



## Making Work Supports Work

### *Tools for Policy Analysis*

February 2010

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).



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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 (or under development) for 22 states, with more than 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.

## 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.<sup>1</sup> Consider, for example, a single parent living in Denver 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.<sup>2</sup> 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 family crisis such as job loss, illness, death of a parent, or even natural disaster.

**Figure 1. Basic Needs Budget: Denver, CO**

Single parent with two children, ages 3 and 6

	Annual	Monthly
Rent and utilities	\$10,692	\$891
Food	\$5,977	\$498
Child care (center-based)	\$17,364	\$1,447
Health insurance premiums (employer-based)	\$2,851	\$238
Out-of-pocket medical	\$540	\$45
Transportation	\$1,536	\$128
Other necessities	\$4,001	\$333
Payroll taxes	\$3,667	\$306
Income taxes (includes credits)	\$1,302	\$109
<b>TOTAL</b>	<b>\$47,930</b>	<b>\$3,406</b>
Hourly wage needed: \$23/hour		
Percent of the federal poverty level: 262%		

Source: NCCP's Basic Needs Budget Calculator, Colorado 2009 <[www.nccp.org/tools/budget](http://www.nccp.org/tools/budget)>. Data reflect costs in 2009. Results assume that children are in center-based settings while their parents work, the older child is in after-school care, and family members have employer-based health coverage.

### 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 \$9 an hour – or \$18,720 a year. The first column shows that without work supports, the family faces a gap of more than \$25,000 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, SNAP/food

**Figure 2. Impact of Work Supports: Denver, CO**

Single parent with two children, ages 3 and 6 (assumes full-time employment at \$9/hour)

	Employment alone (no benefits; no tax credits)	Employment plus • federal and state tax credits • SNAP/food stamps • public health insurance for children	Employment plus • federal and state tax credits • SNAP/food stamps • public health insurance for children • child care subsidy
<b>Annual Resources (cash and near-cash)</b>			
Earnings	\$18,720	\$18,720	\$18,720
Federal EITC	\$0	\$4,544	\$4,544
Federal Making Work Pay Credit	\$0	\$400	\$400
Federal Child Tax Credit	\$0	\$2,000	\$2,000
Federal Child and Dependent Care Tax Credit	\$0	\$0	\$0
State Child Care Tax Credit	\$0	\$0	\$0
SNAP/Food stamps	\$0	\$5,291	\$5,291
<b>Total Resources</b>	<b>\$18,720</b>	<b>\$30,955</b>	<b>\$30,955</b>
<b>Annual Expenses</b>			
Rent and utilities	\$10,692	\$10,692	\$10,692
Food	\$5,977	\$5,977	\$5,977
Child care (center-based)	\$17,364	\$17,364	\$2,052
Health insurance premiums	\$2,851	\$717	\$717
Out-of-pocket medical	\$540	\$0	\$0
Transportation	\$1,536	\$1,536	\$1,536
Other necessities	\$4,001	\$4,001	\$4,001
Payroll taxes	\$1,432	\$1,432	\$1,432
Income taxes (excluding credits)	\$0	\$0	\$0
<b>Total Expenses</b>	<b>\$44,393</b>	<b>\$41,719</b>	<b>\$26,407</b>
<b>Net Resources: Resources minus Expenses</b>	<b>-\$25,673</b>	<b>-\$10,764</b>	<b>\$4,548</b>

Source: NCCP's Family Resource Simulator, Colorado 2009 <[www.nccp.org/tools/frs](http://www.nccp.org/tools/frs)>.

stamps, and public health insurance for children – the gap between the family’s resources and expenses shrinks significantly. Even so, the family faces a large annual deficit of \$10,764. 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 \$4,548 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.<sup>3</sup>

### 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.<sup>4</sup> Returning again to a single parent with two children living in Denver, Figure 3 illustrates how net family resources – that is, resources after subtracting the cost of basic expenses – change as earnings increase.

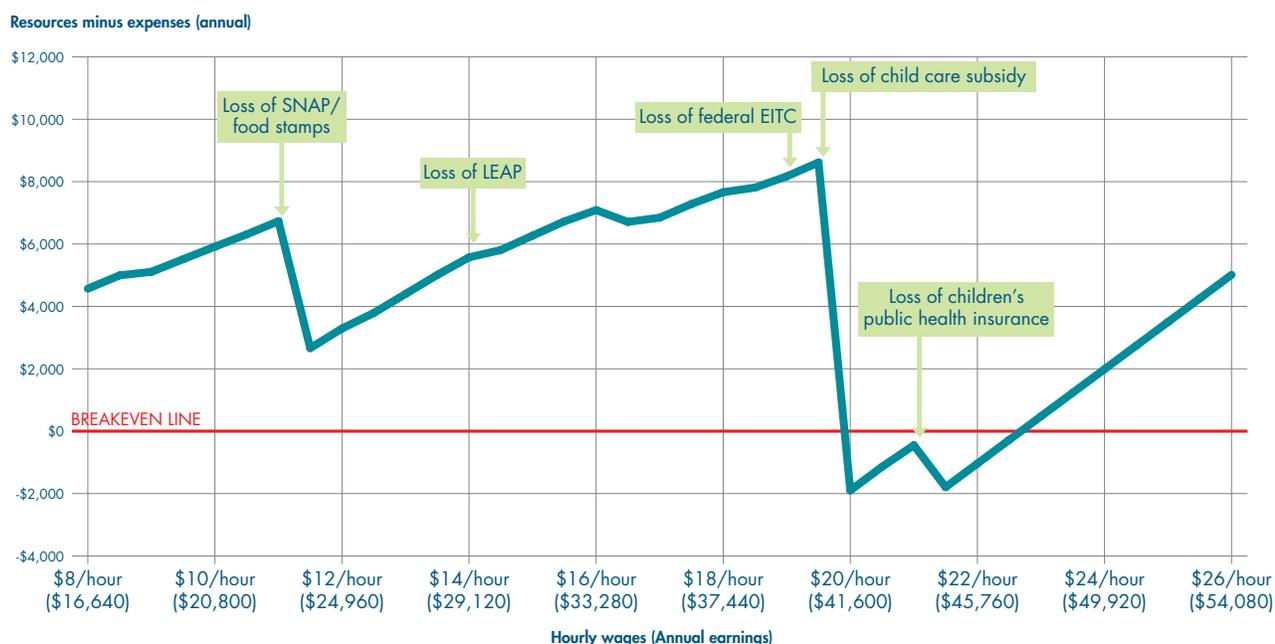
This example assumes that the family receives several work support benefits – including a child care subsidy – so that the parent is able to make ends meet with a full-time, \$8-an-hour job. But as wages increase from \$8 to \$20 an hour, the family experiences a substantial decline in its financial bottom line.

