Addressing Benefit Cliffs with the Family Resource Simulator

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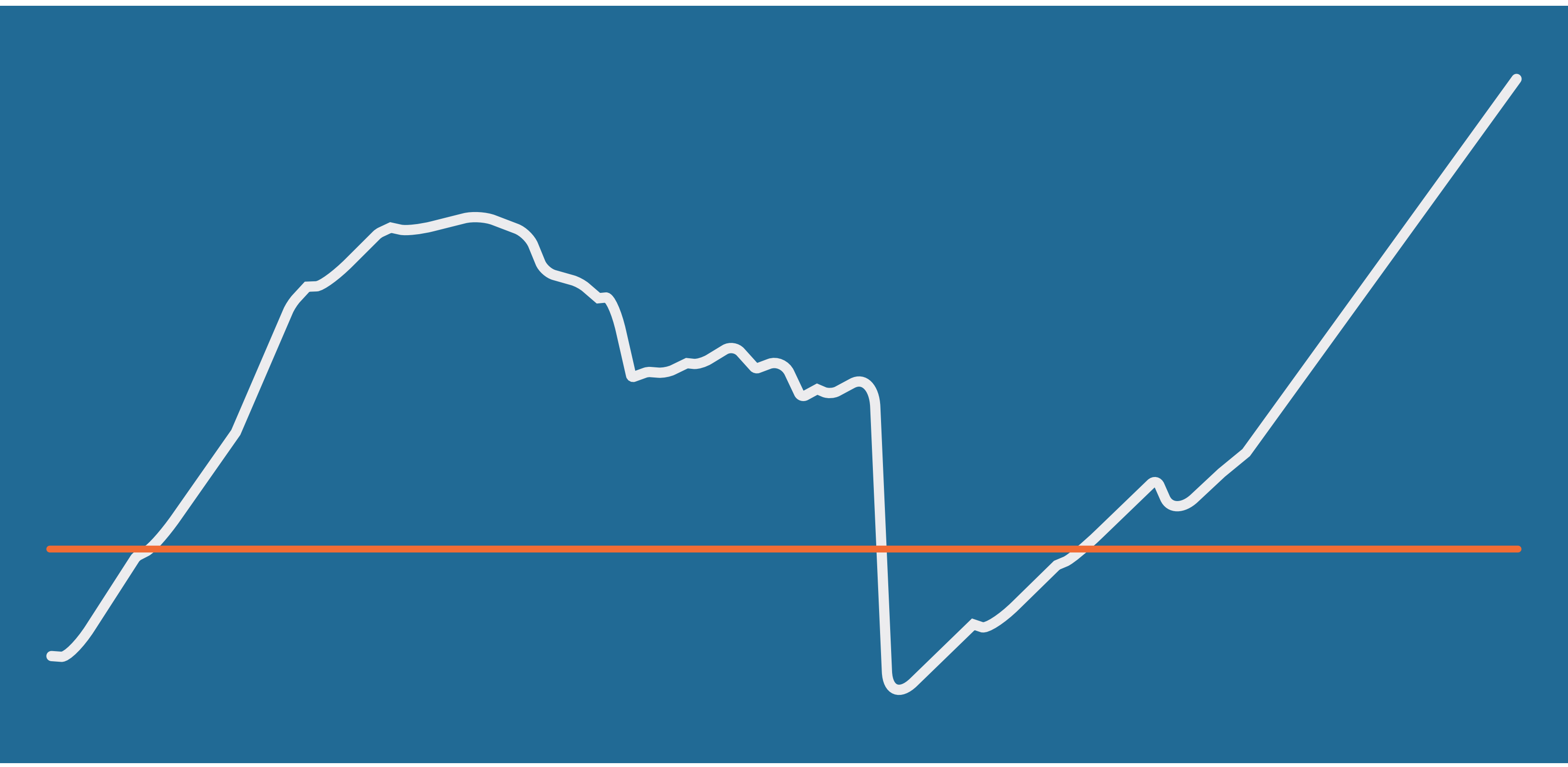

NCCP National Center for Children in Poverty
Bank Street Graduate School of Education

The National Center for Children in Poverty (NCCP) is a non-partisan public policy research center at Bank Street Graduate School of Education. Founded in 1989 with endowments from the Carnegie Corporation of New York and the Ford Foundation, NCCP is dedicated to promoting the economic security, healthy development, and well-being of America's low-income children and families. Using research to inform policy and practice, the center seeks to advance family-oriented solutions and strategic use of public resources at the state and national levels to produce positive outcomes for the next generation.

