

EXECUTIVE SUMMARY

TWO STEPS FORWARD AND THREE STEPS BACK The “Cliff Effect”—Colorado’s Curious Penalty for Increased Earnings

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One-third of Colorado’s children—382,000—live in low-income families who struggle to make ends meet. The vast majority of these children have parents who work, but in Colorado, as in other states across the country, full-time work at low wages often is not enough to provide for a family.¹

“Work support” benefits can help families close the gap between low earnings and the cost of basic expenses. But these benefits often terminate abruptly when a family’s income exceeds eligibility limits. Thus a small increase in earnings can lead to a sharp reduction in benefits—often referred to as a “cliff”—leaving the worker no better off, or even worse off, than before. Low-wage workers encounter this “cliff effect” as they strive to increase their earnings through advancement in the workforce.

The Importance of Work Supports

In Denver County, a single parent with two children needs about \$44,000 a year just to cover the cost of the most basic family expenses: housing, food, transportation, child care, health insurance, and other necessities. That’s the equivalent of a full-time, year-round job earning roughly \$21 an hour—more than three times the state’s minimum wage of \$6.85.²

For Colorado’s low-wage workers, there are a number of work support programs that can help them make ends meet. These include, among others, the federal Earned Income Tax Credit (EITC), food stamps, the Low-Income Energy Assistance Program (LEAP), the Colorado Child Care Assistance Program, and Child Health Plus.

Consider, for example, a single parent with two children living in Denver County and working full-time, year-round at \$8 an hour. Without work supports, the family faces a staggering deficit of \$23,000 between annual resources and expenses. With a full-time job plus all of the benefits mentioned above, the gap between the family’s resources and expenses is reduced to less than \$2,500 a year.

The “Cliff Effect”

Eligibility for work support benefits is typically based on income, so as their 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.

Consider again the example of a single parent living in Denver County with two children, one preschool-aged and one school-aged. The figure below 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 as wages increase from \$6.85 to \$20 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, food stamps, LEAP, child care assistance, and public health insurance for children. (Even when earning only \$6.85 an hour—or just over \$14,000 a year—the parent is ineligible for public health insurance.) With these benefits and a full-time job at the state’s minimum wage of \$6.85 an hour, the family is unable to make ends meet. The figure shows that at this earnings level, the family’s net resources are significantly *below* the “breakeven line”—the point at which total resources equal total expenses.

As the parent works and earns more, a series of benefit cliffs keeps her family struggling. The family experiences its first cliff when wages increase from \$10 to \$10.50 an hour, resulting in a loss of more than \$2,500 in food stamps. This occurs just as the family’s net resources are approaching the breakeven line. Then, when wages rise to \$15 an hour, the family simultaneously loses child care assistance and LEAP.³ Another raise to \$16 an hour puts the family over the income limit for Child Health Plus. As a result of these losses,

the family is worse off at \$16 an hour than it was when the parent was making the minimum wage.

The interaction among earnings, expenses, and benefits varies throughout the state of Colorado, but overall patterns remain the same. In all seven of the counties analyzed for this report—Alamosa, Denver, Eagle, El Paso, Mesa, Morgan, and Pueblo—it takes far more than a full-time job at low wages to make ends meet. Work support benefits can help narrow—and in some cases close—the gap between low wages and the cost of basic expenses. But as earnings increase, significant benefit cliffs keep families struggling.⁴

The bottom line is that more needs to be done to ensure that Colorado’s policies support low-wage workers and their families. Employment at low wages is not enough to support a family, and while work supports can help, the cliff effect makes it difficult for Colorado’s families to get ahead by working and earning more.

