

## WHAT DO WE KNOW ABOUT ENTRY-LEVEL, HOURLY EMPLOYEES?

Families and Work Institute  
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*Supporting Entry-Level, Hourly Employees* is a project of the Families and Work Institute (FWI) and the Institute for a Competitive Workforce (ICW), an affiliate of the U.S. Chamber of Commerce, funded by the Ford Foundation. The initiative addresses the workforce challenges that employers face in recruiting, engaging, developing, and retaining entry-level and hourly employees, particularly those from low-income households. In an effort to find solutions that work for both employers and employees, special attention is given to identifying characteristics of jobs and workplaces that help employers meet their goals of stabilizing their workforce while also promoting the well-being of low-wage and low-income employees and their families.

The research findings presented here are drawn from the 2002 National Study of the Changing Workforce (NSCW) conducted by Families and Work Institute. The NSCW interviews representative national samples of the U.S. workforce every five years. Data were collected between October 2002 and June 2003. The total 2002-03 NSCW sample includes 3,504 workers 18 and older in the U.S. economy—2,810 wage and salaried employees who work for someone else, 472 independent self-employed workers who do not employ anyone else, and 222 small business owners who employ at least one person. This report looks only at wage and salaried workers 18 and older who are employed by someone else. It is the first in a series of reports examining the low-wage workforce.

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The low-wage and low-income workforce is generally disadvantaged in many ways, but is also quite diverse, and a surprising number of these employees defy common stereotypes.

“Making work pay” (not just in earnings) is a fundamentally important American value. Low-wage employees who live in low-income households—to different degrees and with different levels of assistance—can benefit significantly from supportive government, community and workplace policies, and, in turn, can benefit their employers by providing value added over the long term. Yet, as this paper details, many low-wage and –income employees do not receive such support from any source.

### Introduction: Definitions

We define low-wage employees as those whose earnings fall in the bottom 25% of the earnings distribution, which is less than \$9.73 per hour in 2005 dollars. We define low-income families as those whose total annual income from all sources falls below 200% of (2 times) the federal poverty threshold—\$39,612 for a two-parent family with two dependent children in 2005.<sup>1</sup>

Some 12-13 million employees met both the low-wage and low-income criteria in 2002-2003 when the survey was conducted. In communities with higher costs of living, one could reasonably argue that the low-wage and low-income cut-offs should be significantly higher. Nonetheless, the definition used here seems appropriate when examining a random and representative sample of all wage and salaried employees in the United States. A family of four relying on earnings from a single low-wage job—up to \$4.57 more per hour than the current federal minimum wage of \$5.15 by the definition of “low-wage” used in this study—would fall well below the federal poverty threshold of \$19,806 in 2005. Even a full-time, full-year low-wage job by this definition would pay less than \$18,000 per year and less than \$16,500 after payroll taxes.<sup>2</sup>

Households with annual family incomes below 200% of the federal poverty threshold certainly qualify as low income or “near-poor.” For example, they are eligible for means-tested governmental benefits such as the federal Earned Income Tax Credit (EITC) that specifically targets low-income families. Household incomes below 200% of the federal poverty threshold fall (approximately) in the bottom 25% (bottom quartile) of the family-size adjusted annual income distribution—below \$39,612 for a two-parent family with two dependent children in 2005.

Low-wage employees who live in low-income households are most vulnerable to life events that threaten sustained employment, financial security, health, and general well-being. It is these low-wage employees living in low-income households who are the focus of this report and other reports in the series. Report 2 is *How Can Employers Increase the Productivity and Retention of Entry-Level, Hourly Employees?* and Report 3 is *What Workplace Flexibility Is Available to Entry-Level, Hourly Employees?*

Over half (54%) of low-wage employees live in low-income households. Although most low-wage employees living in middle-class families in the income brackets at or above 200% of the federal poverty threshold are not flush with disposable income, they definitely have more resources than low-income families, including not only greater family income, but also more generous fringe benefits from their employers. It is important to note, however, that low-wage employees living in middle-income families at or above 200% of the federal poverty level can easily slip into low-income status as a result of life events, such as divorce, ill health, or job loss.

