Work Supports in Vermont

An Analysis of the Effectiveness of State Policies Supporting Work

Prepared for the Vermont Department for Children and Families

by

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December 2008

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VERMONT
AGENCY OF HUMAN SERVICES
DEPARTMENT FOR CHILDREN & FAMILIES

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Introduction

Nearly 30 percent of Vermont's children – 37,550 – live in low-income families. The vast majority of these children have working parents: 55 percent have a parent who works full-time; another 32 percent have a parent who works part-time.[1] But in Vermont, as in other states across the country, full-time work at low wages is not enough to provide for a family.

"Work supports" – such as earned income tax credits, public health insurance, and child care assistance – can help families close the gap between low wages and the cost of basic necessities. But few families receive all of the benefits for which they are financially eligible. And families who do receive multiple supports often find that since eligibility for work supports is means-tested, increases in family earnings can lead to significant reductions in benefits. In some cases, despite increased earnings, a raise can actually leave families worse off.

The Family Resource Simulator: A Policy Analysis Tool

This report uses results from NCCP's Family Resource Simulator, a web-based policy analysis tool designed for policymakers, administrators, advocates, and researchers. The Family Resource Simulator:

- Illustrates how a hypothetical family's resources and expenses change as earnings increase, taking public benefits into account.
- Demonstrates the effectiveness of current policies in rewarding and supporting work.
- Models the impact of potential policy reforms.

Family Resource Simulators are currently available for 20 states and more than 100 localities. The Vermont Family Resource Simulator includes six counties: Chittenden, Lamoille, Orleans, Rutland, Windham, and Windsor.

The Family Resource Simulator is funded by a grant from the Annie E. Casey Foundation. It is available for public use on NCCP's website at <www.nccp.org/tools/frs>.

This report analyzes the effectiveness of state and federal work supports in Vermont. The analysis is guided by the premise that a comprehensive work support system should achieve three goals:

1. **Incentivize work.** For adults who are able to work, there should be incentives to do so and penalties for not working.
2. **Provide adequate family resources.** If parents work full time, their earnings combined with public benefits should be sufficient to cover basic family expenses.
3. **Reward advancement in the workforce.** When parents increase their earnings, their families should always be better off.

The report is organized as follows:

- Part I of the report first discusses how much families need to cover the cost of basic daily necessities *without* work supports and then analyzes the impact of work supports on families' ability to make ends meet and to advance in the workforce.
- Part II examines individual policies and issues in greater depth, identifying specific policy reforms that would better encourage and reward work.

The report's findings are based on analysis of results from the Family Resource Simulator developed by the National Center for Children in Poverty (NCCP). (For more information about the Family Resource Simulator, see box. For details about methodology, see Appendix A.) To capture the variation that exists across the state, data are presented for six Vermont counties: Chittenden, Lamoille, Orleans, Rutland, Windham, and Windsor. These counties were chosen in consultation with representatives from Vermont's Department for Children and Families.

PART I
The State of Work Supports in Vermont

Making Ends Meet in Vermont

To assess the effectiveness of work supports in helping low-wage workers provide for their families, we first need a measure of what it costs to meet basic needs. It is widely agreed that the official poverty measure in the United States is inadequate for this task. For 2008, the federal poverty level is $21,200 for a family of four, which is not nearly enough to provide for a family's basic needs.[2] Further, as a national standard, the official poverty measure does not reflect geographic differences in living costs.[3]

The Cost of Basic Needs

NCCP's Basic Needs Budgets are a better measure of what it costs to maintain a minimally adequate standard of living in the absence of government benefits.[4] These budgets include rent and utilities, food, child care, health care, transportation, payroll and income taxes, and a little more for other necessities (such as clothing and school supplies). Basic Needs Budgets vary by locality and family size and composition. They are "bare-bones" in the sense that they cover only the cost of essential day-to-day expenses. These budgets do *not* include resources to pay off debt, save for an emergency, or invest in the future (such as buying a home or saving for education or retirement). Nor do they include enrichment activities, entertainment, or other expenses that improve a family's quality of life. Note that although the state of Vermont calculates Basic Needs Budgets every two years, the state budgets differ in important respects from those developed by NCCP, despite having the same name.[5]

NCCP's Basic Needs Budgets show that across the selected Vermont counties, a single parent with two young children (one preschool-aged and one school-aged) needs an annual income of about $36,000 to $50,000 to cover the cost of basic family expenses after federal and state income tax credits are taken into account.[6] That's equivalent to the earnings from a full-time, year-round job that pays $17 to $24 an hour (see Table 1; for Basic Needs Budgets for two-parent families, see Appendix B). Differences in housing and child care costs account for most of the variation among counties.