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Introduction

Benefit cliffs are a loss of substantial public benefit support, such as Medicaid, due to a small increase in income. Benefit cliffs disproportionately **affect Black and Latino families** and female-headed households, potentially trapping families in low-wage work. Other marginalized communities, including immigrants, people with disabilities and their families, formerly incarcerated people, residents of Puerto Rico, American Indians, and youth involved in the foster care system, face particularly complex or restrictive public benefit rules that can hinder economic mobility. All families deserve better supports for economic mobility.

There are dozens of different public benefit programs, and eligibility rules are set at the federal, state, and county level. Federal and state rules may interact in unexpected ways. Further, benefit rules vary based on a wide range of family characteristics. Public benefits programs are so complex and siloed that it is virtually impossible to know the full impact of new legislation, administrative rule changes, and executive actions, including federal legislation such as the **American Rescue Plan Act** or changes to state public benefit programs, on family finances.

Since 2003, the National Center for Children in Poverty (NCCP) has created the **Family Resource Simulator (FRS),** a policy simulation **benefit calculator,** that provides data and analysis tailored for state-level policymakers and advocates. The FRS identifies benefit cliffs and gaps in economic supports faced by families and individuals who receive public benefits.

How Is the FRS Used?

Policy Change: The FRS arms decision makers with information about barriers to economic mobility within public benefit rules, such as benefit cliffs, interactions between eligibility rules that lead to unanticipated losses of benefits, and gaps in supports that impede employment. The FRS can be used by advocates to show how rule changes will hurt or help working families and program administrators to test the impact of rules before implementing them. Legislators have used FRS-informed analyses to enact new policies and public benefit rules that better respond to the needs of working families. To date, the FRS has contributed to policy changes across at least 14 states that have **improved the economic security** of **millions of low-income people** annually.

Caseworkers and Benefit Recipients: The FRS can educate and assist families as they strategically navigate public benefit programs. The FRS—and associated Marginal Tax Rate Calculator (MTRC) and Career Ladder Identifier and Financial Forecaster (CLIFF) tools described below—allows financial counselors and public benefit recipients to estimate the effect of new jobs or income increases on benefit eligibility and net resources to plan for possible benefit cliffs. These tools can also be used to educate low-income families about benefit programs for which they may be eligible

- **CLIFF Tool:** NCCP has been partnering with the Federal Reserve Bank of Atlanta since 2020 to develop the CLIFF tool, based on FRS methodologies, for multiple cities. The CLIFF tool is intended to be used by job seekers and caseworkers to prepare for possible benefit cliffs as income rises. A **beta version of this tool** is currently available (click on "See a demo of the CLIFF dashboard").

- **MTRC Tool:** In April 2021, NCCP, with partner Manhattan Strategy Group, finalized a beta version of the first of four Marginal Tax Rate Calculator (MTRCs), also based on the FRS, for New Hampshire. The MTRC is designed to be used by caseworkers and benefit recipients and will be available on the websites of four local or state government partners or their affiliates (in NH, ME, DC, and Allegheny County, PA). This work is funded by the US Department of Health and Human Services.

How Does the FRS Work?

FRS users answer a series of questions that affect benefit eligibility and expenses. They can choose to use FRS default expense values or enter their own estimated expenses. FRS default expenses are from government sources that estimate the minimum amount of funds needed to pay for basic expenses by state and county. The questions gather information about:

- **City/County & State**
- **Family Characteristics:** These include the number of parents in the household, number of children, ages of parent(s) and children, and whether any of the parents in the family has a disability.
- **Income & Assets:** The FRS asks about wage rates, work schedules, family savings, the value of the family's vehicles, household debt, and child support receipt.
- **Public Benefits:** Users can select the package of public benefits they currently receive or would like to model using the tool. Current benefits included in the FRS are listed below.
- **Child Care Setting and Cost:** Child care costs depend on the child care setting (e.g., center-based or home-based), age of children, county (in some states), the number of hours of care needed and at what times of day (typically higher costs if care is needed during non-traditional hours), and receipt of subsidies.
- **Health Insurance Premiums and Other Health-Related Costs:** Users answer questions on healthcare premiums, including whether insurance is purchased from employers or through health insurance marketplaces, and out-of-pocket costs.
- **Other Expenses:** These include rent, utilities, food, transportation, disability related expenses, and other necessities.

