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Between a Rock and a Hard Place: A Closer Look at Cliff Effects in Massachusetts

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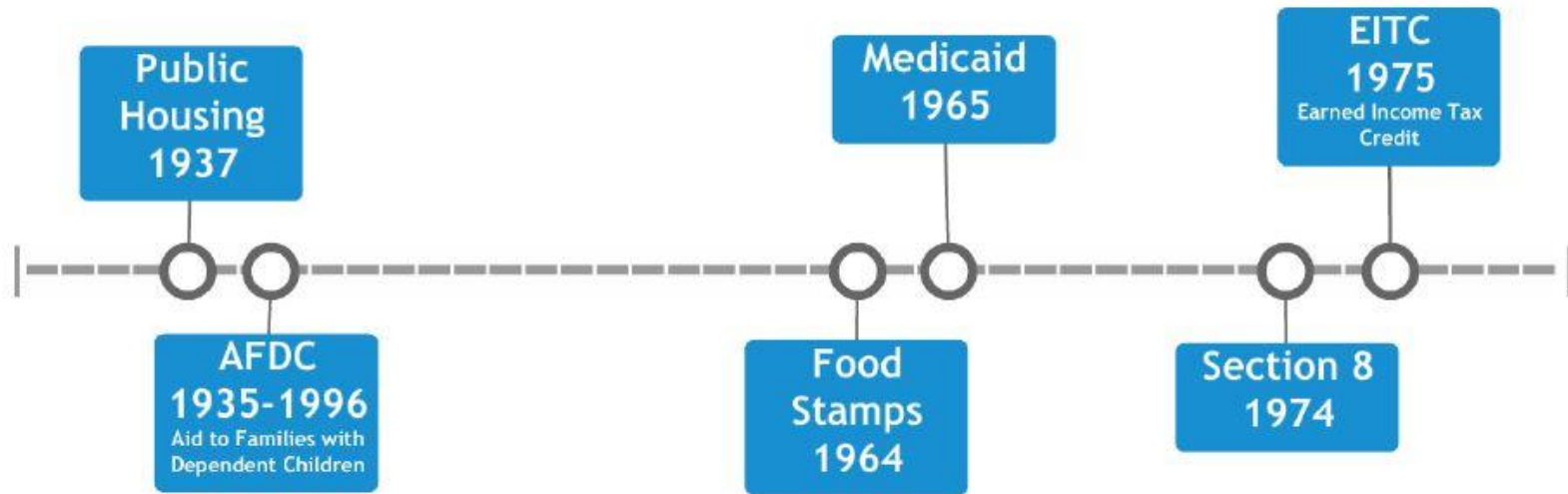
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CENTER FOR SOCIAL POLICY
JOHN W. McCORMACK GRADUATE SCHOOL
OF POLICY AND GLOBAL STUDIES



Government Supports and Poverty



Key US anti-poverty programs were originally established to help low-income families meet basic needs.

They were originally designed to assist families and individuals that had very little or no earnings: single mothers, elders, or people with disabilities were not expected to work.

Government Supports and Earnings

Since the 1980's, employment has been promoted as a key component of poverty reduction.

The 1996 Personal Responsibility and Work Opportunity Reconciliation Act requires recipients of assistance to work.

Some programs, such as health insurance programs, have adapted by expanding benefits to those with higher incomes.

Still, there is an uneasy relationship between public supports and earnings because the cost of basic needs is high and public supports fall off as earnings increase—what is known as “cliff effects.”

Cliff Effects



Cliff Primer: What They Are and Who They Affect

Cliff effects refer to the drop in public supports that occur when earnings go up. For example, every additional dollar of earnings a worker getting SNAP receives, she sees a drop in the amount of SNAP benefits of about 30 cents.

Sometimes cliffs are more like rolling hills rather than steep drop offs. But in either case they make you feel like you are running in place, when you think you should be getting ahead by earning more.

Cliffs only affect families and individuals that have earnings and public supports. And the more of these supports received, the more pronounced the cliffs.

Low-Income Families Rely on Public Supports to Maintain Well Being

Working families with young children, especially single parent families, are the most likely to receive more than one support. This is because:

1. They are the most likely family type to be low-income and therefore eligible;
2. Many of these programs have been specifically targeted to them (like child care and cash assistance); and
3. Government agencies, schools, and other organizations have succeeded in their outreach to enroll families into programs for which they are eligible.

Families with young children face higher costs because their children must be cared for when parents are at work.

Why Cliffs Matter for Families

If cliffs exist over a range of earnings they can create a great deal of frustration and may create a disincentive to working more hours or taking a higher-paying job.

This begs the question: Does work pay?

This question is especially relevant when:

- Families receive several public supports;
- Families receive supports that provide substantial support with basic costs and are hard to get like housing assistance and child care assistance (both have long waiting lists);
- Supports in which a small increase in earnings generate large losses in the value of the benefit (e.g. health insurance for adults or families with high medical needs).

Why Cliffs Matter for Anti-Poverty and Employment Policies

When two or three public support programs phase out around the same earnings levels, cliff effects are intensified and may unintentionally undermine the intended impacts of each program.

