UNDERSTANDING "BENEFITS CLIFFS":

Implications For Helping Washingtonians Advance To Self-Sufficiency Through Workforce Strategies

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INTRODUCTION

The goal of workforce development efforts serving low-income and low-skill individuals is to provide them with the skills and credentials they require to avail themselves of opportunities within local labor markets that will help them and their families advance to economic self-sufficiency. Ideally, the public benefits system, intended to serve many of these same individuals and families, should be fully complementary to the self-sufficiency goal of workforce development. Rather than simply serving as a "safety net," public benefits such as supports for housing, child care, and health care, as well as food subsidies and tax incentives should thus serve to support low-income families as they increase their incomes through the attainment of more skills and higher-paying work, to the point where their incomes are high enough (accounting for local costs of living) for families to be truly self-sufficient. Unfortunately, while the system of public benefits has improved in recent decades in terms of facilitating self-sufficiency achieved through earnings gains, it remains comprised of often disjointed programs that phase out before households are earning enough to be self-sufficient.

“Benefits cliffs” is a term that describes what happens when public benefits programs phase down or out quickly, leading to an abrupt reduction or loss of benefits for families as household earnings increase, but have not increased enough for self-sufficiency to be reached. Often, just a small increase in household earnings can trigger loss of eligibility for a benefit, making a family substantially worse off from a self-sufficiency standpoint than prior to the earnings gain. It is critically important for workforce development systems and providers – as well as related social service systems such as public housing – to firmly grasp the interplay between the earnings gains that they are working to help individuals and families achieve and public benefits in changing households’ total net resources and movement toward – or away – from self-sufficiency. Workforce providers may assist those they are serving to access the benefits for which they qualify. It is additionally of great importance for providers to help these individuals and families to navigate the potential loss of benefits as income gains are made, and to make continued advances in their skills and earnings over the long-term in order to move above the levels of income where they are impacted by benefits cliffs.

The purpose of this research, focused primarily on Washington State, is to provide workforce and other social service providers as well as policymakers a general understanding of the public benefits programs available to their participants and how benefits cliffs may impact these individuals and families as they increase their earnings through the attainment of more skills and better-paying jobs. It begins with a general overview of the public benefits system in the U.S. and the gaps and cliffs that it creates. Next, a summary of the major public benefits programs available to low-income individuals and families in Washington State is provided, followed by a close examination of how benefits cliffs impact the net income of a variety of types of lower-income Washington families as their annual earnings increase. Finally, a set of policy and practical recommendations is offered for workforce development stakeholders to employ in their efforts to mitigate the impact of benefits cliffs.

AN OVERVIEW OF THE PUBLIC BENEFITS SYSTEM & BENEFITS CLIFFS

In the United States, federal and state governments support a suite of public benefits programs designed to support individuals living in poverty or near-poverty to achieve a basic standard of living. This "safety net" is required to help support work able families because low-wage work in the U.S., even when individuals can obtain these increasingly prevalent jobs on a full-time, year-round basis, does not provide enough income for basic needs to be met.[1] For example, the net pay of a full-time worker earning the federal minimum wage in 2013 would have equated to just 70 percent of the poverty level for a family of three.[2] While there is a substantial geographical variance in the cost of living in the U.S., families with children typically require earnings equating to between one-and-a-half and three-and-a-half times the federal poverty level to cover their basic living expenses.[3] A strong public benefits system should thus complement the earnings of low-income families, and do so far enough up the income ladder to support their full transition to economic self-sufficiency.

The U.S. has significantly strengthened its public benefits system over the past two-plus decades, redesigning programs to make them more supportive of work among low-income individuals, particularly parents. Reforms during this period have meant that low-income parents no longer become ineligible for public benefits the moment they start working and earning income. The Center for Law and Social Policy (CLASP) highlights key reforms:[4]

- **A major expansion of child care subsidies funded by both federal and state governments;**
- **Increased income disregards under Temporary Assistance for Needy Families (TANF) cash assistance, such that benefits are phased out more slowly;**
- **Supplemental Nutrition Assistance Program (SNAP) benefits have been made more available to working families and now better account for the impact of costs of child care on family budgets;**
- **Major expansions of the Earned Income Tax Credit (EITC) and Childcare Tax Credit (CTC);**
- **Expansion of eligibility for health care coverage through Medicaid and Children's Health Insurance Program (CHIP) to nearly all children in low-income working families, in addition to certain parents.**

The EITC and CTC in particular have had a great impact making work pay for low-income families. In the example family of three, above, the EITC and CTC would increase the earnings of the family's full-time worker earning the federal minimum wage in 2013 from 70 percent of the poverty level for that sized family to just above the poverty level.[5]

While program reforms of the 1990s and 2000s – as well as the recent passage of the Affordable Care Act (ACA) – have expanded public benefits programs, America's public benefits system has historically included significant gaps of three types. The first of these is a "coverage gap," in which low-income families who are eligible for certain programs do not receive benefits from them either because there is insufficient funding or because of difficulty accessing these programs.[6] Inaccessibility precipitated by the complexity of benefits programs is demonstrated by the finding of the U.S. Government Accountability Office that an individual seeking to receive benefits from the eleven largest programs would need to visit six different offices to complete up to eight applications.[7] Other barriers to benefits participation that lead to coverage gaps are insufficient funding for benefits programs, lengthy waiting lists, and the social stigma of participation. Limited funding is most commonly a problem within housing subsidy and child care assistance programs.[8] Immigrant workers, not eligible for certain programs, also face coverage gaps because they may "fear government officials and are therefore less likely to receive the benefits for which they are eligible."[9]

Coverage gaps are perhaps most starkly demonstrated by the fact that fully one-quarter of working families living below the poverty line receive *no* public benefits, and a mere seven percent participate in a suite of programs (SNAP, Medicaid, and child care subsidies), such that $65 billion in benefits go unclaimed each year.[10] Specific examples of the coverage gap include the following[11]:

- **The typical household on SNAP runs out of these benefits by the third week of the month;**
- **Child care subsidies and CHIP are funded by federal block grants to states, which caps their level of spending well below what is needed. Child care subsidies, for example, serve only one of every six eligible families;**
- **States are required to match or contribute a portion of funding for child care subsidies and CHIP, restricting their ability to meet needs, particularly since the Great Recession decimated many state budgets;**
- **Benefit levels for TANF equate to less than half of the federal poverty level in all states. Moreover, TANF serves only about 40 percent of eligible participants.**

A second gap in the safety net is known as a "hardship gap," in which families do receive assistance from the public benefit programs for which they qualify but still fall below a basic standard of living.[12] Finally, there is an "eligibility gap," in which low-income families earn too much to qualify for certain programs, yet still do not earn enough to be self-sufficient.[13] An integral aspect of hardship and eligibility gaps is what are known as "benefits cliffs," a term describing what occurs when certain public benefits programs "phase down quickly, translating into a sudden reduction or loss of benefits for families as earnings increase but before they are able to afford all basic necessities on their own."[14] The Center for American Progress specifically describes benefits cliffs as "points at which individuals and families abruptly lose eligibility for a benefit due to a small increase in income."[15]

Contributing to the incidence of benefits cliffs are eligibility and phase-out rules for different public benefits programs that have not been designed in coordination with one another, such that together they can have an unintended cumulative effect. As an example, "if three benefits each phase out at a rate of $.30 for each additional $1 of earnings, the cumulative effect could be that an additional dollar of earnings results in a loss of $.90 in benefits, leaving only a $.10 gain. This is the equivalent of a 90 percent 'marginal tax rate.'"[16]

Much has been written on the effects of benefits cliffs on low-income families' motivation to work – a primary point of political debate about the value of public benefits programs. An emergent conservative viewpoint is that means-tested programs (programs for which eligibility is lost or benefits phased out as income increases) create a "poverty trap" – that they discourage recipients of public benefits from earning more money because they create high "marginal tax rates" (i.e., that rapid phase-outs of benefits mean that an increasing percentage of each additional dollar earned is canceled out by loss of benefits).[17] The Center for American Progress notes that economic theory predicts families should respond to these high marginal tax rates in one of two ways: "On the one hand, you may choose to work less because you are getting less reward from work, which is called the substitution effect. On the other hand, you might work more in order to recoup the lost income, known as the income effect."[18]

Supporters of the poverty trap argument contend that the substitution effect has the greater impact on the behavior of families in poverty. Most research, however, demonstrates that a potential loss of benefits as their earnings increase has little impact on low-income families' decisions about whether to accept higher paying work or more hours on the job. For example, CLASP points out that single mothers, who have benefitted from the greatest expansion of public benefits programs (particularly those supporting work such as the EITC and the CTC) over the past two decades, have also made large gains in levels of employment since expansion began. On the other hand, levels of employment have fallen the most for childless adults (men in particular) during that period – a group that qualifies for only limited benefits such as SNAP and a minimal EITC.[19] CLASP further notes that high marginal tax rates typically do not impact the poorest families moving from unemployment or very part-time work into more employment, because of the increased value of the EITC and CTC, which in some cases means that net income can increase by more than a dollar for each additional dollar earned.[20] Rather, it is the "near-poor" – those making around twice poverty level – that in theory experience the greatest reduction in benefits as their earnings increase. Even for this group, the reality is that because most are *not* receiving the level of public benefits for which they qualify, they are losing fewer benefits as their incomes rise and so are less impacted.[21] Qualitative studies asking low-income parents about how they make decisions about work find that phase–out of benefits is rarely a consideration in whether to work more hours or accept a higher-paying position, as opposed to factors like the ability to find appropriate child care.[22]

Finally, it bears mentioning that the passage the ACA should effect a significant change in public benefits, but the recent nature of legislation means that studies and tools measuring benefits gaps and cliffs – including those utilized in this research – do not account for the new law. In the 1980s and 1990s, Medicaid was delinked from cash welfare programs and the Children's Health Insurance Program (CHIP) was created, which together allowed parents to move from welfare into work without concern about losing health insurance for either themselves or their kids.[23] Now, the ACA has "further strengthened Medicaid and CHIP as public work supports and addressed what was perhaps the biggest cliff in our system of work and income supports – that working parents risked losing their health coverage or that of their children in the event of a pay raise or an increase in their hours – leaving them unable to afford health insurance on the private market."[24] The ACA has eliminated this problem, but only in states that have adopted the Medicaid expansion, by raising the income threshold within which adults are covered under Medicaid, as well as by offering families subsidies on a sliding scale to purchase private insurance above that income threshold.[25] The ACA is an example of raising the phase-out level to reduce benefit cliffs: "The law allows states to expand Medicaid eligibility to 138 percent of the federal poverty level and also provides subsides to help offset the cost of insurance for individuals earning between 100 percent and 400 percent of the poverty line."[26]

OVERVIEW OF MAJOR PUBLIC BENEFITS PROGRAMS (UNITED STATES/WASHINGTON STATE)

Major public benefits programs in the U.S. include the Earned Income Tax Credit, the Child Tax Credit, Temporary Assistance for Needy Families, the Supplemental Nutrition Assistance Program, Medicaid and the Children's Health Insurance Program, Child Care and Housing Assistance programs. These are complemented by programs supported by the State of Washington. Because eligibility for most federal benefits programs is tied to household income as a proportion of federal poverty rates, the federal poverty guidelines are listed in **Table 1**. The table shows the most recent guideline numbers (2015)[27], which are updated by the federal government every February.