Endnotes

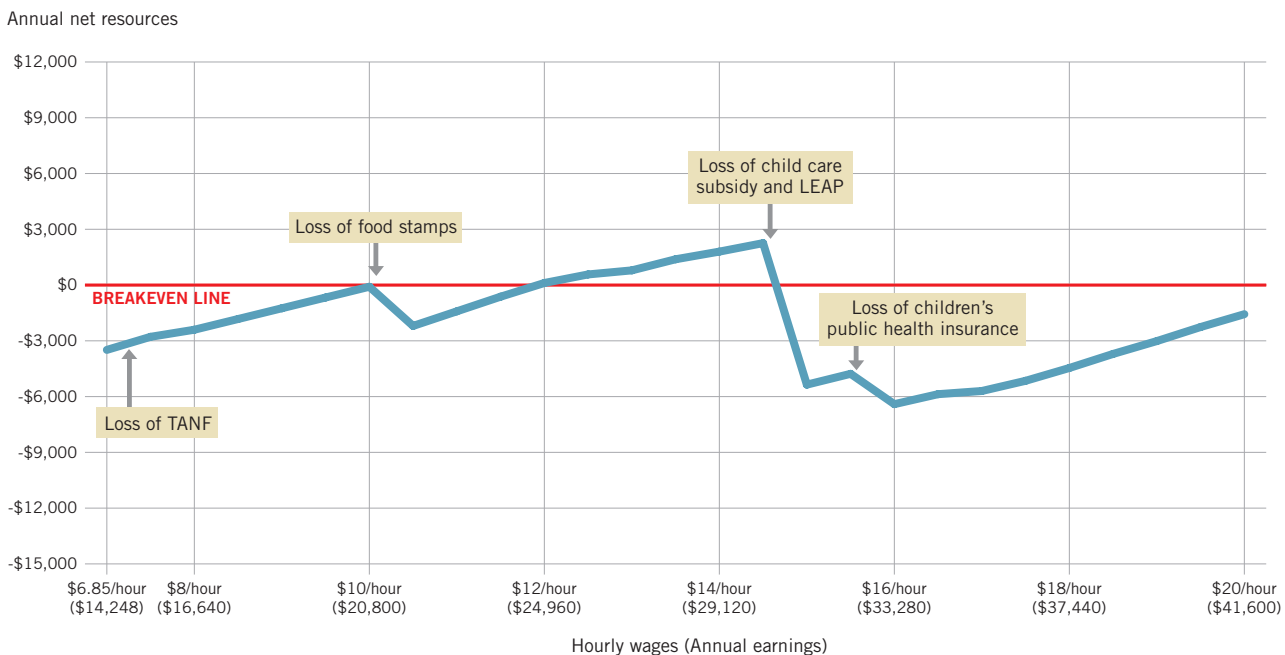
1. Families and children are defined as low-income if family income is less than twice the official federal poverty threshold, or about \$34,000 a year for a family of three in 2007. Source: NCCP analysis based on the U.S. Current Population Survey, Annual Social and Economic Supplements, March 2004, 2005, and 2006, representing information from 2003, 2004, and 2005.

2. Findings are based on analysis of data from NCCP’s Family Resource Simulator (www.nccp.org/tools/frs) and reflect policy rules in effect in Colorado as of December 2006. Results are based on the following assumptions: family has one preschool-aged child and one school-aged child; children are in center-based care settings while their parent works (the older child is in after-school care); family members have access to employer-based health insurance when not enrolled in public coverage. For more information about family expenses, see Appendix D in the full report.

3. Results reflect policy rules in effect in December 2006 when the income eligibility limit for child care subsidies in Denver County was 185 percent of the federal poverty level. In April 2007, Denver County increased the limit to 225 percent of the poverty level.

4. Patterns also hold across different family types; see the full report for results for two family types across seven counties.

Change in Net Resources as Earnings Increase, Single Parent with Two Children in Denver County



Annual net resources: Annual resources minus annual expenses.

Annual earnings: Assuming full-time work (40 hours/week, 52 weeks/year).

Breakeven line: Where family resources equal the cost of basic expenses.

Work supports (when eligible): Federal EITC, state child care tax credit, TANF cash assistance, food stamps, LEAP, child care subsidy, and public health insurance for children. Throughout this earnings range, the parent is ineligible for public health insurance for herself.

Source: Analysis based on NCCP’s Family Resource Simulator, Colorado 2006 (www.nccp.org).

See the full report for more details, including results for two family types in seven Colorado counties.

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