



NCCP National Center for
Children in Poverty
Columbia University
MAILMAN SCHOOL OF PUBLIC HEALTH



When Work Doesn't Pay: The “Cliff Effect” in Colorado

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January 2007

National Center for Children in Poverty

Who We Are

- NCCP is a non-partisan, public interest organization at Columbia University's Mailman School of Public Health.
- Our mission is to promote the health, economic security, and well-being of America's most vulnerable children and families.
- We use research to find solutions at the state and national levels.

National Center for Children in Poverty

Overview of Today's Presentation

- What is the “**Cliff Effect**”?
- NCCP’s **Family Resource Simulator**: A Tool for Policy Analysis
- **The Cliff Effect in Colorado**: Preliminary Findings
- Finding Solutions: NCCP’s ***Making “Work Supports” Work*** Initiative

What is the “Cliff Effect”?

The Paradox for Low-Wage Workers

- Low-income families may qualify for “work support” benefits (e.g., earned income tax credits, Medicaid, child care assistance) that help cover the cost of basic necessities.
- BUT, as earnings increase, families begin to lose these benefits.
- The result? Parents can earn more without improving their financial situation.

What is the “Cliff Effect”?

An Example: Cindy Torres

- A single-mother with two children, a 3-year-old and a 6-year-old.
- The Torres family lives in Denver, where they rent an apartment.
- To meet her family’s basic needs, Cindy needs to earn \$19 an hour working full time.

Cindy's Basic Needs Budget

	Monthly	Annual
Rent and Utilities	\$909	\$10,908
Food	\$442	\$5,302
Child Care	\$813	\$9,753
Health Insurance	\$231	\$2,768
Transportation	\$280	\$3,367
Other Necessities	\$365	\$4,377
Payroll and Income Taxes	\$325	\$3,901
TOTAL	\$3,365	\$40,380
Hourly wage needed = \$19 an hour for full-time work		

Source: Preliminary NCCP analysis of raw data derived from the Family Resource Simulator.

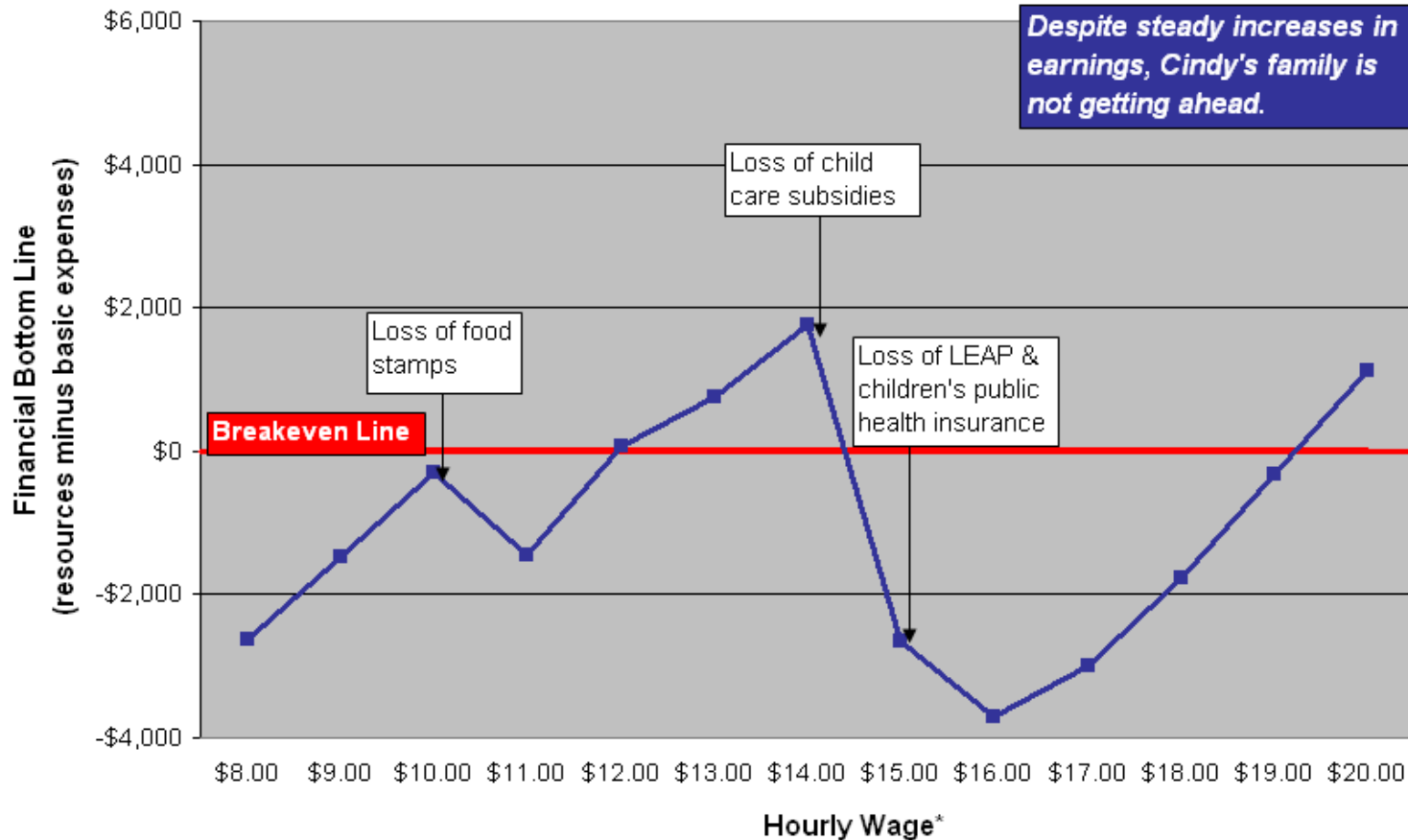
What is the “Cliff Effect”?

