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Reimagining Colorado's Social Safety Net to Incentivize Work:

An Examination of the Unintended Consequences of Minimum Wage & the Benefits Cliff on Colorado Workers

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Benefits Cliff Facing A Single Mom with Children

- Single parent with one child faces two distinct benefit cliffs.
- The first cliff is caused by the loss of Section 8 housing benefits. This occurs when the parent receives a wage increase from \$22 per hour to \$23 per hour. The parent's increased hourly wage increases their income and makes them ineligible for this benefit, causing a net estimated loss of \$2.34 per hour.
- The parent hits the second cliff upon receiving a pay increase from \$30 to \$31 per hour. The increased income makes them ineligible for the Colorado Child Care Assistance Program (CCCAP) and causes an estimated loss of \$6.25 per hour due to decreased CCCAP benefits and a higher tax rate.
- Those most impacted by a reduction in benefits as their income increases are single parent families.

Unintended Consequences of Minimum Wage Policy on Workers and Economy

- **The full impacts of minimum wage increases can lower employment opportunity and suppress real wages.** An economic modeling simulation of raising the minimum wage to \$17.29, equivalent to Denver's 2023 rate, across the 7 Denver Metro counties shows a host of adverse economy-wide impacts, that disproportionately impact lower wage workers.
 - Reduced levels of employment: Increasing the minimum wage to \$17.29 per hour reduces overall employment
 - Increased prices: The PCE index, a similar measurement of consumer prices to the CPI, increased by 1.43% on average through 2033.
 - Reduced real disposable income per capita: Despite nominal wage increases for some workers, the loss of jobs, combined with higher overall prices reduced real disposable income per capita by 0.52%.





What Works? Investing in Education Beyond High School Coupled with Job Training

Increasing the marginal productivity of labor for low wage workers is necessary to alleviate poverty. Staying employed and attaining education beyond high school, along with career specific training is key to long-term economic success. For those able to maintain persistent employment, considered to be at least 27 months (about 2 and a half years) out of a 36-month period, the incidence of poverty is only 2.6%. Overall, getting more people to work consistently will impact poverty perhaps more than any other actions.

Recommendations

- States should push the federal government for more control over benefits thresholds, allowing them to vary based on regional cost of living rather than a one-size-fits-all federal poverty level standard.
- Because benefit cliffs can occur as a result of federal poverty level standards, states should lobby for gradual tapering of benefits, as opposed to dramatic decreases, to match gradual increases in household incomes and create a nimbler safety net that helps employees improve their economic mobility.
- States should audit their existing benefits and identify the benefit cliffs experienced by workers. In particular, Colorado could carefully examine the income thresholds for the Colorado Child Care Assistance Program (CCCAP), which is a state benefit and has a significant cliff.
- Entities within state governments and private organizations should create publicly accessible tools for workers to better understand the impacts of minimum wage increases on public benefits so that they can create realistic financial plans for their households. The aim should be to create a one-stop shop where beneficiaries can see the impact of increased wages on all benefits they are receiving to help them create realistic household financial plans. In addition to tools, individuals would benefit from coaching and financial planning.
- States should identify best practice models with proven records of increasing employment outcomes for low-income workers.
- Because they are effective at incentivizing work, Colorado lawmakers should support improvements to the Earned Income Tax Credit and Child Tax Credit for those qualifying for federal tax credits.

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