

## **Testimony of Randy Albelda regarding S 79 and H 2807– An Act relative to public assistance for working families and the creation of a pilot program to address the impacts of cliff effects**

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I am a Professor of Economics and Senior Research Fellow at the Center for Social Policy at the University of Massachusetts Boston. I am a labor economist and for the last 30 years I have written, researched, and taught extensively about a range of economic issues facing women and families in the United States and Massachusetts. I have done considerable research on the impacts of cliff effects in Massachusetts, including co-developing a simulator that tracks the degree to which families gain or lose resources as earnings increase. I am the co-author of the presentation “[Between a Rock and Hard Place: A closer Look at Cliff Effects in Massachusetts](#)” and the article [Combining Earnings with Supports: Cliff Effects in Massachusetts](#) published in the Federal Reserve Bank of Boston’s journal Communities and Banking

### **What are cliff effects?**

Cliff effects refer to the drop in public supports that occur when earnings go up. Cliff effects *only* affect families and individuals that have earnings and public supports. When earnings reach the point when a support stop, families can face a steep cliff-like drop in their resources. But more often the cliff effect is like a hill, because for most supports benefits fall gradually as earnings increase. Whether steep or more gently sloped, the reduction in supports make workers feel like they are running in place or even worse off when they think they should be getting ahead by earning more.

### **Who are most likely to face cliff effects?**

Working families with young children, especially single parent families, are the most likely to receive more than one support and as such are more likely to face cliff effects. This is because single parents are the most likely family type to be low-income and therefore eligible for supports. Further, many support programs have been specifically targeted to poor and low-income families with children such as child care assistance, SCHIP (State Children’s Health Insurance Program), and cash assistance. Finally, the professionals with which low-income parents often interface with in schools and health care centers do outreach to enroll families into programs for which they are eligible.

Cliff effects have become a much more pressing public policy problem since 1995 welfare policies changes in Massachusetts that were specifically designed to promote employment among low-income single parents. Job search or employment for single parents whose youngest child in older than two years old is mandatory and there is a life time limit for receipt of cash assistance. At the same time and in recognition of increased employment demands, the Federal government increased EITC (Earned Income Tax Credit) levels and expanded Medicaid

eligibility for children through SCHIP. And employment among low-income single mothers is high. Currently, two-thirds of single mothers with incomes of no more than 200 percent of the federal poverty line are employed.

### **Why are there cliff effects?**

Anti-poverty programs are intended to alleviate poverty by providing poor families with assistance in securing basic necessities. This assistance comes in the form of cash (e.g. TAFDC (Temporary Assistant to Families with Dependent Children) and the EITC), vouchers (child care) or subsidies (housing assistance) or the ability to purchase a specific need (e.g. SNAP (Supplemental Nutritional Assistance Program) and MassHealth and the Connector programs). All of these public support programs, with the exception of EITC, provides their maximum level of benefit when earnings are zero. As earnings increase, the amount of assistance falls.

