



Making Work Supports Work

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The National Center for Children in Poverty's (NCCP) Making Work Supports *Work* project is designed to identify and promote policies that make work pay for low-wage workers and their families. Millions of parents work full-time, year-round and yet struggle to provide even minimum daily necessities for their families. Government "work supports" – such as earned income tax credits, child care subsidies, health insurance, food stamps, and housing assistance – can help. These benefits encourage, support, and reward work; helping families close the gap between low wages and the cost of basic needs.

In practice, however, few families receive all of the benefits for which they are eligible, and even multiple supports are often not enough to enable working families to make ends meet. Moreover, work supports are typically means-tested, so families lose benefits as earnings increase, often before they can get by without them. In some cases, a small increase in earnings can trigger a sharp reduction in benefits, leaving families no better off – or even worse off – than before. Thus workers can find

themselves penalized for working and earning more.

Making Work Supports *Work* is guided by the principle that a comprehensive work support system should accomplish two goals:

- 1) **Provide adequate family resources.** If parents work full-time, their earnings combined with public benefits should be sufficient to cover basic family expenses.
- 2) **Reward advancement in the workforce.** When parents' earnings increase, their families should always be better off.

To assess the effectiveness of existing state and federal work support policies, we examine how much families need to make ends meet and how public benefits impact family budgets. We then work with state partners to identify, model, and promote alternative policies that better support low-wage workers and their families. Our work draws on results from two web-based tools: the Family Resource Simulator and the Basic Needs Budget Calculator (see box).

NCCP

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Tools for Policy Analysis

NCCP's **Family Resource Simulator** is an innovative, web-based tool that calculates the impact of federal and state work supports on the budgets of low- to moderate-income families. The Simulator concretely illustrates the effectiveness of current policies in rewarding and encouraging work. NCCP also uses this tool to model potential policy reforms. Family Resource Simulators are available for 21 states, with well over 100 localities.

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 select number of parents and number and ages of children; users may also substitute one or more expense estimates with their own numbers, and the Calculator adjusts the family's tax liability and overall budget totals accordingly. Budgets are provided for nearly 100 localities across 14 states.

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Key Findings

1) A Low-Wage Job Isn't Enough to Make Ends Meet

The cost of living varies significantly within and across states, but it consistently takes more than full-time earnings from a low-wage job for families to make ends meet.¹ Consider, for example, a single parent living in Chicago with two children, one preschool-aged and one school-aged. This family needs an annual income of about \$48,000 to afford minimum daily necessities (see Figure 1). But even at the highest state minimum wage in the U.S. – which is about \$8 an hour – a full-time, year-round job brings in only about one-third of that amount.

Moreover, \$48,000 covers only a very bare-bones budget of housing, food, child care, health care, transportation, and other necessities. It assumes that family members have access to employer-based health insurance, so premiums are relatively low.² It does not cover enrichment activities, entertainment, or other expenses that improve a family's quality of life. It does not allow for investments in a family's future, such as savings for a home, a child's education, or a parent's retirement. And it does not provide any financial cushion to withstand a crisis.

Figure 1. Basic Needs Budget: Chicago, IL

Single parent with two children, ages 3 and 6

	Annual	Monthly
Rent and utilities	\$11,328	\$944
Food	\$5,691	\$474
Child care	\$17,361	\$1,447
Health insurance premiums	\$2,265	\$189
Out-of-pocket medical	\$456	\$38
Transportation	\$900	\$75
Other necessities	\$4,595	\$383
Payroll taxes	\$3,699	\$308
Income taxes (includes credits)	\$2,056	\$171
TOTAL	\$48,350	\$4,029

Hourly wage: \$23/hour
Percent of the federal poverty level: 275%

Source: NCCP's Basic Needs Budget Calculator, Illinois 2008 <www.nccp.org/tools/budget>. Budget is based on the following assumptions: children are in center-based care settings while parent works (the older child is in after-school care); family members have access to employer-based health insurance.