The public benefits currently in the FRS or corollary tools like the MTRC include:

- **Unemployment Insurance (UI)**
- **American Rescue Plan** and other COVID-era legislation benefits (because these are temporary, these benefits can be turned off if they expire)
- **Temporary Assistance for Needy Families (TANF),** including child support pass throughs and disregards
- **Public Health Insurance**
    - Medicaid
    - Children's Health Insurance Program (CHIP)
    - Medically Needy / Medicaid buy-in programs
    - ACA subsidies
- **Child Care**
    - Child Care and Development Fund (CCDF) subsidies
    - Publicly funded pre-K programs
    - Publicly funded afterschool programs
    - Head Start
    - Early Head Start
- **Food/Nutrition Programs**
    - Supplemental Nutrition Assistance Program (SNAP, formerly called Food Stamps)
    - Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
    - National School Lunch Program (NSLP)
    - The School Breakfast Program (SBP)
    - Summer Food Service Program (SFSP)
    - Child and Adult Care Food Program (CACFP)
- **Housing**
    - Section 8 Housing Choice Voucher Program (HCVP)
    - Section 8 project-based rental assistance
    - HUD-funded public housing
- **Disability Supports**
    - Supplemental Security Income (SSI) for adults
    - State Supplement Payment programs (SSP, which supplement SSI)
- **Tax Credits**
    - Federal tax credits (including, at the federal level, the Earned Income Tax Credit, Child Tax Credit, Child and Dependent Care Tax Credit)
    - State and local tax credits
- **Utility Subsidies**
    - Low Income Home Energy Assistance Program (LIHEAP)
    - The Lifeline telephone and internet subsidy program
- **Other**
    - Public transportation, including discounts for people with disabilities
    - State child support rate guidelines

NCCP will add the following benefits to the FRS in 2021 through currently funded projects:

- State paid family and medical leave (PFML)
- Federal and state unpaid family and medical leave (e.g., FMLA)
- Paid sick days
- Supplemental Security Income (SSI) for children
- Medicare
- Social Security Disability Income (SSDI)
- Policy variations for immigrants, children with disabilities, American Indians, and formerly incarcerated and justice-involved people

Example of FRS Analysis

In this example, we focus on a hypothetical 26 year old single mother of two in Pittsburgh. The FRS can model how changes to policies would affect Jackie's net resources like increasing the income limit for child care subsidies. It can model what her net resources would look like with or without a particular benefit like SNAP. By determining the points at which families' face benefit cliffs and identifying the policy levers that can help them, the FRS can guide the development of public benefit policies that work well for families, particularly those who receive multiple supports.

JACKIE'S CHARACTERISTICS

- Has two children, ages 1 and 3
- Receives child support for one child; the father earns $30,000 per year
- Breastfeeds the infant child, which affects the amount of WIC she receives
- Becomes employed as an administrative assistant with a M-F, 9-5 work schedule
- Takes public transit to work daily
- Pays $100 per month on outstanding debt
- Has $800 in savings account
- Places her 3-year-old in licensed center-based child care, and she receives child care subsidies when eligible
- Receives a Housing Choice Voucher
- Lives in an apartment with gas heating, which affects receipt of LIHEAP

JACKIE'S NET RESOURCES

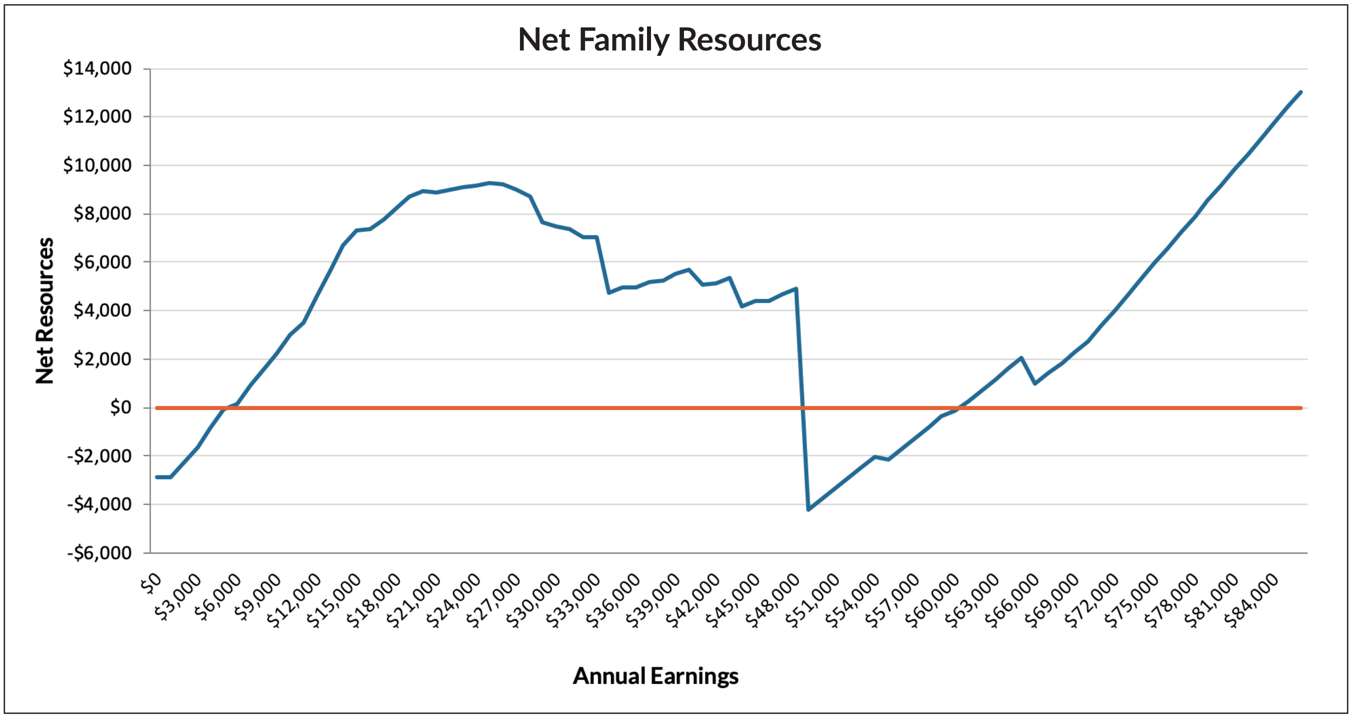
The FRS identifies benefit cliffs by calculating a family or individual's net resources.

