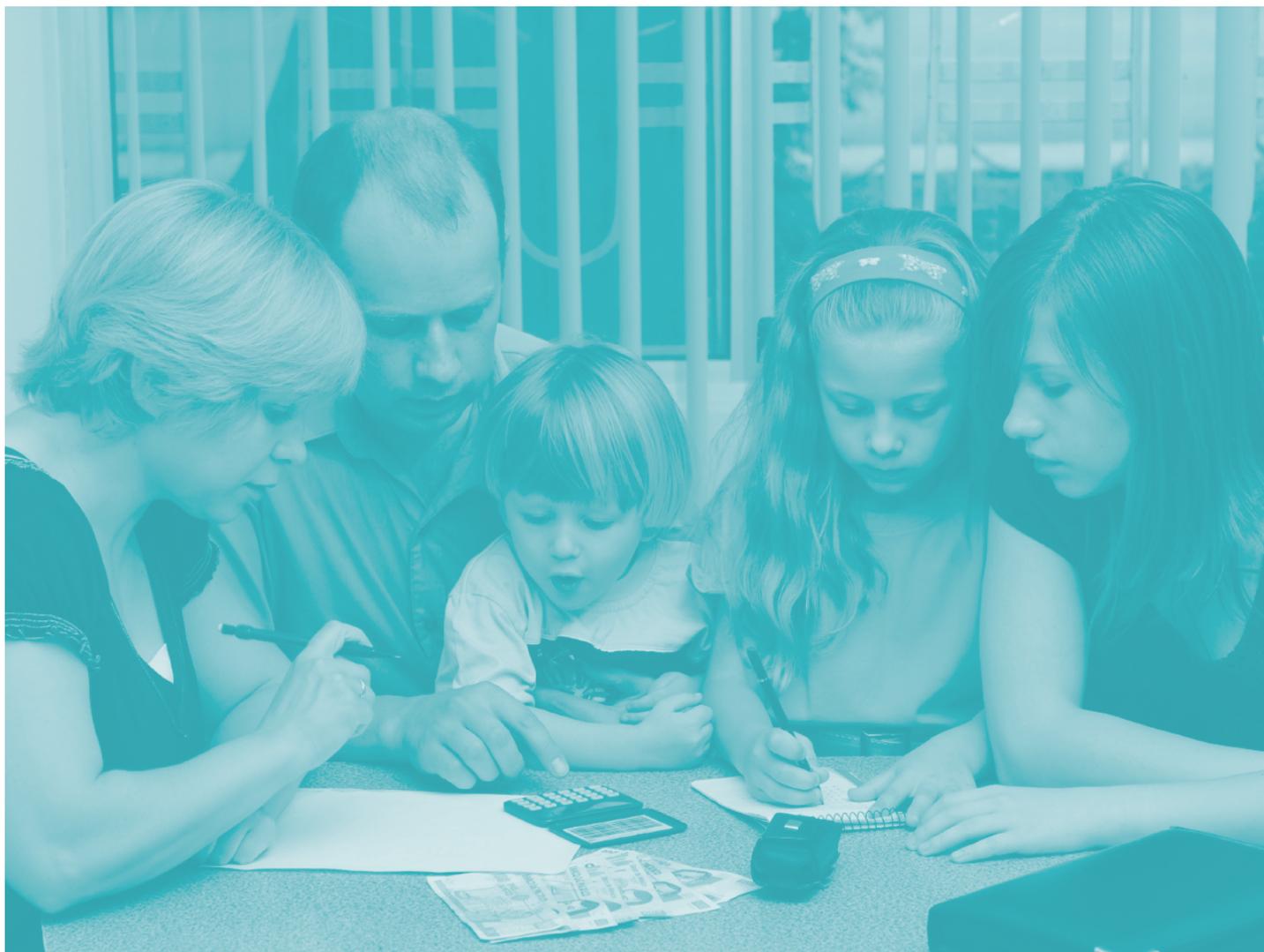


Making Work Supports Work

A Picture of Low-wage Workers in America

Jessica Purmort

January 2010



The National Center for Children in Poverty (NCCP) is the nation’s leading public policy center dedicated to promoting the economic security, health, and well-being of America’s low-income families and children. Using research to inform policy and practice, NCCP seeks to advance family-oriented solutions and the strategic use of public resources at the state and national levels to ensure positive outcomes for the next generation. Founded in 1989 as a division of the Mailman School of Public Health at Columbia University, NCCP is a nonpartisan, public interest research organization.

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ACKNOWLEDGEMENTS

This publication was made possible by the generous support of the Annie E. Casey Foundation. The author would like to thank Yumiko Aratani, Jodie Briggs, Michelle Chau, and David Seith for their assistance with this report. The author would also like to extend thanks to Nancy K. Cauthen, former deputy director of NCCP, who conceived the idea for this report, and to Kinsey Alden Dinan, former senior policy associate at NCCP, who made significant contributions to an earlier draft.

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Summary

Many full-time workers in the United States are unable to make ends meet. Government “work support” policies – benefit programs such as earned income tax credits, public health insurance, child care assistance, and SNAP/food stamps – can help some families close the gap between low earnings and the high cost of basic expenses. While federal government guidelines provide a framework for work support policies in the United States, there is wide variation in how these policies are implemented across states. This report analyzes the effectiveness of these policies. Findings from this report show that the current patchwork of state policies fails to ensure that workers are able to afford their

families’ basic living expenses, leaving a number of low-wage workers and their families without adequate support. A greater federal investment is needed to create a comprehensive work support system that is designed to encourage and reward employment as well as provide workers with enough resources to care for their families. Federal priorities should include addressing the high cost of basic needs with an increased investment in affordable child care, subsidized health insurance, and housing assistance as well as structuring the work support system to better support workers’ advancement toward financial self-sufficiency.

Introduction

The American Dream has grown increasingly out of reach for many of our nation’s families. A growing number of workers in the United States are employed in low-wage jobs without adequate pay and benefits.¹ In addition to insufficient wages and lack of benefits, rising household costs threaten families’ bottom lines. Basic living expenses, including housing, medical care, and child care, have increased substantially in recent years.² The result is a widening gap between family income and expenses that affects a large number of low-income parents and their children. Previous analysis by the National Center for Children in Poverty (NCCP) has found that parents across the United States need earnings well above the federal poverty level (\$18,310 a year for a family of three in 2009) to cover their family’s basic living necessities.³ Data from 2008 show that 41 percent of America’s children live in low-income families with income below

twice the federal poverty rate.⁴ With the current economic crisis, the number of families struggling to make ends meet is only increasing.

Government “work support” programs – such as earned income tax credits, child care assistance, public health insurance coverage, and housing assistance – can help low- and moderate-income workers close this gap between earnings and basic living necessities. By providing additional resources and subsidizing the cost of living, these work support benefits can make a tremendous difference in families’ lives. However, the current work support system falls short of adequately addressing the gap between families’ income and expenses. Results from extensive state-level analyses conducted through the Making Work Supports *Work* project demonstrate that within the current system, many parents cannot get ahead simply by earning more.⁵

Using results from two policy analysis tools developed through the Making Work Supports *Work* project – the Basic Needs Budget Calculator and the Family Resource Simulator (see box) – this report illustrates the importance of work support benefits in low-income families’ lives and the need for federal work support reform to better meet the needs of America’s low-income working families. Examples in this report are drawn from cities and counties in more than a dozen states across the country. Most examples are based on single-parent families with two children because a majority of low-income and poor children live in single-parent families. Currently, 52 percent of low-income children and 64 percent of poor children live in single-parent families.⁶ However, many of the findings in this report can be applicable to other types of families. Results for additional states and localities as well as other family types are available through the data tools located on NCCP’s website.⁷

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 illustrates the effectiveness of current policies that reward and encourage work. NCCP also uses this tool to model potential policy reforms. Family Resource Simulators are available for 21 states, with more than 100 localities. 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.

