Changes in the Economic Resources of Low-Income Households with Children

Thousands of 2005 dollars

- Aid to Families with Dependent Children or Temporary Assistance for Needy Families
- Earned Income Tax Credit
- Other Income
- Earnings

CONGRESS OF THE UNITED STATES
CONGRESSIONAL BUDGET OFFICE

MAY 2007
Changes in the Economic Resources of Low-Income Households with Children

May 2007
Notes

All years referred to in this paper are calendar years.

Numbers in the text and tables may not add up to totals because of rounding.
Preface

This Congressional Budget Office (CBO) paper was prepared at the request of the Ranking Member of the Senate Budget Committee. It uses data from national surveys to examine the economic resources over a 15-year period for low-income households with children. Cross-sectional data are used to identify changes in the sources of income for that group over time. Longitudinal data are used to follow a group of households, classified as low-income households in one year, to show how the economic resources of a given household might change over a three-year period. In keeping with CBO’s mandate to provide objective, impartial analysis, this paper makes no recommendations.

Molly Dahl wrote the paper under the guidance of Ralph Smith and Bruce Vavrichek. Helpful comments came from David Brauer, Thomas DeLeire, Robert Dennis, Naomi Griffin, Douglas Hamilton, Arlene Holen, Donald Marron, Paige Shevlin, Thomas Woodward, and Alshadye Yemane, all of CBO, and from Sheldon Danziger of the University of Michigan and Jeffrey Grogger of the University of Chicago. (The assistance of external reviewers implies no responsibility for the final product, which rests solely with CBO.)

Kate Kelly edited the manuscript, with assistance from John Skeen. Maureen Costantino prepared the report for publication and designed the cover. Lenny Skutnik produced the initial copies, Linda Schimmel coordinated the print distribution, and Simone Thomas prepared the electronic version for CBO’s Web site (www.cbo.gov).

Peter R. Orszag
Director

May 2007
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Summary and Introduction

In 2005, the average annual income of the nation’s poorest households with children (those in the bottom 20 percent, the lowest quintile, of the income distribution) was $16,800, which was 35 percent higher in real (inflation-adjusted) terms than it had been in 1991. That gain translates to an annualized growth rate of just over 2 percent. The change was driven by a large increase in earnings during the late 1990s for the group, the effect of which was partially mitigated by a decline in public assistance benefits (or what is often called welfare) (see Figure 1).

The growth in income among low-income households with children differs significantly from the experience among all low-income households (including those without children). Indeed, the lowest quintile of households without children experienced no real increase in income between 1991 and 2005. This paper focuses on low-income households with children.

The 35 percent real income growth between 1991 and 2005 for low-income households with children—considered as a group—does not describe changes for individual households over time. Surveying such households at a specific point (in this case, 2001) and following them over the next two years provides a different perspective. The average income for those households increased by nearly 45 percent from 2001 to 2003. (By contrast, average income for low-income households with children—that is, the households constituting the group as a whole—fell over that same three-year period.) Six in 10 of the surveyed households experienced a substantial increase in income, while 1 in 4 experienced a substantial decline.

U.S. economic performance varied during the period between 1991 and 2005: Strong economic growth in the mid-1990s (the unemployment rate, for example, fell from 6.8 percent to 4.0 percent between 1991 and 2000) was followed by a recession in 2001. In the mid-1990s, the nation also restructured its social welfare policies. One change was the creation of a new program, Temporary Assistance for Needy Families (TANF), which placed a much greater emphasis on work than did Aid to Families with Dependent Children (AFDC), the program it replaced in late 1996. TANF often requires that recipients work or participate in other approved activities as a condition for cash assistance.

A second change was the expansion of the earned income tax credit (EITC), a refundable tax credit available mainly to parents with low earnings. The EITC has been in place since the mid-1970s, but the expansion increased the payoff for working, and thus promoted employment among many low-income households.1

A third change was the creation of the State Children’s Health Insurance Program (SCHIP) and an expansion of Medicaid.2 Those two programs fund medical care for many of the nation’s poor, and new rules made it more likely for children to retain eligibility for health services even if their parents’ income increased.