Net Resources = Income + Public Benefits – Expenses

The FRS displays families' net resources as families' incomes rise. When a family's net resources are above $0, their resources (benefits + income) are more than their expenses. In other words, they can pay their bills and meet basic needs. When a family's net resources are below $0, their expenses are greater than their resources. They cannot make ends meet.

As depicted by the graph below, when Jackie's annual income reaches $6,000, she can pay her bills, and when her income reaches about $24,000, her net resources are almost $9,000 for the year; she meets her family's basic needs and has enough to save as well. However, then her net resources begin to decline due to the loss of benefit supports (SNAP, CHIP/Medicaid, and health insurance subsidies) that are greater than increases in her income. When Jackie's income reaches about $48,000, she faces a particularly steep benefit cliff, due to the loss of child care subsidies: her net resources drop below $0, and she can no longer pay her bills. In fact, she is about $4,000 short for the year. She remains underwater until her income reaches about $61,000, and she does not again reach $9,000 in net resources until her income reaches $80,000. More details about the benefit cliffs Jackie faces are provided in the Appendix.

Figure 1: Jackie's Net Resources



The FRS default expense settings are used in this example.

The FRS is a powerful tool for improving our public benefit system to better support families' economic mobility. Through partnerships and additional funding, NCCP could expand the FRS to many more cities and states.

For more information, please contact
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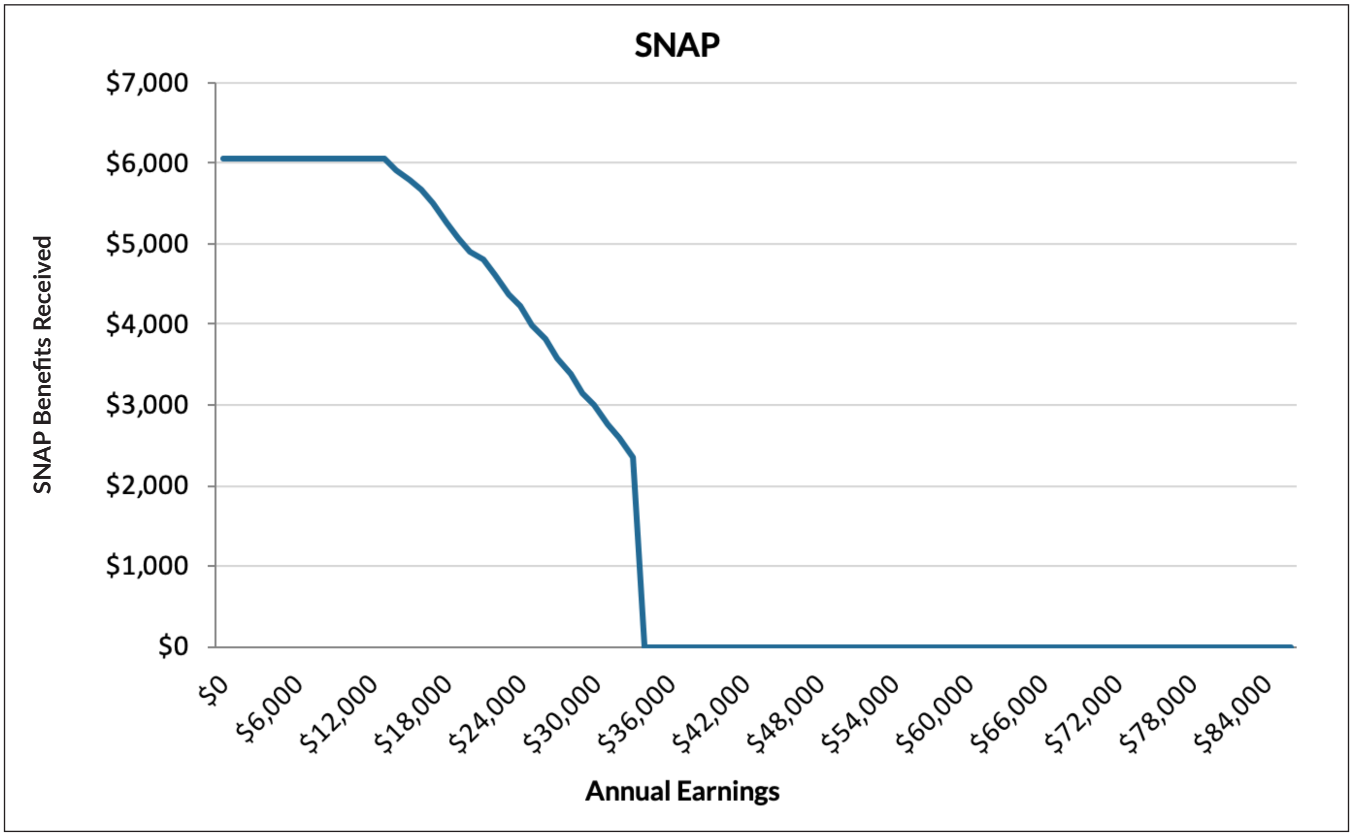
Appendix