TABLE 1: 2015 FEDERAL POVERTY LEVELS BY SIZE OF HOUSEHOLD				
Household Size	**100%**	**133%**	**150%**	**200%**
1	$11,770	$15,654	$17,655	$23,540
2	$15,930	$21,187	$23,895	$31,860
3	$20,090	$26,720	$30,135	$40,180
4	$24,250	$32,253	$36,375	$48,500
5	$28,410	$37,785	$42,615	$56,820
6	$32,570	$43,318	$48,855	$65,140
7	$36,730	$48,851	$55,095	$73,460
8	$40,890	$54,384	$61,335	$81,780

EARNED INCOME TAX CREDIT

The Earned Income Tax Credit (EITC) is a federal tax credit available to low- and middle-income working individuals. It was created in 1975 and has since been expanded multiple times by the federal government, most recently in 1993. The EITC is supplemented currently in twenty-six states (not including Washington, which does not have an income tax) by state tax credits. Along with the Child Tax Credit, discussed below, the EITC is available exclusively to working families and is vastly larger than other income support programs. For example, in 2011, about 25 million tax households utilized the EITC, while just one million received TANF.[28]

Perhaps more than any other public benefits program, the EITC was designed to encourage and reward work, creating “an incentive for people to leave welfare for work and for low-wage workers to increase their work hours.”[29] It does this by kicking in with the first dollar earned and increasing sharply in value in the phase-in range until the maximum benefit is reached. After this, as earned income continues to rise, the credit amount first remains constant (it plateaus), then gradually descends to zero in the phase-out range. Studies have supported the effect of the EITC on significantly increasing employment rates among low-income parents.[30]

In tax year 2013, to be eligible for the EITC, working families with children had to have incomes below approximately $37,900 to $51,600 (depending on factors such as marital status and number of dependent children). And those without children could qualify for a very small EITC with an income below $14,300 for singles and $19,700 for married couples.

The EITC is subtracted from the total federal income tax an eligible taxpayer would otherwise owe and it is refundable, meaning that if the credit amount exceeds a worker's income tax liability, the federal government will refund the difference. At its maximum, the credit provides an additional 40 cents for every dollar earned to a family with two children, effectively turning a $6.00/hour job into an $8.40/hour job.[31] However, the average family receives much less than the theoretical maximum, either because it earns too little to get the full credit or too much and is in the phase down range.[32] During the 2011 tax year, for example, the average EITC was $2,905 for a family with children (about $240 per month).[33]

The maximum earned income credit for tax year 2013 was as follows:

- **$6,044 with three or more qualifying children**
- **$5,372 with two or more qualifying children**
- **$3,250 with one qualifying child; and**
- **$487 with no qualifying children**[34]

CHILD TAX CREDIT

The Child Tax Credit (CTC) was enacted in 1997 and has since been expanded to help working families cover a portion of the cost of raising children. The maximum credit amount is currently $1,000 per child under the age of 17. Like the EITC, the CTC amount is subtracted from the total federal income tax an eligible taxpayer would otherwise owe and it is refundable, meaning that if the credit amount exceeds a worker's income tax liability, the federal government will refund the difference. For tax year 2013, working families were eligible for a refund equal to 15 percent of their earnings above $3,000, up to the credit's full $1,000-per-child value.[35]

As with the EITC, the value of the CTC rises in conjunction with earnings up to the $1,000-per-child limit. Families earning less than $3,000 are not eligible for the CTC, and families with only slightly higher incomes (for example, less than $16,333 for a family with two children) earn only partial credit.[36] The CTC phases out at fairly high income levels. For example, couples with two children begin to receive only partial CTCs with combined household incomes above $110,000, and those with household incomes above $150,000 receive no credit.[37]

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

The federal Temporary Assistance for Needy Families (TANF) program, which is administered by the Department of Social and Health Services (DSHS) in Washington, provides cash benefits to low-income individuals who have children under 18 years old living with them and are U.S. citizens or legal resident aliens, with certain exceptions. While TANF programs have been improved to allow recipients who move to work to keep a greater portion of cash assistance for a longer time, time limits and other factors prevent most recipients from combining cash assistance and work.[38] Individuals typically may not receive TANF benefits for more than five years in a lifetime, and must have their eligibility reviewed at least once per year to continue to receive benefits. Participants must also participate in job search or work-related activities through the state's WorkFirst program, unless meeting one of a narrow set of exemptions.

To be eligible for TANF, a family must have resources of $1,000 or less, including checking and savings accounts, investments, and equity in vehicles valued above $5,000. Further, a family's monthly gross income must be below the following levels shown in **Table 2** in order to qualify for TANF[39]:

TABLE 2: ELIGIBILITY THRESHOLDS FOR TANF BY FAMILY SIZE

Family Size	Maximum Earned Income	Family Size	Maximum Earned Income
1	$610	5	$1,295
2	$770	6	$1,472
3	$955	7	$1,700
4	$1,124	8	$1,882

These are very low levels of income, well below the federal poverty line. For example, a family of three earning $955 per month is earning just over half (58 percent) of the poverty level for that sized family. Because of the high cost of living in Washington and particularly Seattle/King County, a household must be far below what they need to meet their basic living requirements in order to qualify for TANF.

TANF benefits are calculated based on family size and income, with half of an individual's gross earned income and all of any unearned income (such as unemployment benefits) deducted from the maximum TANF award amount (payment standard). In Washington, TANF benefits are calculated by DSHS on an annual basis based on studies of actual living costs for basic requirements and vary by family size. **Table 3** shows the current payment standards.[40]

TABLE 3: TANF BENEFIT PAYMENT STANDARDS BY FAMILY SIZE

Family Size	Payment Standard	Family Size	Payment Standard
1	$305	5	$648
2	$385	6	$736
3	$478	7	$850
4	$562	8	$941

Combining the two tables, one can see a simplistic example of how TANF benefits are paid. For a family of three with $500 in earned income per month, half of this amount – $250 – would be subtracted from the payment standard for this sized family - $478 – for a payment of $228. This would raise them from earning just 30 percent of the poverty level for this sized family ($6,000) to about 44 percent of the poverty level ($8,736), a modest gain.

State Family Assistance Program (SFA)

Washington State provides a state-funded cash assistance program for those who are ineligible for TANF: legal immigrant families, students ages 19 to 20, and pregnant women. Recipients must meet all other TANF eligibility criteria to qualify for SFA. Like TANF, SFA benefits have a five-year lifetime limit with some extensions possible. Payment standards also mirror those of TANF.

Refugee Cash and Medical Assistance (RCA/RMA)

Federally funded, the RCA/RMA program provides cash and medical assistance to newly-arrived refugees or asylees. Eligibility expires eight months after the date of arrival in the U.S. and adults must register for employment and language services to receive benefits unless exempted.

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM

The federal Supplemental Nutrition Assistance Program (SNAP), previously known as food stamps, is administered by the U.S. Department of Agriculture and provides food benefits for low-income individuals and families who are U.S. citizens (and certain non-citizens). SNAP can present a benefit cliff, with a firm income cutoff once gross income limits are reached. Families with significant housing, child care, child support or medical expenses may exceed the gross income limits for SNAP while their net income is still low enough that they would otherwise qualify for benefits.[41] That said, states are provided flexibility to raise income limits to reduce the cliff effect with SNAP, and more than half of states – including Washington – have done so.[42] SNAP does not provide a disincentive to work: "For every additional dollar a SNAP recipient earns, her benefits decline by only 24-36 cents – much less than in most other programs. Families that receive SNAP thus have a strong incentive to work longer hours or to search for better-paying employment."[43]

Washington's SNAP program, Basic Food, provides electronic benefit cards to eligible recipients – those with gross income at or below 200 percent of the federal poverty level – to purchase food, with income qualifications and benefit amounts shown in **Table 4** and **Table 5**.[44] While federal SNAP benefits are limited to U.S. citizens and certain immigrants, Washington has expanded its Basic Food program to serve legal immigrants who do not qualify for federal benefits, though these benefits are provided at just 75 percent of the federal benefit level. Enrollment in Basic Food automatically enrolls households' school-aged children in the free school meal program and qualifies benefit recipients for low-cost local phone service through the Washington Telephone Assistance Program (WTAP) and the WIC program, described below.

TABLE 4: BASIC FOOD ELIGIBILITY THRESHOLDS BY SIZE OF HOUSEHOLD

Household Size	Monthly Gross Income	Household Size	Monthly Gross Income
1	$1,945	5	$4,625
2	$2,622	6	$5,329
3	$3,299	7	$6,005
4	$3,975	8	$6,682

Basic Food benefit amounts are calculated based on a fairly complex formula that accounts for total monthly household income from all sources (with some exceptions, including EITC and student financial aid), less certain deductible expenses (including a standard household deduction, a portion of housing and child care costs). After deductions, the benefit is calculated by subtracting 30 percent of the remaining household income from the maximum monthly benefit. Maximum monthly benefits, shown in **Table 5**, are typically only received by families with very little to no income, with the average monthly benefit received by families in June 2013 totaling $235.

TABLE 5: BASIC FOOD MAXIMUM MONTHLY BENEFITS BY SIZE OF HOUSEHOLD

Household Size	Maximum Monthly Benefit	Household Size	Maximum Monthly Benefit
1	$189	5	$750
2	$347	6	$900
3	$497	7	$995
4	$632	8	$1,137

While Basic Food requires that most able-bodied adults register for work and/or take part in employment and training activities to receive benefits, there are multiple exemptions that remove this requirement for most. Those eligible for Basic Food receive assistance for a set number of months – the certification period – after which individuals must be re-certified for additional months.

Washington Special Supplemental Nutrition Program for Women, Infants and Children (WIC)

WIC provides pregnant women, new mothers and young children up to age 5 funds of up to $100 per month ($50 per person, with up to two people per family eligible to enroll) to purchase healthy foods. Eligibility is the same as for BFET, at 200 percent federal poverty level or below.

Food Assistance Program for Legal Immigrants (FAP)

Washington State provides funding for food assistance for legal immigrants who are not eligible for the Basic Food program. The eligibility rules for FAP are the same as the rules for Basic Food, except for citizenship and immigrant status requirements. Households can receive a mix of FAP and Basic Food depending on the citizenship or alien status of each person in the home. FAP benefit amounts were reduced in July 2011 from the equivalent to Basic Food to 50 percent of Basic Food. In July of 2013, FAP benefits were raised to 75 percent of Basic Food.

MEDICAID & CHILDREN'S HEALTH INSURANCE PROGRAM / AFFORDABLE CARE ACT

Medicaid and the Children's Health Insurance Program (CHIP) provide healthcare coverage for low-income adults and children. Medicaid was initially the only existing public healthcare benefit, and was designed for adults receiving cash welfare, a linkage that meant loss of one meant loss of the other.[45] Later, Medicaid was delinked from welfare for adults and CHIP was created to cover children. Today, virtually all low-income children are eligible for Medicaid or CHIP. Among parents, the story has been different. Historically, while large numbers of working-poor parents are eligible for Medicaid, many have not qualified because many states set eligibility limits for parents below the poverty line. In the average state, low-income parents typically have lost eligibility for Medicaid when their earnings reached just 61 percent of the poverty line.[46] In Washington State, the threshold for eligibility for Medicaid is 138 percent of the federal poverty line.

The problem of low-income thresholds for Medicaid eligibility has improved under the Affordable Care Act (ACA), which has allowed states, like Washington, to expand Medicaid to cover all poor and near-poor, non-elderly adults under favorable payment structures. In addition, uninsured children and adults with incomes between 100 and 400 percent of the federal poverty level are able under the ACA to receive subsidized coverage through new health insurance exchanges.[47] For states not adopting the Medicaid expansion under the ACA, Medicaid and CHIP still create two cliffs: first, where income reaches the level at which parents lose Medicaid; and second, where income reaches the significantly higher level at which children lose access to CHIP.[48]

Medicaid in Washington State is now referred to as "Apple Health," following the recent passage of the ACA. All of the state's healthcare programs for children had already been combined into a single program, known as “Apple Health for Kids.” The eventual goal for Apple Health is to unify programs for adults into a single program as well. Medicaid in Washington pays for medical services for people with disabilities, those who are at least 65 years old, children under age 19 and their parents/caretakers, and pregnant women. All must meet the program’s financial requirements (be low-income or very-low-income), as well as be a U.S. citizen, permanent resident or legal alien.

