE • K-12 EDUCATION

For all families, a quality K-12 education lays the groundwork for future employment opportunities and long-term economic stability. As with early education, ALICE and other low-income families face multiple barriers to access, including:

- **Income Disparities**

By the time they reach high school, children from families with low socioeconomic status (SES) have literacy skills that are an average of five years behind their higher-income peers.<sup>34</sup> Schools in communities with low SES, as well as low-SES families themselves, are more likely to have fewer resources to support students, which impacts academic achievement.<sup>35</sup>

- **The Achievement Gap**

As children move on to K-12 education, the one area of concern for ALICE households is the achievement gap. Nationwide, Black, Hispanic, and Native American students (who are disproportionately low income); students with limited English proficiency; and students with disabilities have lower test scores throughout K–12 and have high school graduation rates below the national average.<sup>36</sup>

- **Housing discrimination**

Past and current public policies and an array of systemic forces — including housing discrimination — have segregated many children living in under-resourced neighborhoods with low-quality schools. Although neighborhoods and schools are modestly more integrated by race than they were decades ago, significant racial segregation persists. In most states, there is wide variation in school performance across school districts.<sup>37</sup>

### What do families do if they don't live near a quality elementary, middle, or high school?

#### ▼ Move to a Different Neighborhood

Moving to a community with higher-quality, better-performing schools is one possible solution.



#### Consequences



**Increased expenses:** Most high-performing schools are in areas with a higher cost of living. For instance, in the 100 largest metropolitan areas, housing costs almost \$11,000 more per year near high-scoring public schools than near low-scoring ones.<sup>38</sup> Property taxes, food, transportation, child care and other essential needs are also more expensive in these areas, making them impossible for most ALICE families to afford.



**Face increased isolation due to uprooting from one's community.** Leaving behind neighbors, family, and other social connections can take a toll on one's physical and emotional well-being, leading to increased health care costs.

## Housing Vouchers and ALICE

Housing vouchers have the potential to enable ALICE families to move to areas of opportunity, but they have not worked well in practice because many landlords will not accept them (despite this being an illegal form of housing discrimination). Most families with housing vouchers live near a school that, on average, has 74 percent low-income students and ranks in the 26th percentile by state test scores.<sup>39</sup>

### ▼ Commute to a School in Another Neighborhood

While options vary by location, commuting to a higher-quality, better-performing school in another community is possible. In some areas, magnet and charter schools make this a viable option for students who meet the criteria or win the entrance lottery; in other areas, students travel just as far to attend better-performing traditional public schools. In New York City, student commuting time shows how residential segregation by race and income often determines school quality: Between 2013 and 2016, the average commuting time to the nearest high-quality school was higher for Black and low-income NYC students than for other students.<sup>40</sup>



#### Consequences



**Long commute:** Time spent commuting is time students cannot be participating in after-school activities, sports, or jobs, or doing homework; commuting also adds expense to the family budget. This is especially challenging for ALICE students as a recent report found that students living in economically disadvantaged areas face the longest commutes to school.<sup>41</sup>

**Increased absenteeism:** Especially when students rely on public transportation to get to school, they are more likely to face delays. Use of public transportation is also associated with increases in absenteeism.<sup>42</sup>

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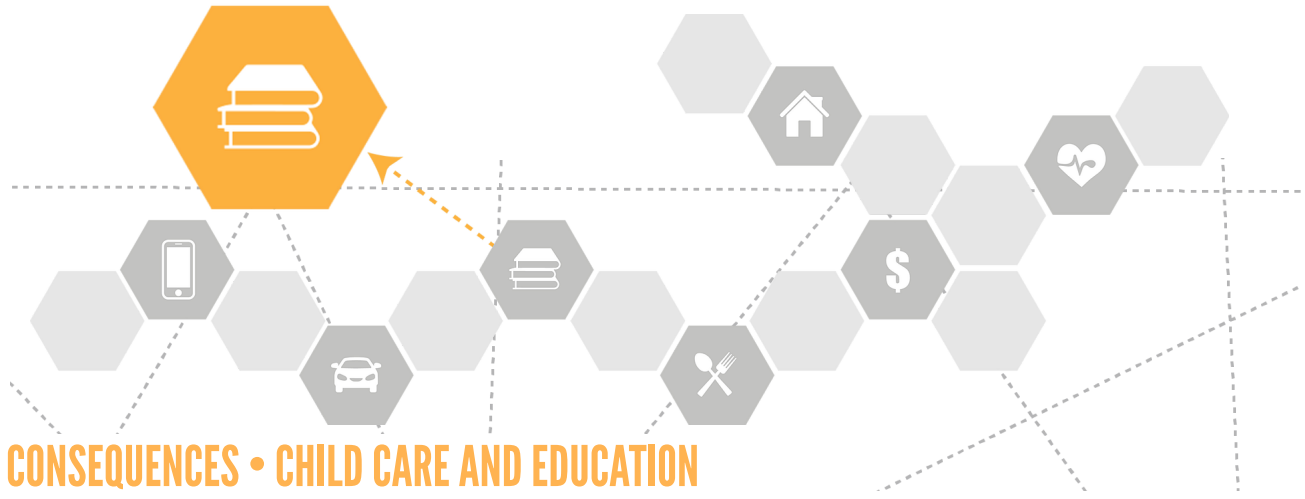
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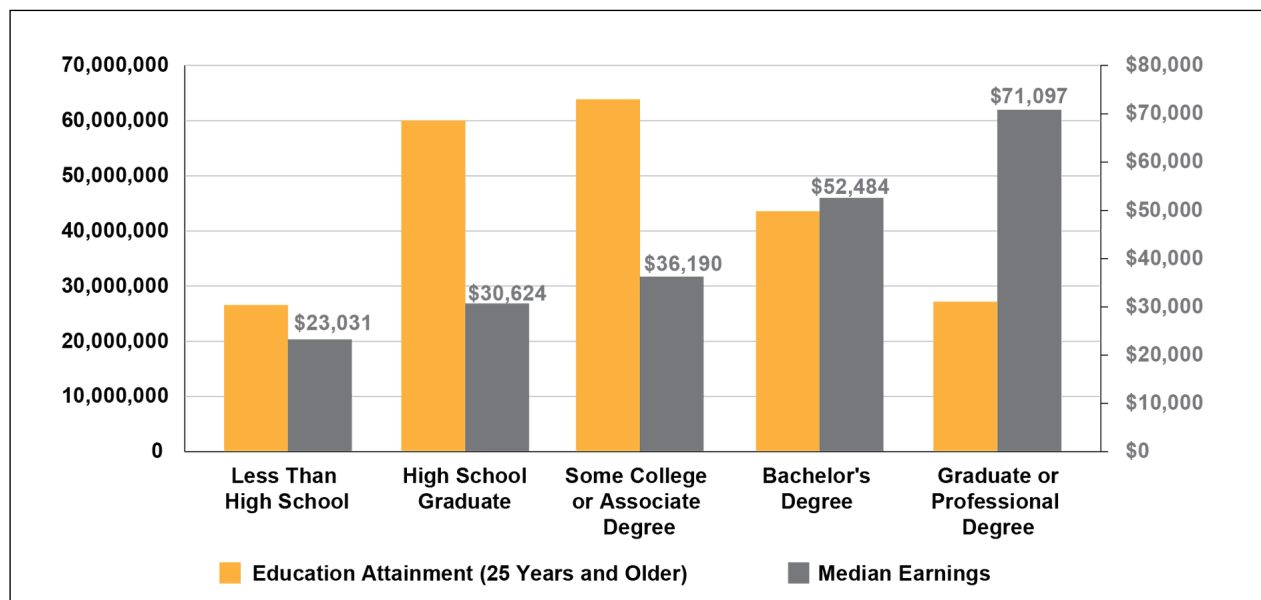
## IMPACT ON ALICE • HIGHER EDUCATION

**Income is highly correlated with education level.** Nationally, the difference in lifetime earnings between high school graduates and those who hold a bachelor's degree is estimated to be \$830,800. Yet higher education is out of reach for many Americans. About 70 percent of low-income students attend college immediately after high school, compared to 80 percent of children from high-income families.<sup>43</sup>

Students in ALICE families encounter numerous obstacles to attaining higher education, including:

- Affordability of tuition, housing, books, supplies, transportation, and “hidden costs” such as technology and college fees
- Difficulty navigating financial aid and other available resources
- A steep educational, institutional, and social learning curve, especially for first-generation college students
- Limited geographic mobility (students may not be able to move away from home to attend college, even if accepted) <sup>44</sup>
- Inadequate K-12 preparation (deficiencies in core areas, such as reading, writing, and math)
- Balancing work and study (if students need to work to make ends meet)
- Physical, emotional, and cognitive effects of debt <sup>45</sup>

## Education Attainment and Median Annual Earnings, U.S., 2017



Source: American Community Survey. (2017). 1-, 3-, and 5-year estimates

## What do families do if they can't afford college?

### ▼ Not Attend College

While more students from low-income families are going to college, they still lag behind students from wealthier families. Among recent high school graduates from families earning below \$30,000 per year, 63 percent enrolled in a college in 2016, compared to 82 percent of students from families earning above \$100,000 per year.<sup>46</sup> And for many ALICE families, college is still completely out of reach.



### Consequences

**Lower lifetime earnings:** The difference in the net lifetime earnings of a high school graduate versus a high school dropout in the U.S. is more than \$305,000.<sup>47</sup> Men with bachelor's degrees earn approximately \$900,000 more than male high school graduates (\$630,000 for women with bachelor's degrees). The cost of not attending college is greater for young adults today than it has been in the past.<sup>48</sup>

- 1965: College graduates earned 15 percent more than high school graduates
- 1995: College graduates earned 36 percent more than high school graduates
- 2013: College graduates earned 51 percent more than high school graduates

**Increased financial hardship:** Young adults entering today's labor force without a college degree face increasing levels of financial hardship. In 2017, 25 percent of people aged 25 and older with no high school diploma lived in poverty, compared to 13 percent of high school graduates and 5 percent of people with a bachelor's degree or higher.<sup>49</sup>

**Poorer health in the future:** Not completing college — which leads to both less income and more stress — has been linked to poor health outcomes.<sup>50</sup>

**Loss of educational advancement for parents:** ALICE parents who are also students risk leaving college with no degree; 53 percent of parents, compared to 31 percent of nonparents, leave college with no degree after six years.<sup>51</sup> Parents in college face additional challenges:

- Increased expenses due to college tuition
- Increased demands on time for work, study, and parenting
- Difficulty finding child care on or near campus (one study found that over half of parents attending school full time relied on family members to provide child care)<sup>52</sup>

## ▼ Work or Take out a Student Loan

Increasingly, students work while attending college. In addition, more students take out a student loan to pay tuition.<sup>53</sup>



### Consequences



**Not enough money for basic needs:** The majority of students who experience food insecurity (68 percent), housing insecurity (69 percent), and homelessness (67 percent) work, and typically work more hours than other students.<sup>54</sup>



**Increased debt:** Student loan debt is often a reason young adults become ALICE. Two out of three students (65 percent) who graduated from public and private colleges in 2017 had student loan debt and owed an average of \$28,650 (ranging from \$18,850 in Utah to \$38,500 in Connecticut).<sup>55</sup>

**Increased likelihood of dropping out:** Cost is the number one reason students drop out of college. Either they cannot work enough hours or borrow enough money, or the stress of working and studying becomes too much to manage.<sup>56</sup>

**Impact on credit rating:** With high loan default rates, students can jeopardize not only their current financial status but their future ability to borrow and save. Nationally, there are 8.9 million federal loan recipients in default — a record high — with an additional 1 million student borrowers defaulting each year. Graduates from low-income families are five times more likely to default on their student loans than higher-income graduates.<sup>57</sup>

**Increased mental and physical health problems:** Inability to repay student debt can lead to increased stress levels or contribute to poor physical health.<sup>58</sup>

**Less money for current expenses or savings:** Money spent on debt means that less money is available for other basic needs or especially emergencies. Students who need to borrow are also more likely not just to be working, but to be working long hours and doing without basic needs. A recent report highlighted high rates of student food and housing insecurity and even homelessness — especially among working students.<sup>59</sup>

**Fewer savings and a delayed financial future:** Struggling to cover current costs, young workers with student debt increasingly delay buying a home or saving for retirement. Millennials are starting families and buying homes later than previous generations.<sup>60</sup>

## ▼ Attend Community/For-Profit College

Students from low-income families are more likely than their wealthier peers to attend two-year community colleges or private for-profit colleges, in associate degree or certificate programs. Low-income students made up half of students at public two-year colleges and 61 percent at private for-profit institutions compared to only 27 percent at private nonprofit four-year colleges.<sup>61</sup> While community colleges often provide a vital lifeline for low-income students, both two-year and for-profit colleges can have drawbacks.



### Consequences

**Lower financial returns.** Median earnings for students with an associate degree or certificate are lower than earnings for those with a bachelor's degree or higher.<sup>62</sup>

**Slower path to completion.** Fewer than 40 percent of community college students earn a certificate or degree within six years of enrollment, delaying or preventing them from realizing future earning potential. Completing an associate degree correlates with a 37 percent increase in earnings compared to only earning a high school diploma.<sup>63</sup>

**At for-profit colleges, the possibility of lower earnings and higher debt.** Because a large share of students at for-profit colleges borrow money to attend but drop out without their certificate or degree, they do not qualify for higher paid jobs yet still have to manage sizable student loans. In fact, many are worse off than those who did not attend higher education at all.<sup>64</sup>

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## CONSEQUENCES • CHILD CARE AND EDUCATION

Introduction   Impact On ALICE   **Broader Costs**   Future Trends

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### BROADER COSTS OF LIMITED CHILD CARE AND EDUCATION OPTIONS

Not being able to afford quality child care, access a quality K–12 education, or afford higher education has consequences not only for ALICE families, but also for the strength and stability of the local economy and the future of the wider community:

- Lost business productivity:** The lack of adequate child care or early education may result in a parent’s absenteeism and tardiness at work, and low productivity and/or quality of customer service. Businesses lose an estimated \$4.4 billion annually due to absenteeism caused by child care breakdowns, and 65 percent of employees with children see their work schedules affected by child care issues an average of 7.5 times in a six-month period.<sup>65</sup>
- Long term societal costs:** Education at all levels provides a basis for lower crime rates, improved physical health, and increased future earnings. These translate not only to lower public expenditures in criminal justice, health care, and social services, but also to healthier communities.<sup>66</sup>
- Lost revenue and savings:** When high-quality educational opportunities help ALICE families — especially those who are Black or Hispanic — achieve greater financial success, the entire economy benefits. For example, raising the 2015 national high school graduation rate to 90 percent would have generated a \$3.1 billion increase in earnings, a \$504 million increase in federal tax revenues, an additional \$5.7 billion contribution to the GDP, and \$16.1 billion in health care savings.<sup>68</sup> In addition, a study by McKinsey estimated that closing the educational income gap between White and Asian students and Black and Hispanic students for 15 years would have increased the GDP a decade later by 3 to 5 percent.<sup>69</sup>
- Higher costs for all to cover defaulted student loans:** In 2016, taxpayers contributed almost 1.5 billion to institutions where less than 25 percent of graduates earned more than the average high school graduate. Of this amount, \$33 million was campus-based aid, \$853 million was from grants, and \$610 million was student loans.<sup>70</sup>

#### RETURN ON INVESTMENT

There is a significant return on investment for early childhood education — an estimated \$8.60 for every dollar spent. <sup>67</sup>

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## FUTURE TRENDS: CHILD CARE AND EDUCATION FOR ALICE FAMILIES

**Changing family configurations will make it harder for child care providers to stay in business.**

The number of families with children has been decreasing for the last decade, and at the same time, the composition of families is changing. There are fewer families with married parents and an increasing number of single-parent families (both male- and female-headed), blended families, grandparent-headed families, and LGBTQ+ families. With fewer children, there will be less demand for child care, and some centers will struggle to be viable. Since single-parent families are still more likely to live in poverty or to be ALICE, they will also struggle to afford quality child care. The overall trend, then, is toward fewer families with children, but more who are struggling.<sup>71</sup>

