February 2009

# Predicting poverty in the Commonwealth

## As Virginia's recession worsens, thousands more children will be pushed into poverty

### Summary

One year into the recession, there are signs of mounting harm to Virginia families and children. Although unemployment and poverty in Virginia should remain somewhat lower than nationally, this will be of little comfort to the thousands of Virginians likely to be pushed into poverty by this recession. Official poverty figures will not be available until later in the year, yet two leading indicators of poverty – unemployment and food stamp caseloads –already increased rapidly in the past year, pointing to a rising rate of poverty.

As unemployment worsens, we predict a significant increase in the number of Virginians living in poverty. Since the child poverty rate is higher than the overall rate, the impact of this increase will fall disproportionately on Virginia's children. Rising unemployment could push an additional 122,000 to 218,000 Virginians into poverty this year, with children accounting for between 44,000 and 73,000 of this increase.

The effects of the downturn and rising poverty will be felt statewide, but more deeply in regions already troubled by chronically high unemployment and poverty. The additional families pushed into poverty will further strain those local economies, stalling prospects for economic development and likely consigning even more children to a significant stay in poverty. Evidence indicates that children pushed into poverty by a recession are likely to remain poor for at least several years after the recovery starts.

Prolonged poverty can significantly compromise a child's development. It is the most potent risk factor for a multitude of untoward outcomes, including poor health, learning problems, school failure, delinquency and violence. In addition to the human toll exacted by childhood poverty, the economic toll is substantial: diminished human capital and higher rates of costly social problems limit economic growth and future prosperity.

The safety net for needy Virginians is experiencing a rapid increase in demand, an increase that brings long-range consequences for children – and the Commonwealth. Furthermore, the safety net could be over-burdened as rising poverty causes even greater demands. The current work-focused welfare system (TANF) may not be effective when jobs are disappearing. One key financial support that could stave off poverty, unemployment insurance, reaches only a minority of Virginians who lose a job. Finally, state and local budget cuts could further weaken the already fragile safety net, at the very time that more and more families will need to rely on it.

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## Introduction and background

The U.S. economic recession is in its second year and is now predicted to last at least another year. With rising unemployment, economic distress is spreading to more and more communities and families. The tide of rising joblessness is likely to carry millions more Americans into poverty, according to a recent study by the Center on Budget and Policy Priorities (CBPP). As many as 218,000 additional Virginians may fall below the poverty line as the national unemployment rate increases.

Rising poverty creates serious consequences for Virginians. The burden of poverty falls particularly hard on children, as the child poverty rate is typically higher than for the entire population. Virginia's overall poverty rate, for example, in 2007 was 8.6 percent, versus 13 percent for children. Additionally, studies show that children who are pushed into poverty during a recession are 13 times more likely to remain in poverty as adults than individuals who do not experience poverty as children.

Policies that bolster the safety net of public and private assistance for needy Virginians could forestall the legacy of childhood poverty. Yet as unemployment worsens, Virginia's safety net programs are already straining under the increasing demands. State and local budget cuts and reductions in not-for-profit programs could further weaken these programs at the very time the services are most needed. This is especially true in areas of Virginia with chronically high unemployment and a preponderance of low-wage jobs.

Official poverty estimates will not be available until summer 2009. Yet, rising demands for safety net services, especially unemployment benefits and food stamps, are reliable early warning signs of impending poverty rate increases. This paper estimates the increase in poverty rates in the state, quantifies emerging safety net demands, and warns of the harm that higher poverty will inflict on children.

### Research methods

The projections for the impact of rising unemployment on poverty rates in Virginia are based on a recent study by Sharon Parrott of the Center on Budget and Policy Priorities: "Recession Could Cause Large Increases in Poverty and Push Millions Into Deep Poverty," published Nov. 24, 2008.

The study evaluated the impact of recessions on poverty by measuring the relationship between unemployment increases and poverty increases during the past three recessions. Assuming that the poverty rate is as responsive to rising unemployment as it was in these past recessions, the study estimates how poverty would rise in the current recession. See http://www.cbpp.org/11-24-08pov.htm

This study applies the same methodology to Virginia unemployment and poverty data to forecast the impacts of rising unemployment on poverty rates in the Commonwealth.