The budgets in Table 1 assume that family members have access to employer-based health insurance so premiums are relatively low. In practice, the majority of low-wage workers lack such coverage.[7] If we were to assume that parents had to pay for private non-group insurance for their families – since the majority of low-wage workers don't have health insurance through their jobs – the premiums would cost about $6,400 more annually.

The Impact of Work Supports

For low-wage workers, federal and state work supports can help narrow the gap between low earnings and the cost of basic family expenses. Table 2 provides a summary of federal and state work support policies in Vermont.

Table 1: NCCP's Basic Needs Budgets in Six Vermont Counties

Single parent with two children, ages 3 and 6

	Chittenden	Lamoille	Orleans	Rutland	Windham	Windsor
Rent and utilities	$12,156	$8,700	$6,912	$8,652	$10,140	$9,192
Food	$5,691	$5,691	$5,691	$5,691	$5,691	$5,691
Transportation	$4,763	$5,419	$5,419	$5,419	$5,419	$5,419
Child care	$13,749	$14,736	$10,201	$11,288	$15,789	$13,616
Health insurance premiums	$2,541	$2,541	$2,541	$2,541	$2,541	$2,541
Out-of-pocket medical	$456	$456	$456	$456	$456	$456
Other necessities	$4,819	$3,886	$3,403	$3,873	$4,274	$4,018
Payroll taxes	$3,786	$3,529	$2,733	$3,157	$3,828	$3,478
Income taxes (includes credits)	$1,533	$1,175	-$1,630	$197	$1,902	$1,051
TOTAL (monthly)	**$4,125**	**$3,844**	**$2,977**	**$3,440**	**$4,170**	**$3,789**
Annual income needed	$49,494	$46,133	$35,726	$41,274	$50,041	$45,462
Hourly wage needed	$24	$22	$17	$20	$24	$22
Percent of the federal poverty level	281%	262%	203%	235%	284%	258%

Source: NCCP's Basic Needs Budget Calculator, Vermont 2008 <www.nccp.org/tools/budget>. Note that income tax calculations reflect the value of all tax credits for which the family is eligible; no other work supports are included.

Table 2: Work Support Policies in Vermont (as of September 2008)

Work support program	Benefit	Income eligibility limits	Limits set at the national or state level	All eligible applicants served?
Child care subsidy program	Child care subsidy	$31,032/year for a family of 3	State	Yes
Food Stamps	Food subsidies (up to $426/month for a family of 3)	130% FPL* before subtracting deductions from income 100% FPL* after subtracting deductions from income Vermont waives the gross income test (130% FPL) for families who receive the state EITC.	National, with some state options	Yes
Section 8 Housing Vouchers	Rental assistance	50% of area median income	National	No
Low Income Home Energy Assistance Program (LIHEAP)	Credit applied to heating bill (average of $1,362 per season for families who pay for fuel – i.e., not included in rent)	Seasonal Fuel Assistance Program: 125% FPL* after subtracting deductions from income Higher limits apply in Vermont's crisis and emergency energy assistance programs.**	State	Yes
Lifeline Telephone Service Credit	Credit applied to telephone service bill (average of $13.50/month)	$20,535/year if filer is under age 65	State	Yes
Temporary Assistance for Needy Families (TANF) Cash Assistance: Reach Up	Cash grants (in Chittenden County: up to $665/month for a family of 3; outside of Chittenden County: up to $640/month for a family of 3)	In Chittenden County: $7,982/year for a family of 3 after subtracting deductions from income*** Outside Chittenden County: $7,684/year for a family of 3 after subtracting deductions from income***	State	Yes

Table 2: Work Support Policies in Vermont (as of September 2008)

