Making Work Supports Work in Colorado

Improving Child Care Policies for Low-wage Workers and Their Families

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The Women's Foundation of Colorado

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One of the most significant expenses faced by working families is the cost of child care. In Colorado, over 85 percent of children living in low-income families have parents who are employed and the majority of these children – about 235,000 – have parents who work full-time, year-round.[1] For these families, having access to reliable child care is critical for sustaining parental employment and having high quality care is important for children's development.[2] Unfortunately, high quality child care can be prohibitively expensive for many low-income families. In Colorado, as in most parts of the country, a full-time, low-wage job doesn't provide the income necessary to afford high quality child care.

Child care subsidies can significantly reduce child care costs for low-income families. Additionally, research suggests that receipt of child care subsidies is associated with increased rates of employment and improved employment outcomes among low-income mothers.[3] However, barriers to subsidy receipt, such as income eligibility limits and waiting lists, preclude some families from accessing the program despite their inability to afford high quality care on their earnings alone.

Findings are based on results from NCCP's Family Resource Simulator and Basic Needs Budget Calculator.

The **Family Resource Simulator** is an innovative web-based analysis tool that shows the impact of federal and state work supports on the budgets of low- to moderate-income families. Simulators are currently available, or under development, for 22 states, including more than 100 localities. The Colorado Simulator includes seven counties – Alamosa, Denver, Eagle, El Paso, Mesa, Morgan, and Pueblo – and reflects policy rules in effect as of May 2009. See www.nccp.org/tools/frs.

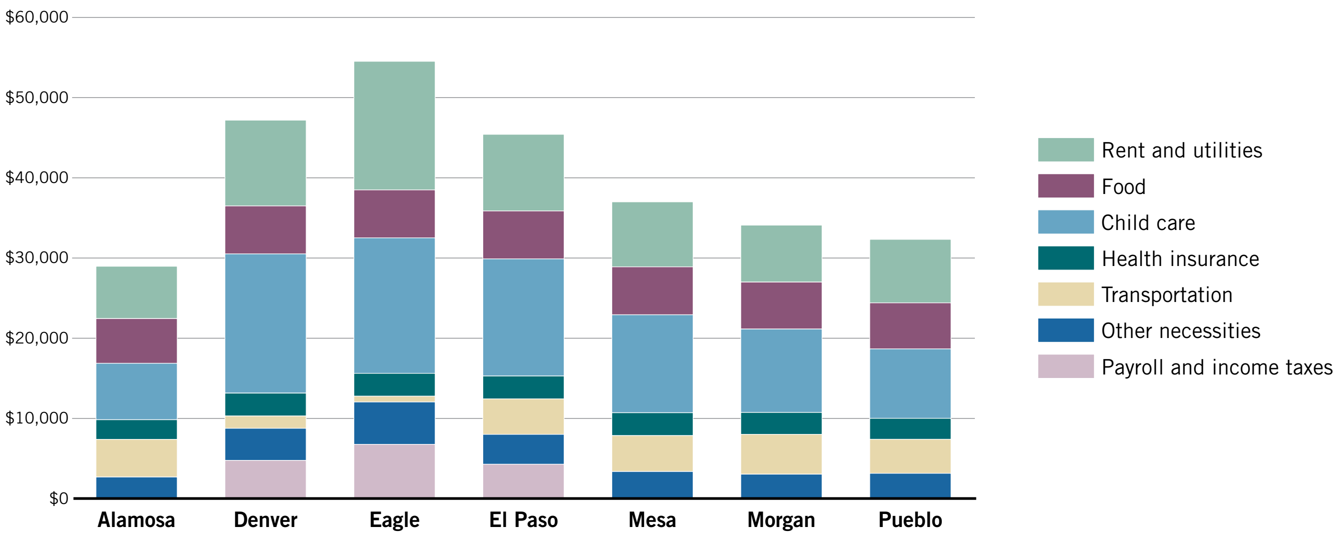
The **Basic Needs Budget Calculator** is a related tool that shows how much a family needs to make ends meet without the help of work supports. Users can select different household scenarios, and the Calculator adjusts the family's tax liability and budget. Budgets are provided for nearly 100 localities across 14 states. See www.nccp.org/tools/budget.

