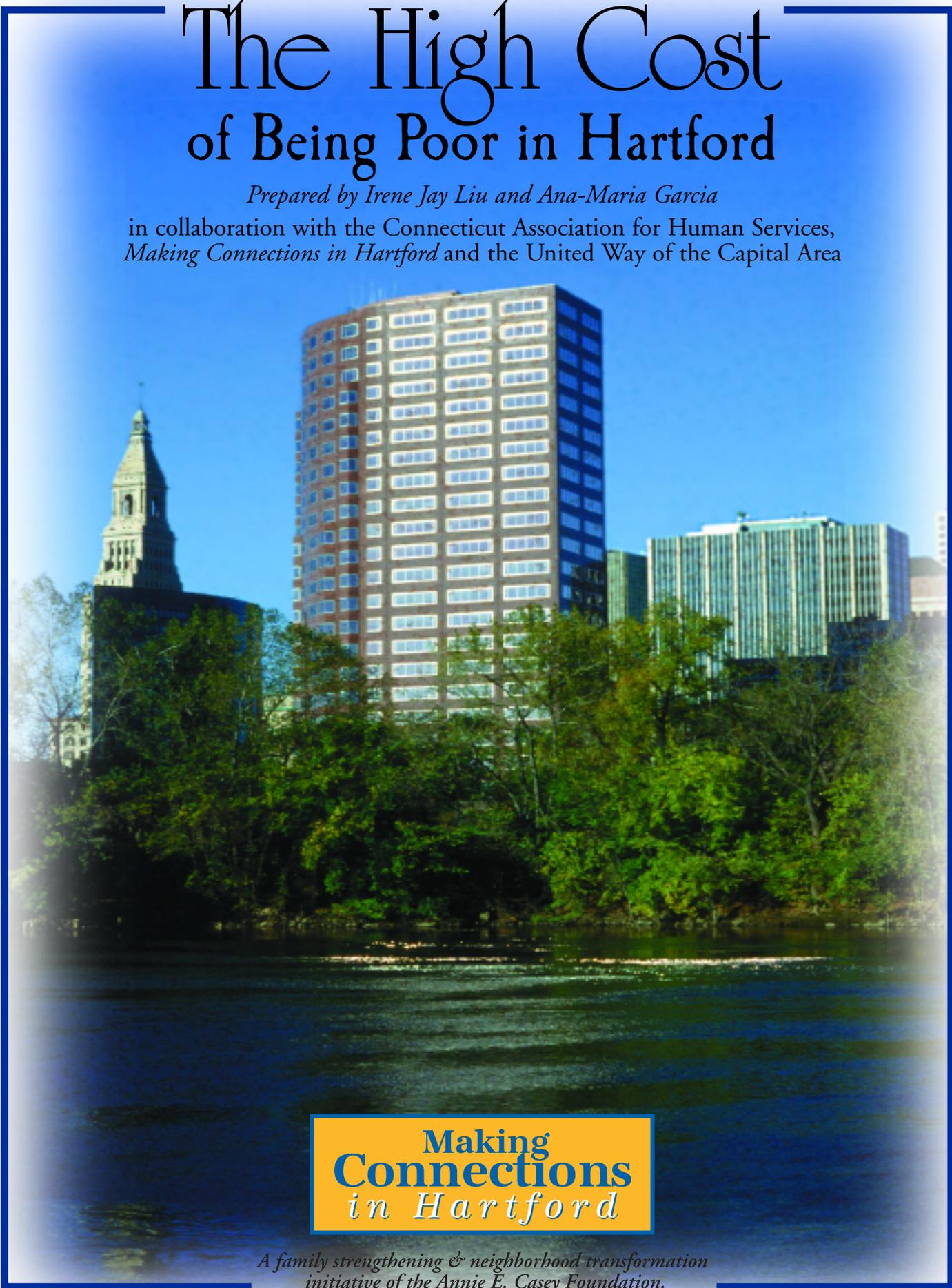


The High Cost of Being Poor in Hartford

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*in collaboration with the Connecticut Association for Human Services,
Making Connections in Hartford and the United Way of the Capital Area*