Siloed program delivery (i.e. different public support programs are provided by and monitored by different agencies) may impede serving families who receive these benefits.

The “Fight for \$15” movement to increase the minimum wage is gaining momentum. And while all low-wage workers sorely need a raise, will families with public supports face cliffs as a result?

Estimating Cliff Effects: The Center for Social Policy Net Resources Simulator

To see what happens to a family's net resources as earnings increase, researchers at the Center for Social Policy created a simulation program.

- ▶ The model calculates the amount of income a family has after taking into account costs, earnings, and the value of public supports (i.e. net resources).
- ▶ We graph net resources by income levels, measured by hourly wages. This allows us to see how much a family has and where the cliff effects are.
- ▶ We can do this for different cities/regions, different packages of public supports, and different family types.
- ▶ And we can simulate the impact of possible solutions.

Simulator Assumptions

The graphs presented here estimate cliff effects for a single parent with a 3 year old and an 8 year old living in Boston.

We use 2014 tax rates and 2015 costs, benefit eligibility rules and benefit levels.

We assume the adult starts working at \$9.00 per hour up to working 2000 hours per year (a full-time, year round job of 40 hours a week for 50 weeks). At 2000 hours annually, when no more hours are possible we simulate more income by pushing hourly wages up gradually.

The more hours a single parent works, the more child care s/he needs, with full-time care needs at 2000 hours per year.

Context: Single Parents in Massachusetts with Young Children

Using American Community Survey 2014 data we find that:

- ▶ Sixty percent of single parents with a young child work full-time.
- ▶ Twenty-eight percent (173,000) of employed families with children are headed by a single parent.
- ▶ Three-quarters (73%) of single parents with two children, including one under the age of 6, are low-income (our example family type), and have a median income of \$22,500 annually.

Research Results: Net Resources by Earnings

Net annual resources = (Net annual income) minus (net annual costs)

Net annual income = (Earnings + cash assistance + refundable tax credits) minus (income and payroll taxes owed)

Net annual costs = (Typical costs for basic needs) minus (the value of benefits received)



Family Costs

Basic annual basic costs from the MIT Living Wage Calculator*:

Housing – HUD Fair market Rents (county level)

Child care – statewide average for 4 and 9 year old

Food – USDA low-cost food plan

Health insurance (premium plus average MOOP) – average premium cost of an employer-based plan in Massachusetts plus medical out of pocket expenses

Transportation –statewide average

Miscellaneous expenses – statewide average

Taxes – payroll on earnings and income taxes owed

Not included:

