Benefit Cliffs Affecting Kentucky Families and Related Policy Recommendations:

FINAL FINDINGS

Prepared by: The National Center for Children in Poverty (NCCP) at Bank Street Graduate School of Education with assistance from the Kentucky Center for Statistics (KYSTATS)

For: Kentucky Workforce Innovation Board (KWIB) and The Commonwealth of Kentucky

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About the National Center for Children in Poverty (NCCP)

The National Center for Children in Poverty (NCCP), founded within Columbia University and, as of July 2019, located at Bank Street Graduate School of Education, is a non-partisan public policy research center 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. It conducts research and policy analysis and uses existing evidence to identify effective, innovative strategies that can improve the lives of children and families experiencing economic hardship. The Center provides accessible information and recommendations about research-informed policies and initiatives that can help families and communities support children's success from infancy through young adulthood.

NCCP reaches a large audience with its reports, online data tools, policy resources, technical assistance, and partnerships. This audience includes state and local policymakers, advocates, community leaders, researchers, and administrators in government agencies. They use NCCP's research and analyses to make informed decisions about policies and programs that promote secure, nurturing families and thriving children. NCCP often partners with government officials, advocates, and other stakeholders to plan and carry out policy research and analysis—an approach that fully engages decision-makers and helps ensure that results will be used to strengthen policies and programs.

Key areas of the Center's work include safety net policies, immigrant families, paid family leave, disability policies, early childhood mental health, early intervention, early care and education policies, and two-generation approaches. NCCP's online resources include the Family Resource Simulator, the 50-State Policy Tracker, the 50-State Demographic Data Generator, Early Childhood State Policy Profiles, and the Basic Needs Budget Calculator.

Karen Chatfield, PhD, and Camille Smith, MSW, were the primary NCCP researchers on this study. They relied on state government partners at the Kentucky Center for Statistics (KYSTATS) and the Cabinet for Health and Family Services (CHFS) to provide collaborative insights and administrative data, as well as American Community Survey (ACS) data and other sources to model individual and aggregate impacts and to research recommendations. The NCCP team is grateful to all, including those from the Kentucky Workforce Innovation Board and stakeholders in the Kentucky policy community, who provided input of the many important questions raised during this work. NCCP acknowledges support from the Ford Foundation for additional support with this work.

Acronyms

ACS	American Community Survey
BHP	Basic Health Program
CCAP	Child Care Assistance Program
CCDF	Child Care Development Fund
CDCC	Child and Dependent Care Credit
CHFS	Cabinet for Health and Family Services
CTC	Child Tax Credit
EITC	Earned Income Tax Credit
FPL	Federal Poverty Line
FRS	Family Resource Simulator
KCHIP	Kentucky Children's Health Insurance Program
KTAP	Kentucky Temporary Assistance Program
KLDS	Kentucky Longitudinal Data System
KWIB	Kentucky Workforce Innovation Board
KYSTATS	Kentucky Center for Statistics
LIHEAP	Low-Income Home Energy Assistance Program
NCCP	National Center for Children in Poverty
QHP	Qualified Health Plan
SMI	State Median Income
SNAP	Supplementation Nutritional Assistance Program
TANF	Temporary Assistance for Needy Families
WIC	Special Supplemental Program for Women, Infants, and Children Nutrition Program

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Introduction

Families' benefit cliffs occur when an increase in parents' income causes them to lose access to a public benefit program and the loss of the benefit results in a negative drop or "cliff" in net resources. These cliffs leave families with reduced financial resources even as earnings increase. When faced with benefit cliffs, parents may elect to leave the workforce, turn down new jobs or promotions, or avoid working additional hours in order to continue to receive benefits for themselves and their families. Benefit cliffs can trap workers in employment with lower salaries and limited hours of work, preventing advancement and prosperity. For some families, these cliffs keep them in poverty, unable to move beyond low-income wages. Alternatively, if workers "power through" benefit cliffs, the resulting loss of net resources can be significant enough to return them to poverty before they can increase their earnings further. In short, benefit cliffs can threaten the economic mobility that enables families and communities to thrive.

This report summary presents the results of research that examined benefit cliffs affecting families in Kentucky. It includes estimated costs of benefit cliffs to parents and their children and, more broadly, the negative impacts of cliffs on the economic health of the Commonwealth. Based on the results and state-specific benefit policies, the report presents recommendations for reducing or eliminating benefit cliffs and potential benefits of advancing these recommendations to families and the state economy.

Key highlights of the report summary include:

- A brief discussion of why economic mobility matters for children, families, and state economies
- Methods
- Results
- Key Recommendations

Details on methods and a more extensive discussion of the findings and recommendations can be found in subsequent sections.

WHY ECONOMIC MOBILITY MATTERS

Low-income parents' economic mobility is essential to secure families, healthy communities, and a thriving economy, and it is also foundational to the well-being of children. A large body of research demonstrates the association between families' financial insecurity and children's poor emotional and cognitive outcomes, less optimal health, and lower levels of educational achievement.[1] These outcomes, in turn, predict lower rates of employment and earnings in adulthood. Central findings from this research include the following:

- Poverty in early childhood is especially consequential to outcomes in adolescence and early adulthood.[2] One study found that children living in poverty as infants and toddlers were approximately 30 percent less likely to complete high school than children who first experience it later in childhood.[3] In another study, children who experienced poverty between birth and age 5 were found to have markedly lower adult earnings and work hours.[4]
- Chronic poverty is more detrimental to children's long-term outcomes than short periods of family poverty because when families are poor over longer periods, challenges relating to material hardships and psychological stress mount and persist.[5]
- Children in families experiencing multiple dimensions of poverty (including deep poverty, the duration of poverty "spells," and income volatility) are likely to experience negative effects on their socio-emotional functioning in adolescence.[6]
- The negative effects of poverty are worse for children living in neighborhoods with higher proportions of low-income households and even extend to children in non-poor families in these neighborhoods.[7,8,9]

METHODS

This report presents results of analyses based on both administrative and simulated data to estimate the benefit cliffs currently affecting Kentucky families in all 120 counties while accounting for local variations in expenses, including healthcare, food, child care, and utilities.

In order to identify and measure benefit cliffs, simulated data modeled $1,000 increases in household income using Kentucky Center for Statistics (KYSTATS) Family Resource Simulator (FRS). The FRS produces estimates of families' net resources across changes in earnings while accounting for benefit access under Kentucky's eligibility guidelines, federal and state tax credits, county-level costs of goods, and current tax rates. Analyses of households featured six different family types: single-parent and two-parent households with either one, two, or three children. For each of these family types and at each income point, family expenses, taxes, and tax credits in each county were assessed against earnings to provide net resources at each level, from $1,000 to an upper income limit in a range from $80,000 through $123,000, depending on family size. In this framework, a cliff occurred whenever the additional $1,000 in incremental earnings resulted in greater than $1,000 in costs because of either a loss of one or more public benefits, a decline in the value of a public benefit, an increase in family expenses, or, most likely, a combination of these three.

NCCP staff relied on state government partners at KYSTATS and the Cabinet for Health and Family Services (CHFS) for administrative data on program participation and collaborative insights, as well as American Community Survey (ACS) data and other administrative data to support the modeling of individual and aggregate impacts.

See Appendix A for additional information on methods, including the operations and assumptions of the **Family Resource Simulator.**

RESULTS

Results of this work demonstrate which benefit cliffs currently challenge families at different income levels and what the financial impacts of those cliffs are for both families and communities. Potential financial impacts of those cliffs were estimated under scenarios in which families "power through" them by taking on additional work or avoid them by "parking their wages."

Benefit Cliffs Affecting Kentucky Families

After legislative changes to benefit guidelines went into effect in March 2023, Kentucky families could still encounter benefit cliffs, resulting in a decrease of net resources at these income levels:

- Adult Medicaid at 138 percent of the Federal Poverty Line (FPL) ($34,000 for a family of three)
- SNAP (Supplementation Nutritional Assistance Program /food stamps) at or near 200 percent FPL ($46,000 for a family of three)
- KCHIP (Kentucky Children's Health Insurance Program , a special Medicaid program for children) at 218 percent FPL ($54,000 for a family of three)
- CCAP (subsidized child care) at 85 percent of the State Median Income (SMI) ($56,000 for a family of three)

While many families receive benefits from these programs, most recipients earn incomes that continue to fall well below the exit threshold outlined above. Data provided by the Cabinet of Health and Family Services enabled an estimation of how many families were currently enrolled, as well as how many are at high risk in the coming 18-24 months given their family size and current earnings in relation to the eligibility guidelines for each program, of encountering these cliffs. Estimates are provided in table I-1.

Table I-1: Kentucky Families Enrolled in Programs and Enrolled Families Facing Benefit Cliffs

Program Threshold(s)	Number of Enrolled Families[a]	Number of Enrolled Families Nearing Cliffs
Medicaid and KCHIP Adults 138% FPL Children 218% FPL	196,000 (adult and child Medicaid) 59,400 (KCHIP)	19,600 (Medicaid) 7,130 (KCHIP)
SNAP 200% FPL	128,700	6,012
CCAP (Child Care Assistance Program) 85% SMI[b]	20,600	3,349

[a] See Appendices C, D, and E for data used in analysis of number of enrolled families and those nearing cliffs.

[b] State Median Income (SMI) thresholds are calculated using income distributions in the Commonwealth only. They do not convert to Federal Poverty Line (FPL) thresholds since they vary by family size differently than FPL thresholds. Here, the 85% SMI threshold for a family of three in Kentucky is currently set at $56,000.

By far the greatest number of families facing cliffs are those participating in Medicaid for adults, and it is concerning that this will occur at a relatively low level of income for such households, at just 138-percent FPL (or 34,000 for a family of three). It is important to remember that while the smallest number of families facing a particular cliff are those who may lose CCAP, this cliff is the steepest, representing the largest drop in net resources for families who may choose to "power through" them rather than avoiding them. Estimated impacts, discussed below, point to a significant total loss in net resources for fewer than 3,500 families.

Estimated Impacts of Benefit Cliffs

Table I-2 below provides aggregate first-year impacts of benefit cliffs in the case that all families choose either to "power through the cliffs" (A) or avoid the cliffs by "parking their wages (B). These estimated impacts are based on the numbers and sizes of families enrolled in programs at high risk of facing cliffs and family income relative to income eligibility thresholds for each program.

Table I-2: Aggregate Impacts of Benefit Cliffs for Families Approaching Cliffs

Benefit Cliff	A. Families who "Power Through" Cliffs: Loss in Aggregate Net Resources	B. Families who Avoid Cliffs by "Parking Wages": Loss in Aggregate Earnings
Medicaid for adults	-$45,142,720	-$29,400,000
SNAP	-$5,176,147	-$9,016,500
KCHIP	-$13,990,186	-$10,695,300
CCAP	-$23,277,170	-$5,023,500

As shown in Table I-2, if all families who are at risk of facing cliffs in the coming 18 to 24 months were to decide to "power through" them, thereby losing benefits and experiencing significant, immediate declines in their net resources (A), the resulting aggregate losses for all programs would exceed $87.5 million; more than half of that ($45.1 million) results from the loss of Medicaid for adults. While it is unlikely that all families would decide to power through the cliffs by earning additional income, these estimates highlight that the losses such families experience by committing to full workforce participation have significant consequences for them and their communities. At least in the short-term and possibly for years to come, these families will have significantly less income to spend in support of local businesses and industry (in the construction of new homes, as an example).

Column (B) in Table I-2 provides estimates of lost income if all families facing cliffs decided to avoid them by not taking on new jobs or working additional hours, totaling more than $54 million. In the short term, these lost earnings would be offset for the individual families by the value of benefits retained through avoiding the cliffs. However, parents can remain "trapped" in lower paying positions for several years; the estimates in column B are provided as signals of the consequent long-term losses through disrupted career trajectories that such parents experience. Parents who lose wages by avoiding cliffs will likely experience diminished earnings across their lifespan, ultimately costing themselves (and their communities) far larger sums than those presented here. There are also related social costs in lost tax revenues resulting from cliff avoidance that are not quantified here, but are likely significant.

KEY RECOMMENDATIONS

Key policy considerations emerging from this analysis seek to address benefit cliffs that disrupt the ability of Kentucky's parents to maximize their work participation and earnings in order to improve their long-term economic prospects. As part of this work, we considered recommendations for policy changes that could entail any or all of the following:

- Changes to the State Block Grant
- Kentucky's regulatory structure of benefits
- Kentucky's statutory structure for benefits programs
- Federal policy recommendations that could be integral to the proposed recommended state policy

The following are the key recommendations that emerged from the results and available opportunities for policy change in Kentucky:

1. **Require lower copayment amounts for low-income families using subsidized child care. We recommend that families with extremely low income are charged no copayments. While currently in some counties certain families can spend as much as 15 percent of their income on copayments at just 120-percent FPL, we recommend that copayments would start at no more than three percent of earnings when families' income reaches $17,000 and gradually increase to no more than seven percent of earnings when families' earnings reach 85 percent of the state median income (SMI), which is the current exit threshold for subsidized care.** This would align with a **proposed rule change by the federal Department of Health and Human Services**[10] and help address SNAP cliffs. In particular, this would prevent families who need full-time care from encountering a benefit cliff as soon as they earn $17,000. (For more on these guidelines and the percentages of earnings families pay under current copayment schedules, see Appendix G.)

2. **Extend the exit income threshold to 125-percent SMI.** Moving the exit threshold to a higher income level means that when parents lose access to child care assistance, they will have more income to cover the very high costs of private care.

3. **Between 85-percent SMI and the new exit threshold (125-percent SMI), the state should require subsidy copayments that steeply increase as parents' earnings grow and come close to the cost of private care just as families reach the exit threshold.** Implementing the second recommendation on its own would just shift the cliff up to a higher income level. However, increasing copayments steeply will mitigate the benefit cliffs, support families in becoming independent, and enable parents to share responsibility for subsidized care with the state government, thereby limiting the investment level needed by the state.

4. **Conduct a strong campaign to inform low-income families about the importance and benefits of enrollment in premium silver-level Qualified Health Plans (QHPs), which effectively reduce premiums to $0 for families with incomes under 150-percent FPL.** This is needed, given currently low enrollment rates in the QHPs. A recent estimate provided by CHFS indicated that just 16 percent of those individuals transitioning from Medicaid enrolled in QHPs[11] It is important to encourage those families losing Medicaid for adults at just 138-percent FPL to transition quickly to a plan that will, until they earn 150-percent FPL, require no contributions toward policy premiums and provide coverage featuring very low deductibles for needed care. For those earning between 150- and 200-percent FPL, the expected contribution is between zero and two percent of family earnings; between 200- and 250-percent FPL, it is between two and four percent; and between 250- and 300-percent FPL, it is between four and six percent. Investment in an enrollment campaign would serve to actively implement a solution Kentucky is already providing to ensure that families can access medical care at reasonable cost. It could involve community outreach, enrollment assistance to individuals, and health education.

5. **Adopt a state-funded Basic Health Program (BHP) as a transitional measure, enabling parents who rely on a network of trusted doctors through Medicaid to continue with those providers to access a "bridge insurance program" for adults earning from 139- to 200-percent FPL.** This would afford low-income families more time as their earnings increase to become informed about Qualified Health Programs. This is an especially important aim for parents since families will no longer be covered by KCHIP for their children at 218-percent FPL.

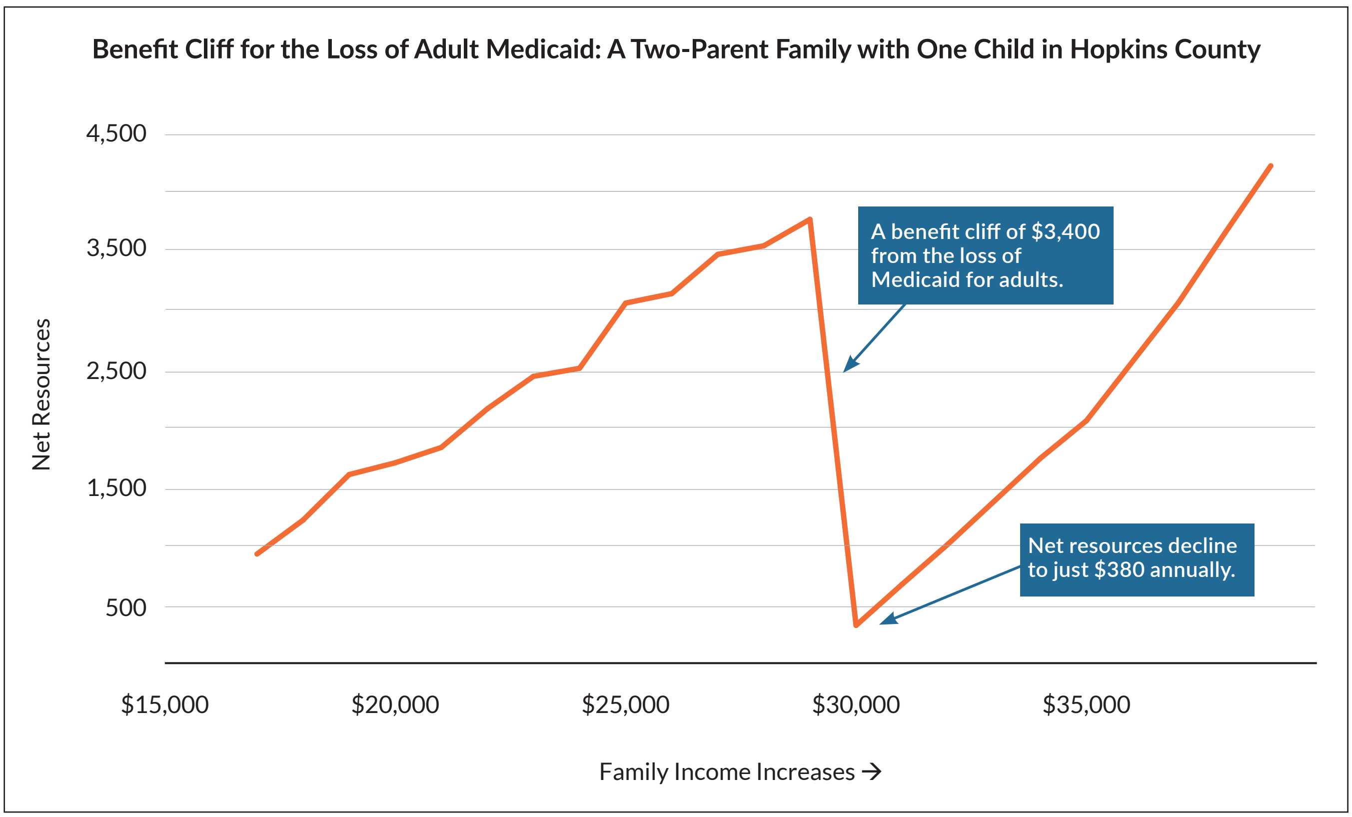
Section 1: Identifying Benefit Cliffs

WHAT IS A "BENEFIT CLIFF"?