**Making
Connections
in Hartford**

*A family strengthening & neighborhood transformation
initiative of the Annie E. Casey Foundation.*

Table of Contents

<i>Making Connections in Hartford</i>	Page 3
Introduction	Page 4
A Budget Breakdown	Page 5
The High Cost of Going to Work	Page 6
Transportation	Page 6
Child Care	Page 8
Health Care	Page 10
Paying More for Basic Needs	Page 11
Paying More to Get Ahead	Page 13
Policy Opportunities	Page 14
Conclusion	Page 15

Making Connections in Hartford



Since the fall of 2001, the *Making Connections in Hartford* initiative of the Annie E. Casey Foundation has worked to increase access to community supports and economic opportunities for low-income families in the city of Hartford. *Making Connections in Hartford* and its partners seek to improve the outcomes of disadvantaged children and their families by documenting conditions, raising awareness about core issues, and developing practice and policy recommendations for sustainable change in Hartford. It is our belief that children succeed when they live in strong and stable families. We are committed to supporting working families in Hartford and increasing their ability to provide true economic security for their children.

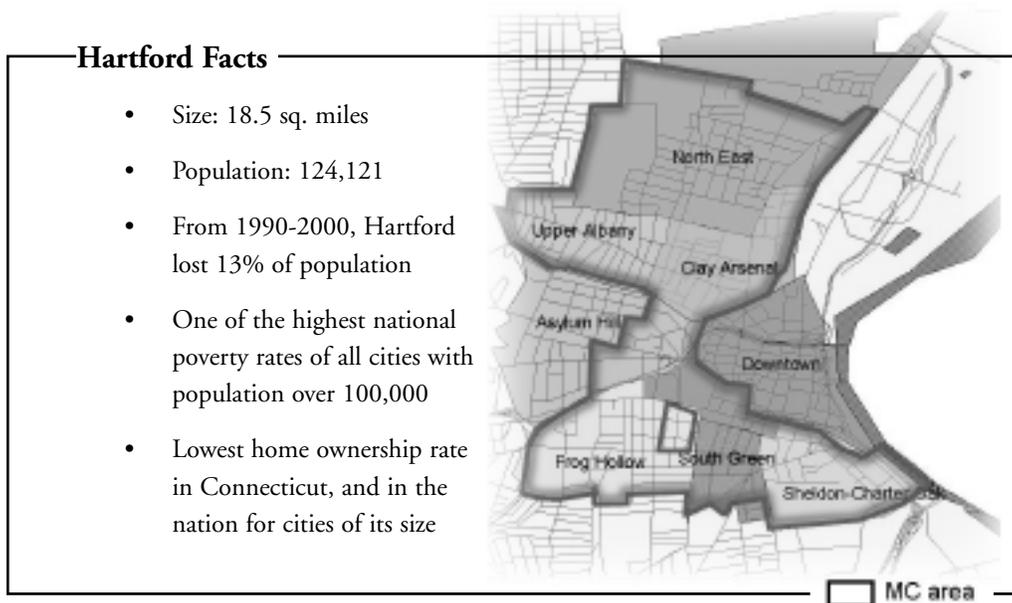
The resources of the Annie E. Casey Foundation support similar *Making Connections* initiatives in 10 other U.S. cities. Each city has adopted a resident-led, local process designed to increase families' access to economic opportunities, neighborhood-based services and informal and formal helping networks. While local leadership in each city has customized *Making Connections* to reflect its community's own unique wants and needs, the activities in all 11 sites are dedicated towards achieving six common ground results:

1. Families have increased earnings and income
2. Families have increased levels of assets
3. Families and youth increase their civic participation
4. Families have strong support networks
5. Families have access to services and supports that work for them
6. Children are healthy and ready to succeed in school.