Work support program	Benefit	Income eligibility limits	Limits set at the national or state level	All eligible applicants served?
Public health insurance				
Medicaid	Subsidized health insurance for parents and children	Parents and children: In Chittenden County: $13,596/year for a family of 3 after subtracting deductions from income Outside Chittenden County: $12,696/year for a family of 3 after subtracting deductions from income Children (only): 133% FPL* after subtracting deductions from income	State	Yes
Dr. Dynasaur	Subsidized health insurance for children	300% FPL* after subtracting deductions from income	State	Yes
Vermont Health Access Program	Subsidized health insurance for parents	185% FPL* after subtracting deductions from income	State	Yes
Catamount Health Insurance	Subsidized health insurance for parents	300% FPL* after subtracting deductions from income	State	Yes
Federal and state income tax credits				
Federal Earned Income Tax Credit (EITC)	Refundable tax credit (up to $2,853/year for one child; up to $4,716/year for two or more children)	$33,241-$39,783/year depending on family structure and number of children	National	Yes
Federal Child Tax Credit	Partially refundable tax credit (up to $1,000/year per child under age 17)	Gradually phases out to zero beginning at $75,000 or $110,000/year, depending on filing status	National	Yes
Federal Child and Dependent Care Tax Credit	Nonrefundable tax refund (up to $1,050/year for one child; up to $2,100/year for two or more children)	No limit	National	Yes
State EITC	Refundable tax credit: 32% of federal EITC (up to $913/year for one child; up to $1,509/year for two or more children)	$33,241-$39,783/year depending on family structure and number of children	State	Yes
State child care tax credits	Refundable tax credit: (up to $525/year for one child; up to $1,050 for two or more children) Non-refundable tax credit: Credit applied to tax liability (up to $252/year for one child; up to $504 for two or more children)	Refundable tax credit: $29,999-$39,999/year depending on filing status. Child care expenses must be from providers accredited by the VT Agency of Human Services. Non-refundable tax credit: No limit	State	Yes
State Renter Rebate	Refundable tax credit (varies based on annual household income and rent paid)	$47,000/year in adjusted income	State	Yes

Vermont also has a state minimum wage of $7.68/hour (as compared to the federal minimum of $6.55/hour).

*FPL: Federal poverty level in 2008 is $17,600 for a family of three; $21,200 for a family of four. (Note that since eligibility limits for Vermont's public health programs are updated before the official federal poverty levels are released each year, slightly different numbers are used: in 2008, $17,650 for a family of three; $21,250 for a family of four.)

**These programs are not reflected in the results presented in this report.

***In Chittenden County, a single-parent family of three can earn up to about $13,000 a year before deductions and still be eligible for TANF; the figure is about $12,600 outside of Chittenden County. In addition, up to $50 a month in child support payments is disregarded in income and benefit calculations.

As discussed below, participation barriers mean that few families receive all of the benefits for which they are eligible. For those who receive them, however, work supports can make a tremendous difference. Table 3 shows how work supports affect the budget of a full-time worker earning $9 an hour, which is the 20th percentile wage in Vermont.[8] These results are again based on the example of a single parent with two children living in Lamoille County.

Table 3: Impact of Work Supports: Lamoille County, VT

Single parent with two children, ages 3 and 6 (assumes full-time employment at $9/hour)

	Employment alone (no benefits; no tax credits)	Employment *plus*: • federal tax credits • state tax credits • food stamps • LIHEAP • Lifeline phone credit*	Employment *plus*: • federal tax credits • state tax credits • food stamps • LIHEAP • public health insurance • child care subsidies • Lifeline phone credit*	Employment *plus*: • federal tax credits • state tax credits • food stamps • LIHEAP • public health insurance • child care subsidies • Section 8 housing voucher • Lifeline phone credit*
Annual resources (cash and near-cash)				
Earnings	$18,720	$18,720	$18,720	$18,720
Federal EITC	$0	$4,015	$4,015	$4,015
Federal child tax credit	$0	$1,046	$1,046	$1,046
Federal child and dependent care tax credit	$0	$67	$67	$67
VT EITC	$0	$1,285	$1,285	$1,285
VT child and dependent care tax credit	$0	$34	$34	$34
VT renter rebate	$0	$952	$952	$0
Food stamps	$0	$3,913	$3,913	$3,913
LIHEAP	$0	$1,465	$1,465	$751
Total resources	**$18,720**	**$31,497**	**$31,497**	**$29,831**
Annual expenses				
Rent and utilities	$8,700	$8,700	$8,700	$3,117
Food	$5,691	$5,691	$5,691	$5,691
Child care	$14,736	$14,736	$7,371	$7,371
Health insurance premiums	$2,541	$2,541	$300	$300
Out-of-pocket medical**	$456	$456	$0	$0
Transportation	$5,419	$5,419	$5,419	$5,419
Other necessities	$3,886	$3,724	$3,724	$3,724
Payroll taxes	$1,432	$1,432	$1,432	$1,432
Income taxes (excluding credits)	$91	$91	$91	$91
Total expenses	**$42,952**	**$42,790**	**$32,728**	**$27,145**
Net resources (resources - expenses)	**-$24,232**	**-$11,293**	**-$1,231**	**$2,686**

*The value of the Lifeline Telephone Service Credit is subtracted from the cost of "other necessities."