2) Work Supports Can Make a Critical Difference

Work supports can make a tremendous difference in the lives of low-income families. Figure 2 provides a breakdown of family resources and expenses for the family discussed above, assuming that the parent works full time and earns \$8 an hour – or just under \$17,000 a year. The first column shows that without work supports, the family faces a gap of more than \$27,000 between its annual resources and basic expenses. Faced with such a gap, working parents have to make tough choices. Should they seek cheaper child care that is potentially less reliable or less safe? Live in overcrowded but more affordable housing? Or choose between paying the utility bill and seeking needed medical care?

For families struggling to get by on low wages, government work supports can help. The second column of Figure 2 shows that with full-time employment and multiple supports – including federal and state tax credits, food stamps, and public health insurance – the gap between the family's resources and expenses shrinks significantly. Even

Figure 2. Impact of Work Supports: Chicago, IL

Single parent with two children, ages 3 and 6 (assumes full-time employment at \$8/hour)

	Employment alone (no benefits; no tax credits)	Employment plus • food stamps • federal tax credits • state EITC • public health insurance	Employment plus • food stamps • federal tax credits • state EITC • public health insurance • child care subsidy
Annual Resources			
Earnings	\$16,640	\$16,640	\$16,640
Food Stamps	\$0	\$4,412	\$3,441
Federal EITC	\$0	\$4,453	\$4,453
Federal Child Tax Credit	\$0	\$734	\$734
Federal Child and Dependent Care Tax Credit	\$0	\$0	\$0
State EITC	\$0	\$223	\$223
Total Resources	\$16,640	\$26,462	\$25,491
Annual Expenses			
Rent and utilities	\$11,328	\$11,328	\$11,328
Food	\$5,691	\$5,691	\$5,691
Child care	\$17,361	\$17,361	\$962
Health insurance premiums	\$2,265	\$0	\$0
Out-of-pocket medical*	\$456	\$0	\$0
Transportation	\$900	\$900	\$900
Other necessities	\$4,595	\$4,595	\$4,595
Payroll taxes	\$1,273	\$1,273	\$1,273
Income taxes (excludes credits)	\$319	\$319	\$319
Total Expenses	\$44,188	\$41,467	\$25,068
Net Resources:			
Resources minus Expenses	-\$27,548	-\$15,005	\$423

*When all family members have free public health insurance, we assume that out-of-pocket medical expenses are minimal. Source: Analysis based on NCCP's Family Resource Simulator, Illinois 2008 <www.nccp.org/tools/frs>; single-parent with two children, ages 3 and 6.

so, the family faces a large annual deficit of \$15,000. With a child care subsidy in addition to the other benefits listed above, the family would have a small annual surplus remaining after covering basic

needs. This surplus of \$423 could be used to pay off debt or saved for a rainy day. In practice, however, few families actually receive more than one or two of these benefits.³

3) As Earnings Increase, Benefit Losses Hold Families Back

Families who do receive multiple benefits often face challenges getting ahead, as increased earnings lead to substantial benefit losses. When just a small raise leads to a significant drop in benefits – often referred to as a “cliff” – families may even be worse off, despite increased earnings.⁴ Returning again to a single parent with two children living in Chicago, Figure 3 illustrates how net family resources – that is, resources after subtracting the cost of basic expenses – change as earnings increase.

In comparison to many other states, Illinois offers relatively generous benefits. This example assumes that the family receives several work support benefits – including a child care subsidy –

