

# THE CLIFF EFFECT

ONE STEP FORWARD, TWO STEPS BACK



## *Removing Barriers to Economic Mobility*

*@ Tri-Cap's 3<sup>rd</sup> Annual Poverty  
Simulator*

# Thank You!



*As Indiana's oldest and largest community foundation, The Indianapolis Foundation (a CICF affiliate) was created in 1916 to ensure that the quality of life in Marion County continuously improves; to help where the needs are greatest and the benefits to the community are the most extensive; and to provide donors a vehicle for using their gifts in the best possible way now, and in the future as conditions in the community change.*

[www.cicf.org/the-indianapolis-foundation](http://www.cicf.org/the-indianapolis-foundation)

# Thank You!



*The National Center for Children in Poverty (NCCP) is one of the nations' leading public policy centers dedicated to promoting the economic security, health, and well-being of America's low-income families and children. NCCP uses research to inform policy and practice with the goal of ensuring positive outcomes for the next generation. We promote family oriented solutions at the state and national levels.*

<http://www.nccp.org/>

# About Us...



## The Indiana Institute for Working Families

*The Indiana Institute for Working Families conducts research and promotes public policies to help Hoosier families achieve and maintain economic self-sufficiency.*



Indiana Institute  
for **Working Families**

*Research and Public Policy*

*Additional IIWF initiatives:*

Indiana Self-Sufficiency  
Standard Calculator



Asset & Opportunity  
**NETWORK** of Indiana

# What is Self-Sufficiency?



- Self-Sufficiency is the ability of individuals to care for their families without government support.
- Our Self-Sufficiency Standard measures how much a family of a certain composition in a given geographic location needs to meet their basic needs.
- The Standard is calculated for 70 family types in each of Indiana's 92 counties. <http://bit.ly/UntAsT>
- Generally, 200% of FPG is considered self-sufficiency
- Interactive Tool: The Self-Sufficiency Calculator  
[www.indianaselfsufficiencystandard.org/](http://www.indianaselfsufficiencystandard.org/)

# Self Sufficiency Standard Vs. Federal Poverty Guidelines

## Self-Sufficiency Standard

- Cost of basic needs based on local costs
- County specific
- Assumes all adults are working full-time
- Adjusts by family size and composition
- Includes taxes and tax credits
- Ask us how to obtain a button for your home page!

Indiana Self-Sufficiency  
Standard Calculator



## Federal Poverty Guideline

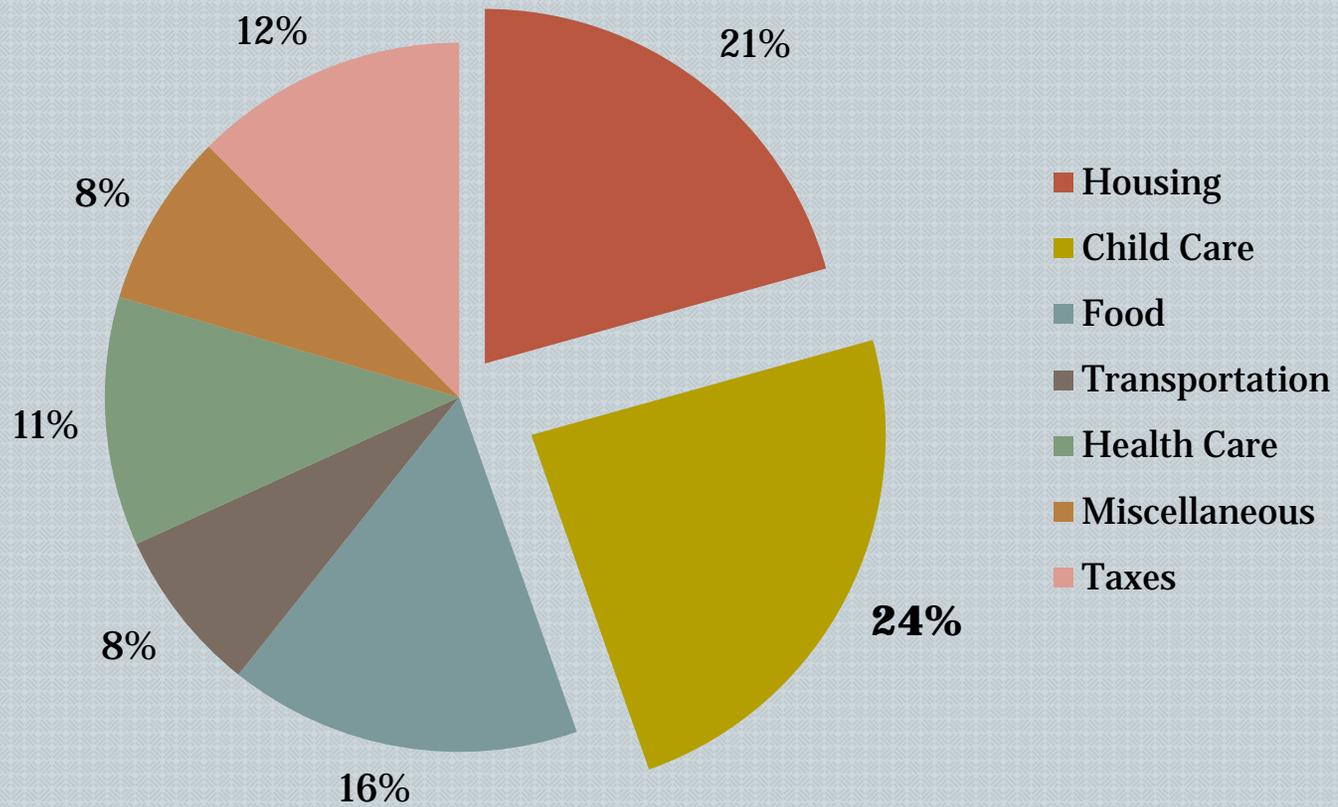
- Based solely on food costs
  - Assuming food represents 1/3<sup>rd</sup> of a families budget
- Does not take into account geographic location
- Assumes one parent stays at home and the other is working
- Adds flat rate per extra person (\$3,960 in 2009)
- Taxes not included

