



## Why Reducing Child Poverty is Necessary to Keep Connecticut Economically Competitive

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### *The Challenge of Demographic Change: The “Graying” of Connecticut*

The United States, like many other developed nations, is in the final years of what has been called a “demographic Indian summer.” As explained by Peter Peterson, former chairman of the Federal Reserve Bank in New York:

*With the large postwar boom generation in the workforce and a small Depression-era generation retiring, the elder share of the U.S. population has been flat since the mid-1980s. But when the boomers start turning sixty-five less than a decade from now, the demographic climate will change abruptly. Over the next ten years about two million U.S. citizens will be celebrating their 65<sup>th</sup> birthday each year – a number that will reach four million once the Woodstock retirement is in full swing. Just as boomers once overwhelmed the schools as children, the job market as they came of age, and the housing market as mature adults, so too are they on track to overwhelm America’s retirement system as they enter elderhood.<sup>1</sup>*

Connecticut’s demographic transition is projected to follow the nation’s, although the state starts out with an older population than many other states. Connecticut’s median age is 7<sup>th</sup> highest in the nation (37.4 years).<sup>2</sup>

As the Baby Boom generation (those born between 1946 and 1964) reaches retirement age, the growth of Connecticut’s elderly population (age 65 and over) is expected to accelerate – from 14.3% of our total population in 1995 to 18% in 2025. Concurrently, the share of Connecticut’s population that is under age 20 is projected to decline, from 26.6% in 1995 to 25.3% in 2025.<sup>3</sup>

<sup>1</sup> P. Peterson, *Running on Empty: How the Democratic and Republican Parties are Bankrupting Our Future and What Americans Can Do About It* (New York, Farrar, Straus and Giroux, 2004), p. 58.

<sup>2</sup> United States Census Bureau, 2000 Census.

<sup>3</sup> Though these changes are significant, they are not as dramatic as in many other states (based on relative state rankings). In 1995, the share of Connecticut’s population that was elderly was 9<sup>th</sup> highest in the nation, but by 2025 it will be 38<sup>th</sup> highest; other states are experiencing greater aging. Similarly, Connecticut’s decline in its under 20 population is not as significant as in some other states. In 1995, the share of Connecticut’s population that was under age 20 was 6<sup>th</sup> lowest in the nation, but in 2025, Connecticut will be 29<sup>th</sup> highest in the share of its population that is under age 20. One of the factors contributing to Connecticut’s relative advantage in the demographic transition is immigration. Between 1995 and 2025, Connecticut is expected to gain 337,000 people through international migration, making its net international migration gains over this period 12<sup>th</sup> greatest among the fifty states and the District of Columbia. United States Bureau of the Census, Population Division, *Connecticut’s Population Projections: 1995 to 2025*. For a more detailed examination of this trend, see J. Fishkin, P. Canny & D. Hall, *Immigration in Connecticut* (Connecticut Voices for Children, 2004).

*The increasing dependency ratio.* An important consequence of Connecticut's demographic transition is a change in its "dependency ratio" – the number of "dependent" persons (under age 20 and age 65 and over) as compared to the number of persons who are of working age (20 to 64 years of age).

In 1995, Connecticut had 69 "dependent" persons for every 100 persons of working age. By 2025, this will have increased to 76 dependent persons per 100 persons of working age.<sup>4</sup>

*Workforce and fiscal challenges from the "graying" of Connecticut.* The growth of Connecticut's elderly population poses both a workforce and a fiscal challenge to our state (as it does in other states).

Connecticut is now second highest among states in the share of its workforce who are over the age of 55. The aging of Connecticut's population will reduce even further the number of workers available to Connecticut's economy.

The "graying" of Connecticut will also have an impact on the state budget. The public cost of supporting the elderly is far greater than the public cost of supporting children (and also those of working age). As a greater proportion of Connecticut's population becomes elderly, there will be a corresponding increase in the public resources being directed to their care (absent any change in current entitlements).<sup>5</sup>

At the federal level, the Congressional Budget Office estimates that each elder receives about seven times more in public benefits than each child (about \$17,700 as compared to \$2,100 in fiscal year 2000).<sup>6</sup> If one includes state and local spending (and thus the entire education budget, which benefits primarily children and youth)<sup>7</sup> the ratio of public spending on seniors remains three times greater than spending on children (with public spending on working age adults less than for either seniors or children.)