The High Cost of Making Ends Meet

Across the United States, millions of families struggle to afford basic living expenses. With a federal minimum wage of \$7.25 an hour – which is equal to just over \$15,000 a year with full-time employment⁸ – many workers find themselves in low-wage jobs that do not provide the income necessary to raise their families out of poverty and achieve economic security. While the cost of living varies greatly within and across states, results from NCCP’s Basic Needs Budgets show that parents generally need earnings of one-and-a-half to three-and-a-half times the federal poverty level to cover their family’s most basic living expenses.⁹ Even in lower-cost localities where access to better paying jobs are limited, a single parent with two children needs a job that pays more than twice the federal minimum wage in order to provide for her family.

These Basic Needs Budget estimates include only the most basic living expenses, such as housing, child care, and health care (assuming access to employer-based coverage¹⁰), and they do not account for other expenses such as payments for credit card, medical, or other debt; retirement savings; or investments in children’s education.¹¹ Nonetheless, even in rural

areas and lower-cost cities, a single parent with two young children needs to work full time at an hourly wage of more than twice the federal poverty level just to afford her family’s daily necessities; in East Carroll, LA, for example, this parent would need to work full-time at an hourly wage of \$15, which is equal to an annual income above \$30,000 (see Figure 1). In more moderate- and higher-cost cities, such as Toledo, OH or Wilmington, DE, the same family would need more than \$40,000 or \$50,000 a year, or a full-time hourly wage of \$20 or \$25, to make ends meet. Two-parent families also struggle with these high expenses; for a two-parent family of four to make ends meet in each of these cities, both parents would need to work full-time, year-round earning wages from \$9 to \$14 per hour, well above the federal minimum wage.¹² In the country’s most expensive cities, such as New York City, a basic family budget can reach \$65,000, which is equal to a single parent working full-time at \$31 an hour.

The high cost of making ends meet leads to low- and moderate-wage workers facing a financial gap between their incomes and basic living expenses. When faced with this gap, families must make

tough choices. For example, child care is often a family’s single largest expense; in nearly every state, center-based care for two children of any age exceeds median rent costs.¹³ High quality, reliable child care is essential for children’s healthy development as well as parents’ ability to work and provide for their families.¹⁴ Parents trying to make ends meet may have to decide if their children should attend cheaper but potentially lower-quality

childcare. Other decisions that families facing a financial gap grapple with are whether the family should live in an unsafe neighborhood or substandard housing to lower their housing expenses, or whether they should go without health insurance and hope that no one gets sick or injured. Families may also have to decide whether to skimp on food in order to afford medical prescriptions or health care treatment.

Figure 1. Basic Needs Budgets in Selected Localities
Single-parent family with two children, one preschool-aged and one school-aged

	LOWER-COST CITY East Carroll, LA	MODERATE-COST CITY Toledo, OH	HIGHER-COST CITY Wilmington, DE
Rent and utilities	\$506	\$656	\$1,005
Food	\$498	\$498	\$498
Child care (center-based)	\$770	\$1,121	\$1,244
Health insurance premiums (employer-based)	\$252	\$207	\$210
Out-of-pocket medical	\$45	\$45	\$45
Transportation	\$425	\$369	\$369
Other necessities	\$241	\$277	\$361
Payroll taxes	\$205	\$267	\$326
Income taxes (includes credits)	-\$257	\$53	\$206
TOTAL (monthly)	\$2,685	\$3,493	\$4,264
Annual income needed	\$32,220	\$41,916	\$51,168
Hourly wage needed	\$15	\$20	\$25
Percent of 2009 federal poverty level	176%	229%	279%

Source: NCCP’s Basic Needs Budget Calculator <www.nccp.org/tools/budget>. Data reflect costs in 2009. Results assume that children are in center-based settings while their parents work (school-aged child is in after-school care) and family members have employer-based health coverage. Note that in East Carroll, LA, income taxes are negative because the value of the family’s income tax credits exceeds the family’s income tax liability.

Work Supports Make a Big Difference

For families struggling with these decisions, there are a number of federal and state work support benefits that help low-wage workers close the gap between income and the cost of basic living expenses. These benefits include cash assistance, the Supplemental Nutrition Assistance Program (SNAP, formerly called food stamps), public health insurance, child care assistance, and federal and state tax credits. Figure 2 presents an overview of work support benefit programs for low- and moderate-income working families.

Receipt of these work support benefits can help low-income families make ends meet by supplementing income and subsidizing the cost of living expenses. Figure 3 illustrates the effect of benefit receipt on a family’s net resources – that is, family resources after subtracting the cost of basic necessities – using results from NCCP’s Family Resource Simulator.¹⁵ This example includes federal work support benefits available in all states, such as federal tax credits, as well as some state work support benefits specific to Illinois, such as the state earned income tax credit and state public health insurance programs for both children and parents.

Figure 2. Overview of Work Support Programs

Policy	Description of benefit	Target population	Federal/state relationship (funding and administration)	Investment and access
Federal Earned Income Tax Credit (EITC)	Refundable tax credit that reduces tax liability. Maximum credit for families with two children: \$5,028 (2009)	Low- to moderate-income working families	Federal entitlement; several states and some localities supplement the federal credit	<ul style="list-style-type: none"> Total spending (federal): \$41.5 billion (2005) 22.2 million tax filers (2005)
Child Care and Development Fund (CCDF) subsidies	Subsidizes child care expenses	Low- to moderate-income working families	Block grant with matching funds for states that meet maintenance of effort requirement; federal law sets broad guidelines; states administer programs	<ul style="list-style-type: none"> Total spending (state and federal): \$10.2 billion (FY 2007) 1.0 million families; 1.7 million children monthly (FY 2006)
Federal and Child Dependent Care Tax Credit	Non-refundable child and dependent care tax credit that reduces the amount of taxes working families with child care expenses are required to pay	Families at all income levels with child care expenses	Federal entitlement; several states build on federal credit and offer state credits or tax deductions to offer state income tax liability	<ul style="list-style-type: none"> Total spending (federal): \$2.7 billion (2006) 6.3 million tax filers (2005)
Medicaid	Family health insurance coverage for parents and children with low incomes	Low-income families	Federal entitlement with required state match; administered by the states with broad federal guidelines	<ul style="list-style-type: none"> Total spending (state and federal): \$320 billion (FY 2007) 22.7 million children; 20.9 million adults per month (2008)
State Children's Health Insurance Program (SCHIP)	Health insurance for low-income children and some parents with family income above the Medicaid income limit	Low-income children	Block grant with required state maintenance of effort requirement; administered by the states with broad federal guidelines	<ul style="list-style-type: none"> Total spending (state and federal): \$10 billion (FY 2008) 4.8 million children per month (2008)
Section 8/Housing Choice Vouchers	Vouchers allowing recipients to rent privately owned units	Low-income families and individuals	Federal program with local housing authorities responsible for administered benefits	<ul style="list-style-type: none"> Total spending on vouchers: \$14.4 billion (FY 2007) 1.8 million vouchers (2007)
SNAP/Food Stamps	Food assistance for low-income families and individuals. Maximum annual benefit for a family of three: \$6,312 (2009)	Low-income families and individuals	Federal entitlement; federal program with states responsible for administered benefits	<ul style="list-style-type: none"> Total spending: \$33.2 billion (FY 2007) 12.7 million children (FY 2007)
Temporary Assistance for Needy Families (TANF)	Monthly cash benefits to very low-income families	Very low-income families.	Block grant with matching funds for states that meet maintenance of effort requirement; federal law sets broad guidelines; states administer programs	<ul style="list-style-type: none"> Total spending (state and federal): \$10 billion (FY 2008) 2.9 million children; 870,000 adults per month (FY 2008)

Source: Adapted from Cauthen, Nancy K. 2007. *Improving Work Supports: Closing the Financial Gap for Low-Wage Workers and Their Families*. Washington, DC: Economic Policy Institute's Agenda for Shared Prosperity, with additional information from NCCP and updates to benefit, investment, and access data.