An Example: Cindy Torres (cont.)

- But Cindy makes only \$8 an hour at her full-time job.
- The good news is that she receives the following public benefits: income tax credits, public health insurance for her children, a child care subsidy, LEAP, and food stamps.
- The bad news, however, is that as her earnings increase, Cindy’s family encounters the “Cliff Effect.”

The Family Hits Cliffs as Cindy's Earnings Increase

Denver County, CO: Single-Parent Family of Three



*Hourly wage: Assumes full-time work (40 hours/week, 52 weeks/year)

Work supports: Child care subsidy, food stamps, LEAP, public health insurance, and income tax credits

Source: Preliminary NCCP analysis of raw data derived from the Family Resource Simulator.

What is the “Cliff Effect”?

When Work Doesn't Pay

- Benefit cliffs can mean that an increase in earnings may not improve a family's financial situation.
- In the best case, earnings increase but the family is only marginally better off.
- In the worst case, parents can work more and earn more, yet their families *end up worse off financially*.
- But there are policy solutions.

NCCP's Family Resource Simulator

What the Family Resource Simulator Is

- A web-based tool that simulates the impact of federal and state “work support” benefits on the budgets of low- to moderate-income families.
- Simulators developed for 12 states and DC:
AL, CO, CT, DC, DE, GA, IL, MA, MD, MI, NY, PA, TX

[Go to [Demonstration of the Family Resource Simulator](#).]

The Family Resource Simulator and the *Making “Work Supports” Work* initiative have been funded by the Annie E. Casey Foundation.

The Cliff Effect in Colorado

NCCP's analyses cover seven Colorado counties:

1. Alamosa County
2. Denver County
3. Eagle County
4. El Paso County
5. Mesa County
6. Morgan County
7. Pueblo County

NCCP's Cliff Effect research in Colorado is being funded by the Women's Foundation of Colorado.

The Cliff Effect in Colorado

Preliminary Findings for Colorado

- The cost of living varies significantly by county.
- Across the seven counties NCCP is analyzing, a single-parent family of three needs about **\$29,000 to \$54,000 a year** to cover basic expenses.
- That's the equivalent of working full-time, year-round at **\$14 to \$26 an hour**.