Washington also offers Children’s Medicaid (Apple Health for Kids) for children up to age 19 in families at or below 200 percent of the federal poverty level and meeting other Medicaid requirements, above. The state also offers the Children’s Health Insurance Program (CHIP), a non-entitlement program with the same eligibility rules as Medicaid for children, except with higher income standards (about 300 percent federal poverty level). Children eligible for Medicaid, or with any “creditable health coverage” from another source, are not eligible for CHIP. In order to qualify for CHIP, annual household income pre-tax must be below the following amounts shown in **Table 6**[49]:

TABLE 6: CHIP ELIGIBILITY THRESHOLDS BY SIZE OF HOUSEHOLD

Household Size	Maximum Annual Income Level	Household Size	Maximum Annual Income Level
1	$35,010	5	$83,730
2	$47,190	6	$95,910
3	$59,370	7	$108,090
4	$71,550	8	$120,270

Washington’s **Medical Assistance Program** is funded by state and federal (social security) dollars to support low-income individuals with disabilities, older adults and refugees, and aged federally qualified immigrants. Each program has different eligibility requirements, but recipients are generally low-income and have no other available medical coverage (such as those who do not qualify for Medicaid because of their immigrant/refugee status). Refugees also are qualified for the federally funded Refugee Cash and Medical Assistance (RCA/RMA) program, described above.

CHILD CARE ASSISTANCE

Child care presents a huge burden for working poor families because of the large associated cost: "On average, child care expenses comprise thirty-two percent of the income of a mother earning less than one hundred percent of the poverty line, compared to fifteen percent for mothers earning between one hundred and two hundred percent of poverty and six percent for mothers earning above two hundred percent of poverty." Access to reliable child care is critical to securing and retaining a job long term. Families that attempt to save costs by using informal child care arrangements (e.g., family members) or that string together multiple care arrangements will more likely experience child care-related work disruptions according to research.[51] Working parents in many states experience cliffs at points where they lose eligibility for child care assistance, though many states have designed their child care programs to avoid cliffs by establishing higher exit income eligibility limits to some extent.

The federal government currently provides a tax benefit to working parents to help offset child care costs, known as the Child and Dependent Care Tax Credit (CDCTC). To receive the tax benefit, parents must report up to $3,000 of expenses per child (to a maximum of $6,000) to receive a credit ranging from 20 to 35 percent of that amount, depending on the families' income levels. Families with lower incomes (currently below $15,000) receive the highest credit rate (35 percent), and this rate decreases by 1 percent for each additional $2,000 of earned income.[52] The lowest credit rate (20 percent) begins when incomes hit $43,000.

Beyond the CDCTC, some employees can arrange with their employers to withhold up to $5,000 from their salaries pre-tax in flexible spending accounts (FSAs) for child care, regardless of the number of children receiving care. Only some employers offer FSAs, however. To benefit from the CDCTC, both parents (or a single parent) must be working or in school, while the FSA exclusion can be utilized even if only one parent is working.

In general, the CDCTC and FSA exclusions tend primarily to benefit moderate and higher-income families. Because the CDCTC is not refundable, only families that owe income taxes benefit, and low-income families rarely qualify for the maximum benefit. For example, the Tax Policy Center estimated that in 2012, a single parent with two children would receive no benefit from the CDCTC until earning $20,000, at which point the benefit would average between $1,800 and $2,000.[53] Similarly, FSAs are usually not offered at the typical workplaces employing low-income workers.

The federal government also provides funds to states for child care assistance programs. States use these funds – combined with their own funds – to help some low-income working parents (as well as parents in education and training programs) to pay for child care. Due to insufficient funding, however, it is estimated that only about one in six low-income children eligible for child care assistance under federal rules receives it.

Washington State subsidizes child care for low-income families with incomes at or below 200 percent of the federal poverty level through the Working Connections Child Care (WCCC) program. Benefits are provided on a "first come, first served" basis until the program reaches its enrollment cap (33,000 cases in 2013), after which families are placed on a waiting list. Priority access (no waiting list) to WCCC is given to: 1) families receiving TANF benefits; 2) families working to cure their WorkFirst sanctions; 3) families of children with special needs; and 4) teen parents living independently and attending high school full-time. Access to WCCC is also prioritized for those enrolled in the state's Basic Food Employment & Training (BFET) program (Washington's Supplemental Nutrition Assistance Program Employment & Training, or SNAP E&T). WCCC is available to children who are U.S. citizens or legal residents in the U.S. and are under age thirteen (with some exceptions). Eligible child care providers include qualified adult relatives, licensed child care centers and family homes, and other certified child care providers.

WCCC subsidies are paid based on the number of hours a parent is working, looking for work, or doing WorkFirst activities, including transportation time. Even if not receiving TANF, those working 20 or more hours per week and participating in education and training activities may also qualify for child care for time spent in those activities, including transportation and study time. Parents receiving WCCC must pay a share of child care costs (co-payment) based on their incomes, calculated by adding total gross earned and unearned income, as a percentage of the federal poverty level, and family size, per **Table 7**, below.[54]

TABLE 7: WCCC CO-PAYMENT RATES BY FAMILY SIZE AND INCOME

Family Size	100% FPL Level for Family Size	Total Income in this range, monthly co-pay is $15 >82% FPL	Total Income in this range, monthly co-pay is $65 82-137.5% FPL	Total Income in this range, monthly co-pay is $65 or greater, formula below 137.5-200% FPL	137.5% of FPL for Family Size
1	$958	$0 - $786	$787 - $1,317	$1,318 - $1,916	$1,317
2	$1,293	$0 - $1,060	$1,061 - $1,778	$1,779 - $2,586	$1,778
3	$1,628	$0 - $1,335	$1,336 - $2,239	$2,240 - $3,256	$2,239
4	$1,963	$0 - $1,610	$1,611 - $2,699	$2,700 - $3,926	$2,699
5	$2,298	$0 - $1,884	$1,885 - $3,160	$3,161 - $4,596	$3,160
6	$3,303	$0 - $2,159	$2,160 - $3,620	$3,621 - $5,266	$3,620

Formula: Families with income in the range depicted in Column 5 subtract 137.5 percent federal poverty level (Column 6) from their income, multiply by 0.5, then add $65 to figure their co-pay amount. Families with incomes greater than the range shown in Column 5 (or 200 percent federal poverty level) are not eligible for WCCC.

HOUSING ASSISTANCE

The federal government, through the Department of Housing and Urban Development (HUD), funds housing for low-income families primarily through Low-Income Public Housing and the Housing Choice Voucher program (also known as Section 8). According to HUD, there are currently about 1.2 million households living in public housing in the U.S. Low-Income Public Housing units are managed by local housing authorities (HAs), of which there are about 3,300 currently operating across the U.S.[55]

To qualify for Low-Income Public Housing, households must earn 80 percent or less of the area median income. **Table 8** shows current income requirements (80 percent area median) for 2014 for the Seattle area as determined by HUD and published by Seattle Housing Authority. In addition to meeting income qualifications, to receive housing individuals may be excluded for certain past convictions and must be U.S. citizens or have eligible immigration status. Because there are normally significant waiting lists for public housing, preference may be given to certain applicants in terms of waiting list status as determined by HAs based on community needs. Seattle Housing Authority, for example, gives preference to homeless families and those who are extremely low-income, defined as earning 30 percent or less of the area median, as shown in Table 8 (2012 figures).[56]

TABLE 8: SEATTLE PUBLIC HOUSING ELIGIBILITY THRESHOLDS BY SIZE OF HOUSEHOLD (2012)

Household size	80% Median Income limit	30% Median Income limit
1	$44,750	$18,200
2	$51,150	$20,800
3	$57,550	$23,400
4	$63,900	$26,000
5	$69,050	$28,100
6	$74,150	$30,200
7	$79,250	$32,250
8	$84,350	$34,350

Low-income public housing tenants’ rent obligation is referred to as Total Tenant Payment (TTP) and is typically 30 percent of households’ monthly adjusted household income, such that as income rises, so does the amount paid for housing. Adjusted household income is determined by anticipated total income from all sources received from the family head, spouse, and each additional family member aged 18 or older, less certain deductions allowed by regulations. Currently, once in public housing, households may remain there as long as they continue to meet income limits and otherwise comply with their leases.

The Housing Choice Voucher program (Section 8) issues vouchers to low-income households that pay for a portion of their monthly rent for eligible *privately-owned* units. In Seattle, households must be below the very-low income limit (30 percent area median) in order to qualify for the program, and they will pay approximately 30 to 40 percent of their monthly household income on rent and utilities (with vouchers covering the remainder). SHA has currently closed the waitlist for the Housing Choice Voucher program due the significant waiting list of 2,000 households created in 2013 (SHA has plans to reopen the waitlist in late March of 2015).

Public housing represents the public benefit with the largest coverage gap, as represented by the significant waiting lists maintained at most HAs around the nation. There are simply not enough units through either the Low-Income Public Housing or the Housing Choice Voucher program to meet demand. Today, only 24 percent of the 19 million eligible households receive housing assistance. In essence, only one in four households wins the housing assistance lottery.[57]

OTHER WASHINGTON STATE BENEFITS

Benefits outside of the major ones mentioned that are provided in Washington State but not included in modeling benefits cliffs include the following (not exhaustive):

Washington Low Income Home Energy Assistance Program (LIHEAP) – provides energy assistance to low-income households (currently at or below 125 percent of the federal poverty level) in the form of subsidies for home heating paid directly to energy providers. Subsidies are based on a portion of a household's annual home heating costs.

Washington Head Start and Early Head Start – provides school readiness for children, from birth to age five, of low-income households (currently at or below 100 percent of the federal poverty level, with some exemptions for families with incomes above this level). Children in foster care, homeless children and children from families receiving TANF are categorically eligible for these programs regardless of income.

Additional Requirements – Emergent Needs (AREN) – provides cash payments in addition to TANF cash grants to meet emergent housing or utility needs. Benefits may be authorized on multiple occasions for each recipient but the cumulative lifetime payments are capped at $750. Eligible families for AREN are those receiving TANF, State Family Assistance (SFA), or Refugee Cash Assistance (RCA), a demonstrated emergent housing/utility need, and demonstrated reason for not being able to cover these needs.

Consolidated Emergency Assistance Program (CEAP) – CEAP provides benefits to alleviate emergent conditions resulting from insufficient resources to cover food, shelter, medical care, clothing or other necessary items. Benefits may be authorized for 30 consecutive days during any 12-month period. CEAP serves families with dependent children who are ineligible to receive benefits from TANF (including families who have stopped receiving TANF), SFA, RCA, or Diversion Cash Assistance (DCA), described below. Families must be in emergent need, have no resources to meet that need, and have household income less than 90 percent of the TANF payment standard.

Diversion Cash Assistance (DCA) – Provides an emergency cash benefit of $1,250 to cover temporary emergent needs (shelter, transportation, child care, food, medical care, employment-related expenses), limited to a 30-day period in any 12-month period to families that meet eligibility criteria for TANF or SFA but do not need ongoing monthly cash assistance. DCA is usually paid directly to vendors. If families go on TANF within 12 months of receiving DCA, a prorated amount of the DCA payment must be repaid to the state by monthly deductions equal to 5 percent of the cash grant.

A PICTURE OF BENEFITS CLIFFS IN WASHINGTON STATE

Washington State has taken steps to provide a generous set of public benefits to low-income residents when compared to other states. That said, gaps in benefits and benefits cliffs do exist. Earlier research conducted by Seattle Jobs Initiative in conjunction with the Center for Economic Policy Research's national *Bridging the Gaps* project, while somewhat dated (released in early 2008), found that nearly 1 in 5 Washingtonians (19.1 percent) were in a hardship gap in the first part of the decade. That is, they were working but falling short of self-sufficiency - even after supplementing wages with public benefits - as a result of low pay, limited hours and/or inadequate public benefits.[58] This ranked the state 12th best in the nation for this statistic. The research did find that public benefits were helping a limited number of Washington residents out of this hardship gap: "About 13 percent of families with income below a basic family budget before work supports [benefits] completely close their hardship gap through supports like child care, medical insurance, housing assistance, Basic Food, and TANF."[59] The report found that, on average, Washington families in a hardship gap had this gap closed by only half through receipt of public benefits. Before public benefits, the median monthly hardship gap in the state was $1,357, a gap reduced to a median of $722 by public benefits.[60]

As mentioned, many families living below a basic budget face an eligibility gap with regard to public benefits; that is, they do not qualify for benefits despite living below a level of self-sufficiency. The *Bridging the Gaps* research found that Washington maintains one of the smaller eligibility gaps in the nation by reaching most low-income families, with only one-in-ten of these families ineligible for a single benefit. The *Bridging the Gaps* research illustrated, for each of six key public benefits, the percentage of Washingtonians living below a basic family budget who were *in*eligible[61]:

- **Child Care Supports: 45.5 percent**
- **EITC: 46.1 percent**
- **SNAP (Basic Food): 65.4 percent**
- **Housing Assistance: 81.3 percent**
- **Medicaid/CHIP: 51.3 percent**
- **TANF: 89.5 percent**
- **Any support: 10.8 percent**

In general, among all public benefits programs, people in low-income working families in Washington – as in the U.S. – are least likely to be eligible for TANF, followed closely by housing assistance and SNAP.[62]

To explore the impact of *benefits cliffs* on low-income Washington families as their incomes increase, this research utilizes two available tools: the Urban Institute's Net Income Change Calculator (NICC), and the National Center on Child Poverty's (NCCP) Family Resource Simulator.[63] While both the NICC and Family Resource Simulator utilize 2008 data for Washington, these data still provide a valuable picture of how wage increases and the simultaneous phasing out of public benefits impacts families' total net income picture. It is also important to note that the NICC uses Washington State data, while the Family Resource Calculator narrows down the geographic scope of its data to King County.