A Full-time Job at Low Wages Isn't Enough to Afford Quality Child Care

In localities across Colorado, families need to earn between one and a half to three times the federal poverty level to be able to afford basic necessities. Figure 1 shows that for a single parent with one preschool-aged child and one school-aged child, the annual salary needed to cover basic expenses ranges from approximately $28,000 in Alamosa County to $54,000 in Eagle County. This is the equivalent of a full-time job at wages between $14 and $26 per hour – nearly two to three and a half times the Colorado minimum wage of $7.28 per hour in 2009.[4] Moreover, these basic budgets include only day-to-day necessities: housing, food, transportation, child care, health care, payroll and income taxes, and a little more for other necessities such as clothing and school supplies. They do not take into account funds for savings, paying off debt, or enrichment activities for children.

Although the cost of living varies across the state, child care is the largest family expense in nearly all seven localities as shown in Figure 1. For working parents, child care is an unavoidable expenditure that is necessary to ensure children are well-cared for while they work. Moreover, high quality child care – care that provides a stable, stimulating, developmentally appropriate, and positive emotional environment – promotes healthy child development. For young children, receiving high quality child care can have positive lifelong impacts. Compared to children who receive low quality care, children who receive high quality child care have higher average levels of mathematic and reading achievement from early childhood through adolescence and higher earnings in adulthood.[5] For low-income children in particular, high quality child care helps to bridge the achievement gap between low-income and higher-income children. Despite the importance of reliable, high quality child care, finding affordable options remains a challenge for low-income parents.

Figure 1. Basic Needs Budgets Across Colorado
Single parent with two children, one preschool-aged and one school-aged



Source: NCCP's analysis using the Basic Needs Budget Calculator, Colorado 2009 <www.nccp.org/tools/budget>. Budgets are based on the following assumptions: children are in center-based care settings while the parent works (school-aged child is in after-school care) and family members have employer-based health care coverage. Income taxes take into account several federal and state tax credits.

Work Supports and the "Cliff Effect"

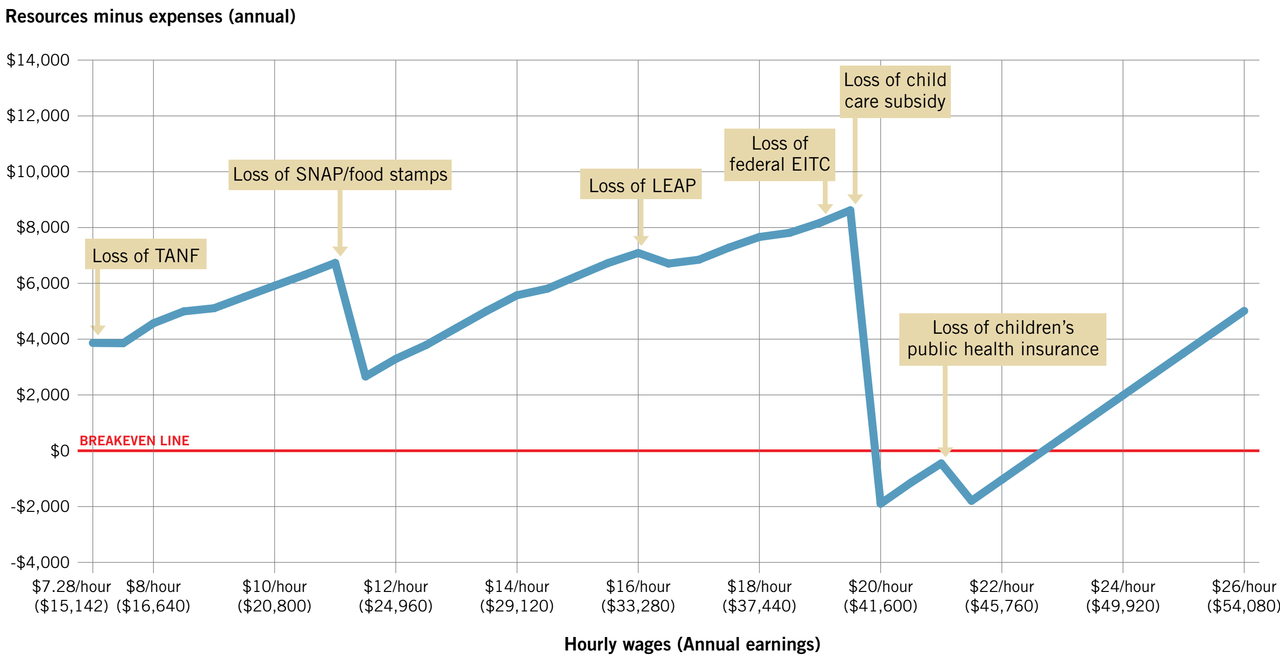
"Work support" benefits can help families close the gap between low earnings and the cost of basic expenses. For Colorado's low-wage workers, there are a number of work support programs that can help them make ends meet. These include the Colorado Child Care Assistance Program as well as the federal Earned Income Tax Credit (EITC), Supplemental Nutrition Assistance Program (SNAP) formerly known as food stamps, the Low-Income Energy Assistance Program (LEAP), and Child Health Plan Plus. While work supports can help families struggling to get by on low wages, families who receive them often face challenges getting ahead as earnings increase.