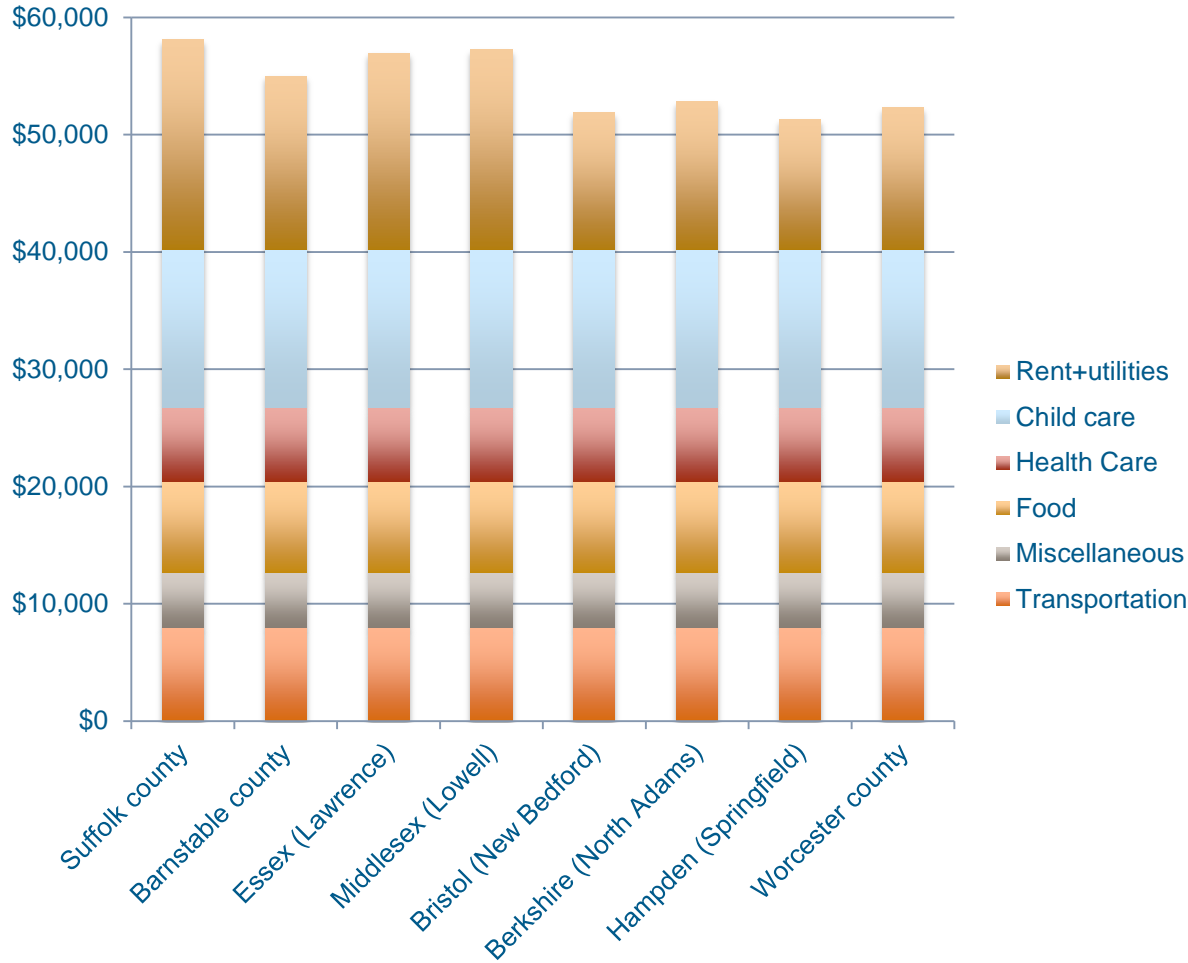
Major purchases

Savings

Emergency expenditures

*See: livingwage.mit.edu/resources/Living-Wage-User-Guide-and-Technical-Notes-2015.pdf

Cost of Basic Needs by Massachusetts County, 2015



Together housing and child care costs make about half of all costs across Massachusetts.

Housing is cheaper in the southeast and western parts of the state, but it still costs a minimum of \$52,000 per year (\$26/hour working full-time).

Sources: MIT Living Wage Calculator for Massachusetts, <http://livingwage.mit.edu/states/25/locations>.

Which Supports Might Offset Costs?

Public supports considered:

Refundable tax credits – Federal and state EITC (earned income tax credit) and federal child tax credit

Food assistance – Supplemental Nutrition Assistance Program (SNAP aka Food Stamps) and WIC (Women Infants and Children)

Health insurance – MassHealth (Medicaid and State Children's Health Insurance Program) and Health Connector

Cash assistance – TAFDC (Temporary Assistance for Families with Dependent Children)

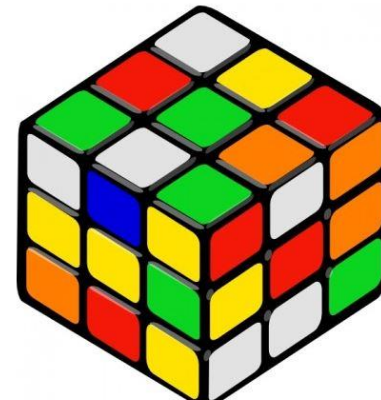
Child care vouchers – Federal and state programs that provide assistance for child care for children under age 13

Housing assistance – MRVP (Massachusetts Rental Voucher Program)

(A)Mazing Supports

Public supports help families meet basic needs. But, navigating eligibility requirements can be a maze. And once you have public supports, it can be like a Rubik's Cube – the various slices are hard to match up.

- Income eligibility levels differ for each of the public supports.
- Different programs count different forms of income when determining eligibility (e.g. child care counts TAFDC as income, while most other programs do not).
- Different programs allow recipients to deduct different costs of basic needs from their income (up to a hard limit of countable income).