# Monthly Expenses Based on Standard

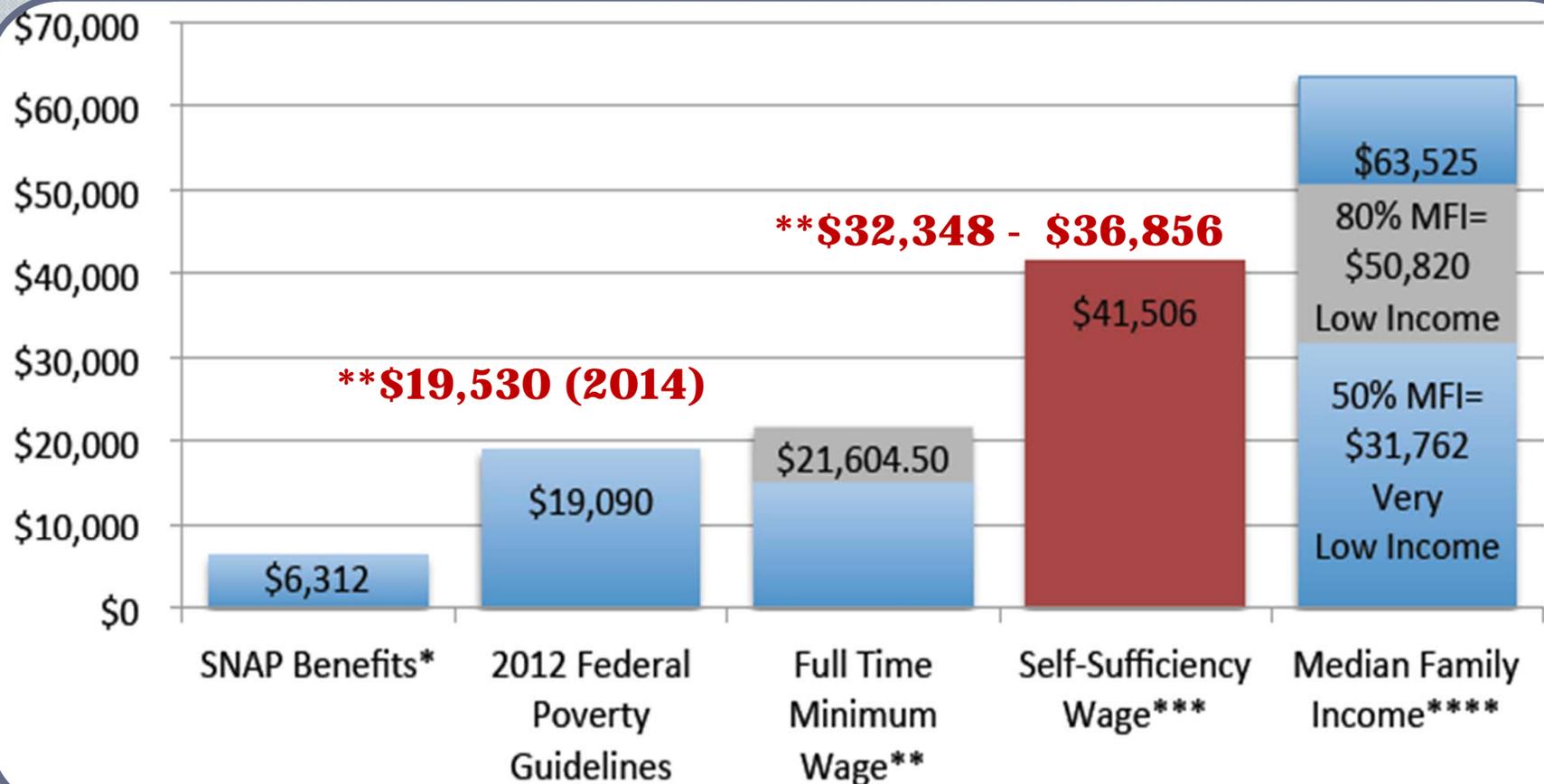
All costs are median costs across 92 counties for a family of three (1 adult, 1 preschooler, 1 school age child) using the Standard.