**When all family members are covered by public health insurance, we assume that out-of-pocket medical costs are minimal.

Source: NCCP's Family Resource Simulator, Vermont 2008 <www.nccp.org/ tools/frs>.

- Without the help of tax credits and other work supports, a full-time, year-round job paying $9 an hour leaves the family more than $24,000 a year short of covering a basic budget.
- Combining a full-time job with federal and state income tax credits, food stamps, LIHEAP, and the Lifeline Telephone Service Credit narrows that shortfall significantly. Nonetheless, the family still faces a shortfall of over $11,000 a year.
- A child care subsidy in addition to the other benefits listed above goes a long way toward filling the remaining gap; the family's budget deficit is only about $1,200 a year.
- Adding a housing voucher closes the gap and leaves the family with a small surplus of about $2,700 a year after basic daily expenses are paid. However, the wait list for housing vouchers in Vermont is closed to new applicants; those on the list face a wait of nearly five years.[9]

Do Vermont's Work Supports Reward Employment and Earnings Gains?

Eligibility for work support programs is typically based on income, so as families increase their earnings, particularly above the official poverty level (in 2008, $17,600 a year for a family of three), they begin to lose eligibility for benefits. In some cases, even a very small increase in earnings due to working more hours or getting a raise can lead to a substantial loss of benefits, often known as a benefit "cliff." The result is that parents can work and earn more with no financial gain for their families. Benefit cliffs can leave families substantially *worse off*, despite increased earnings.[10]

Benefit cliffs can be minimized or eliminated by designing work supports to phase-out gradually, as in the case of Vermont's child care subsidy program. A family's contribution to the cost of child care steadily increases so that by the time they reach the eligibility limit, the family is already paying nearly the full cost.

Still, phasing out benefits too quickly can reduce a parent's incentive to advance in the workforce: why accept a promotion and raise that will negatively impact one's financial bottom line? Moreover, when several benefits phase out at once, the impact may be far more severe than policymakers intended. For example, if three benefits each phase out at a rate of $.30 for each $1 of earnings, the cumulative effect would be a loss of $.90 in benefits for each additional dollar earned.

A Prototypical Single-Parent Family of Three

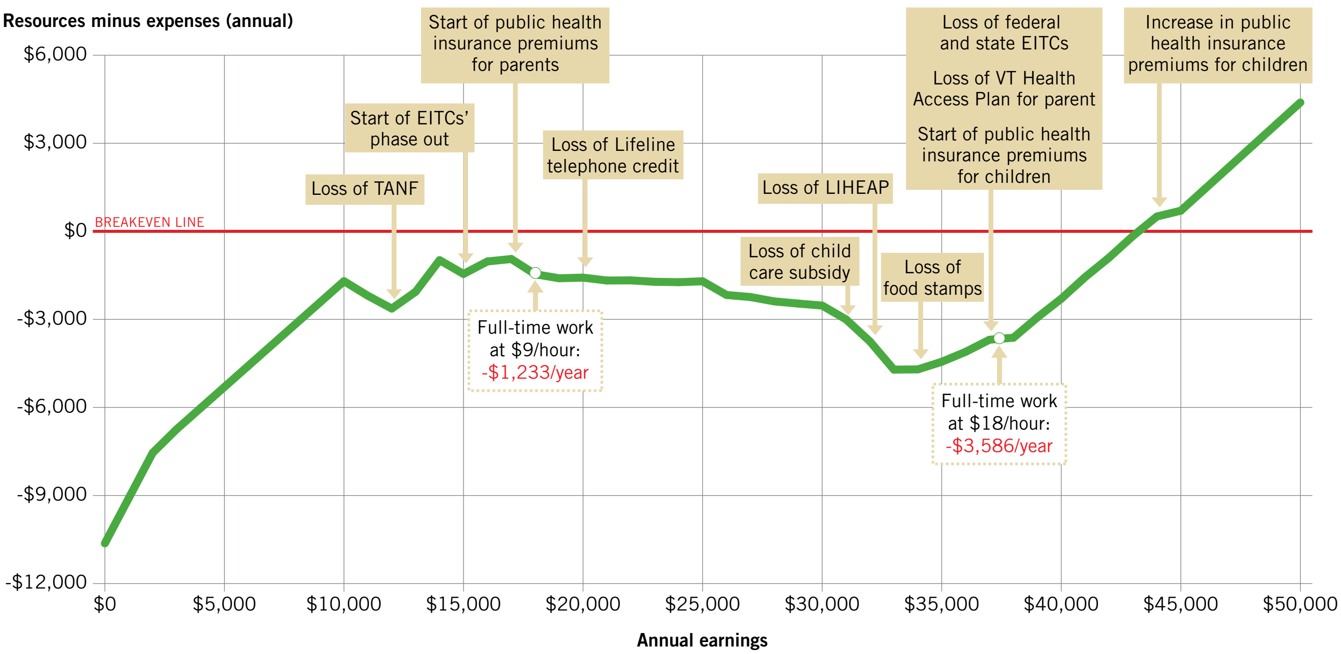
Returning to the example of a single parent with two young children (one preschool-aged and one school-aged) living in Lamoille County, Figure 1 shows how the family's net resources – that is, resources after subtracting the cost of basic expenses – change as annual earnings increase. When eligible, the family receives multiple work supports, including federal and state tax credits, TANF cash assistance, food stamps, child care assistance, public health insurance, LIHEAP and the Lifeline Telephone Service Credit.[11]

