The Hidden Public Cost of Low-Wage Work in Illinois

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The report and technical appendix are available on-line at www.uic.edu/cuppa/uicued

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EXECUTIVE SUMMARY

Five years after enduring a deep recession, the Illinois economy is once again generating jobs. But the current economic recovery poses a paradox: Where economic expansion has historically been accompanied by falling poverty rates, state expenditures on public benefits programs to help working families make ends meet have been growing. Because many of the jobs being created pay wages too low to support families, year-round workers are turning to public-support programs to make ends meet. This public support for year-round workers and their families is the hidden cost of low-wage work in Illinois.

In this report, we measure these hidden public costs of low-wage work, and assess their implications for workers, employers, taxpayers and policy makers in Illinois. Drawing on an annual survey of workers and published public-benefits expense data, we assess the share of public benefits payments spent on "year-round working families" (families supported by a worker employed at least 50 weeks per year) for the years 2001-2004. We consider expenditures for six programs: The Earned Income Tax Credit, Medicaid, the Child Care Assistance Program, Food Stamps, KidCare (the state's supplemental child health insurance program), and Temporary Assistance for Needy Families. We find that:

- Approximately 475,000 year-round working families in Illinois receive public assistance each year.
- Public benefits expenses on year-round working families total $2.211 billion, or 37% of all public benefits spending in Illinois.
- Low wages underlie the receipt of public benefits by working families. Two-thirds of the year-round workers supporting families receiving public benefits earn $10 per hour or less.
- The Earned Income Tax Credit ($931.86 million) and Medicaid ($643.59 million) account for 71% of total public benefits spending on year-round working families.
- More than 79% of the year-round working families receiving public assistance are supported by a full-time worker employed 35 hours or more per week. More than 92% of the dual-worker households receiving public assistance are supported by more than 70 hours of weekly employment.

- The health services, retail trade, and arts & entertainment services sectors are the largest employers of year-round workers with families receiving public assistance. Together, they account for 36% of all working Illinois families enrolled in public programs, and 39% of program expenses on working families.

- One-third of the year-round workers with families receiving public assistance are employed at firms with 1,000 or more workers.

Documenting the hidden public costs of low-wage work is an important first step toward crafting effective economic policy for Illinois. Jobs that pay family-supporting wages and provide health benefits improve the standard of living. In doing so, they increase the state's tax base, and reduce the cost of public-assistance programs that help the unemployed and underemployed make ends meet. Economic development policy in Illinois should prioritize such jobs by valuing job quality in addition to quantity.

The public assistance programs that support Illinois' neediest families are indispensable. But when profitable industries fail to pay family-supporting wages, they push their costs onto these programs, and in turn onto the state and its taxpayers. The hidden public costs of low-wage work are an implicit subsidy to these employers. Understanding who pays for low-wage work is a crucial step in evaluating the Illinois economy and ensuring that our essential public benefits programs remain viable.

1. Introduction

Five years have passed since Illinois and the nation endured a deep recession. Once again, Illinois has proven to be resilient. The economy is growing, buoyed by rising worker productivity and steady demand for goods and services offered by Illinois firms. Rising output has once again translated into job creation, and through the middle of 2006, the state has added more new jobs than in the first six months of any year since 1998 (IDES, 2006).

But it takes more than new jobs to build a healthy economy. In Illinois, too many of the jobs that have been created in the last 15 years are poorly paying and do not offer fringe benefits. As a result, Illinois is confronted by what at first seems to be a paradox: Economic expansion and employment growth have been accompanied by rising state expenditures on public benefits programs to help working families make ends meet.

When jobs pay too little to support a household, working families have to turn to various public benefits programs – such as child care subsidies, Food Stamps, and the Earned Income Tax Credit (EITC) – to supplement their low earnings. And when jobs don't provide health insurance – or when the cost of buying into an employer's plan is too high – families either have to make do with emergency room visits or enroll in public programs such as Medicaid. The substantial amount of public assistance supporting hard-working families (approximately $2.2 billion per year) is one of the hidden costs of low-wage work in Illinois.

This report takes a closer look at what we call these "hidden public costs" of low-wage jobs. When work doesn't pay enough to support a family, the public sector steps in to fill the gap between family income and family needs. In Illinois, hundreds of thousands of working families turn to public benefits programs to help them make ends meet. These are crucial programs. They help pay for health care, child care, food, and other daily needs, and they ensure a basic standard of living for everyone in the state. But their worthy public purposes are subverted when public benefits programs subsidize profitable enterprises that choose to pay low wages.

In this report, we document the public cost of low-wage jobs in Illinois. Using publicly available administrative and survey data, we estimate the share of public program benefits going to working families, and identify the leading industries that are being subsidized by public benefits programs. Because they are hidden, these costs are rarely included in debates over economic development priorities. Economic development expenditures are an investment in Illinois' future. But when public programs support low-wage employers, taxpayers pay twice. First, through the many state and local programs designed to attract and retain businesses. And second, through the billions of dollars spent every year to support families that rely on jobs in low-wage industries. With its strong connections to the global economy, skilled workforce, and diverse mix of industries, Illinois is an attractive place to do business. From the difficulties of deindustrialization in the 1980s, through the roaring 1990s, and to today's more competitive economy, Illinois has demonstrated its ability to generate jobs. It is time to set the bar higher. Job quality, not just job growth, should be the way Illinois judges its success.