For this research, six family types have been selected for examination using the NICC and the Family Resource Simulator to provide a fuller picture of how the interplay of children and the number of working adults in a household impact net income changes as household earnings rise. These family types are as follows:

1. **Single adult with no children (NICC only, no Family Resource Simulator data)**
2. **Single adult with two children, ages 3 and 6 (preschooler, school-age)**
3. **Single adult with two children ages 2 and 4 (two preschoolers)**
4. **Single adult with two children, ages 6 and 8 (two school-age)**
5. **Married couple with two children, ages 2 and 4 (two preschoolers)**
6. **Single adult with three children, ages 2, 4, and 6 (two preschoolers, one school-age) (Family Resource Simulator only)**

For each of these family types (except the last), the NICC is utilized to illustrate how the composition of household income changes at $2.00 per hour wage increases, starting from $10.00 per hour (an apt starting point given that Washington State's minimum wage is currently $9.74) and increasing to $20.00 per hour. Preschoolers are presumed to require full-time child care, while school-age children only require part-time child care. For the sake of simplicity, adults are assumed to be working full-time. They are further assumed to own no assets and no vehicle in order to maximize their potential receipt of public benefits that account for these in calculating award amounts. For the married couple, both adults are presumed to be working full-time, each starting at $10 per hour, with represented wage increases given to only one adult (e.g., a change from $10 per hour to $12 per hour assumes that only one adult advances to $12 per hour, and the other remains at a $10 wage). Finally, child care and rent costs shown are pre-subsidy, and were calculated for the NICC by the authors using estimates taken from NCCP's Family Resource Simulator.

To complement the picture provided by the NICC, the NCCP Family Resource Simulator was also utilized for each of these family types (except the single adult household with no children) to illustrate how households' net financial picture changes as wage levels increase. Each household scenario includes both a bar chart depicting the composition of family resources (earnings plus public benefits) and expenses at increasing earnings levels, and a line graph illustrating changes in net family resources at increasing earnings levels. Each family scenario utilizes a starting wage of $10 per hour, except that the two-parent household (Scenario 5) includes three sets of graphs to illustrate the impact of different entered starting wage levels - $10 per hour, $15 per hour and $20 per hour - of the worker or workers in the household. The starting wage is used to calculate how many hours parents are working at a given earnings level, thus determining when parents begin to work full-time. For example, a single adult earning $10 per hour with a $6,000 annual earnings level would be working 600 annual hours, or just under 30 percent time. Accordingly, at low annual earnings levels, families – particularly the two-parent family examined – will have lower child care costs.

In calculating family expenses, NCCP uses its *Basic Needs Budget Calculator* to derive a self-sufficiency-level budget for different family types. These budgets are depicted for King County in **Table 9**, again employing 2008 data. An additional, more current self-sufficiency budget for a variety of family types, specific to the City of Seattle, was created by the Seattle-King County Workforce Development Council (provided in Appendix A). As Table 9 illustrates, single-parent families must earn between $19 - $35 (223 to 344 percent FPL) or more – depending upon the number of children and their ages - to reach self-sufficiency. This budget includes certain public benefits – the Child Tax Credit and the Child & Dependent Care Tax Credit. The table also demonstrates the impact of two workers on a family's ability to meet a self-sufficiency budget: each full-time worker must earn just $14 per hour.

TABLE 9: BASIC NEEDS BUDGET: SEATTLE / KING COUNTY, WA (2008)

MONTHLY COSTS	Single-Parent, Two Children, Ages 3 & 6	Single-Parent, Two Children, Ages 2 & 4	Single-Parent, Two Children, Ages 6 & 8	Two-Parent Family, Two Children, Ages 2 & 4	Single-Parent, Three Children, Ages 2, 4 & 6
Rent / Utilities	$942	$942	$942	$942	$1,331
Food	$474	$420	$518	$605	$558
Child Care	$1,443	$2,126	$922	$2,126	$2,587
Health Care	$244	$244	$244	$267	$251
Transportation	$54	$54	$54	$108	$54
Miscellaneous Necessities	$382	$368	$394	$418	$510
Payroll Taxes	$297	$357	$250	$379	$465
Federal Gross Income Tax	$310	$429	$217	$374	$670
Earned Income Tax Credit	$0	$0	$0	$0	$0
Child Care Credit	($167)	($167)	($167)	($167)	($250)
Child / Dependent Care Tax Credit	($100)	($100)	($110)	($100)	($100)
TOTAL MONTHLY	**$3,879**	**$4,673**	**$3,265**	**$4,951**	**$6,075**
TOTAL ANNUAL	**$46,550**	**$56,078**	**$39,175**	**$59,414**	**$72,898**
HOURLY WAGE NEEDED	**$22**	**$27**	**$19**	**$14 (per parent)**	**$35**
PERCENT OF FPL	**264%**	**319%**	**223%**	**280%**	**344%**

SOURCE: National Center for Children in Poverty, Basic Needs Budget Calculator, Washington (2008)

In addition to the NCCP Family Resource Simulator utilizing the basic need budgets to estimate families' expenses, because the available calculators utilize data from 2007, they also rely on federal poverty levels from that date in calculating eligibility for benefits. **Table 10** provides these levels.[64]

TABLE 10: 2007 FEDERAL POVERTY LEVELS BY SIZE OF HOUSEHOLD				
Household Size	**100%**	**133%**	**150%**	**200%**
1	$10,210	$13,579	$15,315	$20,420
2	$13,690	$18,208	$20,535	$27,380
3	$17,170	$22,836	$25,755	$34,340
4	$20,650	$27,465	$30,975	$41,300
5	$24,130	$32,093	$36,195	$48,260
6	$27,610	$36,721	$41,415	$55,220
7	$31,090	$41,350	$46,635	$62,180
8	$34,570	$45,978	$51,855	$69,140

SCENARIO 1: SINGLE ADULT WITH NO CHILDREN

Scenario 1 depicts a single adult household without children utilizing the NICC exclusively (NCCP does not have a calculator for households without children). Assumptions include:

- **Fair market rent (prior to subsidies received by the family) of $650 (author estimate)**
- **No debt and no child support payments owed/received**
- **Working full-time**
- **No savings or vehicles (maximizes benefits; creates need for public transportation)**

TABLE 11: NICC – SINGLE ADULT WITH NO CHILDREN						
TYPE OF INCOME / EXPENSE	**HOURLY WAGE RATE**					
	$10	**$12**	**$14**	**$16**	**$18**	**$20**
Annual Earnings	$20,796	$24,948	$29,112	$33,276	$37,428	41,592
Taxes						
Federal tax (excluding EITC)	($768)	($1,392)	($2,016)	($2,640)	($3,264)	(3,900)
EITC	0	0	0	0	0	0
Payroll tax	($1,584)	($1,908)	($2,220)	($2,544)	($2,856)	(3,180)
State Income tax	0	0	0	0	0	0
Total taxes	($2,364)	($3,300)	($4,248)	($5,184)	($6,132)	($7,080)
TANF	0	0	0	0	0	0
SNAP	0	0	0	0	0	0
WIC	0	0	0	0	0	0
Housing Subsidy	0	0	0	0	0	0
Childcare Expense	0	0	0	0	0	0
Total Net Income	**$18,432**	**$21,648**	**$24,864**	**$28,080**	**$31,296**	**$34,500**

COMMENTARY

A single adult with no children, working full-time and earning $10 per hour or more, does not qualify for any of the major public benefits examined in the NICC. He or she earns too much to qualify for SNAP, for example, and does not qualify for EITC (income too high) or TANF due to not having children (he or she would earn too much to qualify for TANF, regardless). As public benefits do not make up any part of this single adult worker's total household income picture, there are no benefits to be lost as income increases, such that additional earnings always improve net household income.

SCENARIO 2: SINGLE PARENT, TWO CHILDREN, AGES 3 & 6

Scenario 2 depicts a single parent with two children, one of which requires full-time child care, and the other of which is school age and only requires part-time child care. Entered assumptions for the family for both the NICC and NCCP calculators include the following:

- **No savings or vehicles (maximizes benefits; creates need for public transportation)**
- **Fair market rent (prior to subsidies received by the family) of $942, as determined by U.S. HUD**
- **No debt and no child support payments owed/received**
- **Food: low-cost food plan as determined by U.S.D.A. (NCCP only)**
- **Employer-based healthcare (with estimated premiums owed) once worker no longer qualifies for public health insurance (NCCP only)**
- **Child care (prior to subsidies received by the family) of $1,443.**
- **Working full-time (NICC only; see comments above on "starting wage rate" for NCCP)**

TABLE 12: NICC – SINGLE PARENT, TWO CHILDREN, AGES 3 & 6

TYPE OF INCOME / EXPENSE	HOURLY WAGE RATE					
	$10	**$12**	**$14**	**$16**	**$18**	**$20**
Annual Earnings	$20,796	$24,948	$29,112	$33,276	$37,428	$41,592
Taxes						
Federal tax (excluding EITC)	$2,736	$2,892	$2,892	$2,748	$2,304	$1,560
EITC	$3,756	$2,880	$2,004	$1,128	$252	0
Payroll tax	($1,584)	($1,908)	($2,220)	($2,544)	($2,856)	($3,180)
State Income tax	0	0	0	0	0	0
Total taxes	$4,908	$3,864	$2,676	$1,332	($288)	($1,608)
TANF	0	0	0	0	0	0
SNAP	$1,860	0	0	0	0	0
WIC	$552	$552	$552	$552	$552	$552
Housing Subsidy	$7,476	$7,092	$6,420	$5,760	$5,544	$4,296
Childcare Expense	($7,092)	($9,948)	($11,904)	($13,860)	($17,316)	($17,316)
Total Net Income	**$28,500**	**$26,520**	**$26,868**	**$27,072**	**$25,932**	**$27,528**