As those changes in the nation’s economy and social welfare policies were taking effect, the earnings of low-income households with children more than doubled, and income for the group increased by more than 50 percent. It is difficult to disentangle which portions of the changes in earnings or income were the result of the strong economy and which arose from changes in policy. In his examination of the changing employment picture for single mothers in the 1990s, David Ellwood noted, “it is quite logical that the combination of welfare sticks, EITC carrots, and a remarkably strong economy had a multiplicative effect that is far greater than any one or two of these policies would have had on their own.”

The economy slipped somewhat between 2000 and 2005, as the unemployment rate rose from 4.0 percent to 5.1 percent in the period. The income of households with children in the lowest quintile fell by 11 percent, and their earnings fell by 16 percent.

### Changes in Economic Resources: 1991 to 2005

In 2005, inflation-adjusted income for low-income households with children averaged $16,800, 35 percent above what it had been in 1991. Only the highest-income households with children (those averaging $114,700 in 1991) saw larger percentage increases over the 15 years (see Table 1 on page 12 and Figure 2).

The rising income was partly the result of large increases in earnings in the 1990s that were somewhat offset later (see Figure 2). But even with the offsetting decline, those low-income households experienced larger percentage

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5. This analysis is based on the U.S. Census Bureau’s Current Population Surveys from 1992 to 2006. The sample consists of children, age 17 or younger, who do not reside in group quarters. The analysis is child weighted; it is based on the bottom quintile, or 20 percent, of children when ranked by household income, adjusted for household size. That adjustment is based on the poverty guidelines published by the U.S. Department of Health and Human Services (http://aspe.hhs.gov/poverty/figures-fed-reg.shm). Other specifications—a household-weighted analysis, an analysis based on the economic resources per person in a household, and an analysis with an absolute cutoff (150 percent of the poverty guidelines) rather than a relative cutoff (20 percent of the population of interest)—produced similar results.
Figure 2.

Growth in Real Income and Earnings of Households with Children, by Quintile

(Percent)


Notes: Annual amounts were adjusted for inflation using the research series for the consumer price index for all urban consumers.

a. The distribution of average household income in 1991 was as follows: lowest quintile, $12,400; second quintile, $31,600; middle quintile, $48,700; fourth quintile, $69,100; highest quintile, $114,700.

b. The distribution of average household earnings in 1991 was as follows: lowest quintile, $6,100; second quintile, $26,600; middle quintile, $44,600; fourth quintile, $64,300; highest quintile, $106,300.

increases in earnings between 1991 and 2005, on average, than did households in other segments of the distribution. That increase in earnings is likely to be associated with increases in work-related expenses, such as child care and transportation costs, which are not included here.

For low-income households with children, unearned income largely came from the EITC, AFDC (until late 1996) or TANF, Social Security, Supplemental Security Income (SSI), and child support. EITC payments come through the tax system, generally once a year. TANF payments (and AFDC payments through 1996), Social Security, and SSI are monthly cash transfers. Social Security income can be payments after the retirement, disability, or death of a household member. SSI income can be payments after the disability of a household member. Child support income generally consists of payments made by noncustodial parents to assist with care of children.

Between 1991 and 2005 there was a substantial decline in the contribution of AFDC or TANF payments to the income of low-income households with children (see Figure 3). In 1991, AFDC accounted for nearly 30 percent of income for those households, more than all other forms of unearned income combined. By 2005, TANF contributed 4 percent—about the same as SSI, but less than Social Security and the EITC, and only slightly more than child support. The decline occurred both in the number of households receiving the payments and in the amounts they received (see Figure 4). In 1991 more than half of all low-income households with children reported some AFDC income over the course of the year; by 2005 fewer than 2 in 10 received TANF. The

6. EITC payments based on earnings in one calendar year are usually distributed in lump sums the next year, after people file their taxes. For this analysis, payments were counted in the same calendar year as the earnings on which they were based.