DETAILS OF JACKIE'S BENEFIT CLIFFS

This appendix provides details about the benefit cliffs in each public benefit faced by a hypothetical 26-year-old single mother of two small children in Pittsburgh, PA, named Jackie.

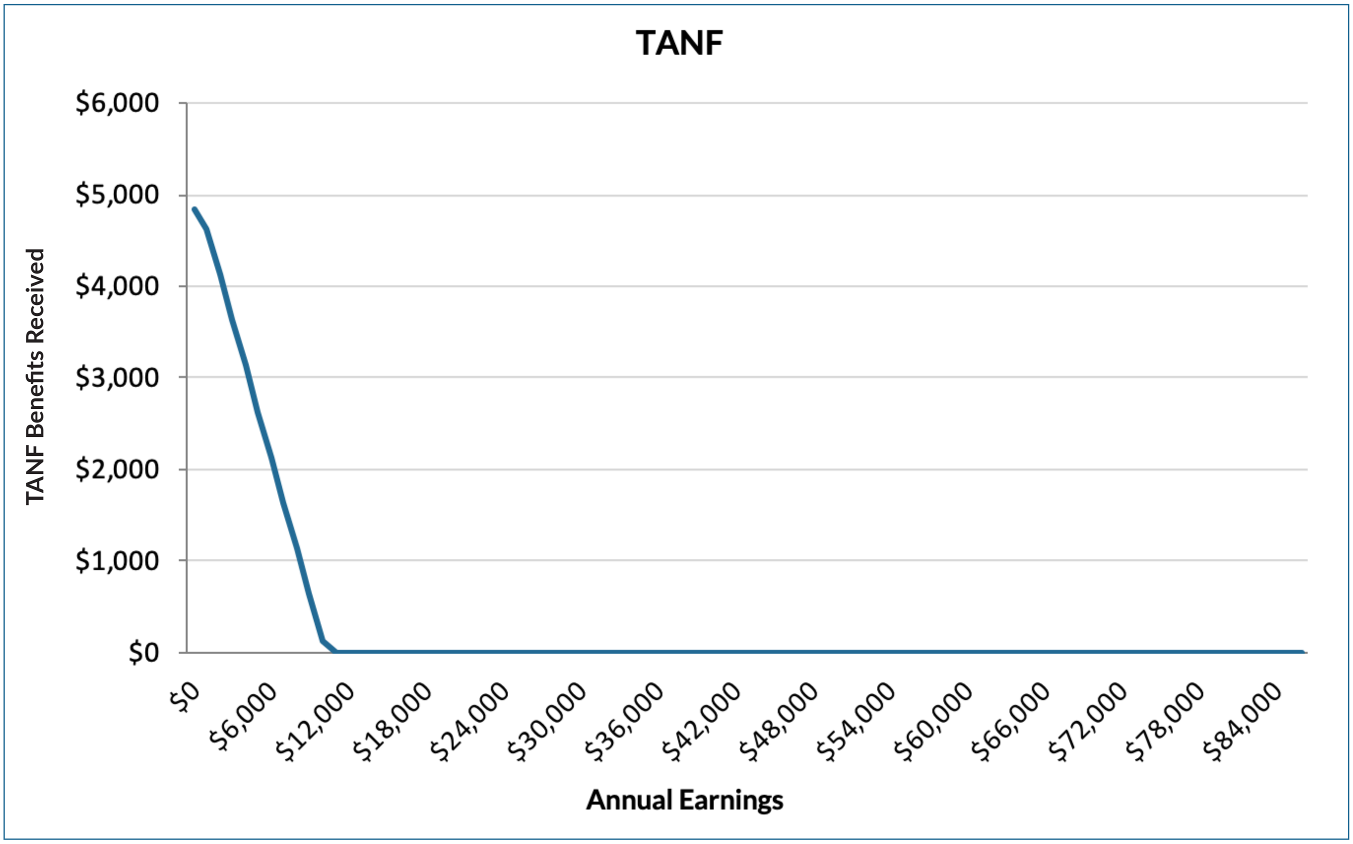
SNAP BENEFIT CLIFF: This graph shows that when Jackie has no income ($0 of annual earnings), she receives about $6,000 in SNAP benefits annually. When Jackie's income reaches $14,000, her SNAP benefits begin to decline. When Jackie's income is $34,000, SNAP benefits end, leading to a steep cliff.

