

## The American Families Plan's Impact on Washington State Working Families' Ability to Meet Basic Needs

By Annie Kucklick and Lisa Manzer

Working families in Washington State are struggling in the face of a mounting disparity between rising costs and stagnating wages: in 2019, 30.8% of working families with children in Washington State were unable to make ends meet as measured by the Self-Sufficiency Standard. While the 2020-2021 pandemic-related economic downturn illuminated severe financial deprivation, the pandemic has merely exacerbated economic inequality that existed prior to 2020. To interrupt the trend of increasing income inequalities, families need policies that provide more than temporary relief.

Provisions included in President Biden's proposed American Families Plan (AFP) is one source of long-term financial support for Washington families. Self-Sufficiency Standard research shows that if the increased child tax credits, the expanded child care, and universal preschool provisions in the AFP are passed, 11.9% or 94,885 working parents in Washington State will go from having inadequate wages to having the ability to make ends meet for their families.

The Self-Sufficiency Standard, a budget-based, living wage measure, has documented the real cost of living for working families in Washington State since 2001. The Standard determines the amount of income required for working families to meet basic needs at a minimally adequate level, taking into account family composition, ages of children, and geographic differences in costs. The Standard provides a modern, comprehensive, and detailed replacement of the outdated Federal Poverty Measure.

In the last twenty years, the cost of basic needs has increased faster than median earnings across all Washington State counties. For families with young children, the cost of housing and child care combined typically make up nearly half of a family's budget. When median earnings for Washington State's occupations with the highest number of people do not keep pace with increasing costs, many parents working full-time are unable to pay for the basic needs of their families without public or private assistance.

### American Families Plan, an Essential Policy Change

Last year Washington State families faced high levels of job loss as a result of the COVID-19 pandemic. Increased social safety net spending including Economic Impact Payments (stimulus checks), expanded child tax credits, and unemployment insurance benefits provided temporary, impactful assistance. However, short-lived alleviation through reactive policies does not solve the persistent economic inequality that has been documented by the Self-Sufficiency Standard. The AFP, one prong of President Biden's new three-part Build Back Better Agenda, calls for significant federal investment in the areas of child care, paid leave, universal preschool for three and four year old's, increased tax credits, and free community college, among others. If passed, these investments have the potential to improve the economic well-being of struggling Washington State families over the long-term.

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### Why the Self-Sufficiency Standard?

Because the Standard utilizes current and geographically-specific family costs and taxes, it is uniquely situated to model the effects of policies on family budgets. The AFP is comprehensive and has potential to extensively impact the well-being of families by adding at least four years of free public education, increasing taxes for high earners, expanding paid leave, and maintaining the tax credit changes from previous COVID-19 relief bills. This research focuses specifically on the policy mechanisms that directly impact a working family's budget: child tax credits, universal preschool, and child care cost reductions.

The Self-Sufficiency Standard provides multiple thresholds specifying what it takes to make ends meet at a minimal level, based on geographic location (by county), age of children, and family composition. For example, in 2020 a family of one adult, one infant, and one preschooler living in King County (Seattle) needed \$99,519 per year to cover the cost of housing, child care, food, transportation, health care, necessary miscellaneous items and taxes. This is equivalent to almost *three full-time minimum wage jobs* in Seattle.

Even in more affordable counties such as Clark County, a family of one adult, one infant, and one preschooler needed \$75,558 per year in order to cover their basic needs. Based on median earnings data from the U.S. Bureau of Labor Statistics, Washington State retail salespersons, the third largest occupation in the state, do not even make half of what it takes for this family to get by in either county.

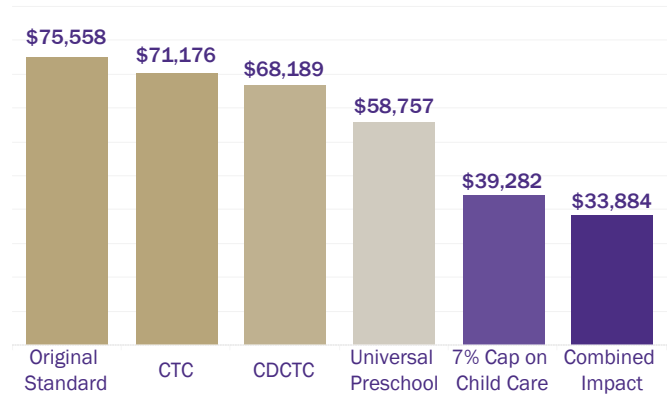
### American Family Plan Policies Modeled in the Self-Sufficiency Standard