Figure 3. Impact of Work Supports: Chicago

Melissa Jacobs, a single parent with two children, one preschool-aged and one school-aged (assumes full-time employment at \$9/hour)

	Employment alone (no benefits; no tax credits)	Employment plus: • federal and state tax credits	Employment plus: • federal and state tax credits • SNAP/food stamps • public health insurance	Employment plus: • federal and state tax credits • SNAP/food stamps • public health insurance • child care subsidy	Employment plus: • federal and state tax credits • SNAP/food stamps • public health insurance • child care subsidy • housing voucher
Annual Resources (cash and near-cash)					
Earnings	\$18,720	\$18,720	\$18,720	\$18,720	\$18,720
Federal EITC	\$0	\$4,015	\$4,015	\$4,015	\$4,015
Federal Child Tax Credit	\$0	\$1,046	\$1,046	\$1,046	\$1,046
Federal Child Care Tax Credit	\$0	\$67	\$67	\$67	\$67
State EITC	\$0	\$201	\$201	\$201	\$201
SNAP/Food stamps	\$0	\$0	\$3,913	\$3,074	\$2,277
Total Resources	\$18,720	\$24,049	\$27,962	\$27,123	\$26,326
Annual Expenses					
Rent and utilities	\$11,328	\$11,328	\$11,328	\$11,328	\$4,907
Food	\$5,691	\$5,691	\$5,691	\$5,691	\$5,691
Child care (center-based)	\$17,361	\$17,361	\$17,361	\$1,404	\$1,404
Health insurance premiums	\$2,265	\$2,265	\$0	\$0	\$0
Transportation	\$900	\$900	\$900	\$900	\$900
Other necessities	\$4,595	\$4,595	\$4,595	\$4,595	\$4,595
Payroll taxes	\$1,432	\$1,432	\$1,432	\$1,432	\$1,432
Income taxes (excluding credits)	\$449	\$449	\$449	\$449	\$449
Total Expenses	\$44,021	\$44,021	\$41,756	\$25,799	\$19,378
Net Resources (resources - expenses)	-\$25,301	-\$19,972	-\$13,794	\$1,324	\$6,948

Source: NCCP's Family Resource Simulator, Illinois 2008 <www.nccp.org/tools/frs>.

In this example, Melissa Jacobs, a single mother with two young children in Chicago, works full time as a nurse aide, earning \$9 an hour for an annual income of \$18,720. Without any work support benefits, Melissa faces an annual gap of \$25,301 between her earnings and the cost of her family's basic living expenses. This gap can be reduced almost in half to \$13,794 if Melissa's family receives the following benefits: federal and state tax credits (which families typically receive once a year after filing taxes), SNAP, and public health insurance.¹⁶ The gap can disappear completely if Melissa's family also receives a child care subsidy, which lowers her family's high child care expenses from over \$17,000 a year to around \$1,400 a year. The receipt of these

multiple work support benefits – federal and state tax credits, SNAP, public health insurance, and a child care subsidy – enables Melissa to better afford her family's essential living necessities like housing and child care.

If Melissa and her family were to receive a housing voucher in addition to the other mentioned benefits, these supports, coupled with full-time employment, would leave her family with an annual surplus of about \$7,000 after paying for basic day-to-day expenses. This surplus would allow Melissa to pay off any credit card, medical, or other debt, or to put some money into savings for her children's education, a home, or retirement. Due to very long

waiting lists, however, few eligible families are able to access housing assistance in most parts of the country.¹⁷ In Chicago, for example, the waiting list for vouchers is currently closed.¹⁸

Not only do work supports help families like Melissa Jacobs' afford their basic living expenses, but research has indicated that work supports also have positive effects on employment outcomes of recipients by encouraging and supporting

employment. The federal Earned Income Tax Credit (EITC) has been shown to increase employment rates among single mothers and cash assistance recipients.¹⁹ Similarly, child care assistance has contributed to higher employment levels among low-income workers.²⁰ Work supports also have the potential for decreasing the poverty level in the United States; the EITC, for example, has been shown to reduce the child poverty rate by lifting more than two million children out of poverty.²¹

Current Patchwork of Policies is Insufficient

The example in Figure 3 illustrates the tremendous importance of work support benefits in helping families afford basic living expenses. It also shows that families need multiple benefits to make ends meet. In practice, however, there are certain barriers to benefit participation that lead to very few families receiving all of the benefits for which they are financially eligible. Furthermore, even in more generous states such as Illinois, benefits are means-tested, and families often find that as their earnings increase, they lose key work supports before they're able to get by without them. The sudden loss of benefits as a result of an earnings increase can also lead to steep increases in a family's expenses, ultimately making them worse off financially.

Many Eligible Families Don't Receive the Multiple Supports They Need

A primary problem with the current work support system is that there is insufficient access to multiple work support benefits among eligible families. Several factors, including insufficient funding of benefit programs as well as barriers to benefit participation such as long waiting lists and stigma, affect families' ability to receive the benefits for which they are eligible. More needs to be done to overcome these factors because families across the United States often need several benefits just to make ends meet (see Figure 4).

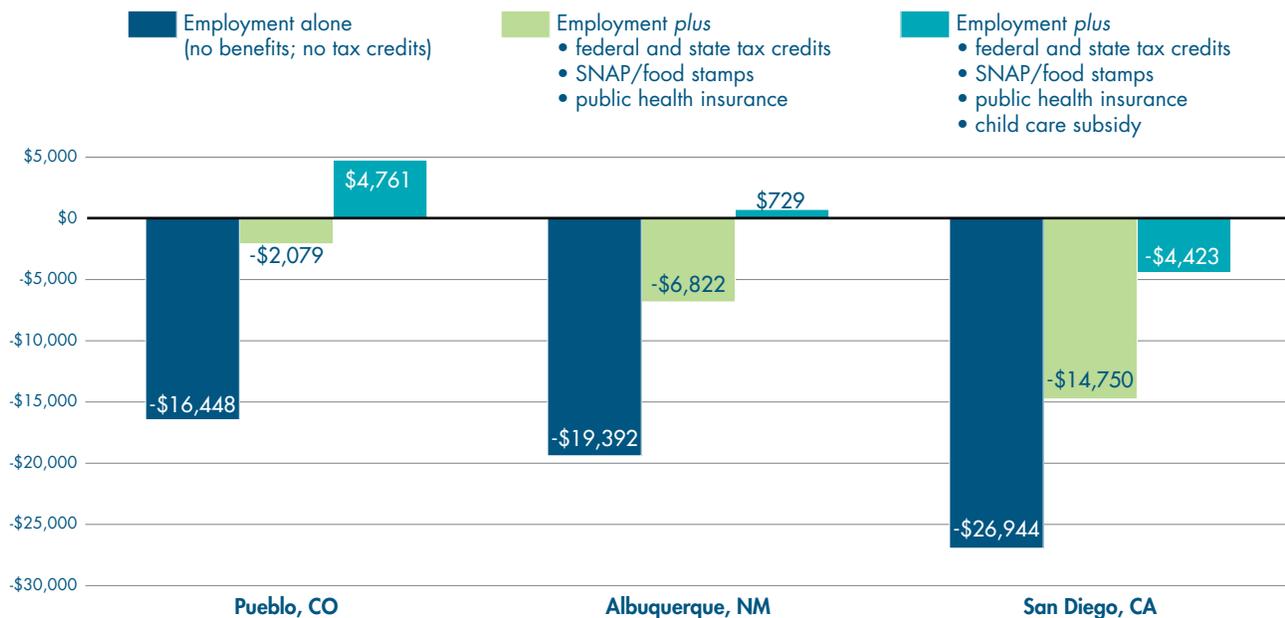
Several of the barriers to benefit participation stem from the association of work supports with welfare. Welfare offices often serve as a main access point for benefit applications, and the stigma resulting from this association may make some families reluctant