### How Do Low-Wage and –Income Employees Differ from their Higher-Wage and –Income Counterparts?

If one compares the demographic characteristics of low-wage and –income employees to their more advantaged counterparts, it is not surprising that they are more likely than others to be younger, female, unmarried, single parents, minorities, and immigrants. As shown in Table 1, however, significant numbers—and often majorities—do not fit those descriptions or stereotypes. For example:

- Most low-wage and low-income employees are not teenagers, though they are disproportionately younger than more advantaged employees.
- Low-wage and –income employees are almost equally likely to be men (48%) as women (52%).
- More than two in five low-wage and –income employees (42%) are married or living in committed, long-term relationships—despite the fact that more than half are less than 30 years old.
- While 14% of *all* low-wage and low-income employees are single parents, 86% are not; however, the proportion of single parents rises to 25% among women.
- The majority (57%) of low-wage and –income employees are white and non-Hispanic.
- Only one in five low-wage and –income employees (21%) is an immigrant.

As will be seen in Figures 1 - 3 (below), however, large proportions of low-wage and low-income employees have little education, job experience, and tenure with their current employers. All of these factors are strongly predictive of earnings. Of course, education, experience, and tenure are all correlated with age, and low-wage and –income employees are younger than others on average.

Because of the diversity of the low-wage and –income population, one-size-fits-all solutions are not appropriate. Employers and public policymakers need to better understand the characteristics of this population to effectively expand opportunities for them to gain economic security.

**Table 1: Personal Characteristics of Employees in Different Earnings and Income Groups**

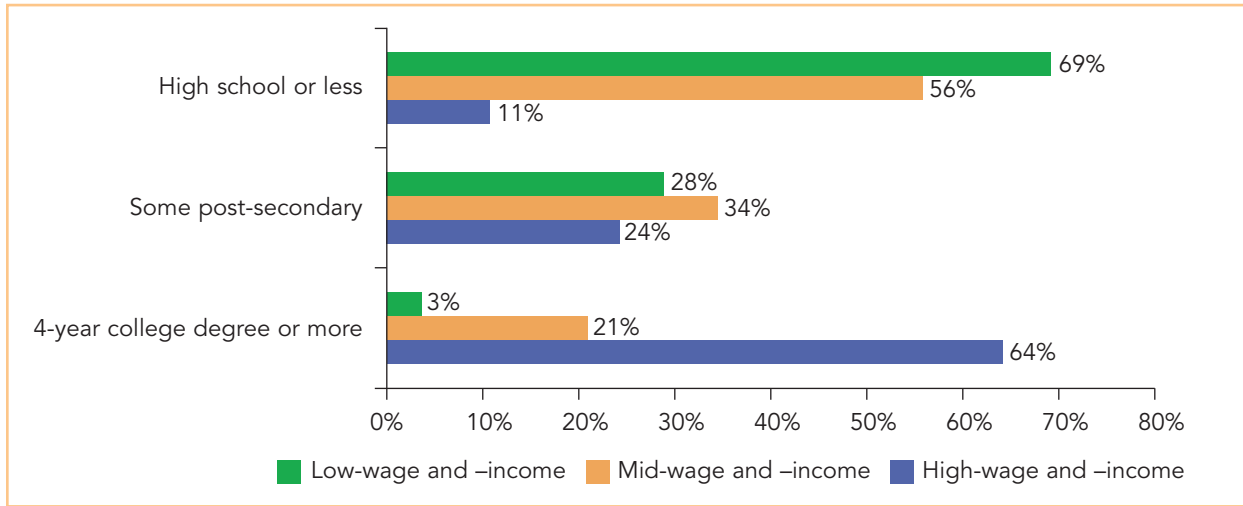
Demographic Characteristics	Wage and Income Group			Sig.
	Low-Wage and -Income	Mid-Wage and -Income	High-Wage and -Income	
% 18-29 years old:	(n=321) 54%	(n=752) 21%	(n=332) 6%	***
Gender:	(n=321)	(n=756)	(n=334)	***
Male	48%	53%	64%	
Female	52	47	36	
% living with spouse or partner:	(n=153) 42%	(n=756) 65%	(n=334) 78%	***
% in dual-earner couples:	(n=320) 23%	(n=756) 55%	(n=333) 63%	***
% single parents:	(n=322) 14%	(n=756) 10%	(n=333) 2%	***
Among women, % single mothers:	(n=168) 25%	(n=355) 12%	(n=120) 3%	***
% with children less than 18 years old at home:	(n=322) 44%	(n=756) 48%	(n=333) 39%	ns
% with children less than 6 years old at home:	(n=323) 24%	(n=756) 17%	(n=333) 14%	**
Race/ethnicity:	(n=321)	(n=754)	(n=331)	***
White, non-Hispanic	57%	75%	83%	
Black, non-Hispanic	17	11	6	
Hispanic	23	10	4	
Other	3	5	7	
% immigrants to the U.S.:	(n=321) 21%	(n=755) 7%	(n=334) 6%	***