When a family loses eligibility for a benefit due to an increase in their earnings, and *when the loss of the benefit produces a monetary loss greater than the rise in income*, the loss is a "benefit cliff." Benefit cliffs can also be thought of as "marginal tax rates," since the family's financial status effectively declines with additional income and/or earnings.

Benefit cliffs can disrupt the normal matching process of employers and employees by creating rational, short-term disincentives for individuals to seek better employment opportunities and higher wages.[12] Such disruptions limit economic activity and mobility and sustain generational poverty. As an illustrative example, the short narrative below this illustration provides possible responses by an individual about to confront the Adult Medicaid cliff.

A Simple Example of a Single Benefit Cliff in Kentucky



As a young couple with a six-month-old daughter, Dave and Mary live in Hopkins County where unemployment is relatively low. Mary is staying at home with their baby for now and Dave works for the owner of a string of local gas stations and convenience stores. Both parents are proud of the steady increases in Dave's salary over the last several years, as he has taken on more and more responsibilities. Dave now earns more than $29,000, and his boss has hinted at a small cost-of-living raise in the coming months, along with a minor promotion.

These new parents have relied on several public benefits while getting their feet on the ground, including Medicaid as their health insurance. But the couple has recently learned that as soon as Dave earns slightly more, near $30,000, they will both lose their eligibility for Medicaid for adults, resulting in a net annual loss in net resources of roughly $3,400. The loss of this benefit will actually vary in the toll it takes on the family's finances depending on their next steps; if Dave joins his employer's health insurance plan, expensive premiums will be deducted from his pay, leading to the cliff illustrated here ($3,400). Because this occurs at a relatively low income level, these parents will go from having net resources (or expendable income) of $3,763 when earning $29,000 to just $320 when earning just slightly more.

Dilemma: Dave is considering his alternatives. His young family will not be able to recoup the same level of annual expendable income until he earns almost $39,000 and he cannot imagine that an increase of that size will occur in the near future, even though his work is valued by his employer. He has diabetes and does not want to be without health insurance for a single month. For now, Dave is committed to being the sole breadwinner in the family since both he and Mary believe that it is best for their daughter to be at home with a parent while she is an infant. He does not want to turn down a pay increase or promotion. Finally, Dave also believes that they need the small amount of extra income (nearly $4,000 in net resources) that he was making at $30,000 in order to continue to build their life together through savings, so that simply "powering through" the cliff and taking the loss does not feel acceptable to him.

Other benefit cliffs affect Kentucky families of all types, with children of all ages, and across a wider income span than the one illustrated in this example. The loss of Medicaid for adults, however, poses a challenge for many families at low earnings levels. Further discussion of this cliff will follow in subsequent sections.

BACKGROUND

This section provides some context about Kentucky families' reliance on social benefit programs. It describes some shifts in unemployment since the pandemic, as well as some indicators of recovery. It also describes some of the variations in these elements across counties and regions and includes description of "underemployment," one of the most worrying consequences of benefit cliffs. Finally, it briefly outlines the ways in which this report will address each of these important topics.

Kentucky Families Requiring Benefit Assistance

Most benefit programs that are likely to present cliffs for Kentucky families with children involve income threshold eligibilities near or below 200-percent FPL (currently set at $60,000 for a family of four).[13] An estimate spanning the years from 2016 to 2020 indicates that during those years, approximately 44 percent of all Kentucky children lived in families earning below 200-percent FPL (currently set at $60,000 for a family of four). [14]

From 2016 to 2020, there were also broad differences across counties in the proportion of children living in families earning below 200-percent FPL. The highest proportion of low-income children during this time period was seen in Wolfe County, where almost three in four (74 percent) children were living below 200-percent FPL during the years documented, and the lowest proportion was in Oldham County, where just 15 percent of children were living below that income level. This report's analyses and recommendations were conducted with consideration for these regional differences. Particularly, since more than one in four Kentuckians (25.7 percent) live in one of the 55 counties that are considered part of Appalachia, it is important to consider the potential effects of benefit cliffs in this part of the state.

Because the Family Resource Simulator (FRS) that is used for analyses in this report provides estimation for families rather than for children, it is important to understand how many Kentucky families *currently* live either in or near poverty. Twelve-month ACS data for 2021 provides an estimate of almost 401,000 (±22,705) families with children lived in households earning less than 200-percent FPL for their family size, or about 44 percent of all families with children in the Commonwealth.

Of all of these Kentucky families with children earning below 200-percent FPL, data indicate that slightly more than half (51.3 percent) were living between the poverty line (at 100-percent FPL and 200-percent FPL), and 48.7 percent of families living below the poverty line (100-percent FPL). While it is important to consider families below the poverty line, families living *near* poverty are more likely to confront benefit cliffs in the near future. This suggests that analyses in this report largely center on approximately 22.6 percent of all Kentucky families.

Relevant detail on family structure for Kentucky families below the poverty line and those living near poverty is provided in Table 1. According to these data, almost two in three families (64.6 percent) living below the poverty line were single-parent households. Of families in the "near poverty" range, earning above the poverty level and under 200-percent FPL, a higher proportion (56.9 percent) were two-parent households. This suggests that when considering benefit cliffs, it is important to consider two-parent households, as well as single-parent ones, even though it may be the case that most families receiving supports may have one parent.

Table 1: Families Living In or Near Poverty by Family Structure and Income-to-Poverty Level[15]

	Families Under 100% FPL	Families Between 100% and 200% FPL	Total Families Under 200% FPL
Single-Parent	126,174 64.6%	88,704 43.1%	214,878 53.6%
Two-Parent	69,210 35.4%	116,907 56.9%	186,117 46.4%
Single- and Two-Parent Families	195,384 100%	205,611 100%	400,995 100%

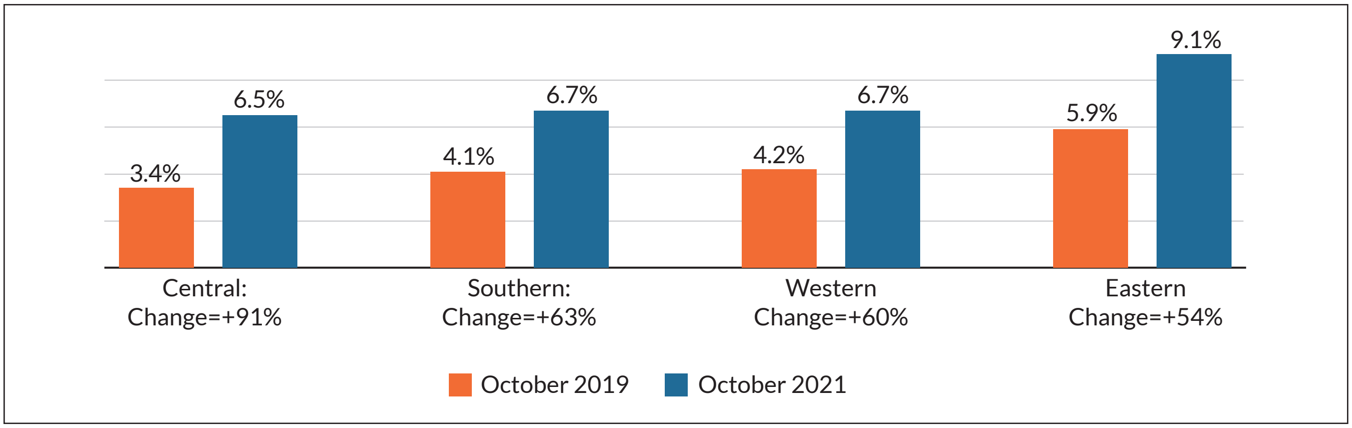
Not all families who are *eligible* for benefit programs actually receive them. Estimated numbers of currently and recently participating families follow below, based on the number of participating families in particular programs as supplied by the Cabinet for Health and Family Services (CHFS) or extrapolated from other sources.

Additionally, geographic variation in the concentration of low-income children and their families appears to continue into the present. Throughout this report, families from different counties will be showcased in illustrations and vignettes describing the effects of benefit cliffs on low-income parents and children.

Unemployment in Kentucky Through the Pandemic Recovery

Kentucky's work participation, as in much of the rest of the nation, was gravely affected by the COVID-19 pandemic, with a near doubling of unemployment rates throughout the state beginning in April 2020 and leading into the next two years. However, there were important differences across regions and counties that preceded the event, illustrated in the graph below. Early effects of the pandemic on unemployment were strongest in Central Kentucky, where employment nearly doubled. In Eastern Kentucky, the degree of relative change in the unemployment rate was the lowest (at 54 percent), but by late 2021, its unemployment rate was the highest among regions, at 9.1 percent.[16]

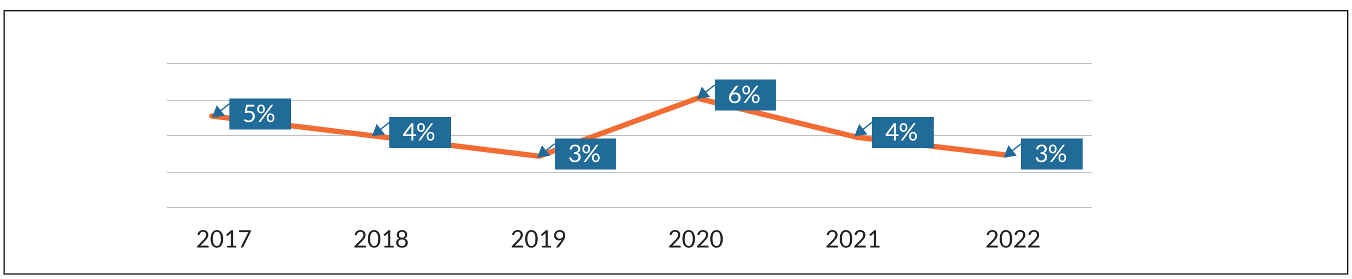
Unemployment Rates by Kentucky Region, from 2019 and 2021



The pandemic recovery after 2021 was unequal across areas in the Commonwealth. Businesses in different industries returned to activity —and full hiring capacity—unevenly, and therefore, unemployment rates across counties continued to vary widely. The December 2022 county-level figures ranged from 2.4 percent in Oldham and Woodford Counties to 8.8 percent in Elliott and 9.3 percent in Magoffin. Unsurprisingly, these rates tend to correlate with the proportion of low-income families in these specific counties, a relationship that preceded the pandemic; Oldham's proportion of such families in the years spanning 2016 to 2020 was 15 percent, while Elliott's was 59 percent and Magoffin's was 66 percent.

By late 2022, the state's average unemployment rate had improved to four percent, in contrast to a higher rate of 4.6 percent from one year earlier.[17] Four months later in April 2023, another measurement showed statewide improvement, with a decrease of unemployment to 3.8 percent.[18] In another sign of recovery, among Kentucky parents, the rate of unemployment in 2022 decreased to just three percent, the same rate as before the pandemic in 2019:[19]

Unemployed Kentucky Parents (Seeking Work)



In parallel with the unevenness in employment recovery for all Kentuckians across regions, NCCP infers that parents have also experienced different degrees of recovery in their workforce participation according to where they live, so that the rates above must also vary by location.

That counties are experiencing different levels of challenge with workforce participation is not new. The simulated data providing the foundation of this report fortunately calibrate significant variation in living costs in different locations in the state; county-level food costs, as an example, feed the calculations of net resources and SNAP benefits for families in the data. Through examples of how benefit cliffs affect families across geographic regions in Kentucky, this report attempts to illustrate the effects in counties with different levels of challenge.

Potential Underemployment

While unemployment is central to this report's purpose, so is the issue of *underemployment*. Underemployment describes circumstances in which workers are technically employed but not for a full number of hours or at levels of compensation appropriate for their education level. In these situations, it can be difficult for employees to earn promotions and salary increases that will move their family out of poverty (and away from benefit receipt). In fact, extremely negative outcomes can result for individuals and their families from underemployment of parents.[20] If enough workers are underemployed, it can be highly detrimental to the local economy, preventing full productivity and growth for all.

Underemployment sometimes results from a lack of opportunities offered by local employers (particularly after a shock like the pandemic), but it can also stem from disincentives to workers. A benefit cliff can act as such a disincentive, particularly if the resulting loss of net resources is large enough to place a significant financial burden on families.

It is difficult, even impossible, to provide accurate estimation of underemployment and its role in Kentucky's economy today. However, an indicator involving a particular benefit that low-income parents frequently rely upon in order to work may reveal something important that existed even before the pandemic: data from 2019 reveal that just 6.7 percent of eligible children and infants in Kentucky were in subsidized care slots, lower than the national average of 16 percent for that year.[21,22] Given extremely high costs of private, unsubsidized child care and the difficulty for low-income parents in affording those costs, this suggests a significant degree of underemployment in families of young children. While parents may be relying on friends and family to cover child care for them in part-time positions, and two-parent households may freely elect certain trade-offs in terms of child-rearing roles and responsibilities, the low take-up rate for subsidized care suggests that there are barriers of various kinds that prevent full workforce participation for many households. This report explores benefit cliffs as barriers that can trap families in lower income levels, even in poverty, but recommendations also address Kentucky's child care sector more generally.

Early Phase of Research on Kentucky's Benefit Cliffs

The first set of benefit cliff analyses by NCCP relied on data that had been generated *before* the policy changes legislated in 2022 that went into effect in early 2023.[23] Summary findings and materials from those analyses can be found in Appendix B.

Several changes were made, effective in March 2023, to the administration of essential support programs for low-income families, including:

- An increase in the Kentucky Temporary Assistance Program (KTAP) asset limit from $2,000 to $10,000
- An increase in the KTAP Gross Income Limit (e.g., to $1,315/month for a family of four)
- An increase in the Standard of Need for KTAP income eligibility (e.g., to $710/month for a family of four)[24]

Additionally, a shift in the initial eligibility, renewal, and exit income thresholds for subsidized child care (or CCAP) from 200-percent FPL ($60,000 for a four-person family) to 85-percent State Median Income (SMI) (approximately $67,000 for a four-person family) meant that, when losing subsidized child care, families would have more disposable income to pay for private child care at the higher income level.[25] Shifting the income limit for CCAP in this way also meant that parents did not lose the support of subsidized child care at the same income level at which they lose SNAP benefits.

In mid-2023, personnel at KYSTATS redeveloped the Family Economic Simulator (FES) to integrate the policies implemented by the 2022 legislative changes. As a result of the policy changes, benefit cliffs now affect families quite differently. High-level findings from the newer FRS include:

- Families with very low earnings do *not* experience benefit cliffs when losing cash assistance under the TANF or KTAP programs
- The most significant benefit cliffs confronting Kentucky parents now result from losses of CCAP, Adult Medicaid, children's Medicaid (KCHIP), and SNAP.
- As before, cliffs vary in magnitude in relation to location (county), family structure, and changes in earnings.

Subsequent sections describe benefit cliffs and the effects of the cliffs as they operate under *current* legislation and program administration.

ANALYSIS OF BENEFIT CLIFFS

Nearly all of the benefit programs mentioned in this report are means-tested. As the income of program participants rises, benefits provided by these programs can either decline gradually or cease suddenly. As already noted, when families lose eligibility for a benefit due to an increase in earnings and when the loss of the benefit results in a monetary loss greater than the rise in income, the occurrence is labeled a "benefit cliff."

Benefit cliffs do not necessarily occur whenever a family loses a benefit. It is possible that an increase in income together with another input, such as a tax credit, exceeds the loss of a benefit. There are interactions between benefit policies as well, so that an increase or decrease in one benefit could cause a change in another benefit's amount. There are myriad changes that continually affect families' net resources as parents earn additional income. This makes the KYSTATS Family Resource Simulator (FRS), developed in collaboration with NCCP, an essential tool in predicting and quantifying the cliffs at various income levels for families of different sizes.

Calculating Net Resources

The benefits available to low-income families in Kentucky can affect both their expenses and resources. Certain benefits, such as TANF and SNAP, provide cash or cash-like assistance and are therefore included as resources in efforts to model family finances. Other benefits, such as child care subsidies, housing subsidies, Low-Income Energy Assistance Program (LIHEAP), and health insurance assistance programs (such as Medicaid or premium tax credits), reduce the family's overall expenses and therefore are modeled as reductions in expenses. **A family's "net resources," or total resources minus total expenses, is the key parameter of interest when understanding the cliff effect. "Net resources" can also be thought of as a family's financial bottom line.**

As previously mentioned, benefit cliffs sometimes disincentivize individuals from seeking better employment opportunities and higher wages because of declines in net resources resulting from a too-sudden loss of benefits. This not only impacts those individuals and families facing these choices, but also can lead to a less productive and inclusive economy by reducing overall economic activity and trapping families in generational poverty.
In the face of benefit cliffs, one of two unfortunate outcomes will occur in response to an opportunity to earn higher income:

1. The individual or family earns higher income but because of the decrease in their net resources is financially worse off than before due to the reduction in benefits
2. The individual or family does not take the higher wage and therefore does not improve their economic position or earnings horizon, while their potential employer and the state economy forgo potential growth in activity. In some cases, workers have even quit employment to avoid benefit cliffs.[26]

The Family Resource Simulator calculates a family's "net resources" by subtracting expenses for basic needs (including rent, child care, food, and transportation) from their income and the value of the public benefits and tax credits they receive. The basic formula for net resources is as follows:

Net Resources = Resources - Expenses

Resources and expenses include the following measures, most of which are continuously recalculated by the FRS as family income increases:

Resources =	***Expenses =***
Earnings + TANF Benefit + SNAP Benefit + SSI Benefit + SSP Benefit + Child Support + EITC + Refundable Portion of Child Tax Credit	Federal, State, and Local Income Taxes – nonrefundable Tax Credits + Payroll taxes + Sales taxes + Child Care Costs – CCDF Subsidies + Rent – Housing subsidies + Utility costs – LIHEAP + Food costs – WIC – FSP benefits – Free/reduced price meals + Transportation costs + Health care costs + Miscellaneous expenses

Calculating the "Net Resources" measure across incrementally increasing income levels enables identification of the levels at which benefit cliffs occur, *whenever families' net resources are likely to decrease in spite of increased earnings*.