In Connecticut, this point is well illustrated by spending on Medicaid, Connecticut's single *largest* General Fund expenditure. As Connecticut's population ages, relatively more seniors will become eligible for Medicaid. Moreover, the cost to Connecticut to provide health care through Medicaid to

<sup>4</sup> The increase in Connecticut's dependency ratio, though significant, is not as great as in some other states. In 1995, our dependency ratio ranked 33<sup>rd</sup> highest in the nation. In 2025, it is projected to be 5<sup>th</sup> *lowest*. United States Bureau of the Census, Population Division, *Connecticut's Population Projections: 1995 to 2025*. At the national level, this transition is often illustrated by the change in the number of taxpaying workers for every Social Security beneficiary. In 1960, there were 5.1 taxpaying workers for every beneficiary. The ratio now is 3.3 and is projected to fall to 2.2 by 2030. <sup>4</sup> P. Peterson, *Running on Empty: How the Democratic and Republican Parties are Bankrupting Our Future and What Americans Can Do About It* (New York, Farrar, Straus and Giroux, 2004), p. 58.

<sup>5</sup> This increase will occur both because there are more elderly to be served, and also because the amount of spending per elderly person is increasing. Measured in 2000 dollars, federal spending for the elderly has increased from about \$8,900 in 1971 (for the average person age 65 and older) to \$17,700 in 2000 and is projected to exceed \$21,100 in 2010 (an estimate made prior to the passage of the prescription drug bill). Congressional Budget Office, *Federal Spending on the Elderly and Children* (2000).

<sup>6</sup> Congressional Budget Office, *Federal Spending on the Elderly and Children* (2000). This report projected that in ten years (under current policies) spending on the elderly and children combined would account for more than half of total government spending, with the share going to the elderly making up about four-fifths of that amount.

<sup>7</sup> An earlier CBO study had estimated that *state* and *local* governments spent, on average, about \$4,000 for each child in 1995 compared to about \$700 for each elderly person. Congressional Budget Office, *Long-Term Budgetary Pressures and Policy Options* (May 1998), Box 1-2, p. 6

a senior is more than *17 times greater* than the cost to provide it to a child.<sup>8</sup> Long-term care costs (e.g. nursing homes) are a significant contributor to this differential; of the \$2.9 billion Connecticut appropriated in SFY 05 for Medicaid, more than half is spent on long-term care (e.g. nursing homes).

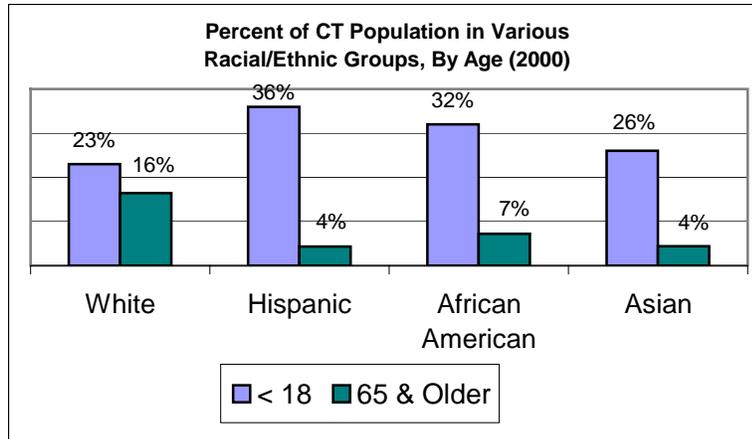
*Concurrent changes in race and ethnicity.* Importantly, Connecticut’s demographic shift is not limited to changes in our age structure. Connecticut’s population not only is aging, but it also is becoming more diverse.

In 1995, 82% of Connecticut’s population was White, non-Hispanic. By 2025, non-Hispanic Whites are projected to comprise 69% of our population. Although consistent with national trends, the increase in Connecticut’s Hispanic population over this three-decade period ranks as the nation’s 15<sup>th</sup> largest gain. Even larger gains are expected in Connecticut’s Asian population. Projected changes are shown in the following table:

<b>% of CT Population, by Race and Ethnic Groups, 1995 &amp; 2025 (projected.)</b>			
	<b>1995</b>	<b>2025</b>	<b>Change</b>
White, non-Hispanic	82.0%	69.0%	<b>-16%</b>
African-American, Non-Hispanic	8.4%	11.1%	+32%
Asian and Pacific Islander, Non-Hispanic	1.9%	4.3%	+126%
American Indian, Eskimo, Aleut, Non-Hispanic	0.2%	0.2%	0%
Hispanic (any race)	7.5%	15.4%	+105%
Source: U.S. Bureau of the Census, Population Division, <i>Connecticut’s Population Projections: 1995 to 2025</i>			

*The convergence of age and race/ethnicity trends.* What is of particular importance to this analysis of the impact of child poverty on Connecticut are the significant differences in the Connecticut’s age distribution by race and ethnicity, as shown in the following table drawn from 2000 Census data.