2. Data and methods

The estimate of the hidden public costs of low-wage work in Illinois relies on a multi-step analysis of publicly available data. This section provides a detailed description of the procedures used to calculate these costs. Some readers may prefer to skip ahead to Section 4 which presents our findings. For these readers, an overview of the data and definitions used in this report is presented in the table below.

Overview of data and definitions used in this report	
Six public support programs analyzed in this report	1. Medicaid 2. Earned Income Tax Credit (EITC) 3. Food Stamps 4. Kid Care, also known as the State Child Health Insurance Program (SCHIP) 5. Temporary Assistance to Needy Families (TANF) 6. The Illinois Child Care Assistance Program (CCAP) and other programs reducing the cost of child care
Years analyzed	2001-2004 (data reported as annual averages across that time period)
Definition of "year-round working family"	A family with one or more members who worked at least 50 weeks in a given year (either part-time or full-time).
Definition of "year-round worker"	An individual who worked at least 50 weeks in a given year (either part-time or full-time).
"Enrolled" working family	Year-round working families who were enrolled in at least one of six public support programs
"Enrolled" worker	Year-round workers whose families were enrolled in at least one of six public support programs
Likely Underestimation of Total Costs	This report very likely underestimates the total cost of public program support going to working families in Illinois: ▪ We include only the six largest public benefits programs in our analysis; and ▪ We use a very restrictive definition of working families. For example, a family supported by one or more full-time workers employed 49 weeks out of the year is not counted as a year-round working family. Even small changes to these conservative measures would result in substantial increased in the estimated public cost of low-wage work.

Public support programs included in this analysis

In this section, we describe our approach to estimating the public costs of low-wage jobs in Illinois. In selecting public benefits programs to analyze, we use the following criteria:

- The program has to be large, in terms of the number of individuals and families enrolled, the total annual cost of benefits, or both.
- The program has to be means-tested, or available to individuals or families specifically because they earn low incomes.

- The program has to focus on families with at least one member in the labor force. We exclude programs (or parts of programs) which focus solely on those who are retired or unable to work because of a disability.
- The program has to focus on supplementing an individual's or family's income. Thus, we exclude programs (or parts of programs) that only provide subsidies for training and education.
- Finally, both government administrative data and survey-based, individual-level data must be available (data sources are discussed below).

Based on these criteria, we identified the following six programs to be analyzed:

- Medicaid;
- the Earned Income Tax Credit (EITC);
- Food Stamps;
- KidCare, also known as the State Child Health Insurance Program (SCHIP);
- Temporary Assistance to Needy Families (TANF); and
- subsidized child care programs, mainly the Child Care Assistance Program (CCAP).

There are many public-benefits programs that support low-wage workers and their families. We confine our analysis to large, well-known programs targeted specifically to the basic needs – income support, health care, child care, and food – of working families. Each of these programs is described more fully in the next section. It is important to note that because we are analyzing only the above six programs, our estimate of the public cost of low-wage work in Illinois is conservative.

Data sources

This report relies on two data sources. The first is government administrative data for the six public benefits programs identified above. These data provide the most accurate information on annual enrollments and costs for each program (see Appendix A for a full description). We only include the benefits disbursed by each program. We do not include costs associated with program administration. The second data source is the March Supplement of the U.S. Bureau of Labor Statistics' Current Population Survey

(CPS). This dataset provides individual-level demographic and employment information that is representative of the entire state's population.

When combined, these two data sources provide the information necessary to assess the public costs of low-wage jobs in Illinois: statewide program enrollment and cost data on the one hand, and individual-level demographic and employment data on the other. We describe the processes for combining these datasets below.

In order to reach a sufficient sample size for the CPS, and to account for year-to-year fluctuations in program enrollments and costs, we base our analysis on pooled data from the last four years for which CPS data are available: 2001-2004. To match public-benefits program expenses to the CPS data, we collect administrative data for the six programs from 2000 to 2004.

Combining the two data sources

Our rationale for combining administrative program data with CPS data is as follows. On the one hand, government administrative data are the best source of accurate information on each program's annual enrollment and cost. However, these data only detail total benefits expenditures – they do not give information on the individuals and families enrolled in each program. The CPS, on the other hand, does provide information on individuals and families, on how much they use public programs, on their labor force participation, and on the characteristics of the jobs they hold. By combining these two sources of information on public benefits and low-wage work, we can identify the types of workers and families that receive public benefits.

We therefore use the CPS data to analyze individuals and families enrolled in public support programs, but also adjust the CPS dataset to ensure that it accurately reflects administrative figures for (1) total program enrollment and (2) cost of program benefits disbursed. Here, we give a brief overview of these two adjustments. A detailed explanation can be found on the CUED website (http://www.uic.edu/cuppa/uicued/).

(1) **Program Enrollment Data.** Ensuring that the CPS enrollment data accurately reflect the administrative enrollment data requires adjusting the weights assigned

to each CPS observation. Therefore, for each of the six programs included in our analysis, we calculated a ratio of total annual administrative enrollment to total annual CPS enrollment. We then multiplied the given CPS weight of enrolled families by this ratio, creating a program-specific weight that, when summed, equals total administrative enrollment for that year. We then adjusted the CPS weights of non-enrolled families so that the sum of the constructed weights is equivalent to the total population.