to apply for needed assistance. Other families who have never received welfare may not know that they are eligible for other work support benefit programs such as child care assistance. Additional barriers to benefit receipt include fear of being treated poorly by program staff, lengthy application processes, and frequent renewals. The process itself may include time-consuming steps including income verification, long waits, and limited office hours (see box on page 15 for additional information).²² Some programs, such as child care assistance programs and housing subsidy programs, serve a small percentage of eligible families due to inadequate funding.²³ Immigrant workers likewise face a number of unique challenges to benefit receipt as their eligibility for certain work support programs is restricted; furthermore, many immigrant workers fear government officials and are therefore less likely to receive the benefits for which they are eligible.²⁴

Figure 4 illustrates the significant impact that multiple work supports can have on parents' ability to provide for their families. The Andersons, a single-parent family with two children in Albuquerque, receive federal and state tax credits, SNAP/food stamps, and public health insurance; receiving these work supports decreases the family's annual financial gap between income and expenses by almost two-thirds from over \$19,000 to just over \$6,800 a year. If the family also receives an additional work support benefit – a child care subsidy – the gap between income and expenses is eliminated completely, and the family now has a small annual surplus of around \$700. For the Andersons, receipt of a child care subsidy in addition to other work support benefits provided the assistance necessary for the parent to

Figure 4. Net Resources in Selected Localities

Single-parent families with two children, one preschool-aged and one school-aged (assumes full-time employment at \$9/hour)



Source: NCCP's Family Resource Simulator <www.nccp.org/tools/frs>.

afford the family's basic living expenses. In order to help more parents better provide for their families, the barriers to benefit receipt need to be addressed so that low-income workers are able to receive all of the work supports for which they are eligible.

State Policy Choices Lead to Varying Levels of Support for Working Families

State governments also play a role in deciding which work supports are available to low-income working families in their state. While the federal government provides a general framework for many work support benefit programs, states have some discretion with regard to how certain programs are structured. For example, the federal government sets broad guidelines such as a minimum income eligibility limit for the Child Care and Development Fund (CCDF) program, which subsidizes child care expenses for low-income families; however, states can choose to set higher income eligibility limits. States can also choose to create their own state work support benefit programs. Some states, for example, have chosen to create their own state earned income tax credit programs that are modeled after the federal EITC, which reduces the federal tax liability of low- and

moderate-income families. These state-level choices can help some low-income working families in some states afford their basic living expenses, but more needs to be done to ensure that all families across the United States are receiving the support they need.²⁵

An example of how work support policies can vary across states is presented in Figure 5. San Antonio, TX and Rochester, NY are cities with comparable costs of living due to similar housing, employer-based health insurance, and transportation expenses. The Wilsons are a single-parent family with two young children living in Rochester. The parent works full-time, year-round at \$9 an hour, and the family doesn't receive *any* work supports (including no income tax credits). Similarly, the Garcia family is a single-parent family with two young children in San Antonio, and like the Wilson family, the parent in the Garcia family works full-time, year-round at \$9 an hour. Without any work supports, the Garcia family in San Antonio faces an annual gap between resources and expenses of about \$22,000 whereas the Wilsons in Rochester face an equally daunting gap of about \$24,800 a year. The Wilsons' slightly larger gap is due to somewhat higher child care costs in Rochester.

Figure 5: Net Family Resources in Selected Localities

The Garcias and the Wilsons, single parent families with two children, one preschool-aged and one school-aged (assumes full-time employment at \$9/hour)

	The Garcias in San Antonio, TX		The Wilsons in Rochester, NY	
	full-time employment at \$9/hour only	full-time employment at \$9/hour plus: <ul style="list-style-type: none"> • SNAP/food stamps • federal tax credits • child care subsidy • public health insurance for children 	full-time employment at \$9/hour only	full-time employment at \$9/hour plus: <ul style="list-style-type: none"> • SNAP/food stamps • federal and state tax credits • child care subsidy • public health insurance for children and parent
Annual Resources (cash and near-cash)				
Earnings	\$18,720	\$18,720	\$18,720	\$18,720
Food stamps	\$0	\$3,327	\$0	\$2,769
Federal EITC	\$0	\$4,015	\$0	\$4,015
Federal Child Tax Credit	\$0	\$1,046	\$0	\$1,046
Federal Child Care Tax Credit	\$0	\$67	\$0	\$67
State EITC	Not available	Not available	\$0	\$1,129
State child tax credit	Not available	Not available	\$0	\$173
State child care tax credit	Not available	Not available	\$0	\$141
Total Resources	\$18,720	\$27,175	\$18,720	\$28,060
Annual Expenses				
Rent and utilities	\$9,360	\$9,360	\$9,276	\$9,276
Food	\$5,691	\$5,691	\$5,691	\$5,691
Child care (center-based)	\$13,423	\$2,246	\$16,377	\$388
Health insurance premiums	\$2,834	\$617	\$2,609	\$0
Transportation	\$3,821	\$3,821	\$3,821	\$3,821
Other necessities	\$4,064	\$4,064	\$4,041	\$4,041
Payroll taxes	\$1,432	\$1,432	\$1,432	\$1,432
Income taxes (excluding credits)	\$67	\$67	\$241	\$241
Total Expenses	\$40,692	\$27,298	\$43,488	\$24,890
Net Resources (resources - expenses)	-\$21,972	-\$123	-\$24,768	\$3,170

Source: NCCP's Family Resource Simulator <www.nccp.org/tools/frs>.

In both San Antonio and Rochester, the Garcia family and the Wilson family would be eligible for federal income tax credits, SNAP, a child care subsidy, and public health insurance for the children when the parent is earning \$9 an hour. In addition to those benefits, in Rochester, the Wilsons would be eligible for state income tax credits and public health insurance for the parent. Moreover, even though child care is more expensive in Rochester as compared to San Antonio, New York's state child care subsidy system provides a larger benefit and covers more of the family's high child care costs. (It should be noted that, in practice, only a fraction of

eligible families receive child care subsidies due to long waiting lists.)

Altogether, with multiple federal and state work support benefits, Ms. Wilson in Rochester could cover her family's basic living expenses with a surplus of just over \$3,000 a year. In San Antonio, on the other hand, a more limited set of benefits leaves Ms. Garcia facing a small deficit of just over \$100 a year.²⁶ This example illustrates that state choices regarding work support policies can mean that families with comparable incomes face different levels of support across the country.