**The child care industry is dominated by single proprietors, small businesses that are susceptible to changes in the job market.** More than 80 percent of child care operators are sole proprietors. They are challenged by a fluctuating employment market, families with increasingly variable schedules, and the low reimbursement rates of vouchers, which have not kept pace with costs. Many have been forced to close when there are dips in the local and national economy.<sup>72</sup>

Child care arrangements with a relative will continue to be the most commonly used form of care. Given the ongoing issues with the changing workforce as well as the cost and availability of child care, families will continue to use the lowest cost, most flexible child care arrangements. The high cost of both center-based and home-based child care, even with sliding-scale fees and vouchers, means that many ALICE and poverty-level families cannot afford formal care. Without the expansion of public funding, the share of children who have no regular, formal child care arrangements at all will persist, or even increase.<sup>73</sup>

**Low-paid child care workers are ALICE.** Keeping costs down in child care means limiting wages for child care workers. Nationally, the average hourly wage for child care workers was \$10.72 (or \$21,440 annually) in 2017 — so low that nearly half of child care workers received public assistance.<sup>74</sup> Since the quality of any early learning setting is directly related to the quality of its staff, the lowest-cost child care providers will have difficulty attracting the most talented educators, and quality will suffer.<sup>75</sup>

**The role of charter schools is increasing.** One response to the persistence of the achievement gap and the perception that public schools are not meeting the needs of many students has been the creation of charter schools (publicly funded but run by independent nonprofit boards). Since 2000, charter school enrollment has increased from 300,000 to 2.3 million nationwide, with 4.6 percent of public school students attending a charter school. The efficacy of charter schools is widely debated and varies greatly from school to school and state to state.<sup>76</sup>

**Earning potential will continue to be tied to education level — and area of expertise.** For students who do attend and graduate from college, there is a wide disparity in employment and earnings based on their major or certificate degree. Degrees that provide technical training (such as engineering, math, or computer science), or majors that are geared toward growing parts of the economy (such as education and health care) translate into higher earnings after graduation. Degrees that provide less technical and more general training translate into lower earnings in the marketplace, leading to many well-educated households not being able to afford basic necessities.<sup>77</sup> For example, the median annual salaries for new workers (up to five years on the job) range from \$33,400 for an early childhood educator to \$82,700 for a petroleum engineer.<sup>78</sup>

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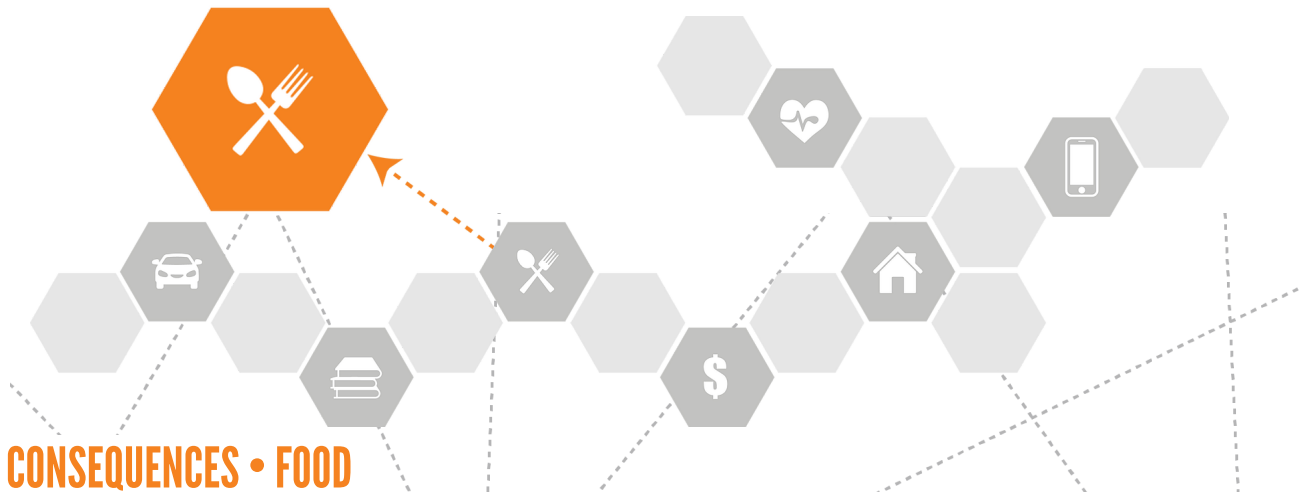
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## CONSEQUENCES • FOOD

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### INTRODUCTION

**Food is the most basic of all needs.** In a country with vast agricultural resources, it may seem surprising that any family faces hunger. Yet access to affordable, high-quality, healthy food continues to be a challenge for many. No community is immune to this problem; there are individuals in every county of the U.S. who intermittently or frequently do not have enough food to eat.

### The Burden of Food Insecurity

The cost of moving from food insecurity to security provides insight into how thin the line is between financial hardship and stability. In 2016, the total shortfall for all U.S. families in meeting their basic needs was just over \$21 billion, which, when spread across all food insecure Americans, was \$41 per month per household, according to Feeding America.<sup>2</sup> This budget shortfall means that families are forced to make difficult decisions, like choosing between food or paying for utilities or a needed prescription. And this burden extends beyond individual households: The U.S. spent an estimated \$160 billion on [health care](#) costs related to hunger and food insecurity in 2014.<sup>3</sup>

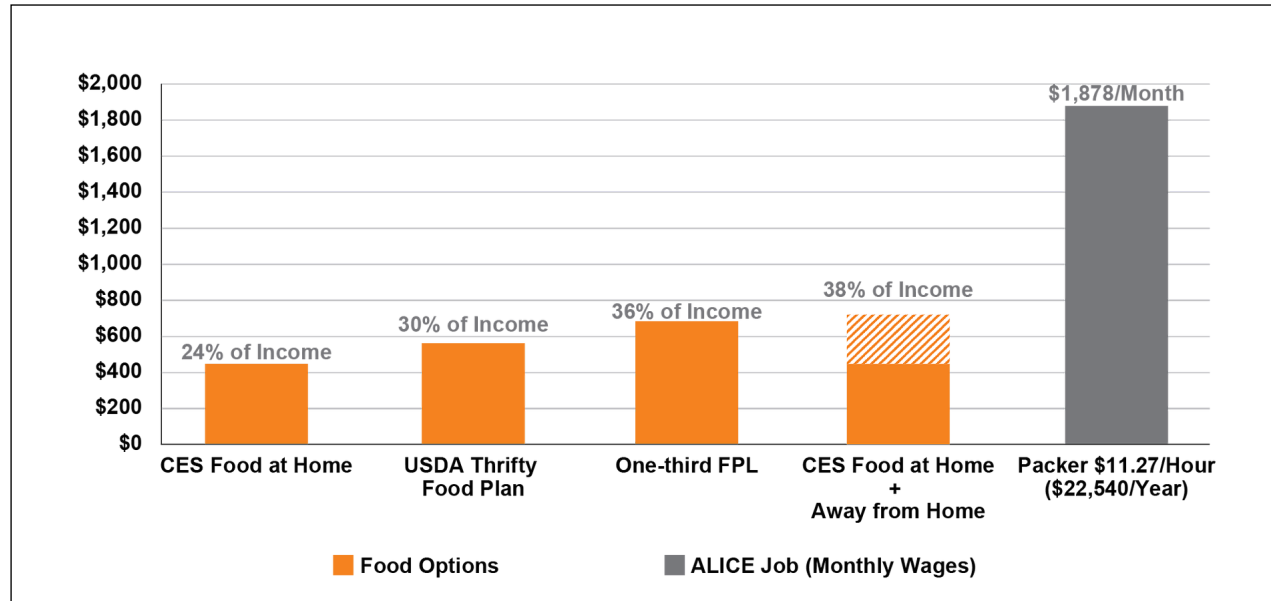
**FOOD INSECURITY DEFINED**

The U.S. Department of Agriculture (USDA) defines food insecurity as the lack of access, at times, to enough food for an active, healthy life for all household members, and limited or uncertain availability of nutritionally adequate foods.<sup>1</sup>

**A large number of households experience food insecurity.** At some point during 2017, 12 percent of U.S. households were food insecure, including 16 percent of households with children.<sup>4</sup> The prevalence of food insecurity varies by region and state, ranging from 13 percent in the South, to 10 percent in the Northeast; and from 7 percent in Hawaii to 18 percent in New Mexico.<sup>5</sup>

**Having enough food is a basic challenge for ALICE and poverty-level households.** The figure below shows the gap between how much ALICE families need for food and what they can afford to spend, comparing three different monthly food budgets for a family of four to the monthly salary of a full-time employee working as a packer.<sup>6</sup> In the U.S., there were 693,170 packers, working at an average hourly wage of \$11.27, or \$22,540 annually (if full time, year-round) in 2017. Using the USDA's most meager estimate, the Thrifty Food Plan, food for a family of four accounts for more than 30 percent of a packer's salary. Using the original FPL, food costs the family one-third of a budget, which in this case is 36 percent of a packer's income. And using the Consumer Expenditure Survey, which reflects actual spending, food costs 38 percent of an ALICE family's expenses.<sup>7</sup>

## Monthly Food Costs (Family of Four) with Percentage of an ALICE Income, 2017



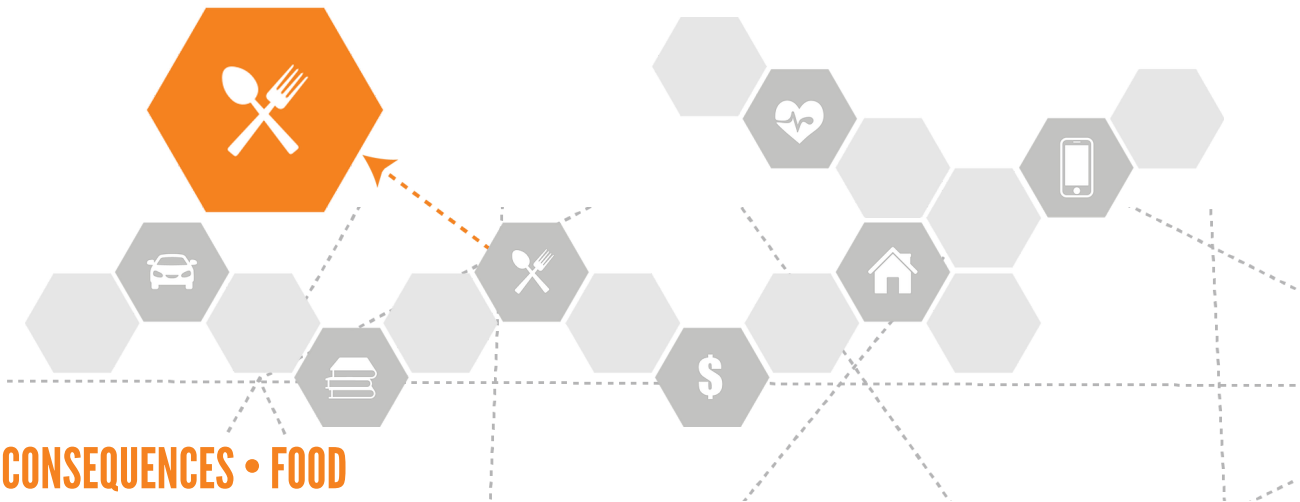
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### IMPACT ON ALICE

#### What do families do when they cannot afford food?

Finding enough affordable, high-quality, healthy food is continually or periodically a challenge for many families. No community is immune to this problem. There are several common strategies that families try when they can't afford food, but those strategies don't always succeed, and can sometimes even cause new problems.

#### ▼ Cut Back on Food Spending

When ALICE and poverty-level households do not have enough money for food, they often have no alternative but to buy less food or, less healthy food. Almost 80 percent of food-insecure families reported purchasing inexpensive, unhealthy food; more than half ate food that was past its expiration date; half purchased food in dented or damaged packages; and 40 percent watered down their food or drinks.<sup>8</sup>



#### Consequences

**Poorer health:** Food insecurity affects health, which impacts school performance, work productivity, and levels of chronic stress. Numerous studies have shown that food insecurity is associated with low energy and poor nutrition, as well as specific adverse health outcomes such as coronary heart disease, cancer, stroke, diabetes, hypertension, and osteoporosis. These effects are especially pronounced for children, seniors, and those with existing health problems.

**For children,** food insecurity can have a negative impact across a variety of areas, including:

- Health: Children who are not getting adequate nutrition get sick more often and are more likely to suffer physical, intellectual, and emotional impairments.<sup>9</sup>
- Education: Young children (ages 0-3) who are hungry learn at a slower rate because malnutrition impacts cognitive development during this critical period of brain growth. Food-insecure children tend to have lower academic achievement, more difficulty concentrating, and increased social and behavioral problems.<sup>10</sup>

#### ADDITIONAL COSTS OF FOOD INSECURITY

Food-insecure households spend an average of 45 percent more on medical care than households that are food secure.<sup>15</sup>



- Job readiness: Workers who were food insecure as children are less prepared physically, socially, and emotionally for entering the workforce.<sup>11</sup>

**For seniors**, lack of sufficient and nutritious food can accelerate declines in health and cognitive function and exacerbate chronic diseases.<sup>12</sup>

**For working-age adults**, lack of sufficient and nutritious food can lead to development of chronic diseases (such as diabetes and heart disease) and contribute to mental health issues (such as depression). Food-insecure adults in the workforce may be less productive and have higher rates of absenteeism.<sup>13</sup>

**Increased health care spending:** The myriad health consequences of food insecurity — poor nutrition, stunted growth, chemical imbalances — lead to poor health and chronic disease, which result in significantly higher health care spending.<sup>14</sup>

**Limited Access to Healthy Foods:** ALICE and poverty-level families often work long hours, which limits the time available to shop for and prepare healthier, lower-cost meals at home; and eating out on a budget often means eating less healthy food. The USDA acknowledges that the Thrifty Food Plan requires skill in buying and cooking foods that need a lot of home preparation time with little waste.<sup>16</sup>

In addition, many low-income neighborhoods have minimal access to fresh food. Nationally in 2015, only 9.3 percent of adults ate the recommended amount of vegetables each day, and the percentage was significantly lower for states with more households living in poverty.<sup>17</sup> This may be explained, in part, by the fact that about 30 percent of U.S. neighborhoods do not have healthy food retailers, such as full-service supermarkets, within a half mile. Limited access to such retailers, or the transportation needed to get to them, is more common in communities with higher numbers of low-income residents and people of color.<sup>18</sup>

## ▼ Seek Food Assistance

Overall, the use of government food programs, as well as soup kitchens, food pantries, and food banks, has increased steadily from the Great Recession to the present. Supplemental Nutrition Assistance Program (SNAP, formerly food stamps) benefits have proven to be effective in combating hunger and poverty; SNAP beneficiaries experience less food insecurity, fewer sick days, and fewer hospital and doctor visits. Eighty-four percent of SNAP benefits go to households with children, seniors, or people with disabilities.<sup>19</sup> SNAP and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) together improve short-term and long-term maternal and child health outcomes and bolster children's academic achievement.<sup>20</sup>

With these benefits, 85 percent of those eligible for SNAP participated in 2016.<sup>21</sup> Barriers to participation include lack of access to assistance, the stigma of receiving assistance, eligibility limits, and insufficient federal food benefits.<sup>22</sup>



### Consequences



**Difficulties accessing assistance:** Many ALICE families are entering the world of public assistance for the first time, and navigating that world can be complicated. It is challenging to find information about what is available and what families need to do to qualify for programs. Because of these barriers, many families instead turn to soup kitchens, food banks, and food pantries, which do not have income-based eligibility requirements. But lack of reliable transportation, and conflicts between work hours and the days/times when these resources are available make them difficult to access.<sup>23</sup>