Introduction

The *High Cost of Being Poor in Hartford* draws from the national Kids Count 2003 essay, published by the Annie E. Casey Foundation in June 2003. In the national essay, Douglas W. Nelson, President of the Annie E. Casey Foundation, documents the challenges faced by low-income families in attaining economic security in three distinct sections: 1) *The high cost of going to work*, 2) *Paying more for basic needs*, and 3) *Paying more to get ahead*. The first section, *The high cost of going to work*, illustrates the costs associated with going to work for low-income families. These costs range from the high cost of transportation and child care to the loss of public benefits and other crucial financial supports as earnings increase. The second section, *Paying more for basic needs*, addresses the high cost of housing, food and other consumer goods in poor neighborhoods and, as a result, pay higher premiums for life's necessities. Without a reliable means of personal transportation, many of these families are unable to take advantage of employment opportunities in the suburbs. The third section, *Paying more to get ahead*, addresses the lack of access to and utilization of financial services that can build savings, accumulate assets, and protect against emergencies. These services, which range from basic banking products to loans and affordable tax preparation, are crucial tools for improving the economic mobility of low-income families. In their absence, predatory lenders and expensive tax-preparation businesses can drastically strip wealth and plunge families deeper into debt over time.

This essay will take these themes and bring them into the neighborhoods of Hartford and the livelihoods of its residents. By grounding the findings of the national essay in local data, one can see the significant impact of these costs on low-income families in Hartford. The following pages will examine these very relevant issues on a local level and highlight the many opportunities available to address them.



Hartford in Context

	Median family income in 1999	% Families living in 1999 living below Poverty Level
US	50,046	9.2%
CT	65,521	5.6%
Hartford County	62,144	7.1%
Hartford City	27,051	28.2%
Frog Hollow Neighborhood	18,224	42.0%

Source: U.S. Census, 2000

Family in Frog Hollow: A Budget Breakdown

To illustrate the typical budget situations faced by low-income families, this section uses data gathered from the Frog Hollow neighborhood. The median income for a single, female-headed family in Frog Hollow is \$14,802. The table below is an estimate of her post-tax earnings, public benefits and expenses based on an income of \$15,000. This family is one of the thousands on the waiting list for both Section 8 and Care 4 Kids. Without the benefit of Section 8 or Care 4 Kids, she is close to \$1,000 in debt at the end of the month. Without these crucial public benefits, she does not gain financially by going to work—in fact, she is in the same financial position if she does not go to work, receives benefits (with the exception of Section 8) and takes care of her children at home. (She has a budget deficit of \$876 per month in comparison with \$942 if working)

This situation is in stark contrast to a budget that includes housing and child care benefits. Instead of running a deficit and making tough choices every month to stay afloat, she would meet all of her family’s needs and have \$136 left over at the end of each month. Over the course of a year, combined with her federal EITC and child tax credit, she would have \$5,924 to save for a home, education for her children or retirement.



Monthly Balance Sheet for Median Single-Parent Female-Headed Family in Frog Hollow

Balance Sheet

	Income	Expenses	Benefit Type	Benefit Amount	Balance
Post-tax Earnings	\$1,154.38				\$1,154.38
Food		\$456.75	Food Stamps	0	\$697.63
Health Insurance		\$155	HUSKY	\$155	\$697.63
Transportation		\$153.14			\$544.49
Other Necessities		\$371.91	TANF	\$543	\$715.58
Housing		\$813	Section 8	0	-\$97.42
Center-based Child Care		\$844.80	Care 4 Kids	0	-\$942.22

Source: NCCP Family Resource Simulator, adjusted to reflect Hartford Food Prices from Trinity Food Survey. Based on 2002 tax policies, benefit rules, and food prices. <http://nccp.org/modeler/modeler.cgi>

The High Cost of Going to Work

When considering the issue of employment, the costs associated with “going to work,” such as transportation and child care, are often taken for granted. For many working Americans, these costs are simply incidental necessities of the job. But for low-wage workers, especially those living in poor neighborhoods, these costs can create serious barriers to employment. In some cases, the loss of public benefits as a result of increased income creates a fiscal disincentive to finding and keeping a job.