In order to model the Self-Sufficiency Standard cost changes resulting from specific AFP provisions, the following steps were taken to adjust the Self-Sufficiency thresholds:

1. Increase the annual Child Tax Credit (CTC) to \$3,600 per child under six years and \$3,000 per child six years and older
2. Increase the Child and Dependent Care Tax Credit (CDCTC) to a maximum refundable benefit of \$4,000 for one child or \$8,000 for two or more children

### Figure A. Child Care Support and Expanded Tax Credits Could Reduce the Annual Income Needed to Meet Basic Needs by Half

Clark County, WA 2020 | Single Parent with One Infant & One Preschooler



3. Reduce the cost of child care for children under age five to a maximum of 7% of income for low- and middle-income families
4. Provide free, universal preschool for three- and four-year-olds
5. Combine each model to produce one comprehensive, adjusted Self-Sufficiency Standard

### Cost Change Findings

If Congress passes the comprehensive AFP, Washington State's working families will experience direct and significant reductions in the cost of meeting basic needs. **Figure A** illustrates changes to the Self-Sufficiency Standard required income thresholds for the AFP provisions, separately and combined, for a family of one adult, one infant, and one preschooler living in Clark County. The provisions of a 7% cap on child care expenses, universal preschool, and the expanded Child Tax Credit decrease their total annual income needed by nearly half—from \$75,558 to \$33,884 per year. These provisions would give struggling families a meaningful abatement from burdened finances.

### Counting Washington State Households Impacted by the Potential Policy Changes from the AFP

In order to estimate the impact of the AFP child care, tax credit and universal preschool provisions on multiple types of Washington State households, the

Standard costs for over 700 different family types in all Washington counties were matched with corresponding family types and earnings data from the 2019 U.S. Census Bureau’s American Community Survey (see Technical Appendix). Prior to temporary pandemic relief efforts and AFP policy adjustments, we estimate that 30.8% of working families with children in Washington State have incomes below the Self-Sufficiency Standard. In other words, nearly a third of Washington State working families with children struggled to make ends meet prior to the pandemic.

**If Congress passes the American Families Plan, the number of working families with incomes below the Self-Sufficiency Standard could be reduced by over a third.** Figure B illustrates how each model impacts the total percentage of working families in Washington State with incomes below the Standard. When the comprehensive policy package (tax credits, child care expansion, and universal preschool) is modeled, only 18.9% of working families with children fall below the Standard, **a third fewer** than when no policies were implemented.

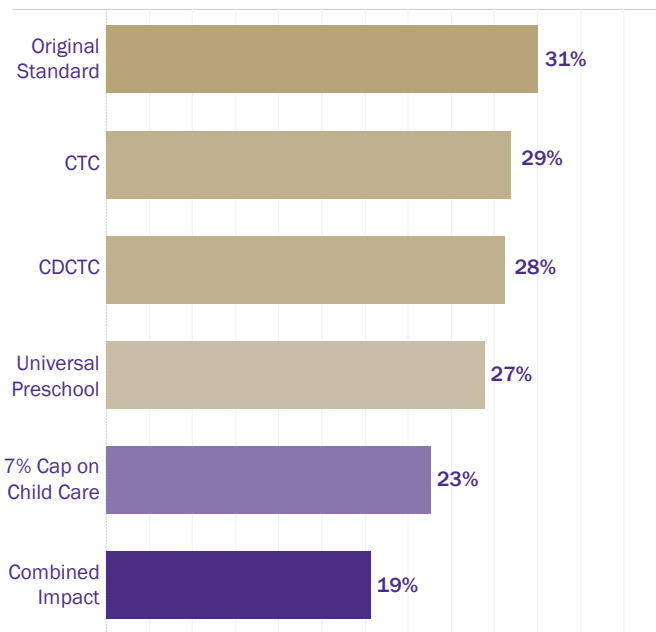
To restate these findings, in 2019 **30.8% of working families were unable to make ends meet according to the Self-Sufficiency Standard.** If none of the AFP’s provisions are enacted to support working families in Washington State, nearly 250,000 Washington households will be left continuing to struggle to meet their basic costs. If the increased child tax credits, the expanded child care, and universal preschool provisions in the AFP are passed by Congress, more than a third (11.9% or 94,885 households) of those families will be able to make ends meet through reduced costs and increased tax credits.