**Table 1: Virginia's Poverty Likely to Increase as Unemployment Rises**

| IF U.S. unemployment goes to 8%, THEN | Additional Virginians in Poverty |
|---|---|
| Increase in poverty (lower bound) | 122,684 |
| Increase in poverty (upper bound) | 169,219 |
| Increase in child poverty (lower bound) | 44,052 |
| Increase in child poverty (upper bound) | 55,065 |
| | |
| IF U.S. unemployment goes to 8.5%, THEN | |
| Increase in poverty (lower bound) | 139,606 |
| Increase in poverty (upper bound) | 194,602 |
| Increase in child poverty (lower bound) | 50,660 |
| Increase in child poverty (upper bound) | 63,876 |
| | |
| IF U.S. unemployment goes to 9%, THEN | |
| Increase in poverty (lower bound) | 158,643 |
| Increase in poverty (upper bound) | 217,869 |
| Increase in child poverty (lower bound) | 57,268 |
| Increase in child poverty (upper bound) | 72,686 |

## Predicting Poverty Rate Increases: Unemployment as a Leading Indicator

Unemployment is worsening nationally and in Virginia. The U.S. unemployment rate increased from 4.5 percent in November 2006 to 7.6 percent in January 2009. More than 3.2 million jobs have been lost in the past year – half of them in the last three months alone. Economists forecast that unemployment is likely to rise as high as 9 percent in the next year, and perhaps as high as 7 percent in the Commonwealth. Virginia, with a large federal and military workforce, has traditionally had less unemployment than the nation as a whole. However, in the past two years, unemployment has grown at a faster rate in Virginia than nationally. Only 3 percent of Virginians were unemployed in November 2006, but that number rose to 5.4 percent in December 2008. This rate of increase is 25 percent faster than the national rate.

In most recessions, an increase in unemployment precedes a rise in poverty. The CBPP has studied trends from the last three national recessions and offered estimates of the number of additional Americans expected to fall into poverty if unemployment continues to rise during the current economic downturn.

CBPP finds that a national rise in unemployment to 8 percent would cause an additional 5.8 to 8 million Americans to fall below the poverty level. An increase in unemployment to 8.5 percent would increase the number of Americans living in poverty by 6.6 to 9.2 million. And, if unemployment rises to 9 percent nationally, as many economists expect, up to 10.3 million additional Americans could fall into poverty (a rate increase of 27 percent).

**The tide of rising joblessness is likely to carry millions more Americans into poverty.**

> **...interventions preventing families from falling into recession-induced poverty would produce a substantial long-term return on investment – at a magnitude of 13 to 1.**

## Poverty in Virginia Will Increase as Unemployment Worsens

The CBPP estimates can also be used to predict the potential increase in poverty in Virginia. If Virginia unemployment increases in proportion to the nation, poverty could rise significantly in the state. Nearly 700,000 Virginians are currently living in poverty.

Based on CBPP's national estimates, and assuming that Virginia's unemployment rate continues to increase at the current pace, we project poverty increases of the following magnitude:

- **Unemployment at 8 percent nationally: 123,000 to 169,000 additional Virginians in poverty**
- **Unemployment at 8.5 percent nationally: 140,000 to 195,000 additional Virginians in poverty**
- **Unemployment at 9 percent nationally: 159,000 to 218,000 additional Virginians in poverty**

Certainly, multiple factors can influence whether poverty will increase as severely as estimated in the CBPP model. For instance, the federal economic stimulus package could alter the depth or duration of this recession relative to previous ones. However, even in an optimistic forecast, increases in unemployment will result in many thousands more Virginians falling below the poverty level.

Of particular concern, as parents lose employment and more families face economic hardships, the number of Virginia children living in poverty will increase substantially. If unemployment increases to 8 percent nationally, between 44,000 and 55,000 children could be pushed into poverty. If unemployment rises to 9 percent nationally, the number of children in poverty could increase by 57,000 to 73,000. This would represent up to a 30-percent increase in the child poverty rate in the state.