(2) **Benefits Payment Data.** Ensuring that the CPS benefits-received data accurately reflect the administrative benefits-disbursed data requires different adjustments, depending on whether or not benefits data were collected by the CPS. For programs where benefits data were collected by the CPS (TANF, EITC, Food Stamps, Medicaid), the adjustment process is similar to the enrollment adjustment described above. For each of these programs, we calculated a ratio by dividing total annual administrative benefits disbursed by total annual CPS benefits received. We then multiplied reported CPS benefits for enrolled families by this ratio, creating a new benefit amount that, when summed, equals the total administrative benefit amount for that year. For programs on which benefits data were not collected by the CPS (SCHIP and subsidized child care), we divided the total annual administrative benefit amount by the total annual number of enrolled families, and then distributed benefits equally among CPS recipient families.

Defining "year-round working families" and "year-round workers"

For much of this report, we focus on families as our primary unit of analysis. We define a "family" to include the following groups: (1) nuclear families of one or two adult(s) and children under 18; (2) married couples without children; and (3) single individuals without children. This definition is in keeping with definitions used to determine eligibility for most public assistance programs, such as the "health insurance unit" used by Medicaid and the "taxpaying unit" used by the EITC. Extended-family households that include adult siblings or other extended family members are considered to be multiple families.

A key goal of our analysis is to identify working families that are enrolled in public support programs. In this report we use a stringent definition of a working family, in order to ensure that at least one member has strong labor force attachment. Specifically, we focus on “year-round working families” that have one or more members who worked at least 50 weeks in a given year. In doing so, we avoid including families whose need for public-benefits support is driven by extended periods of unemployment, and who turn to public programs as their primary source of income. Under our definition, working family members could hold either part-time or full-time jobs and could hold multiple jobs throughout a given year; whatever the case, we know that at a minimum, they have worked 50 weeks during the year. Finally, for several analyses we focus on individual workers who are members of year-round working families. These are “year-round workers” who worked at least 50 weeks in the year (again, either part-time or full-time).

Taking a step back, it is important to reiterate that our restrictive definition of “year-round working family” means that we are underestimating the total cost of public benefits paid to working families in Illinois. For example, if a single mother with two children was unemployed for January, but worked two full-time jobs from February through December, her family would not be considered a year-round working family for that year. Ideally, this family should be included in the discussion of the public cost of low-wage work. But data constraints prevent us from determining with certainty the months in which a worker was employed, so we are unable to determine whether public benefits supported the family during working months or during spells of unemployment.

Baseline data on total program enrollment and cost

Table 1 shows our baseline data on annual program enrollment and costs for all families in Illinois regardless of working status. The table incorporates the adjustments and definitions described above. In terms of cost, Medicaid was the largest program. Approximately 633,000 families enrolled each year, at an annual cost of more than $2.41

billion.[i] A larger number of families (approximately 728,000) received the EITC each year, accounting for $1.55 billion in EITC payments. Illinois' total Food Stamp disbursements of $988 million for 590,000 enrolled families make it the third largest program. The remaining three programs are significantly smaller in size. The total average annual cost of the six programs is $5.87 billion.[ii]

Table 1: Enrollment and costs of six public support programs
Annual averages, 2001-2004

	Number of enrolled families	Total program cost (in millions, 2004 dollars)	Average cost per enrolled family (2004 dollars)
Medicaid	633,463	$2,412.98	$3,809
EITC	728,228	$1,553.72	$2,134
Food Stamps	590,772	$988.41	$1,673
Child Care Assistance	157,571	$632.97	$4,017
TANF	88,341	$169.75	$1,922
SCHIP	62,157	$107.98	$1,737

3. An overview of six public support programs

In this section, we provide an overview of the public support programs that we will analyze later in the report.

EITC

What is it Earned Income Tax Credit (federal), a refundable tax credit

Who it covers Low-income families and individuals with earned income in the previous year.

Program purpose To reward work and increase income of the poorest families.

Benefit The state EITC credit is set at a fixed rate of 5% of the Federal credit.

Cost **Federal** - In 2002, 837,255 families were enrolled in the federal EITC program. They received a total of $1.43 billion in tax credits
State – In 2002, 645,973 families were enrolled in the state EITC. They received a total of $50.8 million in tax credits

Detailed information available at http://www.irs.gov/individuals/article/0,,id=96466,00.html

Medicaid (and KidCare)

What is it	A public health insurance program
Who it covers	Uninsured children and adults with limited income and resources
Program purpose	To provide the poorest families with access to basic health services
Benefit	Medicaid provides health coverage for low-income children and their parents. KidCare extends Medicaid, providing health coverage for children in families with incomes too high to qualify for Medicaid, but unable to secure private health insurance. Under current Illinois guidelines, children in families with incomes reaching up to 200% of the Federal Poverty Line are eligible for some portion of KidCare benefits.
Cost	**MEDICAID** - In Fiscal Year 2003, 316,000 adults and 935,000 children were enrolled in Medicaid coverage in Illinois. They received benefits worth $885 million and $1.311 billion, respectively. **SCHIP** - In Fiscal Year 2003, 135,000 children were enrolled under S-CHIP. They received a total of $$91.3 million in benefits.

Detailed information available at www.kidcareillinois.com

TANF

What is it	A time-limited program providing work training and cash assistance to those individuals who have personal or family-related barriers to employment
Who it covers	Very low-income families pursuing work-related activities
Program purpose	To provide the temporary assistance needed for families to become self-sufficient
Benefit	TANF is available to very low-income families with children. A 2-parent, 2-child household in Cook County is eligible for a maximum benefit of $435 per month.
Cost	For Fiscal Year 2004, 35,000 Illinois families per month were enrolled in TANF. They received benefits totaling approximately $110.5 million.