**Dealing with stigma:** For many families, using public food assistance also takes an emotional toll. Some of the reasons they may avoid assistance include pride, embarrassment, racial stereotyping, and invasive questions about proof of eligibility.<sup>24</sup> SNAP attempts to reduce this issue by providing electronic benefit cards that look and function like bank cards.<sup>25</sup>

**Eligibility limits:** Not all hungry families can access federal food benefits. As a result, there are many food-insecure households — especially those without children — that are often not eligible for public assistance.<sup>26</sup>

**Benefits do not help enough:** SNAP benefits are based on the USDA Thrifty Food Plan, which makes unrealistic assumptions about the cost of food, preparation time, access to grocery stores, and food variety.<sup>27</sup> A vast majority of SNAP benefits run out by the end of the second or third week of every month, leaving households without enough food. In fact, Feeding America reports that more than half of their clients (55 percent) were receiving SNAP benefits in 2014.<sup>28</sup>

#### ELIGIBILITY FOR ASSISTANCE

Eligibility limits for SNAP or WIC benefits are 130 to 200 percent of the FPL for families, which is below the ALICE Threshold in most areas.<sup>29</sup>

### ▼ Put Aside Other Needs

ALICE and poverty-level households put aside other needs, such as medical care, in order to afford food. As an ALICE family's food costs rise, other current needs are compromised, including doctor visits and medicine, child care, heat and other utilities, or housing itself. These deprivations, as well as the stress they cause, can actually increase the need for health care, which becomes yet another expense.<sup>30</sup>

Food-insecure families are more likely than other households to put off health care and buying or taking medications, yet more likely to need it. Children in food-insecure households are less likely to go to recommended well-child visits.<sup>31</sup> Dental care is even more likely to be sacrificed, with many food-insecure households reporting that they had not visited a dentist in the last five years.<sup>32</sup>



#### Consequences



**Reduced health:** Studies definitively link the lack of a nutritious diet to poor health. People who consume less healthy foods are at a higher risk for diseases and conditions including Type 2 diabetes, obesity, cancer, osteoporosis, and cardiovascular disease.<sup>33</sup>



**Less stable housing:** The other key budget item that competes with paying for food is paying for housing. In a survey commissioned by Feeding America, 57 percent of respondents reported choosing between food and rent or mortgage payments. Up to 69 percent could not cover the costs of both food and utility bills in the previous year, and 34 percent faced that dilemma every month.<sup>34</sup>

**Less money for savings:** Paying for food with insufficient income also means that less money is available to save for an emergency, let alone future expenses like higher education or retirement. That lack of savings creates a vicious cycle of financial instability and it increases the risk of higher costs for health care and social services over the longer term.<sup>35</sup>

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## CONSEQUENCES • FOOD

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### BROADER COSTS OF FOOD INSECURITY

The lack of sufficient income to afford enough food or healthy food has consequences not only for ALICE’s health, but also for the strength of the local economy and the future health care costs of the wider community:

- **Food insecurity impacts schools and workplaces.** When children are hungry, they are more likely to have lower academic achievement, more difficulty concentrating, and increased social and behavioral problems, all of which can negatively impact school environments by taxing staff resources and leading to classroom disruption. When adults are hungry in the workplace, they may be less productive and have higher rates of absenteeism.<sup>36</sup>
- **More food-insecure families means higher costs to taxpayers, especially through increased health care spending.**<sup>37</sup> These costs are borne substantially by Medicare and Medicaid, but also by employers and communities. Adults and children suffering from food insecurity are more likely to have no source of usual health care or to ignore health problems until they become severe. As a result, they are more likely to need hospitalization and to visit emergency rooms.<sup>38</sup>

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## CONSEQUENCES • FOOD

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### FUTURE TRENDS: FEEDING ALICE

**More young adults are using food pantries.** Food pantries have been growing significantly as a resource for people under the age of 25, the group most likely to be ALICE or to live in poverty in all United For ALICE partner states. For example, reports consistently find higher rates of food insecurity among college students. In response, the number of university-affiliated food pantries rose from four in 2008 to 121 in 2014, and expansion continues across the country.<sup>39</sup> Similarly, the number of member institutions in the College and University Food Bank Alliance has grown from 88 in 2012 to 686 in 2018.<sup>40</sup>

**As the U.S. population ages, the number of food-insecure seniors (65 and over) is also increasing.** Due to both increased financial hardship and the aging population, the number of food-insecure seniors more than doubled from 2001 to 2016, to 4.9 million. If this trend continues at the current rate, as it is expected to do, there will be more than 8 million food-insecure seniors by 2050. Seniors are more likely to experience food insecurity if they are unemployed, female, people of color, divorced or separated, or living with grandchildren.<sup>41</sup>

When seniors face food insecurity, the consequences can be more serious than they are for younger people, especially when it comes to health. Seniors who experience food insecurity are more likely than other seniors to experience chronic health conditions such as:

- Depression (78 percent more likely)
- Asthma (55 percent more likely)
- Chest pain (40 percent more likely)<sup>42</sup>
- Limitations in activity (21 percent more likely)
- High blood pressure (10 percent more likely)

**Public benefits will not be sufficient to eliminate the need for emergency assistance.** With changes in the economy, many low-wage workers — even those with public assistance benefits — are now forced to use food pantries on a regular basis. Six months of SNAP benefit use was associated with a 35 percent reduction in emergency food pantry use; however, 13 percent of SNAP recipients still use pantries six months after starting benefits, and more than half (59 percent) of persistent users — those who have relied on food pantries for more than two years — also participated in SNAP.<sup>43</sup> Seniors, like low-wage workers, are often forced to use food pantries regularly despite receiving Social Security or disability benefits.<sup>44</sup>

**Add to feelings of exclusion:** Those experiencing food insecurity understandably report feeling excluded and powerless. Because those who have been historically underserved are more likely to face food insecurity, such as people of color, first-generation immigrants, and low-income students — the pain and embarrassment only adds to their feeling of exclusion. Especially in a country with great abundance, hunger deepens an equity divide and is not conducive to community cohesion.<sup>45</sup>

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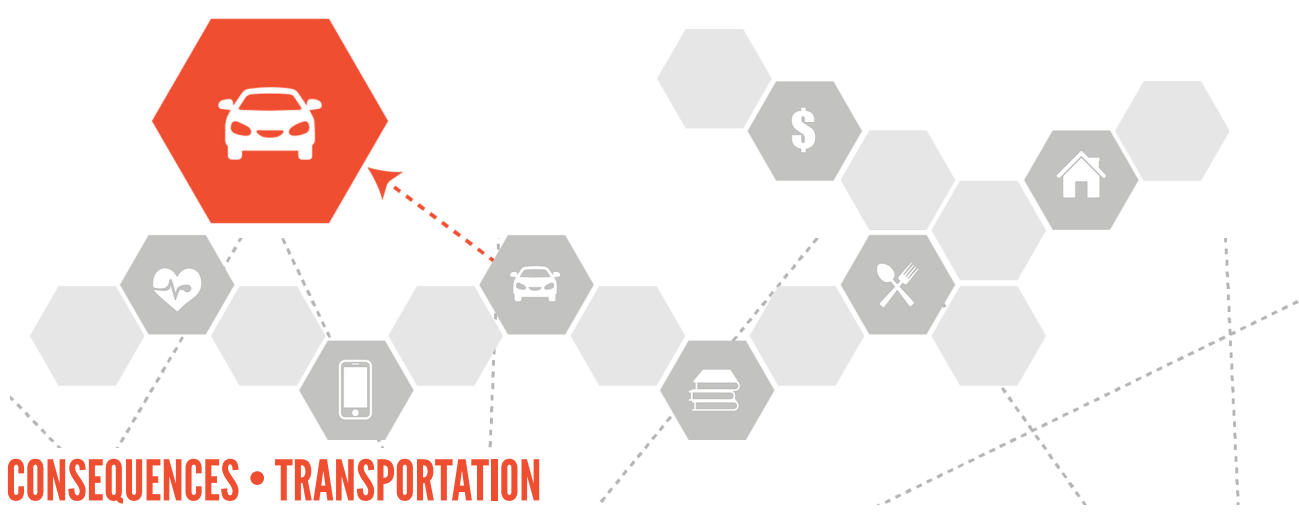
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**Asset Limited, Income Constrained, Employed**



## CONSEQUENCES • TRANSPORTATION

Introduction Impact on ALICE Broader Costs Future Trends

Other Sections

### INTRODUCTION

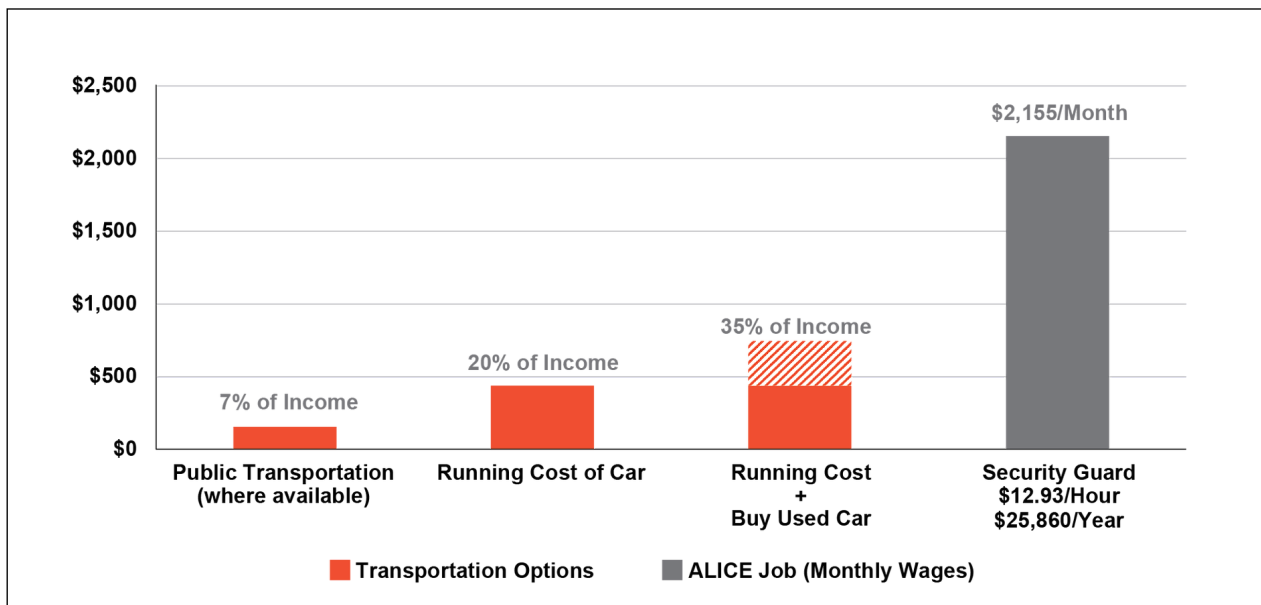
ALICE households depend on reliable transportation in order to reach jobs, schools and child care, health care, stores, and social services, and to connect with friends, family, and faith communities. Yet access to transportation is a significant barrier for many ALICE families.

Transportation — especially vehicle ownership or leasing — consumes a substantial portion of an ALICE household budget. The figure below compares the average monthly salary of a full-time security guard with three different monthly transportation budgets for a family of four. Just over one million ALICE workers are security guards, earning an average hourly wage of \$12.93, or \$25,860 annually (if full time, year-round). This job usually requires a vehicle due to work locations and hours.<sup>1</sup>

Public transportation, when available, is the least expensive way for workers to commute. As shown in the figure below, the average cost of public transportation is \$154 per month, or 7 percent of a security guard’s income, compared to the basic running cost of owning a vehicle, which is \$439 per month or 20 percent of that income. (The latter assumes that the family already owns a car and one person

drives less than 10 miles each way to work every day.) The cost of purchasing a used vehicle adds \$307 per month, which, combined with the running cost, takes up 35 percent of the income. If workers in the family have to commute farther than 10 miles each way, the costs increase significantly. For example, a worker driving 50 miles each way to work every day could add more than \$640 per month in costs.<sup>2</sup>

Monthly Transportation Costs (Family of Four) and ALICE Worker Wage, 2017



Sources: Bureau of Labor Statistics. (2017). *Occupational employment statistics*. U.S. Department of Labor.; Internal Revenue Service. (2016, December 13). *2017 standard mileage rates for business, medical and moving announced*



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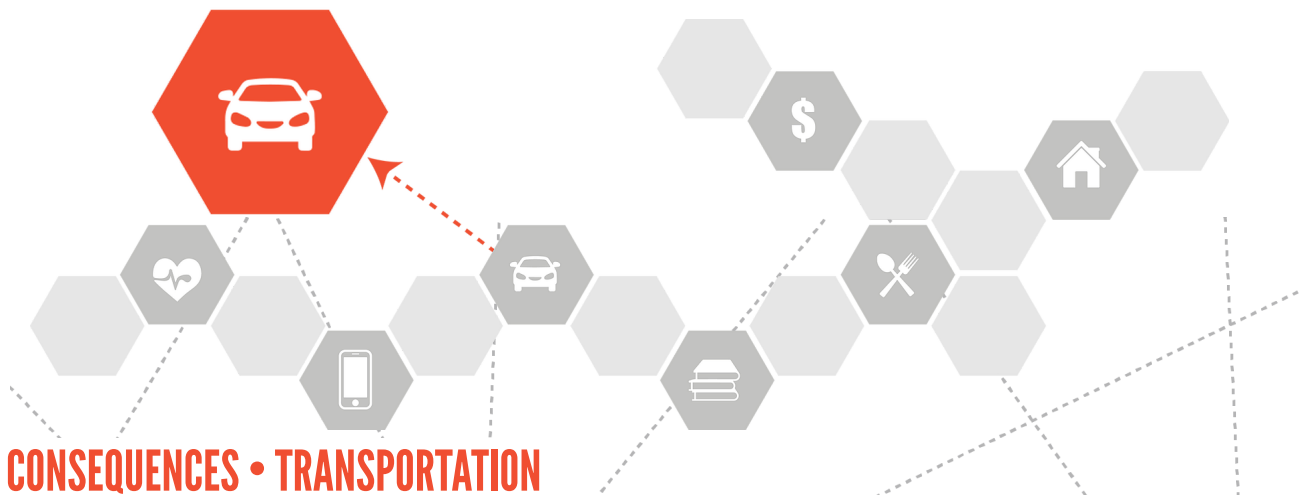
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**Asset Limited, Income Constrained, Employed**



## IMPACT ON ALICE

### What do families do when they cannot afford a vehicle?

In most parts of the U.S., owning or leasing a vehicle is necessary in order to get from place to place. Public transportation systems, including busses, trains, subways, and light rail, do not operate in most areas, especially ones that are more rural or have a lower population density. With low income, little or no savings, and a range of family and work responsibilities, families have limited choices. These are strategies that different ALICE families try:

#### ▼ Reduce Other Expenditures

While it may seem obvious to spend less elsewhere, it is difficult for families on an already tight budget to make further reductions. Because a vehicle is essential for work, families often make sacrifices with significant consequences in order to own or lease, and maintain, a vehicle.



#### Consequences



**Give up other essential needs:** ALICE families who need to spend more on a car may have to go without other necessities, such as adequate housing, healthy food, prescriptions, or preventative medical care.



**Forgo savings:** Spending more on a vehicle can mean that there are no funds available to save for future needs or emergencies.

#### OLDER CARS, RISING COSTS

The average cost of owning and operating a new vehicle in the U.S. was \$8,500 in 2017, but costs go up significantly after three years and more than quadruple after 10 years for most models. Long commutes add costs — additional maintenance, gas, and child care — that ALICE households cannot afford.<sup>3</sup>

#### ▼ Buy a Lower Cost Vehicle

One way to mitigate the cost of buying a car is to purchase a lower-priced, used vehicle. This is often a good option depending on the age and condition of the vehicle, but it requires enough money up front for a down payment.