7. Other income consists of unemployment compensation, workers’ compensation, disability benefits, pension or retirement income other than Social Security, educational assistance, financial assistance from outside of the household, and other cash income.

advantage of the credits and in the amount of the credits they received (see Figure 5).10

It is possible to further refine the analysis of income for low-income households with children by dividing households into two groups, those headed by a single female and those headed either by a married couple or by a single male.11 Low-income households headed by single women had lower income, on average, than did other low-income households (see Figure 6).12 In 2005, for female-headed low-income households, the average income was $13,700, nearly 30 percent higher than in 1991. The average income for other low-income households with children was $20,400 in 2005, 35 percent higher than in 1991.13,14

Despite the slightly lower income growth in female-headed low-income households with children, their household earnings increased much faster than did the earnings of other low-income households. Between 1991 and 2005, household earnings doubled (on average) in

9. Between 1991 and 2000, the proportion of low-income households with children receiving food stamps, a near-cash benefit designed to increase the ability of eligible households to purchase nutritious food, fell from nearly 70 percent to just over 40 percent. By 2005, the proportion had risen to about 50 percent. For a discussion of changes in food stamp participation, see Janet Currie, “U.S. Food and Nutrition Programs,” in Robert Moffitt, ed., Means-Tested Transfer Programs in the United States (Chicago: University of Chicago Press, 2003), pp. 199–289.

10. Data on AFDC or TANF payments in the Current Population Surveys are based both on survey responses and on imputation by the Census Bureau; EITC data are based on the Census Bureau’s imputation only. Administrative data for AFDC–TANF amounts and the EITC show more money being paid out than is reflected in the CPS. Total AFDC–TANF payments in the CPS are 70 percent to 90 percent of administrative totals in most years. Total EITC amounts in the CPS are 65 percent to 75 percent of administrative totals each year.

11. About 12 percent of low-income households with children not headed by single women in any given year were headed by single men. Trends in earnings of households headed by single males were more similar to trends for households headed by married couples than they were to trends for female-headed households.

12. Income is defined at the household level, but structure is defined at the family level for this analysis. A child living with his or her mother and the mother’s (married) parents would be assigned the income of the mother and the grandparents and would be considered part of a female-headed household. A child living with his or her mother and the mother’s unmarried partner would be assigned the income of the mother and the partner and also would be considered to be part of a female-headed household.

13. Income growth among all low-income households with children (35 percent) is not at the midpoint (female-headed households at 29 percent and other households at 35 percent) because the other households had higher income and represented an increasing share of all low-income households over the period.

14. In 2005, a typical female-headed household with children had an income of $28,900; the same year, income for other households with children typically was $67,000.
female-headed low-income households, while earnings increased by about 55 percent for low-income households headed by married couples or single males (see Figure 7).

Although earnings increased substantially among households headed by single females overall, a portion of those households appeared to have no earnings or AFDC–TANF income in any given year. During the 1990s the fraction of female-headed low-income households that had no earnings and no AFDC or TANF income ranged from 5 percent to 8 percent. By 2005, 13 percent of such households reported neither earnings nor TANF income. Social Security was the largest component of income for that group.

In 1991, 60 percent of all low-income households with children were headed by women. By 2005, that proportion had declined to 54 percent. The shift in the composition of low-income households with children partially motivated the Congressional Budget Office’s decision to examine the two household types separately. The analysis confirms that the changes seen in the group overall were not driven simply by changes in the composition of that group. For instance, the increase in overall earnings could have been attributable solely to a large shift away from female-headed households (which tend to have lower earnings) and toward male-headed or married-couple households; but that turns out not to be the case: Female-headed and other low-income households alike experienced large growth in earnings.

The overall decline in AFDC and TANF income (shown earlier in Figure 3) was concentrated within female-headed households. In 1991, AFDC accounted for 42 percent of household income—the largest component of income—for female-headed low-income households with children. By 2005, half of the income in those households came from earnings; TANF constituted only 7 percent. For low-income households headed by married couples or single males over the same 15-year period, AFDC and TANF did not contribute as much. In 1991, 13 percent of income in low-income households headed by married couples or single males came from AFDC. By 2005, the proportion had declined to 2 percent. For that group, income has always come mostly from earnings (see Table 2 on page 12).