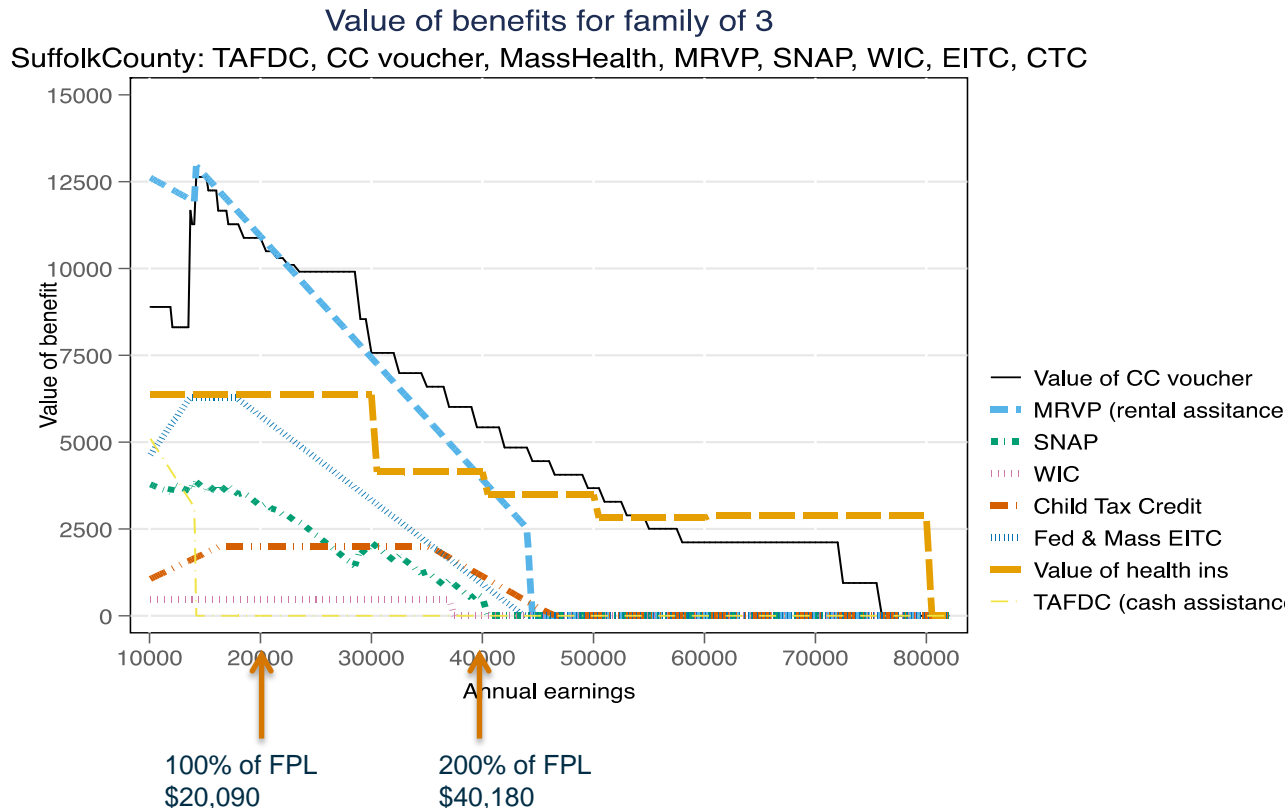
How Do the Values of Supports Change with Earnings?

The graph below depicts the value of the 7 supports considered in the **very** unlikely case that this single parent receives all of them.

Note 1: TAFDC has the steepest cliff occurring below the federal poverty line (FPL)

Note 2: Child care and housing provide the highest levels until 200% of FPL

Note 3: EITC, Child care, housing, and SNAP all decline steeply at 100% of FPL



Two Different Scenarios that Explore Impact on Net Resources Based on Benefits Received

Scenario 1: Baseline case -- Family gets readily accessible benefits when eligible:

- Refundable tax credits (EITC, CTC)
- Food assistance (SNAP and WIC)
- Health insurance (MassHealth, Connector)

There is considerable outreach by government and non-profit agencies for all families eligible for tax credits, food assistance, and health insurance to get them. We assume eligible families receive these benefits.

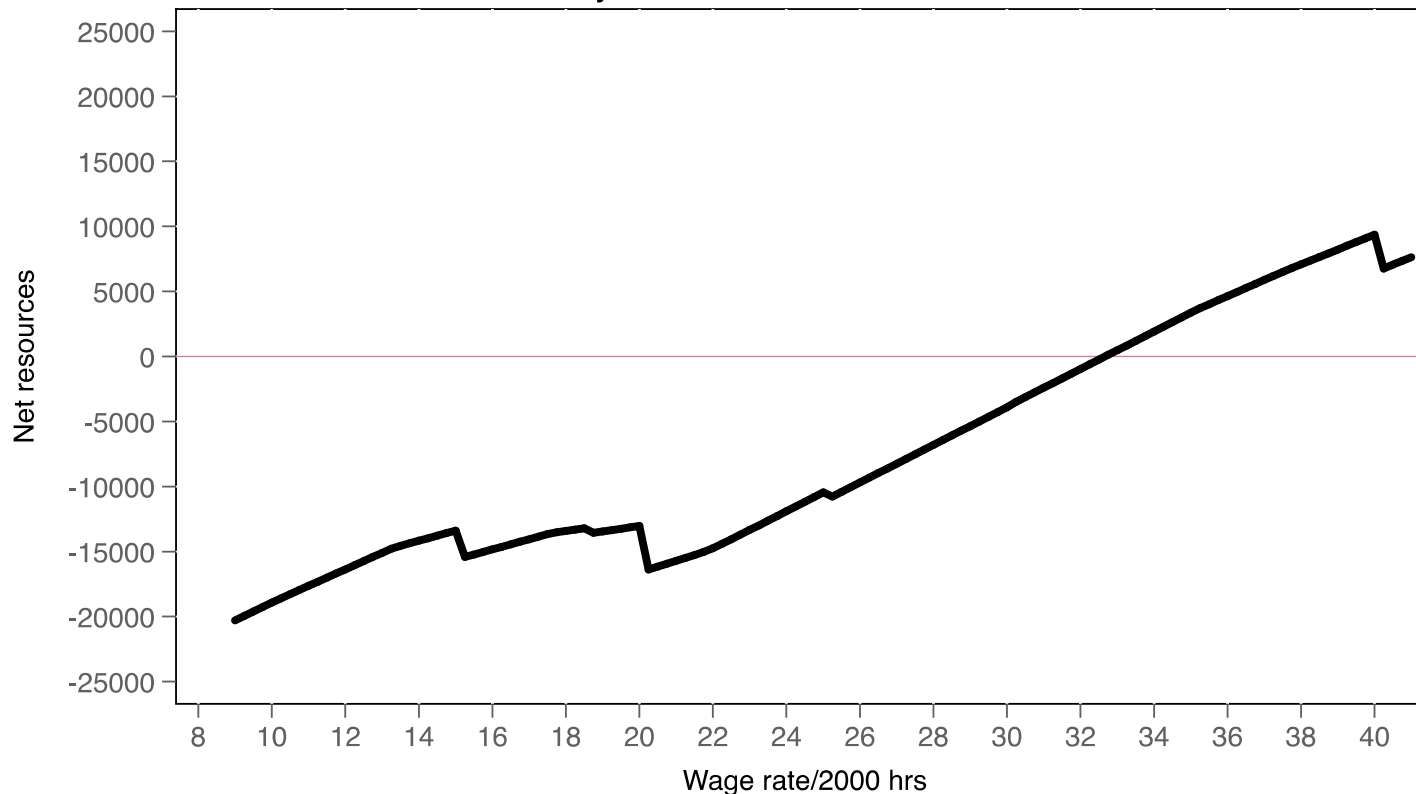
Scenario 2: Baseline plus housing assistance (MRVP) when eligible. There are long waiting lists for housing assistance, so this case is not as common.