Statistical significance: \*  $p < .05$ ; \*\*  $p < .01$ ; \*\*\*  $p < .001$ ; ns = not significant.<sup>3</sup>

Because of rounding errors, when findings are presented as percentage distributions across several response categories, they do not always add to 100%. Fractional percentages are not reported in order to simplify presentation.

Perhaps the most important differentiator of low-wage and -income employees is education: they have much less education on average than other employees, and education is the single most powerful predictor of earnings (Figure 1).

**Figure 1: Educational Levels of Employees in Different Wage and Income Groups**



In part because they are younger on average than other workers, low-wage and -income employees also tend to have much less experience in the labor force than other employees and much less tenure in their current jobs—both of which are very important determinants of earnings along with education (Figures 2 and 3). In turn, individual earnings are strongly, though not perfectly, predictive of household income.

**Figure 2: Years in the Labor Force Since 18 Years Old**

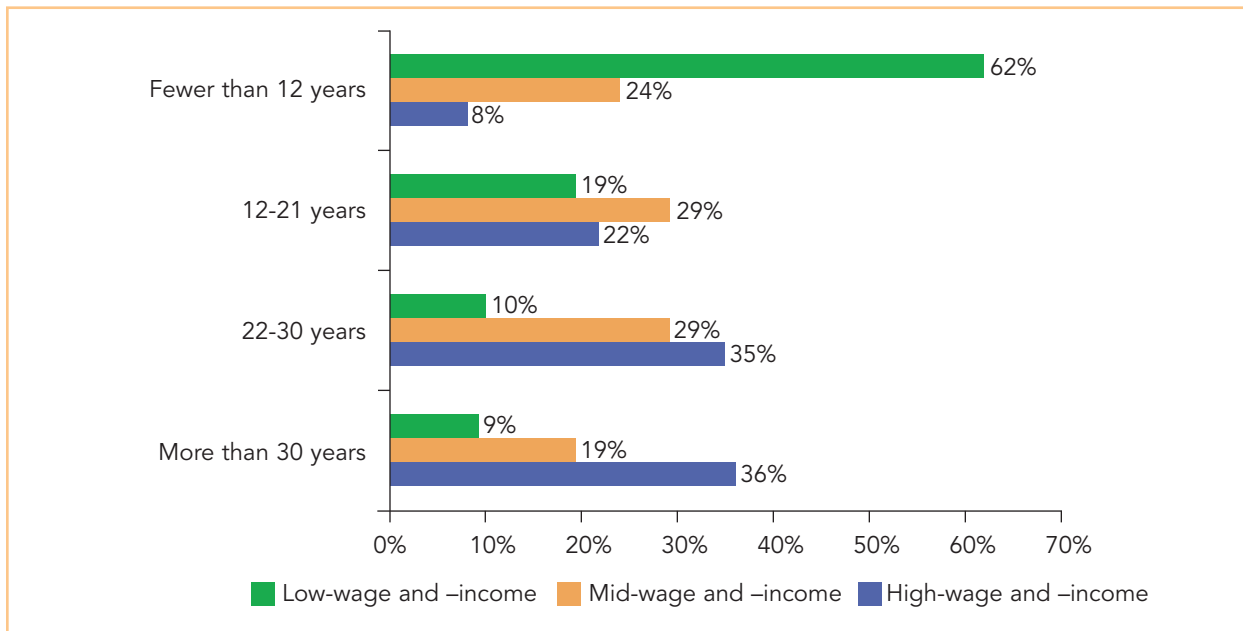
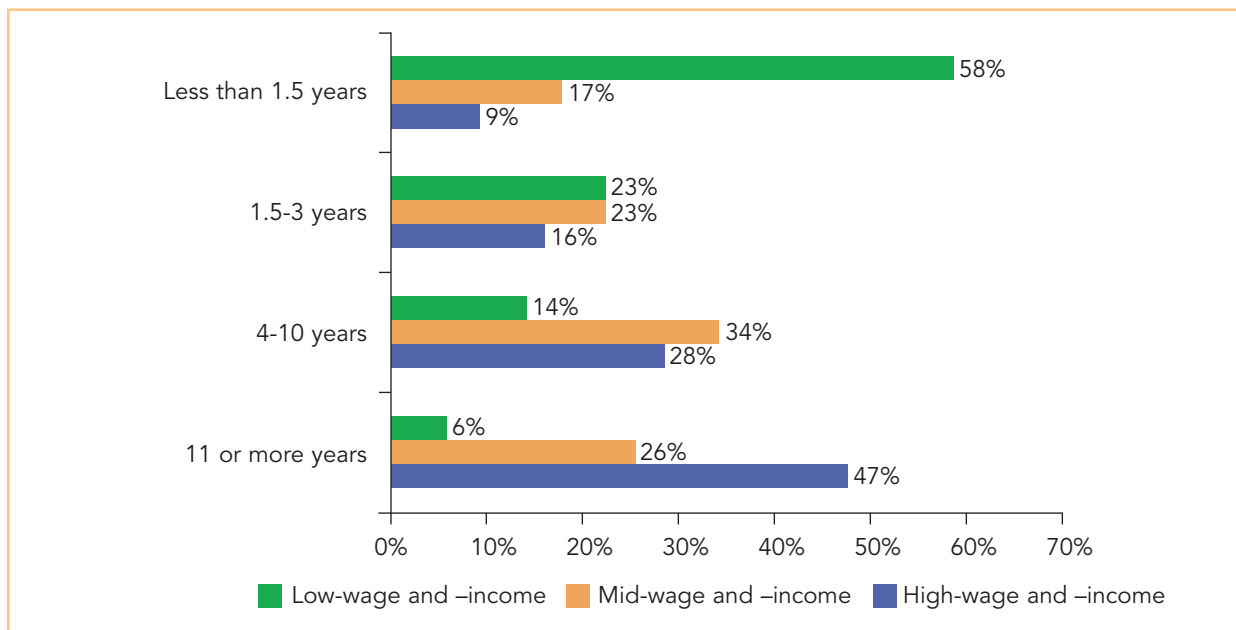