### Next Steps

Now that we have calculated the total number of Washington State families impacted by the proposed AFP provisions, the next steps will be to examine

**Figure B. American Families Plan Policies Could Decrease Income Inadequacy Rates for Working Families by Over a Third**

*Income Inadequacy Rate by Model, Washington State*



Source: U.S. Census Bureau, 2019 ACS 1-Year Public Use Microdata Sample.

demographic variables in the models in order to address whether policy changes reflect other social inequities and have disproportionate effects. This detailed analysis will reveal how these policies can alleviate the economic burden raising young children has on the ability of working parents, particularly those of color, to afford basic needs in Washington. Previous Self-Sufficiency Standard research shows that Black, Indigenous, and people of color (particularly Black and Latinx populations) have the highest rates of income inadequacy due to historical barriers and structural racism.

## Technical Appendix: Methodology and Assumptions

This analysis uses the Self-Sufficiency Standard for Washington State 2020 as the definition of income adequacy. The Self-Sufficiency Standard defines the amount of income necessary to meet the basic needs, differentiated by family type and where they live. The Standard measures income adequacy and is based on the costs of basic needs for working families: housing, child care, food, health care, transportation, and miscellaneous items, plus taxes and tax credits. It assumes the full cost of each need, without help from public subsidies or private assistance. An emergency savings amount to cover job loss is also calculated separately. The Standard is calculated for over 700 family types for all of Washington counties.

### Step 1. Adjust Income Thresholds

The first step in this analysis was to adjust the 2020 Self-Sufficiency Standards with American Families Plan proposals that directly impacts the adequate income threshold. Below are details on each proposal as of Spring 2021:

- Child Tax Credit:** The American Families Plan would extend the American Rescue Plan Act (ARPA) Child Tax Credit increases through 2025 and make the Child Tax Credit permanently refundable. ARPA increased the Child Tax Credit from a maximum non-refundable credit of \$2,000 to a fully refundable credit of \$3,600 for children under five years of age and \$3,000 for children six to 17 years of age. Additionally, ARPA made the Child Tax Credit an advance credit provided on a monthly basis for 2021.
- Child and Dependent Care Tax Credit:** Like the Child Tax Credit, the AFP would make permanent the Child and Dependent Care Tax Credit expansion enacted in the ARPA. Under ARPA, the allowable child care expenses increased from \$3,000 for one child and \$6,000 for two or more children to \$8,000 for one child and up to \$16,000 for two or more children. ARPA also increased the maximum credit from 35% of allowable expenses to 50%. This means the maximum credit increased from \$2,100 (\$6,000 x 35%) to \$8,000 (\$16,000 x 50%) for two or more children. Like the CTC, ARPA also made the CDCTC fully refundable.

- Child Care Support:** The AFP would expand child care assistance by limiting child care expenditures for children under five to a maximum of seven percent of income for families earning 1.5 times the state median income. While the plan notes the child care support would be based on a sliding scale, details of the scale were not included at the time of this analysis. Thus, we looked to the Child Care for Working Families Act first introduced in 2017 by Senator Patty Murray of Washington State as the basis of the sliding scale:

Maximum Income (Household income / State Median Income)	Copay (percentage of income)
less than 75% of SMI	0%
less than 100% of SMI	2%
less than 125% of SMI	4%
less than 150% of SMI	7%

Note that 150% of State Median Income is about \$150,000 in Washington State for a family of four.

- Universal Preschool:** The AFP includes the development of free, universal, high quality preschool programs for all three- and four-year-old children. This analysis assumes that the universal preschool program will provide free full day and full year care for three- and four-year-old children resulting in no child care expenses for preschool children in the Self-Sufficiency Standard. If implemented, some families may require child care expenses for before and after school care or summer care depending upon the program offerings.
- Comprehensive Model:** Finally, we combined the four policy proposals into a single model that adjusts the Self-Sufficiency Standard calculation of the Child Tax Credit, Child and Dependent Care Tax Credits and limits child care expenses to the sliding scale for children under five and free universal preschool for three- and four-year-old's.

Each model holds miscellaneous expenses constant with the baseline assumption in the Self-Sufficiency Standard. Additionally, with the exception of the modeled tax credits or subsidized child care costs, all taxes and costs reflect that of the 2020 Self-Sufficiency Standard (pre-ARPA). After updating the cost model with each AFP proposal, a new set of adjusted

Self-Sufficiency Standards were calculated for over 700 family types in each Washington county.

## **Step 2. Code the American Survey Dataset with the Adjusted Income Thresholds**

To estimate the number of households at risk of not meeting their basic needs according to the Self-Sufficiency Standard, this analysis uses the 2019 American Community Survey (ACS) 1-year Public Use Microdata Sample (PUMS) by the U.S. Census Bureau. The ACS is an annual survey of the social, housing, and economic characteristics of the population.