## Percent of All Expenses (Median)



# Self Sufficiency Wage Compared to Other Benchmarks



2009-2011, One Adult, One Preschooler, and One Schoolage Child, **Marion** County, Indiana

# How Much Income Is Required for Self-Sufficiency?



## Self-Sufficiency in Dubois, Vanderburgh and Clark Counties

One Adult, One Preschooler, and One Schoolage Child

Indiana Self-Sufficiency Standard Calculator	
Family Type: 1 Adult(s), 1 Preschool, 1 Schoolage	
<b>Dubois Self-Sufficiency Budget</b>	
Housing	\$593
Childcare	\$829
Food	\$495
Transportation	\$231
Healthcare	\$360
Misc	\$251
Taxes	\$403
Earned Income Tax Credit	-\$152
Childcare Tax Credit	-\$113
Child Tax Credit	-\$167
Work Pay Tax Credit	-\$33
<b>Hourly Wage</b>	<b>\$15.32</b>
<b>Monthly Wage</b>	<b>\$2,696</b>
<b>Annual Wage</b>	<b>\$32,348</b>

Indiana Self-Sufficiency Standard Calculator	
Family Type: 1 Adult(s), 1 Preschool, 1 Schoolage	
<b>Vanderburgh Self-Sufficiency Budget</b>	
Housing	\$682
Childcare	\$911
Food	\$501
Transportation	\$232
Healthcare	\$360
Misc	\$269
Taxes	\$502
Earned Income Tax Credit	-\$66
Childcare Tax Credit	-\$120
Child Tax Credit	-\$167
Work Pay Tax Credit	-\$33
<b>Hourly Wage</b>	<b>\$17.45</b>
<b>Monthly Wage</b>	<b>\$3,071</b>
<b>Annual Wage</b>	<b>\$36,856</b>

Indiana Self-Sufficiency Standard Calculator	
Family Type: 1 Adult(s), 1 Preschool, 1 Schoolage	
<b>Clark Self-Sufficiency Budget</b>	
Housing	\$735
Childcare	\$816
Food	\$495
Transportation	\$197
Healthcare	\$311
Misc	\$255
Taxes	\$423
Earned Income Tax Credit	-\$134
Childcare Tax Credit	-\$125
Child Tax Credit	-\$167
Work Pay Tax Credit	-\$33
<b>Hourly Wage</b>	<b>\$15.75</b>
<b>Monthly Wage</b>	<b>\$2,772</b>
<b>Annual Wage</b>	<b>\$33,265</b>

# Hoosiers in Poverty



- **Nearly 1,000,000** Hoosiers in poverty
  - ✦ 5<sup>th</sup> largest increase in U.S. since 2000
  - ✦ More than all neighbor states since Great Recession
- **2.24 million** low-income Hoosiers
  - ✦ 5<sup>th</sup> largest increase in U.S. since 2000
- **45.9% of children** are low-income
  - ✦ More than all neighbor states, including Kentucky

# Working Harder For Less



- **28%** of jobs in occupations that pay poverty wages
  - ✦ More than all neighbor states – including Kentucky
- **5.2%** earn minimum wage
  - ✦ Less than all neighbors – tied with Kentucky
- The median hourly wage: **\$15.24**
  - ✦ Less than all neighbor states – excluding Kentucky
- **6<sup>th</sup> Highest Income Gap** in the nation between 1990 and mid 2000's

# Tri-Cap – Poverty and Self-Sufficiency



County	Number in Poverty	Percent in Poverty	Number Below Self Sufficiency	Percent Below Self Sufficiency	Total Population
***Dubois County, Indiana	3,819	9.2%	9,962	24.2%	41,136
*Clark County, Indiana	14,075	12.7%	35,143	31.8%	110,306
*****Pike County, Indiana	1,649	13.2%	4,258	34%	12,536
***Warrick County, Indiana	5,763	9.8%	14,051	23.9%	58,838
*Vanderburgh County, Indiana	24,975	14.4%	64,498	37.7%	173,759

\* = 1 year est.    \*\*\* = 3 year est.    \*\*\*\*\* = 5 year est.