Increasing unemployment will affect all regions of Virginia. However, areas with chronically high rates of unemployment, especially the West Piedmont and Southwest Virginia regions, could face the greatest increases in poverty. These regions have traditionally experienced both high unemployment and high rates of poverty. Per capita income is already lower in these regions.

A case in point: Danville is a West Piedmont city with persistent unemployment and a large percentage of its residents living in poverty. Between October 2007 and October 2008, unemployment in the city more than doubled.

While poverty figures for this time period won't be available until later this year, it is likely poverty will be significantly higher in Danville, compounding an already-grim reality – currently almost 23 percent of Danville residents are below the poverty line, versus the state average of 8.6 percent.

Table 2

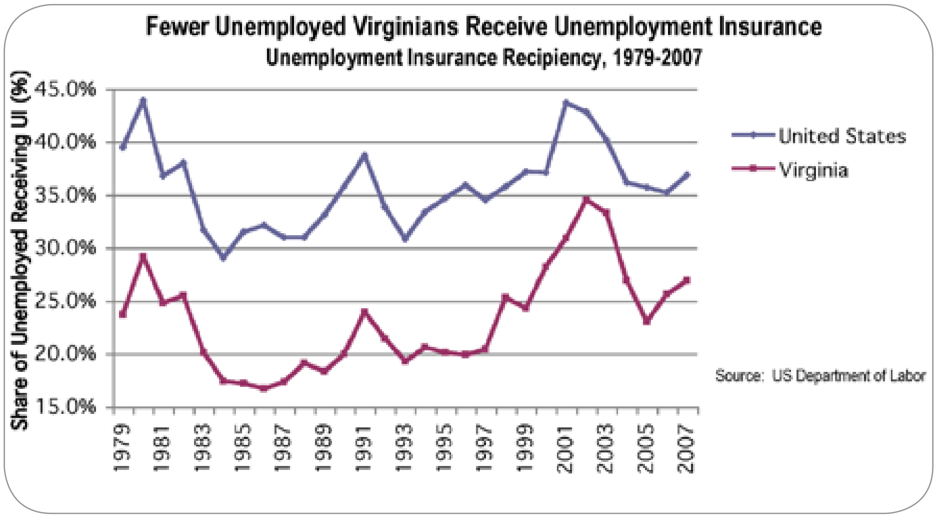
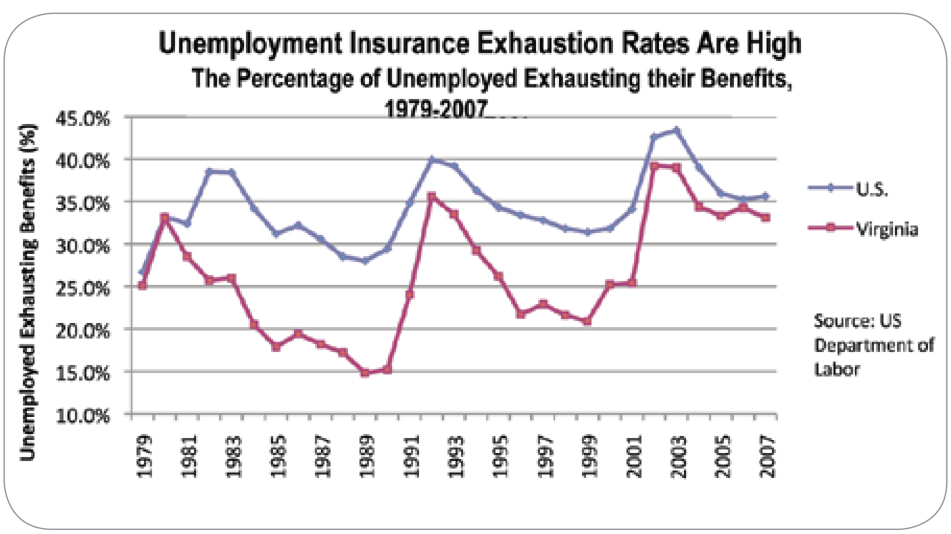




Table 3




## Insufficient Unemployment Insurance (UI) Safety Net in Virginia

Unemployment benefits are one of the most potent income supports available to prevent a family's fall into poverty. Yet, a majority of Virginia workers can not access unemployment benefits after losing their job, and they are far less likely to receive unemployment benefits than workers in other states, as Table 2 shows. In 2007, only 27 percent of unemployed Virginians collected benefits. This rate is the lowest of any state in the South Atlantic region and 27 percent below the national average. Only seven states in the nation, in 2007, extended benefits to fewer unemployed workers.