Figure 3: Tenure with Current Employer

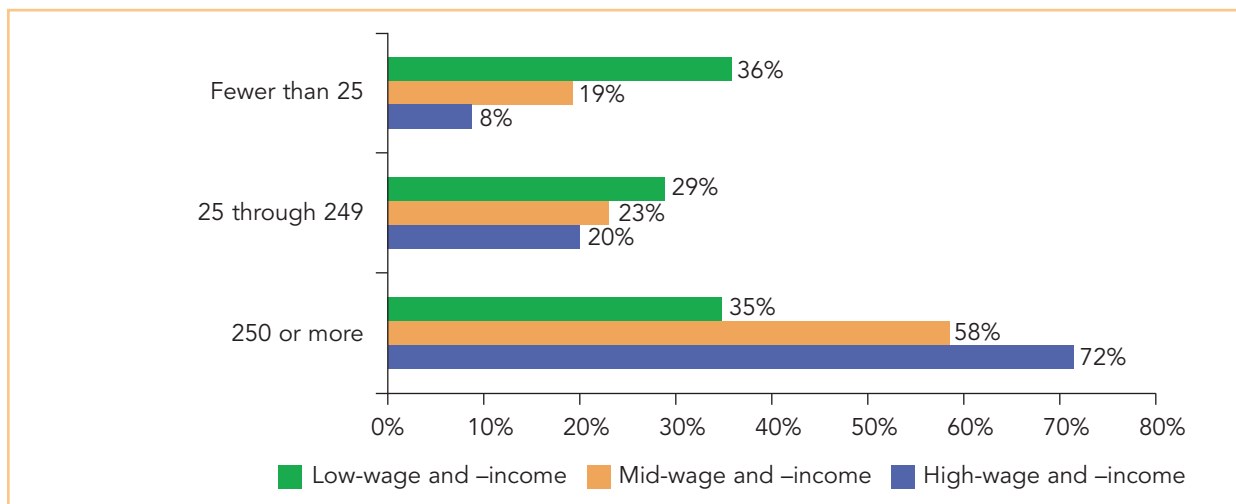


### Where and How Do Low-Wage and Low-Income Employees Work?

Low-wage and -income employees are much less likely than higher-earning employees to be managers or professionals, by any definition, and are most likely to have jobs as service and blue-collar workers. By far, the most substantial difference among the three groups with respect to the industries in which they work is the striking over-representation of low-wage and -income employees in retail: fully 34% of low-wage and -income employees work in retail businesses versus only 13% and 6% of employees in the mid-wage and high-wage and -income groups, respectively. It is also notable that low-wage and -income employees are significantly over-represented in agriculture, forestry, fishing, and mining, while they are under-represented in manufacturing, transportation, communications, utilities, financial services, real estate, educational services, and public administration. Although employees from the three wage and income groups are currently about equally represented in health care, at roughly 10%, this is an industry that is expected to create jobs more rapidly in the next several decades than most other sectors as baby boomers retire and live longer—with many of these jobs involving basic unskilled care and offering relatively low pay.

Low-wage and -income employees are much more likely (38%) to work part time than other employees (8%). Although part-time employment results in lower earnings and family income, the advantages of part-time work apparently outweigh the disadvantages for many, since about half (49%) report working part-time on a voluntary basis. On the other hand, the other half (51%) of the part-time low-wage and -income workforce (perhaps as many as 2.5 million employees) would like to work more paid hours per week than they currently do, compared with only 10% of other employees. Low-wage and -income employees are much more likely to have seasonal jobs and to experience frequent reductions in hours when work is slow than other employees. The unavailability of steady full-time, full-year employment is a major determinant of low wages and low family income.

In addition, low-wage and -income employees are also much more likely (36%) to work for small employers that have fewer than 25 employees nationwide than employees in higher wage and income groups (16% overall). Conversely, they are much less likely (35%) than others (62% overall) to work for large employers that have 250 or more employees nationwide. These differences are particularly striking when we compare the extremes—low-wage and -income employees vs. high-wage and -income employees (Figure 4).

**Figure 4: Size of Current Employer: Number of Employees Nationwide**

The total compensation—wages and benefits—offered by small employers tends to be significantly less than the total compensation offered by large employers, which helps to account for the lower earnings and less generous fringe benefits received by low-wage and -income employees on average.

### What Fringe Benefits Do Low-Wage and Low-Income Employees Receive?

In recent years, fringe benefits have become an increasingly important part of total compensation, and to some extent, good fringe benefits can mitigate the impact of low wages. Not surprisingly, many low-wage and -income employees have few fringe benefits on the job.