CHART 1

NCCP Family Resource Simulator: Family Resources & Basic Expenses

Single Parent, Two Children, Ages 3 & 6

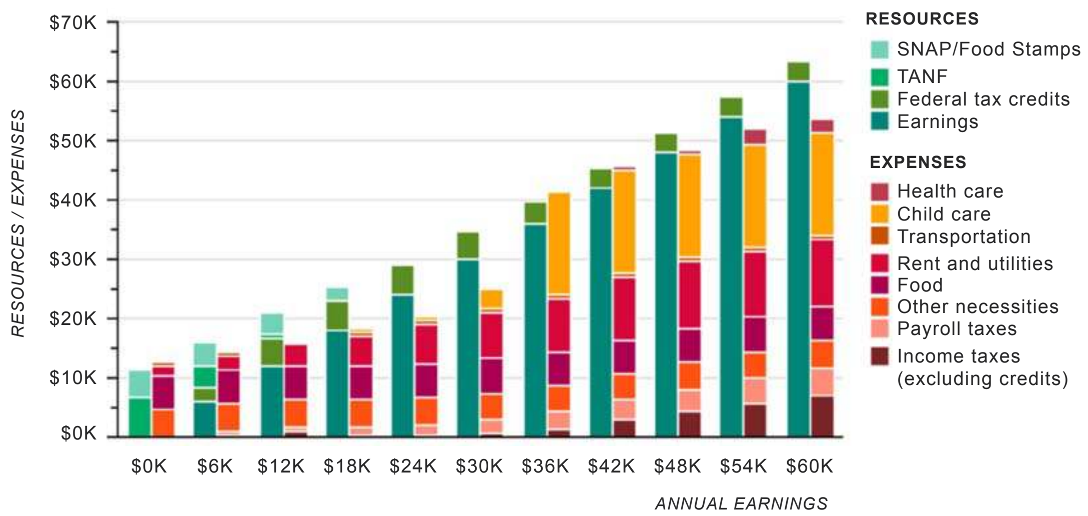
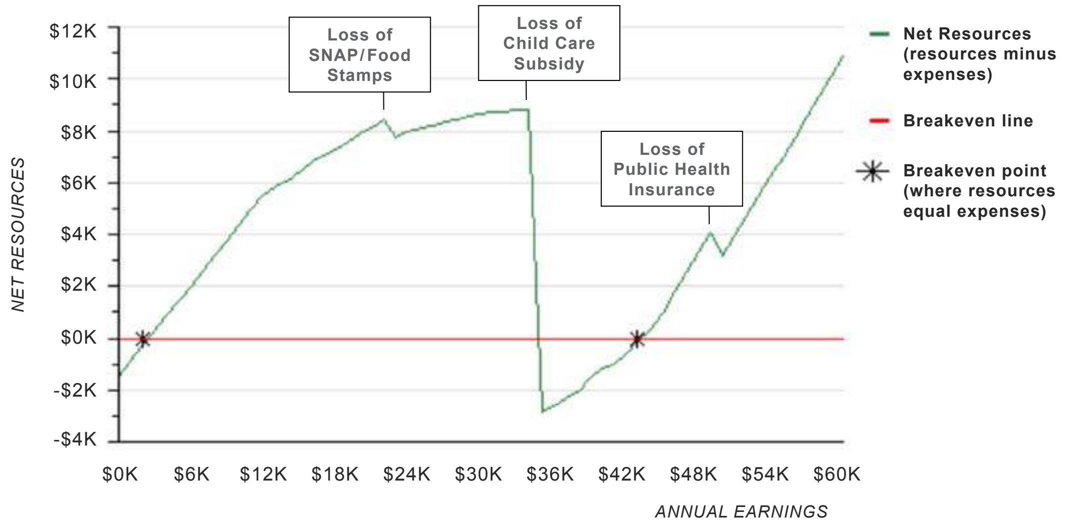


CHART 2

NCCP Family Resource Simulator: Net Family Resources (Resources Minus Expenses)

Single Parent, Two Children, Ages 3 & 6



COMMENTARY

Household net resources quickly grow with initial earnings, which are complemented by tax credits and early on by TANF and SNAP. The loss of SNAP represents the first minor cliff (as depicted in the line graph), but the family's net resources continue to grow until a major benefits cliff is reached with the loss of the child care subsidy at roughly $34,000 of annual earnings (200% FPL for a three-person household). Here, net annual resources drop immediately into the negative, and do not reach the break-even point until earnings reach more than $42,000 (about $20 per hour). Further, household earnings must reach more than $54,000 (about $26 per hour) for the family's net resources to equal their peak immediately prior to the child care benefits cliff. Note that a third minor benefits cliff occurs at roughly the $48,000 level of annual income, which represents a loss in subsidized healthcare for children.

SCENARIO 3: SINGLE PARENT, TWO CHILDREN, AGES 2 & 4

Scenario 3 depicts a single parent with two children, both of whom require full-time child care. Entered assumptions for the family for both the NICC and NCCP calculators include the following:

- **No savings or vehicles, thus qualifying for more benefits but requiring public transportation**
- **Fair market rent (prior to subsidies received by the family) of $942, as determined by U.S. HUD**
- **No debt and no child support payments owed/received**
- **Food: low-cost food plan as determined by U.S.D.A. (NCCP only)**
- **Employer-based healthcare (with estimated premiums owed) once worker no longer qualifies for public health insurance (NCCP only)**
- **Child care (prior to subsidies received by the family) of $2,126**
- **Working full-time (NICC only; see comments above below on "starting wage rate" for NCCP)**

TABLE 13: NICC – SINGLE PARENT, TWO CHILDREN, AGES 2 & 4

TYPE OF INCOME / EXPENSE	HOURLY WAGE RATE					
	$10	**$12**	**$14**	**$16**	**$18**	**$20**
Annual Earnings	$20,796	$24,948	$29,112	$33,276	$37,428	$41,592
Taxes						
Federal tax (excluding EITC)	$2,736	$2,892	$2,892	$2,748	$2,304	$1,560
EITC	$3,756	$2,880	$2,004	$1,128	$252	0
Payroll tax	($1,584)	($1,908)	($2,220)	($2,544)	($2,856)	($3,180)
State Income tax	0	0	0	0	0	0
Total taxes	$4,908	$3,864	$2,676	$1,332	($288)	($1,608)
TANF	0	0	0	0	0	0
SNAP	$1,860	0	0	0	0	0
WIC	$1,104	$1,104	$1,104	$1,104	$1,104	$1,104
Housing Subsidy	$8,328	$7,944	$7,272	$6,612	$7,560	$6,756
Childcare Expense	($9,936)	($12,792)	($14,748)	($16,704)	($25,512)	($25,512)
Total Net Income	**$27,072**	**$25,080**	**$25,428**	**$25,632**	**$20,292**	**$22,344**

CHART 3

NCCP Family Resource Simulator: Family Resources & Basic Expenses

Single Parent, Two Children, Ages 2 & 4

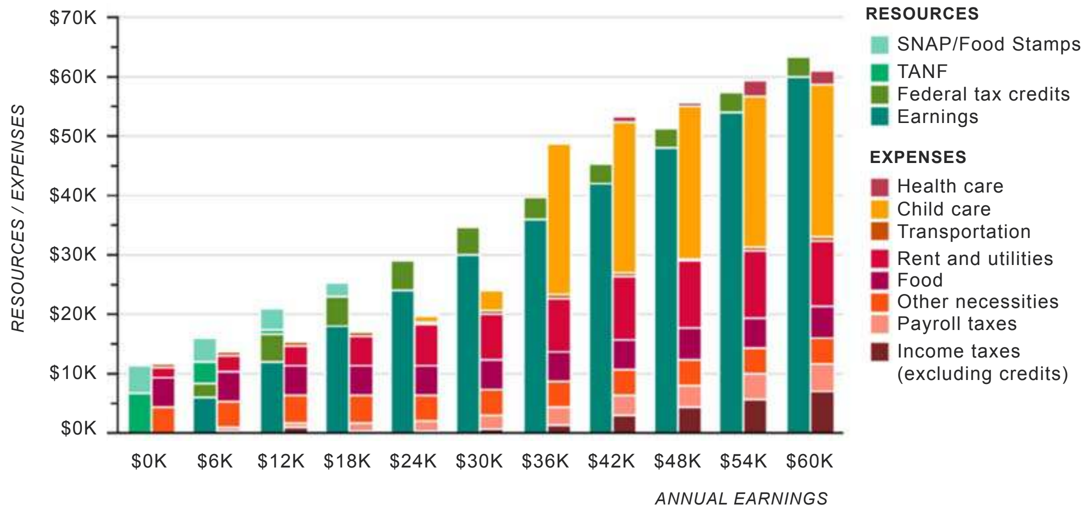
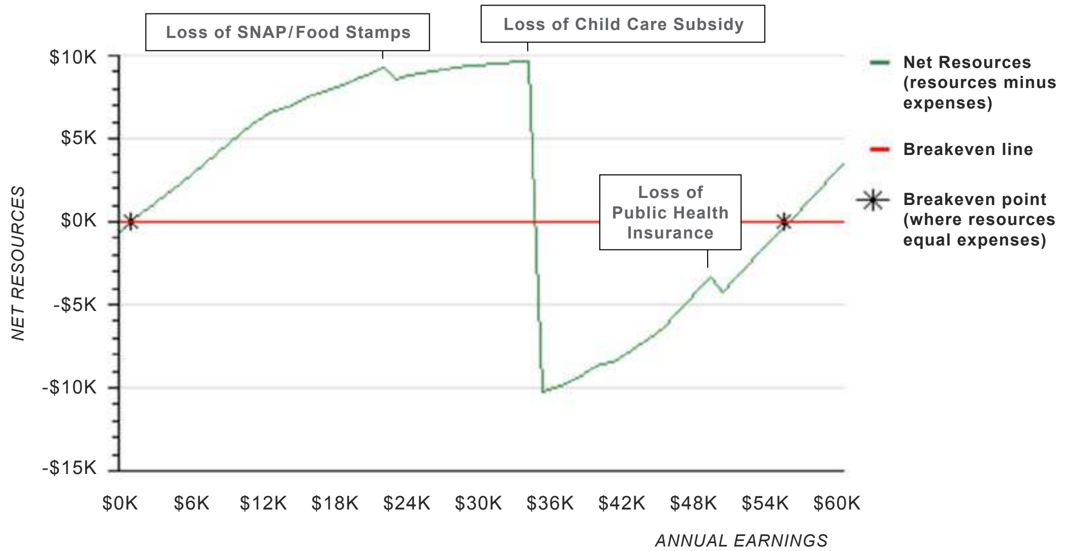


CHART 4

NCCP Family Resource Simulator: Net Family Resources (Resources Minus Expenses)

Single Parent, Two Children, Ages 2 & 4



COMMENTARY

The primary difference between this family scenario and the previous one is the impact of significantly higher child care on household net resources, as the ages of the children mean that full-time child care is required for both. The child care benefits cliff is faced at the same income level, but its impact is far greater, as the household reaches a net negative household income of about $10,000, and does not reach the break-even point until earning more than $54,000 (about $26 per hour). Moreover, even upon reaching annual earnings of $60,000 (about $29 per hour), the household has only achieved about half the level of net resources that it did prior to the child care benefits cliff.

SCENARIO 4: SINGLE PARENT, TWO CHILDREN, AGES 6 & 8

Scenario 4 depicts a single parent with two children, both of whom are school age and thus only require part-time child care. Entered assumptions for the family for both the NICC and NCCP calculators include the following:

- **No savings or vehicles, thus qualifying for more benefits but requiring public transportation**
- **Fair market rent (prior to subsidies received by the family) of $942, as determined by U.S. HUD**
- **No debt and no child support payments owed/received**
- **Food: low-cost food plan as determined by U.S.D.A. (NCCP only)**
- **Employer-based healthcare (with estimated premiums owed) once worker no longer qualifies for public health insurance (NCCP only)**
- **Child care (prior to subsidies received by the family) of $922**
- **Working full-time (NICC only; see comments above on "starting wage rate" for NCCP)**

TABLE 14: NICC – SINGLE PARENT, TWO CHILDREN, AGES 6 & 8

TYPE OF INCOME / EXPENSE	HOURLY WAGE RATE					
	$10	$12	$14	$16	$18	$20
Annual Earnings	$20,796	$24,948	$29,112	$33,276	$37,428	$41,592
Taxes						
Federal tax (excluding EITC)	$2,736	$2,892	$2,892	$2,748	$2,304	$1,560
EITC	$3,756	$2,880	$2,004	$1,128	$252	0
Payroll tax	($1,584)	($1,908)	($2,220)	($2,544)	($2,856)	($3,180)
State Income tax	0	0	0	0	0	0
Total taxes	$4,908	$3,864	$2,676	$1,332	($288)	($1,608)
TANF	0	0	0	0	0	0
SNAP	$1,860	0	0	0	0	0
WIC	0	0	0	0	0	0
Housing Subsidy	$7,212	$6,816	$6,156	$4,920	$3,672	$2,424
Childcare Expense	($6,204)	($9,060)	($11,016)	($11,064)	($11,064)	($11,064)
Total Net Income	**$28,572**	**$26,592**	**$26,940**	**$28,476**	**$29,748**	**$31,344**