Figure 2: Jackie's SNAP Benefits



TANF BENEFIT CLIFF. When Jackie has no income, she receives about $5,000 in TANF cash assistance annually. As her income rises, her TANF benefits decline steeply. When Jackie's income reaches $12,000, she loses all TANF benefits.

Figure 3: Jackie's TANF benefits



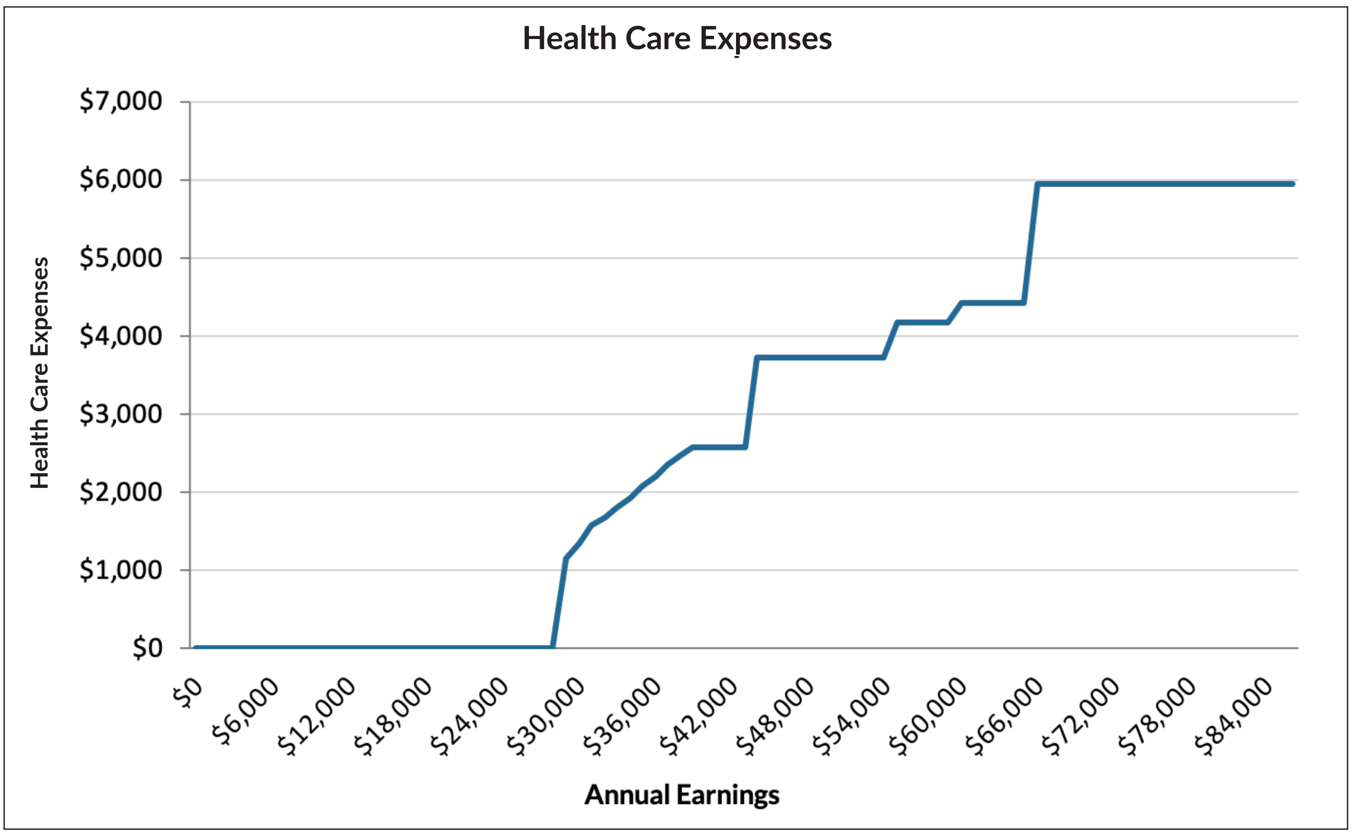
JACKIE'S EXPENSES: HEALTH CARE, CHILD CARE, AND HOUSING

The FRS models health care, child care, and housing expenses differently than TANF and SNAP. Medicaid, child care subsidies, and housing vouchers do not provide cash or near cash assistance; instead these programs reduce how much families pay for health care, child care, and housing. Therefore, the FRS models the loss of these benefits as increases in families' expenses.