As the parent enters the workforce and increases her earnings, the family's financial situation initially improves. But before the family's net resources reach the breakeven point – that is, the point where resources equal expenses – benefit losses begin to slow the family's financial progress. First the family loses TANF cash assistance and the federal and state EITCs begin to phase out. Then premiums kick in for the parent's public health insurance coverage. At the same time, work-related expenses – child care and transportation – are increasing as the parent transitions from part-time to full-time work.

As a result, the family still faces a gap of about $1,200 a year between its resources and expenses when the parent reaches full-time employment, assuming an hourly wage of $9 an hour. Moreover, Figure 1 shows that further increases in earnings fail to move the family closer to making ends meet. In fact, as wages double from $9 to $18 an hour – or about $19,000 to $37,000 a year – the family's net resources *decrease* as key work supports are either lost or decline significantly in value.

- The total value of the federal and state EITCs decreases from more than $5,000 a year to about $400.
- The family loses nearly $4,000 a year in food stamp benefits.

Figure 1: Net Family Resources as Earnings Increase: Lamoille County, VT
Single parent with two children, ages 3 and 6



Source: NCCP's Family Resource Simulator, Vermont 2008 <www.nccp.org/tools/frs>. When eligible, family receives the following work supports: federal and state tax credits, TANF cash assistance, food stamps, LIHEAP, Lifeline Telephone Service Credit, public health insurance, and a child care subsidy.

- The Renter Rebate, a refundable state tax credit for low- to moderate-income renters, shrinks from nearly $1,000 a year to slightly under $100.
- As child care benefits phase out to zero, the family's annual child care costs gradually increase from about $7,000 to more than $14,000.
- The family loses its Lifeline Telephone Service Credit and LIHEAP benefits.

