

Helping New Mexico families get ahead by fixing the child care cliff effect

Updated November 2018*

When parents work hard and receive a raise in pay, it should improve the financial security of their family. But if that family loses child care assistance because they got a small raise in pay, it can cast them back into poverty.

This is known as the **cliff effect** — when a raise in pay makes a family ineligible for a public benefit even though the increased income is **less** than the value of the benefits lost.

While most public benefit programs in New Mexico have a cliff effect, none are as financially devastating as the child care assistance cliff effect.

A typical family's story

A typical New Mexico family receiving child care assistance is a  **single parent with two children.**¹

This family loses assistance when they earn just \$1 more than  **\$40,840** a year.²

With assistance, a family earning \$40,840 spends **13%** of their income on child care via co-pays.³

13%



But even an income increase of just **\$1** will make them lose their child care assistance.

Without assistance, this family must now pay the entire cost of child care, which is **38%** of their income — more than double what it was before.

38%



This family would need a **25%** raise in pay — or **\$10,061** a year — in order to make up for the lost child care assistance.

1. More than 90 percent of heads of households receiving child care assistance in New Mexico identify as single parents and the state's child care assistance program serves, on average, 1.7 children for every family served: *2016 New Mexico Child Care Data Report*, CYFD and CEPR, 2016

2. This is 200 percent of the 2017 federal poverty level for this family, and is considered low-income

3. NM Children Youth & Families Department child care assistance co-pay schedule April 2018 through March 2019

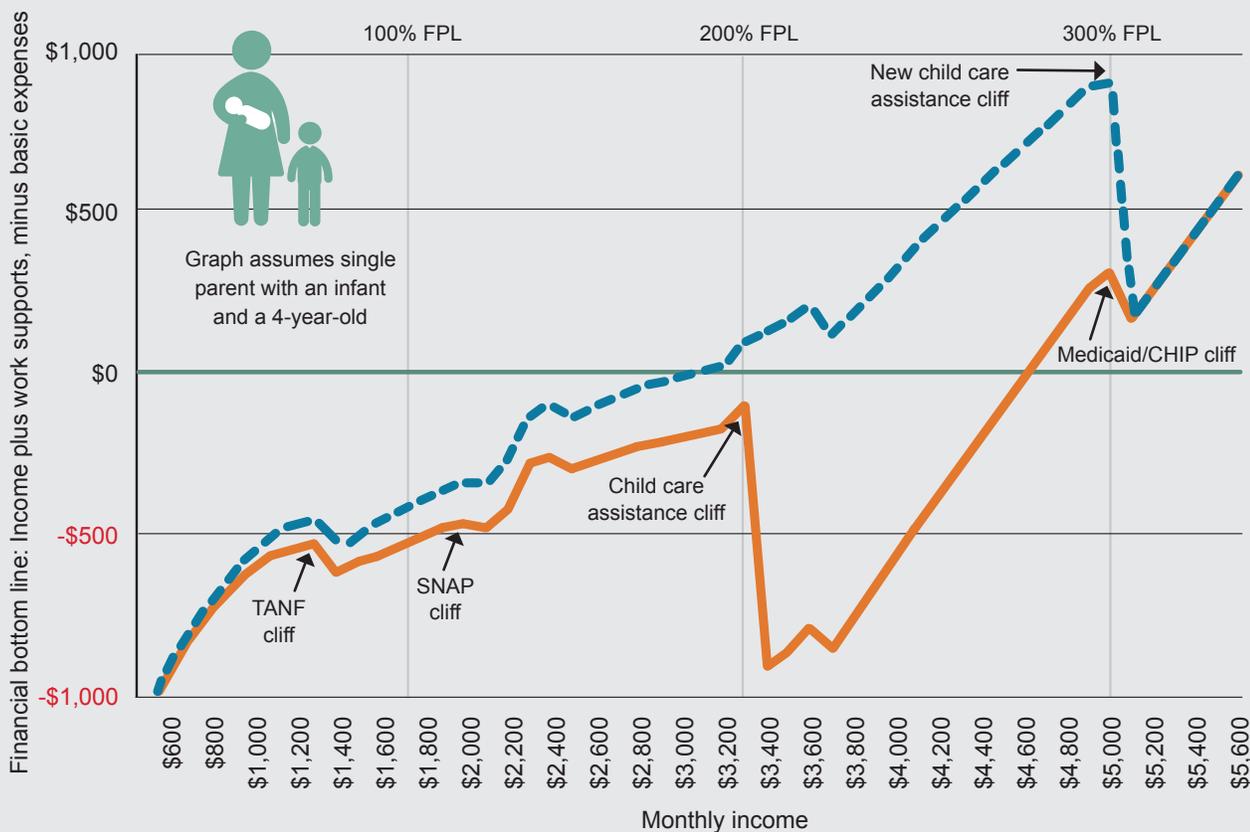
*Please see the full report, available online at www.nmvoices.org, for details on the updated data and calculations

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Once this family hits the cliff (at 200% of the federal poverty level or FPL), the cost of child care puts them in the same financial situation as a family in **poverty**¹

Key:

- Financial bottom line with current CCA continued eligibility of 200% FPL and co-pay schedule
- Financial bottom line with recommended CCA eligibility and co-pay changes (see below)
- Point at which family is becoming economically secure



Policy Recommendations

Eliminate child care assistance co-pays for families living at or below 100 percent of FPL and reduce co-pays for families living above 100 percent of FPL

There are 28 states that have lower co-pays than New Mexico for a family of three at 100 percent of FPL and there are 19 states that have lower co-pays for a family of three at 150 percent of FPL.

Increase the initial and continuing child care assistance eligibility levels to 300% FPL

Child care assistance eligibility should be broadened to encompass all working families up to 300% of FPL. There are 14 states with eligibility thresholds that go above 200% of FPL (at an average of 245% of FPL).

Gradually phase out assistance for families earning between 100% and 300% FPL

New Mexico should implement an extended and gradually increasing child care co-pay schedule from 100% to 300% FPL (shown by the dotted blue line in the graphic) to reduce and delay the financially devastating cliff effect.

Use existing and new funding sources to pay for broadened child care assistance eligibility

New Mexico can use the supplemental \$20 million in CCDBG funding to raise the initial income eligibility to 200 percent of FPL and to reduce co-pays. The state can also use a very small percentage of our nearly \$18 billion permanent fund's annual disbursements.



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1. NM Voices for Children calculations; see the full report, *The Cliff Effect: One Step Forward, Two Steps Back*, for data sources and methodology

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