A low rate of UI benefit receipt indicates that many unemployed Virginians are being left unprotected by the state's inadequate UI system. As the recession deepens in 2009, tens of thousands of additional unemployed Virginians could be forced to do without this key source of help most likely to stave off family poverty.

In addition, as shown in Table 3, the share of unemployed workers exhausting their UI benefits has been on an upward trend for the past decade, with 33 percent of workers in 2007 running out of benefits before finding employment. During the last recession in 2001 and 2002, exhaustion rates approached 40 percent. If the current recession continues, 40 percent or more of those unemployed Virginia workers fortunate enough to qualify for unemployment benefits will exhaust their UI while looking for work, in an economy with few job opportunities.

## Impact of Recession-Induced Poverty on Children: Temporary or Persistent?

Living in poverty exposes children to multiple risks to healthy adjustment. The cumulative impact across time often has harmful impacts on child development, reducing the prospect the child will reach full potential; and causing higher rates of many social, behavioral, educational and occupational problems. Studies[1] have shown that the long-term impacts of child poverty show up most strikingly in three areas: lower educational attainment, occupational status and earnings; poorer health status; and higher rates of criminal behavior. These impacts exact a human toll, through increased distress and suffering for children and parents, and a huge economic toll, due to costs for expensive remedial programs, lost human potential and diminished workforce capability.

The recession, even if prolonged, will eventually end. One key question is: will the effect on children be temporary as well, or are there more prolonged consequences that persist after the economy recovers? One impact of the recession could be to keep children who are currently poor in that status even longer. We could see increases in the number and percentage who will endure persistent poverty during their childhoods. One analysis[2] of the effects of the recession of the early to mid-1980s showed that fully 65 percent of those in poverty prior to the recession remained poor for at least several years after.

But what about those not currently living in poverty who are pushed there by the recession? A recent analysis by First Focus looked at the duration of recession-induced child poverty.[3] Based on data from previous recessions, they concluded that 30 percent of the children pushed into poverty are likely to remain there for years beyond the end of the recession. Therefore, those children will experience the persistent poverty that is most toxic. Another 30 percent will experience somewhat shorter post-recession poverty, but still long enough to pose substantial risk of diminished development. Recession-induced poverty, therefore, often persists well beyond economic recovery and has many long-term effects on child development.

One additional outcome cited by First Focus has compelling policy implications. In the recession of the early 1990s, of those children who did <u>not</u> fall into poverty during the recession, only 3 percent experienced poverty at any later point in childhood. Those pushed into poverty by that recession were <u>13 times</u> more likely to later experience poverty. This suggests that interventions preventing families from falling into recession-induced poverty would produce a substantial long-term return on investment – at a magnitude of 13 to 1.

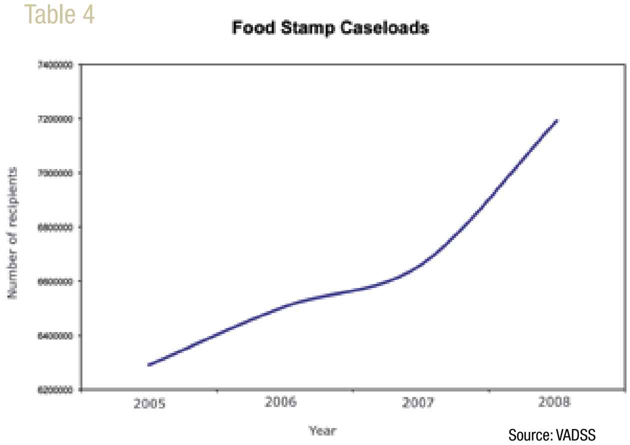
## Rising Safety Net Demands Warn of Rise in Poverty, Long-term Consequences

During a recessionary period, safety net programs become more necessary, and increases in demand for these services are an early indicator of rising poverty. Virginia's public and private assistance agencies have seen significant recession-induced increases in demand, some of which we quantify below. The magnitude of these increases is a sign of worsening poverty and a warning to policymakers of the potential long-range damage to Virginia's families, children and economy. If policymakers choose to cut safety net services in efforts to balance the state budget, many more Virginians, and especially children, will be exposed to the effects of prolonged poverty.