## Consequences



**Greater costs for repair and maintenance.** Older, used cars typically require more maintenance, making them more expensive in the long run.<sup>5</sup>



**Vehicle may not be dependable.** Older, used cars can be less reliable than new ones, which can lead to:<sup>6</sup>



- Tardiness and absenteeism at work, which can jeopardize employment.
- Missed medical or dental appointments, which can lead people to delay or forgo care until the issue becomes critical (which in turn increases symptom severity and cost of care).
- Missed appointments with social services, which are often only available during specific hours and may be required to determine eligibility for benefits.
- Limited child care and school options: Having limited access to a vehicle means that some families struggle to access quality child care, or pay more to take a child to a quality program, or incur extra “late pickup” fees.<sup>7</sup> The ability to choose a better or more appropriate school may be similarly impacted in districts where school bus transportation is unavailable.
- Limited access to healthy food. Low-income neighborhoods have fewer full-service, competitively priced grocery stores, and a higher proportion of less-healthy fast-food restaurants and convenience stores, than more affluent neighborhoods. Because of this, ALICE residents without access to transportation who have to shop locally are often forced to spend more of their income on less nutritious food.<sup>8</sup>

## MEDIAN VEHICLE VALUE

The median vehicle value for low-income families is around \$4,000, or about one-third of the \$12,000 median value of vehicles owned by middle-income families. While more affordable to buy, these vehicles are usually less fuel-efficient, tend to break down, and need more frequent repairs, adding ongoing expenses.<sup>4</sup>

## CARPOOLING VS. CAR OWNERSHIP

Nationally in 2017, the percentage of workers without access to a vehicle ranged from 2 percent in most southern and western states to 22 percent in New York State and 25 percent in the District of Columbia. Workers who earned less than \$25,000 per year were more likely to carpool than workers who made \$75,000 or more (12 percent compared to 2 percent).<sup>9</sup>

## ▼ Delay or Avoid Payments

Other costs of owning a vehicle include insurance, registration fees, and traffic fines, any one of which can be prohibitive. A car owner might decide not to pay for insurance, register a vehicle (which incurs an annual fee and possibly repairs needed for the vehicle to pass inspection), or pay speeding, parking, or other traffic tickets. Any one of these actions can have serious long-term consequences.



## Consequences



**Long-term penalties:** Delaying or not paying insurance, registration, or tickets offers short-term savings, but may have long-term consequences that are especially harmful for ALICE and poverty-level families, such as:<sup>12</sup>



- impounding of the vehicle
- license suspension
- lowered credit ratings
- deportation (if driver is undocumented and pulled over for traffic violations)
- incarceration

## UNINSURED DRIVERS

Even though driving without insurance is a violation in all states except New Hampshire, on average, an estimated 13 percent (ranging from 4.5 percent in Maine to 26.7 percent in Florida) of drivers were uninsured in 2015.<sup>10</sup> States with more affordable insurance have lower rates of uninsured drivers.<sup>11</sup>

**Day-to-day disruptions:** Drivers whose licenses are suspended because of problems with insurance, registration, or unpaid fines experience delays and complications in getting to work, school, shopping, and medical appointments, which creates added stress and expenses for the whole family.<sup>13</sup>

### LOWER INCOMES, HIGHER RATES

On average, low-income drivers are charged 59 percent more (an extra \$681 annually) for insurance coverage than drivers with higher incomes.<sup>14</sup>

**Insurers issue quotes based on factors unrelated to driving ability, including an individual's:**

- Socioeconomic status. Education level, occupation, homeownership status, insurance purchasing history, and marital status factor into the cost of premiums.
- Credit score. In some states, credit scores can have more of an impact on premiums than any other factor.
- Race. In 2017, premiums were 30 percent higher in zip codes where most residents were people of color than in predominantly White neighborhoods with similar insurance losses.<sup>15</sup>

These higher rates make it even harder for ALICE and poverty-level drivers to afford insurance and increase the likelihood that they will skip payments or opt out altogether.<sup>16</sup>

## ▼ Use Public Transportation

ALICE workers could decide to save money by using public transportation, which costs far less than owning a vehicle, or moving to an area where public transportation is available. Nationally in 2017, only 5 percent of adults used public transit to commute to work, with most of these commuters concentrated in urban areas.<sup>17</sup> Only 3 percent of workers in rural areas reported using public transit regularly. The highest levels of public transit ridership are among immigrant (25 percent), Black (23 percent), Hispanic (15 percent), and low-income (15 percent) workers.<sup>18</sup>



### Consequences



**High cost of living:** The urban areas with the best public transportation, including San Francisco, New York, Boston, and Washington D.C., are also some of the most expensive places in the country to live.<sup>19</sup> ALICE and poverty-level families often cannot afford to live in these areas.



**Longer commutes:** Moving to lower-cost areas outside of cities increases commuting times significantly. Long commutes also reduce time for other activities such as exercise, shopping for and cooking healthy food, and community and family involvement.<sup>20</sup>

**Limited routes:** Public transportation systems do not always provide routes that ALICE workers need. Transit agencies often neglect the routes that serve low-income neighborhoods, and routes often do not extend to areas outside cities where new jobs are being created. Even more importantly, in an era of increasingly flexible work scheduling, public transit often does not accommodate jobs that require working early, late, or on weekends.<sup>21</sup>

### LONGER COMMUTES

Nationally, the average travel time for commuters using public transit is 50 minutes, twice as long as the average commute for those who drive to work.<sup>22</sup> In part, this is due to a longer distance travelled, but it is also due to increased inefficiencies and limitations of public transit systems — especially those farther from city centers, like rural bus routes.<sup>23</sup>

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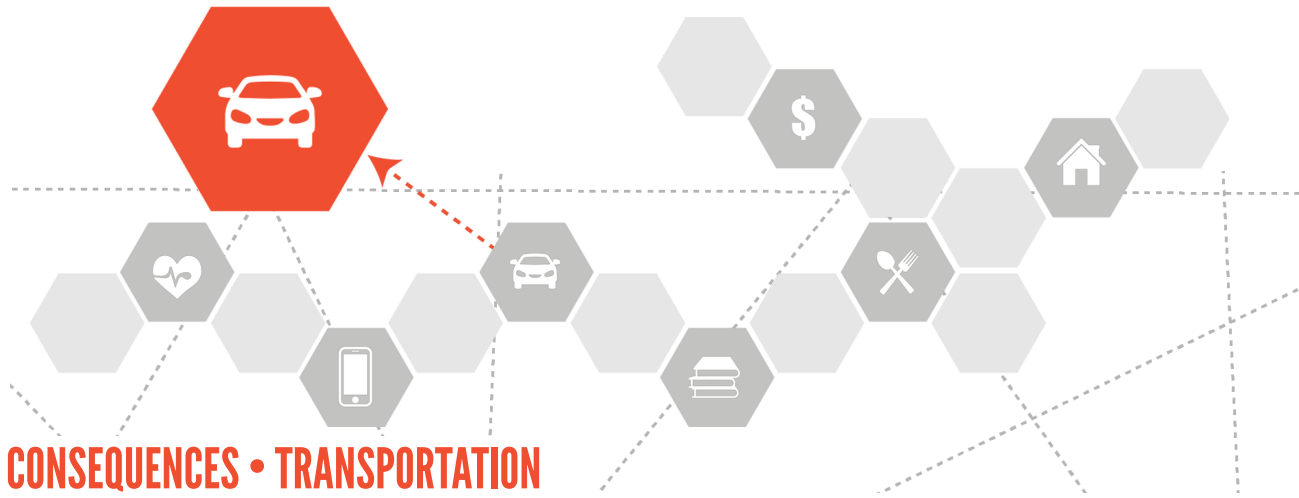
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## CONSEQUENCES • TRANSPORTATION



### BROADER COSTS OF UNAFFORDABLE TRANSPORTATION

Transportation-related “cost-cutting” strategies have consequences not only for ALICE households, but also for the local economy and the wider community:

- **Older vehicles that may need repairs make driving less safe and increase pollution for all.** More older vehicles on the road – as during the Recession, when sales of new vehicles declined – means higher levels of harmful emissions.<sup>25</sup>
- **Uninsured vehicles increase costs for all motorists.** These costs, largely borne by insurance companies, are passed on to insured drivers in the form of higher premiums. Nationwide, uninsured motorists add \$67 per year to the bill of a typical policyholder.<sup>26</sup>
- **Lack of reliable transportation can exacerbate an emergency.** When there is an emergency, such as a child being sick or injured, lack of access to reliable transportation can result in poor options for ALICE families: forgo treatment, rely on friends or neighbors for transportation, or resort to an ambulance to get to a hospital, which also increases costs for all taxpayers. Providing non-emergency transportation (e.g., shuttles to doctor appointments or ambulatory care centers) for those without reliable transportation is also expensive, especially in rural areas.<sup>27</sup>

**LIMITED TRANSPORTATION OPTIONS**

Urban sprawl has been shown to limit social mobility for low-income children. Those in the bottom 20 percent of the income scale are more likely to rise to the top 20 percent if they are born in a low-sprawl area. Urban sprawl also negatively impacts health outcomes such as obesity and life expectancy, increasing health care costs for the wider community.<sup>24</sup>

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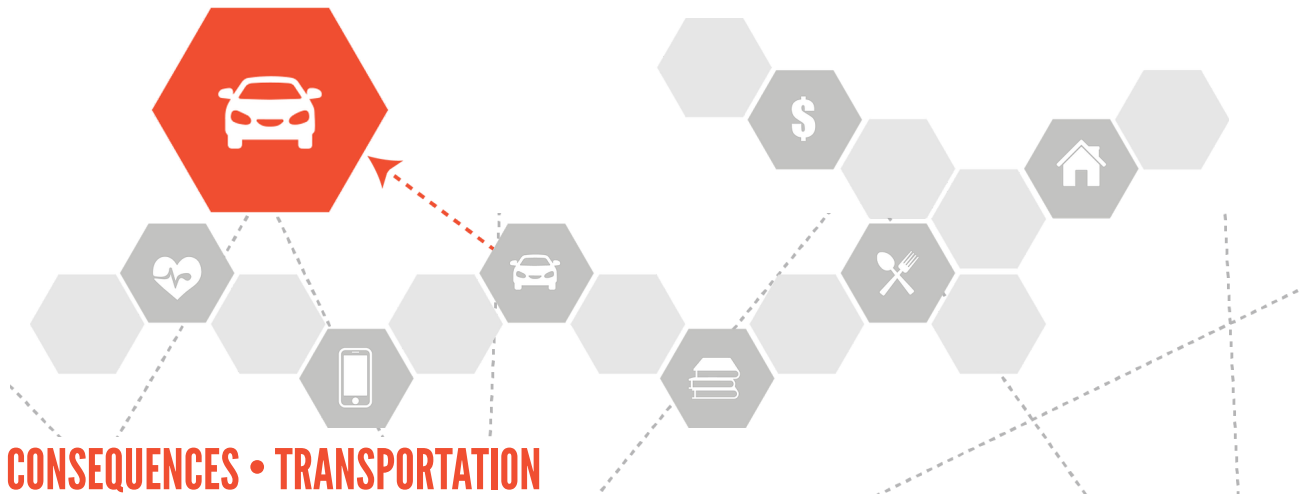
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## CONSEQUENCES • TRANSPORTATION

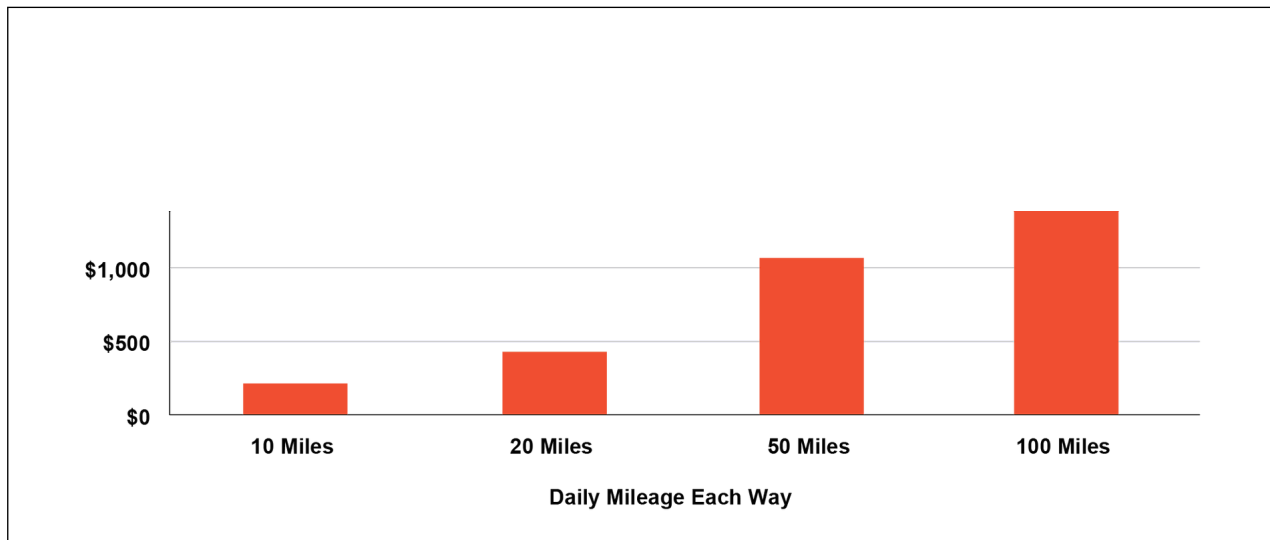
Introduction Impact on ALICE Broader Costs **Future Trends**

Other Sections

### FUTURE TRENDS: TRANSPORTATION FOR ALICE

**Commuting times will continue to increase:** As workers seek ways to cut costs by finding less expensive housing further away from jobs or using slower but cheaper public transportation, commute times will increase. Long commute times increase tardiness and absenteeism rates and can have a negative impact on job retention, adding costs to businesses. Congestion from driving commuters also adds travel time and costs to the trucking industry, and those costs are then passed on to consumers.<sup>28</sup> As shown in the figure below, a worker driving 10 miles each way to work every day spends, on average, \$214 per month, using the Internal Revenue Service estimate of \$0.535 per mile. A 20-mile commute each way doubles the cost; a 50-mile commute each way totals more than \$1,000 per month.