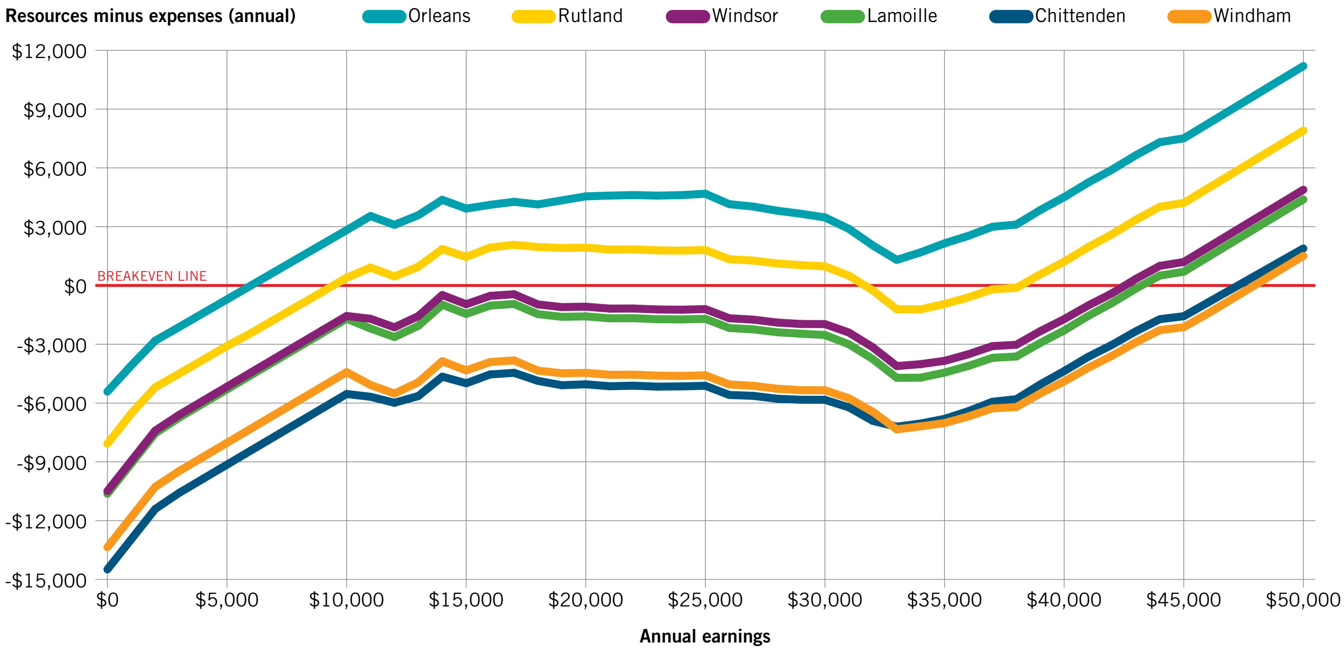
In sum, as family income rises from approximately 100 to 200 percent of the federal poverty level, significant losses across multiple benefits – combined with increases in payroll and income taxes – actually exceed the parent's substantial gains in earnings.

Patterns are similar across the state. Figure 2 shows results for six Vermont counties – Chittenden, Lamoille, Orleans, Rutland, Windham, and Windsor – assuming a single-parent family with two children. As discussed above, the cost of living varies significantly depending on where a family lives, so covering the cost of basic family needs requires substantially more income in Chittenden County, for example, than in Orleans. But it's important to keep in mind that local labor markets vary too, so that jobs in Orleans County and other parts of rural northern Vermont typically pay less than jobs in Chittenden.[12]

Since work support policies are largely constant across the state, families face similar difficulties in all six Vermont counties as they try to achieve greater financial security through increased earnings. Families in Chittenden, Lamoille, Windham, and Windsor counties face the additional problem of being unable to make ends meet even with multiple work supports and a full-time job – whether it pays $9 an hour or $18. (In Chittenden, TANF benefits are larger and free public health insurance is available to parents up to a higher income limit, but these policy differences don't make up for the higher cost of living.)

Figure 2: Net Family Resources: Six Counties, VT

Single parent with two children, ages 3 and 6



Source: NCCP's Family Resource Simulator, Vermont 2008 <www.nccp.org/tools/frs>. When eligible, family receives the following work supports: federal and state tax credits, TANF cash assistance, food stamps, LIHEAP, Lifeline Telephone Service Credit, public health insurance, and a child care subsidy.