Transportation

For many low-wage workers, the issue of transportation is paramount in attaining and sustaining secure and steady employment. For those workers who live in the city of Hartford, car ownership may actually be a prerequisite for employment. According to Capital Workforce Partners, Hartford lost 11.5% of its jobs between 1992 and 1997. The decline of jobs in Hartford means that more inner-city residents must look to surrounding towns for employment. Public transportation is limited and time-consuming for city-to-suburb commutes and the cost of owning a car becomes an expensive but real necessity.

For low-income residents of the city of Hartford, the cost of purchasing and owning a car is higher for them than for their suburban counterparts. Low-income families, especially those transitioning from welfare to work, not only have smaller savings for such a large purchase, but also often have little or poor credit history to attain low-interest commercial financing necessary to make up the difference. They must then rely on sub-prime lenders for loans at high interest rates or purchase less costly (and often less reliable) cars from “buy here/ pay here” dealerships. In the long run, these options are very costly—the payment of interest far exceeds that of commercial loans. For those who purchase sub-quality cars, the cost of repairs can often exceed the value of the car and also create employment instability.





In some cases, the issue is not only the high cost of being poor, but also the *additional* cost of being poor *in a poor community*. A Hartford resident living on Laurel Street will pay 33% more for auto insurance for a 1992 Honda Accord than a West Hartford resident living on Farmington Avenue. Annually, the Hartford resident will pay over \$ 400 more than his or her West Hartford counterpart, which could be used for car payments, savings, or rent. The higher premium on inner-city living is not only with insurance, but also with property taxes and parking costs.

The table below illustrates the difference in insurance rates between a resident living on Laurel Street in Hartford and a resident living on Farmington Avenue in West Hartford.

	Hartford	West Hartford	Difference (Annual)
Auto Insurance	\$1,628.80	\$1,224.00	\$404.80
Homeowner Insurance	919.00	641.00	278.00

Sources: Geico Direct Auto Insurance and Allstate Insurance

Child Care

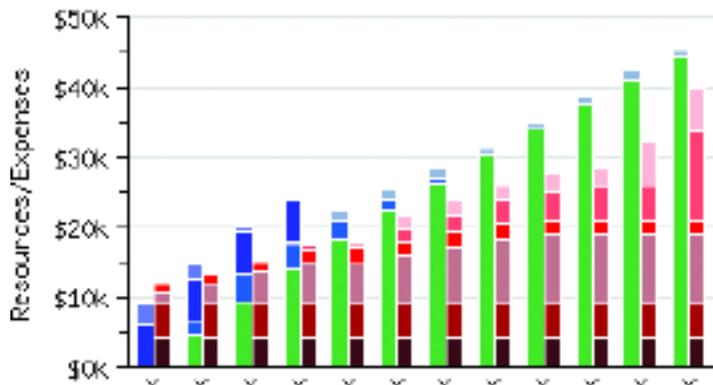
Child care is perhaps the costliest of all work-related expenses. For single parent and dual-income families, child care is a necessity that cannot be avoided. Without assistance, low-income families, especially those with more than one child, struggle to absorb these expenses. A married family with the median income in Frog Hollow would ideally pay a little over \$2,610, or 10 percent of their total family income, toward child care for their infant and after-school care for their 6 year-old. Based on the average rates for center-based care in Hartford, the actual cost for child care would be \$13,205 per year. Licensed home-based care is less costly, but still prohibitively expensive at \$9,747.50 per year. It should be noted that non-poor families budget seven percent of their income for child care. The Child Care Development Fund, known in Connecticut as Care 4 Kids, is the federally funded, state-administered subsidy program that addresses the vast discrepancy between the affordable and actual cost of child care. The demand for the program far exceeds available slots. Since August 2002, the program has been frozen to new applicants, with the exception of Temporary Assistance for Needy Families (TANF) recipients, post-TANF recipients and teenage parents. The freeze most prominently affects working families. At the current time, there are 10,000 parents on the waiting list for Care 4 Kids. The state of Connecticut recently opened another 1,500 spaces for those on the wait list. Without these subsidies, many parents must rely on family and neighbors to care for their children. While this may serve the fiscal needs of the family, it may not provide the type of curriculum necessary to ensure that the child is adequately prepared to enter school, resulting in negative long-term child outcomes.