CHART 5

NCCP Family Resource Simulator: Family Resources & Basic Expenses

Single Parent, Two Children, Ages 6 & 8

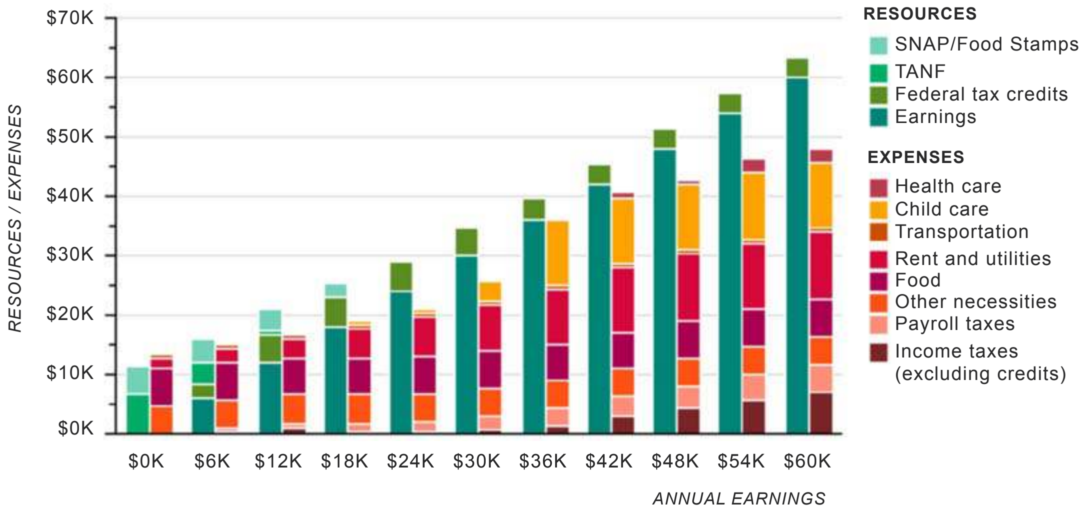


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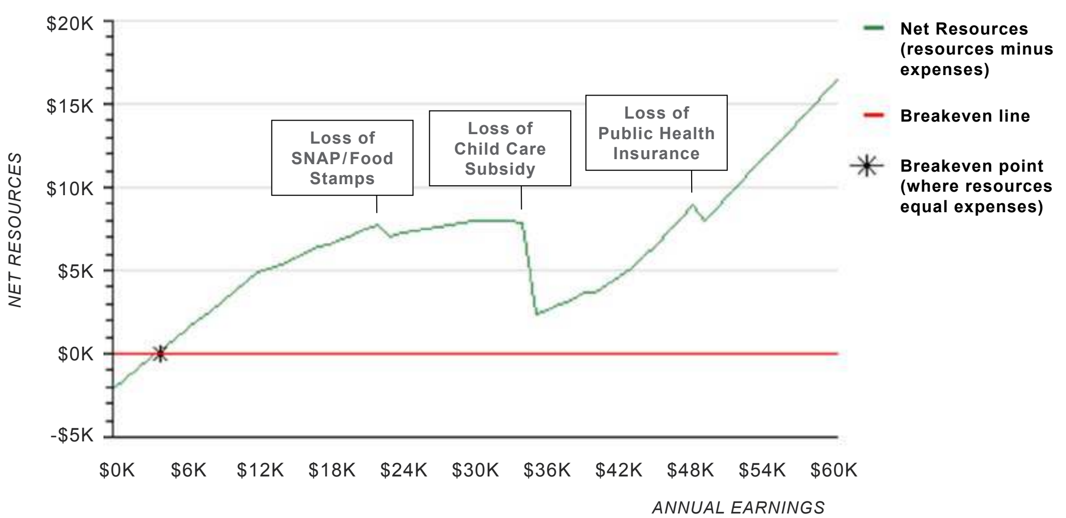
CHART 6

NCCP Family Resource Simulator: Net Family Resources (Resources Minus Expenses)

Single Parent, Two Children, Ages 6 & 8



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COMMENTARY

This family scenario presents much the same as the previous two scenarios. Again, the primary driver of change in net household resources for this hypothetical family is child care. Here, expenses for child care are substantially less because both children are school-age and thus require only part-time care. The child care benefits cliff is still faced as household income reaches about $34,000, but the cliff is much less substantial. Net resources remain positive (though significantly reduced) despite the cliff, and the pre-cliff level of net resources is quickly regained by the time household annual earnings reach $48,000 (about $23 per hour).

SCENARIO 5: TWO-PARENT HOUSEHOLD, TWO CHILDREN, AGES 2 & 4

Scenario 5 depicts a two-parent household with two children, both of whom require full-time daycare. Entered assumptions for the family for both the NICC and NCCP calculators include the following:

- **No savings or vehicles, qualifying for more benefits, requiring public transportation**
- **Fair market rent (prior to subsidies) of $942, as determined by U.S. HUD**
- **No debt and no child support payments owed/received**
- **Food: low-cost food plan as determined by U.S.D.A. (NCCP only)**
- **Employer-based healthcare (with estimated premiums owed) once worker no longer qualifies for public health insurance (NCCP only)**
- **Child care (prior to subsidies received by the family) of $2,126**
- **Working full-time (NICC only; see comments above on "starting wage rate" for NCCP)**

TABLE 15: NICC – TWO-PARENT HOUSEHOLD, TWO CHILDREN, AGES 2 & 4

TYPE OF INCOME / EXPENSE	HOURLY WAGE RATE					
	$10	**$12**	**$14**	**$16**	**$18**	**$20**
Annual Earnings	$41,592	$45,756	$49,908	$54,072	$58,236	$62,388
Taxes						
Federal tax (excluding EITC)	$2,748	$2,592	$2,040	$1,416	$792	$168
EITC	0	0	0	0	0	0
Payroll tax	($3,180)	($3,492)	($3,816)	($4,128)	($4,452)	($4,764)
State Income tax	0	0	0	0	0	0
Total taxes	($408)	($900)	($1,764)	($2,700)	($3,648)	($4,596)
TANF	0	0	0	0	0	0
SNAP	0	0	0	0	0	0
WIC	$1,104	$1,104	$1,104	$1,104	$1,104	$1,104
Housing Subsidy	$6,756	$5,508	$4,260	$3,012	0	0
Childcare Expense	($25,512)	($25,512)	($25,512)	($25,512)	($25,512)	($25,512)
Total Net Income	**$23,544**	**$25,968**	**$28,020**	**$29,988**	**$30,180**	**$33,396**

NOTE: Chart shows what happens as one worker's wage increases by increments shown – or both workers' wages increase to equal that increment.

CHART 7

NCCP Family Resource Simulator: Family Resources & Basic Expenses

Two-Parent Household, Two Children, Ages 2 & 4 – *$10 PER HOUR*

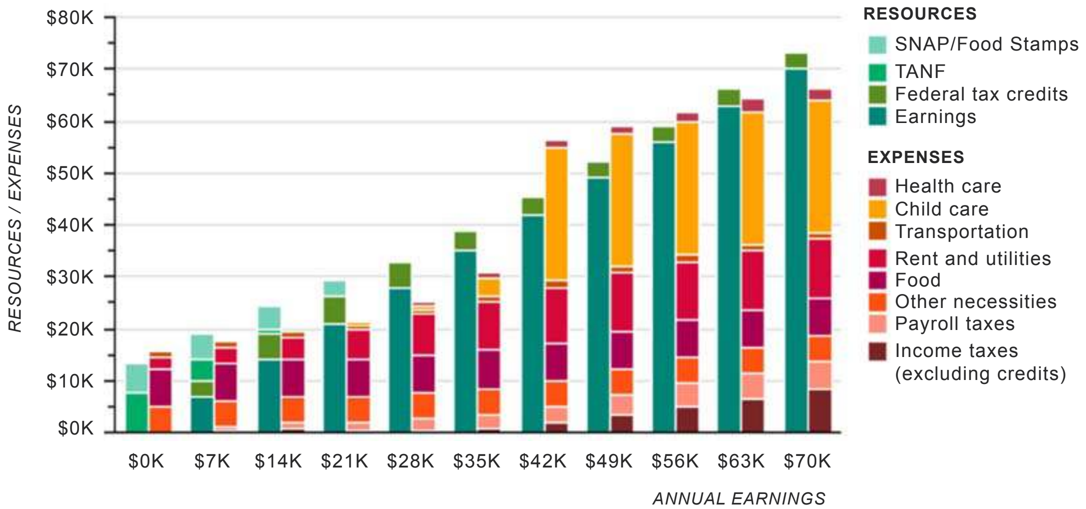

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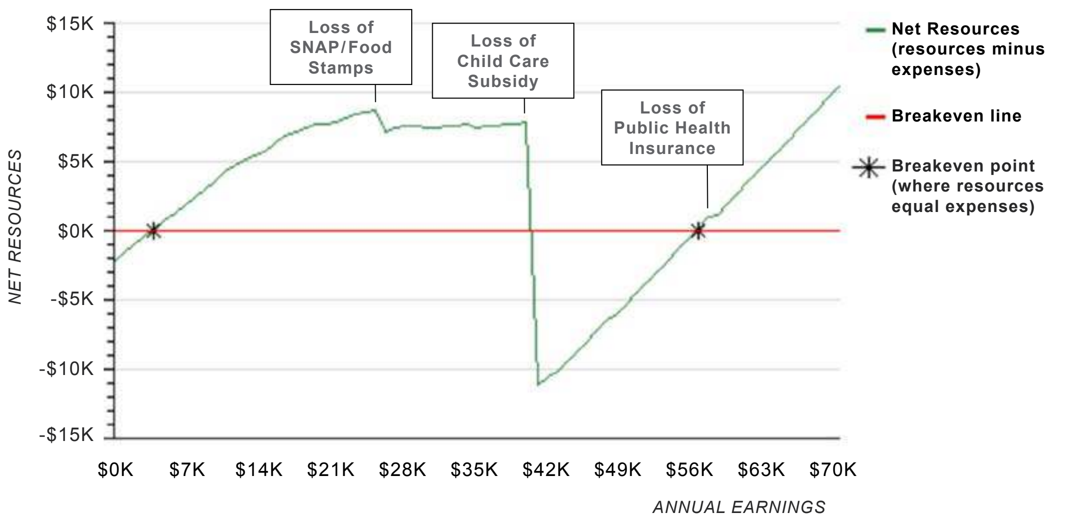
CHART 8

NCCP Family Resource Simulator: Net Family Resources (Resources Minus Expenses)

Two-Parent Household, Two Children, Ages 2 & 4 – *$10 PER HOUR*



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COMMENTARY: $10 PER HOUR

In a two-parent household, the need for child care begins at higher levels of earnings because it is presumed that one parent stays home at least part of the time at first (i.e., it only takes one earner to meet the lower levels of annual earnings). As annual earnings increase beyond $20,800 – or what a single full-time workers makes at $10 per hour – the second parent begins moving into the workforce at the same wage as the first parent to make those additional earnings, precipitating a need for child care. Earnings beyond what can be earned by two parents working full-time at $10 per hour are accounted for by increased wages. In this scenario we see that net household revenue plateaus after the loss of SNAP (the first, small benefit cliff): between earnings of roughly $28,000 and $41,000, household net revenue essentially stays flat as benefits start to decrease to offset earnings gains until the child care benefits cliff is reached at about $41,000 (200% FPL for a family of four). At that point the hypothetical household experiences a major child care benefits cliff, falling immediately to negative net resources of $10,000. The family reaches the break-even point near the $56,000 mark (the equivalent of each parent earning about $13.50 per hour working full-time) and must approach earnings of $70,000 (the equivalent of each parent earning about $17 per hour working full-time) to experience the same level of net revenue as just prior to the child care benefits cliff precipice.