NCCP's research team derived the formulas used in this analysis to calculate the estimations of family resources, expenses, and net resources through their experience developing and maintaining the Family Resource Simulator (FRS), an online tool originally developed by the Center in 2004 to model the progression of net resources and impact of benefit cliffs for one family at a time. By calculating net resources for families, the adaptation of the FRS model can calculate how close Kentucky families are to facing the various benefit cliffs in these programs and how severely these benefit cliffs may impact their finances. Moreover, this analysis can demonstrate the impact of specific benefit cliffs in the aggregate and compare the impacts that new policy rules may have on families in the future.

The Current Trajectory of Economic Mobility for a Four-Person Family

Prior to full analysis of variation in cliffs by family type and geography or the aggregate impact of benefit cliffs, it is helpful to review the trajectory of an illustrative Kentucky family who would experience some abrupt declines in their net resources as their income rises under current legislative policy.

First, the Family Resource Simulator makes the following assumptions about this two-parent family with two-children in Jefferson County, as well as some assignments made with respect to this family:

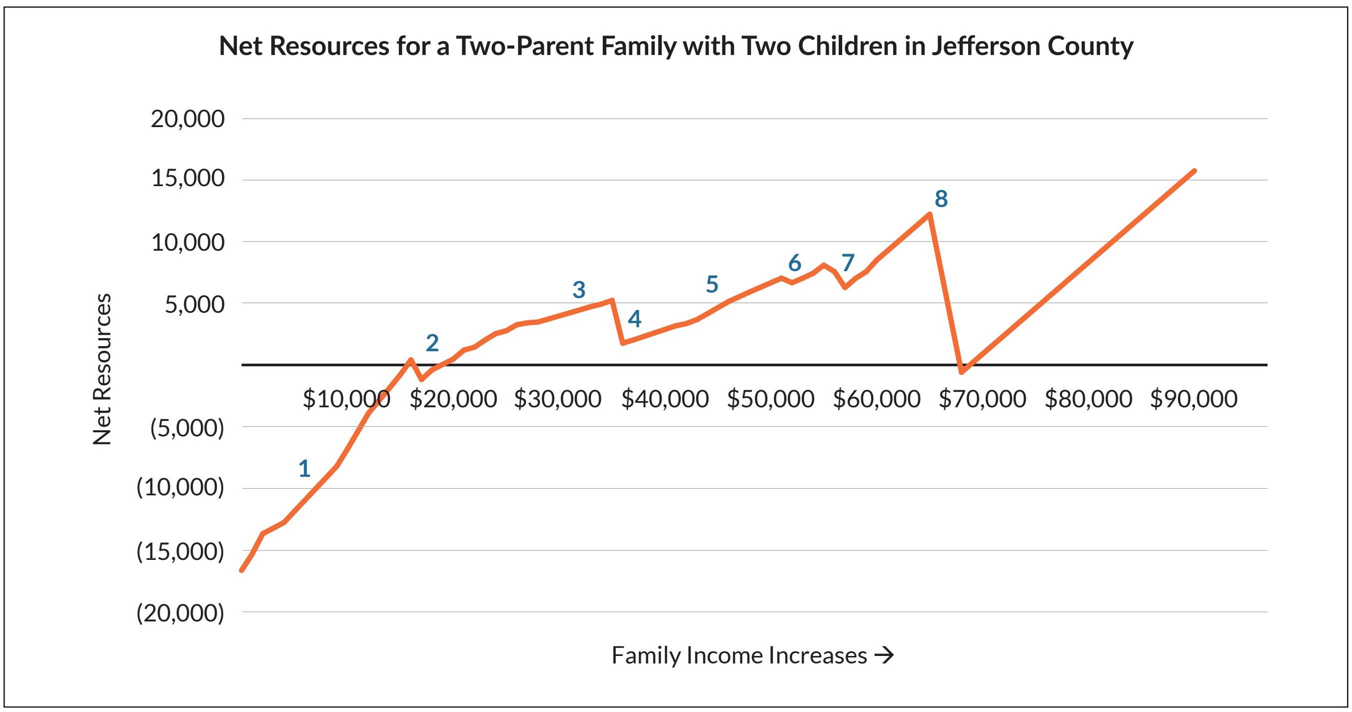
- Before the parents begin to participate in the labor force, FRS modeling assumes that since their income levels are very low, they receive benefits, including cash assistance (TANF), food stamps (SNAP), food assistance for very young children (WIC), Medicaid or KCHIP for all family members' health needs, and child care subsidies (CCDF). We also assume they are in some form of education and/or job training.
- Additionally, within the FRS, this family was randomly assigned participation in two widely used federally-subsidized programs, the Lifeline telephone program, which provides discounts on phone bills and Internet provision for low-income families, and the Low-Income Home Energy Assistance Program (LIHEAP), which provides assistance with energy costs.

- Similarly, the FRS model assigns the family access to employer health insurance coverage when they reach the income level at which they no longer qualified for Medicaid.

The model employed in this study can measure both the distance from the resource level at which a family is able to pay for basic expenses (the "break-even" point at 0 on the y-axis), either positive or negative, as well as the impact of benefit cliffs on their ability to pay for such expenses. The simulator first estimates net resources for this family at $0 earnings, and then models successive scenarios in which their earnings increase by a constant increment ($1,000 annually) along the x-axis, as presented on the following page.

The following graph presents net resources across income amounts for a two-parent household with two young children, a two-year-old and a child in early elementary school, living in Jefferson County. Note that benefit cliffs result from the interplay of factors, including increasing expenses, declining benefits, declining tax credits, and increasing payroll and other taxes in response to higher income.

Example: Jefferson County Two-Parent Household with Two Children



1. At very low levels of income, the benefits that this family receives contribute to their well-being. Nonetheless, the FRS estimates that with earnings under $15,000, the families' net resources are still insufficient to cover basic needs. The family's net resources are negative at $0 earnings, approximately $15,000 below the "break-even" point represented by the red line. As parents earn more, the net resources increase. The family breaks even, with increasing positive net resources, once the parents earn approximately $15,000 per year.
2. When the parents earn $17,000 in annual income, this family begins to pay copayments for subsidized child care. Parents who need full-time child care to support work activities at this earnings level will encounter a benefit cliff that depresses net resources below $0 again. Their net resources are not positive (i.e., the family does not break even) again until parents earn $19,000.

3. As family earnings increase further, their net resources will continue to increase. When earning roughly $35,000, the family has net resources over $5,000 in excess of the break-even point, so that they can do more than just cover their basic needs. They can purchase consumer goods, invest, or save.
4. However, once the parents earn $36,000, the family experiences a significant benefit cliff, mostly from the loss of adult Medicaid. As a result, their health care expenses increase significantly. While their net resources remain above the break-even point, they decrease to $1,732 annually, almost $3,500 less than they the family had when earning $1,000 less.
5. As family earnings increase from $37,000 to $57,000, net resource gains remain modest. While net resources do not decline in this range, they increase at an average of only $195 per every $1,000 in annual wages. This results from declining SNAP benefits, declining Earned Income Tax Credit (EITC) amounts, and increased payroll and income taxes.
6. At roughly $56,000 in income, the family loses SNAP, an annual benefit of $1,259. The loss in resources includes another $555, as the family is also experiencing increases in taxes.
7. When the parents earn approximately $57,000, they experience a larger benefit cliff of almost $1,290 resulting mostly from the loss of KCHIP, or Medicaid, for their two children. Nonetheless, such a family at this point can claim annual net resources of more than $6,000, so that they remain above the break-even line and continue to have expendable income.
8. However, the largest benefit cliff occurs when the family earns roughly $67,000, and it results almost entirely from the loss of subsidized child care through the CCAP program. For this family, the high cost of private child care in Jefferson County means that they face an estimated change in net resources of more than -$14,000 annually, so that their net resources plummet below the break-even line, to approximately -$1,330 from roughly $13,000 at the $66,000 income level. The barrier to engagement with work that this type of benefit cliff can pose for working parents is a key priority in this report.

The next section provides more background on rules governing who can receive benefits and presents estimates of how many families in Kentucky are currently receiving them.

Summaries of Social Programs Most Likely to Cause Current Benefit Cliffs

Each program that is likely to result in a significant benefit cliff as families increase their income is a federal program, so that guidelines determining the income limits and other characteristics of those who may receive benefits and how much they receive follow certain regulations established by federal laws and agencies.

However, there are some rules that states are enabled to set locally, and these aspects of the benefit receipt can also be changed by state leaders and legislators. (Recommendations in this report distinguish between changes that could be made by the state from those that would need to be addressed by federal rule-making.)

Child Care Assistance Program (CCAP) or "Child Care Subsidies"

The Child Care Development Fund (CCDF) is a federal-state program that enables states to administer subsidized child care for low-income families using federal money. While subject to federal requirements and guidelines, states determine:

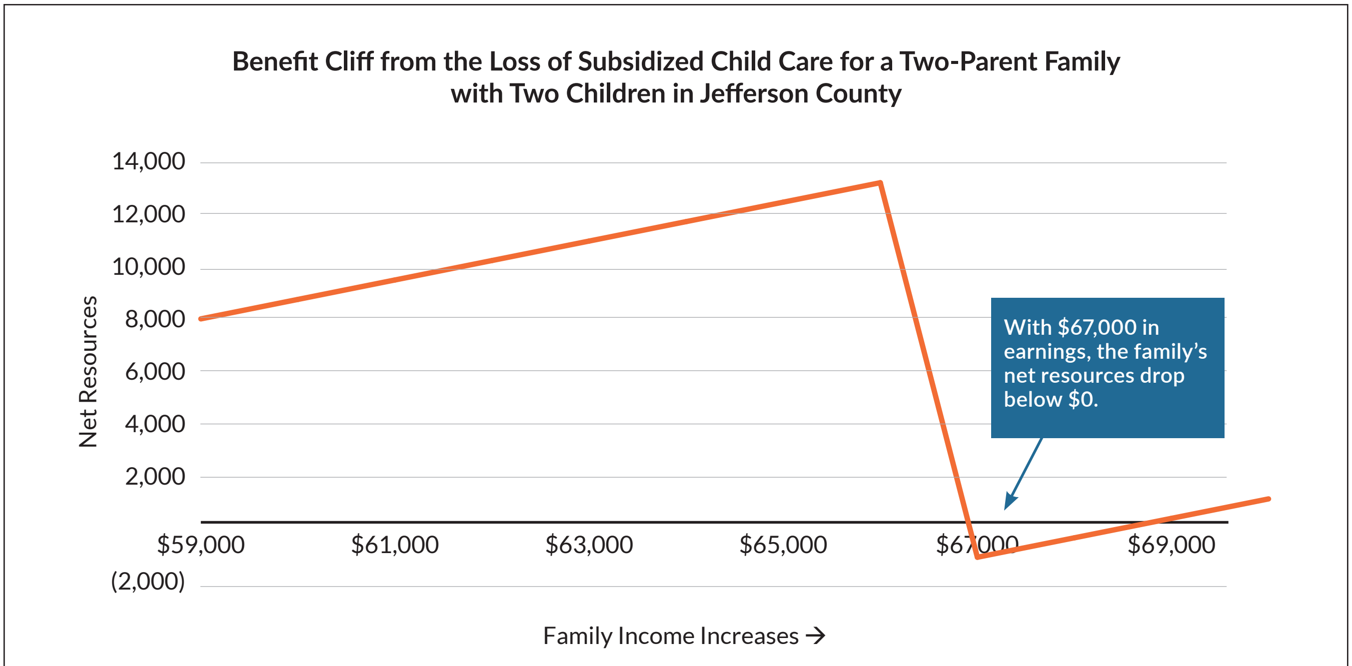
- Copayment schedules listing what parents with different family sizes and at different income levels must pay per day for child care
- The rate at which child care providers are reimbursed for each subsidized child care "slot," based on a market-rate survey of local providers that is conducted approximately every three years
- Requirements relating to care quality, including the skills and qualifications of the teacher workforce
- The best means of educating parents to select child care that meets their families' needs

The Child Care Assistance Program (CCAP) is Kentucky's agency for administering subsidized care. It has already been illustrated that child care cliffs are the largest benefit cliff facing many Kentucky families today, and this is true even after the 2022 legislation that extended eligibility to families earning 85 percent of the state median income (SMI) (roughly $67,000 for a family of four in 2023).[27] Eligibility had previously been set in Kentucky at 200-percent FPL (or $60,000 for a family of four).

This report has previously noted an estimate, based on ACS data, suggesting that just 6.7 percent of eligible children in the state received subsidized care in 2019. Those were children in families living under 200-percent FPL, since that was the income threshold at that time, and estimates using the same data source show a general decline since that time; for the last year in which an estimate was obtainable, in 2022, results suggest that just five percent of all children aged 0-13 living under 200-percent FPL were in subsidized care in Kentucky. However, since the threshold was extended effective in March, 2023, eligibility has expanded. Additionally, this report's focus is on numbers of *families* rather than numbers of children, since because of how benefits are regulated, the economic unit of interest in FRS data is the *family*.

At least by one estimate,[28] Kentucky experienced a steep decline in children enrolled in subsidized child care during and after the pandemic, from 30,000 to 17,000. While full recovery is still underway, there has been growth in such numbers. From a recent update from the Cabinet for Health and Family Services (CHFS), more than 20,600 families received subsidies through the Program (CCAP) in 2023, with more than 34,900 children served.

Example: Child Care Cliff in Kentucky



Douglas is a first-year teacher in Jefferson County, where he earns $47,000 a year in the public school system. His wife, Helen, has mostly stayed at home with their three- and four-year-old sons, but thanks to subsidized child care vouchers, she has recently been able to return to working a few hours per week as a receptionist at a dentist's office. Doing this means she earns an extra $1,000 per month, bringing the family's total income to about $59,000. Helen enjoys the work and feels that their boys are getting high-quality child care and are learning from being around other children.

The dental practice would like Helen to work more hours and has offered her almost $20,000 per year if she will work a nearly full-time schedule. She and Douglas have begun saving to buy a home, so she would like to accept this offer. However, the family learns that once they earn $67,000 in combined annual income, they will no longer qualify for subsidized child care. To take the job, she would need to place both children in a full-time private child care setting, at approximately $19,610 annually. This means that the family would experience a significant decline in their net resources, which would shift downward from the $7,750 annually to a negative $1,330. The gain from Helen's additional commitment to work would be completely absorbed by the child care expense, and the family would actually experience a shortfall until they earn considerably more. These parents would not have net resources of more than $7,000 again unless they earned at least $79,000 together.

Dilemma: Douglas and Helen realize that the cost of child care is especially high in Jefferson County, but they want to remain near their families. It does not make sense to them for Helen to take the additional hours, but she realizes that she may lose her position entirely if the dental practice finds someone else who can put in the extra hours.

Still, Douglas and Helen decide that for now, she will not work the extra hours, so that they can continue to build their savings for a house. In a few years, when both boys are in school, they will reassess their situation, but for now, the benefit cliff (along with the high cost of private child care) is a barrier to full work participation for Helen and will push home ownership further into their future.

Which Kentucky Families Rely on Subsidized Child Care Through CCAP Today?

The Cabinet for Health and Family Services (CHFS) provided data documenting that more than 20,600 Kentucky families recently received subsidized child care for their families. Of these families, 84.6 percent were single-parent families and approximately 15.1 percent were two-parent families. Some children served by the program lived in group settings. Information on the size of families and monthly income amounts demonstrated that most families who were enrolled in subsidized child care reported incomes well below the exit eligibility threshold.[29]

How Many Kentucky Families May Be Approaching the Child Care Cliff?

The administrative data on recipient families' household size and income was used to identify these groups:

- Single-parent households with reported incomes at 75 percent and above of the 85-percent SMI income level for their family size; and
- Two-parent households with reported incomes at 50 percent and above of the 85-percent SMI threshold for their family size. It is estimated that these families could face the child care cliff within the next 18 to 24 months.

These estimates suggest that roughly one in six (16.3 percent) of the more than 20,600 families currently receiving subsidized child care are potentially at risk of encountering the benefit cliff from the loss of this support in the coming two years. Table 2 provides a breakdown of recipient families by family type and, for each type, presents the number of families facing cliffs. These estimates suggest that approximately 9.8 percent of the single-parent families and 50.4 percent of the two-parent families in administrative data provided by CHFS may be approaching the CCAP cliff.

Table 2: Families Approaching Child Care Cliffs

Family Type	Children Enrolled in Care	Families Facing Cliffs
Single-parent	1	996
Single-parent	2	598
Single-parent	3	94
Single-parent	4 or more	11
Two-parent	1	962
Two-parent	2	482
Two-parent	3	174
Two-parent	4	32
Total families		**3,349**

Additional Considerations: A recent report based on data provided by the Kentucky Center for Statistics estimates that there are as many as 26,000 children currently receiving subsidized child care in Kentucky. Since more than 125,000 Kentuckian children are five years of age and under and are living in low-income households (<100-percent FPL),[30] this suggests that many low-income parents may be underemployed and/or struggling with child care arrangements. Additionally, any state's system of subsidized child care has capacity constraints. Many low-income parents are likely even facing the daunting "cliffs" where families lose subsidized child care *without even having received the CCAP benefit.* Given the enormity of this loss to Kentucky's workforce and economy, as well as to families' well-being, recommendations will address the child care sector more generally and offer suggestions for subsidized child care administration that would mitigate cliffs.

Medicaid/KCHIP Programs

Medicaid is a federal and state program that helps with medical costs for people with limited income and resources. The Children's Health Insurance Program (CHIP) provides health coverage to eligible children in low-income families through both Medicaid and separate, state-operated CHIP programs. As in most states that have expanded Medicaid eligibility, Kentucky parents face separate income eligibility limits regarding Medicaid insurance for themselves and their children. Specifically, the limits are:

- The adult Medicaid exit threshold is at 138-percent FPL
- The exit thresholds for children are higher, specifically 200-percent FPL for children under age one, and 147-percent FPL for children older than one and younger than 19.