# What's Needed: A Toolbox for Families



Policy makers should begin to provide a toolbox for families to restore the promise of economic mobility. This toolbox should:

- **Reward** hard working Hoosiers by ensuring they share in economic growth;
- **Strengthen** work support programs for our most vulnerable citizens and ultimately;
- **Equip** all Hoosiers with the opportunity to obtain the skills necessary in order to attract high-paying, quality jobs that are necessary for a family's economic self-sufficiency.

Reworking these low-road growth strategies into transformational strategies to improve the economic health of working families will be, perhaps, the greatest challenge for policymakers.

# Watch a Family Fall Into the Poverty Trap

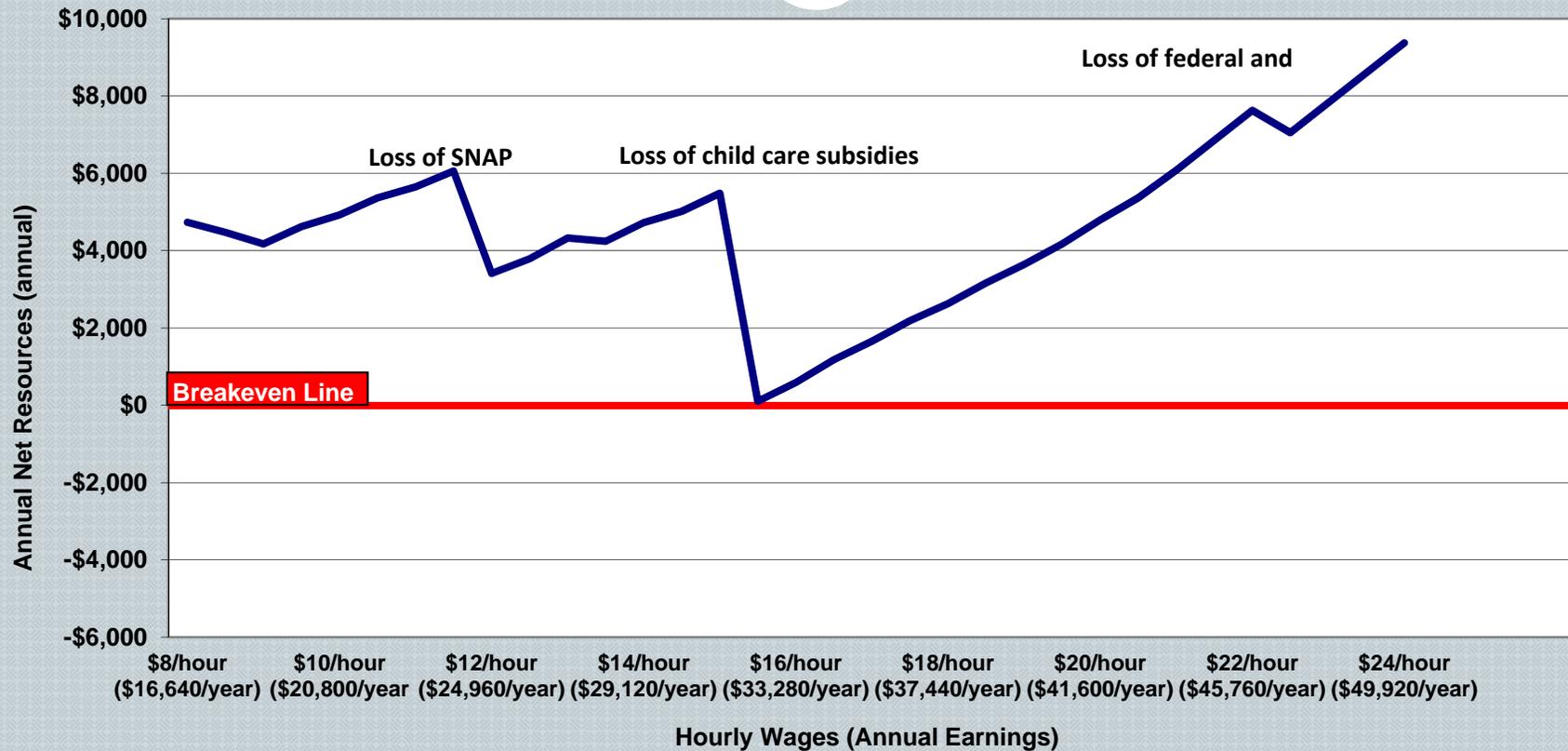


Infographic Video Illustrates Phenomenon