Importance of Child Care Subsidies

The Care 4 Kids child care subsidy radically changes the financial situation of low-income families. For a single-parent family with a median family income of \$18,140 living on Lennox Street in the Upper Albany neighborhood, the child care subsidy can mean the difference between significant debt of over \$4,000 and an annual surplus of \$3,500. The following graphs reflect a single-parent family with two children, one-year-old male and six-year-old female in center-based care at average Hartford rates.

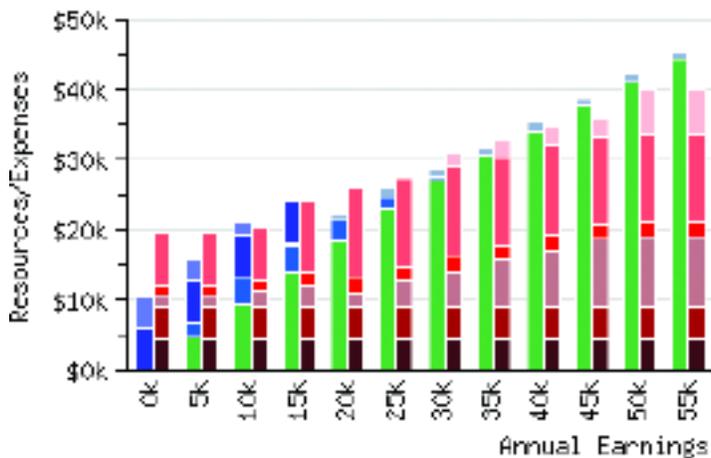
Income and expenditure graph for a family *with* child care subsidy



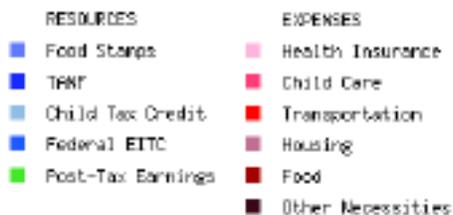
NCCP Family Resource Simulator: CT 2002. Annual Earnings Results reflect user choices.



Income and expenditure graph for a family *without* child care subsidy



NCCP Family Resource Simulator: CT 2002. Results reflect user choices.



Health Care

In many cases, low-wage workers are either not eligible or cannot afford the employer-sponsored health benefits for themselves and their family. The HUSKY Plan, Connecticut's Medicaid and S-CHIP Program, provides comprehensive free or low-cost health insurance for uninsured children and, depending on income, their parents. All uninsured children are eligible for either HUSKY A or HUSKY B, with varying premiums and co-payments. Parents are eligible for HUSKY as long as their income does not exceed 100 percent of the federal poverty level. To put this in context, the parents of a married family of four would lose coverage if they had a total income of more than \$18,851. Low-wage working families who are not covered under their employer or HUSKY often pay much more for private non-group health insurance than higher paid workers who are covered under their employer. A health insurance quote from Anthem in Connecticut showed that individual coverage costs from \$155 to \$263 and family coverage from \$477 to \$702 per month, depending on the deductible, coinsurance, and co-payment. Many individuals cannot afford these premiums and choose to remain uninsured, paying for out-of-pocket treatment at rates higher than the insurance companies and risking medical debt that can cripple a family's finances for decades.

