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DEFERRED PAYMENT PLAN POLICIES AND THE "WORKING POOR"

As winter weather ends, a multitude of customers face the prospect of paying off accrued cold-weather arrears or losing their utility service altogether. With high natural gas bills and a sagging economy, it is more critical than ever to develop appropriate policies to allow winter arrears to be paid. A failure to do so not only places the dollars of arrears in jeopardy of non-collection, but it places the payment of future bills in jeopardy as well.

One alternative to the springtime disconnection of service is for a customer to make a downpayment on his or her arrears and enter into a reasonable deferred payment plan.

Standard regulations adopted by utility regulators around the country provide that a utility shall take into account designated factors in deciding what payment plans are "reasonable." These factors include, but are not limited to, "ability to pay."

The phrase "ability to pay" is often treated as being synonymous with "level of income." If a household's income is sufficiently high, the reasoning goes, the household is deemed to have an ability to pay its home energy bills. Taking into account the "ability to pay," however, should involve *more* than simply taking into account income level. The *stability* of income is one additional aspect of ability-to-pay, particularly for the working poor.

A recent paper prepared by Fisher Sheehan & Colton for the National Fuel Funds Network (NFFN) considers the "fragility" of income for the working poor and the impact which that fragility has on the ability to maintain deferred payment plans. The paper concludes that utilities should, in considering a customer's "ability to pay" in the structure of a payment plan, take account the stability of income.

One-Strike-You're-Out Policies

In particular, FSC recommended that utilities revise their "one-strike-you're-out" policy on payment plans. Many utilities have a policy providing that once a customer negotiates a deferred payment plan, the customer is not entitled to a second or renegotiated plan if the first one is breached.

What this policy implicitly assumes is a constant, predictable, stream of income over time, some portion of which can be earmarked for the repayment of utility arrears. If, however, a customer is an hourly wage employee without leave, something as commonplace as a sick child requiring parental care can compromise the customer's ability to make agreed-upon payments. In such a case, the one-strike policy fails to take into account the fragility of the working poor customer's income stream.

Moreover, something as common as short-term periods of involuntary part time employment may threaten the ability of a customer to maintain agreed-upon payments. These situations –lost wages due to family care responsibilities or involuntary part time employment—not only "may" happen to the working poor, but can reasonably be expected to happen. Strict application of a one-strike-you're-out policy may be unreasonable in light of this aspect of ability to pay.

Income Stability and Ability to Pay

The negotiation of a deferred payment plan for utility arrears should take into account the potential instability of income amongst the working poor as one aspect of ability to pay. Income for the working poor, in particular, can be erratic and unpredictable. A working poor customer may not *know* in April what his or her income is going to be in July or August, let alone in the following December or January. Periods of unstable wages may make payments that were reasonable in April unreasonable at a later date.

Working poor families tend to find themselves in lower quality hourly wage jobs, often marked by considerable income fluctuations due to the number of hours they are called upon to work.

The Urban Institute quantified the types of occupations that characterize the working poor. Three times as many working poor families (as compared to non-poor families) are in service occupations (11.5% vs. 4.1%) and laborer occupations (11.5% vs. 4.1%), while nearly twice as many working poor (compared to non-poor) families have workers who are in operator/transportation occupations (18.9% vs. 11.1%). These occupations are not only marked by lower wages, but are marked by hourly wages and unpredictable hours as well.

Persons working in these occupations often face periods of lost wages. The U.S. Department of Labor refers to periods of lost wages caused by a reduction in hours as "involuntary part time employment." According to the Department of Labor, "involuntary part time workers are persons who in at least one week of the year worked fewer than 35 hours because they could not find full-time work." In 1999, 3.9 million workers experienced involuntary part time employment. In 2000, 3.045 million non-agricultural workers experienced involuntary part time employment. A full 60% of these workers (1.835 of the 3.045 million) faced their cutbacks in hours due to slack work or business conditions.

This fact of unstable income presents no commentary on the working poor individuals themselves. Rather it reflects the nature of work in which the working poor find themselves. Given the nature of that work, to simply *assume* that the income of a working poor household at any given point in time will continue unabated to support payment plan payments is to ignore one major attribute of the working poor's ability to pay.

The Impact of Paid Leave Benefits

A second factor contributing to the instability of income of the working poor involves the paid leave benefits provided. The absence of paid vacation and sick leave can directly affect the ability of a household to maintain a deferred payment arrangement over time. One researcher for the Institute for Women's Policy Research (IWPR) reports:

"Low-income workers often have few or no workforce benefits, like paid leave or flexible schedules that are essential if workers are to meet the needs of their family members. Paid leave would make it economically possible for workers to spend time away from work in order to address their family's needs. Flexibility would allow workers to meet with teachers, care for sick or disabled family members, and deal with emergencies without having to miss work or go without wages. . .Without flexibility in their work schedules or access to paid leave, workers have no choice but to take unpaid leave when family or medical emergencies occur."

The IWPR found that:

"Families in the bottom quartile of income are significantly less likely to have access to paid sick leave, paid vacation leave, or flexible work schedules than families with higher incomes. More than three fourths (76 percent) of workers in the bottom quartile of family income lack regular sick leave; more than half (58 percent) do not have consistent vacation leave. Families in the bottom income quartile are more likely than other workers to lack *both* sick leave *and* vacation leave." (emphasis in original).

"Low-income families are also less likely to have flexible work schedules. Among low-income parents, 78 percent have jobs that offer no flexibility at all. The majority of workers beneath the median income level say they cannot choose or change their starting and quitting times, or take days off to care for their sick children."

The lack of paid leave time may directly affect the ability of a working poor customer to maintain payments on a deferred payment arrangement. A person working 35 hours a week on hourly wages may lose three days of work simply due to a sick child missing school and requiring care. If no leave time exists for that employee, the sick child translates into permanently lost wages. Personal illness, too, results in permanently lost wages, whether illness keeps a worker away from his or her job for a day, for two days, or for a week.

The lost wages attributable to the lack of paid leave for the working poor is not theoretical. Data from the U.S. Department of Labor shows that absence rates in occupations where the working poor tend to work are from 50% to 60% higher than the absence rates in occupations populated by their higher income counterparts. Absence rates for higher income occupations are lower because time missed from work covered by paid leave is not counted as an "absence."

Summary

In applying payment plan policies, utilities and their regulators should take into account the income fragility of hourly wage employees who face unstable incomes and who lack paid leave time and flexible work schedules. The failure to comply with agreed-upon deferred payment arrangements may frequently be due to this fragility rather than due to an unwillingness to maintain agreed-upon payments.

As utilities face another round of winter-end arrears this spring, utilities and their regulators should adopt policies and procedures that will reasonably allow working poor families to communicate, and have considered, *all* aspects of their ability to pay in an effort to negotiate and successfully maintain deferred payment arrangements.

Persons interested in receiving a copy of the full paper that FSC prepared for NFFN, titled "A Fragile Income: Deferred Payment Plans and the Ability to Pay of Working Poor Utility Customers" (March 2002), can download a copy from:

http://www.nationalfuelfunds.org

The full report includes data tables and reference citations for the material discussed above.

Fisher, Sheehan and Colton, Public Finance and General Economics (FSC) is a research and consulting firm with offices in Belmont (MA), Scappoose (OR), and Iowa City (IA).

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