**Sample Unit:** The sample unit for the demographic analysis is the household, not the individual or the family. The ACS includes incomes of all persons residing in households, including not only the householder and their relatives, but also non-relatives such as unmarried partners, foster children, and boarders. For determining the PUMS sample size, the size of the housing unit universe is the ACS estimate of the total number of housing units. In Washington, the 2019 1-year ACS sample size is 33,537 housing units (representing a housing unit estimate of 2,932,478 Washington housing units).

**Exclusions:** As the Self-Sufficiency Standard was initially designed as a benchmark for job training programs, the Standard assumes that all adult household members work and includes all of their work-related costs (e.g., transportation, taxes, child care) in the calculation of expenses. Therefore, the population sample in this analysis excludes household members not expected to work or their income. This includes: adults over 65 and adults with a work-limiting disability. A work-limiting disability exists if the adult is disabled and is not in the labor force or receives Supplemental Security Income or Social Security income. Thus, although the ACS sample includes households that have disabled or elderly members, this analysis excludes elderly adults and adults with work-limiting disabilities and their income when determining household composition and income. Households defined as “group quarters” are also excluded from the analysis.

In total, 2,073,761 non-disabled, non-elderly households are included in this dataset of Washington State.

**Income Threshold Assignment:** Each household in the ACS dataset is assigned an income threshold defined

by each Self-Sufficiency Standard models based on the following variables:

- **Geography:** The most detailed geographic level in the ACS available to the public with records at the household and individual level is the Public Use Micro Data Sample Areas (PUMAs), which are special, non-overlapping areas that partition a state. Each PUMA, drawn using the 2010 Census population count, contains a population of about 100,000. Washington, which has 39 counties, is partitioned into 56 PUMAs. In the instances when a single PUMA is in more than one county, each county was weighted by population and a new weighted average was calculated to determine a Self-Sufficiency Standard specific to that PUMA. If there are multiple PUMAs in a single county, each PUMA in the county is assigned the county’s Self-Sufficiency Standard.
- **Household Type:** Each ACS household is coded for the number of adults and infants, preschoolers, school-age children, and teenagers. The household code is matched with the over 700 family types calculated by the Self-Sufficiency Standard.
- **Working Family:** This study examines the impact of the American Families Plan proposals specifically on working families. Households are identified in the ACS as a “working family” if the household is a “family” household (meaning that there are related persons in the household), if children are present in the household, and if at least one adult in the household is in the labor force.

## **Step 3. Compare Household Income to Adjusted Income Threshold**

Earnings for each household member in the 2019 ACS are summed up and adjusted to 2020 dollars to determine total household income. Total household income is then compared to the calculated Standard for the appropriate family composition and geographic location to determine if a household has adequate income to cover the basic needs. This analysis was repeated for each model described above in Step 1.

**Income:** Income is determined by calculating the total income of each person in the household, excluding seniors and disabled adults. Income includes money received during the preceding 12 months by non-disabled/non-elderly adult household members (or children) from: wages or salary; farm and non-farm



self-employment; Social Security or railroad payments; interest on savings or bonds, dividends, income from estates or trusts, and net rental income; veterans' payments or unemployment and worker's compensation; public assistance or welfare payments; private pensions or government employee pensions; alimony and child support; regular contributions from people not living in the household; and other periodic income.

It is assumed that all income in a household is equally available to pay all expenses. Not included in income are: capital gains; money received from the sale of property; the value of in-kind income such as food stamps or public housing subsidies; tax refunds;

money borrowed; or gifts or lump-sum inheritances. The Employment Cost Index from the United States Department of Labor Bureau of Labor Statistics was used to inflate 2019 income in the American Community Survey.

**Income Adequacy:** Households in the ACS are categorized by whether household income is (1) below the U.S. Census Bureau's poverty threshold as well as below the Self-Sufficiency Standard, (2) above the poverty threshold but below the Standard, or (3) above the Standard. Households whose income is below the Self-Sufficiency Standard are designated as having "insufficient" or "inadequate" income.

## The Center for Women's Welfare

The Center for Women's Welfare at the University of Washington School of Social Work is devoted to furthering the goal of economic justice for women and their families. The main work of the Center focuses on the development of the Self-Sufficiency Standard and related measures, calculations, and analysis. The Center partners with a range of government, non-profit, women's, children's, and community-based groups to:

- research and evaluate public policy related to income adequacy;
- create tools to assess and establish income adequacy and benefit eligibility;
- develop policies that strengthen public investment in low-income women and families.

Learn more about the Center and the Self-Sufficiency Standard research project at [www.selfsufficiencystandard.org](http://www.selfsufficiencystandard.org) or contact [cwwss@uw.edu](mailto:cwwss@uw.edu).

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