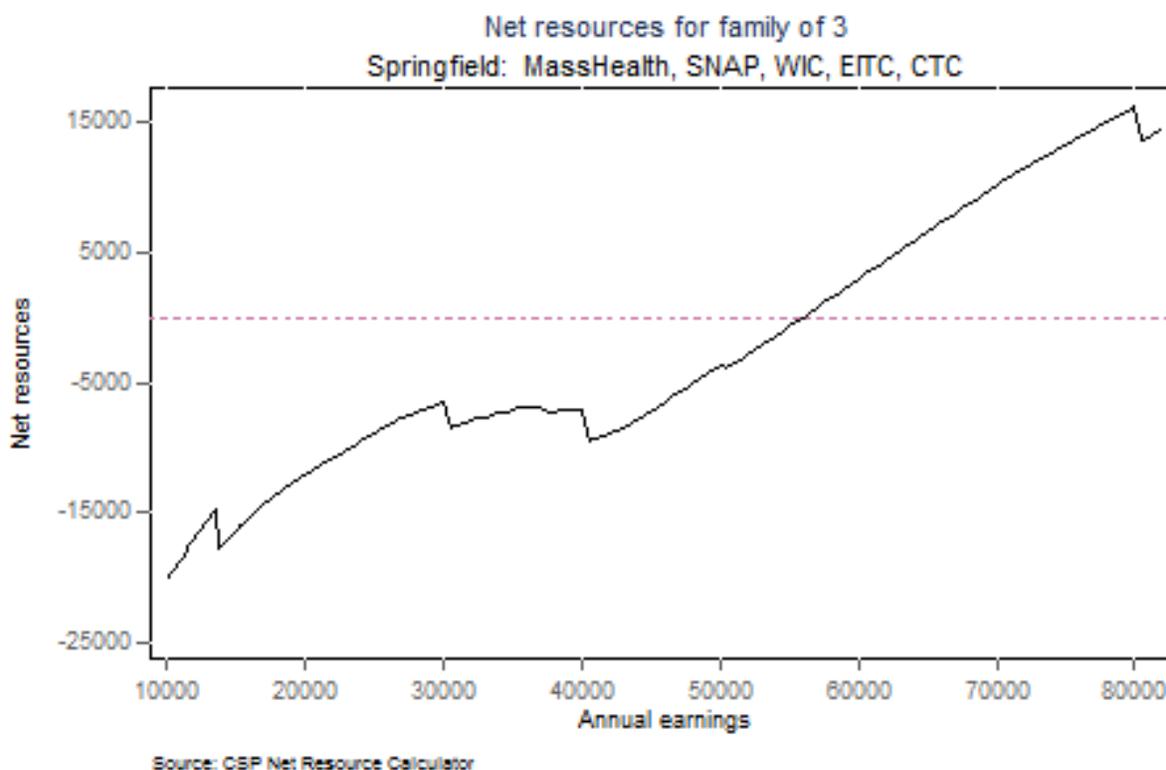
There are three crucial interrelated aspects involved in understanding the problem of cliffs. The first is the very high cost of basic needs for parents in Massachusetts. Child care and housing costs are among the highest in the nation. A relative modest budget reveals these two costs require about \$30,000 after taxes for a family with 2 children (one school age and one toddler). The second is that single parents earn less than other adults, in part because they are mostly women (and the pay gap still exists) but mostly because they are one adult that must perform two jobs – earning a wage and taking care of a family. This limits employment hours and flexibility which results in lower wages. The third is that anti-poverty public supports phase out far below the levels it takes to pay for basic needs. The high cost of living and the inability to earn a high enough wage to purchase basic needs necessitates the need for public supports. But these supports phase out often together and below levels that make a family financial stable.

### **Where along the earnings spectrum are there cliffs effects?**

Where along the earnings continuum families experience sever cliff effects depends on family size and which and how many supports receives. Many programs have eligibility pegged to the poverty income threshold or median family income so that different family sizes face different income eligibility thresholds and benefit levels – even if the sole worker in the family earns the same amount. Further, each anti-poverty program has its own income and work eligibility requirements, way to determine “net” income, reporting requirements, and distinct phase out mechanisms. Programs are administered by different state agencies. Getting benefits and keeping them can be a job in itself. Understanding how they interact with one another and change as earnings increase is exceptionally difficult. For example, the SNAP program allows a family to deduct the cost of child care from income when determining income eligibility. If a family receives a child care subsidies, higher earnings could possibly bring a higher level of SNAP benefits as this would result in an increased child care co-pay. Without a child care subsidy, the increase in earnings would bring a lower level of SNAP benefits (as would a child that moves from family care to a public school pre-K program).

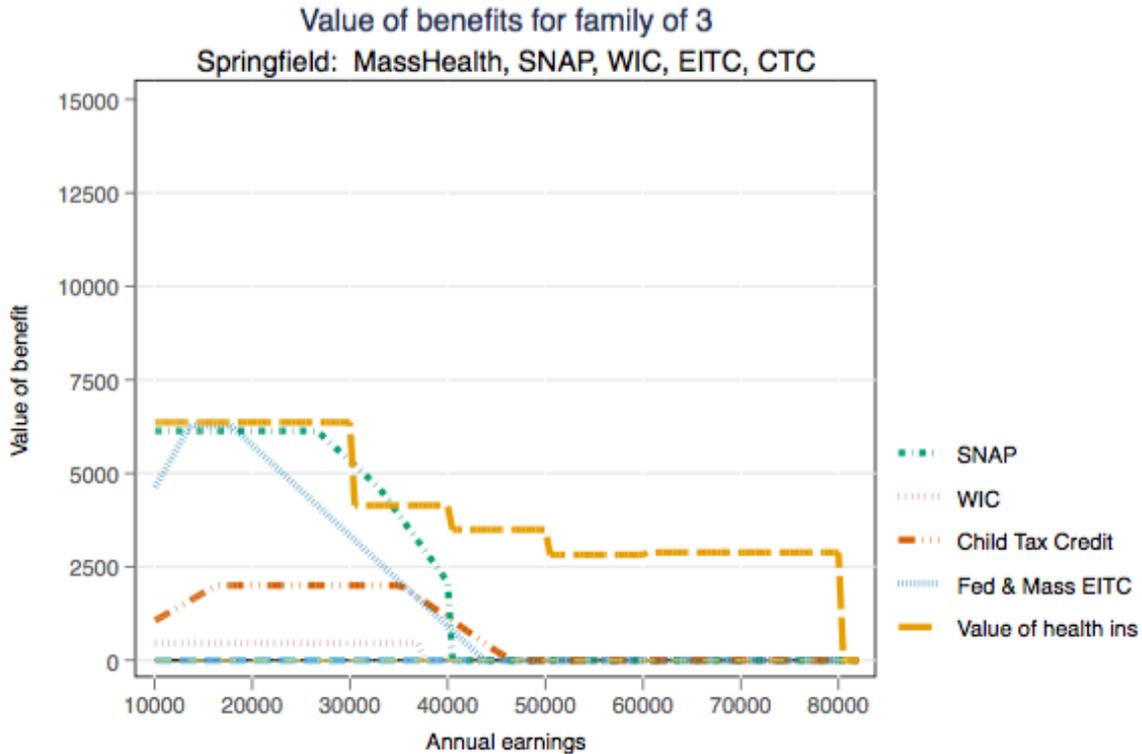
Cliff effects become most problematic when earnings increase and several supports are reduced at the same time. This tends to occur most often between 100% and 250% of the poverty income threshold as many of the programs phase out or end within those income ranges.