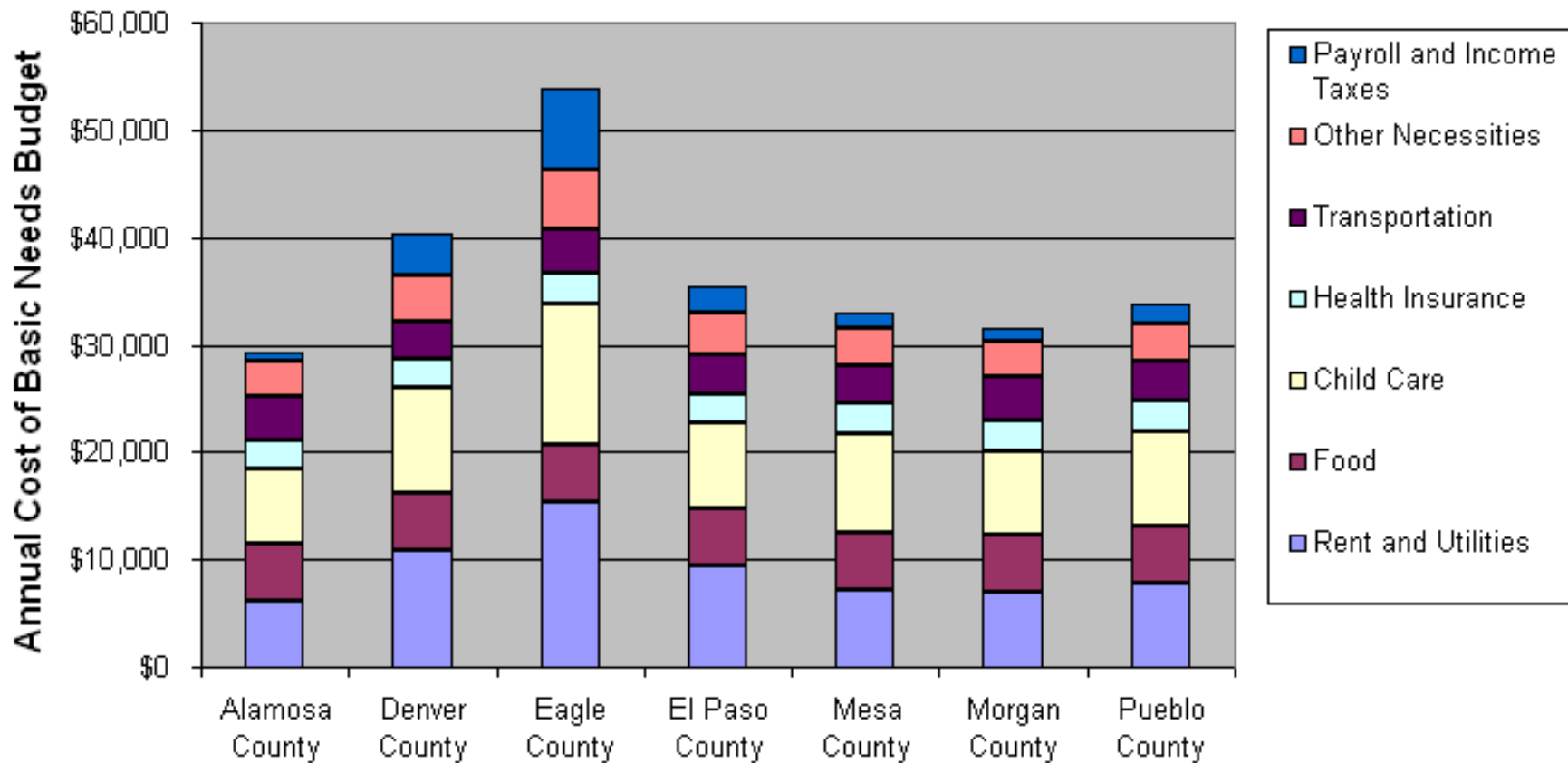
Cindy's Basic Needs Budget

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TOTAL	\$3,365	\$40,380
Hourly wage needed = \$19 an hour for full-time work		

Source: Preliminary NCCP analysis of raw data derived from the Family Resource Simulator.

Basic Needs Budget

Seven Colorado Counties: Single-Parent Family of Three



Source: Preliminary NCCP analysis of raw data derived from the Family Resource Simulator.

The Cliff Effect in Colorado

Preliminary Findings for Colorado (cont.)

- Colorado's work supports help close the gap between low earnings and the cost of basic expenses.