Notes on the Scenarios

1. In each of the scenarios that follows, we assume the single parent is working 2000 hours per year (year-round, full-time worker).
2. We depict the level of net resources (and value of benefits) against the hourly wage earned working 2000 hours per year.
3. We assume that this parent must purchase full-time child care all year for the 3 year old, and after-school care/activities and summer care/activities for the 8 year old.
4. In each net resource graph we highlight the level of net resources (i.e. positive or negative) as well as the nature of the cliff effects (steep fall off or running in place).

Scenario 1 Graph: Net Resources with Baseline Package of Benefits Graph

Net resources for family of 3
SuffolkCounty: MassHealth, SNAP, WIC, EITC, CTC



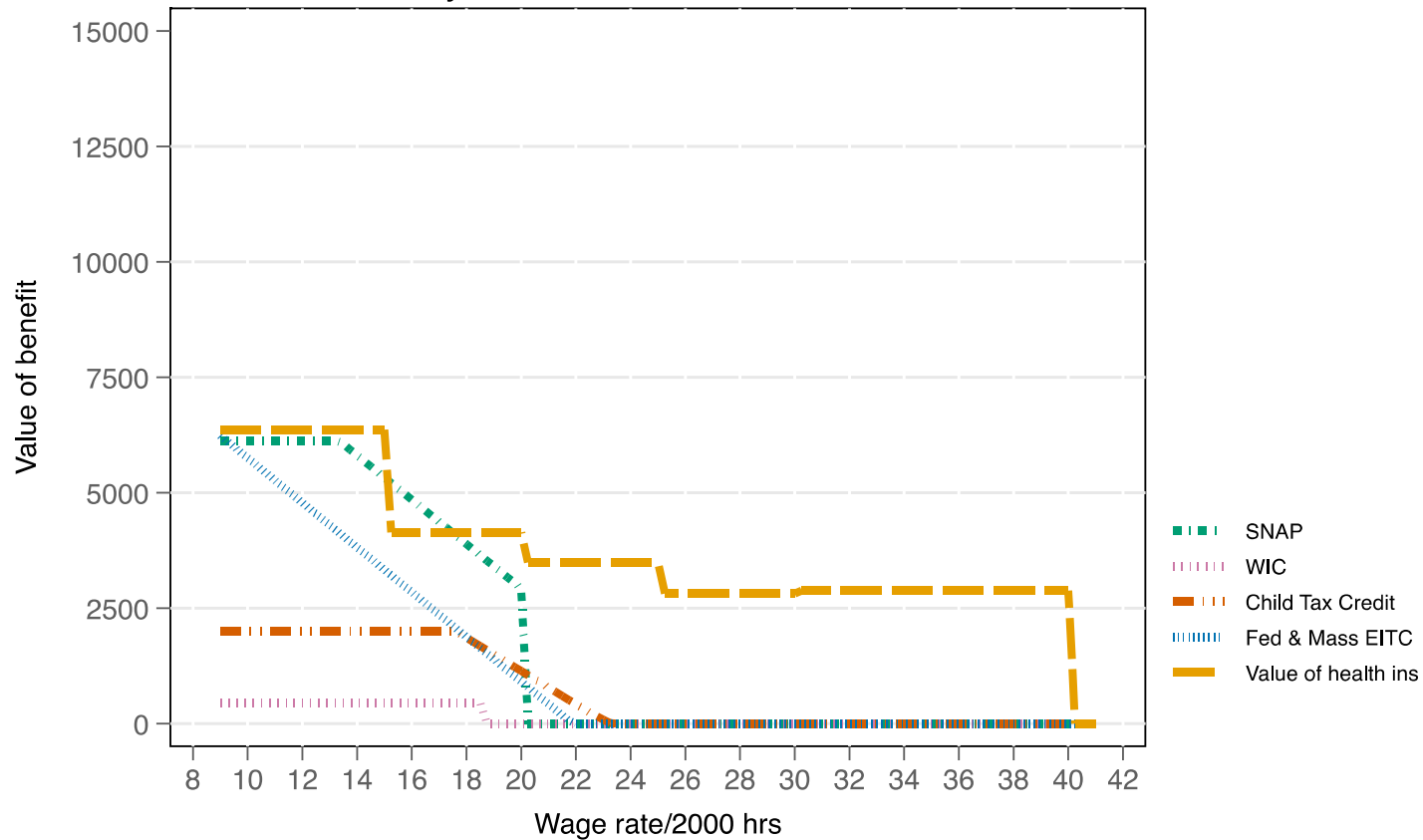
Source: CSP Net Resource Calculator

Scenario 1: Net Resources with Baseline Package of Benefits