The figure below illustrates the cliff effects for a Springfield single parent with two children ages 4 and 9 receiving the sets of public supports that if eligible he or she should be able to get. This includes refundable tax credits, SNAP and WIC, and MassHealth or the Health Connector program. Net resources equal after-tax income minus the typical cost of necessities. The value of public supports are included either in income (in this case the value of EITC and child tax credit (CTC)) or as a reduction of the cost of necessities (in this case a reduction in food costs due to SNAP and WIC receipt and the cost of employer-based health insurance due to MassHealth or Connector receipt). The typical costs of necessities come from the MIT Living Wage Calculator from 2015 for Hamden County.



The federal poverty line (FPL) or income threshold for a family of 3 in 2015 was \$20,090.. For context, a parent working full-time at the current minimum wage of \$11/hour makes about \$22,000 a year. The first important thing to notice from this figure is that if this family pays the typical cost for housing, child care, medical expenses, food, transportation, and minimal miscellaneous costs, they will not break even until about \$55,000 a year (requiring a \$27.50 an

hour wage). Housing and child care costs account for about 50% of that family’s expenses. The second important information here is that this family faces pronounced cliffs between \$30,000 and \$40,000 a year (150% to 200% of the FPL). Net resources actually fall in that range, only to be recovered at about \$45,000. The figure below helps in understanding why. At \$30,000 of income all of the supports that family receives are falling as earnings increase.



**Why is this a problem?**

Low-income parents want what all parents want – stable income and a secure living situation that can provide a healthy and enriching environment for their children. The high cost of child care and housing coupled with low wages makes this nearly impossible in Massachusetts for many families with children. Public supports help, but as shown above, they end or phase out far below what it takes to pay the typical cost of living. This is foremost a problem for single parent families that typically do not have an additional adult around to either earn more income or take care of children. At levels of earnings below the typical cost of living, they must do without, find below market housing and child care, and/or borrow money. These solutions are typically ones that easily compromise a healthy and enriching environment. This also creates a dilemma around employment. Should a single parent take a raise or work more hours if he or she knows this won’t put the family ahead in terms of resources? This is also a problem and dilemma for employers and the Commonwealth. Parents that would work more or move up the career ladder might not do so because of cliff effects, This reduces their future earnings potential, stymies employers, and negates the impact of workforce development and anti-poverty efforts.

Anti-poverty programs intended to promote employment may in fact be discouraging it, not because parents do not want to get ahead but because they cannot.

### **What can be done?**

Cliff effects are a difficult and tenacious problem. They are the result of the high costs of living and raising children coupled with a support system that phases out far before economically secure levels. The obvious answer is to provide reduce costs which would be best achieved through universal health insurance and early education and care. Reducing the cost of employment and raising children would go a very long way in alleviating cliffs. These supports also have the benefit of reducing poverty, along with income inequality and gender inequality. They also would improve economic growth. So while on the surface this solution seems costly, it is clear that the current situation is also costly.

Short of universal programs, another solution is to increase eligibility income levels so that the supports phase out or stop at higher income levels in which a family can meet basic needs.

**Senate Bill 79 and House Bill 2807** provide for a pilot program which in effect increases the eligibility income levels by allowing a parent worker to maintain their current level of benefits while earning more. The pilot also provides for social support services through a case manager which can help families navigate cliffs and other bumps in the road. The pilot creates positive incentives for low-income employed parents to take on more hours or accept a job promotion that comes with increased earnings (however, these incentives would be improved even more if parents were not forced to save a portion of the increased earnings). The pilot will also provide valuable and currently unknown information about how families react to the cliff effects.