Benefit “Cliffs” Can Keep Families Struggling to Get Ahead As Earnings Increase

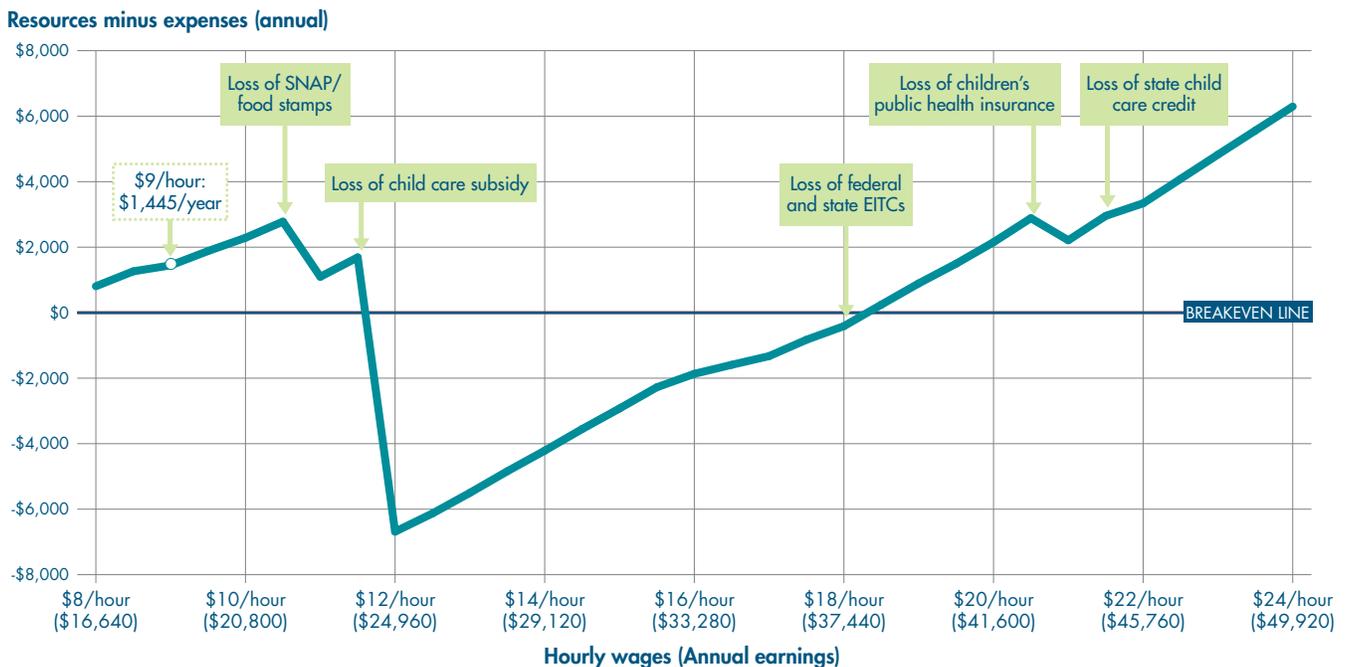
Even families fortunate enough to receive multiple benefits face another set of challenges to self-sufficiency. Because work support eligibility is typically based on income, low income-eligibility limits mean that families lose benefits before they are able to afford living expenses on their earnings alone. This means that a slight increase in earnings can lead to the complete termination of a work support benefit, leaving families worse off financially. A significant loss in benefits due to increased earnings is called a benefit “cliff;” these cliffs imply that a family receives no financial gain after their earnings increase beyond the eligibility limit.

The example in Figure 6 shows the net family resources (resources minus basic expenses) of Stephanie Roberts, a single parent with two children in Des Moines. More specifically, the figure illustrates how work supports affect Stephanie’s net family resources (the family’s resources minus basic expenses) as her earnings increase. This figure

assumes that Stephanie’s family receives *multiple* benefits when eligible: federal and state tax credits, SNAP, public health insurance for children (the parent is ineligible for Medicaid throughout this earnings range), and a child care subsidy. With these supports and a full-time job paying \$9 an hour, Stephanie’s family’s resources are just above the breakeven line – that is, the point at which her family’s total resources equals their basic expenses. This means that Stephanie’s family is just making ends meet with a small annual surplus of \$1,445 after paying for day-to-day necessities.

As the parent’s earnings increase, however, the family’s ability to make ends meet does not always improve. If Stephanie’s hourly wage increased from \$10 an hour to \$12 an hour, this raise would actually leave the family worse off financially because they are no longer eligible for SNAP or a child care subsidy. Child care is one of the biggest expenses that families face across the country, so the loss of a child care subsidy often creates big benefit cliffs. This significant loss in benefits makes it even more difficult for families to make ends meet.

Figure 6. Net Family Resources as Earnings Increase: Des Moines, IA
Stephanie Roberts, a single parent with two children, one preschool-aged and one school-aged



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

After the loss of the child care subsidy, the family's net resources are well below the breakeven line, and the family is not able to make ends meet again until Stephanie is earning more than \$18 an hour, or more than \$37,000 a year. Upon reaching this earnings level, however, the family faces another cliff when Stephanie is earning about \$23 an hour (over \$47,500 a year) and her family reaches the eligibility limit for the children's public health insurance program. The example of the Roberts family shows how work support programs can significantly impact a family's bottom line; similar effects of work supports on other families' net resources can be seen in different locations across the country.²⁷

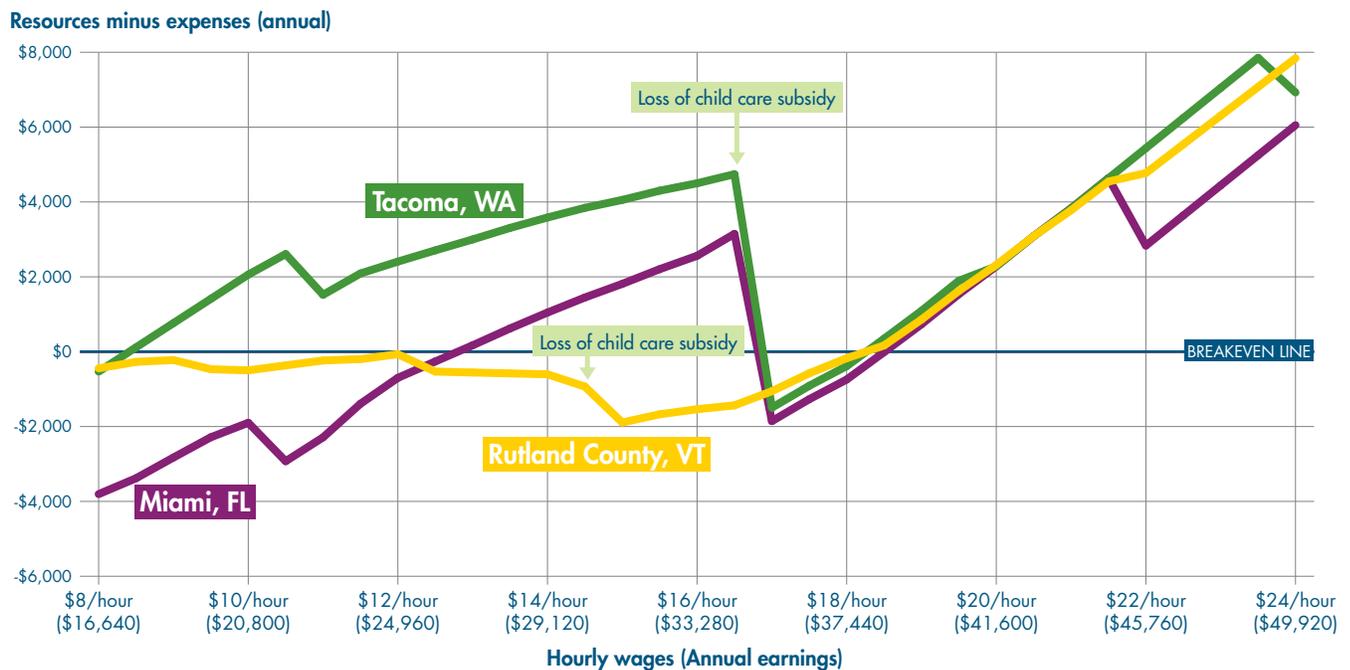
In contrast to the cliffs created by the loss of SNAP, the child care subsidy, and public health insurance, the loss of federal and state tax credits phase out gradually as Stephanie's earnings increase from \$16 an hour to \$22 an hour. Still, even state and federal earned income tax credits phase out when the family is unable to make ends meet and is more vulnerable to benefit losses. A comprehensive work support system should phase out benefits slowly

and ensure that a family with additional income is always better off financially.