Impact of Work Support Benefits

Denver County, CO: Single-Parent Family of Three

		Full-Time Job at \$8/hour (No Work Supports)	Full-Time Job at \$8/hour <i>plus</i> Work Supports
Resources:	Earnings	\$16,640	\$16,640
	Federal EITC	\$0	\$4,158
	State Child Care Tax Credit	\$0	\$0
	Food Stamps	\$0	\$3,270
	LEAP	\$0	\$260
	Total Resources	\$16,640	\$24,328
Expenses:	Rent and Utilities	\$10,908	\$10,908
	Food	\$5,302	\$5,302
	Child Care	\$9,753	\$1,844
	Health Insurance	\$2,768	\$677
	Transportation	\$3,367	\$3,367
	Other Necessities	\$4,377	\$4,377
	Payroll and Income Taxes	\$472	\$472
	Total Expenses	\$36,947	\$26,947
Resources Minus Expenses		-\$20,307	-\$2,619

Work supports (in second column): Child care subsidy, food stamps, LEAP, public health insurance, and income tax credits

Source: Preliminary NCCP analysis of raw data derived from the Family Resource Simulator.

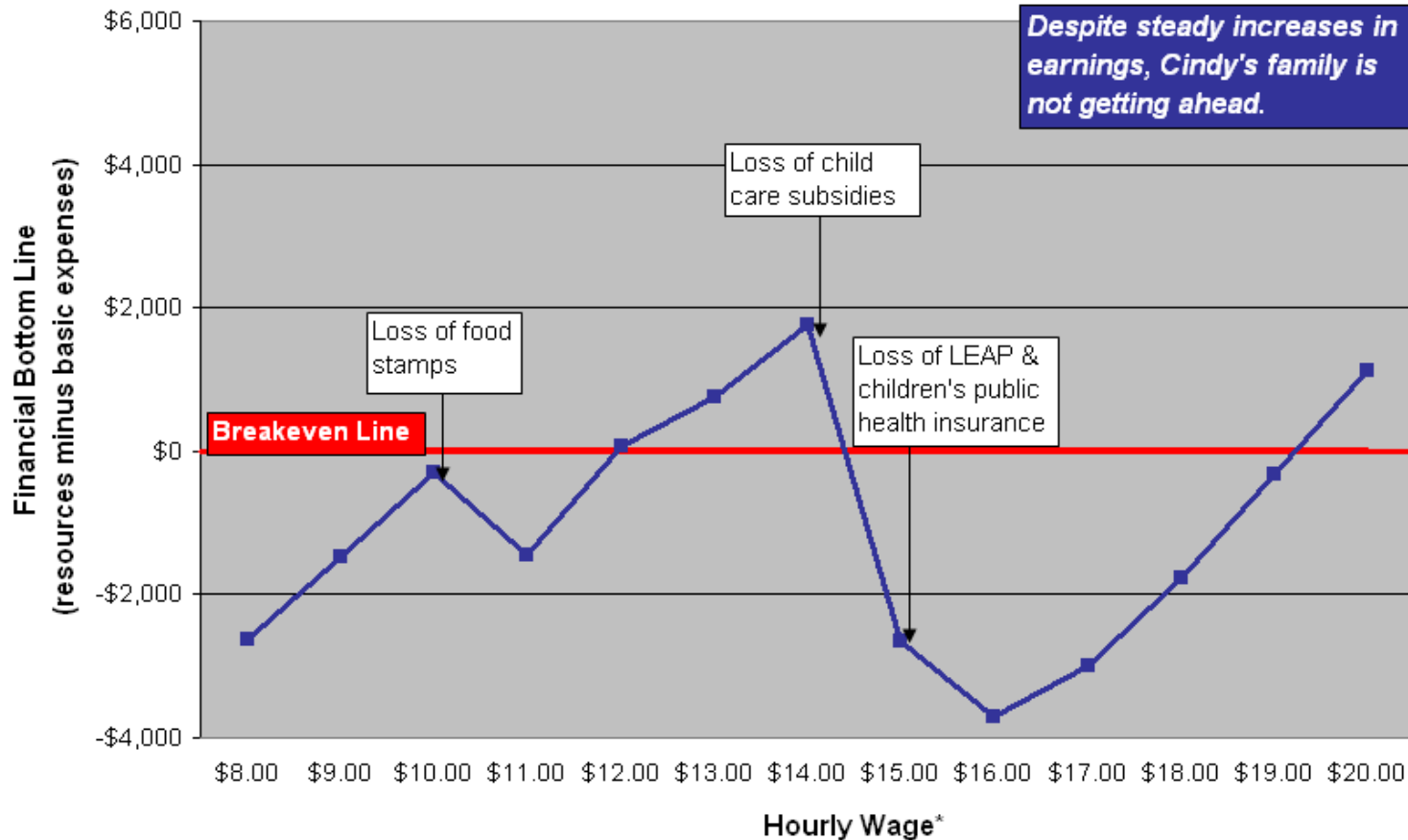
The Cliff Effect in Colorado

Preliminary Findings for Colorado (cont.)