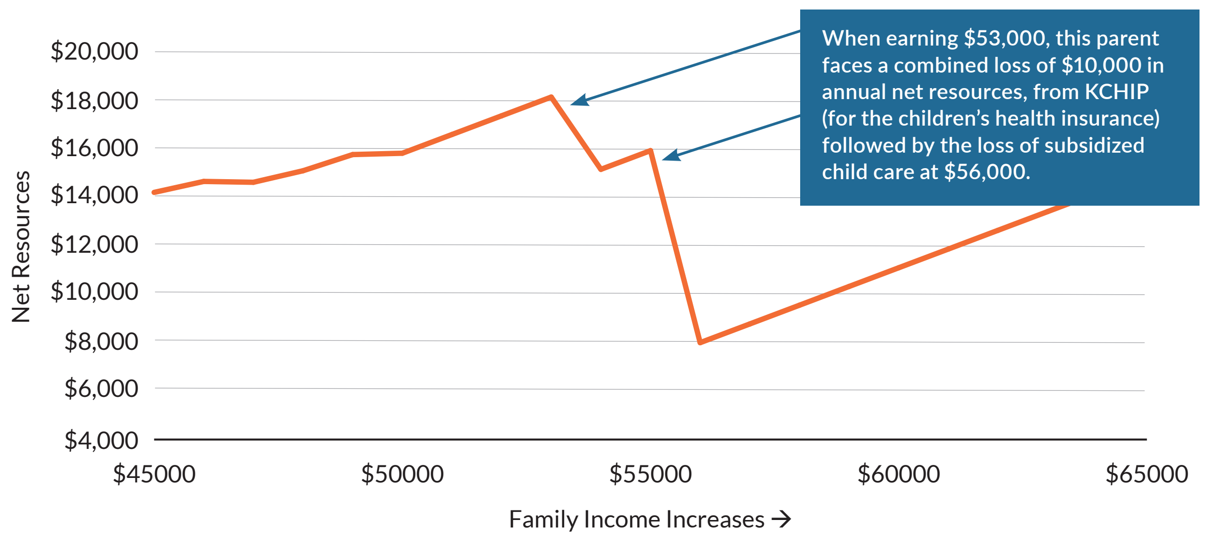
In Kentucky, KCHIP is a program providing children with managed care and administered by the Commonwealth according to certain federal requirements and funded jointly by the state and the federal government. This program is for families that do not qualify for Medicaid, and its exit threshold is 218-percent FPL.

The FRS assumes that adults lose Medicaid coverage at 138-percent FPL and that children lose coverage at 218-percent FPL. Importantly, qualifying adults and children are entitled to be insured through Medicaid and CHIP even if they have access to employer-sponsored health insurance. When parents or children lose eligibility for Medicaid, the FRS model assumes that they will then purchase insurance from their employer, although this report will include a discussion of plans from Kentucky's health care marketplace.

On pages 11 and 12, a diagram and accompanying vignette illustrate the loss of adult Medicaid in one family that occurs as soon as they earn 138-percent FPL, or about $34,000 for a family of three. The following example illustrates the loss of KCHIP at a higher earnings level of 218-percent FPL, or $54,000 for a family of three.

Example: KCHIP Cliff Compounded by the Child Care Cliff in Kentucky

Benefit Cliffs from Loss of KCHIP and CCAP for a Single-Parent Family with Two Children in Harlan County



Phyllis works as a registered nurse in Harlan County, earning almost $25 per hour. A single mother of two young children, Phyllis has steadily worked to meet their needs and plan for the future. Because of the relatively low cost of living in Harlan County, at her current rate of income (just over $52,000 with occasional extra shifts), she and her family currently enjoy annual net resources of more than $17,000. With that money, she is saving for a home and for her children's education.

Phyllis' employer has encouraged her to apply for a supervisory position, which the county badly needs to fill. Phyllis knows that she would be well-suited for the role and would earn more in it. However, when Phyllis earns approximately $54,000, she will see a decline of more than $3,000 in net resources from the loss of her children's coverage on KCHIP because she will have to pay more for her employer's health care plan once her children are covered on it. Once she earns slightly more, just $56,000, she will lose access to subsidized child care for her children. At that point, she will immediately need to begin paying for private child care out of her savings, and her net resources will decline to less than $8,000. She will not recover from the loss to her net resources (and her ability to save) until she earns $66,000.

Dilemma: Phyllis wants to continue working hard for her family, but in this case, she will effectively earn *less* money if she is promoted. She considers whether she might cut back on her hours instead of moving forward with the promotion. She decides to move forward, in the hope that she can earn more in the coming years, but this setback will mean she has less disposable income at least in the short term. For now, she will be able to save less money for a home or her children's educational needs.

Which Kentucky Families Rely on Medicaid and KCHIP for Health Insurance Today?

Administrative data provided by the Cabinet for Health and Family Services on Medicaid recipients, including the size and income-to-poverty ratio of households, suggests the following numbers of households are relying on Medicaid and KCHIP for health insurance today:

- Approximately 196,000 families with children earn incomes under 138-percent FPL, providing both adults and children with support for medical costs
- An additional 59,400 families with children earn between 138-percent and 218-percent FPL, so that they benefit from KCHIP

From other information on the proportion of single-parent and two-parent families at different income levels in Kentucky (see Table 1), these data suggest that:

- Approximately 113,700 of families earning under 138-percent FPL are single-parent families, and 82,300 are two-parent families
- Approximately 25,500 of families earning between 138-percent and 218-percent FPL are single-parent families, and 33,900 are two-parent families

How Many Kentucky Families May Be Approaching the Medicaid and KCHIP Cliffs?

Although the data provided on participating families did not include specific earnings information (only income-to-poverty benchmarks) or reliable family size indicators, this report estimates that within the next 18 to 24 months:

- The benefit cliff for Adult Medicaid may be confronted by approximately 10 percent of families currently receiving the benefit, or 19,600 families, and approximately 10,780 of those will be single-parent families
- The benefit cliff for KCHIP may be confronted by approximately 12 percent of families currently receiving the benefit, or roughly 7,130 families, and approximately 4,280 of those will be two-parent families

Table 3: Estimated Number of Families Approaching Medicaid and KCHIP Cliffs

Family Type	Adult Medicaid Cliff	KCHIP Cliff
Single-parent	10,780	2,850
Two-parent	8,820	4,280
Total Families	**19,600**	**7,130**

Supplemental Nutrition Assistance Program (SNAP)

The SNAP program provides federal funding to support the nutritional needs of low-income individuals and families. Federal guidelines for eligibility require that participating households meet an asset test, a gross income test, and a net income test, although Kentucky uses a state policy “flexibility” to release recipients from undergoing an asset test. Based on family size, many low-income Kentucky families receive nutritional support valued at many thousands of dollars each year. As of February 2023, wage-earning Kentuckians participating in SNAP most commonly worked in low-paying jobs, with 29.2 percent of individual recipients working in “service” jobs (e.g, cooks or home health care aides), 12.4 percent in office support jobs (e.g., customer service representatives), and 12.1 percent in sales-related positions, (e.g., cashiers or retail sales representatives).

For many parents and children in Kentucky, SNAP benefits are a significant income support. In 2022, SNAP supported the nutritional requirements of over 395,000 parents and children in Kentucky with an average monthly benefit of $392.[31]

SNAP benefits are designed to phase out as recipients earn more. However, even though the benefit amounts decrease as earnings increase, the loss of this benefit can present a considerable cliff, particularly for larger households, families with high child care costs, or members who are disabled. Fortunately, states have an important lever for limiting SNAP benefit cliffs. Kentucky is one of 44 states that have adopted Broad-Based Categorical Eligibility (BBCE), and such states may adjust some federal guidelines, including the gross income eligibility of participants.[32] The federal guideline is 130-percent FPL, but Kentucky has extended that limit to 200-percent FPL. This provides nutritional support for families at a higher income level, and, according to the formula determining benefit calculations, the amount of the benefit "phases out" over a greater span of earned income, tapering to a much lower amount before the participating household loses access to SNAP entirely.

Large SNAP benefit cliffs exist primarily among only two groups: families with very high child or dependent care costs and families that include household members with disabilities. Such large cliffs result from the deductions from gross income that families can make through the uncapped dependent care deduction that covers child care costs and a shelter deduction that is not capped for households that include people with disabilities. Because these expenses can amount to thousands of dollars in reduced income and therefore significant increases in SNAP benefits, the loss of SNAP benefits at 200 percent FPL can be dramatic for these groups.

Although SNAP cliffs for Kentucky families exist, the FRS data were generated under an assumption that families were using subsidized child care until earning an income equivalent to 85-percent SMI for their family type, which would limit child care costs to copayments (in contrast to the costs of private child care providers) both up to and beyond the 200-percent FPL at which SNAP benefits are lost. This, in turn, limits the calculated SNAP benefit for these families and mitigates these cliffs. The current simulation also assumes that families do not include members who are disabled, which means that deductions from shelter costs are limited[33] under federal guidelines.

Another important aspect of analyses of the SNAP cliffs facing families is that, because this benefit is calculated using local costs of food, other goods, and child care, income at 200-percent FPL is not uniform as the point at which families in different counties will experience the cliff, and the size of this cliff can vary accordingly, as well.

Which Kentucky Families Participate in the SNAP Program Today?

Kentucky's Cabinet for Family and Health Services (CHFS) provided administrative data on families receiving SNAP in 2022, the most recent year in which such data were widely available. During that year, more than 128,700 families received SNAP benefits. Of those, 79 percent were single-parent families and 21 percent were two-parent families. During that year, not all families who received SNAP benefits were employed.

About 82,400 of the families (62 percent) were earning wages. Because parents who are not working do not face benefit cliffs, the discussion of the effects of SNAP cliffs that follows is restricted to just this subset of family households. See Appendix E for more information on participating families' wages.

How Many Kentucky Families May Be Approaching the SNAP Cliff?

According to analysis of pre-pandemic SNAP participation in Kentucky, only 10 percent of participants had incomes above 100-percent FPL; although that proportion may be slightly higher among families, it may be lower particularly among single-parent earners juggling caring for families with employment opportunities. In addition, Appendix E demonstrates that median incomes for all family types were well below the potential cliffs at 200-percent FPL. It is estimated here that as many as five percent of the single-parent families receiving SNAP, and 15 percent of two-parent families, may be likely to approach a SNAP cliff in the coming 18 to 24 months.

Table 4: Families Approaching SNAP Cliffs

Family Type	Families Facing Cliffs
Single-parent, one child	1,331
Single-parent, two children	1,166
Single-parent, three children	677
Two-parent, one child	817
Two-parent, two children	1,108
Two-parent, three children	912
Total Families	**6,012**

WIC, the Special Supplemental Program for Women, Infants, and Children Nutrition Program

For pregnant or breastfeeding women and children up to age five who are at nutritional risk, WIC provides vouchers for specific types of foods—such as whole-grain bread, baby food, infant formula, and milk—as well as separate "cash-value vouchers" to buy fruits and vegetables. WIC also provides infant formula to mothers who do not breastfeed. This benefit is calculated by the FRS as an annual reduction in food costs of nearly $500 for those families who qualify. Households that already receives SNAP, Medicaid, or Temporary Assistance for Needy Families (TANF) cash assistance are categorically eligible for WIC. Households that do not receive benefits from these programs must have gross income under 185-percent FPL.

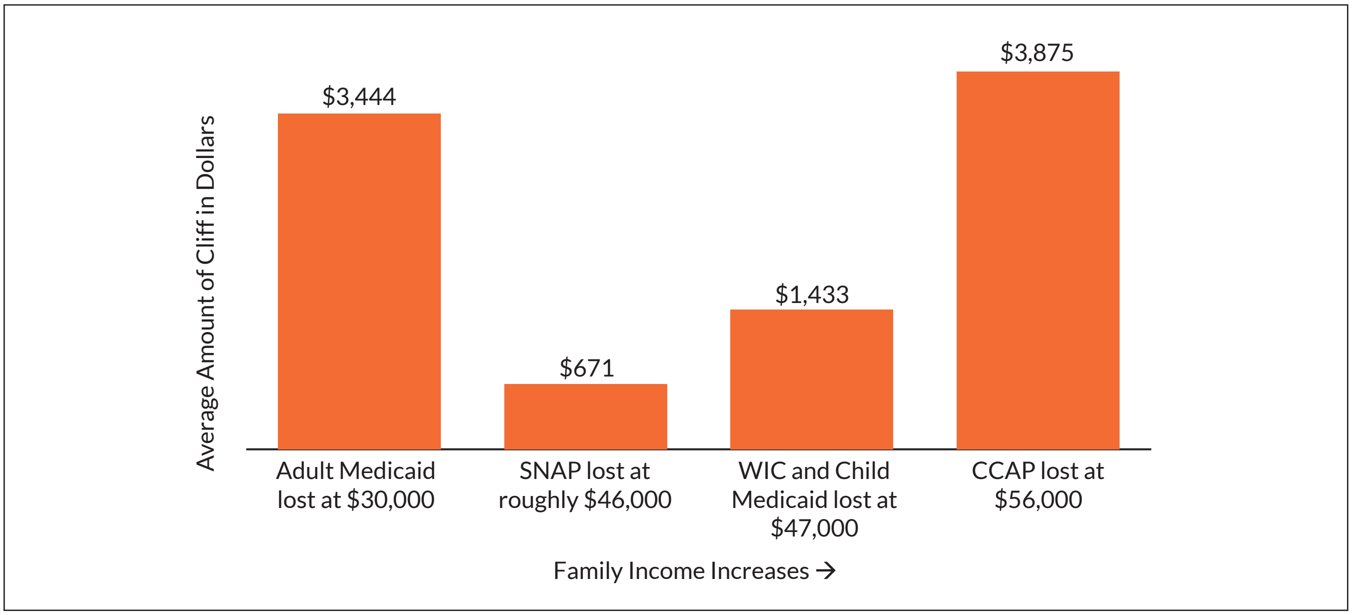
Under the assumptions of the FRS, the benefit level of WIC is capped at under $500 so that the loss of this benefit does not by itself constitute a cliff since it is less than the $1,000 income increments that drive the calculation process of simulating cliffs.

Overview of Benefit Cliffs by Family Type in Kentucky

The magnitude of benefit cliffs varies by family structure because eligibility guidelines for benefits vary according to family size. Also, when families lose certain goods and services once they earn enough to lose benefits, their costs of paying privately for those goods and services are generally higher if they have more children. This section provides an overview of cliffs by family type, providing the average amounts of each cliff across all counties.

The magnitude of cliffs also varies by the county in which the family lives because the costs of goods and services, most notably child care, vary across counties. Later sections provide insights into variation across counties by comparing cliffs for similar families across counties.

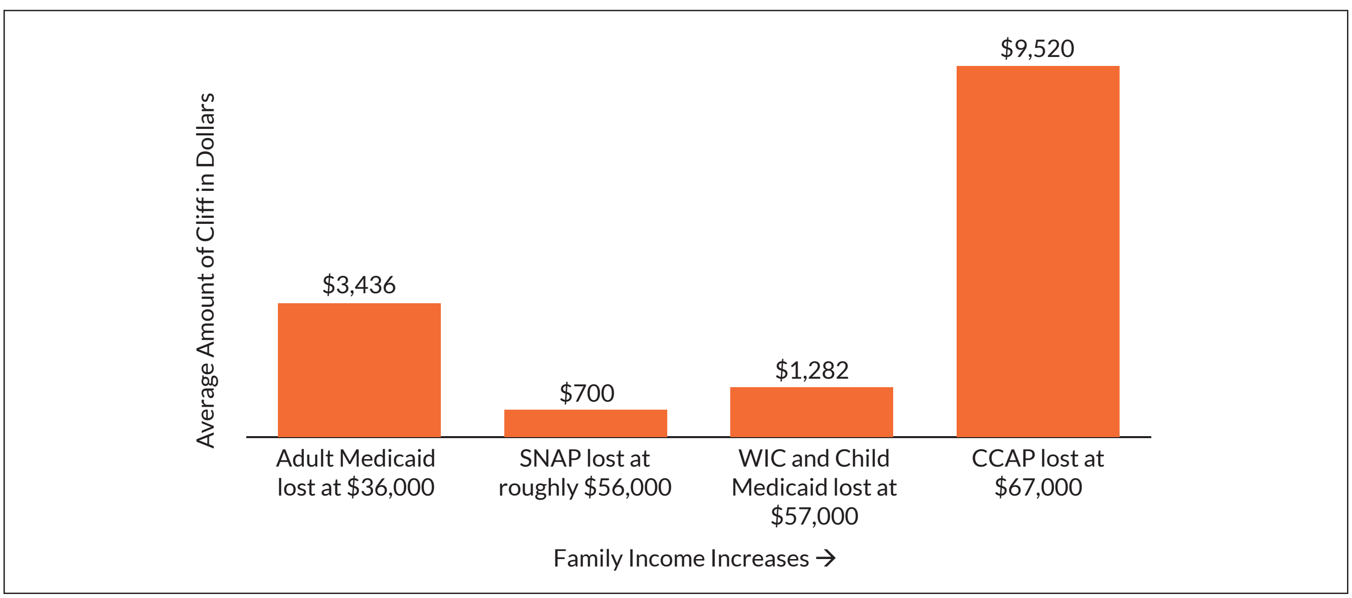
Average Cliffs by Program for All Counties: Two-Parent Families with One Child



For two-parent families with one child, the largest cliff in magnitude results from the loss of the Child Care Assistance Program (CCAP), at 85 percent of the state median income (SMI) or roughly $56,000 for a family of three. While the average decline in net resources is $3,875, the size of this cliff varies greatly across counties because the costs of private child care vary. For this type of family, the benefit cliff from the loss of subsidized child care ranges from -$2,367 to -$7,579.

The magnitude or amount of benefit cliffs for the other policies vary by very small amounts across counties, with the maximum and minimum amounts less than $100 apart.

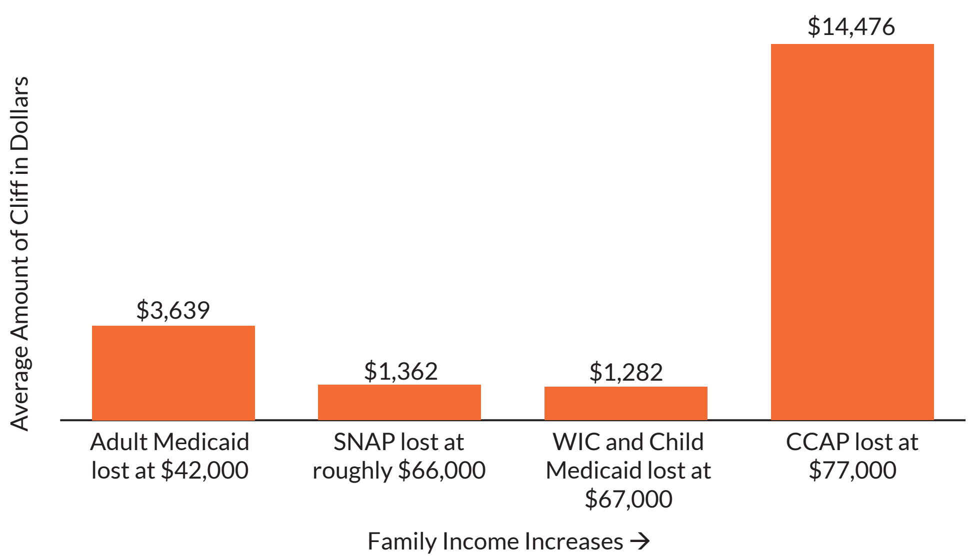
Average Cliffs by Program for All Counties: Two-Parent Families with Two Children



For two-parent families with two children, the largest cliff in magnitude results from the loss of CCAP, at 85 percent of the state median income (SMI) or roughly $67,000 for a family of four. While the average amount of decline is resources is $9,520, the size of this cliff varies greatly across counties because the costs of private child care vary. For this type of family, the benefit cliff from the loss of subsidized child care ranges from -$7,314 to -$14,267.