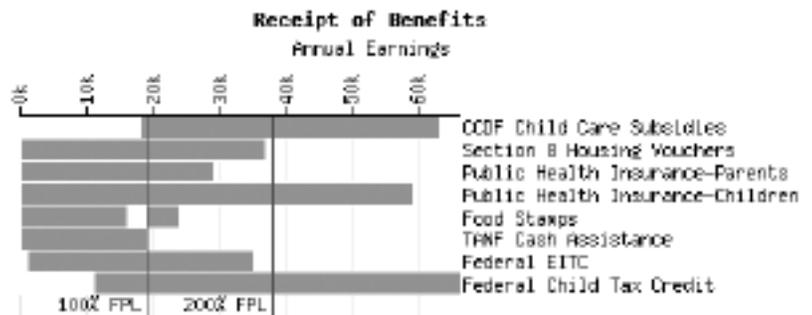


Loss of benefits as income increases

As income increases, public benefits decrease. The graphs in this section demonstrate the income requirements for public benefit programs in Connecticut. The bar graphs in the Child Care and Housing Subsidy sections depict the net impact of earnings increases and benefit losses for both married and single-parent families by income.

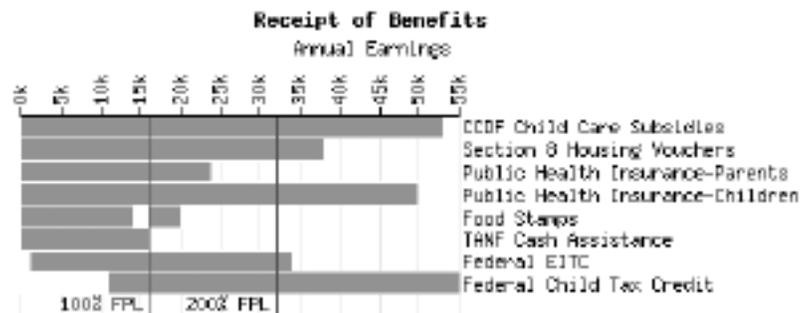


Married family with two children



NCEP Family Resource Simulator: CT 2002.
Results reflect user choices.

Single-parent family with two children



NCEP Family Resource Simulator: CT 2002.
Results reflect user choices.

Paying More for Basic Needs

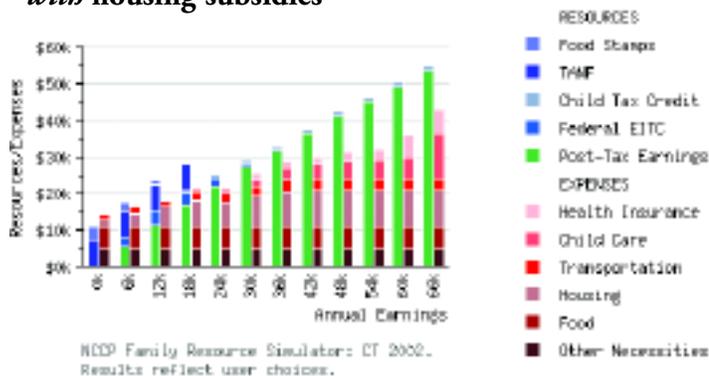
Low-income families not only face higher costs in going to work, but also high costs simply by living in poor communities. For these families, shopping near home means that they must pay more for food, shelter and other basic necessities. Small-scale local businesses are able to provide essential goods close to home but are unable to take advantage of economies of scale that enable larger mainstream businesses to offer more at a lower price. According to a 2002 Trinity College study, Hartford families pay 18.8% more for food than the recommended U.S. Department of Agriculture low-cost food budget. It should be noted that all federal poverty levels, and therefore all public benefit guidelines, are determined by the national average food basket. As a result, the public benefit guidelines do not reflect economic demands placed on Hartford residents, nor do they adequately address the income needs of Hartford residents. For a family of four, this discrepancy translates into an underestimation of food costs of \$1,100 per year. For a married family of median income in Frog Hollow, that underestimation represents almost 5 percent of annual income.