As shown in Table 2, they are much less likely than their higher-wage and -income counterparts to have health insurance coverage paid at least in part by their employers. The lack of subsidized health insurance from either public or private sources poses a major problem for many low-wage and -income employees. These employees simply cannot afford to purchase insurance at market rates. Thus, unless they are covered under someone else's policy or by public programs, many remain uninsured. While the vast majority of more advantaged employees are covered from some source, a third (33%) of low-wage and -income employees have no health insurance coverage from any source whatsoever. Lack of health insurance is associated with poorer health and, in turn, with reduced productivity and retention at the job.<sup>4</sup> The unreimbursed health care costs of the uninsured, moreover, dramatically increase health care costs for the employers who do provide health insurance as well as the employees participating in employer plans with co-pays.<sup>5</sup>

Both small and large employers—including very large employers—are increasingly hard-pressed to provide comprehensive health insurance coverage for their employees given rapidly escalating costs. Today, many small employers simply cannot afford to provide health insurance and stay in business. Employees in companies of all sizes that offer health insurance, moreover, are being asked to shoulder a growing share of the costs with premium co-pays (not to mention escalating co-pays for health care services and medications). Many low-wage employees from low-income families, however, lack the financial resources to pick up their share of insurance premiums and thus go uninsured. An effective and politically viable solution to this problem is not immediately evident, although the U.S. Congress, business organizations, policy researchers, and health care advocates continue to debate the issue.

Not only are low-wage and -income employees much less likely than others to have health insurance coverage, they are also much less likely to be allowed any paid time off for personal illness (39% versus 74% and 90% for mid- and higher-wage and -income employees, respectively). Because of this, they are more likely than others to come to work sick to avoid loss of pay and other penalties that can

jeopardize continued employment. “Presenteeism”—attendance at work while ill that reduces productivity—has received increasing attention among human resource professionals and in the media. Research indicates that “presenteeism” costs employers more than “absenteeism” due to illness—both because of the lower productivity of the employee who is ill and, in the case of contagious diseases, because of the infection of other workers.<sup>6</sup>

In addition to receiving less generous health benefits—which are likely to have significant costs for employers as well as those employees who can least afford the costs of health care—low-wage and –income employees are also significantly less likely to receive other important fringe benefits that are available to most workers. For example, they are much less likely (51%) to receive paid vacation days than others (89% and 88%). Besides the benefits gained from resting and re-energizing, paid vacation days can also be used to address important family matters without loss of pay or to take time off for personal illness if paid sick days are not available or sufficient. Paid holidays are taken for granted by most of the workforce, but not received by 54% of low-wage and –income employees.

Although defined-benefit pension plans funded by employers are rapidly disappearing, higher-wage and –income employees are much more likely to have such pensions than low-wage and –income employees. Most higher-wage and –income employees (72% and 87%), moreover, can generally expect their employers to contribute to a retirement plan of some type, while only 32% of low-wage and –income employees have retirement plans with employer contributions. Since low-wage and –income employees have little disposable income for private, after-tax investing, many will have to rely exclusively on Social Security benefits in retirement—and minimum benefits at that because of their low earnings. The so-called “golden years” of retirement hold much less promise for those who are less well off.

**Table 2: Fringe Benefits of Employees in Different Earnings and Income Groups**

Fringe Benefits	Wage and Income Group			Sig.
	Low-Wage and –Income	Mid-Wage and –Income	High-Wage and –Income	
% with personal health insurance coverage paid in part or whole by employer:	(n=310) 42%	(n=751) 87%	(n=334) 94%	***
% with family health insurance coverage paid in part or whole by employer:	(n=310) 34%	(n=751) 78%	(n=334) 87%	***
% without personal health insurance from any source:	(n=322) 33%	(n=755) 6%	(n=334) <1%	***
% allowed paid time off for personal illness:	(n=309) 39%	(n=748) 74%	(n=332) 90%	***
% receiving paid vacation days:	(n=315) 51%	(n=754) 89%	(n=332) 88%	***
% receiving paid holidays:	(n=314) 46%	(n=755) 86%	(n=331) 89%	***
% with defined-benefit pension plan funded by employer:	(n=295) 16%	(n=738) 39%	(n=329) 48%	***
% with any retirement plan to which employer contributes:	(n=303) 32%	(n=752) 72%	(n=334) 87%	***
% offered training or education program for job skills improvement:	(n=304) 45%	(n=744) 64%	(n=333) 81%	***

Statistical significance: \*  $p < .05$ ; \*\*  $p < .01$ ; \*\*\*  $p < .001$ ; ns = not significant.