Detailed information available at http://www.acf.hhs.gov//programs/ofa/

Child Care Assistance Program (the state's child care subsidy program)

What is it	A program supporting access to childcare for needy families
Who it covers	Families enrolled in the TANF program are guaranteed child care assistance if they have children under the age of thirteen. Families who are not enrolled in TANF qualify for child care assistance if they meet the income eligibility guidelines: 185% of the federal poverty level, with temporary exceptions made up to 200%.

Program purpose	To deliver child care services to low-income families that depend on these benefits in order to work
Benefit	A family of four earning up to $36,000 per year is eligible for CCAP assistance. For a two-parent, two-child family with annual income at the poverty level, the monthly benefit is about $95.
Cost	In 2004, 158,774 families received assistance from the Child Care Assistance Program at a total cost of $648,555,217

Detailed information available at: www.dhs.state.il.us

Food Stamps

What is it?	Program enabling low-income families to buy food with vouchers and Electronic Benefits Transfer (EBT) cards
Who it covers	Low-income families are generally considered eligible for food stamps if their monthly income is below 130% of the federal poverty level. In addition, households must have no more than $2,000 in resources (or $3,000 if the household includes a member who is at least 60 years old or is disabled). Households in which all members are receiving TANF or Supplemental Security Income (SSI) are automatically eligible for food stamps.
Program purpose	To provide the poorest families with the means to feed themselves.
Benefit	A minimum wage worker with one child would receive benefits of about $250/month (FY 2005). Two minimum wage workers with two children can receive up to $500 in benefits.
Cost	In Fiscal Year 2004, an average of 476,000 families received food stamps for any given month. Total food stamp benefits for the year were $1.21 billion.

Detailed information available at http://www.dhs.state.il.us/ts/fss/foodStamp.asp

4. Working families and public benefits programs

In this section, we answer some basic questions about public benefits programs in Illinois. What proportion of the families enrolled in these programs are year-round working families? How much does that support cost annually? What share of benefits payments go to year-round working families? And how is that cost distributed across the six programs under consideration – Medicaid, SCHIP, EITC, TANF, Food Stamps, and Child Care Assistance?

Table 2: Working family enrollment and costs of six public support programs

Annual Averages, 2001-2004

	Number of enrolled families	Percent	Total cost across the six programs (in millions, 2004 dollars)	Percent	Average cost per enrolled family (2004 dollars)
Full-year working families	475,788	42.0%	$2,211.00	37.7%	$4,647
Other families	656,819	58.0%	$3,654.84	62.3%	$5,564
All families	1,132,607	100.0%	$5,865.84	100.0%	$5,179

Table 2 shows that families with at least one full-time worker account for 42% of all families enrolled in these programs, and approximately 38% of total benefits costs. More than 475,000 families have at least one year-round worker, but nevertheless have to turn to public benefits programs to make ends meet. Clearly, the safety net in Illinois is not limited to those who cannot work or who are unable to find work – substantial numbers of enrolled families have one or more members who hold down a year-round job.

Table 3: Individual program costs by type of enrolled family

Annual averages, 2001-2004

	Cost for year-round working families (in millions, 2004 dollars)	Percent	Cost for all families (in millions, 2004 dollars)	Percent
EITC	$931.86	42%	$1,553.73	26%
Medicaid	$643.59	29%	$2,412.99	41%
Child Care	$358.07	16%	$632.97	11%
Food Stamps	$183.56	8%	$988.41	17%
SCHIP	$51.36	2%	$107.99	2%
TANF	$42.56	2%	$169.75	3%
Total	$2,211.00	100%	$5,865.84	100%

So far we have provided a broad overview, summarizing enrollment and costs across the six public programs. We now shift to a more detailed analysis: In which programs are year-round working families most likely to be enrolled? And what are the associated program costs?

Table 3 shows the average annual cost of each of the six programs in Illinois between 2001 and 2004, disaggregated by family type. The enrollment of year-round working families is concentrated in three programs: EITC, Medicaid and Child Care. Benefit payments to full-year working families are most heavily concentrated in the EITC. This makes sense; the EITC is explicitly designed to support and reward employment. In fact, the $931 million in annual EITC payments to full-year working families is in many ways the purest expression of the extent to which the State of Illinois steps in to bridge the gap between low wages and basic household needs. Child care subsidies work on the same principle; as we would expect, a greater share of public assistance paid to year-round working families comes in the area of child care (16% compared to 11% for all families).

But the large annual Medicaid expenditure ($644 million) on year-round working families suggests that other factors are at play. Medicaid provides healthcare assistance to low-income families regardless of their employment status. Additionally, employer-sponsored plans are the main source of health insurance for U.S. workers. For many year-round working families, however, steady employment is not enough to guarantee access to an affordable employer-provided health plan. In other words, Medicaid is turning into a basic support program for many full-year working families, and not just a safety net for those out of work.

By contrast, Food Stamps and TANF are more narrowly targeted at the nonworking poor and the unemployed, and as a result fewer year-round working families are enrolled in these programs. Nevertheless, more than 125,000 families in Illinois with a year-round worker draw Food Stamp benefits. Table 4 shows enrollment by family type for each program.