### Food Stamps

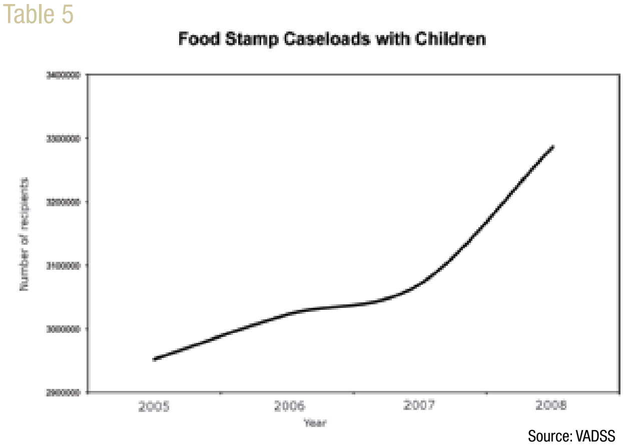
Food stamp caseloads increased sharply in 2008. This is important to note because food stamps are a reliable early indicator of increasing economic distress and poverty. The impact on Virginia's children is substantial, as 57 percent of Virginia households receiving food stamps include children.

Table 4




Source: VADSS

Table 5




Source: VADSS

## Food Bank Demands

Another early indicator of family economic vulnerability is food bank demand. Virginia food banks reported increases of 20 to 30 percent during 2008. These increases have occurred at the same time that donations of surplus food have decreased. Food banks, therefore, have initiated requests for emergency funding to meet rising demands. The Federation of Virginia Food Banks has recently asked the Virginia General Assembly to support a $1 million Emergency Food Purchase Program to support these increased needs.

## Temporary Assistance for Needy Families

Nationwide welfare reforms have altered the nature of assistance available to families struggling during economic hard times. Temporary Assistance for Needy Families (TANF) is focused on welfare-to-work initiatives designed to move families from poverty to self-sufficiency. Maintaining such employment-centered aid in a period of economic recession and rising unemployment may prove to be very challenging. Compounding the challenge, many jobs available to TANF participants are low-wage, low-skilled positions — those often cut during a downturn.

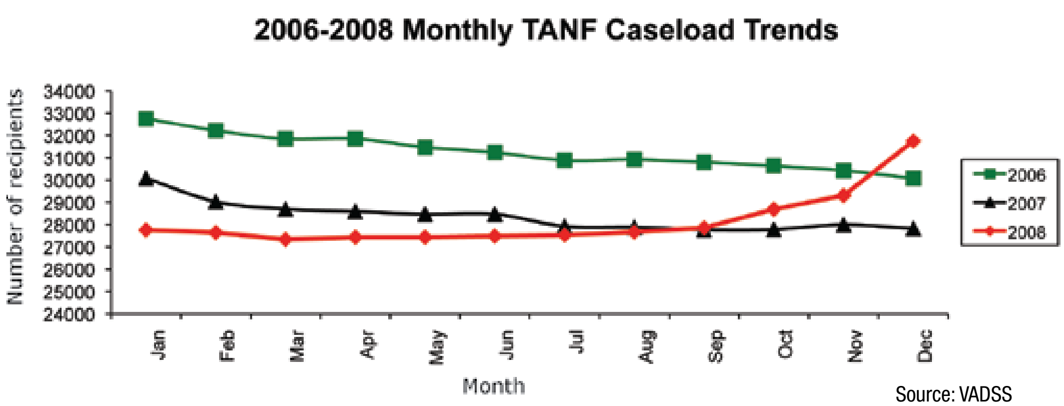
TANF in Virginia and the Virginia Initiative for Employment not Welfare Program (VIEW), have reduced the number of individuals receiving public cash assistance by nearly 60 percent since 1995. This steady decline was interrupted by the relatively mild 2001 recession – caseloads increased by 10 percent before declining to pre-recession levels. Since then, caseloads have remained relatively constant despite steady increases in Virginia's total population.

