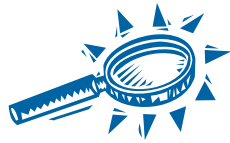




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# Blueprint Brief



A closer look at the research in  
**Blueprint for Opportunity:**  
**Issues that matter • Ideas that work**

Blueprint Brief No. 7

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## The cliff effect: A barrier to economic well-being and opportunity

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A full-time job at low wages is often not enough to support a family. For many low-income families, working hard and getting a raise may actually leave them with less money. Why? The answer is the “cliff effect.”

The cliff effect occurs when a family loses eligibility to a means-tested work support benefit, such as child care assistance, food stamps or health care, due to increased earnings. This sudden drop-off in benefits can leave a family much worse off financially than it was before the breadwinner took a promotion or raise.

One example of the cliff effect is when low-income working parents lose child care subsidies. Colorado Child Care Assistance Program (CCCAP) income eligibility standards vary by county. But once a working family’s earnings exceed the county’s eligibility standard, subsidies come to an abrupt end.

To show how a wage increase and the loss of child care assistance can push a family over a financial cliff, consider this hypothetical situation: a single mother with one infant and one preschooler receives a 53 cents per hour raise to \$12.50 per hour. This raise puts her earnings over the eligibility cut off, and she loses her child care assistance. As a result, her \$92-a-month raise ends up costing \$786 per month because of the lost child care assistance.

Table 1 illustrates this family’s cliff effect experience. Our single mother works full-time at \$11.97 per hour or \$24,900 a year. This places her at 150 percent of the federal poverty level for a family of three, so she qualifies for a child care subsidy of \$878 per month. Although her wage is nearly \$7 an hour above minimum wage, it is well below the self-sufficiency wage of \$16.09 per hour or \$33,980 a year calculated for this family of three.

The first column of numbers shows her monthly earnings and costs without child care assistance. The gray shaded area shows her monthly income of \$2,152. Child care costs use \$1,131, or about 53 percent of the monthly income. In the end, this family’s basic needs cost more than the mother earns. Every month, she has a deficit of \$1,078.

*The cliff effect occurs when a family loses eligibility to a work support benefit, such as child care assistance, food stamps or health care, due to increased earnings.*

*Once a working family’s earnings exceed the county’s eligibility standard, subsidies come to an abrupt end.*

*This sudden drop-off in benefits can leave a family much worse off financially than it was before the breadwinner took a promotion or raise.*

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The situation changes considerably when she receives \$878 in CCCAP subsidies, as shown in the second column. Earnings stay the same, but child care consumes only 12 percent of the family budget and the monthly shortfall drops to \$200.

In the third column, the cliff effect hits. When our single mother receives her 53-cent raise to \$12.50 per hour, she now earns more than 150 percent of the federal poverty level. She loses her child care subsidy. The extra \$92 per month in earnings costs her \$878 per month in lost child care subsidies, for a net loss of \$786 per month. She ends the month with a deficit of \$986.

Table 1. Basic needs budget for a family of three, with and without child care subsidies, 2004

Monthly costs	\$11.97 an hour (150 percent of FPL) No CCCAP	\$11.97 an hour (150 percent of FPL) With CCCAP	\$12.50 an hour No longer qualifies for CCCAP
Housing	\$745	\$745	\$745
Child care	\$1,131	\$253	\$1,131
Food	\$358	\$358	\$358
Transportation	\$230	\$230	\$230
Health care	\$227	\$227	\$227
Miscellaneous	\$269	\$269	\$269
Taxes	\$270	\$270	\$270
Earnings	\$2,075	\$2,075	\$2,167
Child Care Tax Credit	\$77	\$67	\$77
Total income	\$2,152	\$2,152	\$2,244
Total expenses	\$3,230	\$2,352	\$3,230
<b>Income shortfall</b>	<b>– \$1,078</b>	<b>– \$200</b>	<b>– \$986</b>

Source: Calculations are based on data from the Self-Sufficiency Standard for Colorado 2004 prepared for the Colorado Fiscal Policy Institute and Colorado Division of Child Care subsidy eligibility levels for an urban county in Colorado, 2004.

To assist low-income workers, the federal and state governments provide work support programs to help families move toward self-sufficiency. But when these programs end abruptly, they do not reward increased earnings. Instead, they create financial cliffs.

Research suggests the cumulative effect is severe, because work support programs are designed independently from one another and have varied eligibility standards.<sup>1</sup>

The state government must examine the complexities of work support programs and create a comprehensive system that increases eligibility limits and phases benefits out gradually to avoid steep financial cliffs for working families.



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**✓ Eliminate the “cliff effect” of policies that inadvertently punish families for increasing their earnings.**

*The next governor and legislature should commit to eliminating the cliff effect from all state programs. They should review all the programs and laws involved and the interactions among them, and implement a comprehensive solution as soon as possible.*

*A key component should be a sliding eligibility scale that gradually phases out benefits so a family never loses more than it gains when its income increases.*

## End Notes

<sup>1</sup> N.K. Cauthen (2006). *When work doesn't pay: What every policymaker should know*. National Center for Children in

Poverty, Columbia University School of Public Health, New York City, N.Y. <http://www.nccp.org/pub/wdp06.html>