Eligibility for work support benefits is typically based on income, so as earnings increase, families lose eligibility for supports. A benefit "cliff" occurs when just a small increase in income leads to the complete termination of a benefit. The result is that parents can work and earn more, while their families end up worse off than they were before. Low-wage workers encounter this "cliff effect" as they strive to increase their earnings through advancement in the workforce.

Consider a single parent living in Denver County with two children, one preschool-aged and one school-aged. Figure 2 illustrates the impact of benefit losses on this family's efforts to get ahead. It shows how the family's net resources – that is, resources after subtracting the cost of basic expenses – change for a parent working full-time as wages increase from $7.28 to $26 an hour. In this example, when eligible, the family receives the federal EITC, the state child care tax credit, Temporary Assistance for Needy Families (TANF) cash assistance, SNAP/food stamps, LEAP, child care assistance, and public health insurance for children. While this scenario assumes the family receives multiple work supports, in actuality, few low-income families receive all the benefits for which they are eligible.[6]

As the parent advances in the workforce and increases their earnings, a succession of benefit losses and cliffs keeps the family struggling. Losses of several work supports – such as TANF cash assistance – create no cliffs

Figure 2. Net Resources as Earnings Increase: Denver, Colorado
Single parent with two children, one preschool-aged and one school-aged



Source: NCCP's analysis using the Family Resource Simulator, Colorado 2009 <www.nccp.org/tools/frs>. When eligible, the family receives the following work supports: Federal EITC, federal child tax credit, federal child and dependent care credit, state child care tax credit, Making Work Pay tax credit, TANF cash assistance, SNAP/food stamps, LEAP, child care subsidy, and public health insurance for children. Throughout this earnings range, the parent is ineligible for public health insurance.