# The Cliff Effect

One Adult, One Preschooler, and One Schoolage Child, Clark County, IN

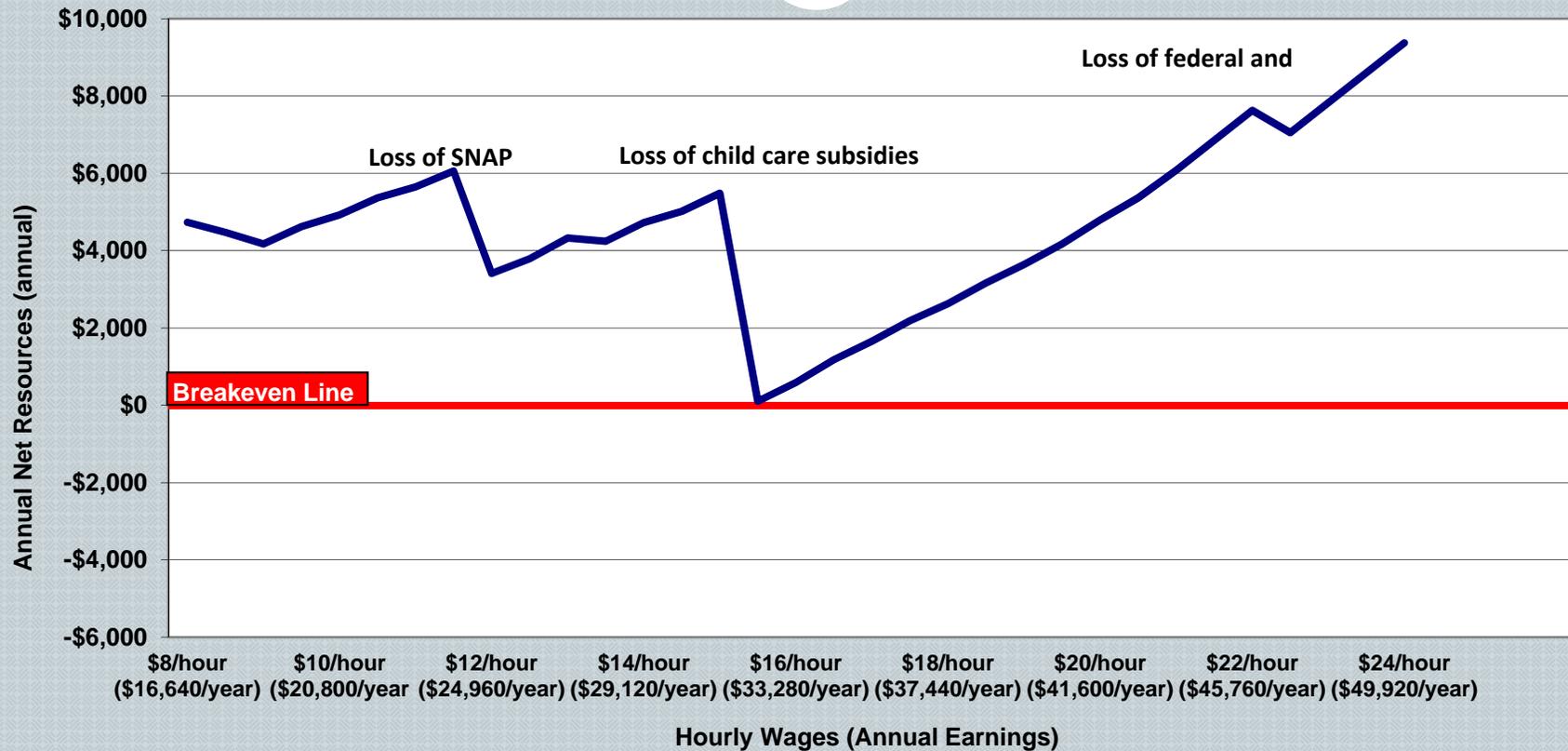


**Source:** National Center for Children in Poverty's Family Resource Simulator, Indiana 2011 <[www.nccp.org/tools/frs](http://www.nccp.org/tools/frs)>. When eligible, the family receives the following work supports: federal and state tax credits, SNAP/food stamps, public health insurance, and a child care subsidy. Budget numbers are from NCCP Basic Needs

*Each dollar earned is offset by decreased benefits and higher taxes.*

# The Cliff Effect

One Adult, One Preschooler, and One Schoolage Child, Vanderburgh County, IN



**Source:** National Center for Children in Poverty's Family Resource Simulator, Indiana 2011 <[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, public health insurance, and a child care subsidy. Budget numbers are from NCCP Basic Needs