- BUT benefits phase out quickly—before families reach economic self-sufficiency.

The Family Hits Cliffs as Cindy's Earnings Increase

Denver County, CO: Single-Parent Family of Three



***Hourly wage:** Assumes full-time work (40 hours/week, 52 weeks/year)

Work supports: Child care subsidy, food stamps, LEAP, public health insurance, and income tax credits

Source: Preliminary NCCP analysis of raw data derived from the Family Resource Simulator.

The Cliff Effect in Colorado

Preliminary Findings for Colorado (cont.)

- Benefit losses mean that even *doubling* wages from \$8 to \$16 an hour results in little (or no) net gain, depending on the county.

As Wages Double, Family's Bottom Line Worsens

Denver County, CO: Single-Parent Family of Three

		Full-Time Job at \$8/hour <i>plus Work Supports</i>	Full-Time Job at \$16/hour <i>plus Work Supports</i>	Net Change
Resources:	Earnings	\$16,640	\$33,280	\$16,640
	Federal EITC	\$4,158	\$847	-\$3,511
	State Child Care Tax Credit	\$0	\$450	\$450
	Food Stamps	\$3,270	\$0	-\$3,270
	LEAP	\$260	\$0	-\$260
	Total Resources	\$24,328	\$34,377	\$10,049
Expenses:	Rent and Utilities	\$10,908	\$10,908	\$0
	Food	\$5,302	\$5,302	\$0
	Child Care	\$1,844	\$9,753	\$7,909
	Health Insurance	\$677	\$2,768	\$2,091
	Transportation	\$3,367	\$3,367	\$0
	Other Necessities	\$4,377	\$4,377	\$0
	Payroll and Income Taxes	\$472	\$1,616	\$1,144
	Total Expenses	\$26,947	\$38,091	\$11,144
Resources Minus Expenses		-\$2,619	-\$3,714	-\$1,095

Work supports: Child care subsidy, food stamps, LEAP, public health insurance, and income tax credits

Source: Preliminary NCCP analysis of raw data derived from the Family Resource Simulator.

Doubling Wages Results in Little or No Net Gain Seven Colorado Counties: Single-Parent Family of Three

	Full-Time Job at \$8/hour <i>plus</i> Work Supports (\$16,640/year)	Full-Time Job at \$16/hour <i>plus</i> Work Supports (\$33,280/year)	Net Change	"Marginal Tax Rate"
Alamosa County	\$2,570	\$4,377	\$1,807	89%
Denver County	-\$2,619	-\$3,714	-\$1,095	107%
Eagle County	-\$9,074	-\$13,520	-\$4,446	127%
El Paso County	-\$944	-\$270	\$675	96%
Mesa County	\$1,804	\$5,268	\$3,464	79%
Morgan County	\$1,640	\$2,439	\$800	95%
Pueblo County	\$1,042	\$834	-\$208	101%

Work supports: Child care subsidy, food stamps, LEAP, public health insurance, and income tax credits

Source: Preliminary NCCP analysis of raw data derived from the Family Resource Simulator.

The Cliff Effect in Colorado

Preliminary Findings for Colorado (cont.)

The Bottom Line:

Low-wage work is not enough, and
“The Cliff Effect” makes it difficult for
Colorado’s working families to get ahead
by earning more.

Making “Work Supports” Work

Making “Work Supports” Work *Initiative* Seeks *Policy Solutions*

A comprehensive work support system should:

1. Provide adequate family resources.
2. Reward progress in the workforce.

Making “Work Supports” Work

Making “Work Supports” Work *Initiative* Seeks *Policy Solutions (cont.)*

Strategies for achieving these goals include:

- Phase benefits out gradually to avoid steep cliffs.
- Raise eligibility limits.
- Serve a greater share of eligible families.
- Be mindful of program interactions.

Making “Work Supports” Work

Making “Work Supports” Work *Initiative* Seeks *Policy Solutions (cont.)*

In collaboration with state partners, NCCP:

- Identifies aspects of the current structure of work support policies that lead to high marginal tax rates.
- Identifies policy alternatives that would better support low-wage workers and uses the Family Resource Simulator to simulate their effects.
- Estimates the cost of policy alternatives.

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For More,

visit NCCP's web site: www.nccp.org

or contact:

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