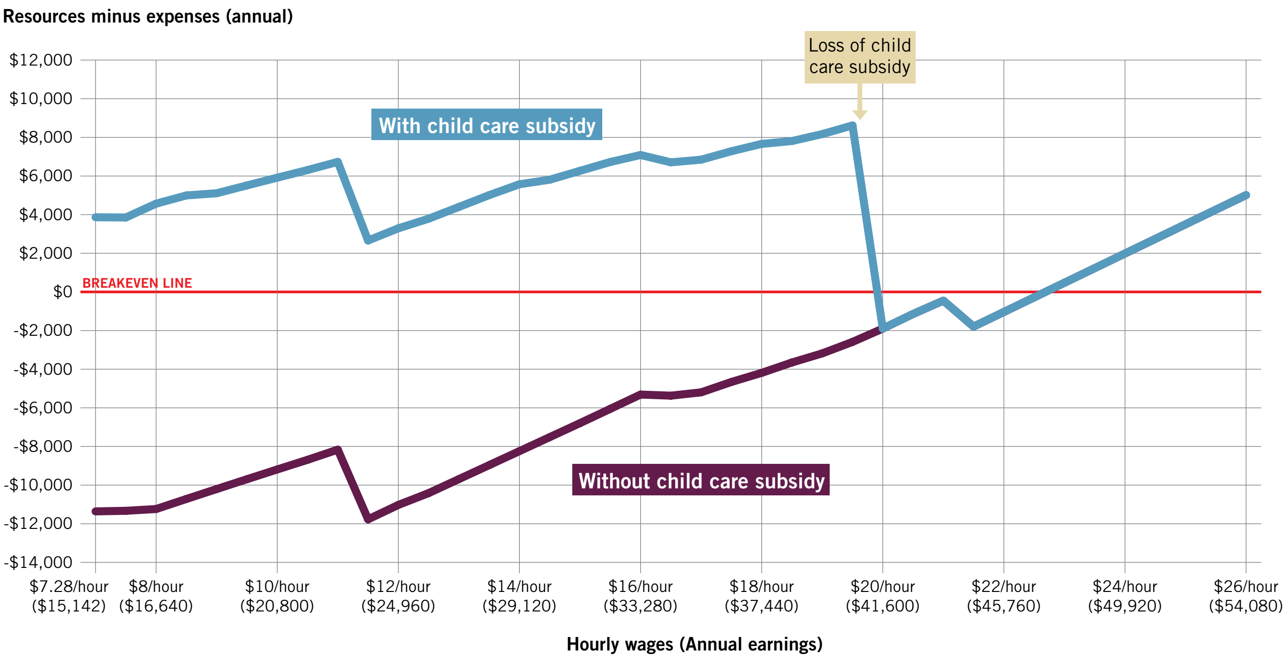
due to the fact that they gradually phase out as earnings increase. However, with other work supports programs, a small increase in earnings results in a benefit cliff where there is a considerable loss in net resources. The most significant cliffs experienced by this family occur with the losses of SNAP/food stamps and child care assistance. In fact, the benefit cliff from losing child care assistance is so severe that the family's net resources drop below the breakeven line – where family resources equal the cost of basic expenses – and the family is worse off than when the parent was earning the minimum wage of $7.28 per hour.

Child Care Subsidies are a Critical Work Support

For families struggling to make ends meet on low wages, child care assistance has a critical impact on low- to moderate-income working families' net family resources. Helping subsidize the cost of a family's largest expense, a child care subsidy can make the difference between being able to afford a high quality child care provider or having to settle for inadequate care. Not only do subsidies help reduce child care costs, but they are also associated with improvements in parental employment outcomes for the families who receive them. Research shows that mothers who use subsidies are more likely to work, work more hours, sustain employment, and earn more than low-income mothers without subsidies.[7]

The Colorado Child Care Assistance Program offers subsidies to low-income families in the state that are struggling to afford child care. Parents in the program are required to meet eligibility requirements as well as contribute to the cost of care through copayments on a sliding fee scale. Figure 3 shows the impact of receipt of a child care subsidy on net resources as earnings increase for a single parent family with two children in Denver County. For example, consider when the parent

Figure 3. Impact of a Child Care Subsidy on Net Resources: Denver, Colorado
Single parent with two children, one preschool-aged and one school-aged



Source: NCCP's analysis using the Family Resource Simulator, Colorado 2009 <www.nccp.org/tools/frs>. When eligible, the family receives the following work supports: Federal EITC, federal child tax credit, federal child and dependent care credit, state child care tax credit, Making Work Pay tax credit, TANF cash assistance, SNAP/food stamps, LEAP, child care subsidy, and public health insurance for children. Throughout this earnings range, the parent is ineligible for public health insurance.