*Each dollar earned is offset by decreased benefits and higher taxes.*

# Often Times, Work Isn't Enough



**Table 2:  
Impact of Work  
Supports on Hoosier  
Families<sup>d</sup>**

Single parent with two children  
ages 3 and 6 (assumes full-time,  
year-round employment at \$10/  
hour), Marion County

	Employment Alone	Employment PLUS *Tax credits *State tax credits	Employment PLUS *Tax credits *State tax credits *SNAP *Public Health Insurance *Childcare Subsidy
<b>Annual Resources (cash and near-cash)</b>			
Earnings	\$20,800	\$20,800	\$20,800
Federal EITC	0	4,247	4,247
Federal Child Tax Credit	0	2,000	2,000
State EITC	0	382	382
SNAP	0	0	3,942
<b>Total Resources</b>	<b>\$20,800</b>	<b>\$27,429</b>	<b>\$31,371</b>
<b>Annual Expenses</b>			
Housing	8,892	8,892	8,892
Food	5,977	5,977	5,977
Childcare	12,864	12,864	1,498
Healthcare	3,821	3,821	1,634
Transportation	3,821	3,821	3,821
Other Necessitates	3,569	3,569	3,569
Payroll Taxes	1,175	1,175	1,175
Income Taxes (excluding credits)	120	120	120
<b>Total Expenses</b>	<b>\$40,239</b>	<b>\$40,239</b>	<b>\$26,686</b>
<b>Net Resources (resources – expenses)</b>	<b>\$-19,439</b>	<b>\$-12,810</b>	<b>\$4,685</b>



# Work Supports: Ladders of Mobility



*“Credits like the EITC (Earned Income Tax Credit) and CTC (Child care Tax Credit) have helped to reduce poverty, provide economic security, and offset declining labor-market opportunities for low-income workers. The EITC alone is responsible for raising 6.6 million people out of poverty, (including 3.3 million children).” Brookings Institution*

- **Help bring families closer to self-sufficiency by bridging the gap between low-wage work and the increasing costs of basic necessities.**
- **Encourage progress in the workforce.**
- **Are good fiscal policy by putting money into the hands of consumers.**
- **Have been proven to effectively lift millions out of poverty and put them on a path towards self-sufficiency.**

# Work Supports Cliff: The Missing Rungs



- **Child Tax Credit and Child & Dependent Care Credit**
  - First is partially refundable; value of each diminishes gradually as income rises
- **Supplemental Nutrition Assistance Program (Food Stamps)**
  - Benefit declines by 24-36 cents per additional dollar earned over a broad income range before hitting the cliff at 130% FPG (200% if Broad-Based Categorically Eligible)
- **Hoosier Healthwise**
  - IN's CHIP program for children and parents
  - Families eligible from 150% to 250% of FPG; monthly premium for 2 or more children rises from \$33 to \$70 before hitting the cliff at 250% FPG
- **Earned Income Tax Credit**
  - Fully refundable (received even if no tax owed)
  - Credit rises steadily with earnings, peaks at \$5,112 over \$12,700-\$16,700 earnings range, diminishes slowly to end at \$8 at \$40,950 earnings (2011 tax yr.)

# Access to Childcare: A Key to Unlocking Barriers to Work



*“Does anyone really doubt that the greater availability and lower cost of child care facilitates additional work? Fortunately, however, we need not rely solely on intuition, because labor economists have produced many statistical studies on that question.”*

**Source:** Polakova and Viard. American Enterprise Institute. *Cutting the Cost of Care: State Income Tax Relief for Child Care*. 2013.

**Source:** National Women’s Law Center. *Making Childcare Less Taxing*. 2011.

*“Research shows that parents are much more able to work reliably and work a sufficient number of hours to reach economic self-sufficiency when they have access to quality child care. By easing the child care burden on families, we are enabling them to obtain and maintain better employment opportunities.”*