The magnitude or amount of benefit cliffs for the other policies vary by very small amounts across counties for two-parent families with two children, with the maximum and minimum amounts less than $200 apart.

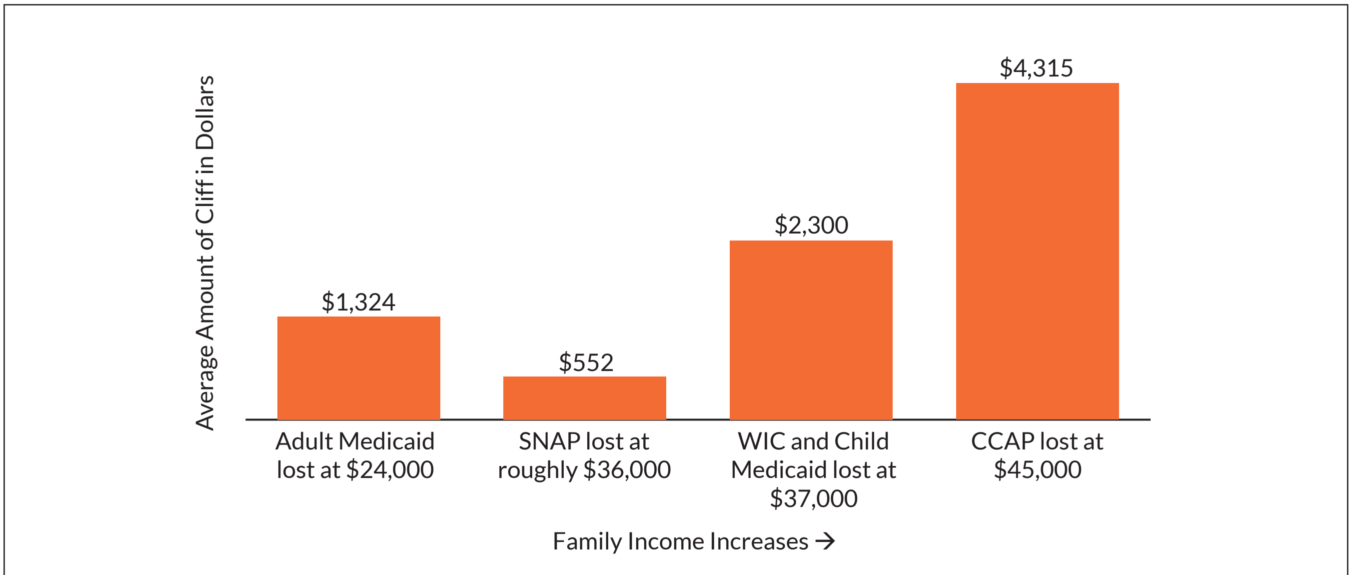
Average Cliffs by Program for All Counties: Two-Parent Families with Three Children



For two-parent families with three children, the largest cliff in magnitude results from the loss of CCAP, at 85 percent of the state median income (SMI) or roughly $77,000 for a family of five. While the average amount of decline is resources is $14,476, the size of this cliff varies greatly across counties because the costs of private child care vary. For this type of family, the benefit cliff from the loss of subsidized child care ranges from -$11,532 to -$20,287.

The magnitude or amount of benefit cliffs for the other policies vary by relatively small amounts across counties, with the maximum and minimum amounts less than $100 apart.

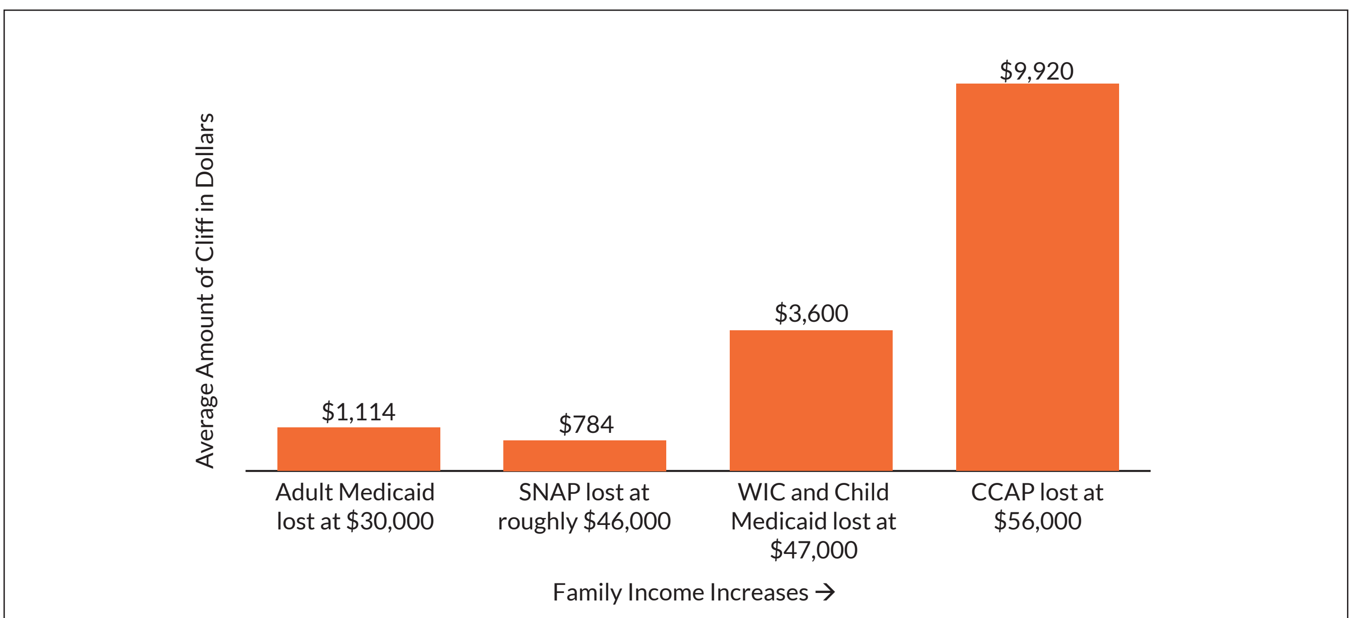
Average Cliffs by Program Across all Kentucky Counties: Single-Parent Families with One Child



For single-parent families with one child, the loss of adult Medicaid results in a smaller average cliff than it does for two-parent families, at -$1,324. As for all families, the largest cliff in magnitude results from the loss of CCAP, at 85 percent of the state median income (SMI) or roughly $45,000 for a family of two. While the average amount of decline is resources is $4,135, the size of this cliff varies greatly across counties because the costs of private child care vary. For this type of family, the benefit cliff from the loss of subsidized child care ranges from -$2,627 to -$7,839.

The magnitude or amount of benefit cliffs for the other policies vary by relatively small amounts across counties, with the maximum and minimum amounts less than $100 apart.

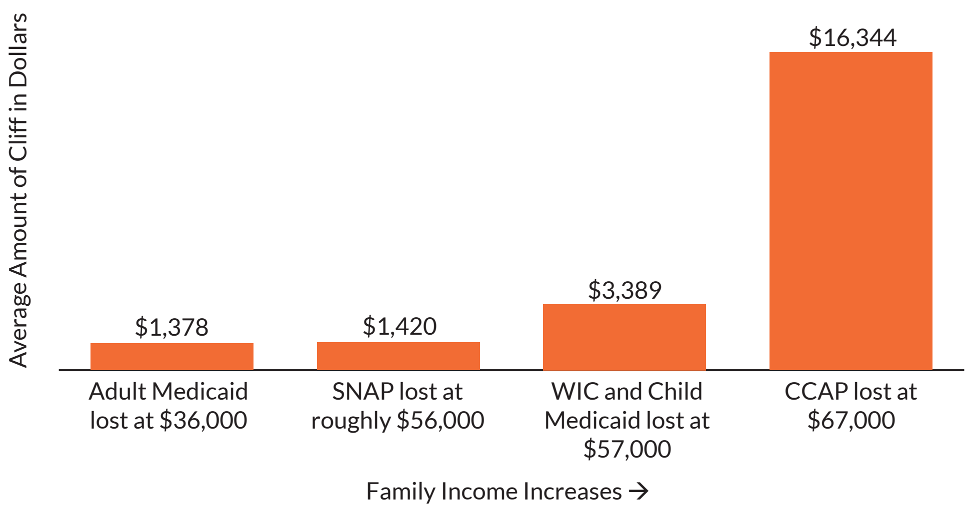
Average Cliffs by Program for All Counties: Single-Parent Families with Two Children



For single-parent families with two children, the loss of adult Medicaid results in a smaller average cliff than it does for two-parent families, at -$1,114. As for all families, the largest cliff in magnitude results from the loss of CCAP, at 85 percent of the state median income (SMI) or roughly $56,000 for a family of two. While the average amount of decline is resources is $9,920, the size of this cliff varies greatly across counties because the costs of private child care vary. For this type of family, the benefit cliff from the loss of subsidized child care ranges from -$7,714 to -$14,663.

The magnitude or amount of benefit cliffs for the other policies vary by relatively small amounts across counties, with the maximum and minimum amounts less than $100 apart.

Average Cliffs by Program for All Counties: Single-Parent Families with Three Children



For single-parent families with three children, the loss of adult Medicaid results in a smaller average cliff than it does for two-parent families, at -$1,378. As for all families, the largest cliff in magnitude results from the loss of CCAP, at 85 percent of the state median income (SMI) or roughly $67,000 for a family of two. While the average amount of decline is resources is $16,344, the size of this cliff varies greatly across counties because the costs of private child care vary. For this type of family, the benefit cliff from the loss of subsidized child care ranges from -$13,430 to -$22,362.

The magnitude or amount of benefit cliffs for the other policies vary by relatively small amounts across counties, with the maximum and minimum amounts less than $100 apart.

Summary of Families Potentially Affected by Benefit Cliffs

The FRS, by simulating increases in income for families of different sizes and structures across all 120 Kentucky counties, substantiates the size of benefit cliffs that families of different sizes and in different counties experience at different income levels. This involved over 79,320 iterations of $1,000 increases, resulting in more than 6,000 benefit cliffs, as simulator families encountered multiple cliffs at different income levels. More than half of these cliffs were less than $1,000. For a summary of the sizes of simulated cliff, see Appendix F.

Administrative data on Kentucky families participating in the Medicaid, SNAP, KCHIP, and CCAP programs support estimation of how many actual families, given their size, structure, and income level (where available), are likely to face cliffs during the next 12 to 18 months. Several factors were important in predicting whether families are likely to face a cliff, including family structure. Generally, it was assumed that two-parent families are more likely, in cases, to consider adding a second earner, and thereby experience a large increase in household income, while single parents are more likely to extend work hours or receive a salary raise. Additionally, families' current reported income level was an important factor; in most cases, as described above, if families' earnings were within a certain benchmark level of the income level at which Medicaid, KCHIP, or CCAP would be lost, these were also families who could face a benefit cliff.

Table 5: Characteristics of Typical Benefit Cliffs by Program

Program/Category	Enrolled Families	Enrolled Families Nearing Cliffs	Cliffs	Nature of Cliff
Child Care	20,600	3,349[a]	85% SMI[b]	Loss of benefit followed by increased costs for private child care
Medicaid	196,000 (adult and child Medicaid)+ 59,400 (KCHIP)	19,600 (Medicaid)[c] 7,130 (KCHIP)	Adults 138% FPL Children 218% FPL	Loss of benefit followed by increase in medical costs
SNAP	128,700	6,012[d]	200% FPL	Gradual decline of benefit, then complete loss

[a] See Appendix C for details.
[b] State Median Income (SMI) thresholds are calculated using income distributions in Kentucky only. They do not convert to Federal Poverty Line (FPL) thresholds since they vary by family size differently than FPL thresholds. Here, the 85-percent SMI threshold for a family of three in Kentucky is currently set at $56,000.
[c] See Appendix D for details.
[d] See Appendix E for details.

Using these resources with what we know about the size of cliffs for families of different compositions, estimation of the impacts on Kentucky families and on the state proceeds in the next section.

ESTIMATED IMPACTS OF BENEFIT CLIFFS

This report provides estimated impacts of Medicaid, KCHIP and child care benefit cliffs for Kentucky resulting from the numbers of families at high risk of facing them in the coming 18 to 24 months. The risk level is designated by the proximity of each family's earnings to the benefit cliff as identified by the eligibility threshold for each benefit for that family's size.

Estimates provide the aggregate costs for all such families, per benefit, under two scenarios: a) circumstances in which families "power through" the cliffs and experience a loss in net resources; and b) circumstances in which parents "park" their wages to avoid the cliffs.

Child Care Cliff Impacts

This section includes basic estimation of annual costs, and some benefits, based on the family structure and number of children enrolled in care for more than 3,000 families that may encounter the child care cliff in the coming 18 to 24 months, according to CHFS administrative data.

It is of course unlikely that all parents would make the same decision when facing a benefit cliff. Aggregate costs and benefits are nonetheless outlined as a foundation to discussion of potential recommendations and to underscore the significant consequences of this cliff for families.

Costs and Benefits If Parents "Power Through" the Cliff

Costs and benefits for the first year under this scenario are framed as follows:

- If all parents decide to "power through" the child care cliff, they will experience a decline in net resources totaling **-$23,277,170,** a *cost* to families resulting from their loss of subsidized care and the need to pay for private child care in order for parents to continue working. This cost, or some portion of it, is also a cost to the local communities in which families were likely to purchase non-child care goods.
- Based on the average cost of care for the families' children, a *benefit* of **+$40,752,000** to private care facilities would be anticipated. (Both of these first two estimates are based on an assumption that Kentucky's private child care sector would be able to accommodate all 6,012 children in appropriately accessible centers providing quality care acceptable to their parents.)
- The difference of **-$17,474,830** between the benefit to the private care sector and the cost to parents represents an additional *cost* in lost subsidy payments to the CCAP-subsidized care sector under current guidelines.

It is important to consider other costs of this scenario that are non-monetary, or at least challenging to quantify:

- Parents who experience such a significant decline in net resources are less likely to be able to manage saving for important purchases such as first homes, vehicles, or appliances, resulting in lower economic growth in the community.
- Families may also experience, even at 85-percent SMI, some degree of material hardship, described as when one or more basic needs become difficult to afford. Such parents often experience increased anxiety or depressive symptoms, which are, in turn, detrimental to children's development.

Costs and Benefits If Parents "Park Their Wages" to Avoid the Cliff

If all parents decide to "park their wages" in the face of the child care cliff by either not accepting a new job or promotion or in some other way, costs and benefits under this scenario are framed as follows:

- It is estimated that families will experience a loss of earnings of at least -$5,023,500 annually.[34] Since they avoid the CCAP cliff, their net resources would remain higher, countering this loss. However, parents who lose wages by avoiding cliffs will likely experience diminished earnings across their lifespan, ultimately costing themselves (and their communities) far larger sums than those presented here. There are also related social costs in lost tax revenues resulting from cliff avoidance, not quantified here, but likely significant.

It is important to consider other costs of this scenario that are non-monetary, or at least challenging to quantify:

- Parents who feel that they cannot expend maximum effort in their work in order to maintain financial security for their families are likely to experience a decrease in their sense of self-sufficiency.[35]
- Because of their suppressed earnings level, they may also experience material hardship, described as when one or more basic needs become difficult to afford. Again, such parents often experience increased anxiety or depressive symptoms, which are, in turn, detrimental to children's development.

Adult Medicaid and KCHIP Cliff Impacts

This section includes basic estimation of annual costs and some benefits of Adult Medicaid and KCHIP cliffs for more than 19,600 and 7,130 families, respectively, who may encounter the cliffs in the coming 18 to 24 months, according to CHFS administrative data and extrapolation from ACS data on family structure and income-to-poverty ratios.

It is of course, unlikely that all parents would make the same decision if facing a benefit cliff. Aggregate costs and benefits are nonetheless outlined as a foundation to discussion of potential recommendations.

Costs and Benefits If Parents "Power Through" the Adult Medicaid Cliff

Costs and benefits for the first year under this scenario are framed as follows:

- If all parents decide to "power through" the Adult Medicaid cliff, they will experience a decline in net resources totaling **-$45,142,720,** a *cost* to families because of their loss of Adult Medicaid and the need to pay medical costs to non-Medicaid providers. (This estimate assumes that no major medical expenses will be incurred by the family in this time that are left uncovered through high deductibles.)

It is important to consider other costs of this scenario that are non-monetary, or at least challenging to quantify:

- Parents who experience such a significant decline in net resources are less likely to be able to manage saving for important purchases, such as first homes, vehicles, or appliances.
- Because this decline in resources occurs at a relatively low level of income (138-percent FPL), parents are likely to encounter material hardship, described as when one or more basic needs become difficult to afford. Such parents often experience increased anxiety or depressive symptoms, which are, in turn, detrimental to children's development.

Costs and Benefits If Parents "Park Their Wages" to Avoid the Adult Medicaid Cliff

If all parents decide to "park their wages" in the face of the Medicaid cliff by either not accepting a new job or promotion or in some other way, costs and benefits under this scenario are framed as follows:

- Families will experience a *loss* of earnings of at least **-$29,400,000** annually. Since they avoid the Adult Medicaid cliff, their net resources would remain higher, countering this loss. However, parents who lose wages by avoiding cliffs will likely experience diminished earnings across their lifespan, ultimately costing themselves (and their communities) far larger sums than those presented here. There are also related social costs in lost tax revenues resulting from cliff avoidance, not quantified here, but likely significant.

It is important to consider other costs of this scenario that are non-monetary, or at least challenging to quantify:

- Parents who feel that they cannot expend maximum effort in their work in order to maintain financial security for their families are likely to experience a decrease in their sense of self-sufficiency.
- Because of their suppressed earnings level, they may also experience material hardship, described as when one or more basic needs become difficult to afford. Again, such parents often experience increased anxiety or depressive symptoms, which are, in turn, detrimental to children's development.

Costs and Benefits If Parents "Power Through" the KCHIP Cliff

Costs and benefits for the first year under this scenario are framed as follows:

- If all parents decide to "power through" the KCHIP cliff, they will experience a decline in net resources totaling **-$13,990,186,** a *cost* to families because of their loss of KCHIP and the need to pay medical costs to non-Medicaid providers. (This estimate assumes that no major medical expenses will be incurred by the family in this time that are left uncovered through high deductibles.)