<sup>8</sup> In Federal Fiscal Year (FFY) 2001, Connecticut spent about \$1,210 per child per year on health care for children enrolled in Medicaid, compared to \$21,044 per senior per year for elders enrolled in Medicaid. While children constituted 54.6% of all Connecticut’s Medicaid enrollees that year, they accounted for just 10.6% of the total Medicaid cost. By comparison, seniors were 13.3% of Connecticut’s Medicaid population but accounted for 44.8% of total Medicaid spending. Georgetown Health Policy Institute analysis based on CMS MSIS 2001 data. Notably, the disparity in spending in Connecticut between seniors and children in Medicaid is growing. By comparison, in FFY 1998, Connecticut spent about \$1,516/year for each child enrolled in Medicaid, but \$20,160 for each senior on Medicaid (i.e. spending on seniors was about 13 times greater). Though children constituted 51% of Connecticut’s Medicaid population in FFY 98, only 11% of Medicaid spending was for their health care costs. By comparison, the elderly constituted about 14% of Connecticut’s Medicaid enrollees but accounted for 38% of Connecticut’s Medicaid spending. Calculations by CT Voices for Children, based on Urban Institute and Kaiser Commission on Medicaid and the Uninsured estimates from HCFA-2082 and HCFA-64 reports filed by Connecticut.



As this chart illustrates, Connecticut’s non-white population is *younger* than its white, non-Hispanic population. More than a third (36%) of Connecticut’s Hispanic population is under the age of 18, 32% of our African-American population, and 26% of our Asian population, while less than one in four of Connecticut’s non-Hispanic Whites (23%) are under the age of 18.

By comparison, Connecticut’s white, non-Hispanic population is *older* than its Hispanic, African-American, and Asian populations. The proportion of Connecticut’s white, non-Hispanic who are age 65 and older (16%) is more than twice the proportion of its African-American population who are age 65 and older (7%) and four times the proportion of Connecticut’s Hispanic and Asian populations who are older (4% each).

**The Crux of Connecticut’s Demographic Challenge: Why Child Poverty *Must* Be Addressed if Connecticut is to Remain Economically Competitive**

Considered together, these data about trends in age and race/ethnicity point to an important challenge in Connecticut. That is, the welfare of Connecticut’s increasingly aging population -- who are disproportionately white -- depends on the successful growth and development of a shrinking younger cohort of children and youth -- who are disproportionately African-American, Hispanic, and Asian.

Were opportunities for successful growth and development equal among all Connecticut’s children and youth, this would not present so significant a challenge. However, we know that poverty is far more prevalent among Connecticut children who are Hispanic and African-American. In Connecticut, about 4% of non-Hispanic white children live in families with incomes below the federal poverty level, compared to 25% of African-American children and 31% of Hispanic children.<sup>9</sup>

<sup>9</sup> P. Canny & D. Hall, *Connecticut’s Children: Race and Ethnicity Matter* (Connecticut Voices for Children, 2003)(based on analysis of data from the 2000 Census). This report, based on analysis of data from the 2000 Census, also shows that African-American and Hispanic children face other risks to healthy growth and development, including a greater likelihood of living in a single parent family and of living with *neither* parent.

It is well-established in the research literature<sup>10</sup> that poverty is a significant risk factor for a wide variety of adverse developmental outcomes for children and youth – from greater health problems to less success at school. Unfortunately, many of these adverse effects of poverty (so disproportionately concentrated in our African-American and Hispanic children) do not diminish as children age. Indeed, some of the effects are amplified.

For example, it is our urban school districts that shoulder the responsibility of educating many of Connecticut's African-American and Hispanic children,<sup>11</sup> and thus face the challenge of compensating for the children's socioeconomic disadvantage.<sup>12</sup> In fact, the school districts comprising Education Reference Group I (our urban districts) are educating nearly one of every five Connecticut students (18%).

Using current measures of student performance, many children in our urban districts start kindergarten already behind their peers. Children in ERG I school districts are far less likely to have attended pre-school than children in ERG A school districts (our wealthiest districts).<sup>13</sup> With each passing grade, the achievement gap widens. Children in ERG I districts are 4.8 times less likely than their ERG A peers to pass all Connecticut Mastery Tests in grade 4, 4.9 times less likely to pass all CMTs in grade 6, and 5.4 times less likely to pass these tests in grade 8.<sup>14</sup> Moreover, children in ERG I districts are 9.5 times less likely to pass the CAPT test in grade 10,<sup>15</sup> and are nearly 15 times (14.7) times more likely to drop out of high school.<sup>16</sup>

The significance of this widening educational achievement gap to children and our state is evident. As expressed recently by SACIA (The Business Council of Southwestern Connecticut) in its 2004 report, *Achievement Gaps in Our Schools: Realities and Remedies*, "Economic competitiveness – for an individual, community, company, state or society – is built upon knowledge. Educational institutions and systems, therefore, are the bedrock of our economic success.... While equal individual outcomes cannot be assured, equal access to opportunities can and must be."