#### Monthly Cost of Driving to Work by Mileage, 2017



Sources: Internal Revenue Service (2016, December 13). 2017 standard mileage rates for business, medical and moving announced

**Urban sprawl will continue to grow:** The appeal of lower-cost housing and reliance on driving continues to push workers to the suburbs and beyond. The development of new infrastructure, especially roads and public services (such as electricity, water, and waste management), costs the American economy more than an estimated \$1 trillion annually. One study found that those living in the new communities directly bear \$625 billion in extra tax burden, and all residents and businesses in the state, regardless of where they are located, bear an extra \$400 billion in costs. Looking at transportation costs alone, development on the fringes of cities over a 15-year period costs nearly twice as much as redevelopment of inner-city transportation.<sup>29</sup>

**Ride-hailing companies will continue to change the transportation options for ALICE families in two ways.** First, the proliferation of ride-hailing companies like Uber and Lyft offers ALICE workers a source of additional income and a way to afford a vehicle. Yet these services also impinge on the traditional taxi and livery industries, where many drivers are also ALICE workers.<sup>30</sup>

Second, for ALICE families, using ride-hailing services for transportation can be more affordable than owning and maintaining a car, and more convenient because rides are available on demand. Rural areas, however, have benefitted less from these services, and pricing in some areas makes ride-hailing less accessible for ALICE (especially “surge pricing,” where prices increase during busy times).<sup>31</sup>

**Self-driving vehicles are poised to transform the transportation landscape.** In the future, fleets of publicly owned self-driving vehicles could provide transportation to doctors’ offices at a fraction of the cost of building a more accessible public transportation system. And if self-driving vehicles can offer lower-cost transportation and more productive commuting time, the proximity of housing to work and amenities might become less important, thereby increasing the range of locations for affordable housing. In addition, a reduced need for car ownership will change the demand for houses with garages, and for on-street parking.<sup>32</sup>

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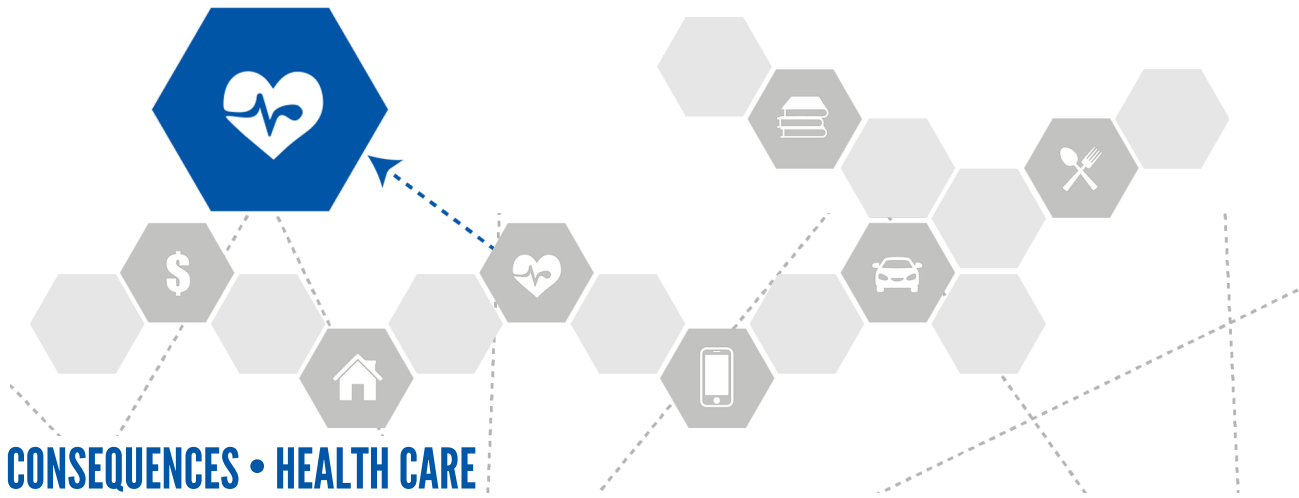
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**Asset Limited, Income Constrained, Employed**



## INTRODUCTION

Poor health can be both a consequence and a cause of financial instability. ALICE and poverty-level families are more likely to become ill because their basic needs for health insurance coverage and regular, quality preventative care are not being met. They also have more difficulty recovering from illnesses both physically and financially. One illness or emergency can force a family into poverty.<sup>1</sup>

Even for people trying to make healthy decisions, health behaviors (like tobacco use, diet, and exercise) only account for about 30 percent of health outcomes.<sup>2</sup> Other factors include access to care; economic factors like employment and income; and environmental factors like housing, air/water quality, and community safety.<sup>3</sup>

Issues in any of these areas can lead to chronic stress (often called “toxic stress”), which can impede a person’s ability to perform well in school, at work, and in daily life. This is especially true for young children: Adverse childhood experiences (ACEs) are known risk factors for poor health outcomes including depression, risky behaviors, and suicide, and are associated with lower life satisfaction.<sup>4</sup>

Cost is the major reason families do not have health insurance, and low-income people and people of color are at the highest risk of being uninsured.<sup>5</sup> The Affordable Care Act (ACA) has made health insurance more accessible and affordable for millions of people: With the ACA’s expansion of Medicaid coverage, the national uninsured rate fell from 17 percent in 2013 to 10 percent in 2016. However, these gains reversed in 2017, when premium- and out-of-pocket costs increased, and the law to eliminate the health insurance mandate was passed. That year, the number of uninsured people increased by nearly 700,000, including 276,000 children.<sup>6</sup>

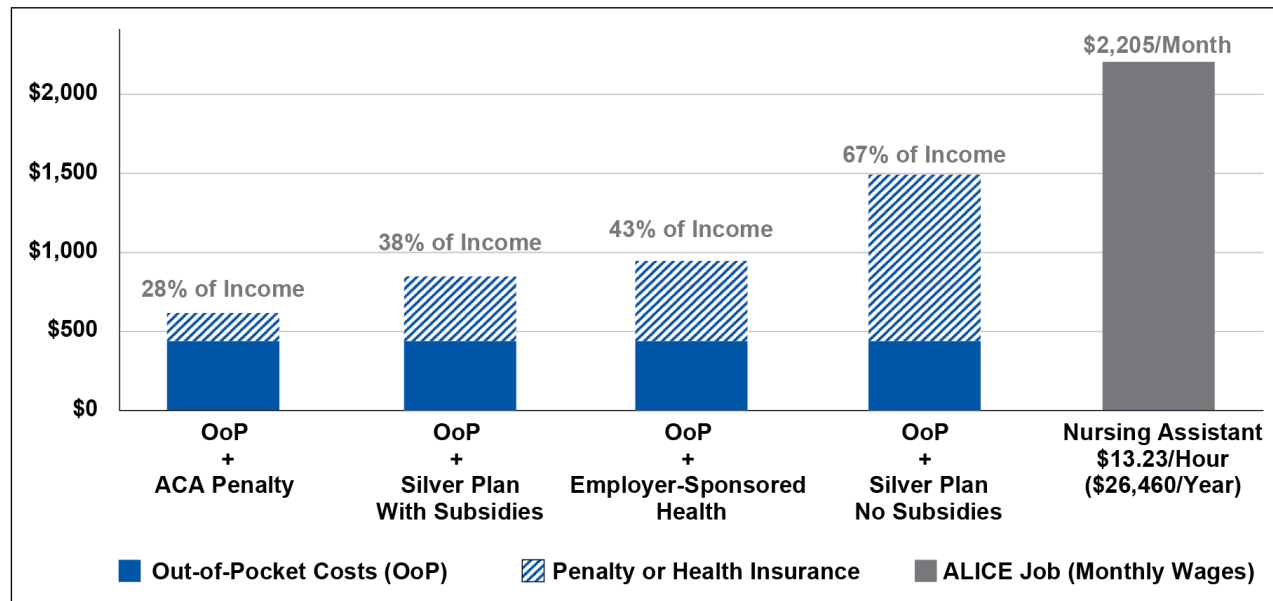
### Less access to care, worsening health

Uninsured adults are four times as likely as those with coverage to delay or forgo care, often waiting to seek treatment until an illness is advanced or pain is unbearable. Because half of all uninsured people have no usual source of care, many go to the emergency room for help because they have no other affordable, accessible options.<sup>7</sup>

The gap between how much ALICE families need for health care and what they can afford to spend can be seen in the figure below, which compares four different monthly health care budgets for a family of four to the monthly salary of a full-time employee working as a nursing assistant. In 2017, more than 1.4 million ALICE workers across the U.S. had health care support jobs and earned an average hourly wage of \$13.23, or \$26,460 annually (if full time, year-round).

Out-of-pocket costs are represented by the dark portion of each bar. The health care budget includes the nominal out-of-pocket health care spending on insurance, medical services, prescription drugs, and medical supplies using the average annual health expenditure reported in the Consumer Expenditure Survey (CES).

## Monthly Health Care Costs and Percent of an ALICE Income, U.S., 2017



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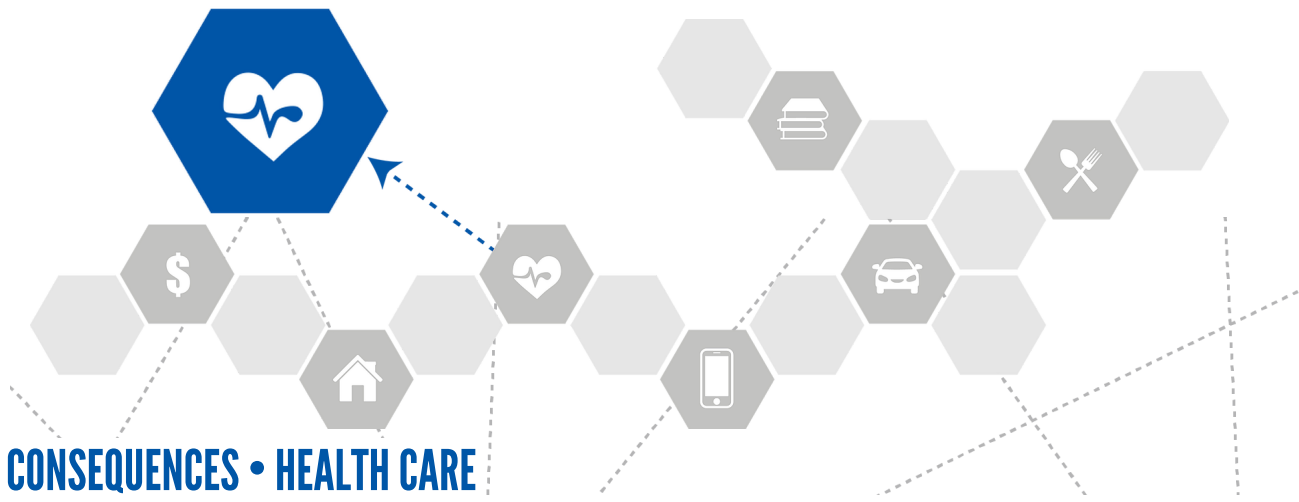
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**Asset Limited, Income Constrained, Employed**



# CONSEQUENCES • HEALTH CARE

Introduction **Impact on ALICE** Broader Costs Future Trends

Other Sections

## IMPACT ON ALICE

### What do families do if they cannot afford health care?

For many ALICE households, doctor visits and medications are prohibitively expensive. Low-income families face problems with the cost of care and also with access to care, including long distances to providers, language and cultural barriers, transportation challenges, difficulty navigating health care systems, and difficulty making work and child care arrangements to accommodate health care appointments.<sup>8</sup> Because these families have limited choices for accessing the care they need, they may try to:

#### ▼ Go Without Regular Care

ALICE families that can't afford health care sometimes delay or go without regular care, including preventative services (checkups, vaccinations, and screenings), dental care (exams and cleanings), and mental health services.

#### Preventative Care

Young children below the Federal Poverty Level (FPL) are less likely than those in higher-income families to receive scheduled vaccines, and low-income adults are 14 to 26 percent less likely to receive cervical, breast, and prostate cancer screenings.<sup>9</sup>

#### Dental Care

Half of adults and 60 percent of seniors with income below 200 percent of the FPL did not visit a dentist in 2016, and one in four uninsured adults who needed dental care went without due to cost.<sup>10</sup>



#### Consequences



**School and work absences:** Delaying or forgoing care can reduce school and work attendance and decrease quality of life. Health issues account for:



- Half or more of all school absences, with asthma and poor oral health being the leading causes
- One-third of unscheduled absences from work, resulting in lost wages for employees and reduced productivity for employers<sup>11</sup>

**More serious health problems:** When health issues go untreated, they become more serious and can lead to additional health problems, including life-threatening illnesses and even death.<sup>12</sup> For example, poor oral health causes pain, can result in poor nutrition, and increases the risk for diabetes, heart disease, and poor birth outcomes.<sup>13</sup>

## Mental Illness in Children and Teens

Untreated mental illness in children and teens has severe social and educational consequences:<sup>14</sup>

50% - Share of children with a mental illness who received treatment in 2017

37% - Share of students with mental health conditions at age 14 who drop out of school

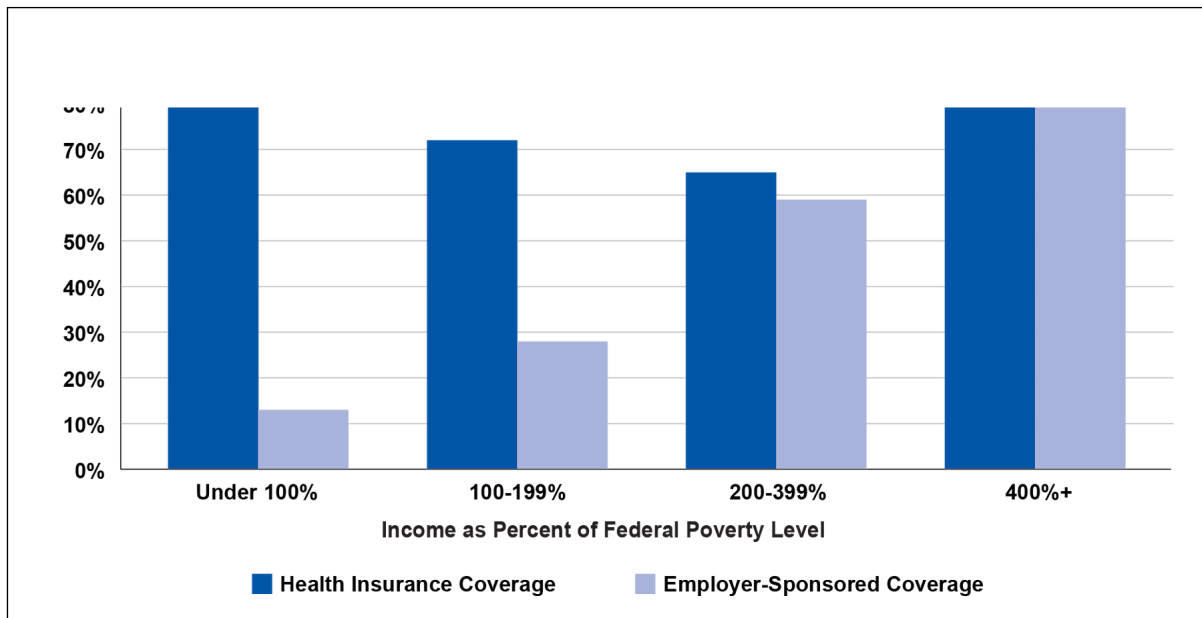
70% - Share of youth in the juvenile justice system who have a mental illness

## ▼ Find Affordable Insurance Coverage

**ALICE families often have trouble finding or affording health insurance coverage,** sometimes winding up with inadequate insurance or no coverage at all.

- Getting insurance through an employer is often the best option, but many lower-wage jobs where ALICE works — especially in the service industry — do not offer health insurance.<sup>15</sup>
- Lower-cost Marketplace health plans have been available since 2014 through the ACA, but the plans that ALICE families can afford often have minimal coverage and high deductibles.
- Medicaid provides free health care coverage for many households in poverty, but many ALICE families earn too much to qualify at their state's eligibility levels.<sup>16</sup> And some households — 2.5 million uninsured adults in non-Medicaid-expansion states — have income above current Medicaid eligibility but below the lower limit for Marketplace premium tax credits. In addition, 25 percent of those eligible for Medicaid/CHIP nationwide were still not enrolled as of 2017.<sup>17</sup>

## Percent of Workers With Insurance and Employer-Sponsored Insurance, by Income, U.S., 2017



Source: Kaiser Family Foundation. (2017). *State health facts: Employer-sponsored coverage rates for the nonelderly by Federal Poverty Level (FPL)*.