Table 4: Individual program enrollment by type of enrolled family

Annual averages, 2001-2004

	Number of year-round working families receiving assistance	Percent	All families receiving assistance	Percent
EITC	428,740	49%	728,228	32%
Medicaid	192,048	22%	633,463	28%
Child Care	92,488	10%	157,571	7%
Food Stamps	125,183	14%	590,772	26%
SCHIP	25,960	3%	62,157	3%
TANF	17,578	2%	88,341	4%
Total	881,997	100%	2,260,532	100%

5. The problem of low wages

That so many year-round working families rely on public assistance raises fundamental questions about the nature of the jobs supporting many Illinois families. In this section, we examine the wages of year-round workers in families receiving public benefits.

At a basic level, the working families that rely on public assistance do so because their earnings from employment do not cover basic household needs. There are many reasons why earnings from employment might fall short. Some of the working families who receive public assistance attempt to live off the earnings of workers whose wages are simply too low to cover the cost of living. Others rely on the earnings of higher-wage workers whose total take-home pay cannot cover expenses for their large families. Another common group of working families earns enough to cover most basic household expenses, but turns to public assistance in order to cope with the rising cost of healthcare. We address each type of worker in turn.

Table 5: Hourly Earnings of Year-Round Workers with Families Receiving Public Assistance
Annual Averages, 2001-2004

Hourly Wage	Number of Full-Year Working Families	Percent
$8/hr or lower	179,451	38%
$8.01-$10/hr	85,700	18%
$10.01-$12/hr	66,743	14%
$12.01-$14/hr	66,545	14%
$14.01-$16/hr	28,419	6%
$16.01 and higher	48,930	10%
Total	475,789	100%

As Table 5 demonstrates, the majority (56%) of year-round working families receiving public assistance in Illinois rely on the earnings of a worker who is paid less than $10 per hour. Furthermore, more than one-third of year-round working families (38%) depend on a worker who earns $8 per hour or less. This suggests that low wages in their own right – regardless of family size or regional differences in the cost of living – are the predominant reason why so many working families rely on public benefits programs.

Table 6: Total Public Benefit Cost by Hourly Wage
Annual Averages, 2001-2004

Hourly Wage	Total Benefit Expense (in millions, 2004$)	Percent of All Benefit Spending on Working Families
$8/hr or lower	$921.66	42%
$8.01-$10/hr	$552.64	26%
$10.01-$12/hr	$251.11	11%
$12.01-$14/hr	$182.26	8%
$14.01-$16/hr	$90.58	4%
$16.01 and higher	$212.73	9%

Table 6 shows that the families of very low-wage workers – those earning $10 an hour or less – receive two-thirds of all public assistance to working families in Illinois. At the same time, it is important to note that families supported by workers earning higher hourly wages – $14, $16 or better – also rely on public benefits, albeit to a much lesser extent. Public spending on these households falls disproportionately in Medicaid and SCHIP, programs that increasingly help working families obtain basic benefits not available or affordable through their employers.

Single-parent families account for 11% of all Illinois households, but 43% of households receiving public assistance (Table 7). Two-parent families also are more heavily represented among full-year working families receiving public benefits than they are among the general population. In many cases, these families draw income from two full-year workers, or from a second earner working intermittently throughout the year (the data do not allow us to determine the frequency of either arrangement). But they still need some public assistance to cover basic family expenses.

Table 7: Family Type by Public Benefits Receipt

Annual Averages, 2001-2004

	Working Families Receiving Assistance	Percent	All Families	Percent
Two-Parent Families	160,764	34%	1,149,936	20%
Single-Parent Families	206,584	43%	598,165	11%
Families with No Children	108,440	23%	3,748,043	66%
Other Household Types	-	0%	189,287	3%

A final consideration is full-time employment status. Involuntary part-time employment – in which workers seek to work a standard 40-hour week, but are only able to secure a smaller number of weekly hours – has grown substantially over the past 30 years. Given that this report makes year-round employment, rather than full-time employment, the criterion for working-family status, it is reasonable to expect that a larger share of program costs will come from working families supported by a wage-earner with few weekly work hours. However, this is not the case.

Table 8: Program Costs by Hours Worked
Annual averages, 2001-2004

	Single-Worker Families (in millions, 2004$)	Percent	Dual-Worker Families (in millions, 2004$)	Percent
1 to 33 hrs/wk	$350.45	17%	$ -	-
34 to 52 hrs/wk	$1,615.55	79%	$4.48	3%
53 to 69 hrs/wk	$53.59	3%	$8.67	5%
70 or more hrs/wk	$23.04	1%	$155.21	92%

Note: Total work hours are for all household members, not just the primary earner. Dual-worker families reporting less than 34 hours of work per week were not counted as year-round working families.

More than 80% of program costs for single-worker families go to households with a worker employed 34 or more hours per week. While the $350 million in annual public assistance paid to families supported by a part-time wage earner (working 33 hours per week or less) is still substantial, it is clear that such households are the exception rather than the rule. For dual-worker families, more than 90% of program costs go to families whose members work a total of 70 or more hours per week.

6. Industry matters: Who employs low-wage workers?

We have seen that low wages are a key reason why working families in Illinois are enrolled in public benefits programs. We now ask, in which industries are the workers from these families employed? Answering this question requires us to shift attention to workers, rather than families. Specifically, we consider year-round workers whose families were enrolled in one or more public benefits programs during 2001-2004 in Illinois – or "enrolled workers" for short.