CHART 9

NCCP Family Resource Simulator: Family Resources & Basic Expenses

Two-Parent Household, Two Children, Ages 2 & 4 – *$15 PER HOUR*

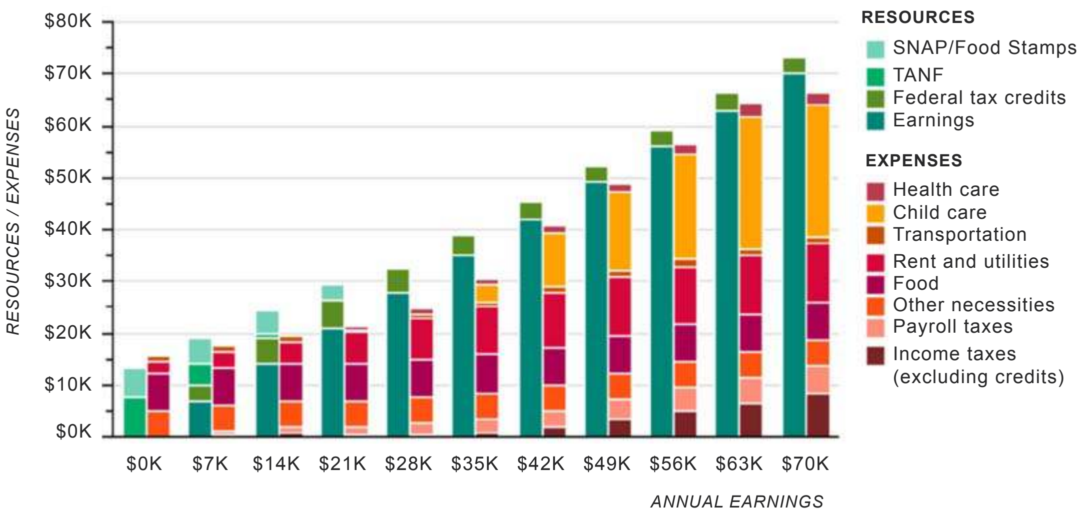
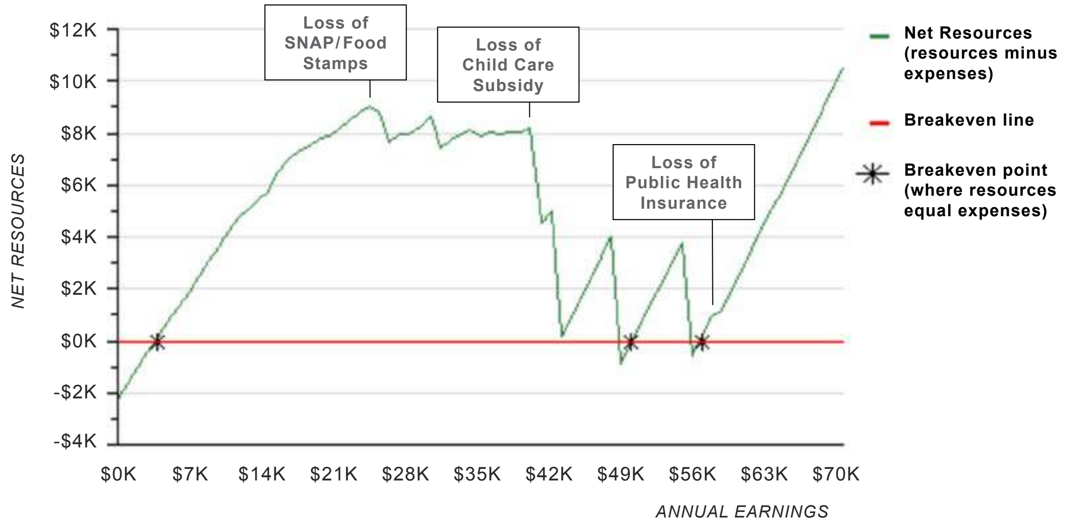


CHART 10

NCCP Family Resource Simulator: Net Family Resources (Resources Minus Expenses)
Two-Parent Household, Two Children, Ages 2 & 4 – *$15 PER HOUR*



COMMENTARY: $15 PER HOUR

With a higher starting wage of $15 per hour, the two-parent family in this scenario is significantly better off than the one starting at $10 per hour. As illustrated in in the *Family Resources & Basic Expenses* graph, the family's net resources are essentially positive at each earnings level depicted. A more nuanced picture is provided by the *Net Family Resources* line graph, which shows that net income does dip into negative territory at two intervals very briefly and to a very limited extent. What is occurring here is essentially a consequence of the higher starting wage. With the first earner starting at $15 per hour, the second parent need not begin working (also starting at $15 per hour) until household income has exceeded the $31,000 mark. When the child care subsidy is lost at roughly $41,000 (and a significant benefits cliff experienced) the second parent is working less than one-third time, such that more limited child care is required. After the child care benefits cliff, the line graph portrays a period of fluctuation of net resources as the second parent increases his or her hours, earning more but precipitating higher child care expenses that are no longer subsidized. Once family earnings reach about $58,000, roughly the time when both parents are working full-time at $15 per hour, however, the two-parent household's net resources begin to rapidly increase with any additional wage increases received.

CHART 11

NCCP Family Resource Simulator: Family Resources & Basic Expenses

Two-Parent Household, Two Children, Ages 2 & 4 – *$20 PER HOUR*

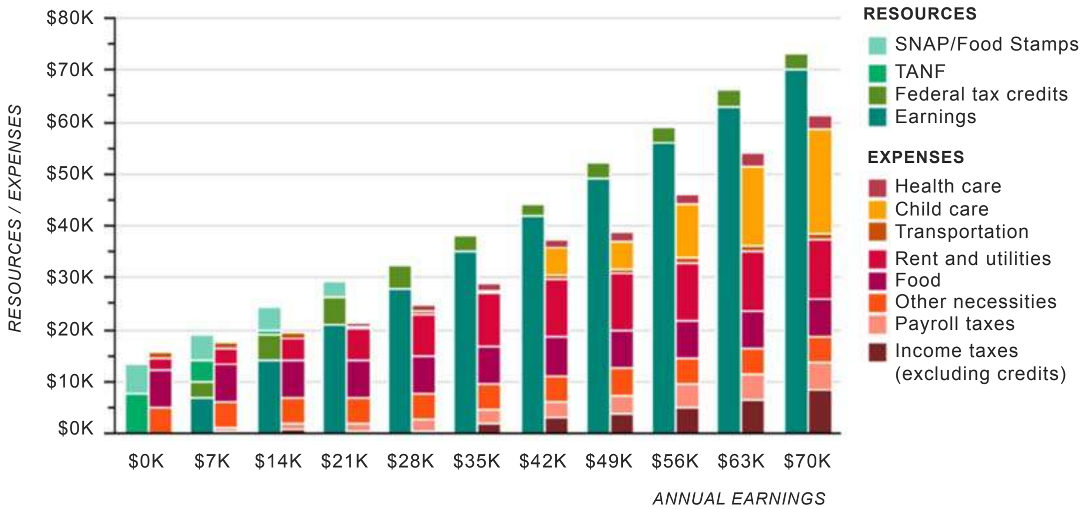
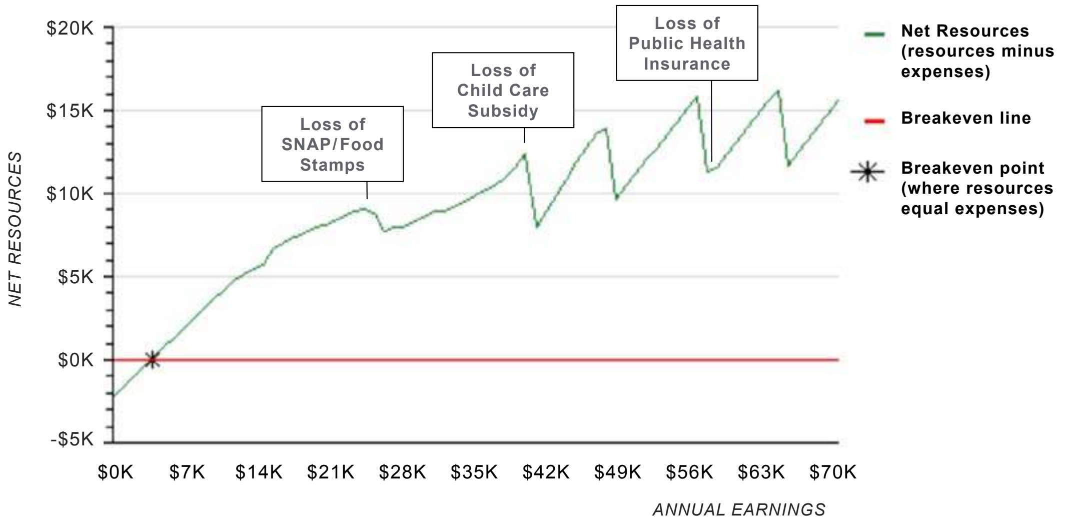


CHART 12

NCCP Family Resource Simulator: Net Family Resources (Resources Minus Expenses)

Two-Parent Household, Two Children, Ages 2 & 4 – *$20 PER HOUR*



COMMENTARY: $20 PER HOUR

The impact of a $15 per hour starting wage on the dynamics of a two-parent household's net resources – seen in the previous set of graphs – is even greater at a $20 per hour starting wage. Again, the key factor at play here is the ability of one parent to handle child care duties full- or part-time – and avoid child care expenses – until a higher level of annual earnings is reached, due to the higher starting wage level. With the first earner starting at $20 per hour, the second parent need not begin working (also starting at $20 per hour) until household income is roughly at the level when the child care subsidy is lost at $41,000. In this case, however, the child care benefit cliff is minimal because the second parent is working a very limited number of hours and can still provide most of the child care. From here – as illustrated by the *Net Family Resources* line graph - there is a period of fluctuation of net resources as the second parent increases his or her hours, earning more but precipitating higher child care expenses that are no longer subsidized. However, the family's net annual resources remain well into the positive and generally continue on an upward trajectory as the second parent increases his or her hours.

SCENARIO 6: SINGLE PARENT, THREE CHILDREN, AGES 2, 4 & 6

Scenario 6 depicts a single-parent household with three children, two of whom require full-time daycare and the third of whom is school-age and requires only part-time child care. For this scenario, we utilized exclusively the NCCP calculator, and entered assumptions for the family include the following:

- **No savings or vehicles, thus qualifying for more benefits but requiring public transportation.**
- **Fair market rent (prior to subsidies) of $942, as determined by U.S. HUD**
- **No debt and no child support payments owed/received**
- **Food: low-cost food plan as determined by U.S.D.A. (NCCP only)**
- **Employer-based healthcare (with estimated premiums owed) once worker no longer qualifies for public health insurance (NCCP only)**
- **Child care (prior to subsidies received by the family) of $2,126**
- **Working full-time (NICC only; see comments above on "starting wage rate" for NCCP)**

CHART 13
NCCP Family Resource Simulator: Family Resources & Basic Expenses
Single Parent, Three Children, Ages 2, 4 & 6