### Figure 5.

**EITC for Low-Income Households with Children**

(Percent) (Thousands of 2005 dollars)

<table>
<thead>
<tr>
<th></th>
<th>1991</th>
<th>1993</th>
<th>1995</th>
<th>1997</th>
<th>1999</th>
<th>2001</th>
<th>2003</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage Receiving Benefits</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Average Benefit Amount</td>
<td></td>
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</table>


Notes: Annual amounts were adjusted for inflation using the research series for the consumer price index for all urban consumers.

EITC = earned income tax credit.
Figure 6.

Detailed Sources of Income for Low-Income Households with Children, by Household Type

(Thousands of 2005 dollars)


Notes: Annual cash income was adjusted for inflation using the research series for the consumer price index for all urban consumers. Other households are those headed by married couples or by single men. Other income consists of unemployment compensation, workers’ compensation, disability benefits, pension or retirement income, educational assistance, financial assistance from outside of the household, and other cash income.

AFDC = Aid to Families with Dependent Children (through 1996); TANF = Temporary Assistance for Needy Families (after 1996); SSI = Supplemental Security Income; EITC = earned income tax credit.
Figure 7.
Growth in Real Earnings of Low-Income Households with Children, by Household Type
(Percent)

Notes: Annual earnings were adjusted for inflation using the research series for the consumer price index for all urban consumers. Other households are those headed by married couples or by single men. In 1991, average earnings for female-headed households with children were $3,700; average earnings for other households were $9,800.

In contrast, the rate of increase in the use of the EITC was similar among both groups of low-income households with children. In 1991, EITC payments constituted 4 percent of income for female-headed households, and by 2005 that proportion had increased to 11 percent. Among other low-income households, EITC accounted for 6 percent of income in 1991 and 12 percent in 2005 (see Table 2).

Low-Income Households with Children in 2001
Those households with children that were in the low-income category in 2001 had, on average, significant increases in income in each of the next two years (see Figure 8). For those households, average inflation-adjusted income increased by about 45 percent, from $16,700 in 2001 to $24,100 in 2003. Average household income increased, in percentage terms, almost equally for female-headed and other low-income households with children in 2001. About half of all households with children that were considered low income in 2001 were headed by women; the rest were headed by married couples or by single men. Average household income in 2003 for those households with children that had been in the low-income female-headed category in 2001 was just under $20,000; the 2003 average for other low-income households was almost $28,700.

The fact that average income was increasing between 2001 and 2003 for those households with children that were in the low-income category in 2001 does not mean that income was increasing for every household. Although about 60 percent of female-headed and other low-income households with children in 2001 experienced real increases in income of more than $1,500 over the next two years, about 25 percent of each group saw their income decline by more than $1,500 over the same period (see Figure 9). For households in which income increased, it did so substantially, nearly doubling between 2001 and 2003.

15. This analysis is based on the 2001 panel of the Census Bureau’s Survey of Income and Program Participation (SIPP), which followed individual respondents for 36 months. The months included vary because respondents are assigned to one of four rotation groups: October 2000 to September 2003, November 2000 to October 2003, December 2000 to November 2003, or January 2001 to December 2003. For CBO’s analysis, 2001 refers to the first 12, 2002 is the second 12, and 2003 is the final 12 of the 36 months. The data are the most recent available from the SIPP for any three-year period. The definition of income is similar to that used in the first section of this paper, although it excludes income from the EITC and from educational assistance. The sample consists of children who were present and age 17 or younger in all 36 months. Longitudinal panel weights are used. Similar results are obtained if the 1996 SIPP panel is used to examine changes in income for the period between 1996 and 1998.

16. Because annual measures of income in the SIPP are based on information taken from three interviews, the probability is relatively low that observed changes in income are largely the result of misreported income.

17. Family structure is that in 2001.

18. A $1,500 increase or decrease in income over the two-year period was chosen to approximate a 10 percent change (rounded for exposition) from the average income of $16,700 for all low-income households with children in 2001.
The percentage increases in income were similar for both groups for whom income rose. Some increases probably occurred in households that were in the low-income category only for a short time (for instance, because of a period of unemployment) and then regained their economic footing before the end of the period (see Box 1). The decreases in income for the one in four female-headed or other households that experienced income declines between 2001 and 2003 were substantial; income fell by 35 percent to 40 percent for households in each group (see Figure 9).