**Source:** Debra Minott, Secretary of the Indiana Family and Social Services Administration. *Kokomo Perspective*.

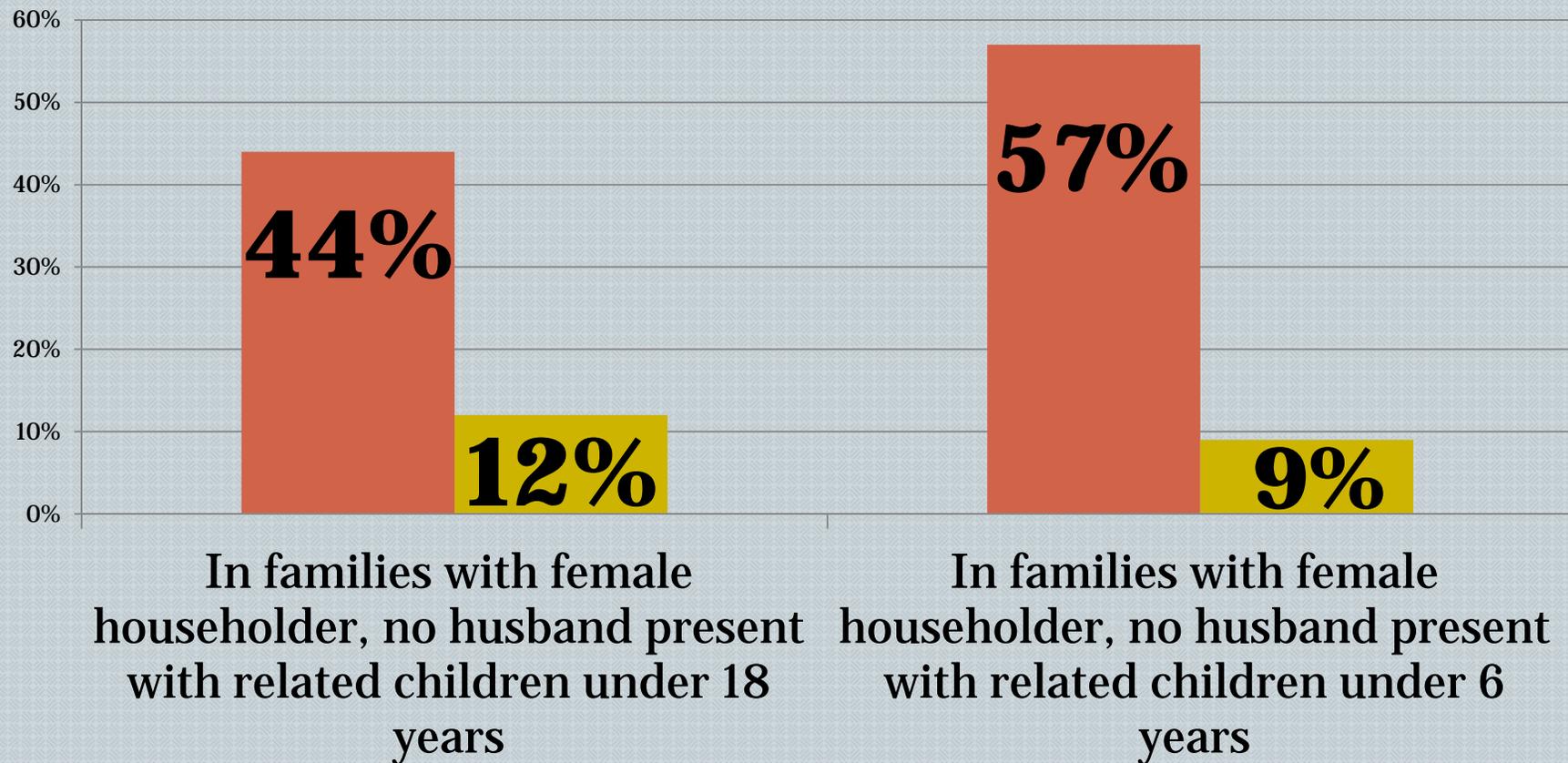
*“To ensure that low income families have the necessary access to child care to achieve self-sufficiency, the eligibility threshold should be increased from 127 percent FPL to 200 percent FPL.”*