It is important to consider other costs of this scenario that are non-monetary, or at least challenging to quantify fully:

- Parents who experience such a significant decline in net resources are less likely to be able to manage saving for important purchases, such as first homes, vehicles, or appliances.

- Even experiencing this decline in resources at a higher income level (218-percent FPL), parents are likely to encounter material hardship, described as when one or more basic needs become difficult to afford. Such parents often experience increased anxiety or depressive symptoms, which are, in turn, detrimental to children's development.

Costs and Benefits If Parents "Park Their Wages" to Avoid the KCHIP Cliff

If all parents decide to "park their wages" in the face of the KCHIP cliff by either not accepting a new job or promotion or in some other way, costs and benefits under this scenario are framed as follows:

- It is estimated that families will experience a *loss* of earnings of at least **-$10,695,300** annually. Parents would also experience an important *loss* of workplace experience and forward momentum through their participation in the economy. This would likely diminish their earnings across the lifespan, costing them (and the larger communities in which they live) far larger sums.

It is important to consider other costs of this scenario that are non-monetary, or at least challenging to quantify:

- Parents who feel that they cannot expend maximum effort in their work in order to maintain financial security for their families are likely to experience a decrease in their sense of self-sufficiency.
- Because of their suppressed earnings level, they may also experience material hardship, described as when one or more basic needs become difficult to afford. Again, such parents often experience increased anxiety or depressive symptoms, which are, in turn, detrimental to children's development.

SNAP Cliff Impacts

This section includes basic estimation of annual costs and some benefits based on the family structure and size than 6,000 families that may encounter the SNAP cliff in the coming 18 to 24 months, according to analysis of CHFS administrative data.

It is, of course, unlikely that all parents would make the same decision if facing a benefit cliff. Aggregate costs and benefits are outlined nonetheless, as a foundation to discussion of potential recommendations.

Costs and Benefits If Parents "Power Through" the Cliff

Costs and benefits for the first year under this scenario are framed as follows:

- If all parents decide to "power through" the SNAP cliff, they will experience a decline in net resources totaling **-$5,176,147,** a *cost* to families resulting from their loss of SNAP benefits and the need to pay more for food.

It is important to consider other costs of this scenario that are non-monetary, or at least challenging to quantify:

- Although the SNAP cliffs are not the largest cliffs, parents who experience these decreases in net resources may be less likely to be able to save for important purchases, such as first homes, vehicles, or appliances, particularly in the first year of encountering this cliff.

Costs and Benefits If Parents "Park Their Wages" to Avoid the Cliff

If all parents decide to "park their wages" in the face of the SNAP cliff by either not accepting a new job or promotion or in some other way, costs and benefits under this scenario are framed as follows:

- It is estimated that families will experience a *loss* of earnings of at least **-$9,016,500** annually. While their net resources would remain higher, countering this loss, parents would also experience an important loss of workplace experience and forward momentum through their participation in the economy. This would likely diminish their earnings across the lifespan, costing them (and the larger communities in which they live) far larger sums.

It is important to consider other costs of this scenario that are non-monetary, or at least challenging to quantify:

- Parents who feel that they cannot expend maximum effort in their work in order to maintain financial security for their families are likely to experience a decrease in their sense of self-sufficiency.
- Because of their suppressed earnings level, they may also experience material hardship, described as when one or more basic needs become difficult to afford. Again, such parents often experience increased anxiety or depressive symptoms, which are, in turn, detrimental to children's development.

Section 2: Policy Recommendations

This section details specific policy recommendations to mitigate benefit cliffs affecting families currently receiving benefits in addition to families who may take up benefits in the future. It includes specific recommendations to address the child care, Medicaid, and KCHIP cliffs; limited recommendations for the SNAP cliff; and general recommendations relating to the child care sector in Kentucky.

CHILD CARE CLIFF RECOMMENDATIONS

The largest benefit cliff facing Kentucky families currently occurs when parents lose access to subsidized child care, which happens as soon as parents earn 85 percent of the State Median Income (SMI). For a single-parent family with one child, this occurs when the parent earns $44,916, and for a two-parent family with one child, this happens when the parents earn $55,476. They must then pay the current rates in their area for private care for children. The size of the benefit cliff ranges, across all counties, from an average $3,875 for two-parent families with one child to an average $16,344 for a single-parent family with three children, and it can mean a shift from paying as little as four percent as they approach the cliff to more than 30 percent of family earnings on child care. The following recommendations would mitigate the current child care cliff:

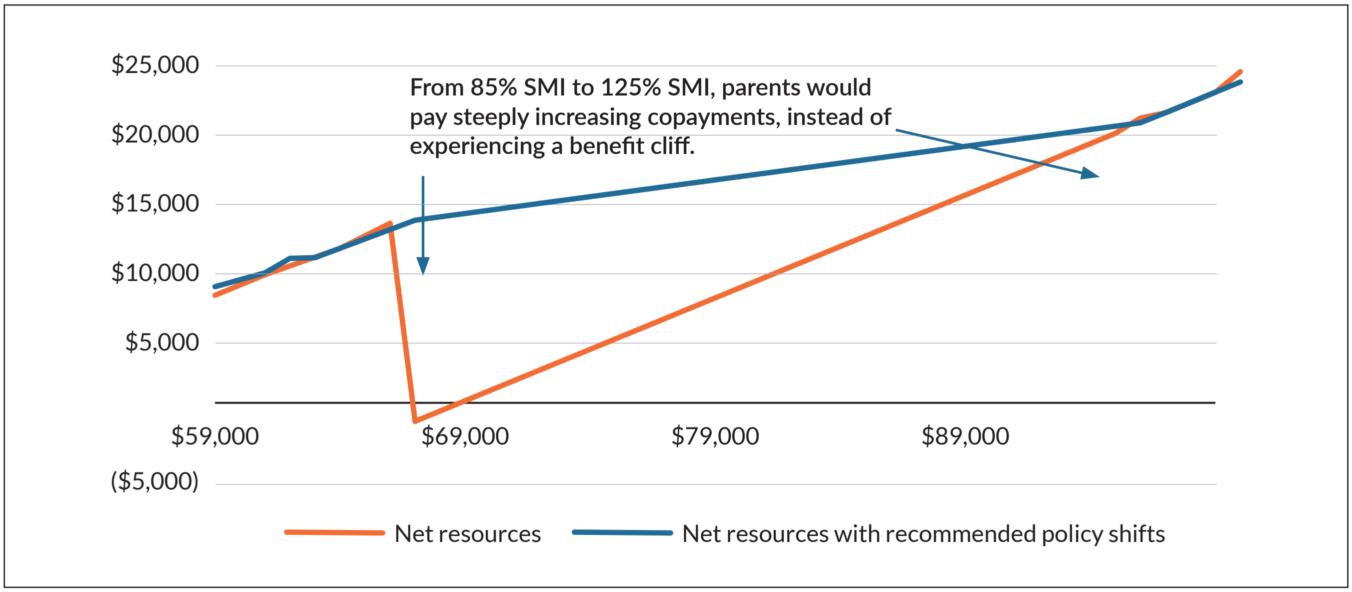
1. **Decrease copayments for low-income families. Families without earnings should pay nothing for subsidized care. Copayments would start at three percent of earnings when families' income is $17,000 and gradually increase to no more than seven percent of earnings when families' earnings reach 85 percent of the state median income (SMI), which is the current exit threshold for subsidized care.** This is important in order to be in line with current federal recommended guidelines and to help address SNAP cliffs. (For more on these guidelines and the percentages of earnings families pay under current copayment schedules, see Appendix G.)

2. **Extend the exit income threshold to 125-percent SMI.** Moving the exit threshold out to a higher income level means that parents will have more income to cover the very high costs of private care.

3. **Between 85-percent SMI and the new exit threshold (125-percent SMI), the state should require subsidy copayments that steeply increase as parents' earnings grow, coming close to the cost of private care just as families reach the exit threshold.** Implementing the second recommendation on its own would just shift the cliff up to a higher income level. Increasing copayments steeply will mitigate the benefit cliffs, support families in becoming independent, and enable parents to share responsibility for subsidized care with the state government, thereby limiting the investment level needed by the state.

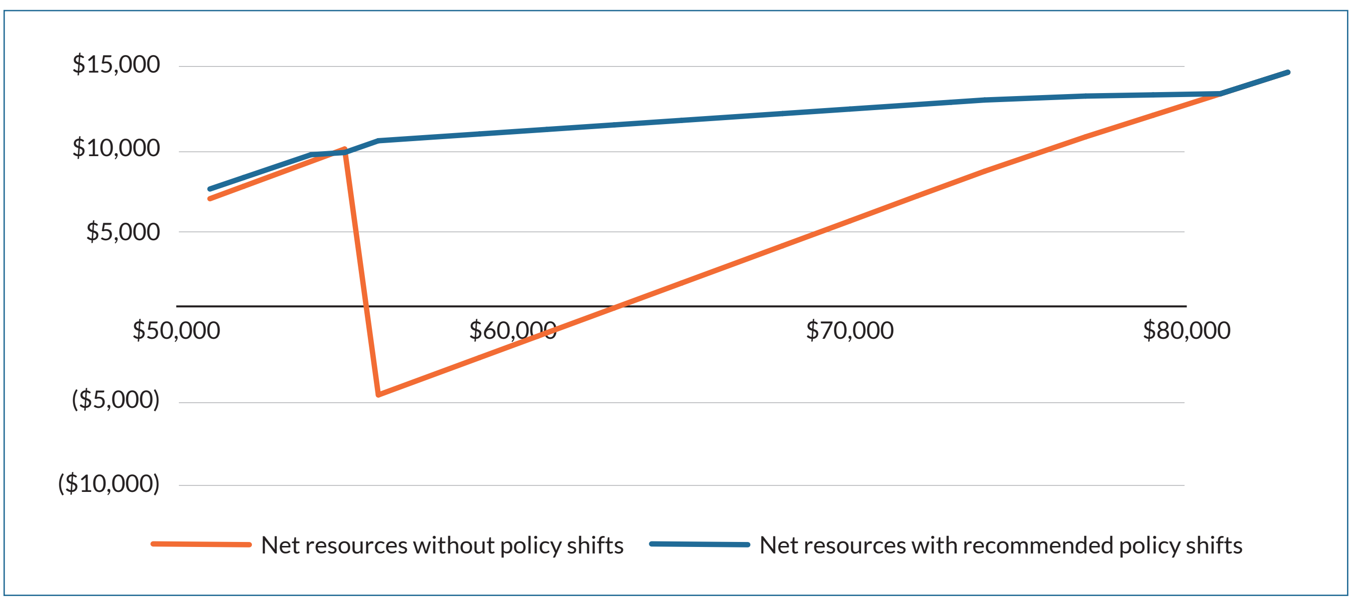
Returning to the family scenario in Section 1, in which Douglas and Helen decided that they could not afford for Helen to work more hours at the dental practice because of this cliff, it is evident that this recommendation would greatly improve their circumstances. Were Helen to accept the additional hours, increasing the family's income to $67,000, they would retain eligibility for subsidized care so that their net resources, instead of steeply dropping, would increase even as they pay higher copayments for child care. This would continue unless the family income exceeded 125-percent SMI, or roughly $97,000. At that point, they would lose subsidized care but would be able to pay for private care, and their net resources would continue to increase.

Child Care Cliff With and Without Recommended Policy Shifts for Two-Parent Families with Two Children in Jefferson County



Importantly, this approach works for other types for families, as well. The child care benefit cliff is especially challenging for single-parent families because eligibility guidelines, including exit thresholds, are determined by family size regardless of number of parents. As an example, a single parent with two children loses subsidized care at the same income level as a two-parent family with one child, but must then pay private care costs for the additional child in the family, leading potentially to a significantly greater loss in net resources. The following example highlights both how steep the child care cliff is for such families and how the suggested recommendations mediate the cliff.

Child Care Cliff With and Without Recommended Policy Shifts for a Single-Parent Family with Two Children in Jefferson County



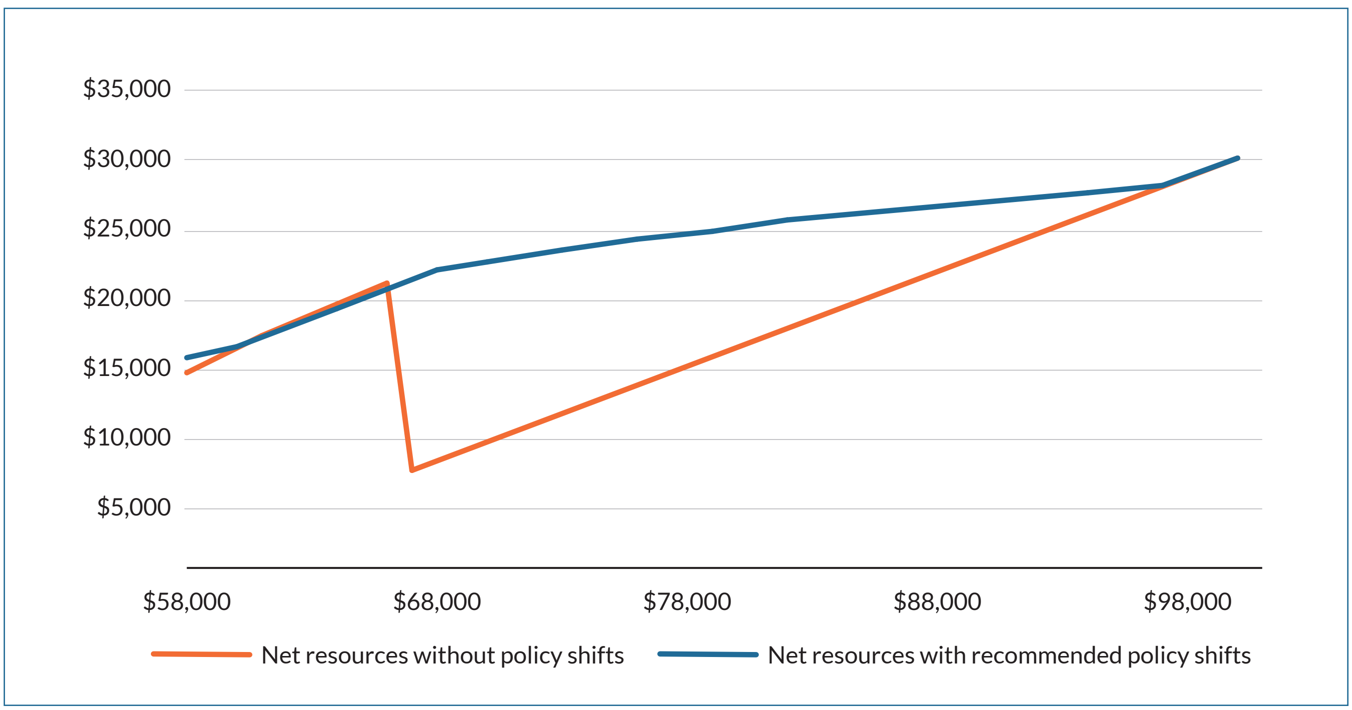
Jamie works in human resources for a manufacturing company's offices in Jefferson County, earning $55,000 a year. Currently, this provides her with almost $9,000 in net resources for the year, and she is being considered for a supervisory role in her department. However, the child care benefit cliff means that she will abruptly lose subsidized care for her two children when she earns $56,000 (85-percent SMI for a family of three). As a result, her annual net resources will decrease more than $14,000.

However, with the recommended policy shifts, Jamie could retain the subsidized care her family has relied on as she takes on additional work and earns more. She will pay more in copayments for that care, sharing responsibility for her children's care. Once her income eventually increases to 125-percent SMI (roughly $81,000 for her family), Jamie will lose access to CCAP but will be able to pay for private care for her children without experiencing a benefit cliff.

Child care on the private market in Jefferson County, on average, is the highest in the state, and costs of living are generally high there, as well; the percentage of individuals living in poverty is slightly lower than the state average, at 14.5 percent. In contrast, costs are much lower in Carter County, but the percentage of households living below the poverty line (100-percent FPL) is 31.1 percent, which is significantly higher than the average among all households in the Commonwealth (16.9 percent). Of families with children living in the county in 2020, 57 percent had incomes under 200-percent FPL. As reported in December, 2022, the unemployment rate among able-bodied adults was 31.1 percent, much higher than the Kentucky average at that time of four percent .

The following example demonstrates how the same policy recommendations would address the child care benefit cliff in a region of the state with quite different challenges, for a family in Carter County.

Child Care Cliff With and Without Recommended Policy Shifts for a Single-Parent Family with Three Children in Carter County



Sandra is a senior accountant working for the County's medical services. She has worked hard to support her family of three young children. She now earns roughly $65,000. Her use of subsidized child care (along with the relatively low cost of living in Carter County) enables her to afford mortgage payments on a small home. However, as she plans for her children's future, she would like to earn more and save to ensure that they will one day attend college. She is considering applying for a more senior role at her agency.

However, Sandra has recently learned about the child care benefit cliff, which for her will occur at $67,000 (85-percent SMI for a family of four) under current legislation. At that point, because of the cost of private child care, she will have great difficulty even paying for her home because her net resources will decline from over $20,000 annually to roughly $7,000. She is unclear how she will navigate this cliff, especially because she does work hard and feels she deserves advancement in the near future.

However, with the recommended policy shifts, as soon as she earns a salary at the 85-percent SMI level, Sandra will begin to pay manageably higher copayments while continuing to see her net resources increasing. Once she earns 125-percent SMI, she will be accustomed to paying copayments that are roughly equivalent to the cost of private care, so that, at that point, the loss of subsidized child care will not hinder her family's growing prosperity.

MEDICAID CLIFF RECOMMENDATIONS

The benefit cliff facing Kentucky families when they lose Medicaid for adults is of particular concern because it occurs at a relatively low earnings level of 138-percent FPL, or at roughly $34,000 for a family of three. In addition, this cliff can constitute a considerable drop in net resources for low-income families, ranging from more than $1,000 for single-parent families to as high as $3,639 for two-parent families with three children. Many families could fall below the break-even level if they choose to "power through" this cliff.