The income fluctuations largely reflect changes in household earnings, as opposed to changes in unearned income (see Table 3 on page 13). Those changes in earnings, in turn, were attributable primarily to changes in the number of hours worked as opposed to changes in wage rates.

Although changes in household composition (such as occur when parents divorce or remarry) can have a substantial effect on economic resources, a small percentage of households actually experienced such a change during the period covered here.19

Declines in earnings were partially offset by increases in government transfers. Among female-headed households with large earnings declines between 2001 and 2003, there were offsetting increases in income from TANF and SSI. For married-couple or male-headed households, offsetting transfers came primarily from Social Security.

19. About 6 percent of children who were in female-headed low-income households in 2001 were in married-couple or male-headed households in 2003; about 8 percent in married-couple or male-headed low-income households in 2001 were in female-headed households in 2003.
Box 1.

Changes in Income for Low-Income Households with Children in 2002

Were the low-income households with children in 2001 that had income increases of $1,500 or more between 2001 and 2003 simply bouncing back after a temporary decline? Some were; some were not. The analysis illustrated below shifts perspective slightly to focus on what happened before and after 2002.

Half of the low-income households with children in 2002 saw their income decline by $1,500 or more between 2001 and 2002; just over half experienced increases of $1,500 or more between 2002 and 2003. But the two groups were not the same. Six households in 10 whose income declined between 2001 and 2002 saw their income increase between 2002 and 2003. Income for the other 4 households in 10 did not increase substantially from 2002 to 2003.


Note: Annual income was adjusted for inflation using the research series for the consumer price index for all consumers.
Child support often was an important component of changes in income for female-headed households with children. Increases in child support alone were enough to effect such a change for 17 percent of those whose income increased overall. In 13 percent of the households where income dropped by $1,500 or more, child support also had declined by at least $1,500.

The focus of the analysis so far has been on cash income, which includes cash transfers from the government but excludes in-kind benefits, such as food stamps, free or reduced-price school meals, housing assistance, and energy assistance. Also excluded are any benefits from health insurance coverage.

Many low-income households with children in 2001—whether headed by single females or not—were receiving some form of noncash assistance from the government, and they did so over the next two years (see Table 4 on page 13). In 2001, low-income households that would experience increases in income over the next two years tended to be less likely to have received food stamps, free or reduced-price school meals, housing assistance, or energy assistance than were those households whose income would fall. The lower rate of program participation among those whose income went up could have been attributable, at least in part, to some of those households’ not expecting to remain in the low-income group for long. If members of a household believed they would have a limited period of eligibility for the food stamp program, for example, they might have chosen not to enroll because they expected to lose eligibility before the end of the program year. Alternatively, they might have had some assets (for instance, savings accumulated prior to the loss of a job) that were sufficient to reduce the need for support or the eligibility for benefits.
The higher rates of program participation among those whose income declined could in part have been caused by a mid-year job loss, for example, in 2001, followed shortly thereafter by enrollment in a noncash assistance program. Such a household might experience declines in income between 2001 and 2003 and receive benefits in 2001.

Among those households with increasing income, participation in the programs examined here generally declined only slightly. Regardless of the increased income, the programs were still being used by many of the households two years later.

A substantial change in program participation among those low-income households that experienced declines in income between 2001 and 2003 was seen in the increased use of food stamps by married-couple or male-headed households. There was no similar increase for female-headed households, although a much larger proportion of those households were already receiving food stamps in 2001.

The percentage of children in low-income households in 2001 who were covered by health insurance (public or private) remained relatively stable between 2001 and 2003, regardless of changes in income (see Table 5 on page 14). Offsetting changes in public and private health insurance, as income increased or decreased, helped maintain the balance. As both income and private health insurance coverage declined for female-headed low-income households, for example, there were offsetting increases in coverage by Medicaid or SCHIP.