- 1. Level of net resources:** Working fulltime (2000 hours per year) hours, it takes \$32 per hour (\$64,000 annually) to break even (when net resources are above the red line).
- 2. Cliff effects:** At \$30,000 and \$40,000 annually (\$15 and \$20 per hour), this family sees net resources drop. This leaves this family no better off (at 2000 hrs) from \$15 per hour (150% of FPL) to about \$24 per hour. The cliff effects start occurring when the family is facing negative net resources of about \$12,000 per year.

Sliding Down the Eligibility Hill – Baseline Case Graph

Value of benefits for family of 3
Suffolk County: MassHealth, SNAP, WIC, EITC, CTC



Sliding Down the Eligibility Hill – Baseline Case

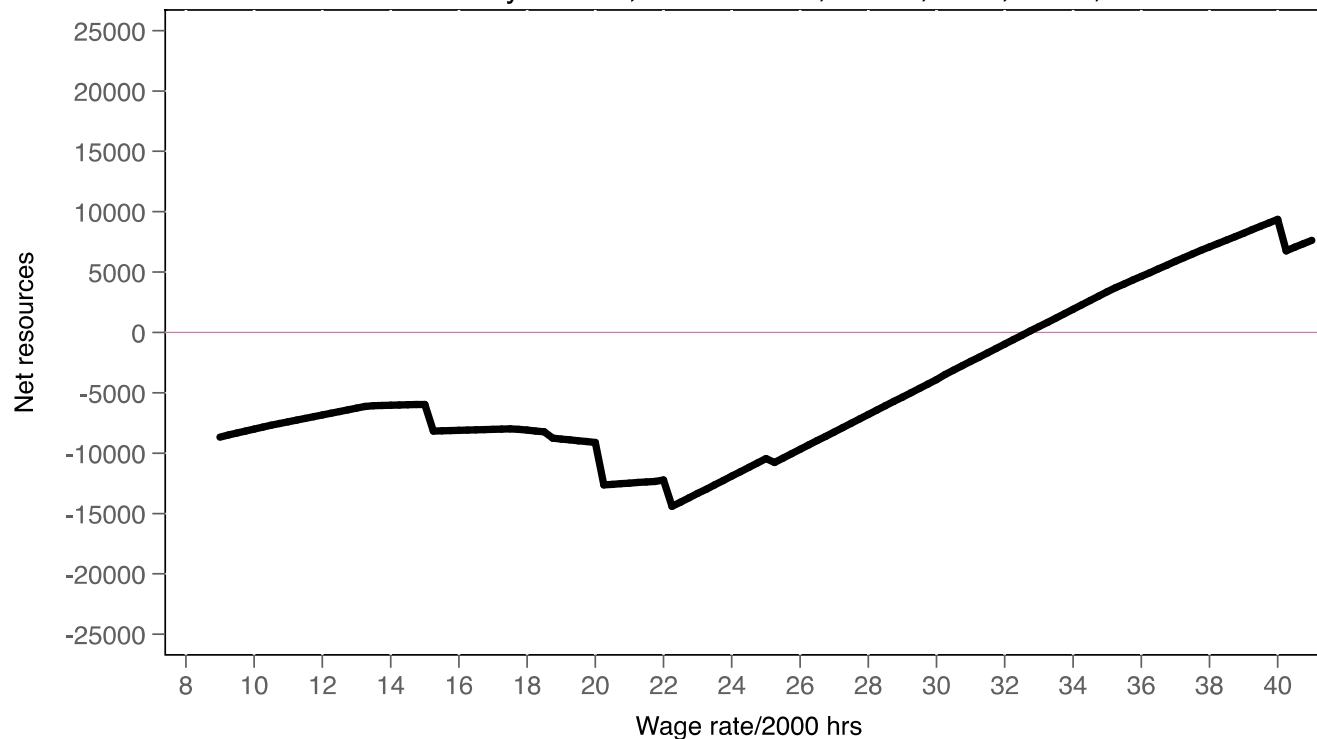
EITC slides down at \$9.00 per hour (\$18,000 annually), the only one of this set of benefits that starts to decline at 100% of FPL.