The importance of housing subsidies

Resources and basic expenses for families *without* housing subsidies



Resources and basic expenses for families *with* housing subsidies



For a married family of median income in Frog Hollow (\$26,154), the impact of a housing subsidy can put a family on track to purchase a home within a decade. If they participate in a homeownership Individual Development Account (IDA), it is possible that a family could purchase a home within three years. Families at this income level that participate in Section 8 are estimated to have a surplus of \$3,389 every year. In contrast, families without a housing subsidy are left with only \$666 at the end of the year.

Living from month to month, many low-income individuals find it difficult to save money or budget for larger purchases such as furniture or computers. With little or poor credit, many families turn to high interest rent-to-own stores to make larger purchases such as furniture or appliances. These stores charge high interest on their products—often the buyer ends up paying more than twice the value of the good over the duration of their purchase agreement. There are two Rent-A-Center® locations in Hartford. The Popular Club is a mail order catalogue that has a similar business model. Instead of furniture and appliances, however, the Popular club provides many consumer goods such as clothing and jewelry. The Popular Club also provides a payment plan without credit check, often charging twice the actual retail value in the payment agreement.

Low-income families pay more, in both the fiscal and social sense, as residents of poor communities. In Hartford, the rate of homeownership is the lowest of all cities in Connecticut and the lowest in the nation for cities of its size. The cost of home ownership is higher in Hartford compared to its neighbors. The equalized mill rate for the city of Hartford is almost 50 percent higher than that of West Hartford, and is over 112 percent higher than the state average.

Equalized Mill Rate

	Equalized Mill Rate 1999
Hartford	38.95 (per \$1,000)
West Hartford	26.18 (per \$1,000)
Region Average	22.65
State Average	18.41

Source: CT Policy and Economic Council (CPEC)



In addition, homeowners insurance in Hartford is 1.5 times the amount charged in West Hartford. Higher property taxes and insurance premiums are often borne by the renter in the cost of rent. The cost of energy, which often is paid on top of the rent by the renter, may also be higher since the buildings may not be optimally insulated. The U.S Department of Housing and Urban Development (HUD) estimates the Fair Market Rent (FMR) for a two-bedroom in Hartford to be \$827 per month. This figure actually represents an estimate for the average cost of both rent and utilities within the entire Hartford region. The FMR is frequently used by academics, public officials and policymakers to measure the cost of living and to craft policy, but it may not adequately reflect the cost of living for renters within the city of Hartford.

For many families, the cost of housing puts a significant dent in a family’s budget. Fannie Mae recommends that families spend no more than 1/3 of their monthly pre-tax income on housing. To put this in perspective, a married family living at median income in Frog Hollow should pay no more than \$726 per month in rent. The FMR puts a family \$100 over-budget in rent, which could pay for a week’s worth of groceries or a month of gasoline. For families at even lower incomes, the importance of housing subsidies is even more significant. Despite the important impact of housing subsidies for low-wage working families, the Section 8 Program is in short supply. At present, the Hartford Housing Authority reports that all waiting lists for the Section 8 program are closed. There are three Section 8 providers contracted to administer the Section 8 program for citizens of Hartford. The City of Hartford Housing Authority does not currently have a wait list for their program, because relocation projects will take any available spaces. The second provider, Imagineers, Inc. estimates they currently have 3,000 on their wait list for Hartford. The third contractor, J. D’Amelia and Associates estimates that there are currently around 4,000 people on the wait list from the Hartford region. J D’Amelia and Associates, which is a state-wide provider, currently has 12,000 people on its Connecticut-wide wait list. The last time the wait list was opened, 38,000 people applied.

Paying More to Get Ahead

Many low-income families live month-to-month, with little or no savings. With so little in savings, these families do not open bank accounts because of the minimum holding requirements and the myriad of fees. In some cases, low-income families do not open bank accounts out of fear that their savings will exceed the asset limits for benefit programs upon which they rely for financial support. As a result, these families rely on check cashing outlets to cash their paychecks and pay their bills, losing as much as two percent of their entire paycheck in fees. In addition, many of these low-income families lack assets or the means, in terms of savings or credit, to build assets. Living without savings or without the credit to take out a low-interest loan through traditional vendors causes families to become vulnerable to predatory financial services in times of financial need. Often these services lead to further financial decline as high interest rates and aggressive collection practices destroy, rather than build, their financial viability. Living month to month, one financial emergency can drown a family in a tailspin of debt and late payments, while also hurting their credit rating and impeding future asset building.