For these graphs, we use the FRS default settings for expenses, which are based on government standards, such as the USDA basic food plan and the HUD Fair Market rent estimates. FRS users can override the default settings to enter their actual expenses.

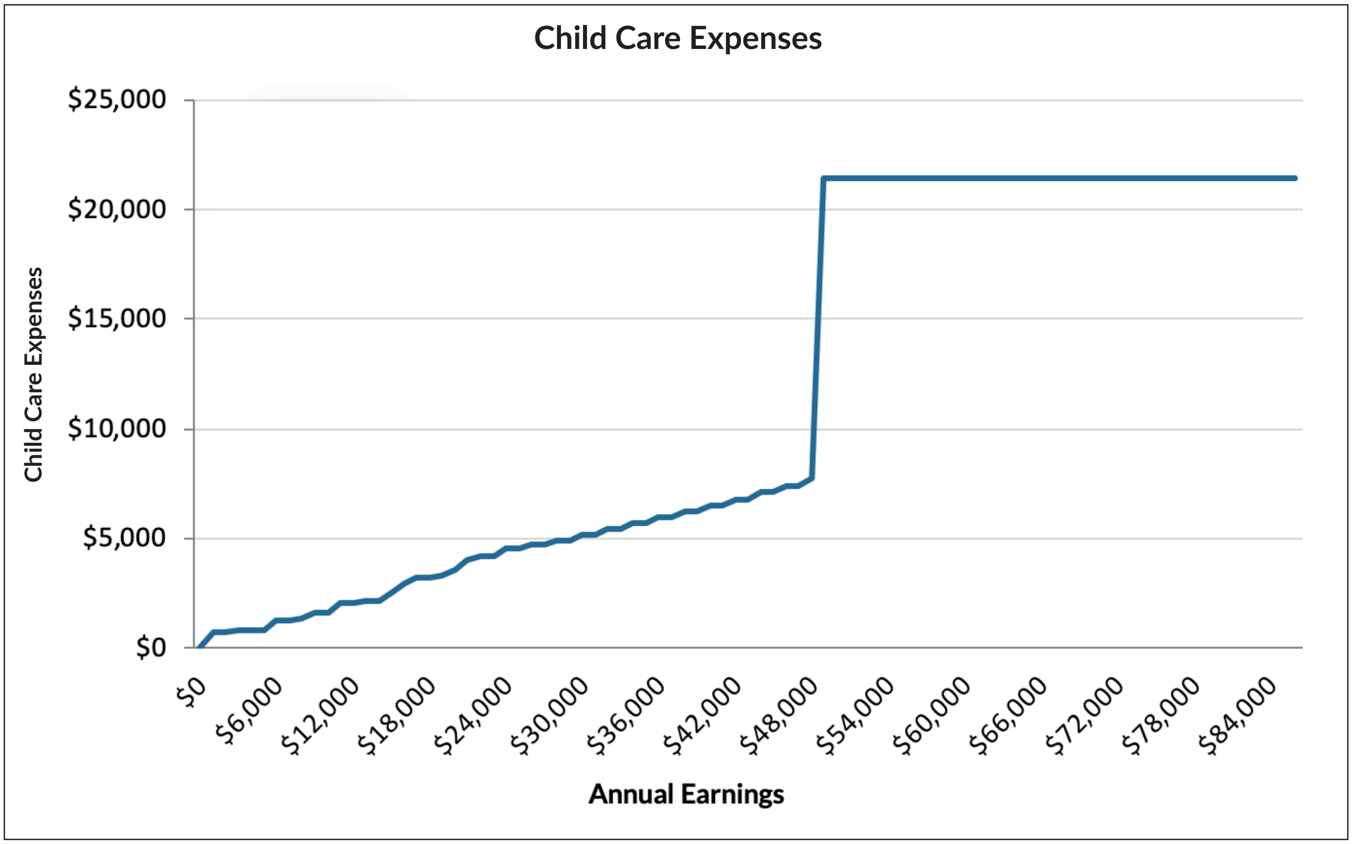
HEALTH CARE EXPENSES: When Jackie's income reaches about $28,000, she loses Medicaid for herself, while retaining CHIP health coverage for her children. When she loses Medicaid for herself, she begins paying her health care premiums, increasing her health care expenses. She receives tax credits (also called ACA subsidies), which offset some of her healthcare costs. As her income rises, her families' contribution to premium payments increases. She eventually loses CHIP for her children as well as access to premium tax credits. By the time her income reaches $64,000, she pays about $6,000 in health care costs for her family.