20. For a discussion of measurement issues regarding health insurance coverage, see Congressional Budget Office, How Many People Lack Health Insurance and For How Long? CBO Economic and Budget Issue Brief (May 12, 2003).
### Table 1.
#### Distribution of Real Income for Households with Children

(2005 Dollars)

<table>
<thead>
<tr>
<th>Quintile</th>
<th>Average Income</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest</td>
<td>12,400</td>
<td>18,800</td>
</tr>
<tr>
<td>Second</td>
<td>31,600</td>
<td>39,400</td>
</tr>
<tr>
<td>Middle</td>
<td>48,700</td>
<td>59,100</td>
</tr>
<tr>
<td>Fourth</td>
<td>69,100</td>
<td>83,700</td>
</tr>
<tr>
<td>Highest</td>
<td>114,700</td>
<td>176,300</td>
</tr>
</tbody>
</table>


Note: Annual cash income was adjusted for inflation using the research series for the consumer price index for all urban consumers.

### Table 2.
#### Selected Sources of Income for Low-Income Households with Children

<table>
<thead>
<tr>
<th></th>
<th>Earnings</th>
<th>EITC</th>
<th>AFDC or TANF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female-Headed Households</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>3,700</td>
<td>35</td>
<td>400</td>
</tr>
<tr>
<td>2000</td>
<td>9,000</td>
<td>58</td>
<td>1,800</td>
</tr>
<tr>
<td>2005</td>
<td>7,400</td>
<td>54</td>
<td>1,500</td>
</tr>
<tr>
<td>Other Households</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>9,800</td>
<td>64</td>
<td>900</td>
</tr>
<tr>
<td>2000</td>
<td>17,100</td>
<td>78</td>
<td>2,200</td>
</tr>
<tr>
<td>2005</td>
<td>15,200</td>
<td>75</td>
<td>2,400</td>
</tr>
</tbody>
</table>


Notes: Annual cash income was adjusted for inflation using the research series for the consumer price index for all urban consumers. Other households are those headed by married couples or by single men.

EITC = earned income tax credit; AFDC = Aid to Families with Dependent Children (through 1996); TANF = Temporary Assistance for Needy Families (after 1996).
Table 3.

Changes in Income from 2001 to 2003 for Low-Income Households with Children in 2001

(2005 dollars)

<table>
<thead>
<tr>
<th></th>
<th>Female-Headed Households</th>
<th>Other Households</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Income Rose by $1,500 or More</td>
<td>Income Fell by $1,500 or More</td>
</tr>
<tr>
<td>Change in Income</td>
<td>13,000</td>
<td>-5,900</td>
</tr>
<tr>
<td>Earnings</td>
<td>10,800</td>
<td>-4,800</td>
</tr>
</tbody>
</table>


Note: Annual cash income was adjusted for inflation using the research series for the consumer price index for all urban consumers. Other households are those headed by married couples or by single men.

Table 4.

Selected Program Participation, Low-Income Households with Children in 2001

(Percent)

<table>
<thead>
<tr>
<th></th>
<th>Female-Headed Households</th>
<th>Other Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Stamps</td>
<td>65 58</td>
<td>80 81</td>
</tr>
<tr>
<td>School Meal Programs</td>
<td>80 82</td>
<td>88 91</td>
</tr>
<tr>
<td>Housing Assistance</td>
<td>43 30</td>
<td>53 49</td>
</tr>
<tr>
<td>Energy Assistance</td>
<td>25 22</td>
<td>38 30</td>
</tr>
</tbody>
</table>


Note: Other households are those headed by married couples or by single men. The school meal programs consist of the School Breakfast Program and the National School Lunch Program. Housing assistance consists of public housing and rental assistance.
### Table 5.

#### Health Insurance Coverage, Low-Income Households with Children in 2001

(Percent)

<table>
<thead>
<tr>
<th></th>
<th>Female-Headed Households</th>
<th>Other Households</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Income Rose by $1,500 or More</td>
<td>Income Fell by $1,500 or More</td>
</tr>
<tr>
<td>Medicaid or SCHIP</td>
<td>63</td>
<td>60</td>
</tr>
<tr>
<td>Private</td>
<td>32</td>
<td>27</td>
</tr>
<tr>
<td>Any</td>
<td>83</td>
<td>80</td>
</tr>
</tbody>
</table>


Notes: Participants can report more than one type of health insurance coverage. Children were considered to be covered if they were covered in the 12th month of the year-long span of the survey.

SCHIP = State Children's Health Insurance Program.