

Do “Work Support” Policies Effectively Support Work?

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Millions of this country’s children have parents who work yet do not earn enough to cover the cost of basic family necessities. On average, families in the United States need an income of about twice the official poverty level—about \$34,000 a year for a family of three—to cover basic expenses. That’s more than twice the earnings of a full-time, year-round worker making, for example, \$8 an hour. To help make ends meet, many low wage workers turn to public “work support” benefits for assistance. Such benefits include earned income tax credits, health insurance coverage, child care assistance, and food stamps.

To encourage employment as the primary path to financial security for all who can work, a comprehensive work support system should accomplish two goals: First, it should provide adequate family resources. If parents work full-time, their earnings, combined with public benefits, should provide the resources necessary to cover basic family expenses. Second, it should reward progress in the workforce. When parents’ earnings increase, their families should always be better off.

But are our public policies effective in supporting work? In some states, policies are generally successful in meeting the first goal of providing adequate family resources. In others, parents are unable to afford basic expenses even with a full-time job and multiple benefits. No matter where a family lives, however, rewarding advancement in the workforce remains a challenge. Small increases in family income can trigger sharp reductions in benefits, leaving families no better off—or even worse off—than before.

Angela and Her Family, with Work Supports and Without

As an example, consider Angela—a single parent living in Chicago with two children, one preschool-aged and one school-aged. Angela has a full-time job, working 40 hours a week, 52 weeks a year. She earns \$8 an hour, for annual earnings of close to \$17,000—approximately the poverty level for a family of three.

Using results from the Family Resource Simulator, a policy analysis tool developed by the National Center for Children in Poverty, we find



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that full-time, low-wage workers in Chicago cannot afford basic family necessities—including housing, food, health care, child care, and transportation—without the help of public work supports. Without such benefits, a single-parent family of three needs about \$36,000 a year to cover basic expenses in Chicago. That’s more than double the poverty level and the equivalent of full-time earnings at about \$17 an hour.

To help low-wage workers provide for their families, Illinois provides a number of important work support benefits. Supports for workers are more generous in Illinois than in many other states, and with their help, Angela can make ends meet (See Figure 1). With a full-time job at \$8 an hour plus federal and state earned income tax credits, public health insurance

Figure 1: **Angela’s Resources and Expenses with Full-time Employment at \$8/hour**

| | Employment <i>plus</i> • EITCs • Food stamps • Public health insurance • Child care subsidy | Employment <i>plus</i> • EITCs • Food stamps • Public health insurance | Employment <i>plus</i> • EITCs | Employment alone (no work supports) |
|--|---|---|-----------------------------------|--|
| Annual Resources | | | | |
| Earnings | \$16,640 | \$16,640 | \$16,640 | \$16,640 |
| Federal EITC | \$4,158 | \$4,158 | \$4,158 | \$0 |
| State EITC | \$208 | \$208 | \$208 | \$0 |
| Food Stamps | \$3,005 | \$3,977 | \$0 | \$0 |
| Total Resources | \$24,011 | \$24,983 | \$21,006 | \$16,640 |
| Annual Expenses | | | | |
| Rent and Utilities | \$10,812 | \$10,812 | \$10,812 | \$10,812 |
| Food | \$5,302 | \$5,302 | \$5,302 | \$5,302 |
| Child Care* | \$962 | \$9,924 | \$9,924 | \$9,924 |
| Health Insurance* | \$0 | \$0 | \$2,212 | \$2,212 |
| Transportation | \$900 | \$900 | \$900 | \$900 |
| Other Necessities | \$4,351 | \$4,351 | \$4,351 | \$4,351 |
| Payroll and Income Taxes | \$791 | \$791 | \$791 | \$791 |
| Total Expenses | \$23,118 | \$32,080 | \$34,292 | \$34,292 |
| Net Resources (Resources minus Expenses) | \$893 | -\$7,097 | -\$13,286 | -\$17,652 |

*This chart shows income and expenses from the perspective of the family. Because health insurance and child care benefits are paid directly to the provider, families experience them as reduced expenses rather than increased income.

Source: Analysis based on NCCP’s Family Resource Simulator, Illinois 2006 (www.nccp.org), with the following assumptions: 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.