Tax Preparation is an area where low-income families are needlessly targeted by high cost, high interest services. Non-propertyed low-income families often have very simple tax returns, yet they pay in the hundreds to have their return prepared and e-filed. Worse, many low-income families each lose hundreds of dollars in Refund Anticipation Loans, also known as “Rapid Refunds” or “Instant Money.” These high-interest loans can charge up to 700 percent in interest. In addition, many low-income taxpayers who are eligible for EITC do not take advantage of the credit.



Policy Opportunities

Many policy opportunities to strengthen the financial outcomes of vulnerable working families exist in Hartford. On the state level, perhaps the most important policy opportunities are related to strengthening and expanding the public programs that support working families as they move up the economic ladder. One of the most powerful programs to support working families is the federal Earned Income Tax Credit (EITC). Increased advocacy around the creation of a state EITC has the power to provide direct support to working families without the stigma of “welfare.” Additionally, Connecticut is one of the few states in the nation that counts income from the Advanced EITC (a program by which the recipient receives the EITC over the course of the year instead of as a one-time annual payment) toward benefit eligibility. Allowing families to receive the federal EITC permits families to budget better over the course of the year and to avoid debt associated with month-to-month living. Current Department of Social Services (DSS) policy creates disincentives to taking advantage of the Advance EITC without accruing any benefit to the state.

One of the most powerful lessons that can be taken away from this essay is that public benefits are necessary to support the economic mobility of low-income working families. The need to protect and expand these benefits should not be understated, particularly in the cases of Section 8 and Care 4 Kids. These public benefits bring working families above deficit and open up the possibility for saving and asset building. Additionally, it should be noted that many low-income families do not take advantage of benefits that do have open enrollment such as Food Stamps, TANF, and HUSKY. Long-term policy changes to streamline access to these programs should include advocacy for a common application and re-determination procedures, accessible on the Internet and in locations with hours that accommodate working parents.

On a local level, there are many opportunities to address these issues that complement state-level advocacy. As noted above, many families do not take advantage of the public benefits for which they are eligible. Whether it is for lack of information, language barriers or the difficulty involved in navigating the numerous application processes for each program, there is considerable need for increased public benefits outreach and enrollment assistance in Hartford. Increased access to low-cost commercial financial services can provide low-income families with a means of saving their limited resources. Additionally, increased access to basic financial literacy classes such as budgeting, banking and prioritizing finances, for both adults and young people, can educate low-income families to make the most of the resources that they do have. Credit repair services, coupled with financial literacy courses, can prepare a family to eventually own a car, home or pay for secondary education for their children. Individual Development Accounts (IDAs) provide matching funds for families to pursue their financial goals, thus expediting the process of attaining financial stability and sustainability. Increasing the number of IDA slots in Hartford will allow more families to take advantage of this powerful tool for expedited asset attainment.



Conclusion

Low-income working families in poor communities face significant challenges to their attainment of the “American Dream.” The higher costs associated with living in poverty serve as significant obstacles to the long-term economic viability of low-income working families. This essay suggests many opportunities to address these issues. These proposals require cooperation between public and private sector leaders on national, state, and local levels. We must articulate and implement a coordinated strategy to ensure that the many programs, policies, and resource allocations complement and reinforce each other to the benefit of these families and their children.

In so many ways, these families epitomize the deepest sentiment of our country’s founding, that hard work and sacrifice will yield opportunity and security for us and for future generations. If we truly believe in the power of individual empowerment, we must do everything we can to eliminate the high costs of poverty that prevent families from ensuring their livelihoods and the futures of their children. In Hartford, the need to find solutions is evident. We must now harness the collective will of our community to do something about it.

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