SNAP starts sliding at \$14 per hour (\$28,000 annually). Because families can deduct the cost of child care, this family remains eligible for maximum SNAP benefits longer, but loses eligibility at 200 FPL.

The Health Connector premium and reductions in CTC kick in at around \$15 per hour. All but health insurance assistance fade out by \$24 per hour (\$48,000 annually).

Scenario 2 Graph: Net Resources with Baseline Package of Benefits Plus Housing Supports (MRVP)

Net resources for family of 3
Suffolk County: MRVP, MassHealth, SNAP, WIC, EITC, CTC

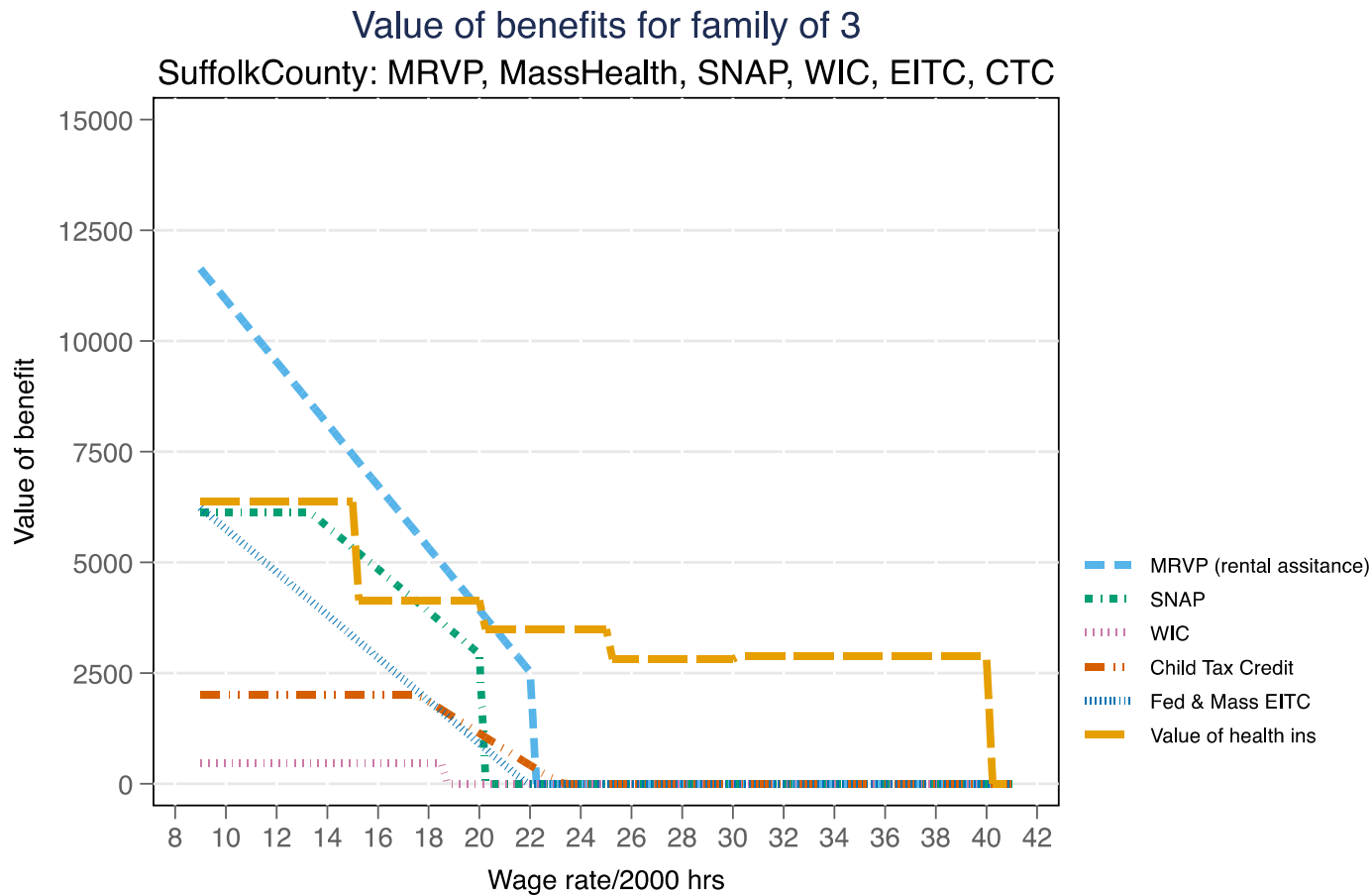


Source: CSP Net Resource Calculator

Scenario 2: Net Resources with Baseline Package of Benefits Plus Housing Supports (MRVP)

- 1. Level of net resources:** Higher than baseline. At lower levels of wages, net resources are close to -\$5,000, peaking at \$14 per hour.
- 2. Cliff effects:** They are more pronounced and over a wider range of earnings than the baseline case. Between \$28,000 and \$44,000 annually (\$14 and \$22 per hour), this family loses ground – higher earnings brings fewer net resources, with cliffs at \$15, \$20 (200% of FPL) and \$22 per hour.