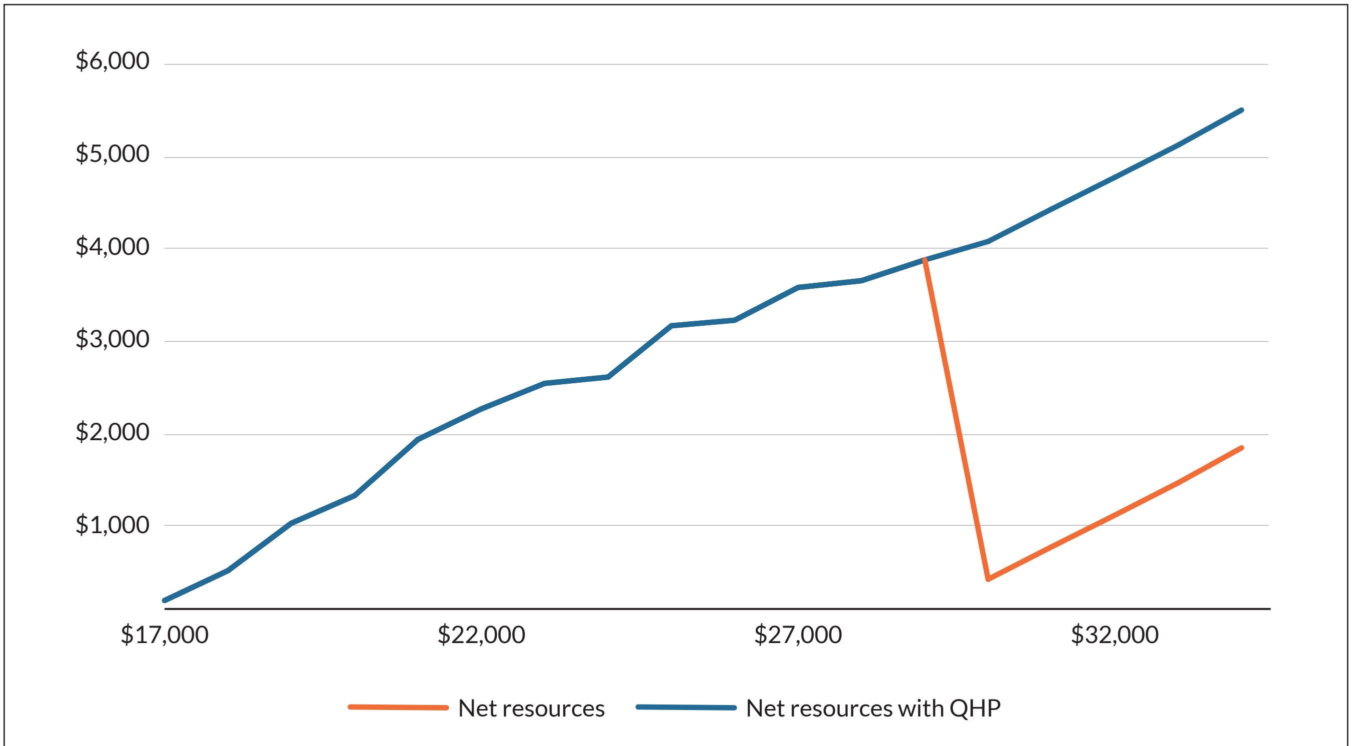
Families lose eligibility for Medicaid for children at 147-percent FPL, and for KCHIP at 218-percent FPL. The Family Resource Simulator assumes that children have coverage until their parents earn income at 218-percent FPL (or at roughly $54,000 for a family of three), at which point the magnitude of the benefit cliff varies according to the number of children in the family.

The simulator also assumes that family members move from Medicaid or CHIP to an employer-provided plan for which they will need to pay at least a portion of premiums. If families incur high medical costs as a result of health care needs and high deductibles under non-Medicaid insurance policies, their net resources may fall even farther than the fairly conservative estimates included in this report.

The provision of Qualified Health Plans (QHPs) by the Commonwealth provides a ready-made solution to both the cliff for the loss of Medicaid for adults and children and for the loss of KCHIP.

The illustration below demonstrates that, for Dave and Mary in Hopkins County (from Section 1), enrollment in a Qualified Health Plan would resolve the cliff when they lose adult Medicaid.

Medicaid for Adults Cliff for Two-Parent Families with One Child in Hopkins County, With and Without Enrollment in a QHP



By enrolling in a silver-level Qualified Health Plan (QHP), Dave and Mary can avoid the loss of more than $2,000 of net resources if Dave accepts a promotion and increase in his salary. Until the family income reaches 150-percent FPL (or roughly $38,000 for a family of three), the family's expected contribution to the plan is $0.

This increases gradually as the family's income rises in relation to the poverty line. For those earning between 150-percent and 200-percent FPL, the expected contribution is between zero and two percent of family earnings; between 200-percent and 250-percent FPL, it is between two and four percent; and between 250-percent and 300-percent FPL, it is between four and six percent.[36]

This solution is largely consistent for families of all types across counties. *Families that enroll in a silver-level QHP can avoid the cliffs causing decreases in net resources at 138-percent FPL (for adults) and 218-percent FPL (for children) and retain health insurance coverage.* Unfortunately, only approximately 16 percent of individuals transitioning from Medicaid are enrolling in QHPs. The issue seems to stem not from a lack of policy solutions but from adequate adoption by individual families, leading to this recommendation:

1. **Launch an augmented campaign to target low-income families with news of the importance and benefits of silver-level QHPs,** which effectively reduce premiums to $0 for families with incomes under 150-percent FPL and effectively protect against high deductibles. NCCP has conducted research into effective strategies to boost enrollment in these programs, offering these methods that have been used in other states with higher ACA enrollment rates from a meta-review investigating the effectiveness across states of individual assistance, community outreach, and health education and promotion:[37]
    a. California, which in 2021 had a 39-percent rate[38] of enrollment among those eligible in the state, offered in-person enrollment support.

b. Minnesota, with a 32-percent enrollment rate, organized outreach events in community centers, places of worship, and town halls. They also collaborated with small business groups and health care providers, developed educational and promotional materials, and organized print and social media campaigns.
c. Missouri, with a 33-percent enrollment rate, provided an online decision aid called "Show Me My Health Plan" (SMHP), which aimed to 1) simplify written information and graphics; 2) provide activities to assess and understand health insurance information; 3) provide a financial calculator for plans; and 4) assess appropriateness of selected plan based on need.
d. Oregon, which boosted its enrollment rate to 33 percent, developed simplified information on health insurance, enrollment, and deadlines. They also provided both generic and personalized messaging (letters, emails, and telephone calls) during key deadlines.
e. Arizona, Florida, Georgia, Illinois, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, and Texas (some of which attained some of the highest enrollment rates in the country) collected individual contact information to follow up and provide information on health insurance coverage, enrollment, and key deadlines. They also collaborated with local organizations to extend reach.

There is also a second recommendation already under consideration in Kentucky:

2. **Adopt of a state-funded Basic Health Program (BHP) in Kentucky as a transitional measure, enabling families who rely on a network of trusted doctors through Medicaid to continue with those providers through a "bridge insurance program" for adults earning from 139-percent to 200-percent FPL.** This would afford low-income families more time as their earnings increase to become informed about Qualified Health Programs, which is an especially important aim for parents since children will lose access to Medicaid at 218-percent FPL.

Considerations around the second Medicaid recommendation, the adoption of a Basic Health Program, have already been extensively detailed in a presentation from 2021 by the Milliman Consulting Group. These programs enable states to tailor design according to local values and concerns, but the chief advantages that could currently support Kentucky families include:

- Continuity of care for those who lose Medicaid coverage through the use of the Medicaid provider networks
- Simplicity of selection, in contrast to selection of marketplace plans.

A caveat around the consideration of the BHP as reported in this presentation is that such a plan would provide coverage only for adults and only for families earning up to 200-percent FPL. Since the loss of KCHIP at 218-percent FPL can occur in close "proximity" along the income scale to the loss of subsidized child care at 85-percent SMI, it is believed that support for the widespread adoption by families of silver-level QHPs is a preferable solution for Kentucky's families living in or near poverty.

SNAP CLIFF: LIMITED RECOMMENDATIONS

As noted in Section 1, the average SNAP cliffs affecting Kentucky families are not large in comparison to child care cliffs or certain cliffs resulting from loss of Medicaid/KCHIP. Further, Kentucky already has used the most effective tool available to states for reducing benefit cliffs resulting from the loss of this federal support: the extension of the gross income limit to 200-percent FPL under Broad-Based Categorical Eligibility.

Since the calculation of SNAP benefits typically involves the deduction of child care costs from income that is "countable" in this calculation, families with very high child care costs may have higher SNAP benefits and, thus, potentially larger SNAP cliffs than similar families with lower child care costs. Because of this, the recommendation to adjust copayments for subsidized care to a lower percentage of family incomes for low-income families (gradually shifting up to seven percent as parents' earnings approach 85-percent SMI, per explanation in Appendix G) can further minimize SNAP cliffs. Similarly, efforts to mitigate the high costs of private child care in Kentucky might also produce smaller SNAP cliffs since families could deduct lower care costs in calculating SNAP benefit amounts. This would mean that the benefit would phase out the benefit gradually as family income approaches 200-percent FPL.

Additionally, it should be noted that it is important to support the continuation of Broad-Based Categorical Eligibility (BBCE) in federal policy guidelines as a means for states to employ various policy levers in support of families receiving SNAP benefits. Without the option to adopt BBCE, Kentucky would not have been able to extend the gross income limit to 200-percent FPL, so that many families would certainly experience SNAP benefit cliffs at lower income levels, and others would not receive the program's nutritional support.

GENERAL RECOMMENDATIONS REGARDING THE CHILD CARE SECTOR

A report[39] released in October 2023 highlights survey results indicating that more than half (54 percent) of Kentucky parents who were surveyed in June have struggled to find child care, especially those with younger children. Importantly, more than one in three of these parents reported that they had been forced to change their job status as a result of "child care issues." In response to a question surveying parents on lifestyle changes they had had to make *in order to provide child care themselves,* more than one in four (26 percent) parents reported having "quit work to stay at home" for this reason; almost one in six (15 percent) responded that they "declined a promotion"; one in three (33 percent) had "limited working hours." Nearly two in three (65 percent) of all respondents (not just parents) disagreed with the statement that "child care programs in Kentucky are affordable" and more than seven in ten (72 percent) of "all voters" expressed their support for "investing more taxpayer money to increase high-quality child care programs."

Benefit cliffs resulting from the loss of subsidized child care in Kentucky are as large as they are because of the significantly increasing costs of private care, a phenomenon that is not limited to the state of Kentucky and that has actually increased overall since the pandemic. Nationally, parents in lower- and middle-income families have been more likely to experience work disruptions because of an inability to find or afford care in recent years, and they are more likely to make "serious" job changes, often curtailing hours or working for lower pay because of child care demands.[40] Survey responses suggest that child care provision in Kentucky, whether privately or publicly funded, is undergoing challenges similar to those in many other states. In many communities, the child care work force has not recovered fully since the pandemic. High inflation in 2021-22 has meant that child care workers' previous levels of pay became more inadequate than ever. Providers struggle to keep their centers open, and many have no incentive to accept the child care subsidy because they can earn more by serving families who can afford to pay the full rate. Very often, this leaves families with low income without realistic options for reliable child care of acceptable quality. Even Head Start and pre-K providers struggle in this landscape, in many cases.

The counterpoint to these developments is that more is now known than ever before about the significant benefits that follow investment by federal and state government in early care and education. Of high relevance to this report: Across a number of studies, research into the effects of reductions in child care cost on parents' labor force participation have established that such impacts are positive and often significant in magnitude (Morrissey, 2017).[41]

There are additional findings for the economic health of communities across time in the form of *long-term* benefits for parents, children, and taxpayers in response to improvements in early care access. One study estimating the effects of New York's recent child care subsidy expansion (the New York State Child Care Expansion, or NYSCCE) predicts a net present value between seven and eight times in annual social benefits relative to the yearly cost of the program under new rules (extending the exit eligibility threshold for parents, altering the copayment schedule, and providing important incentives and supports for child care workers in the state).[42] This very high return on the original investment includes both direct benefits to recipients of the subsidies (parents and children) and indirect benefits to taxpayers. In this analysis, the highest benefits accrue from increases in children's health across the lifespan, as well as their longevity, and from reduced expenditures (for taxpayers) in criminal justice and victimization costs.

NCCP supports generous investment by federal and local governments in the child care sector, whether private or subsidized, to promote economic mobility for low-income *and* median-income parents. We respectfully recommend consideration of these strategies, in consideration of the Kentucky's unique challenges, as well as with knowledge of strategies that have been successful elsewhere in the US:

6. **Continue incentivizing child care workers to work in subsidized centers by providing their families with places in subsidized care for their own children.** Kentucky's strategy to boost the workforce (via "protected" status), now nationally profiled, has been effective in supporting the child care sector *and* parents' employment together.
7. **Offer a refundable tax credit to child care workers, including eligible staff and directors.** Louisiana has offered generous credits since 2009, interlaced with a robust training program for caregivers.[43] Evaluation of this initiative found that from 2009 to 2016, the percentage of children under age six who receive child care subsidy or foster care services and were enrolled in centers with ratings of three stars or above increased from 20 percent to 46 percent.
8. To address so-called child care "deserts" and remedy underemployment, **work to expand Kentucky's subsidized care system by taking actions to support child care centers and attract eligible families:**
    a. **Ensure that providers are reimbursed at the 75 th percentile for quality care in the area.[44]** Federal recommendations support this level of reimbursement. If providers are reimbursed at a level that is competitive with the market rate for all care in their state, they will be more likely to provide subsidized slots for children, better able to pay workers adequately, and more likely to stay in business.
    b. **Invest in providers by reimbursing them for the cost of subsidized slots in which children are enrolled, rather than according to attendance rates.** This strategy acknowledges the "cost of doing business" for small centers and provides stabilizing investment into this critical sector. Further, this practice is now widely advised, as part of a federally proposed rule change, along with the seven-percent cap on copayments.
    c. **Continue to assess capacity, i.e., the number of subsidized care places of sufficient quality that can be offered to families throughout Kentucky.** Ensuring that subsidized care is of sufficiently high quality in all regions can reduce "subsidy stigma" and increase the perception by families at different income levels that subsidized care can support their families and their own workforce participation.
9. **Reduce administrative burdens from parents' access to subsidized care.** These burdens, which can be especially destabilizing to low-income parents when attempting to care for children and participate in work, can include:
    a. **Continue to make information on subsidized care, including available places and copayment rates, readily available to the public in all locations throughout the state.**
    b. **Support the use of a waitlist for subsidized child care places, if needed, as a signal of a genuine need for care that will support workforce participation through appropriate levels of subsidy take-up.** Administrative reluctance to maintain waitlists for subsidized care may reflect concerns that such waitlists reflect poor management of data or potential fraud, but genuine need must be assessed in order to inform policy decisions.
10. **Establish employer-funded child care tax credits.** While these would only benefit employees with companies offering them, they can provide valuable incentives to employees and would help transfer some costs of investment in the child care industry to the private sector.

11. **Continue support for employers' contributions to child care expenses through the Employee Child Care Assistance Partnership (ECCAP),[45]** which provides matching funds from the government when employers (including small businesses) commit to helping workers to pay for child care. Since parents' employment benefits business owners as well as families, this program rightly incentivizes employers to help with the high costs of care.
12. In August 2022, the Prichard Committee provided invaluable insights into the Kentucky child care sector after interviewing 500 providers in the state.[46] To adequately support Kentucky's workforce of working parents, a full accounting of families' experiences with both subsidized care and private care is needed. **Conduct a full, statewide assessment of subsidy take-up and provision.** With just around 21,000 families of all those families earning below 85-percent SMI currently receiving subsidies for child care, this low take-up rate of a critical economic support suggests high rates of underemployment among parents under 85-percent SMI. While this is a consequence of the very high costs of private care, learning more about *why* low-income parents currently do not access subsidized care for their families is important. Equally important to learn about are the experiences subsidy-using parents have had with access and care for their children. Finally, learning how parents adapt to the options available to them— how their employment has been impacted, especially—is critical to the health of the workforce.

ADDITIONAL RECOMMENDATIONS

- **Continue to require copayments from parents under a revised schedule supporting recommendations for child care cliffs (see Appendix G for recommended percentages of income required for copayments at different income levels).** Currently, families are not responsible for the copayments established by schedule in **922 KAR 2:160.** Although this policy may be considered supportive of families, it is not advisable because its practice makes benefit cliffs steeper; when families must begin paying for private child care, they experience a much larger financial shock than if they were responsible for copayments when earning less.
- **Encourage employers who want to hire and promote candidates who are parents to do so with knowledge of the effects of benefit cliffs on families.** If, for example, when offering a raise so that a parent's income would push them off the subsidized child care cliff (or onto the slope), employers can make the increase in pay larger or schedule it differently, so that there is a sufficient incentive for hard-working parents. (The **KYSTATS Family Resource Simulator** is a valuable HR tool, and should be promoted as such.)

Appendix A: FRS Methodology

In order to identify and measure benefit cliffs, this analysis employed simulated data generated by KYSTATS' Family Resource Simulator. The FRS modeled the effects of $1,000 increases in household income using local costs and tax rates. Analyses of households featured six different family types: single-parent and two-parent households with either one, two, or three children. For each of these family types and at each income point from $1,000 to an upper limit ranging from $80,000 through $123,000, depending on family size, family expenses, taxes, and tax credits in each county were assessed against earnings to provide net resources. In this framework, a cliff occurred whenever the additional $1,000 in incremental earnings resulted in greater than $1,000 in costs due to either a complete loss of public benefit, a decline in the value of a public benefit, an increase in costs, or, most likely, a combination of these three.

For all simulations, the "default" FRS settings were selected, which means the families were modeled as receiving all of the following work supports if and when eligible: Child Care and Development Fund Subsidies (CCDF/CCAP), SNAP/Food Stamps, Public Health Insurance (Medicaid), TANF Cash Assistance (KTAP), Lifeline telephone subsidy program, Low Income Home Energy Assistance Program (LIHEAP), Women, Infants, and Children (WIC), Supplemental Security Income (SSI), National School Breakfast Program (NSBP), National School Lunch Program (NSLP), Free Summer Meals Program (FSMP), Federal Earned Income Tax Credit (EITC), Federal Child Tax Credit, Federal Child and Dependent Care Tax Credit, Federal Premium Tax Credit, State KY Child and Dependent Care Credit, and State KY Family Size Tax Credit.

The FRS models net resources for a range of family types by subtracting a family's estimated expenses from estimated resources, including earnings and benefits from cash assistance and near-cash assistance. Some public benefits, like TANF and SNAP benefits, are considered cash or near-cash and are included in family resources, while others are incorporated as reductions in family expenses due to the nature of the benefits. SNAP benefits are considered "near-cash" because research shows that most families treat their SNAP benefits as an exchangeable commodity akin to cash. Low Income Home Energy Assistance Program (LIHEAP) benefits, however, are usually paid directly to utility companies and, therefore, are normally calculated as a reduction in expenses.