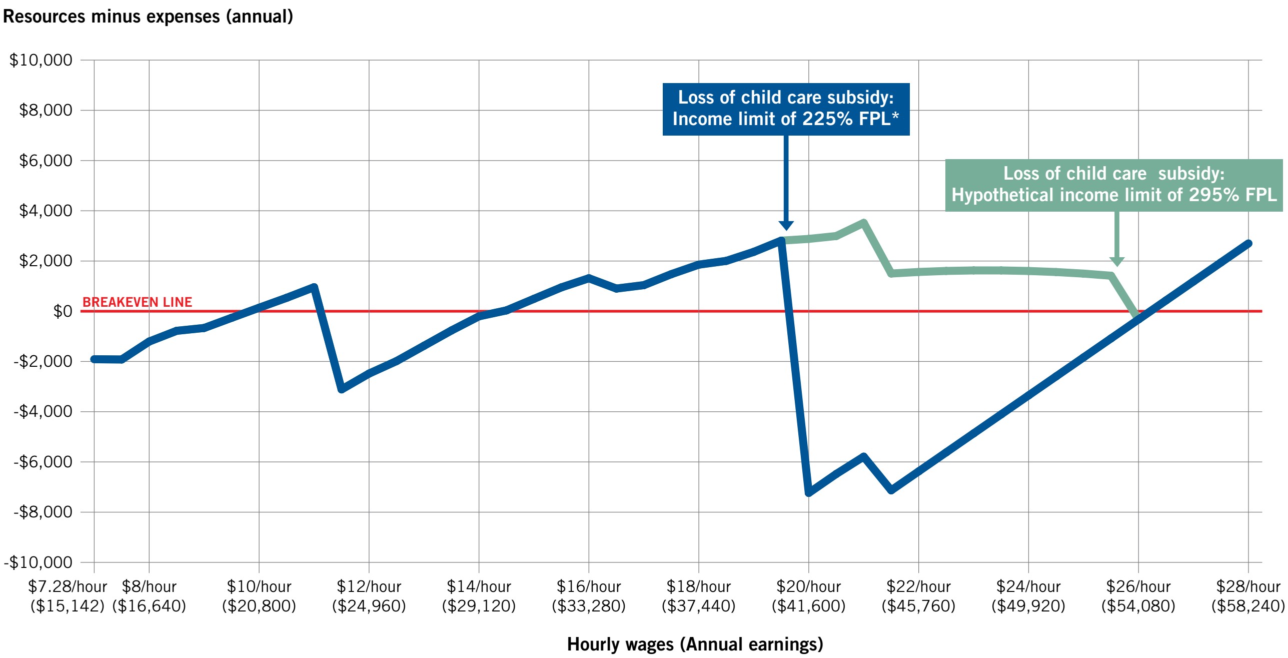
is working a full-time job at $8/hour and is receiving multiple work supports. Without child care assistance, the family faces a staggering deficit of over $11,000 between annual resources and expenses. However, with the addition of child care assistance, the gap between the family's resources and expenses is eliminated and there is even some money left over to go towards paying down medical debt or saving for future education.

When the family receives a child care subsidy in this scenario, they are able to cover their basic expenses until they no longer qualify for assistance. Once the family reaches the income eligibility limit for child care assistance, they experience a large benefit cliff. Since the family is not yet earning enough to cover the cost of unsubsidized child care along with other expenses, they face a gap between resources and expenses until their earnings reach over $47,000. Nonetheless, a child care subsidy can make a significant impact on the family's bottom line.

Improving Child Care Policies for Struggling Families

As Figure 3 has shown, child care assistance can help families afford quality child care. However, many families lack access to this critical work support. Income eligibility limits exclude some families from qualifying for the program despite being unable to afford child care. But, states can often take steps to expand child care subsidy access to these struggling families. Federal law allows states tremendous flexibility in using federal Child Care and Development Fund funding to design child care programs that cater to the needs of families within their state. States can set income eligibility limits up to the federal ceiling of 85 percent of the state's median income (SMI). In the Colorado Child Care Assistance Program, the state allows counties to set the income eligibility levels at a minimum of 130 percent of the federal poverty level (FPL) and a maximum of 85 percent of SMI – approximately 295 percent of the

Figure 4. Impact of a Child Care Subsidy Income Eligibility Increase on Net Resources in Eagle County, Colorado
Single parent with two children, one preschool-aged and one school-aged



* As of September 2009, the income eligibility limit in Eagle County changed to 150% FPL.