Table 9 lists the major industries in which enrolled workers are employed.[iii] Starting with the first column, three industries stand out as having a large and disproportionate number of year-round workers enrolled in public benefits programs: health services employed an annual average of 68,000 enrolled workers (or 13.3% of total enrollees); retail trade employed an annual average of 64,000 enrolled workers (or 12.5% of the total); and arts, entertainment, and recreation services employed an average of 54,000 enrolled workers (10.4% of the total). Together, these industries accounted for

36% of enrolled workers, but only 27% of the general workforce. The discrepancy is particularly pronounced in the arts, entertainment and recreation sector, which employs one out of every 16 year-round workers in Illinois, but one out of every 10 year-round workers enrolled in a public assistance program.

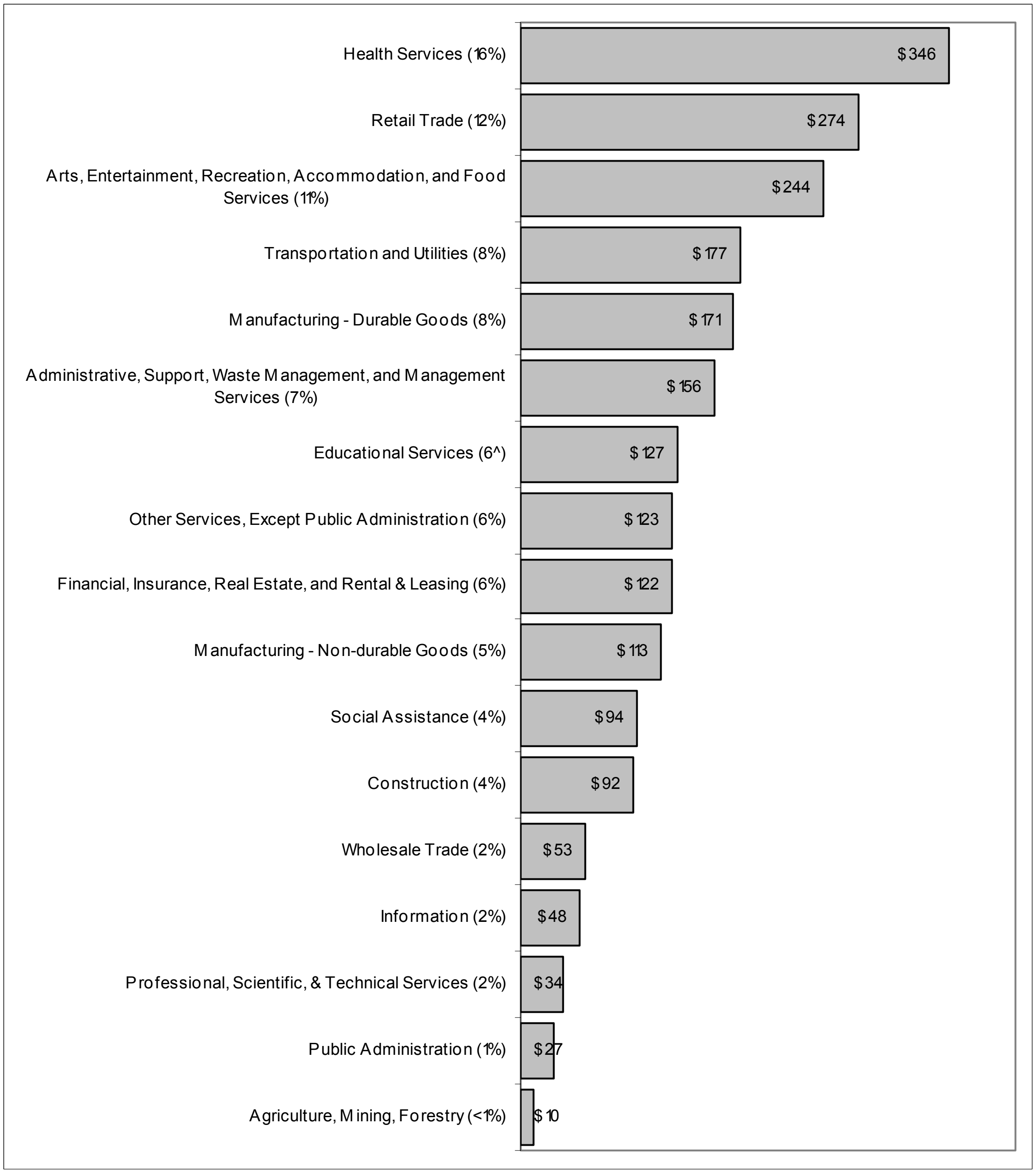
Table 9: Industry distribution of full-year workers enrolled in six public support programs

Annual averages, 2001-2004

	Number of recipient year-round workers	Industry's share of all year-round enrolled workers	Industry's share of all workers in the labor market
Health Services	68,285	13.3%	10.4%
Retail Trade	64,216	12.5%	10.3%
Arts, Entertainment, Recreation, Accommodation, and Food Services	53,749	10.4%	6.2%
Manufacturing - Durable Goods	50,584	9.8%	11.2%
Transportation and Utilities	38,368	7.5%	6.7%
Other Services, Except Public Administration	32,249	6.3%	4.2%
Construction	30,317	5.9%	6.2%
Educational Services	26,914	5.2%	6.8%
Financial, Insurance, Real Estate, and Rental & Leasing	26,425	5.1%	8.0%
Administrative, Support, Waste Management, and Management Services	26,011	5.1%	4.1%
Manufacturing - Non-durable Goods	24,379	4.7%	6.4%
Wholesale Trade	16,688	3.2%	3.6%
Social Assistance	15,846	3.1%	1.7%
Information	15,416	3.0%	3.2%
Professional, Scientific, & Technical Services	11,865	2.3%	5.9%
Public Administration	10,155	2.0%	4.4%
Agriculture, Mining, Forestry	3,541	0.7%	0.8%