By comparing earnings and public benefits against basic expenses, the FRS calculates the extent to which earnings combined with public benefits can cover basic expenses like food, shelter, child care, and transportation. The extent to which a family can meet basic expenses is calculated as a family's "net resources," which can also be thought of as a family's financial bottom line or their disposable income.

With each $1,000 increase in a family's income, the tool recalculates net resources according to these formulae:

(1) Family Resources = Earnings + TANF benefit + SNAP benefit + SSI benefit + SSP benefit + federal tax credits + state tax credits + local tax credits
(2) Family Expenses = Federal, State, and Local Income Taxes – nonrefundable Tax Credits + Payroll taxes + Sales taxes + Child Care Costs – CCDF Subsidies + Rent – Housing subsidies + Utility costs – LIHEAP + Food costs – WIC – FSP benefits – Free/reduced price meals + Transportation costs + Health care costs + Miscellaneous expenses
(3) Net Resources = Family Resources – Basic Expenses

For the online FRS tool, the calculations for each of these categories of resources and expenses are based partially on answers that users of the tool provide in response to a series of questions across seven steps on the tool's interface. These answers provide the tool with inputs that the tool's algorithms (currently contained in Perl codes) use to determine the program's outputs. While the public-facing tool asks users to select either default settings or override those defaults, microsimulation models such as the one employed for this report derived most of these inputs from administrative data using KYSTATS's Kentucky Longitudinal Data System (KLDS) system. When the FRS required data that are not included in the KLDS, NCCP worked collaboratively with KYSTATS to either impute missing data or use similar defaults as those currently included in the FRS.

NCCP has relied on government and industry standards and surveys for determining the underlying costs of goods included in a basic family budget in the following cases:

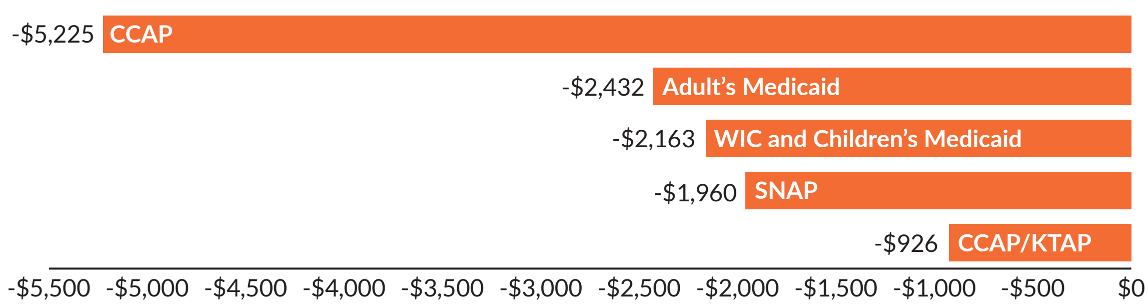
- *Unsubsidized Child Care Costs:* Default costs for child care utilize market rate studies published by state child care agencies, usually based on the 75th percentile of market rates, per federal standards in setting CCDF policy.
- *Health Insurance when Individuals Lose Medicaid Eligibility.* Default premiums for employer plans were based on average employee contributions for employer coverage according to the Medical Expenditure Panel Survey conducted by the U.S. Agency for Healthcare Research and Quality.
- *Unsubsidized Rent Costs:* Default costs are based on US Department of Housing and Urban Development Fair Market Rents.
- *Food:* Default food costs will be based on the Low-Cost Food Plan developed by the USDA.
- *Transportation:* The FRS methodology estimates transportation costs based partially on whether a family lives in an urban center with a robust public transportation network or whether they will require a car to get to work and bring children to child care. Transportation costs per ride are based on local public transportation rates and the number of trips or standard mileage and cost-per-mile rates.
- *Phone, Internet, and Other Expenses:* NCCP estimates these additional expenses using consumer expenditure survey (CEX) data on a selected set of expenses considered necessary for family stability, absent luxuries. Following a methodology used by the Economic Policy Institute (ESI) for determining the “miscellaneous” expenses families need for their Family Budget Calculator, these procedures are followed: a) total the average CEX expenses for these items spent by the second-lowest quintile of household income; b) determine the ratio of this total compared to total household rent/mortgage expenses and food expenses; and c) multiply that ratio by the sum of FRS estimations of rent and food. The result is a total of “other” expenses that vary by family size and geographic location, which provides a helpful adjustment of the cost of living based on these factors.

Appendix B: Preliminary Benefit Cliff Analyses in Late 2022

The October 2022 Family Resource Simulator (FRS) enabled identification of the six most common benefit cliffs in Kentucky at that time: the CCAP cliff, the CCAP/KTAP cliff, the Adult Medicaid cliff, the WIC and Children's Medicaid cliff, and the SNAP cliff. These cliffs varied in size and occurrence based on the location and structure of the family receiving programs. At that point in time, NCCP found that at least 17,492 families could face benefit cliffs in the last quarter of 2022, using Kentucky Longitudinal Data System (KLDS) estimates from SNAP and KTAP enrollment. The Center provided administrative and non-administrative recommendations for consideration for FRS expansion and addressing existing benefit cliffs.

Overall, most counties faced similar benefit cliffs, with variations in timing and magnitude. On average, for single-parent families, those with one child experienced five benefit cliffs, those with two children faced seven, and those with three children faced five. Two-parent families typically experienced more cliffs; those with one or two children experienced seven cliffs on average and those with three children typically faced six cliffs.

Weighted Average Cliff Effect Across Family Type



Sum of amount in $ for each Program Type 1. These marks are labeled by sum of amount in $.
The view is filtered on Program Type 1, which excludes Child Care Costs.

As stated, in late 2022 and the first quarter of 2023, Kentucky's legislature made several changes to assist families, including the following: CCAP income eligibility increased to 85 percent of the SMI level; the asset limit for KTAP increased from $2,000 to $10,000; KTAP's gross income limit increased (e.g., to $1,315/month for a family of four); and the standard of need for KTAP was increased (e.g., to $710/month for a family of four).

In response to these policy changes, NCCP coordinated with KYSTATS on revision of the FRS in order to assess what cliffs remained problematic for families at varying income levels. The results of those subsequent analyses are provided in this report.

Appendix C: Families Receiving CCAP Subsidies

Administrative data were provided as an attachment to an email sent on 9/5/2023 by KYSTATS personnel. These data included the numbers of households currently receiving subsidized child care, as well as the numbers of parents and children and the numbers of enrolled children within these families. Also included were the monthly net incomes used in consideration for CCAP eligibility, which supported the estimation of the number of families who could approach the cliff in the next 12 to18 months.

These data reflected that at least 20,580 households were enrolled in 2023 at the point in time that these administrative data were collected. As presented in Table C below, more than 81 percent of these households were single-parent families. The income levels of single-parent households were much lower, on average, than those of two-parent families, making them less likely to be close to the child care benefit cliff.

Analysis was conducted using income data for these households to identify those who were within 10 percent (for single-parent families) or 20 percent (for two-parent families) below the income eligibility threshold for their family size. This work produced the estimate that approximately 6,012 families might approach the benefit cliffs for CCAP at 85-percent SMI within 12 to 18 months. As Table C shows, almost three in four (73.9 percent or 4,442) of these families are two-parent families, while 26.1 percent or 1,570 are single-parent families.

Table C: Families Enrolled in CCAP in 2023, by Family Type and Number of Children Enrolled

Family Type with Number of Children Enrolled in CCAP	# of Cases	% of Cases	# Facing Cliffs
Single-parent households with one child enrolled	10,408	51.0%	1,023
Single-parent households with two children enrolled	4,561	22.2%	443
Single-parent households with three children enrolled	1,728	8.4%	92
Single-parent households with more than three children enrolled	618	3.0%	12
Two-parent households with one child enrolled	1,807	8.7%	2,544
Two-parent households with two children enrolled	916	4.4%	1,645
Two-parent households with three children enrolled	386	1.9%	221
Two-parent households with more than three children enrolled	163	<1%	32
	20,587	**100%**	**6,012**

Appendix D: Administrative Data on Families Receiving Medicaid or KCHIP

Administrative data were provided as an attachment to an email sent on 10/23/2023 by KYSTATS personnel. These data included numbers of households approved by Medicaid for services in 2023 with family size (total number of persons) and were organized by their income level relative to the income limits relating to Adult Medicaid (138% FPL) and KCHIP (218-percent FPL). These data were analyzed to provide total numbers of families participating in Medicaid (196,000) and KCHIP (59,400), as well as how many of these families were likely to approach the benefit cliffs for each program in the next 18 to 24 months.

Many families participating in Medicaid for adults and children have extremely low incomes, making it unlikely that they will face the cliff; based on other data on Kentucky incomes and households from the American Census Survey, it is estimated that in the next 12 to 18 months, roughly 10 percent of enrolled families may face the Medicaid cliff at 138-percent FPL, or 19,600, and that approximately 12percent of enrolled families may face the KCHIP cliff at 218-percent FPL.

Appendix E: Administrative Data on Families Receiving SNAP

Administrative data were provided as an attachment to an email sent on 9/8/2023 by KYSTATS personnel. It provided the numbers of families by family type (as determined by number of parents and number of children) who received SNAP benefits in 2022. These data provided a total number of families receiving the benefit (128,700), and indicated which families were wage-earning.

For those families earning wages, the median wages of each family type were provided. As seen in Table E below, most families who earned wages while receiving SNAP reported incomes well below 200-percent FPL, which suggests that very few would face the SNAP benefit cliff in the coming months.

Based on the numbers of families by type, their median wages, and the distance of those wages from the benefit cliff, numbers of families that are likely to face the benefit cliff within 18 to 24 months were estimated, provided in Table E below. Based on extrapolation from other sources suggesting that two-parent families are more likely than single-parent families to face benefit cliffs, it was estimated that approximately 5 percent of single-parent families and 12 percent of two-parent families could face the benefit cliff for SNAP within 18 to 24 months, or roughly 6,000 families.

Table E: Wage-Earning Families Receiving SNAP Benefits in 2022

Family Type	Families Earning Wages	Median Wages of Recipient Families
Single-parent, one child	26,620	$11,900
Single-parent, one child	23,314	$13,685
Single-parent, one child	13,547	$14,273
Two-parent, one child	5,447	$19,227
Two-parent, one child	7,389	$24,227
Two-parent, one child	6,083	$27,469
Total	**82,400**	

Appendix F: Size of Cliffs in FRS Data

Simulated data provided by KYSTATS using the Family Resource Simulator included data on families' earnings, taxes, other income, and expense categories for families of different types and sizes across all 120 Kentucky counties. For each family, data reflected changing net resource levels and expenses as earnings increased by $1,000 increments, from $0 up to levels as high as $120,000, depending on family size. While this data does not correspond to actual families, it enabled analyses of the conditions under which Kentucky families experience benefit cliffs. Table F provides the number of cliffs the FRS data simulated by the size of the cliff (i.e., by the loss in net resources for families).

Table F: Size of FRS Cliffs Represented as Loss in Net Resources

Smaller than -$1000	3,043
Between -$1000 and -$2500	1,396
Between -$2500 and -$3500	799
Between -$3500 and -$5000	322
Between -$5000 and -$7500	90
Between -$7500 and -$10000	103
Between -$10000 and -$12500	93
Between -$12500 and -$15000	143
Larger than -$15000	97
Total	**6,086**

Appendix G: Expenditures on CCAP Copayments as Percentage of Earnings

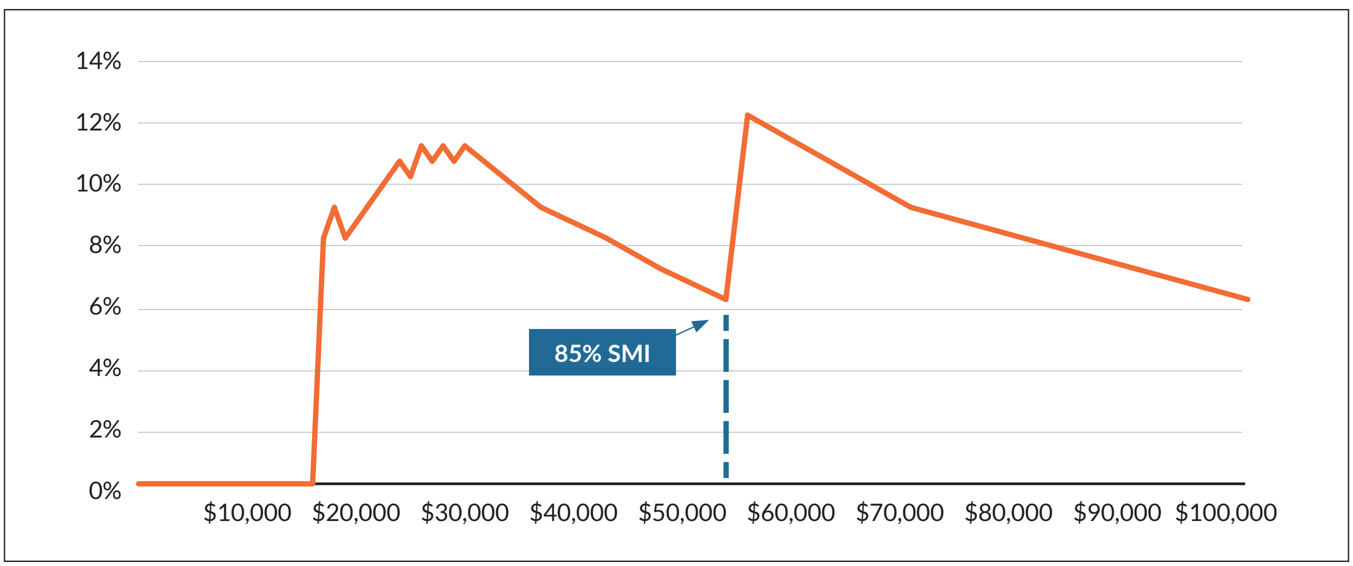
When parents encounter the child care cliff, they must suddenly pay a much higher percentage of their income for child care costs. The table below provides the average proportion of income that parents pay, across all Kentucky counties, under copayments as designated in current legislation:

Table G: Expenditures on CCAP Copayments as Percentages of Earnings By Family Type

Family Type	Single-parent, one child	Single-parent, two children	Single-parent, three children	Two-parent, one child	Two-parent, two children	Two-parent, three children
Exit income threshold for CCAP	$45,000	$56,000	$67,000	$56,000	$67,000	$77,000
Average % of income paid in child care copayments when earning slightly less than the exit threshold	7%	7%	6%	6%	6%	9%
Average % of income paid for private child care just past the exit threshold	18%	26%	32%	14%	22%	28%

Additionally, under copayment schedules, Kentucky parents who need full-time care at very low incomes pay a higher percentage of their earnings than the federal government currently recommends (seven percent).[1] In fact, parents who work full-time jobs pay a higher proportion of their earnings in copayments at lower earnings levels than they do just before the benefit cliff.

Percentage of Income Required for Copayments for a Two-Parent Family with One Child in Hopkins County



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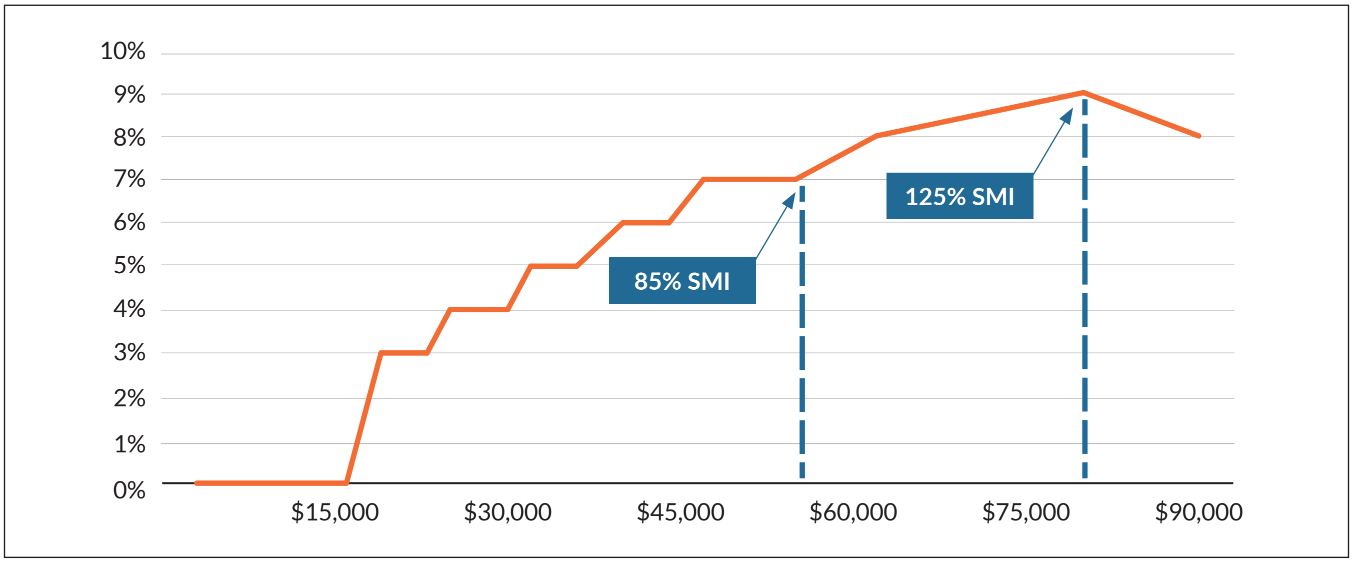
The graph below illustrates that under our proposed recommendations, a family of three in Hopkins County would spend a significantly lower proportion of their earnings on copayments for subsidized care until reaching the current 85-percent SMI exit eligibility threshold (for a family of three). From that earnings level, with subsidized care partly supported by the Commonwealth, parents' copayments would steeply ramp up until they would pay copayments approaching the market rate before losing access to subsidized care at 125-percent SMI.

Percentage of Income Required for Copayments Under Recommended Policy Shifts for a Two-Parent Family with One Child in Hopkins County



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29 A few families reported very high levels of income, but these were not included in estimation as it is believed children in such households are eligible for subsidized care for unusual reasons. In unusual cases, such as one in which a foster child lives with a higher-income family but qualifies for benefit assistance as a "child-only" case, the family belongs in a higher income category; however, such a family is not one that will encounter benefit cliffs. Their income is not part of the calculation of the benefit eligibility as in that for other families.

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34 This estimate is conservative, based on a projection of increased earnings of just $1,500, on average, per family. Many families are likely to experience far greater increases in their earnings, particularly if a second parent joins the workforce or a parent accepts a significant job promotion.

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