<sup>10</sup> See, e.g., G. Duncan & J. Brooks-Gunn (eds), *Consequences of Growing Up Poor* (Russell Sage Foundation, 1997).

<sup>11</sup> The majority of children and youth in school districts in Education Reference Group I (Bridgeport, Hartford, New Britain, New Haven, New London, Waterbury, and Windham) are from racial and ethnic minority groups (ranging from slightly more than half the children in Windham to more than nine in ten children in Hartford). By comparison, fewer than one in ten children in ERG A school districts are from racial and ethnic minority groups (with the single exception of Woodbridge, with 11% minority students).

<sup>12</sup> Studies of education in Connecticut have suggested that as much as two-thirds of the variation in test scores between school districts can be traced to socioeconomic differences between the districts, including per capita income, average educational attainment of adults, and percentage of children speaking a non-English home language. D. Heffley and M. Lenon, "Zoning: Can A Barrier to Entry Open a Road to Educational Gains?" *The Connecticut Economy* (Summer 2004), p.4. The authors conclude that since socioeconomic conditions are so important to school performance, long-term performance gains may require "greater mobility and less geographic isolation of poorer households, not simply more school resources."

<sup>13</sup> Just over 56% of the children entering kindergarten in ERG I schools attended formal preschool, compared to 96.4% of children in ERG A schools. State Department of Education, *Strategic School Profiles, 2003-04*.

<sup>14</sup> The proportion of students in ERG I schools passing all CMT tests in grades 4, 6, and 8 was 14.5%, 16%, and 14%, respectively. By comparison, the pass rate for all three tests among students in ERG A schools was 69.4%, 78.1%, and 75.5%, respectively. State Department of Education, *Strategic School Profiles, 2003-04*.

<sup>15</sup> Just 6.4% of the students in ERG I schools passed the CAPT test in 10<sup>th</sup> grade, compared to 61% of the students in ERG A schools. State Department of Education, *Strategic School Profiles, 2003-04*.

<sup>16</sup> The cumulative drop-out rate for the class of 2003 in ERG I schools was 22.2%, compared to a 1.5% cumulative drop-out rate for youth in ERG A schools. State Department of Education, *Strategic School Profiles, 2003-04*.

Yet children born into poor families in Connecticut are not getting that critically important equal access to opportunity. This impacts not just *their* futures, but also *their children's* futures, since education is particularly crucial to family success in Connecticut's *current* economy.<sup>17</sup>

## The Challenge to Connecticut

Child poverty markedly increases the likelihood that more than one in every ten Connecticut children will not grow up healthy, safe, and well-educated. Since this age cohort is already relatively small, Connecticut simply cannot afford to waste this much human potential. Our collective failure to reduce Connecticut's child poverty will amplify the challenge Connecticut already faces in its demographic transition, and will threaten Connecticut's continued economic competitiveness.

The challenge to Connecticut is clear. Unless Connecticut reduces the number of children living in poverty and thereby increases their opportunity to fulfill their full potential, it can count on fewer children having the education and training necessary to fill its jobs, support its economy, support their own families,<sup>18</sup> and provide a secure environment for Connecticut's growing population of seniors.

<sup>17</sup> While this may have been less true when manufacturing jobs were more prevalent in Connecticut (since many did not require higher education, yet paid family-supportive wages and had good benefits), many of Connecticut's manufacturing jobs have left the state. Between World War II and the turn of the current century, Connecticut's manufacturing jobs declined by half – from more than 500,000 jobs (or 63% of payroll employment) to fewer than 250,000 jobs (or less than 15% of total employment). Without education or re-training, workers displaced from manufacturing jobs suffer a loss of earnings. Indeed, even with retraining, displaced manufacturing workers in Connecticut workers fail to match their old wage levels (earning about 80% of what they had previously). S. Lanza, "Teaching Old Dogs New Tricks: Does Job Retraining Work? Is It Worth the Cost?" *The Connecticut Economy* (Summer 2004), p.7.

<sup>18</sup> As educational attainment increases, wages also tend to increase and risk of unemployment declines. In 2003, for example, Connecticut workers who lacked a high school degree experienced unemployment and underemployment rates that were four times greater than those experienced by persons with bachelor's degrees or higher (unemployment of 12% as compared to 3%, and underemployment of 21% as compared to 5%). D. Hall & S. Geballe, *The State of Working Connecticut: 2004* (Connecticut Voices for Children, 2004). Census data on earnings and educational attainment nationally show that those without a high school degree earn on average \$23,400 annually, as compared to \$30,400 for a high school graduate, \$52,200 for a college graduate, and \$109,600 for a person with a professional degree. ([www.census.gov/prod/2002pubs/p23-210.pdf](http://www.census.gov/prod/2002pubs/p23-210.pdf))