

Vermont House Committee on Human Services  
Testimony of Heather Hahn  
Senior Research Associate  
The Urban Institute  
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Madam Chair and Members of the Committee:

My name is Heather Hahn. I am a senior research associate at the Urban Institute, a nonprofit, nonpartisan research organization. The views I express are my own and should not be attributed to the Urban Institute, its trustees, or its funders.

I appreciate the opportunity to testify on H.790 (“An Act related to Reach Up Eligibility”) and, more generally, on the “benefits cliff” and work incentives that Reach Up participants experience as they strive for self-sufficiency. These are important issues to consider. As Vermont seeks to provide cash assistance to families in need while at the same time encouraging and rewarding work, the key policy levers are those addressed in this legislation: “asset tests” and the “earned income disregard.” In this testimony, I first will briefly explain how these policies reduce the benefits cliff and promote work. Second, I will place Vermont’s Reach Up rules in the context of other states’ TANF rules. Finally, I will discuss other important issues to consider in conjunction with changes in these rules.

“Asset tests” refer to how the Reach Up program regards a family’s assets when determining eligibility and benefits. The principle behind asset tests is to ensure that participating families are needy. However, restrictive asset tests create disincentives for participants to save money that will help them transition off cash assistance or acquire assets (like a car) that could help them get and keep jobs. “Earned income disregards” refer to how participants’ earnings reduce the amount of the family’s financial assistance grant. The more a participant’s earnings reduce the grant amount, the less incentive she has to take a higher-paying job, work more hours, or accept a raise. When a participant’s earnings exceed Vermont’s \$200 earnings disregard, any additional dollar she earns reduces her grant.

Compared with other states’ TANF rules, many of Vermont’s Reach Up program rules provide relatively strong support for low-income families. For example, Vermont’s Reach Up program serves over half the poor families in the state, more than all but two other states. In addition, the maximum grant amount that Reach Up families can receive is the eighth-highest in the nation. However, Vermont’s asset test is relatively restrictive, making it harder for Reach Up participants to save money for emergencies, such as car repairs or medical bills. Only seven states have more restrictive asset tests. Seventeen states share Vermont’s \$2,000 asset limit. If Vermont eliminated the asset test as proposed, it would join five other states that currently have no asset limit. Three of these states eliminated their asset tests within the last 5 years. Vermont’s current vehicle asset limit, which allows one vehicle per adult, is similar to rules in four other states. Eighteen states have no limit on vehicles, as proposed here. The remaining 27 states have more restrictive vehicle limits, such as one per household or a limit on the dollar value of the vehicle.

Comparing Vermont's earned income disregard with those in other states is somewhat complicated, but Vermont's rule is among neither the most nor least restrictive. Some states allow TANF families to keep a percentage of their earnings and other states allow them to keep up to a fixed dollar amount. Vermont allows Reach Up families to keep up to \$200 of their earnings. This earnings disregard is relatively high for states with fixed dollar amounts. However, about five states disregard 100 percent of earnings. While it is difficult to compare the amount of the disregard without knowing the individual's wages, in principle disregarding a percentage of earnings rather than a set amount can create a greater incentive to work.

Vermont's Reach Up program has an average share of participants engaged in unsubsidized employment, but incentives could help increase hours and earnings. Vermont ranks 31st in the nation in earned income among participants and 45th on average hours worked per week among those who are employed.

As Vermont considers changing the Reach Up program's asset tests and earned income disregards, it is critical to consider these changes in the context of other work supports available to low-income families. As families transition off Reach Up, their continued success likely will depend in part on whether they are able to continue receiving SNAP, Medicaid, child care subsidies, and other supports. Losing access to these benefits, whether because of income changes or because of procedural issues that make it difficult for families to continue receiving benefits for which they are eligible, exacerbates the cliff effect of losing the Reach Up grant.

Even when families continue receiving these other supports, however, changes in a family's Reach Up grant amount or earnings will affect their SNAP benefits, child care subsidies, earned income tax credit, and other work supports. The calculation of whether an increase in the Reach Up grant or earnings will produce a net loss or gain in family income is complicated. These complicated issues should be considered so Vermont is reasonably certain that the rule changes indeed reduce the cliff effect and reward work.