## Consequences

**Lower rates of using care:** Lower-cost health insurance plans generally come with higher deductibles, which in turn, are associated with lower use of primary care services. People with deductibles greater than 5 percent of their income are less likely to use preventative care than households with lower deductibles.<sup>18</sup>

**Paying more for employer plans than for Marketplace plans:** ALICE workers in lower-wage jobs with health insurance coverage may actually pay more for that coverage than they would buying coverage on their own in the ACA Marketplace.<sup>19</sup>

**Medical debt:** Even with insurance, not all medical expenses are covered, and many plans have spending limits. Medical debt is a widespread problem and leads to additional financial challenges as well as barriers to accessing further health care. More than half of underinsured people — those that spend more than 10 percent of their household income per year on health care expenses not covered by their insurance — reported having had a medical bill or debt problem in the last year.<sup>20</sup> For those with chronic conditions, the likelihood and amount of medical debt increases significantly.<sup>21</sup>

**Difficult employment decisions:** Many people — especially workers with a major illness in the family — weigh the value of insurance coverage against work opportunities like career advancement and improved working conditions. Workers with Medicaid, especially those close to the eligibility limit, may forgo additional work hours or higher-paying jobs in order to keep their Medicaid coverage.<sup>22</sup>

## UNDERINSURED HOUSEHOLDS

Since 2010, there has been a rise in the number of underinsured households. Many ALICE households choose the lowest-cost insurance option — plans with high deductibles and limited coverage options.<sup>23</sup> Even ALICE families covered by Medicare or Medicaid often lack specialty coverage like dental or vision care.<sup>24</sup>

## ▼ Provide Caregiving for a Family Member

Nationwide, over 40 million people provide unpaid care for a loved one who is ill, frail, or has a physical or mental disability.<sup>25</sup> This is one way of saving money, especially given the high costs of institutions such as assisted living facilities. However, such care can end up taking a physical, mental, and financial toll on caregivers.



### Consequences

Family caregiving has significant value; the presence of an informal caregiver (such as a relative or friend) can improve well-being and recovery and defray medical care and institutionalization costs. Yet caregiving is costly for families in several ways:

**Added direct costs:** Almost 80 percent of caregivers incurred out-of-pocket costs related to caregiving, spending, on average, about \$7,000 a year in 2016. In the same year, caregivers spent almost 20 percent of their income on caregiving, with household expenses and medical expenses accounting for the largest share of these costs. Caregivers report dipping into savings, cutting back on personal spending, saving less for retirement, or taking out loans to make ends meet.<sup>27</sup>

**Lost income due to decreased hours or loss of a job:** For the 60 percent of caregivers who are working, caregiving takes time away from employment. Over half (56 percent) of working caregivers report work-related strain from caregiving, including working different or fewer hours and taking time off.<sup>28</sup>

**Emotional and physical strain on the caregiver:** Almost 20 percent of caregivers report a high level of

## ALICE CAREGIVERS

While families may choose to care for family members themselves, many ALICE caregivers assume the role because they cannot afford to hire outside care. Half of caregivers report that they had no choice in taking on their caregiving responsibilities, and almost half (47 percent) report household income of less than \$50,000 per year.<sup>26</sup>

## COST OF CAREGIVING

For women, who are more likely to be caregivers, the estimated lifetime cost of caregiving in terms of lost wages and retirement benefits is \$324,044 per person.<sup>30</sup>



physical strain resulting from caregiving, and 38 percent consider their caregiving situation to be emotionally stressful. These challenges can increase depending on the patient's illness and its severity, as well as the resources available to the caregiver.<sup>29</sup>

## ▼ Move to a Healthier Community

When it comes to health, where we live matters. In a large-scale study of the health of nearly 45 million people in the U.S., researchers found that over 25 percent of diseases included in the study were influenced primarily by the environment in which people live.<sup>32</sup> Social and economic factors (like education, employment, income, and community safety); characteristics of the physical environment (including housing and air/water quality); and proximity to care all affect health outcomes.<sup>33</sup>



### Consequences



#### **Less money for other household necessities:**

Neighborhoods with characteristics known to promote health — well-maintained housing, bike lanes and sidewalks, access to healthy food and recreation areas, low crime, higher-performing schools, clean water and air, and accessible health care providers — also tend to have the highest cost of living across multiple areas (housing costs, taxes, food prices, etc.).<sup>34</sup> ALICE families who pay more to live in such communities will face tough choices in other budget areas, or be forced to borrow to make ends meet.



**Residential discrimination:** Many low-income households, households of color, same-sex couples and transgender people, and people with disabilities still experience discrimination when trying to move into more affluent communities, especially when they are viewed as different from the average resident. As a result, the cost of a housing search often increases for these families, and their housing options may be limited to the least desirable in the neighborhood.<sup>35</sup>

**Decrease in social support:** When families relocate to new communities, they may be leaving their social support network behind. Social support protects people against physical and mental health risks; without it, people are at an increased risk of poor health — including being more likely to experience stress and to engage in unhealthy behaviors like smoking or overeating.<sup>36</sup>

### ENVIRONMENT AND HEALTH

For low-income families in particular, moving to higher-income communities can improve health — especially mental health for young people. Yet ALICE families often have difficulty relocating to — or thriving in — higher-income communities.<sup>31</sup>

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## BROADER COSTS OF UNAFFORDABLE HEALTH CARE

When ALICE households forgo or limit health care and insurance, or can't afford to hire caregivers or live in healthier communities, their health and household finances suffer, but there are effects on the broader community as well:

- **Lack of access to quality preventative care increases costs for all.** When regular in-office care is hard to access, families often turn to the emergency room (ER), where the cost of treatment increases significantly for them or, if they cannot pay, for the state. The consequences of greater ER use for the wider community include longer wait times in ERs, as well as increases in health insurance premiums, the cost of charity care, and hospital community assistance.<sup>37</sup>
- **Dental care moves to the ER.** Dental care ER visits cost the U.S. health care system \$1.6 billion in 2012, at an average cost of \$749 per visit — and up to 79 percent of them could have been diverted to more cost-efficient community settings.<sup>38</sup>
- **Untreated mental health and substance use issues shift problems to other areas.** These issues increase ER and acute care costs, add to caseloads in the criminal justice system, and increase the costs of helping the homeless and the unemployed. Untreated or improperly treated mental illness also costs employees lost wages for absenteeism, and companies in decreased productivity. One study estimated that the annual cost to employers for mental-health absenteeism ranged from \$10,000 for small organizations to over \$3 million for large organizations.<sup>39</sup>
- **Health problems increase work absences.** Health issues in general also account for one-third of unscheduled absences from work, resulting in loss of wages for employees and costing employers over \$225 billion annually.<sup>40</sup>
- **The potential for Medicaid to improve community health is limited.** Medicaid expansion makes a difference in health care access (e.g., increased insurance enrollment, affordability of care, and use of services), health care services (e.g., shorter hospital stays), and health outcomes (e.g., improved self-reported health and lower infant mortality).<sup>41</sup> However, because Medicaid does not address the underlying social determinants of health (like housing, transportation, and social support), its ability to significantly improve community health is limited.<sup>42</sup>
- **Family caregiving exacts a toll on the broader economy.** Family caregiving for seniors costs employers approximately \$13.4 billion in excess health care spending each year on employees who are caregivers, due to the toll that caregiving takes on the caregiver's own health. In addition, the lost productivity due to absenteeism among full- and part-time caregivers costs the U.S. economy more than \$20 billion per year.<sup>43</sup>

- **Having a significant portion of a population vulnerable to poor health perpetuates the most fundamental forms of inequality.** While life expectancy has increased for Black and low-income people, rates are still below those for wealthy White people, and stark disparities remain. The gap in life expectancy is as much as 30 years between the richest and poorest U.S. counties.<sup>44</sup>

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### FUTURE TRENDS: HEALTH CARE FOR ALICE FAMILIES

The trend of low-income households having poorer overall health will increase as health care and healthy food costs rise, and as the U.S. population ages. Seven overall trends will impact health care for ALICE and poverty-level families in the future:

**The full impact of the ACA is not yet clear, nor is its long-term future.** The ACA could improve health care by continuing to expand coverage through the Marketplace and Medicaid expansion. To date, the ACA rollout has increased the number of Community Health Centers, broken down language barriers by requiring health care to be provided in multiple languages, and increased hospital-based health education and investments in community health improvement.<sup>45</sup> However, the ACA faces significant political opposition and the future of its policies and funding are not secure.

**A small population may continue to be uninsured.** With the future of the ACA in question, three groups of people may continue to face persistent problems with lack of insurance:

- **Those who do not meet eligibility requirements for Medicaid:** In many states without Medicaid expansion, people who earn less than the FPL may still not qualify for state Medicaid due to extremely strict eligibility requirements. And 2.2 million people in these states fall into a "coverage gap" between Medicaid eligibility and the minimum income required to receive an ACA premium subsidy.<sup>46</sup>
- **People of color:** Over half of the nonelderly uninsured population in 2017 were people of color. Hispanic people have the highest uninsured rates of all U.S. ethnic groups — 19 percent, compared to 7 percent for White adults. Common challenges to Hispanic people acquiring coverage include affordability, immigration status, and language barriers.<sup>47</sup>
- **Low-income working families:** Of families without insurance in 2017, more than 7 in 10 had at least one full-time worker, and an additional 10 percent had a part-time worker.<sup>48</sup>

**More families will be underinsured.** As health insurance costs continue to increase, families and employers will opt for lower-cost plans that offer less coverage.<sup>49</sup>

**The shortage of doctors will continue, especially in rural areas and in economically stagnant areas.** At current rates of utilization, demand for physicians is projected to grow by 17 percent nationally from 2013 to 2025, with a shortfall of at least 12,500 primary care physicians.<sup>50</sup> The availability of primary care is especially important for cost-effective care, and the shortage of primary care doctors is a significant problem for low-income Americans, while shortages of dental and mental health providers are even more severe.<sup>51</sup>

**More people will encounter the Medicaid benefits cliff.** As companies and states pass policies that increase wages, some workers will lose their Medicaid coverage but will not earn enough to replace those benefits. The impact may be reduced as more gradual phasing out of benefits replaces strict eligibility limits.<sup>52</sup>

**Demand for unpaid family caregivers will continue to increase as seniors age,** and as the cost of health services for seniors increases beyond what many households can afford to pay. However, the number of caregivers available is decreasing as the ratio of working-age adults to seniors shifts. In 2010, there were 7 potential caregivers available for every 1 person over 80 years old in the U.S. By 2030, the ratio is expected to decline to 4 to 1, and then to 3 to 1 by 2050.<sup>53</sup>

**Better health for ALICE and poverty-level families will continue to depend on having basic needs met.** The interconnectedness of health and basic needs highlights the importance not only of basic health services and broad insurance coverage, but also of healthy communities and lifestyles. Building healthy communities requires cross-sector collaboration, and this work is time-consuming, expensive, and often slow to happen. State and federal budgets, political will, awareness of return on investment, and the willingness of various sectors to work together will affect whether these types of initiatives move forward.<sup>54</sup>

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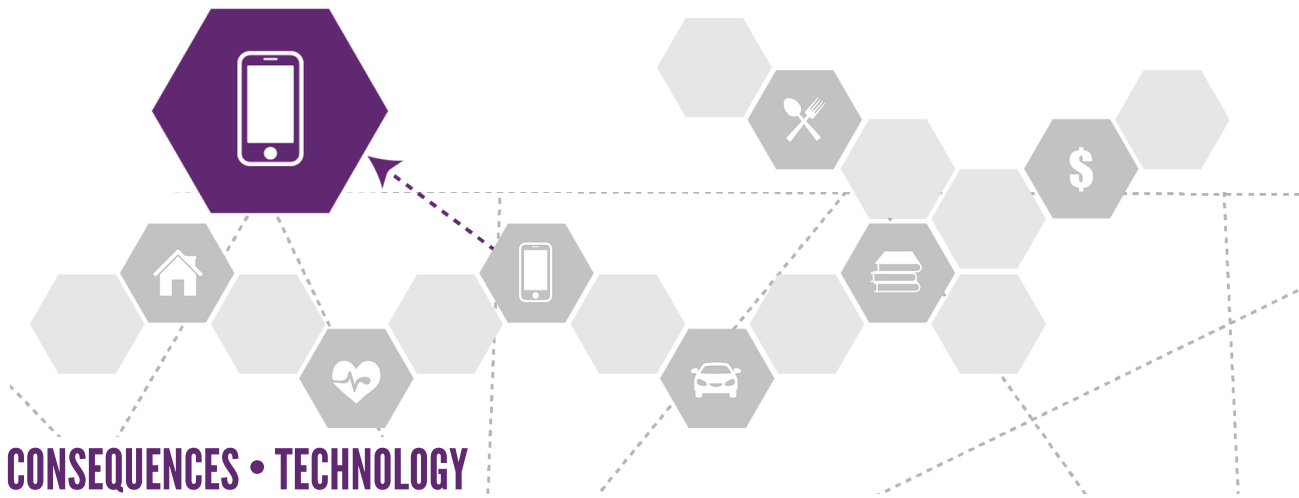
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### INTRODUCTION

**Access to digital technology, especially reliable cellular and internet access, is no longer a luxury — it has become an essential feature of our everyday lives.**<sup>1</sup> Technology facilitates learning and connects us to information and resources, family and friends, work and school. People without access to the internet are at a significant disadvantage, so much so that the United Nations actively advocates equal access to the internet for all people.<sup>2</sup>

People access the internet in a variety of ways, including via smartphone, home broadband internet, and public internet access (i.e., shared computers or hotspots). Nationwide, 88 percent of people report using the internet every day.<sup>3</sup> In 2016, 95 percent of American adults owned a cellphone (77 percent owned a smartphone), 73 percent had home broadband internet service, and 90 percent said they have used public internet access.<sup>4</sup>

**ALICE and poverty-level households rely on basic technology for a variety of key functions, including:**

**Work/employment:** Many people use their smartphones to access work schedules, contact employers or clients, and search and apply for jobs. A 2016 survey found that low-income smartphone owners are much more likely to use their phones as part of a job search.<sup>5</sup>

- In a 2015 survey, 43 percent of people reported using a smartphone to look up information about a job, and 18 percent used their smartphone to submit a job application.<sup>6</sup>
  - 58 percent of people earning less than \$30,000 per year used a smartphone to look up job information, compared to 32 percent of people with incomes of \$75,000 and higher per year.
  - 32 percent of people earning less than \$30,000 per year used a smartphone to submit a job application, compared to 7 percent of people with incomes of \$75,000 and higher per year.<sup>7</sup>

**Researching and applying for services/benefits:** Many government and non-profit social services for low-income households can be researched, applied for, and monitored online. In 2015, 40 percent of people surveyed used smartphones to look up government services or information.<sup>8</sup>

**Child care and education:** For children, internet access is directly tied to educational outcomes. Nationwide, about 70 percent of teachers assign homework that requires internet access, but almost one in five students can't reliably do their homework due to lower rates of home internet access (a

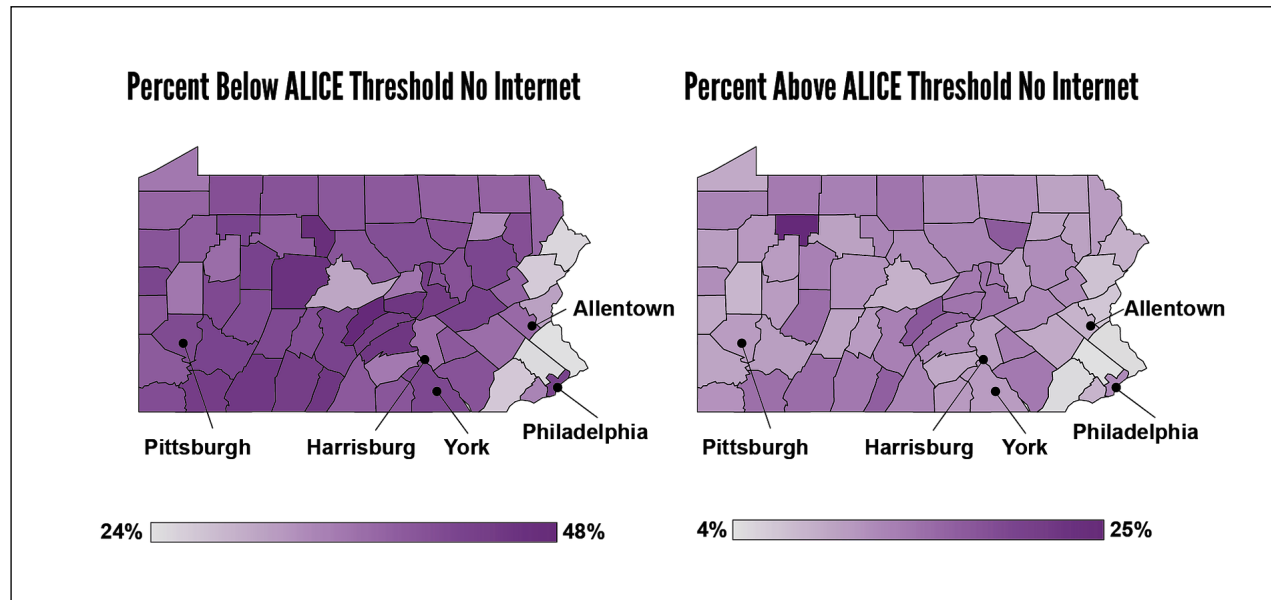
disparity that is even more pronounced for Black and Hispanic students).<sup>9</sup> For parents, reliable internet access is important for navigating child care and school schedules, selecting classes and activities, and accessing grades and progress reports. And for adults seeking continued education, internet access can connect them to a growing number of online degree programs and job training opportunities.<sup>10</sup>

**Health care:** In 2015, 62 percent of Americans used smartphones to get information about a health condition.<sup>11</sup> The use of remote health care services (such as internet-based health education, scheduling, and virtual doctor visits) is also on the rise and will be increasingly important for health care access, particularly for those who receive employer-based health benefits. In a 2017 survey of 148 employers (providing coverage to 15 million people), 96 percent said they will offer remote health care services within the next year.<sup>12</sup>

**Despite the importance of these functions, there is still a notable “digital divide” in access to and use of technology across different demographic groups. Use and access vary by age, rural location, and level of education. Some of the sharpest disparities, however, are by income:<sup>13</sup>**

- The most common form of technology used by adults in the U.S. is a smartphone, with more than seven in 10 adults using a smartphone in 2016. And almost all households with income above \$100,000 (97 percent) have smartphone access.
- The gap in access to home broadband is much greater: Just over half of households with income below \$30,000 (56 percent) have access, compared to 81 percent of those with income between \$30,000 and \$99,999 and 94 percent of those with income over \$100,000. ALICE households have less access to broadband than those above the ALICE Threshold, as exemplified in the figures below for the state of Pennsylvania 2017.