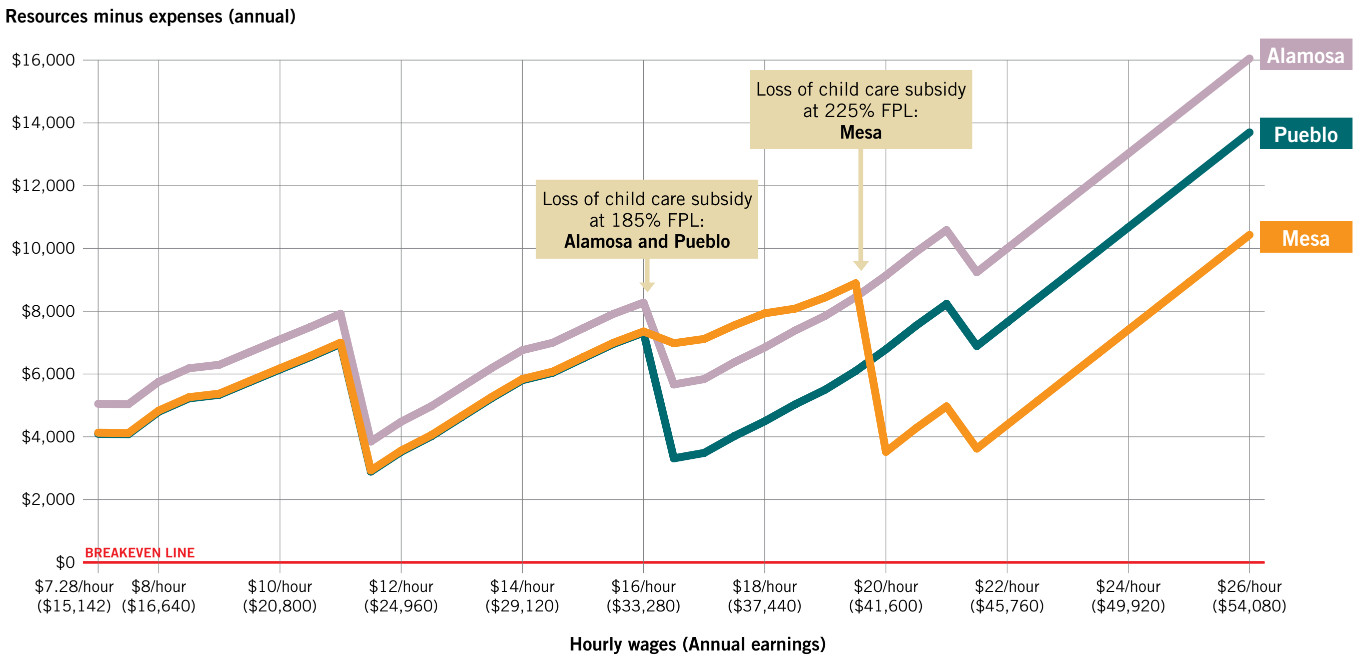
Source: NCCP's analysis using the Family Resource Simulator, Colorado 2009 <www.nccp.org/tools/frs>. When eligible, the family receives the following work supports: Federal EITC, federal child tax credit, federal child and dependent care credit, state child care tax credit, Making Work Pay tax credit, TANF cash assistance, SNAP/food stamps, LEAP, child care subsidy, and public health insurance for children. Throughout this earnings range, the parent is ineligible for public health insurance.

FPL for a family of three.[8] Despite this permissible range, no county in Colorado has an income eligibility limit above 225 percent of the FPL.[9] For counties with high costs of living, an income limit of 225 percent of the FPL may not be enough to reach all the families who require help with child care costs.

Figure 4 illustrates the impact of raising the income eligibility limit in Eagle County to 295 percent of the FPL.Under the income eligibility limit of 225 percent of the FPL,[10] a single parent family with one preschooler and one school-aged child receiving a child care subsidy along with other work supports experiences a benefit cliff and loss of child care assistance when wages reach around $19.50 an hour. Yet despite earning over $40,000, the subsidy loss causes the family's net resources to drop below the breakeven line and the family is worse off than when it earned half as much. Raising the income eligibility limit to 295 percent of the FPL in the county would mitigate the effects of the child care cliff. For families receiving a subsidy in this extended range, co-payments would continue to gradually increase as income increases. When the family finally loses assistance at the increased limit, the gradual phase-out of the subsidy has them paying nearly all the costs of child care, and therefore, the benefit loss is less severe.