Different benefit phase-out rates are illustrated in Figure 7, which shows the net family resources of a single-parent family with two children as the parent's earnings increase in three different locations: Rutland County, VT; Tacoma, WA; and Miami, FL. In Tacoma and Miami, the family faces steep benefit cliffs as the parent's earnings increase as a result of the work support program's structures in those states; in both locations, for example, the families face a large benefit cliff when the parents are earning around \$17 an hour and the families becomes ineligible for a child care subsidy. In Vermont, on the other hand, the family does not experience these large benefit cliffs; the cliffs are mitigated because the state's work support programs are structured to phase out gradually while the parent's income increases.

However, even without steep benefit cliffs, the difficulty of getting ahead remains a challenge in Vermont as multiple benefits phase out quickly and simultaneously. Despite the different cliff patterns,

Figure 7. Net Family Resources: Localities in Vermont, Washington, and Florida
Single parent with two children, one preschool-aged and one school-aged



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

in all three locations the family is not able to afford basic living necessities until the parent is earning about \$17 an hour (over \$35,000 a year). Moreover, the families receive little financial benefit as the parents' earnings increase from \$9 to \$18 an hour. Across all states, the reality is that combination of barriers to benefit participation, inadequate benefit levels, low income eligibility limits and large benefit cliffs keep many families from getting ahead.

As the analyses presented in this report have shown, many parents across the country are struggling to

afford the high cost of their family's basic living necessities. Neither full-time employment nor the current federal and state work support system ensure that parents are able to adequately provide for their families. Although the work support system has the potential to help families deal with these high living costs, the variation of work support policies across states as well as the benefit cliffs created by the current work system fails to create a comprehensive system of support for America's low-wage working parents.

Policy Priorities for a Modernized Federal Work Support System

Over the past decade, many states have taken significant steps to promote the economic security of low-income families, including increasing access to child care subsidies and public health insurance as well as implementing refundable state earned income and child care tax credits. At the same time, however, states have limited discretion regarding some of the major federal benefits for low-income working families, including the federal EITC, SNAP, and Section 8 housing vouchers. Additionally, state budget limitations and balanced budget requirements mean that states don't have the funds needed to adequately expand supports.

Thus, federal policy reform is essential to ensuring that low-income families across America are able to succeed. In the 1990s, important federal advances included substantial expansions of the federal EITC, an increased investment in child care assistance, and the creation of the State Children's Health Insurance Program (CHIP).²⁸ Since then, however, the federal government has lagged behind the states in efforts to help working families. Recent federal steps, such as the reauthorization of CHIP and the additional dollars for child care and expanded income tax credits temporarily established by the American Recovery and Reinvestment Act of 2009 (ARRA), are promising. But a more substantial – and permanent – increased investment is needed.

Increased federal investment is critical in constructing a comprehensive work support system that encourages and rewards employment and provides individuals with enough resources to

afford basic living expenses. Reforms are needed on the federal level to create a comprehensive work support system that supports our country's hard-working families. This modernized work support system should accomplish two goals: (1) provide adequate family resources so that all full-time workers can afford the cost of basic living necessities and (2) reward advancement in the workplace so that an increase in earnings means that a family is always better able to afford living expenses.

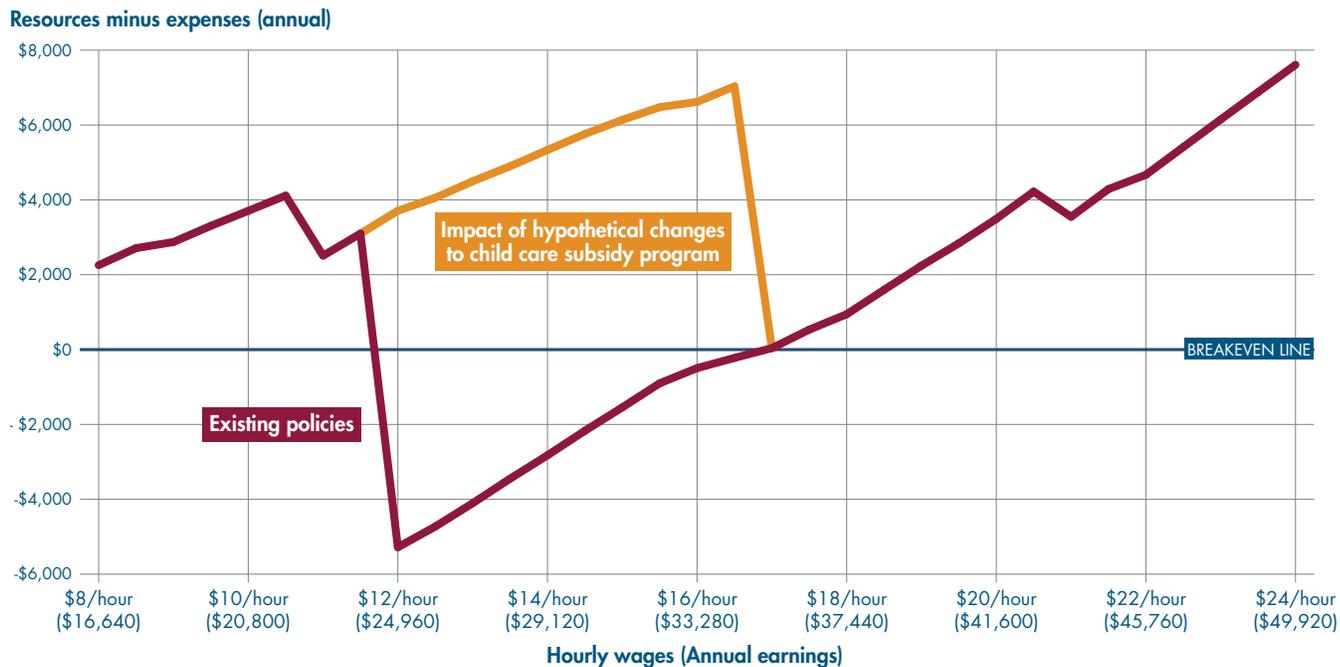
Federal priorities for a comprehensive work support system should include addressing the high cost of families' basic living necessities, including child care and housing; expanding tax breaks and credits, including the EITC, for low- and moderate income families; and phasing out income supports more slowly. A larger federal investment is particularly important in times of economic downturn, when benefits need to expand to reflect the growing number of struggling families but balanced budget requirements at the state level can lead to benefit cuts instead.

Addressing the High Cost of Basic Living Expenses

To address the increasingly high cost of families' basic expenses, additional federal investments in affordable child care, subsidized health insurance, and housing assistance are necessary. Access to these programs needs to be expanded to provide assistance to a larger number of low- and moderate-income parents and children who are struggling to afford these basic living expenses.

Figure 8. Impact of Hypothetical Policy Reform: Cedar Rapids, IA

The Davises, a single parent family with two children, one preschool-aged and one school-aged



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

Child care subsidy programs should be expanded to ensure that families are able to afford high quality care, which is often families' most expensive budget item. Child care subsidies that provide an adequate benefit level should be available to families with income up to *at least* 200 percent of the poverty level across the United States, and assistance will need to extend higher in many high-cost localities. Figure 8 demonstrates the impact of expanding the child care subsidy income limit to 200 percent of the federal poverty level for the Davis family in Cedar Rapids, IA; in this example, the family's copayments also continue to increase with income. This change to the child care subsidy program somewhat reduces the size of the child care cliff that the Davis family and families across the state of Iowa face. The policy change also modifies the program so that Iowa's families experience the cliff when they have higher earnings and are better able to deal with the loss of the child care subsidy.

Increases in federal housing assistance programs should also be made. Along with child care, rent and utilities are typically families' largest expenses.