#### Broadband Internet Access by Income, Pennsylvania Counties, 2017



Source: American Community Survey. (2017). *2017, 1-, 3-, and 5-Year estimates.*

Across all users and groups, secure internet connections are also increasingly important. Secure connections at home can be costly to install and an expense that an ALICE household may not be able to afford, making home computers more vulnerable to viruses and hacking. Outside of the home, use of public Wi-Fi puts personal data, passwords, financial information, pictures, and videos at risk.<sup>14</sup>

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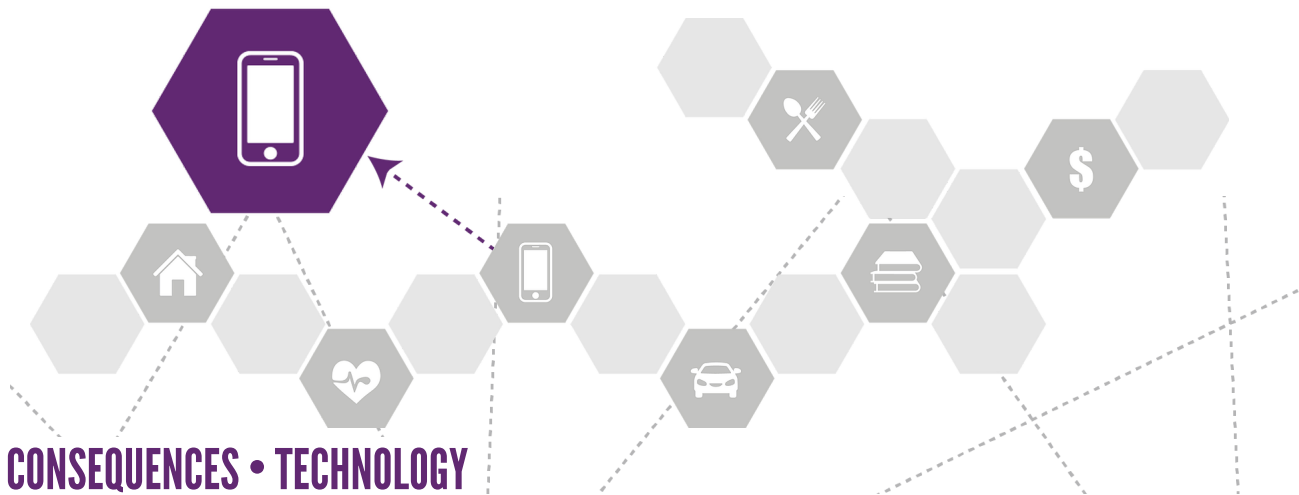
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## IMPACT ON ALICE



### What do families do if they don't have access to technology?

For many ALICE households, access to technology, or adequate technology, is not a given. These families may try to:

#### ▼ Be a “Smartphone Only” Internet User

One in five Americans are “smartphone-only” internet users (i.e., they own a smartphone, but do not have broadband internet service at home). This smartphone dependency has grown over time, from 8 percent of adults in 2013 to 20 percent of adults by 2018.<sup>15</sup>

#### Smartphone dependency impacts access to and use of the internet:

- Smartphone-only users are more likely to use their phone during a job search; 63 percent used their smartphone for job information, compared to 43 percent of all users; 39 percent used their smartphone to submit a job application, compared to 18 percent of all users.<sup>16</sup>
- Smartphone-only users are also less likely than other smartphone owners to use phones for; online shopping (36 percent vs. 66 percent); online banking or bill-paying (49 percent vs. 74 percent); and viewing local news (70 percent vs. 82 percent).<sup>17</sup>
- For children in smartphone-only households, 35 percent use the internet to look up topics they are interested in, compared to 77 percent of children with home internet access.<sup>18</sup>

#### Smartphone-only users vary by demographic group and are more likely to be younger, lower-income, or Black or Hispanic adults (2018 data):<sup>19</sup>

- **Income level:** 31 percent of adults who made less than \$30,000 per year were smartphone dependent, compared with 9 percent of adults who made \$75,000 or more per year.
- **Race/ethnicity:** 35 percent of Hispanic adults and 24 percent of Black adults were smartphone-dependent compared with 14 percent of White adults.
- **Education:** 39 percent of adults with less than a high school education are smartphone-dependent, compared with 22 percent of high school graduates, and 10 percent of college graduates.

- **Rural/urban:** 22 percent of urban dwellers and 17 percent of rural and suburban residents are smartphone-dependent.



## Consequences

**Unreliable service:** Gaps in cellular service and limited data are especially difficult for low-income and ALICE families who depend on smartphones for internet access. Outages, especially in rural areas, can prevent or delay the completion of important tasks. While public internet outside the home can help bridge the gap, this comes with its own inconveniences.<sup>20</sup> For example, 21 percent of teens in families with income below \$30,000 per year sometimes use public Wi-Fi to complete their homework when they don't have another connection.<sup>21</sup> Public internet may not be available at all hours and is more prone to hacking and other information security issues.<sup>22</sup>

**Data storage and “small screen” issues:** Although smartphone technology is constantly improving, many tasks are still more difficult to complete on the small screen of a smartphone as opposed to a computer (e.g., word processing, filling out applications, editing spreadsheets), and many websites still do not have a mobile version, making navigation time-consuming and difficult, or sometimes impossible.<sup>23</sup> In addition, affordable smartphones come with limited storage space and “cloud” storage sometimes comes at an additional cost, which might not be affordable for low-income and ALICE households.

**Additional/unforeseen costs:** Complex tasks that can be done on smartphones often require the use of mobile applications, many of which charge for full functionality. This means that low-income and ALICE households that are smartphone-dependent may be priced out of certain key online tools and functions. Nationwide, approximately one in three mobile users pay for mobile applications.<sup>24</sup>

## ▼ Seek Discounted Service

There are federal and state-specific programs available to help low-income households pay for phone and internet service. For example, the Lifeline Program, which is the primary federal program, provides discounted phone and internet services for eligible low-income consumers in every U.S. state, territory, commonwealth, and on Tribal lands.<sup>25</sup>

However, discounted programs are reaching very few eligible Americans: Only 6 percent of people with incomes below 185 percent of the Federal Poverty Level say they have signed up for a discounted service of any kind.<sup>26</sup> For the Lifeline Program in particular, only 28 percent of eligible households were enrolled in 2017 (ranging from 4 percent in Wyoming to 47 percent in Alaska).<sup>27</sup>

In addition to subsidized plans, there are some relatively inexpensive cellphone plans available through a variety of providers (with monthly payments as low as \$10/month); however, these plans often require users to buy their own phones, which can add substantial cost.



## Consequences

**Accessibility issues:** For most discounted phone/internet programs, the income eligibility threshold is significantly less than the ALICE Threshold. Difficulties with access are reflected in the low enrollment rates. Past studies of the program have cited stigma differences in state-to-state rollout, and difficulties with enrollment and proving eligibility as key factors in low enrollment.<sup>28</sup> In addition, the Lifeline Program provides assistance for phone or internet service, but not both, and if a subsidized service is not used within a 30-day period, it is automatically disconnected.<sup>29</sup>

## BUYING A SMARTPHONE IS EXPENSIVE

Because many ALICE families do not have sufficient credit scores to qualify for smartphone installment plans with the major carriers, they are forced to pay for their phones upfront or use expensive borrowing options.<sup>32</sup>

**Less reliable service:** Low-cost plans and phones can save money, but often do not offer the same speed or coverage as higher cost plans. Some companies have limited coverage, offer only slow-speed data, and slow the data speed when the plan's data limit is exceeded.<sup>30</sup>

**Unforeseen costs:** Low-cost and subsidized plans tend to be the most restrictive in terms of the amount of calls, texts, and data use they allow, and they often require users to buy their own phones. Special offers are short-lived and have hidden parameters that lead to more fees. Exceeding monthly data limitations, or not being able to pay on time can lead to additional costs and penalties. Having one's phone service cut off adds fees as well as limits communication for work and family. During the course of 2016, 29 percent of low-income Americans say they hit their data limit, and 24 percent said their phone service was discontinued due to lack of payment. The same is true of internet plans. In 2016, one in five people said that their internet service had been cut off in the last year due to lack of payment.<sup>31</sup>

## ▼ Use Public Internet

Ninety percent of people surveyed in 2016 said they have used public internet for a variety of reasons, including checking email (58 percent), accessing social media (56 percent), and online banking (22 percent).<sup>33</sup> Many Americans rely on public internet access, either in the form of shared computers at locations such as schools and libraries, or through use of their own devices (smartphones, computers, tablets) connected to free or paid public internet (hotspots).

**In 2016, 29 percent of people reported visiting libraries to use computers or access Wi-Fi.** The majority of people who use tech resources at a library do so for research for work or school (61 percent), followed by checking emails or texts (53 percent), looking for health information (38 percent), or taking an online class or certification (26 percent).<sup>34</sup>

Twelve percent of teens say they at least sometimes use public Wi-Fi to complete assignments because they do not have an internet connection at home; this is more common among low-income students and teens of color.<sup>35</sup>

### PUBLIC INTERNET USE

The percentage of library patrons who use the computers or internet connections is higher among certain groups, such as people aged 16-29 (45 percent), Black people (42 percent), and people with annual incomes of \$30,000 or less per year (35 percent).<sup>36</sup>



## Consequences

**Security risks and lack of privacy:** Low-income technology users are more likely to be victims of predatory internet scams as they have more data exposed through public internet use and less knowledge on how to protect themselves against data malpractice. In addition, without means to purchase security software, they are more likely to encounter security breaches and identity theft.<sup>37</sup>

**Limited availability:** Public internet access points may not always be available when needed due to limited hours of operation, especially for libraries and schools, which often close early; and overcrowding, which can impact internet speed at hotspots and cause lines for shared computers. Even when access points are open late, community safety issues may limit access.<sup>38</sup>

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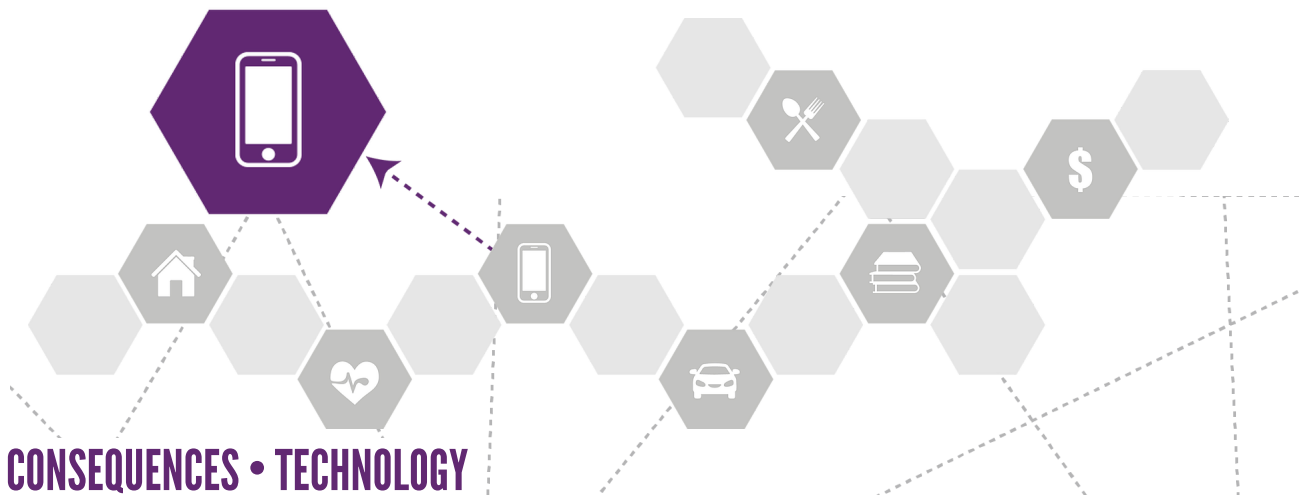
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## THE BROADER COSTS OF LIMITED ACCESS TO TECHNOLOGY

When ALICE households are not able to benefit from affordable, safe access to broadband technology, communities feel the impact both economically and socially:

- **The “digital divide” perpetuates gaps in education, health care, and earning power:** For children, reliable internet access is directly tied to educational outcomes, including test scores, grades, and high school graduation rates. For adults, opportunities for continuing education — more frequently offered online in recent years — depend on reliable internet access.<sup>39</sup>

The growth of online health education resources and health care services can improve health care access and outcomes, but the impacts will be uneven unless the digital divide based on income, race/ethnicity, and community type is closed.<sup>40</sup>

Reduced earning opportunities. With reduced means to search for jobs, participate in the gig economy, and take advantage of online training, those without high-speed broadband internet have less earning power. According to one estimate, a speed increase of four megabytes/second was associated with a \$2,100 increase in household income.<sup>41</sup>

- **Opportunities for civic participation are reduced.** Lack of access to broadband means fewer opportunities to stay informed about community events, connect with local organizations and fellow community members, and to reach out to government officials. A 2013 study found that 34 percent of adults had recently used the internet to contact a government official or participate in an online public forum.<sup>42</sup>

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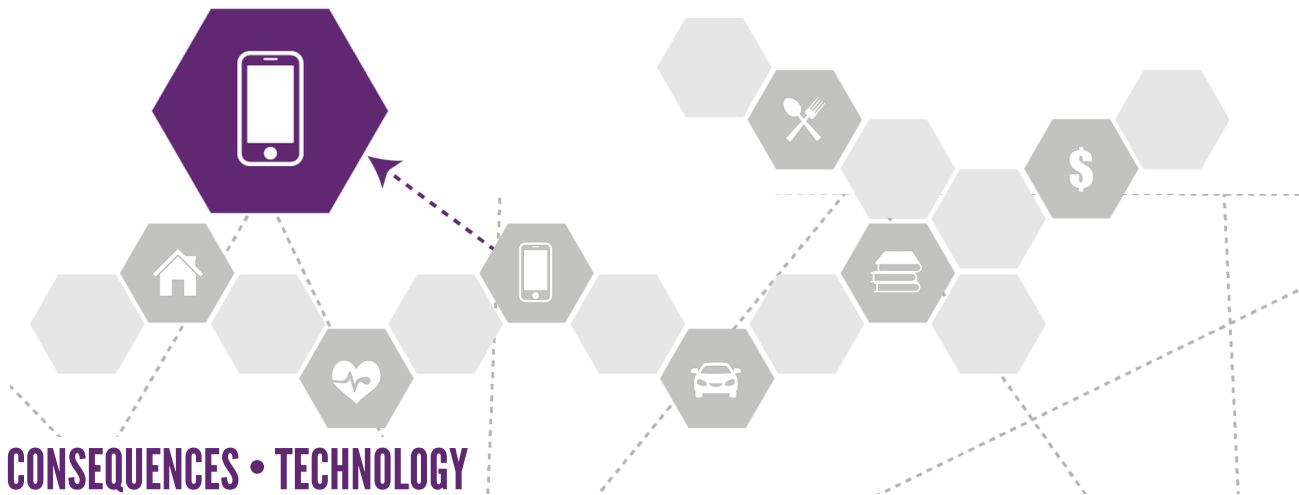
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## CONSEQUENCES • TECHNOLOGY

Introduction Impact on ALICE Broader Costs **Future Trends**

Other Sections

### FUTURE TRENDS: ALICE ONLINE

**Basic technology will continue to improve and be faster and cheaper.** As that happens, the digital divide for the most basic services — like smartphones and home internet — will continue to shrink.