Other Family Types

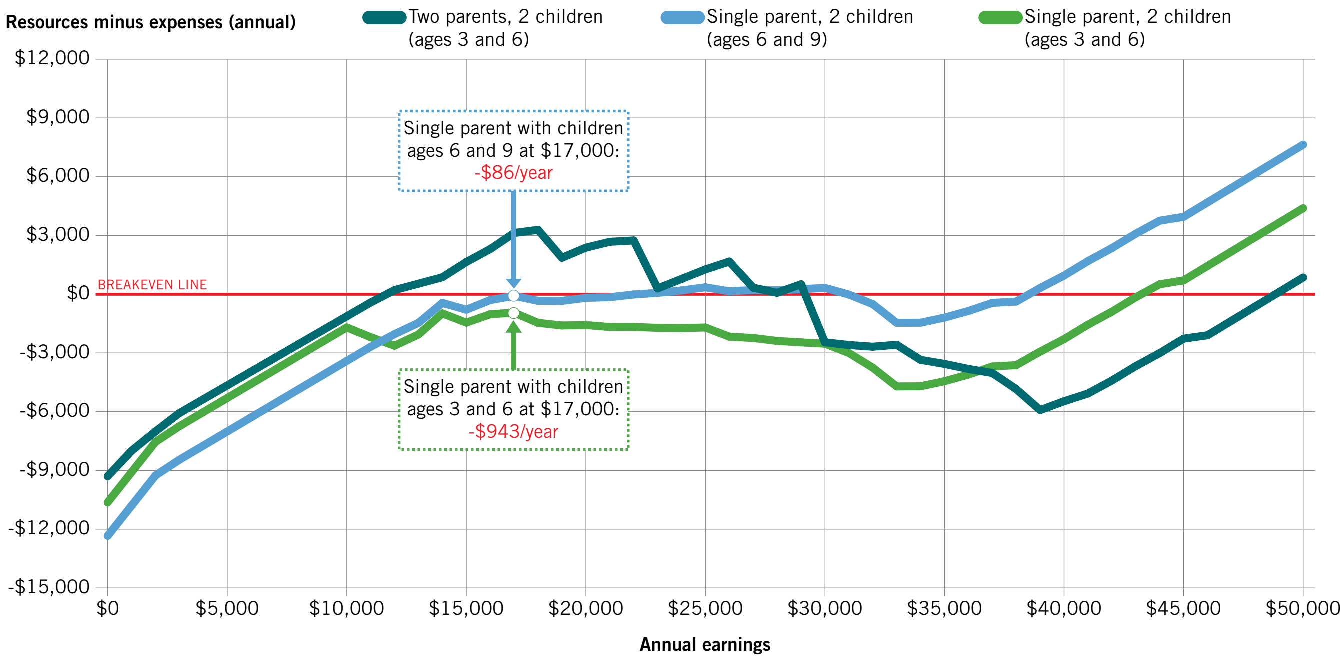
Not surprisingly, the results above change somewhat with different family types. Figure 3 charts changes in net resources as earnings increase for three different families: a single parent with two young children, ages 3 and 6 (i.e., same family as discussed above), a single parent with two school-aged children (ages 6 and 9), and a two-parent family with two young children (ages 3 and 6). Like Figure 1, this analysis assumes that the families live in Lamoille County and receive the same set of work supports when eligible.

Figure 3 shows that as children get older, it becomes somewhat easier for families to make ends meet. School-aged children need less paid child care than preschool-aged children, so the cost of care is lower. As a result, a single parent with two school-aged children in Lamoille County comes close to making ends meet with about $17,000 in annual earnings plus multiple work supports. If one of the children were preschool-aged, the same family would face a shortfall of about $1,000 a year at that earnings level.

Nonetheless, even with older children, it's difficult for families to get ahead. As the single parent with two school-aged children advances in the workforce, the family's net resources hover around the breakeven point. There are no significant changes in the family's financial situation until annual earnings reach about $31,000 – at this point, the loss of LIHEAP and child care assistance trigger a *decline* in net resources that leaves the family unable to make ends meet.

Two-parent families face similar challenges. Since child care is such a large part of working families' budgets, it's difficult to generalize about the expenses of two-parent families. This is because the need for child care in a two-parent family varies significantly based on parents' work patterns: for example, whether one or both parents are employed and how much their work schedules overlap. But Figure 3 illustrates that additional earnings can actually leave a two-parent family worse off, if it means transitioning from a situation in which one parent is employed full-time – while the other parent is available full- or part-time to care for the children – to a situation in which both parents have full-time jobs.[13]

Figure 3: Net Family Resources for Three Families: Lamoille County, VT



Source: NCCP's Family Resource Simulator, Vermont 2008 <www.nccp.org/tools/frs>. When eligible, family receives the following work supports: federal and state tax credits, TANF cash assistance, food stamps, LIHEAP, Lifeline Telephone Service Credit, public health insurance, and a child care subsidy.

Understanding the Results in Context

The results discussed above present a somewhat overly optimistic assessment – a "best case scenario" – of Vermont's work support policies. To understand why, let's return to our "prototypical family"– the single mother with two young children, ages 3 and 6.