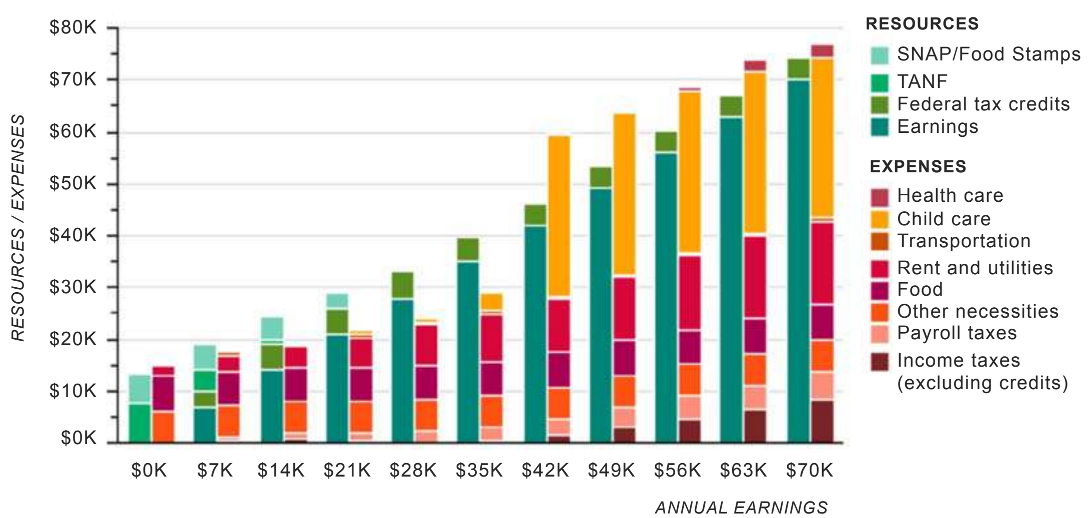
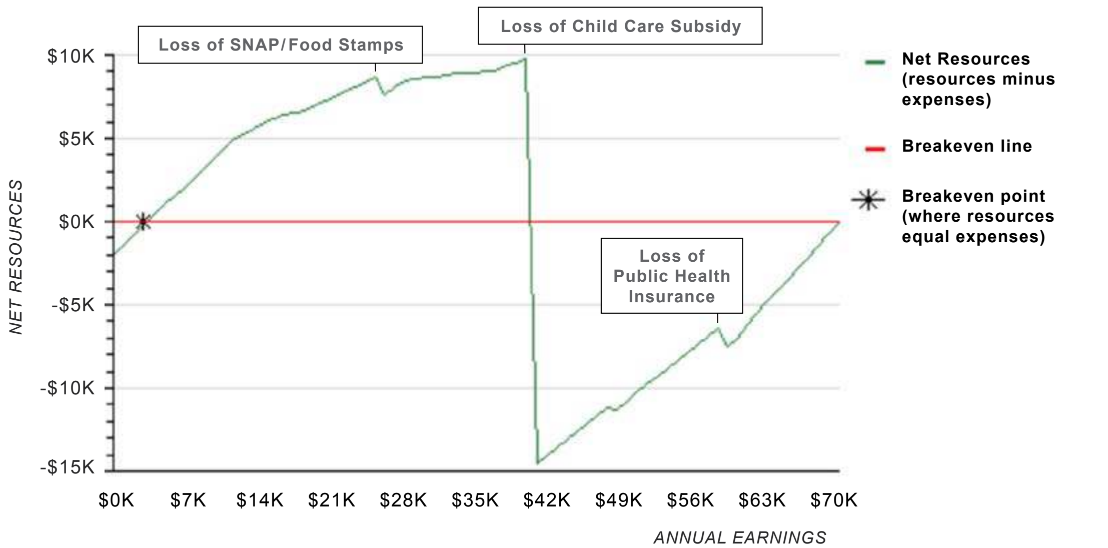


CHART 14

NCCP Family Resource Simulator: Net Family Resources (Resources Minus Expenses)
Single Parent, Three Children, Ages 2, 4 & 6



COMMENTARY

This final scenario is included to demonstrate the increasing impact the number of children requiring child care will have on a household's net resources as earnings increase. In this scenario, the child care benefits cliff creates a negative net annual income of nearly $15,000 beginning when household earnings approach $42,000. Even at $70,000 annual household earnings, the family requiring this level of child care has not reached the break-even point.

Potential Impact of Seattle's Minimum Wage Ordinance on Benefits Cliffs

In June of 2014, the City of Seattle passed legislation to raise Seattle's minimum wage to $15 per hour. The increase will be phased in over time, beginning in April 2015 and continuing through 2021, based on schedules dependent upon employer size. Employers with fewer than 500 employees must incrementally ramp up to a $15 minimum wage in seven years; employers with more than 500 employees must do so in three years. The impact of this legislation – in conjunction with public benefits – on the ability of Seattle's low-income families to reach economic self-sufficiency, will be partially contingent on the "adjustment channels" employers pursue in response to the mandate to pay their workers more per hour.[65] For example, employers may employ fewer workers, or offer workers fewer hours or benefits,[66] either of which would certainly affect low-income workers. Setting these potential labor market demand-side impacts aside, it is valuable to simply examine what happens to low-income families' net resources assuming workers are able to work full-time, starting at a $15 per hour wage and advancing to higher wages from there.

For single adults without children, the move to a $15 per hour minimum wage is purely beneficial. Because these workers receive few public benefits, benefits cliffs are not a major issue, and consequently they are able to keep what increases in earnings they receive. In short, as shown in Table 11, each higher-wage increment leads to greater net resources. For single parents, the picture is different. Tables 12-14 and Charts 1-6 and Charts 13-14 tell the tale. Earning $15 per hour instead of $10 per hour (close to the current minimum wage) leads to few improvements in net earnings for these parents because they qualify for fewer benefits at this higher wage level. They are receiving more limited subsidies and incur higher tax burdens as they earn more while their EITC benefit phases down. Importantly, working full-time earning $15 per hour – or just over $31,000 per year – puts single parents very close to the point where they will lose child care subsidies. Consequently, with just a small increase in wages beyond $15 per hour, they will fall off a substantial benefits cliff. From there, they will not recover to the same level of net resources until they are earning at least $25 - $30 per hour.

Two-parent families will clearly benefit from a $15 minimum wage, as can be seen when comparing Table 15 and Charts 7-12, in the previous pages, pertaining to a hypothetical two-parent family with two preschool-aged children. A higher starting wage means that a two-parent family can make the same level of earnings as they would at a $10 per hour wage working fewer hours, such that expenses for child care will be less once the child care benefit is lost as the family reaches the 200% federal poverty level cut off. As the second parent begins to work a greater number of hours, precipitating greater unsubsidized child care costs, the higher wage levels of both parents essentially keeps the family from falling below the "break even" line and having negative net resources.

RECOMMENDATIONS & CONCLUSION

The public benefits system in the U.S. has improved in its capacity to support low-income individuals and families as they transition to more work and better wages. Yet it remains the case that the interplay of the different phase-out ranges of these benefits programs creates situations where families' earnings gains are offset, at least partially, by losses of benefits, such that families may be only modestly better off, or even worse off, as their earnings increase. What our system of public benefits does fairly well is to support very-low income individuals and families as they begin to enter the workforce and still have very limited earnings. Benefits cliffs still remain a significant challenge for families at earnings levels that are higher but still fall short of self-sufficiency. To address these cliffs in a meaningful way, a policy solution is ultimately required. The Center for American Progress summarizes:

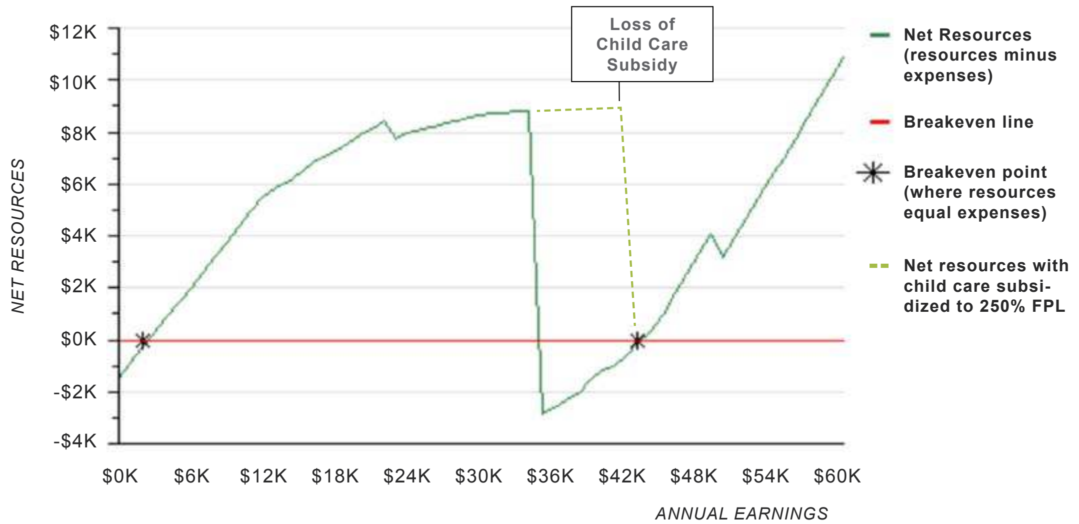
> **One way to smooth remaining benefit cliffs is by tapering off benefits more slowly with each additional dollar of income so that advancement in the workplace is accompanied by a gradual reduction of benefits that avoids disruptions that can set families back. To be effective, this policy would require additional investments so that benefits extended further up the income scale to cover more low- and moderate-income families transitioning to the middle class, without cutting benefit levels for families at the very bottom of the income scale…[67]**

As set forth in this research, by far the most substantial benefits cliff presently existing in Washington State occurs where families lose access to subsidized child care when they reach 200 percent of the federal poverty level. Child care is a huge expense for families, especially those with very young children, and public assistance for child care is quickly phased out well before most low-income families reach a self-sufficiency level of earnings. What if a greater investment were to be made to subsidize child care to a higher level of earnings? **Chart 15**, on the following page, revisits the hypothetical single-parent family with two children, ages 3 and 6. The dotted line illustrates what would occur if child care were to be subsidized up to 250 percent FPL, or roughly $43,000 at the 2007 FPL levels utilized for the NCCP Family Resource Simulator for Washington State. While the family still experiences a steep drop-off in net resources at the newly-increased earnings level due to the child care benefits cliff, it never falls below the break-even point, and more quickly recovers to its pre-benefits cliff level of net resources. This one policy change, though costly, would thus have a substantial impact on reducing benefits cliffs for families with children and helping them continue to be self-sufficient as their earnings increase.

CHART 15

NCCP Family Resource Simulator: Net Family Resources (Resources Minus Expenses)

Single Parent, Two Children, Ages 3 & 6 – *Child Care Subsidized to 250% FPL*



Outside of significant policy changes like this, it is valuable for workforce development and other social service systems serving low-income families to simply be aware of the existence of benefits cliffs, and more broadly, of the level of resources required in their localities for different types of families to achieve self-sufficiency, as well of the interplay of earnings and public benefits in reaching self-sufficiency. From a practical standpoint, providers within these systems should seek, to the extent possible, to eliminate or reduce any benefits coverage gaps by helping participants to enroll in the benefits programs for which they are qualified. Moreover, they should seek to ensure that they are working with and supporting families for a sufficient length of time to help them reach a level of earnings where they have moved beyond benefits plateaus and cliffs to become truly self-sufficient.

APPENDIX A

THE SELF-SUFFICIENCY STANDARD FOR KING COUNTY (CITY OF SEATTLE), WA, 2014[68]								
MONTHLY COSTS	**Adult**	**Adult + Preschooler**	**Adult + Infant Preschooler**	**Adult + Preschooler School-age**	**Adult + School-age Teenager**	**2 Adults + Infant**	**2 Adults + Preschooler School-age**	**2 Adults + Infant Preschooler School-age**
Housing	$945	$1,163	$1,163	$1,163	$1,163	$1,163	$1,163	$1,714
Child Care	$0	$1,093	$2,400	$1,733	$640	$1,307	$1,733	$3,040
Food	$281	$426	$559	$642	$742	$680	$880	$974
Transportation	$99	$99	$99	$99	$99	$198	$198	$198
Health Care	$113	$395	$407	$413	$442	$454	$469	$482
Miscellaneous	$144	$318	$463	$405	$309	$380	$444	$641
Taxes	$268	$678	$1,065	$868	$561	$743	$854	$1,423
Earned Income Tax Credit (-)	$0	$0	$0	$0	$0	$0	$0	$0
Child Care Tax Credit (-)	$0	($50)	($100)	($100)	($50)	($50)	($100)	($100)
Child Tax Credit	$0	($83)	($167)	($167)	($167)	($83)	($167)	($250)
SELF-SUFFICIENCY WAGE								
HOURLY	**$10.51**	**$22.94**	**$33.46**	**$28.73**	**$21.25**	**$13.61 per adult**	**$15.56 per adult**	**$23.08 per adult**
MONTHLY	**$1,850**	**$4,038**	**$5,889**	**$5,057**	**$3,740**	**$4,792**	**$5,476**	**$8,123**
ANNUAL	**$22,199**	**$48,455**	**$70,666**	**$60,680**	**$44,877**	**$57,509**	**$65,716**	**$97,474**
EMERGENCY SAVINGS (Monthly Contribution)	**$43**	**$96**	**$151**	**$125**	**$99**	**$58**	**$70**	**$97**

SOURCE: Seattle-King County Workforce Development Council (November 2014)

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