In counties with lower costs of living, the impact of a child care subsidy loss may not create as large a cliff but can nonetheless cause significant financial setbacks. Figure 5 shows the impact of a loss of a child care subsidy for a family of three receiving child care assistance and multiple other work supports in three counties (Alamosa, Mesa, and Pueblo) with moderate to low costs of living. Compared to the higher cost counties of Denver and Eagle, families in these regions are generally better off after the loss of a child care subsidy despite having the same (Mesa: 225 percent FPL) or

Figure 5. Impact of a Loss in Child Care Assistance in Alamosa, Mesa, and Pueblo Counties, Colorado
Single parent with two children, one preschool-aged and one school-aged



Source: NCCP's analysis using the Family Resource Simulator, Colorado 2009 <www.nccp.org/tools/frs>. When eligible, the family receives the following work supports: Federal EITC, federal child tax credit, federal child and dependent care credit, state child care tax credit, Making Work Pay tax credit, TANF cash assistance, SNAP/food stamps, LEAP, child care subsidy, and public health insurance for children. Throughout this earnings range, the parent is ineligible for public health insurance.

lower child care assistance income eligibility limits (Alamosa and Pueblo: 185 percent FPL). Although these families may seem more financially equipped to cope with the benefit loss, losing thousands of dollars worth of a child care subsidy is still a considerable blow to the progress the family has made by increasing their earnings. For families struggling to get ahead, the prospect of losing a subsidy may create a disincentive to increase their earnings. Forgoing increased wages in order to retain a child care subsidy is a tradeoff no family should have to consider; an increase in earnings should mean a family is always better off. In order to remedy this potential problem, phasing out child care assistance more slowly would lessen the impact of the loss in child care assistance and encourage advancement in the workforce.

Prioritizing Improvements to Child Care Policy

In spite of current fiscal constraints, developing strategies to improve child care assistance should remain a priority for states. For low-wage workers, subsidies are crucial for families to remain in the workforce and be able to afford high quality child care. Since access to subsidies is limited, more needs to be done to ensure that child care assistance reaches all families in need. In addition, for families who *do* receive subsidies, child care policies need to be crafted to make certain that families are not penalized for advancing in the workforce. Investing in child care ensures low-wage workers can work and their children have opportunities to thrive.

Endnotes

1. Low-income is defined as twice the federal poverty level or $36,620 for a family of three in 2009. Full-time work is defined as working at least 50 weeks in the previous year and for at least 35 hours during the majority of those weeks. Source: NCCP analysis based on the U.S. Current Population Survey, Annual Social and Economic Supplements, March 2007, 2008, and 2009.

2. Schaefer, Stephanie A.; Kreader, J. Lee; Collins, Ann M. 2006. Parent Employment and the Use of Child Care Subsidies, Child Care and Early Education Research Connections. www.researchconnections.org/location/8725 (accessed Nov. 15, 2009).

3. See endnote 2.

4. Colorado's minimum wage decreased to $7.24 on Jan. 1, 2010. Since this analysis is based on policy rules in effect May 2009, we used the minimum wage that was in effect as of this date as well. Source: Colorado Department of Labor and Employment. Colorado State Minimum Wage. www.colorado.gov/cs/Satellite/CDLE-LaborLaws/CDLE/1250083027822 (accessed Dec. 1, 2009).

5. Dearing, Eric; McCartney, Kathleen; and Taylor, Beck A. 2009. "Does Higher Quality Early Child Care Promote Low-Income Children's Math and Reading Achievement in Middle Childhood?" *Child Development* 80 (5): 1329-1349.

6. Zedlewski, Sheila; Adams, Gina; Dubay, Lisa; and Kenney, Genevieve. 2006. *Is There a System Supporting Low-Wage Working Families?* Washington, DC: The Urban Institute.

7. See endnote 2.

8. The 85 percent State Median Income (SMI) for Colorado as a percent of the Federal Poverty Level (FPL) varies by family size. As of April 2009, the 85 percent of SMI ranged from 223 percent of FPL for a family of nine to 301 percent of FPL for a family of two. Source: Personal email communication with Leslie Bulicz, Colorado Department of Human Services, Division of Child Care, Dec. 2, 2009.

9. Personal email communication with Leslie Bulicz, Colorado Department of Human Services, Division of Child Care, Dec. 2, 2009.

10. Since May 2009, the income eligibility limit in Eagle County changed. As of September 2009, the income limit was 150 percent of the FPL.