**Source:** Indiana Childhood Poverty Commission, 2011

# Reason For Not Working

■ Home or Family Reasons

■ Could Not Find Work



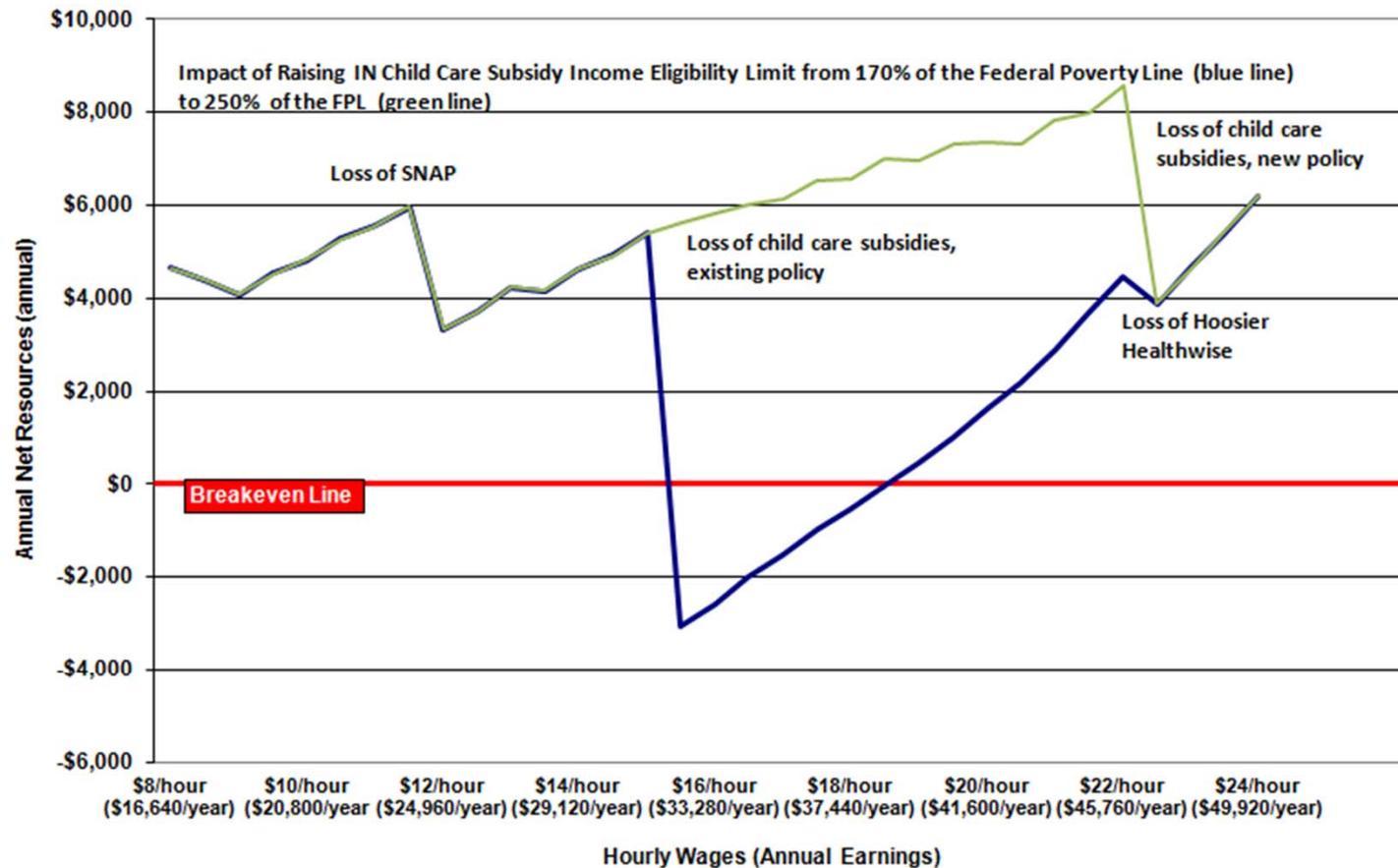
CPS 2013 Annual Social and Economic Supplement, formerly called the March Supplement:

# Recommendations – Smooth out the Cliff



- **Continue Efforts Aimed at Reducing the Waitlist:** Now at 4,880 children – from 5,059 children in early 2011 and 12,689 in early 2010. It was 11,958 children in 2001. Indeed, FSSA announced in November 2013 a transfer of the full 30 percent (allowable by federal law) from TANF to CCDF – representing a 58% increase in annual funding. Federal law requires that TANF funding be used for those living below the federal poverty guidelines, thus the increased funding will primarily serve to further reduce the waitlist.
- **Increasing CCDF exit income limit to 250% FPG:** Smoothing out the ‘benefit cliff’ (with increased co-payments for the continued service), eliminates the unintended consequence of punishing work, and reverses the perverse incentive to upward mobility. At a small cost, policymakers can instead provide Hoosier families with a safe-landing into economic self-sufficiency.
- **Increasing CCDF entry eligibility to 200% FPG:** A family’s gross monthly income (before taxes and deductions) cannot exceed 127 percent of the Federal Poverty Guidelines (FPG) (\$24,244 for a family of three). Only a handful of states have lower entry level limits.
- **Eliminate the SNAP & TANF Asset Tests to Encourage Self-Sufficiency (& Administrative Efficiency):**
  - 1. Promote savings and encourage families to develop behaviors that lead to self-sufficiency.
  - 2. Allow families to preserve limited resources (college or emergency savings) to avert financial disaster.
  - Increase government efficiency with substantial savings for taxpayers.

# Smoothing the Cliff - Restoring Mobility



**Source:** National Center for Children in Poverty's Family Resource Simulator, Indiana 2011 <[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, public health insurance, and a child care subsidy. Budget numbers are from NCCP Basic Needs Budget Calculator and the Self Sufficiency Standard for Indiana.

# Stay Informed, Take Action



**Website:** [www.incap.org/iiwf](http://www.incap.org/iiwf)

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