Figure 4: Jackie's Health Care Expenses



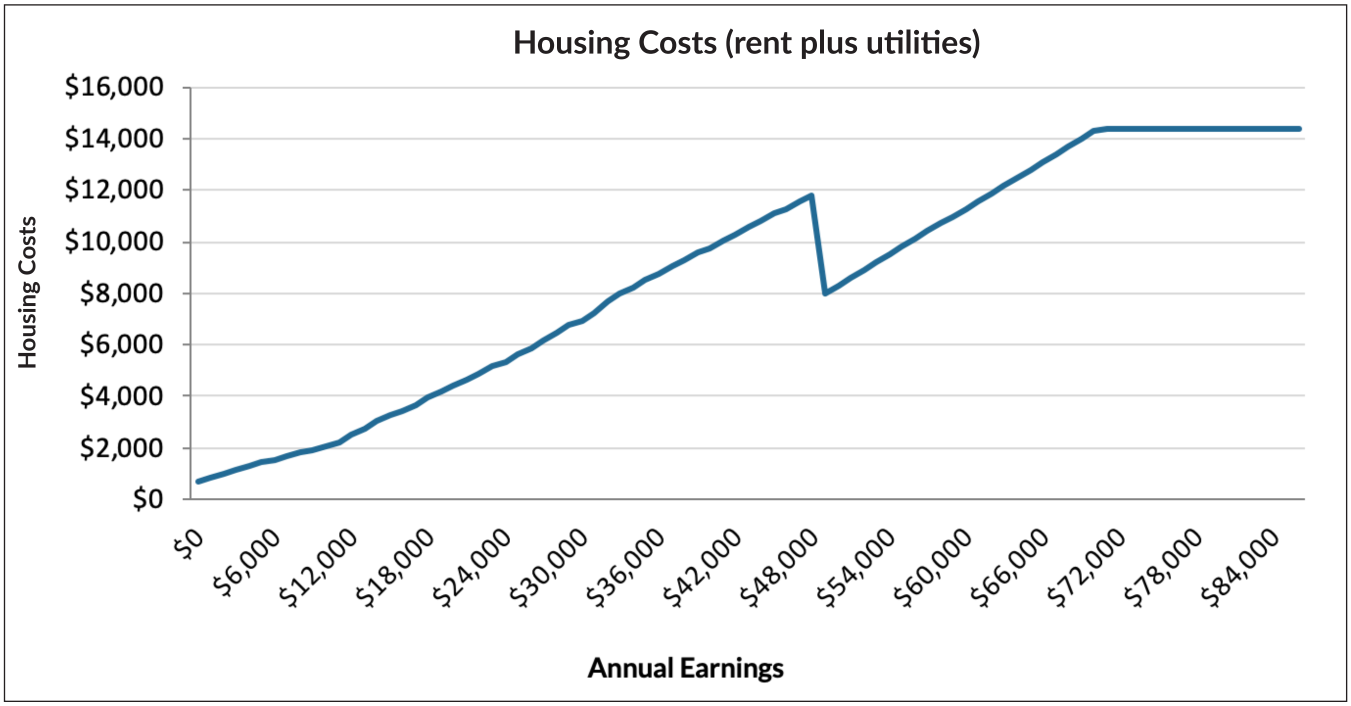
CHILD CARE EXPENSES: Jackie receives child care subsidies when she starts working. Those subsidies gradually decline as her income rises, increasing her child care expenses. When her income reaches $48,000, she loses child care subsidies, and the cost of her child care for two children increases to $20,000 per year. This estimate comes from the minimum annual estimate of child care costs for two young children at a licensed child care center, based on federally-mandated market rate studies.

Figure 5: Jackie's Child Care Expenses



HOUSING COSTS: Jackie receives housing vouchers that offset the cost of housing; however, the value of the voucher decreases as her income increases. The housing voucher rules allow her to deduct child care costs from her income. When her child care costs increase sharply at $48,000, as shown above, the amount of her housing voucher therefore increases. Her vouchers then decline gradually with her income until her share of the rent matches the market rate, and she no longer receives housing subsidies.

Figure 6: Jackie's Housing Expenses



These graphs demonstrate the value of benefits as Jackie's income rises. The above examples are the benefits that are most impacted by increasing incomes, but the FRS also captures the range of other benefits and expenses that are less volatile as income rises. The combination of the values in these graphs, and the other benefits and expenses modelled in the FRS, results in the net resources graph in Figure 1 in the report.