**The introduction of newer, more advanced, and costly technologies will add capabilities but also costs for consumers.** Technologies will add entertainment options for families — including smart televisions or digital voice assistants — but will also offer safety enhancements like household thermostats and security systems or wearable devices for health and wellness. They will add monetary cost as well as the time it takes to learn about a new product or process, cancellation fees, and psychological effort and time to implement and incorporate it into their lives. ALICE families especially will not have the time or funds to adopt these new technologies and the gap in health and access to information will grow wider.<sup>43</sup>

**More jobs require technology.** In the face of rapidly rising computing power, an ability to work with data and make data-based decisions will become an increasingly vital skill even within maintainer jobs, so ALICE workers will need new skill sets. With increased mechanization, many jobs will require working alongside machines as well as building and repairing them. The McKinsey Global Institute estimates that in 60 percent of all occupations, an average of 30 percent of work activities are automatable, and therefore more workers will be required to work alongside machines.<sup>44</sup>

**The gig economy will continue to grow, placing more demands on technology and remote work opportunities.** Nationwide, there are an estimated 56.7 million freelancers, an increase of 3.7 million over the past five years. Americans are also spending more time freelancing, with an increase in 72 million hours, on average, from 2015 to 2018. Freelancers rely on technology for finding and doing work. In 2018, 68 percent of freelancers reported that they found work online (a 22-point increase from 2014). These trends are expected to continue in the coming years, increasing the demand for innovation and expansion in the tech industry.<sup>45</sup>

**Technology with change safety risks and benefits for many ALICE workers.** Advances in technology offer new means to provide safety benefits through monitoring and measurement, such as minimizing exposure to hazardous materials and increasing quality control. For those working outside of regulated companies, such as many gig-economy workers, traditional worker safety protections are not applicable, exposing workers to risks. For ALICE consumers and patients, technology can improve public safety by automating processes to reduce human error such as in long-distance driving and emergency response.<sup>46</sup>

**The health care industry will increasingly rely on mobile health technology.** This trend has the potential to cut costs for health care providers, employers, and consumers. For example, for hospitals, retaining qualified health professionals on-site can be expensive, especially in rural areas. Mobile health technology can facilitate the sharing of health staff across hospital systems, thus cutting costs.<sup>47</sup> For employers, telemedicine could provide more than \$6 billion in savings to U.S. companies as a feature of their employee health plans.<sup>48</sup> For consumers, access to mobile health services cuts down on transportation costs, saves time, provides improved access to providers, and helps people avoid using more expensive health care options, like the emergency room (which is used more frequently by low-income people for non-urgent, routine care). Digital health services have also been shown to improve health outcomes, including a decrease in blood glucose levels, diabetes-related eye diseases, hospitalizations, and blood pressure.<sup>49</sup> However, ensuring that these benefits can reach all Americans will require the closing of the digital divide and more widespread access to mobile health technology via health plans and health providers.

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**Asset Limited, Income Constrained, Employed**



## INTRODUCTION

While headlines often feature low-income households receiving government assistance, United for ALICE shows that ALICE households also contribute greatly to our economy by working, buying goods and services — and paying taxes. On average, these households pay about 22 percent of what they earn in income, property, and wage taxes.

The burden of paying taxes weighs especially heavily on ALICE families. Because they earn above the Federal Poverty Level (FPL), ALICE families have too high of an income to qualify for benefits like the Earned Income Tax Credit (EITC) and renter tax credits, or for public assistance programs including SNAP and Medicaid that would reduce their overall tax burden. At the same time, they earn too little to accumulate assets that would also bring tax relief — for example, to purchase a house and enjoy a mortgage tax deduction, or to own capital investments such as stocks or bonds that grow tax free.<sup>1</sup>

### ALICE and Income Tax

ALICE families are required to pay income taxes. Overall, the federal income tax structure in the U.S. is progressive, meaning that those earning higher incomes pay a higher rate of tax. However, this is generally not the case for state, local, and payroll taxes:

- Nationwide, the lowest-income taxpayers (the 20 percent of households with the lowest income) pay state and local tax rates that are over 50 percent higher than the top one percent of households.<sup>2</sup>
- In states with the most regressive taxes (lower-income households pay a higher rate of tax) — Washington, Texas, Florida, South Dakota, Nevada, Tennessee, Pennsylvania, Illinois, Oklahoma, and Wyoming — the tax rates for the bottom 20 percent of the income scale are up to six times higher than those for the top 1 percent.
  - For state sales and excise taxes specifically, the lowest-income group pays an average of almost 8 percent of their income, while those in the highest 20 percent income bracket pay less than 3 percent.<sup>3</sup>
  - For payroll taxes, the 20 percent of households with the lowest incomes paid almost 10 percent of their income in federal payroll taxes, while the 20 percent with the highest incomes paid 6.5 percent, and the wealthiest 1 percent of households paid only 2.2 percent.<sup>4</sup>

Only those earning less than \$20,800 per year for a couple, or \$10,400 per year for an individual — both below the FPL — were not required to file an income tax return in 2017.<sup>5</sup>

## ALICE and...

- **Sales tax:** There is no sales tax on most items in the Household Survival Budget (housing, food, child care, and health care). However, 13 states have at least some taxes on food.<sup>6</sup> In addition, ALICE pays the state sales tax on goods outside the budget.
- **Property tax:** The majority of ALICE households are renters and the housing component of the Household Survival Budget is based on the cost of rental housing. While there is no property tax factored into the budget, these taxes are passed on to renters in the form of higher rents. High property taxes are a barrier to purchasing a home for ALICE households.
- **Tax burden:** Workers, including ALICE, bear the greatest burden of taxation, paying for the majority of government revenue through taxes on labor — individual income taxes (47 percent of revenue) and payroll taxes (33 percent). By contrast, taxes on wealth — property taxes, capital gains taxes, and corporate taxes — contribute less than 20 percent of government revenue, despite the fact that wealth cushions households and can be leveraged to help them build even more wealth.<sup>7</sup>

When ALICE and poverty-level households cannot afford to pay their taxes, they incur the risk of being audited and fined, as well as paying interest in addition to the original amount due. When tax revenue drops due to late or missed tax payments, it is harder for the government to invest in the services all households rely on, such as schools, health care, and transportation.

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## IMPACT ON ALICE

### What do families do when they don't have enough money to pay their taxes?

Taxes, whether they are deducted from a worker's paycheck, or paid quarterly (for self-employed workers), are a burden for ALICE families. For most workers, payroll taxes are automatically deducted from their paychecks; many have income taxes deducted regularly as well. However, many families are left with an income tax payment due each April. With low income, little or no savings, and a range of family and work responsibilities, families have limited choices for paying these taxes. Different ALICE families may try to:

#### ▼ Seek tax credits

**Tax credits make a difference for many ALICE and poverty-level households.** The most common credits, the EITC and the Child Tax Credit (CTC), provide relief primarily for low-income earners with children. These credits encourage work, and they supplement the wages of low-paid workers. For taxpayers with the lowest incomes, the two credits together more than offset income and payroll taxes to raise living standards. In 2015, the two credits together lifted 9.8 million people out of poverty (including 5.1 million children), and improved financial security for an additional 22 million.<sup>8</sup>

#### EITC and ALICE

Many ALICE families, especially those without children, earn too much to be eligible for tax credits. In today's society, families with children under the age of 18 make up only one-third of households in most states. For taxpayers eligible for the EITC with no qualifying children, the credit does little to offset income and payroll taxes. As a result, these taxpayers often pay a higher rate of taxes than wealthier households.<sup>9</sup>

#### TAX CREDIT ELIGIBILITY

Many ALICE families, especially those without children, earn too much to be eligible for tax credits.

For a family with two children, the income limit for the EITC was \$50,597 with a maximum credit of \$5,616 in 2017. But for a single adult with no children, the income limit was \$15,051, with a maximum credit of \$520.<sup>10</sup>

Nationwide in 2017, the average EITC amount received by a total of 37 million families was \$2,445, ranging from \$1,957 in Vermont to \$2,892 in Mississippi.<sup>11</sup> These amounts are significantly less than tax credits and deductions received by higher-income households (such as credits for capital losses and mortgage interest credits). For the CTC—which is more widely available across income groups—it is estimated that 91 percent of families with children received an average CTC of \$2,420 in 2018.<sup>12</sup>

The refunds are a major boost for these families and spent immediately. Many are waiting for the refunds to pay down debt or for emergency expenses. According to a recent survey, even a one-week delay in the refund would "somewhat negatively" affect one-third of respondents' household finances. And 15 percent of families spent at least 15 percent of their refund at retail stores and restaurants within two weeks of receipt.<sup>13</sup>

Because the EITC makes one relatively large payment per year, it provides low-income households with a rare opportunity to make important big-ticket purchases. EITC recipients are most likely to purchase a vehicle, more so than electronics or even children's clothing.<sup>14</sup>

The benefit of the credit is mitigated if low-income taxpayers use a paid preparer, which 55 percent of households with income under \$30,000 did in 2010. Except in a handful of states, paid preparers are not regulated, and there is wide variation in their accuracy and fees. While there are well-trained volunteer tax preparers in most states, they prepared less than 2 percent of returns.<sup>15</sup>



## Consequences



**Burden on time, attention, and cognition:** ALICE and poverty-level households often miss out on tax saving opportunities. Those who are eligible for credits must be aware of them, fill out the appropriate tax forms, and submit the required documentation. For many, this is a daunting task, and particularly so for people with low English fluency or without internet access. The Internal Revenue Service (IRS) estimates that one in five people who are eligible for the EITC do not receive the credit.<sup>16</sup>

**High rates for tax preparation:** In order to receive tax credits, tax forms must be filled out correctly. Free tax preparation assistance is available through government and non-profit organizations in many locations, yet some workers either are not aware of these services or tend not to trust them. For example, according to a 2015 report to Congress, 60 percent of all Hispanic taxpayers used unregulated return preparers rather than an attorney, certified public accountant, or enrolled agent, compared to 18 percent of all U.S. taxpayers. Because unregulated preparers do not need to meet minimum standards for competency and ethics, their clients run the risk of having their returns prepared incorrectly and paying high fees.<sup>17</sup> In addition, many paid tax preparers charge excessive fees for additional forms, and many have an aggressive practice of charging high interest rates or fees for advancing guaranteed refunds.<sup>18</sup>

## ▼ Minimize taxes

The rise of the gig economy means many more opportunities to earn income. While working "off-the-books" is not new, it has become much more common in the last decade with the advent of on-demand apps such as Lyft, Etsy, and Airbnb. For part-time or one-off jobs, workers may not understand their tax responsibilities. In addition, there are millions of service providers and sellers working and earning income in the "shadow economy," with income that is not readily identifiable by government tax authorities. In 2016, the U.S. shadow economy was valued at more than \$1.4 trillion.<sup>19</sup>

Even on-the-books freelance and contract workers, whose numbers are also growing, may not be aware of their tax responsibilities or follow the current tax forms, because the classifications were developed before many of these jobs existed. While income and payroll taxes are automatically taken out of a salaried worker's paycheck, contract and freelance workers are left to make tax payments themselves, typically as estimated quarterly taxes. These workers may delay or decide against paying quarterly taxes in order to keep more of their income in the short term.<sup>20</sup>

Misreported individual business income and self-employment taxes make up more than 42 percent (\$194 billion per year) of taxes that are unpaid or paid late.<sup>21</sup>





## Consequences

**Short and long term financial penalties:** Late payment, nonpayment, or mistakes or misrepresentations on tax forms all carry financial penalties. When taxpayers are audited by the IRS for nonpayment or errors, they take on additional costs including hiring a skilled tax preparation professional and paying interest on taxes owed, dating from the day their return was due.<sup>22</sup>

**Lack of financial protections in contract and freelance work:** Tax avoidance in some cases may increase the appeal of contract, freelance, and cash-based work, moving more workers into arrangements that lack standard supports and protections, such as disability insurance or workplace safety regulations. These positions are also less likely to come with health and other benefits. The absence of those protections can leave workers susceptible to other problems in the future.<sup>23</sup>

## THE HIGHT COST OF TAX ERRORS

Accidental or deliberate mistakes on tax forms can carry penalties of between 20 and 40 percent of the amount of unpaid taxes. In addition, unpaid taxes can damage one's credit score. Tax evasion, or refusal to pay taxes, is a felony carrying up to a five-year prison sentence as well as fines of up to \$250,000.<sup>24</sup>

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## CONSEQUENCES • TAXES

Introduction Impact on ALICE **Broader Costs** Future Trends

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### BROADER COSTS OF UNPAID TAXES

When ALICE workers cannot pay their taxes, it affects their broader community and the country as a whole. At the end of fiscal year 2011, individuals owed a total of \$258 billion in federal unpaid tax debts. When taxes go unpaid, it's harder for the government to invest in the services all households rely on, such as schools, health care, and transportation; or paying taxpayers must pay more to cover both the shortfall and the cost of collection efforts.<sup>25</sup>

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## FUTURE TRENDS: TAX EQUALITY, THE GIG ECONOMY

**The tax code can be used to either improve or worsen inequality.** In general, federal taxes help make after-tax income more equal, while state taxes make it less equal. The most regressive state tax systems rely heavily on sales and excise taxes, while the least regressive states tend to have a progressive graduated income tax. The states that are often labeled as “low-tax” also tend to be high-tax for low- and middle-income households. In addition, reductions in state tax rates for income tax, sales tax, or payroll taxes would only slightly increase the income of ALICE families, but would have a negative impact on the public services and infrastructure — schools, roads, health care — that these families rely on.<sup>26</sup> Changes in the tax structure that reduce or increase wealth inequality could affect the burden on workers, primarily through changes to property taxes, capital gains taxes, corporate taxes and an individual wealth tax.<sup>27</sup>

**The challenge of collecting tax revenue will increase as the gig economy grows.** More than 2.5 million U.S. taxpayers participate in the gig economy every year, and that number is set to more than double in the next few years. However, the classification of different types of work (e.g., salaried, contract, freelance) on tax forms hasn’t kept pace with this trend. Misclassification of work status by employers can allow them to shift tax administration and payment responsibilities to workers as well as evade other parts of employment law such as minimum wage, overtime, and benefits.<sup>28</sup>

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