Currently, public housing and the housing voucher programs in many localities are closed or have very long waiting lists.²⁹ Thus, the current federal housing assistance program reaches only a fraction of low-income families, and improvements could be made to help families, especially those with non-full-time workers, struggling to afford the high cost of housing.

Additional federal investments that can help families afford the high cost of their basic living expenses include increased public health insurance access. Health care reform that ensures that working parents – as well as their children – have access to public coverage when employer-based benefits are unavailable or inadequate is essential to families' economic security, and family contributions for these programs should also rise with income. Providing health insurance coverage for parents has important implications for both family and children's wellbeing, and as the nation debates health care reform, the importance of affordable health insurance coverage for parents and their children should be at the forefront of discussions.³⁰

Federal investments could also be made to ensure that all families eligible to receive benefits do so. Additional outreach efforts as well as changes to current application and recertification procedures will enable more eligible families to receive much-needed support in affording basic living expenses (see box).

Increasing Benefit Access by Addressing Work Support Barriers to Participation

Improving work support service delivery can ensure that more families who are currently eligible for work support programs receive benefits. Implementing federal, state, and local policies and practices that address certain barriers to benefit access, including program complexity, stigma, and burdensome application requirements, can enhance service delivery.

Improved service delivery policies should address the persistent association between welfare and work supports, which contributes to some families' reluctance to apply for benefits as well as other families who have never received cash being among the least likely to know about benefits or that they might be eligible. Furthermore, these policies should also address the lengthy and sometimes intimidating application process for work support benefits. Currently, many work support applicants and recipients encounter negative staff attitudes towards them as well as endure invasive processes of income verification, which can include fingerprinting.³¹ Furthermore, the processes involved in applying and receiving benefits can include long office waits, limited office hours, waiting lists, unclear application procedures, and burdensome recertification requirements.³²

Expanding Tax Breaks for Low- and Moderate-Income Families

Additional federal investments in the work support system should include expanding tax breaks for low- and moderate-income families. The American Recovery and Reinvestment Act of 2009 (ARRA) and President Obama's budget plan provide some federal investments aimed to temporarily lessen the burden for low- and moderate-income families. These investments created the new Making Work Pay Credit and modified two existing credits, the EITC and the Child Tax Credit.

The Making Work Pay Credit gives a refund of up to \$400 (or \$800 for couples) in Social Security payroll taxes for taxpayers earning up to \$95,000 a year (\$190,000 for couples), providing important relief to millions of low- and moderate-income families paying more in payroll taxes than in income taxes. Expansions to the EITC allow families with three or more children to receive a somewhat larger credit and reduce the marriage penalty by increasing the income limit for married filers. The Child Tax Credit was expanded to more low-income families so that families with children can now qualify for a portion of this credit once income exceeds \$3,000 a year, as opposed to \$12,550 under prior law.

These tax policy changes are only in effect for tax years 2009 and 2010, and thus, further investments are necessary to create a truly comprehensive work support system.³³ The federal child tax credit should be made fully refundable so that the lowest income families may benefit. Further expansions to the EITC, including increasing the income limit, could provide additional benefits to moderate-income families who are struggling to afford the increasing costs of daily living expenses.

Modifying the Structure of Work Support Benefits

Federal work support reform should also focus on modifying benefit programs' structures to encourage and reward employment advances, such as additional earnings from a raise or additional work hours. Benefits should be phased out more slowly in order to minimize benefit cliffs, ensuring that a family is always better off after an increase in earnings. Additional modifications can be made to certain programs' structures, such as the child care subsidy program, so that families' contributions gradually increase as income rises and steep benefit cliffs are avoided.

A modernized work support program should also be mindful of the interactions among various work support benefit programs; eligibility rules and phase-out rates should be coordinated so that a family doesn't lose multiple benefits simultaneously. A work support system that takes these issues into consideration will better support low-wage workers and their advancement toward financial self-sufficiency.

Towards A Work Support System that Works

The current work support system in the United States falls short of providing our country's workers with the resources necessary to adequately provide for their families. The rising costs of living across the country, coupled with the current patchwork of federal and state work support policies, leave many hard-working families struggling to make ends meet. Increased federal investments are necessary to address the growing gap between parents' low earnings and their family's high expenses. Federal priorities should include additional assistance to

help families afford the high cost of child care and housing, and further investments should focus on increasing the tax breaks, including an expansion of the EITC, for these struggling families. These increased investments will help to create a modernized work support system that encourages and rewards work as well as provides all low- to moderate-income American workers with the assistance needed to afford their families' basic living expenses.

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7. Expense data and tax and benefit rules reflected in report are from 2007 to 2009 depending on the state; some policies may have changed.

8. In this report, full-time employment is defined as 40 hours per week, 52 weeks per year.

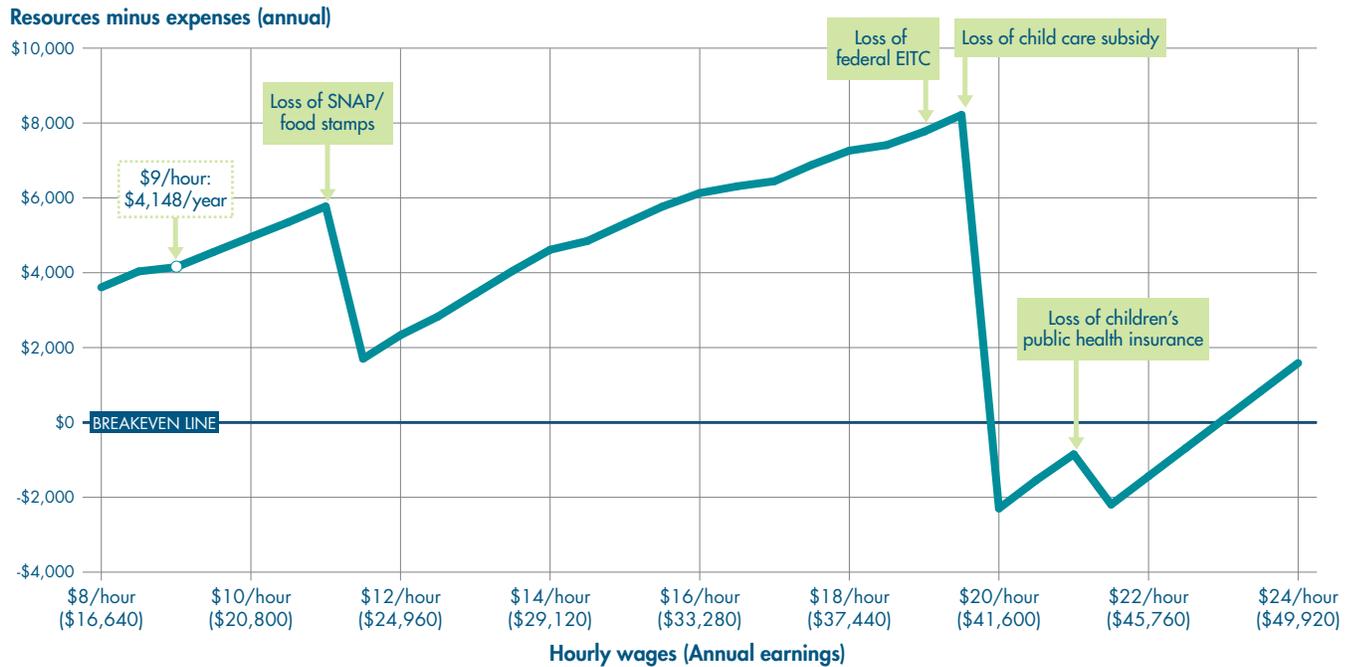
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10. Figures in this report assume that the family has employer-based health coverage. In reality, employer-based health plans are becoming increasingly unavailable, and the majority of low-income workers lack such benefits. Clemans-Cope, Lisa; Garrett, Bowen; Hoffman, Catherine. 2006. *Changes in Employees' Health Insurance Coverage, 2001-2005*. Washington, DC: Kaiser Commission on Medicaid and the Uninsured, Henry J. Kaiser Family Foundation

11. For more information about the methodology used to estimate the cost of basic family expenses, see the Basic Needs Budget Calculator Methodology document at: http://nccp.org/popup.php?name=budget_methodology.