Another way to analyze the reliance of individual industries on public benefits payments to their employees is by tallying the total amount the public sector spends on workers and their families in each industry (Figure 1).[iv]

Figure 1: Total Public Assistance Payments to Year-Round Working Families, by Industry, Millions of Dollars (2004$)



Note: Numbers in the left column denote the percent of total public-assistance to year-round working families, by industry

Figure 1 underscores the large amount of public assistance received by families of year-round health-services workers. Although the number of benefits recipients employed in the health services and retail trade industries does not differ by much (68,000 compared to 64,000), average annual expenditures on the families of health services employees are more than $70 million higher. Year-round health services workers do not just enroll in public benefits programs in large numbers and at high rates – they also receive large per-enrollee benefits payments.

By any measure, health services, retail trade and entertainment stand out as the most prominent employers of workers whose families rely on public benefits programs. Together, these three industries account for 39% of spending on year-round working families. Given that the health services and retail trade industries account for such a large portion of public benefits spending on year-round working families, we examine wages and insurance coverage rates of segments of each industry to obtain a better understanding of the program participation rates of workers in these industries.

Table 11: Health service industry sub-sector details
Annual averages, 2001-2004.

Sub-Industry	Enrollees	Workers	% of Workers Enrolled in Programs	Total cost across the six programs (in millions, 2004$)	Median Hourly Wage (2004)	% of Workers Receiving Employer-Sponsored Health Insurance
Residential Care Facilities	20,555	73,380	28.0%	$145.93	$12.02	54.1%
Hospitals	26,663	202,814	13.1%	$134.34	$16.00	77.3%
MD Offices and Clinics	15,026	146,851	10.2%	$49.68	$15.38	58.0%

Table 11 divides the health services industry into three sub-sectors: residential care facilities (of which nursing homes are the key component), hospitals, and doctors' offices and clinics. Because they illustrate the impact of industry wages and health-insurance availability on public-program participation, it is worth examining each segment in detail.

The most striking sub-industry is nursing homes and residential care facilities, which employed just 17% of Illinois health services workers, yet accounted for 44% of the industry's public program cost. These high program costs are due in substantial part to the industry's low pay rates and, ironically, its poor health insurance coverage. Half of all residential care workers earn $12 per hour or less, and, due to either these low wages, the high cost of employer-provided health insurance, or both, just 54% of workers in the industry segment participate in employer-sponsored health plans. In straightforward terms, this combination of low wages and low health-insurance coverage increases the likelihood that these workers and their families will participate in Medicaid or SCHIP.

By contrast, hospitals are less reliant on public programs to support workers. Hospitals employ 47% of year-round health services workers in Illinois, but account for 40% of the industry's program costs. Health insurance again provides the best explanation. Because more than 77% of hospital employees participate in employer-sponsored healthcare plans, and because the sub-sector's median hourly wage of $16 is relatively high, workers and their families are better able to obtain health insurance through the workplace or by buying into a private plan. The same logic applies to doctors' offices and clinics, which employs 34% of the sector's workers but absorbs only 14% of public benefits costs. Characterized by relatively high median wages ($15.38 per hour), a 58% employee participation rate in employer-sponsored health insurance plans, and the absence of a very low-wage industry segment, doctors' offices and clinics employ a large workforce while imposing a much smaller cost on the public sector.

Despite the widespread impression that there is little difference between retail-sector industries, our data suggest that the retail trade sector has several noteworthy differences between industry segments.

Table 12: Retail trade industry sub-sector details
Annual averages, 2001-2004.

Sub-Industry	Enrollees	Workers	% of Workers Enrolled in Programs	Total cost across the six programs (in millions, 2004$)	Median Hourly Wage (2004)	% of Workers Receiving Employer-Sponsored Health Insurance
Food and Beverage	15,867	63,261	25.1%	$76.29	$10.91	49.3%
Department, Specialty, and Discount	31,168	193,566	16.1%	$128.56	$11.58	53.9%
Hard Goods	7,607	137,989	5.5%	$36.17	$13.94	62.6%

In terms of both the number of enrolled workers, and total benefits costs in particular, food and beverage stores account for a disproportionately large share of program costs in retail trade. With a year-round workforce of 63,000, the sector employs just 16% of the retail trade workers in Illinois. Yet it accounts for 29% of program enrollees, and 53% of total program costs. Another way to put this is that per-worker program costs in this industry segment are particularly high. The sector's $10.91 median hourly wage is quite low, and fewer than half of employees participate in employer-sponsored health plans. Furthermore, food and beverage stores are one of the most heavily unionized – and thus bifurcated – retail service industries. While workers at large, chain supermarkets receive higher hourly wages and more affordable health insurance plans under the terms of their collective bargaining agreements, non-union supermarkets and convenience stores – characterized by near-minimum wages and the absence of affordable employer-sponsored health insurance plans – are gaining market share in Illinois (Gallagher 2005, Doussard 2006).