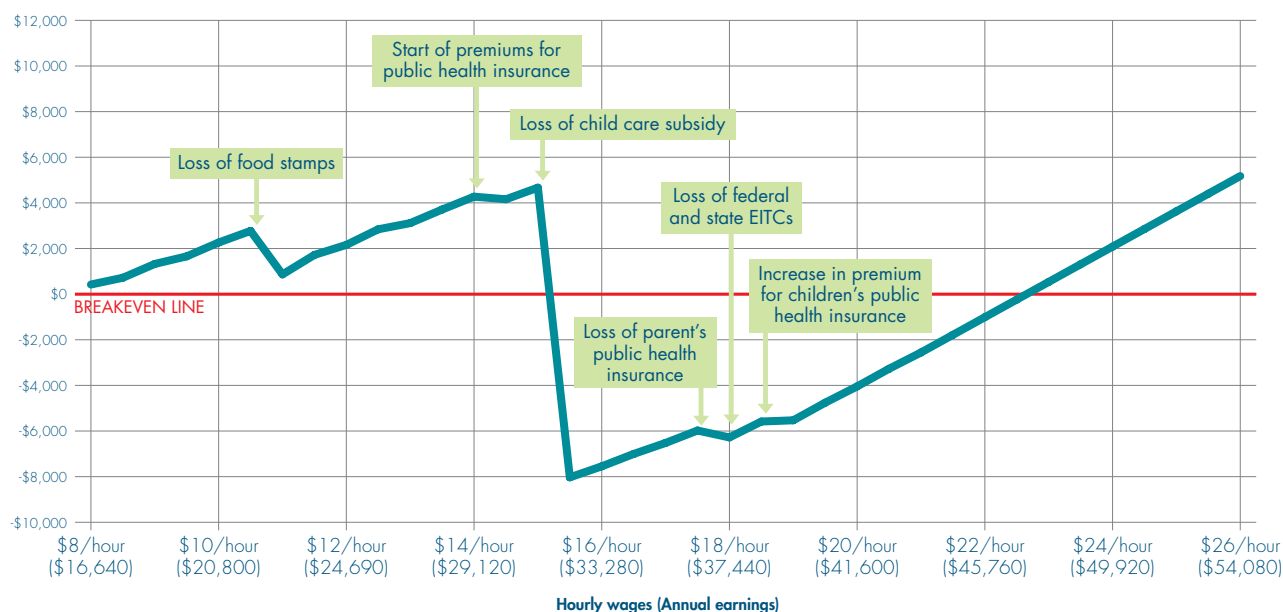
so that the parent is able to make ends meet with a full-time, \$8-an-hour job. But as wages double from \$8 to \$16 an hour, the family experiences a substantial decline in its financial bottom line.

- ◆ When wages reach \$11 an hour, the family loses thousands of dollars in food stamp benefits.
- ◆ At \$15.50 an hour, the family loses its child care subsidy. This causes a significant financial setback, and the family is no longer able to make ends meet.
- ◆ The value of family’s federal and state EITCs declines dramatically – falling from a total of close to \$5,000 when the parent was earning \$8 an hour, to less than \$1,000 when wages reach \$16 an hour.

Figure 3. Net Family Resources as Earnings Increase: Chicago, IL

Single parent with two children, ages 3 and 6

Resources minus expenses (annual)



Source: NCCP's Family Resource Simulator, Illinois 2008 <www.nccp.org/tools/frs>. When eligible, the family receives the following work supports: federal and state EITCs, food stamps, public health insurance, and a child care subsidy.

Helping Policymakers Find Solutions

Through *Making Work Supports Work*, NCCP and its partners identify state and federal reforms to better meet the needs of low-wage workers and their families.⁵ Illinois, for example, could eliminate the food stamp cliff by taking advantage of a federal option that allows states to effectively waive the program's gross income limit. The impact of the child care subsidy

cliff could be softened by increasing the income eligibility limit. Figure 4 illustrates the effects of these hypothetical reforms.