In 2008, the first year of the recession, TANF caseloads increased by 8 percent. Based on this early rise in caseloads, and on the percentage increase in TANF cases during the 2001 recession (10 percent), we can expect TANF cases in this recession to increase by more than 10 percent, and for that increase to persist for several years beyond the start of the recovery.

## Medicaid Enrollment

As unemployment increases and the number of low-income Virginians rises, the number of persons eligible for Medicaid benefits will increase. Most Virginians obtain health insurance through their employer and higher rates of unemployment will reduce the number of insured Virginians, including children. A report by the Kaiser Family Foundation found that a 1 percent increase in the unemployment rate nationwide would result in 1 million new Medicaid enrollees and a 1.1 million increase in the uninsured population.[4]

Table 6




Source: VADSS

In Virginia, enrollment in Medicaid and Virginia's children's health program, Family Access to Medical Insurance Security (FAMIS), increased by 4.8 percent between December 2007 and December 2008. Enrollment in FAMIS has risen even faster, increasing by 11.4 percent between 2007 and 2008. It is likely that this downturn will increase the number of uninsured Virginians including children, increase the numbers eligible for Medicaid and FAMIS, and place new demands on both programs. Reductions in either program will exacerbate the downturn's effects on struggling Virginia families and children and increase even further the number pushed into poverty. Reductions will also mean thousands of additional children without access to adequate health care during the recession and beyond, compromising their health status and future potential.

## A Note About Child Protective Services Caseloads

There is a well-documented relationship between parent unemployment and child abuse — as unemployment worsens, the incidence of abuse rises.

While not part of the safety net for families experiencing financial hardship, child protective services departments nevertheless may see considerable recession-related increases in child abuse. These programs will need to maintain staffing levels adequate to intervene as necessary to protect children. At the same time, there will be a heightened need for prevention programs (e.g. home visiting programs) that can provide supports to at-risk families.

## Conclusion

Rising unemployment will lead to increases in poverty in Virginia. Children will be among the hardest hit. Demand for key social services has already begun to grow in Virginia. Unfortunately, by many measures, Virginia's social service programs are not well positioned to deal with the sharp increases in unemployment and poverty that the current economic downturn bring. For example, most unemployed Virginians do not collect unemployment insurance and this downturn is the most significant challenge to the work-oriented structure of welfare since it was reformed in 1996. Long-term consequences of substantial increases in poverty – especially for children – will be felt throughout the state and beyond the duration of this recession.

The findings in this paper can serve to alert Virginia's leaders, policy makers and citizens that a "perfect storm" of economic distress is already upon us, posing a serious and growing threat to the well-being of thousands of children, and ultimately to the Commonwealth. Despite the need to balance budgets, policymakers should not cut income supports and other services that prevent or ameliorate poverty. The ultimate cost of such cuts, in lost human potential and diminished well-being for all Virginians, will far exceed the temporary savings.

## About Voices for Virginia's Children

Voices for Virginia's Children is a statewide non-profit, non-partisan research and advocacy organization that champions public policies to improve the lives of children. Voices makes children a higher public policy priority through research, policy development, coalition-building, and education of Virginia leaders and citizens.

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## Endnotes

1 Harry J. Holzer, Diane Whitmore Schezenback, Greg J. Duncan, Jens Ludwig. "The Economic Costs of Poverty in the United States: Subsequent Effects of Children Growing Up Poor." Center for American Progress, Jan. 24, 2007.

2 Michael Linden. "The Cost of Doing Nothing: The Economic Impact of Recession-Induced Poverty." First Focus, December 2008.

3 Michael Linden, op cit

4 Stan Dorn, Bowen Garrett, John Holahan, and Aimee Williams. *Medicaid, SCHIP and Economic Downturn: Policy Challenges and Policy Responses*, prepared for the Kaiser Commission on Medicaid and the Uninsured, April 2008.