Department, specialty and discount retailers – a group including such varied all-purpose retailers as clothing stores, gas stations and furniture stores – also account for a greater share of retail trade program participation (57%) than they do industry employment (49%).

The hard goods industry segment – consisting of the retailers of big-ticket goods such as motor vehicles, electronics and catalog goods – is an exception in the retail trade sector. When compared to the sector as a whole, this industry segment has higher median wages ($13.94 per hour), higher rates of participation in employer-provided health insurance programs (62.6%), and a lower rate of employee participation in public benefits programs (just 5.5% of all year-round industry employees).

This close inspection of the relationship between wages, health insurance coverage and public-program participation in different industry segments demonstrates an important point: industry matters. The public costs of low-wage work are highly uneven, and vary not just between sectors of the economy, but also across industries and industry segments.

Because the health services, retail trade, and arts and entertainment industries account for a large number of year-round workers receiving public benefits, they deserve special scrutiny in debates over economic development policy and priorities. These industries compete in local markets and are not subject to interstate, much less international, competition. Furthermore, low wages are not the reason they locate in Illinois. These industries follow consumer demand and rely, in large part, on the personal income of consumers and the spending of other businesses. Our findings show that when government programs subsidize these industries through tax credits, low-cost loans, and other business incentives, they obligate the state to a second set of hidden subsidies – public benefits programs that supplement employers' low wages so that the families of employees can make ends meet.

7. Low wages and firm size

We now examine the relationship between firm size and expenditures on public benefits programs.[v]

Table 13: Enrolled workers by firm size
Annual averages, 2001-2004.

Firm size	Enrolled workers	% of Enrolled workers	Total assistance (millions of $)
Under 10	95,141	18%	$397.25
10-24	61,811	12%	$296.50
25 - 99	80,240	16%	$316.79
100 - 499	80,322	16%	$392.55
500 - 999	26,086	5%	$93.64
1000+	171,407	33%	$715.25

Table 13 shows the number of year-round enrolled workers, distributed by the size of the firms in which they work. Large firms stand out in this analysis. The families of year-round workers employed by firms with 1,000 or more employees account for one-third of all enrolled workers in Illinois and $715 in annual spending on public assistance to working families. This is noteworthy, especially when we consider that large firms are better equipped than others to provide discounted employee health insurance programs, and that they have more options for restructuring operations in order to cover wage costs.

9. Making job quality a priority for economic development

Public benefits programs provide an absolutely crucial safety net for Illinois families. But their worthy purposes are undermined when employers pursue low-road business strategies based on holding down wages and avoiding benefits obligations, in the process shifting greater responsibility onto taxpayers. There is evidence that some employers – even those in large and profitable industries – are taking advantage of Illinois's social safety net.

Documenting the hidden public costs of low-wage work is an important first step toward crafting effective economic development policy. Jobs that pay family-supporting wages and provide health benefits improve the standard of living. In doing so, they increase the state's tax base, and reduce the cost of public-assistance programs that help the unemployed and underemployed make ends meet.

A strong economy rests on three pillars:

- *Creation of good jobs* – that pay living wages and provide economic security
- *A skilled workforce* – that can sustain innovation and productivity growth
- *A strong safety net* – that supports workers as well as the unemployed and those unable to work

In today's competitive environment, where issues of global competition dominate public debates, it is tempting to believe that Illinois must accept low wages in return for economic growth. But we do not. Companies that do business in Illinois are attracted to the state by its markets, its workforce, and its connections to the national and international economy. Illinois is not a low-wage state, nor should it be. And the success of our leading industries is not based simply on holding down labor costs. Instead, our economic prosperity comes from innovation, producing high quality goods and services, and channeling productivity increases into competitive advantage.

It is vital for public benefits programs to provide assistance to Illinois's neediest families. But when profitable industries fail to pay family-supporting wages, they push their costs onto the state and its taxpayers. These hidden public costs of low-wage work are an implicit subsidy to these employers. Understanding who pays for low-wage work is a crucial step in evaluating economic development in Illinois and ensuring that our essential public benefits programs remain viable.

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[i] This figure does not include Medicaid spending on the elderly and disabled.

[ii] Note: the enrollment and cost numbers in Table 1 may not perfectly match published government data. There are several reasons for this. First, we combine federal, state and (where applicable) local costs, but exclude the administrative expenses that appear in some published program cost estimates. Second, combining the two data sources (e.g., administrative records and survey data) required us to align administrative fiscal years, which run from July to July, with CPS survey years, which correspond to the calendar year. This can result in some shifting of estimated costs from year to year (please see Appendix A for more details). Third, while our definition of "family" matches the definitions used by many public support programs, it may not match more common definitions of families and households used in government datasets such as the Census. Fourth, the scope of actual program coverage (described in more detail in the next section) may not always match the scope of official program reporting. Fifth, and finally, the figures we present are *average* enrollment and costs across four years (2001-2004). These averages will not correspond perfectly with the specific expenditures of particular years. All that said, the net effect of our adjustments and definitions is generally negligible.

[iii] See Appendix B for details on industry definitions. Note that the third column will not perfectly match published data on industry employment in Illinois, because in this table we are focusing only on year-round workers.

[iv] When a family had members working in different industries, we allocated the family's total public support benefits to its workers, proportionate to each worker's hours.

[v] We approach this analysis with caution, because it relies on firm size as reported by the workers themselves. Nevertheless, the available data make clear some important patterns.