- ◆ When wages reach \$11.50 an hour, the family loses thousands of dollars in food stamp benefits.

- ◆ At \$19.50 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 EITC 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 \$17.50 an hour.

**Figure 3. Net Resources as Earnings Increase: Denver, CO**

Single parent with two children, ages 3 and 6



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, LEAP, public health insurance for children and a child care subsidy.

## Helping Policymakers Find Solutions

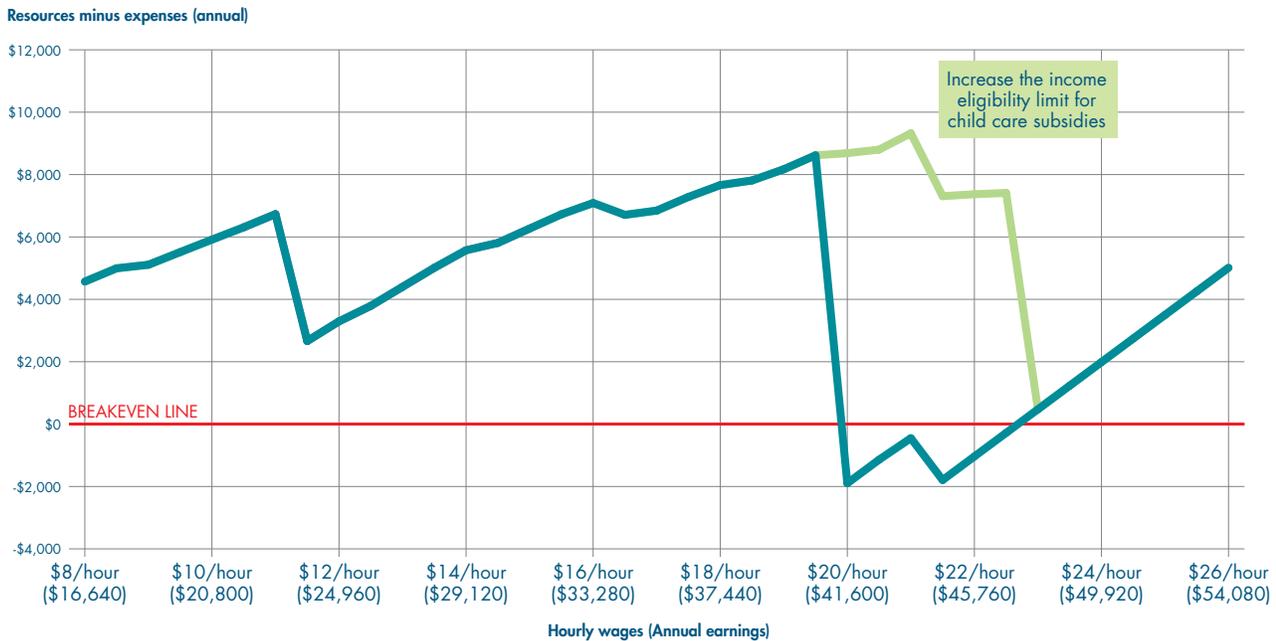
Through Making Work Supports *Work*, NCCP and its partners identify state and federal reforms to better meet the needs of low-wage workers and their families.<sup>5</sup> The impact of the child care subsidy cliff could be softened by increasing the income eligibility limit. Figure 4 illustrates the 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.<sup>6</sup> With these strategies, policymakers can create a work support system designed to truly make work pay.

**Figure 4. Impact of Hypothetical Policy Reforms: Denver, CO**

Single parent with two children, ages 3 and 6



Source: NCCP's Family Resource Simulator, Colorado 2009 <[www.nccp.org/tools/frs](http://www.nccp.org/tools/frs)>. When eligible, the family receives the following work supports: federal and state tax credits, SNAP/food stamps, LEAP, public health insurance for children, 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. Zedlewski, Sheila; Adams, Gina; Dubay, Lisa; and Kenney, Genevieve. 2006. *Is There a System Supporting Low-Wage Working Families?* Washington, DC: The Urban Institute.

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 Purmort, Jessica. 2010. *Making Work Supports Work: A Picture of Low-wage Work in America*. New York, NY: National Center for Children in Poverty, Columbia University Mailman School of Public Health.
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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