12. For these and other family budgets, see NCCP's Basic Needs Budget Calculator at: www.nccp.org/tools/budget.
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Appendix Figure 1. Net Family Resources as Earnings Increase: Denver, CO
 Single parent with two children, one preschool-aged and one school-aged



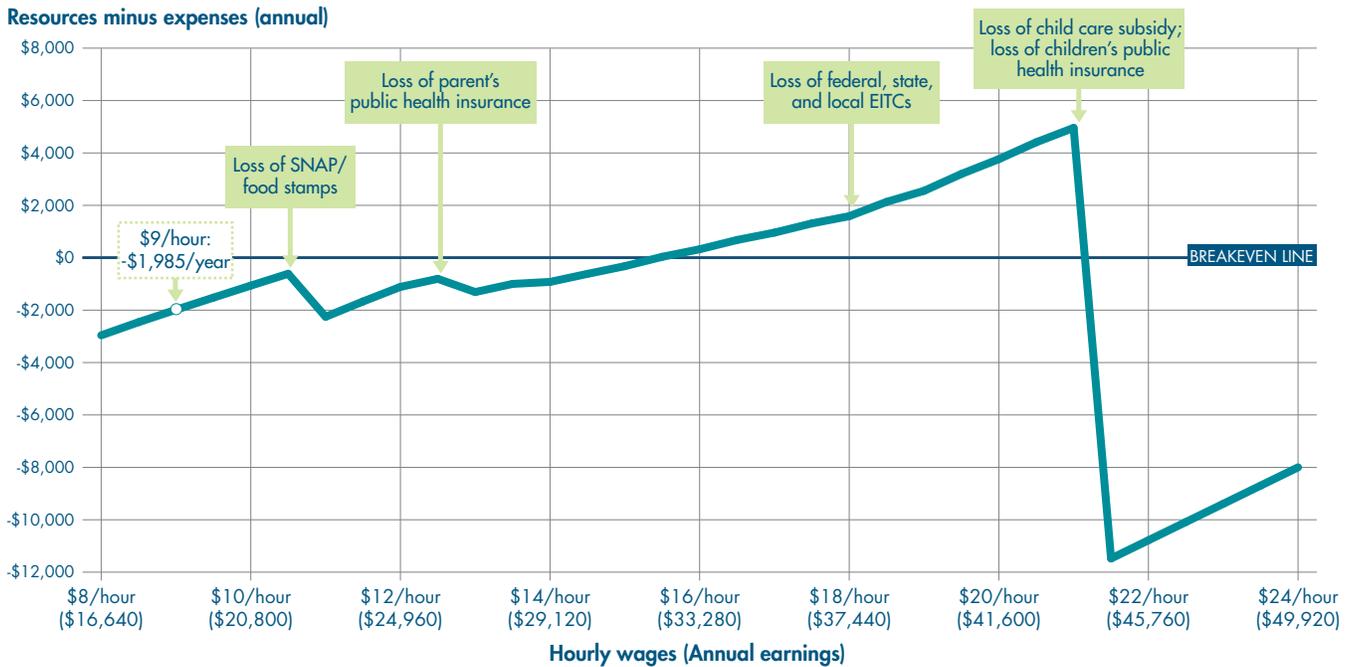
Source: NCCP's Family Resource Simulator, Colorado 2009 <www.nccp.org/tools/frs>. When eligible, the family receives the following work supports: federal and state tax credits, SNAP/food stamps, public health insurance, and a child care subsidy.

Appendix Figure 2. Net Family Resources as Earnings Increase: New Orleans, LA
 Single parent with two children, one preschool-aged and one school-aged



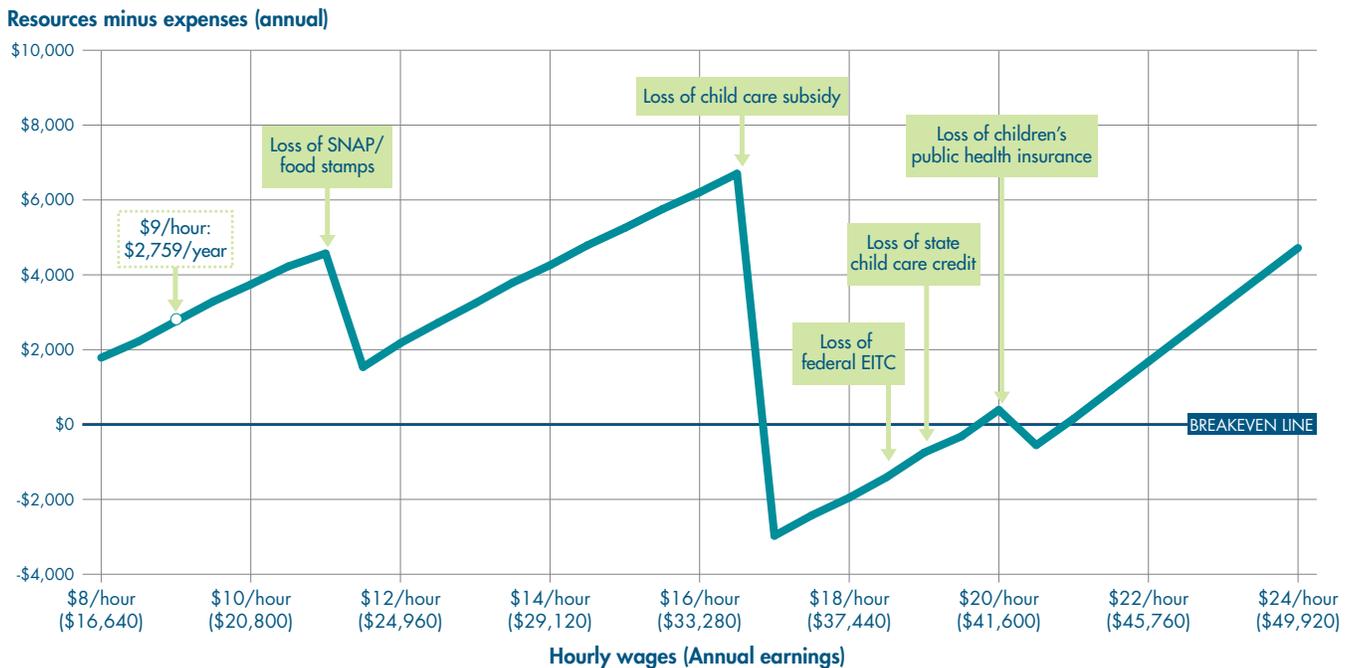
Source: NCCP's Family Resource Simulator, Louisiana 2009 <www.nccp.org/tools/frs>. When eligible, the family receives the following work supports: federal and state tax credits, SNAP/food stamps, public health insurance, and a child care subsidy.

Appendix Figure 3. Net Family Resources as Earnings Increase: New York, NY
 Single parent with two children, one preschool-aged and one school-aged



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

Appendix Figure 4. Net Family Resources as Earnings Increase: Columbus, OH
 Single parent with two children, one preschool-aged and one school-aged



Source: NCCP's Family Resource Simulator, Ohio 2009 <www.nccp.org/tools/frs>. When eligible, the family receives the following work supports: federal and state tax credits, SNAP/food stamps, public health insurance, and a child care subsidy.



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