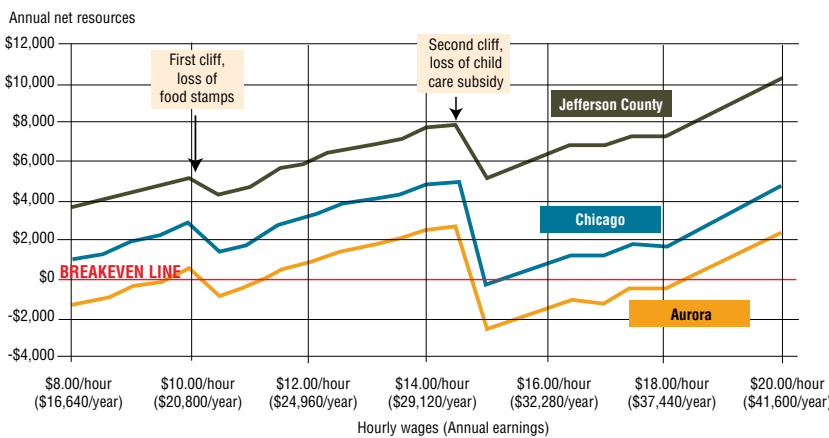
coverage, child care assistance, and food stamps, her family has a small surplus of about \$900 left at the end of the year after basic expenses are paid.

In practice, however, few families receive all of the benefits for which they are eligible. Without a child care subsidy, Angela would be more than \$7,000 short on annual expenses—even with tax credits, food stamps, and public health insurance. Without any work support benefits, Angela’s family would face a staggering annual deficit of close to \$18,000.

Angela Gets a Raise, the Family’s Resources Plummet

Eligibility for work support programs is typically based on income, so as families make progress in the workforce—and particularly as their earnings rise above the official poverty level—they begin to lose eligibility for benefits. In some cases, eligibility rules mean that even a small raise can lead to a substantial benefit loss, which is often referred to as a “cliff.” As a result, parents can work and earn more with no financial benefit for their families. Indeed, as parents’ earnings rise, their families may actually be worse off. For example, under federal rules, when a family’s total income exceeds 130 percent of the official poverty level, the

Figure 2: Change in Net Resources as Earnings Increase, Single Parent with Two Children in Three Illinois Localities



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 EITC, food stamps, public health insurance, and child care subsidy

Source: Analysis based on NCCP’s Family Resource Simulator, Illinois 2006 (www.nccp.org), with the following assumptions: 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.

family loses its entire food stamp benefit.

Figure 2 shows how increases in Angela’s earnings would affect the net resources available to her family (see the blue line for Chicago results). As we saw in Figure 1, Angela is able to make ends meet by combining full-time earnings at \$8 an hour with tax credits, public health insurance coverage, child care assistance, and food stamps. But as her wages rise above \$8 an hour, her family’s net resources fluctuate.

Angela faces two significant benefit cliffs—the loss of food stamps when her wage hits \$10.50 an hour and the loss of child care assistance when her hourly wage reaches \$15. The loss of child care assistance causes the family’s net resources to drop below zero—that is, the “Breakeven

Line”—the point at which total resources equal basic expenses. Thus at \$15 an hour in wages, Angela’s family faces a deficit of about \$500.

To make matters worse, an additional increase in Angela’s hourly wage from \$15 to \$16.50 puts her over the income eligibility limit for public health insurance (though her children remain covered). While this example assumes that Angela’s employer offers health insurance, in reality, only a minority of employers provide this benefit to low-wage workers. Without employer-based health insurance, Angela would likely become uninsured, as she would be unable to afford coverage on the open market.

The most striking part of this scenario is that as Angela’s earnings double from \$8 to \$16 an hour, her family actually loses ground. Only when Angela’s earnings exceed \$18 an hour—the equivalent of about \$37,000 annually—do further wage increases lead to steady improvements in her family’s bottom line.

While the cost of living varies across the state of Illinois, the same basic findings hold. Throughout the state, it takes far more than poverty-level wages to make ends meet. In rural Jefferson County, for example, a single parent with two children must earn roughly \$29,000 a year—the equivalent of a full-time job at \$14 an hour—to cover basic needs without the help of work supports. In suburban Aurora, on the other hand, a single parent needs full-time employment at \$19 an hour to cover basic expenses for herself and two children.

Moreover, while work supports can help, benefit cliffs mean that working more does not always provide increased self-sufficiency. Figure 2 shows how net resources change as income rises for a single-parent family of three living in Chicago, rural Jefferson County and suburban Aurora. While the level of net resources varies across these localities, the pattern of fluctuation is the same.

Work Supports and the American Dream

The inability to gain financial ground through hard work and higher earnings can have serious consequences for low-income families. Workers are forced to choose between their long-term success in the workforce and their family’s immediate financial stability. If workers feel compelled to turn down small raises or additional hours of work to retain their health insurance or child care benefits, they lose future opportunities for promotion.

They have little incentive to work harder or to invest in training and education that would, in the short run, have little net payoff. In this way, our current work support system betrays the promise of the American dream.

This article is adapted from *Supporting Work in Illinois: The Challenges Ahead* by Kinsey Alden Dinan and Nancy K. Cauthen at the National Center for Children in Poverty (www.nccp.org).



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