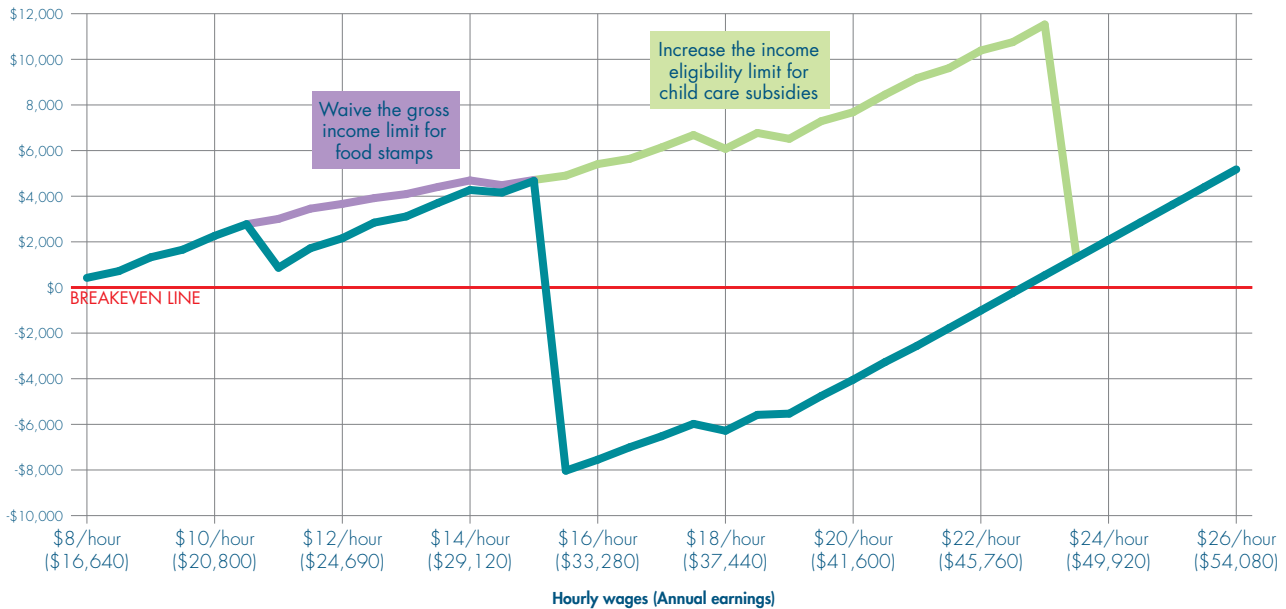
While work support policies vary significantly across states – and sometimes across localities within states – patterns are generally similar. To better reward and encourage employment, reforms are needed

to expand access to benefits by increasing eligibility limits and covering more eligible families; phase benefits out more gradually to soften or eliminate cliffs; and pay attention to program interaction, so that families don't lose multiple benefits at once.⁶ With these strategies, policymakers can create a work support system designed to truly make work pay.

Figure 4. Impact of Hypothetical Policy Reforms: Chicago, IL

Single parent with two children, ages 3 and 6

Resources minus expenses (annual)



Source: NCCP's Family Resource Simulator, Illinois 2008 <www.nccp.org/tools/frs>. When eligible, the family receives the following work supports: federal and state EITCs, food stamps, public health insurance, and a child care subsidy.

Endnotes

1. Dinan, Kinsey Alden. 2009. *Budgeting for Basic Needs: A Struggle for Working Families*. New York, NY: National Center for Children in Poverty, Columbia University Mailman School of Public Health.
2. In reality, most low-wage workers do not receive health benefits through their employers. Thus unless they are eligible for public coverage, they are likely to be uninsured due to the prohibitively high cost of health insurance on the open market.
3. Adding a housing voucher would increase the family's annual surplus. But as in many other places, funding limitations make housing vouchers virtually inaccessible in Chicago. Source: Personal e-mail communication with staff at CHAC, Inc., Nov. 16-17, 2006. For a more extensive analysis of Illinois' work support policies, see Dinan, Kinsey Alden; Cauthen, Nancy K. 2007. *Supporting Work in Illinois:*

- The Challenges Ahead*. New York, NY: National Center for Children in Poverty, Columbia University Mailman School of Public Health.
4. For more on this issue, see Cauthen, Nancy K. 2006. *When Work Doesn't Pay: What Every Policymaker Should Know*. New York, NY: National Center for Children in Poverty, Columbia University Mailman School of Public Health.
 5. For a comprehensive analysis of work support programs and recommendations for federal reforms, see Cauthen, Nancy K. 2007. *Improving Work Supports: Closing the Financial Gap for Low-Wage Workers and their Families*, Briefing paper #198. Washington, DC: Economic Policy Institute.
 6. In addition to improving work supports, the nation needs policies to improve job quality and protect low-wage workers from rising economic insecurity.

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 project at: www.nccp.org/projects/mws.html.