Because of rounding errors, when findings are presented as percentage distributions across several response categories, they do not always add to 100%. Fractional percentages are not reported in order to simplify presentation.

Lastly, low-wage and –income employees who most need to increase their job skills in order to be upwardly mobile are least likely (45%) to be offered formal training or education programs for job skills improvement as a benefit on the job (versus 64% and 81% for mid- and high-wage and –income groups, respectively). All employees and employers can be helped by such programs. Although smaller employers are unlikely to have the resources to provide formal training and education programs in-house, partnering with local community colleges and community-based training organizations—many of which have funding from federal and state education and job training initiatives—is a potential solution to this problem.

In other reports in this series, we will examine how having access to supportive workplaces, to benefits from public or private sources, and to education and training can benefit both employers and employees.

## Endnotes

- 1 We define mid-wage and mid-income employees as those who earn from \$9.73 through \$24.88 per hour in 2005 dollars, and have total annual family income from 200% through 549% of the federal poverty threshold (\$39,612 - \$108,735 for a 2-parent family with 2 children in 2005). We define high-wage and high-income employees as those who earn \$24.89 or more per hour in 2005 dollars, and have total annual family income of 550% or more of the federal poverty threshold (\$108,736 or more for a 2-parent family with 2 children in 2005). The low-wage and low-income group falls roughly in the bottom 25% of the population distribution with respect to both earnings and total family income, while the high-wage and –income group falls roughly in the top 25% of the population distribution with respect to both earnings and total family income. The mid-wage & -income group falls in the middle 50% with respect to both wages and income.
- 2 Many *full-time*, hourly employees work fewer than 52 *paid weeks* per year. Moreover, many *full-time* employees—both hourly and salaried—work fewer than 40 *regularly scheduled paid hours per week*. We used two formulas to estimate the annual earnings of full-time, full-year low-wage hourly workers: 1) 50 weeks per year @ 36 hours per week and \$9.72 per hour = \$17,496 and 2) 52 weeks per year @ 35 hours per week and \$9.72 per hour = \$17,690. We assumed that the only payroll taxes deducted were for Social Security and Medicare, a total of 7.65%.
- 3 Findings of *difference* or *relationship* are reported as “statistically significant” when there is less than one chance in 20 that the finding occurred by chance ( $p < .05$ , a common threshold for reporting significance). Often, however, there is less than 1 chance in 100 ( $p < .01$ ) or less than 1 chance in 1,000 ( $p < .001$ ) that the finding occurred by chance.
- 4 Ayvanyan, J.Z., Weissman, J.S., Schneider, E.C., Ginsburg, J.A. and Zaslavsky, A.M. (2000). Unmet health needs of uninsured adults in the United States. *Journal of the American Medical Association*, 284, no. 16, pp. 2061-2069. American College of Physicians-American Society of Internal Medicine. (1999). No Health Insurance? It’s Enough to Make You Sick. (Philadelphia: American College of Physicians-American Society of Internal Medicine, November 1999). The Urban Institute and University of Maryland, Baltimore. (2005). *Key Findings from the National Health Interview Survey*. Washington: Robert Wood Johnson Foundation; Bradbury, R.C., Golec, J.H. and Steen, P.M. (2001). Comparing uninsured and privately insured hospital patients: admission severity, health outcomes, and resource use. *Health Services Management Research*, August 2001, vol. 321, no. 8, pp. 508-13.
- 5 Stoll, K. (2005). Paying a Premium: The Added Cost of Care for the Uninsured. New York: Families USA. ([www.familiesusa.com](http://www.familiesusa.com))
- 6 Stewart, W., Matousek, D. and Verdon, C. (2003). The American Productivity Audit and Campaign for Work and Health. Hunt Valley, MD: The AdvancePCS Center for Work and Health.