Scenario 2 Graph: Benefit Levels Baseline Case (SNAP, WIC, CTC, EITC, MassHealth) Plus MRVP



Scenario 2: Benefit Levels Baseline Case (SNAP, WIC, CTC, EITC, MassHealth) Plus MRVP

As before, EITC benefits slide down at \$9.00 per hour (\$18,000 annually) and SNAP starts sliding at \$14 per hour (\$28,000 annually), and stops at 200% FPL.

As with the baseline case, the MassHealth/Connector premium costs increase at \$15 an hour and reductions in Child Tax Credit kick in at \$18 per hour.

The MRVP steeply declines, until it drops off entirely at \$22 per hour. The benefit level of the voucher keeps the family afloat at lower wages, but it drops steadily along with the other benefits. This helps explain why the family finds itself losing net resources as earnings increase between \$14 and \$22 per hour.

Summary of Scenarios

- Cliff effects occur over a much wider range of full-time hourly earnings when the family receives housing assistance.
- For the baseline case, the cliff effects are most prominent between \$15 and \$20 per hour (\$30,000 to \$44,000 annually)– 150% and 200% of FPL.
- For the baseline plus MRVP scenario, the range of cliff effects are more prominent between \$15 and \$22 per hour, but the “running in place” effect occurs over a wider range (\$14 to \$26 per hour).

What's to be Done?

Current Reality

Families already cope and typically cannot sustain themselves at high levels of negative net resources for a long time. Many of the current solutions carry a high cost for families, children, and communities:

- Find very cheap child care (quality is highly correlated with costs).
- Find very cheap housing (double/triple up, move around).
- Wait until kids grow up to work (lost income, savings, and skills).

These difficult trade-offs mean families and communities are paying in the form of poor quality care, substandard living conditions - including shelters - and lost employment opportunities.



Here and Now Solutions/Adjustments

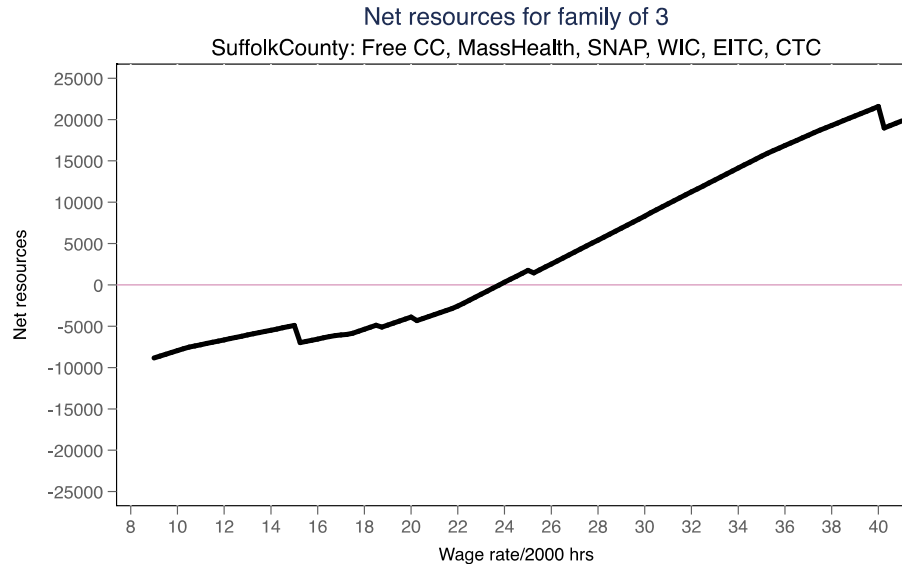
- Expand housing programs that allow families to keep/save additional earnings.
- Establish integrated services that can better advise and support families facing cliffs.
- Increase income eligibility levels for key supports for families with young children.
- Increase gross income level for SNAP eligibility from current 200% to 300% of FPL.
- Simplify and integrate eligibility criteria for major public supports.

Think Bold and Big: Solving the Cliff Problem (and Many Others) for Families with Young Children

Near (if not) universal free early education and child care starting at very young ages (1-3 years) and near (if not) universal free out-of-school activities for school-age children under age 12.



Universal Education and Child Care: Positive Net Resources at Every Income Level and Fewer Cliffs



Source: CSP Net Resource Calculator

Universal free education and child care (including out-of-school and summer activities) has several other outcomes such as reducing gender and income inequality, improving education outcomes, and reducing poverty.* This research indicates that it will also substantially increase family net resources and alleviate cliffs. Like our current reality, this solution is costly. Funding will require substantial revenue, best collected from broad-based taxes, like income or property taxes.

* Arthur MacEwan, 2013: "Early Childhood Education As An Essential Component Of Economic Development With Reference To The New England States"

https://www.umb.edu/editor_uploads/images/centers_institutes/center_social_policy/Early_Childhood_Education_as_Essential_Economic_Development.pdf