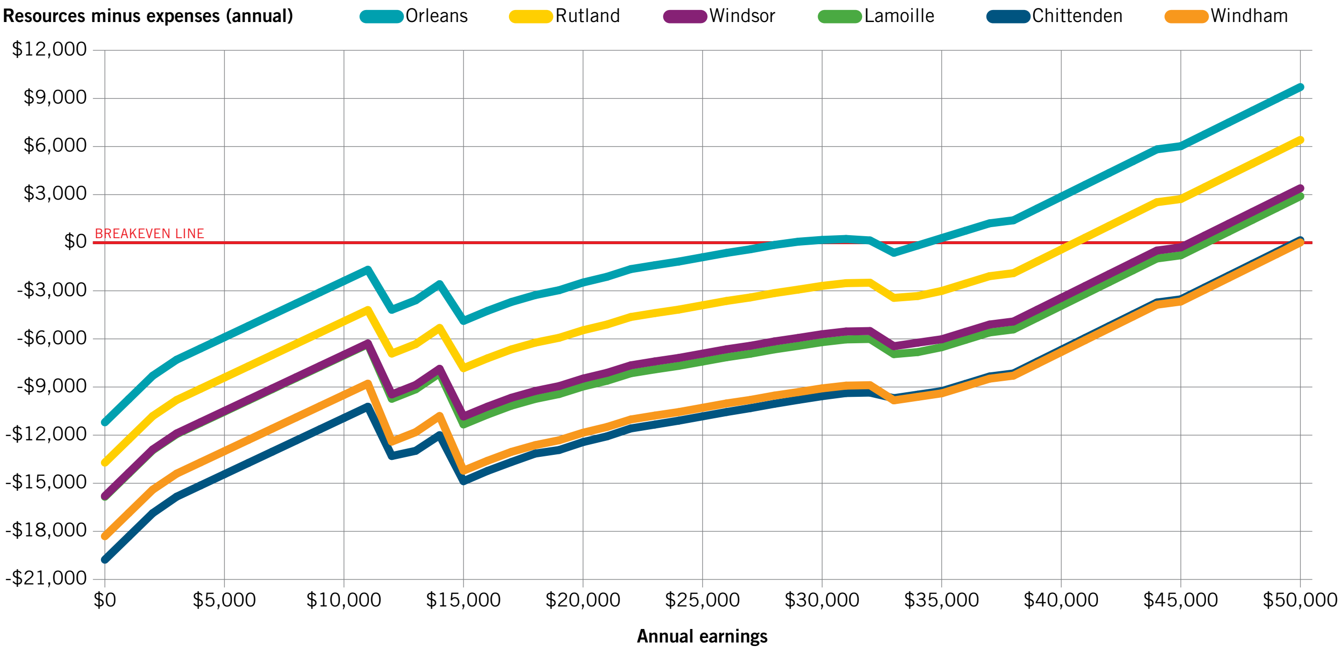
First, Figures 1 through 3 assume that families receive all of the benefits for which they are financially eligible, with the exception of a housing voucher. In reality, participation barriers such as inadequate funding, lack of information, and cumbersome application and recertification procedures prevent many eligible families from receiving benefits. Some programs, such as the federal EITC, serve about 80 or 90 percent of eligible families with children, and it is likely that coverage rates for the state EITC are similarly high. Medicaid, Dr. Dynasaur, and the Vermont Health Access Program also have high participation rates, especially given that some of the families who don't enroll have employer-based coverage.

But the coverage rate for the child care subsidy program is quite low: just a third of eligible families receive benefits. And data from the Vermont Tax Department indicate that only about one-quarter of potentially eligible families receive Vermont's child care tax credits or the Renter Rebate. This may be a result of application procedures that require families to provide certificates from their child care providers and landlords, respectively. Finally, TANF cash assistance, LIHEAP, and the Lifeline Telephone Service Credit serve about two-thirds of eligible families.[14]

In short, the financial bottom line for families changes when we exclude benefits with low coverage rates – child care subsidies, federal and state child care tax credits, and the Renter Rebate. With this more typical set of benefits (see Figure 4), the parent needs to earn nearly $30,000 a year to make ends meet even in Orleans County. That's the equivalent of a full-time, year-round job paying $14 an hour. And in higher cost areas such as Lamoille and Chittenden, even a $14-an-hour job leaves the family facing a $6,000 to $9,000 shortfall between annual resources and expenses.

Figure 4: Net Family Resources with More Limited Set of Benefits: Six Counties, VT

Single parent with two children, ages 3 and 6



Source: NCCP's Family Resource Simulator, Vermont 2008 <www.nccp.org/tools/frs>. When eligible, family receives the following work supports: federal tax credits, state EITC, TANF cash assistance, food stamps, LIHEAP, Lifeline Telephone Service Credit, and public health insurance.

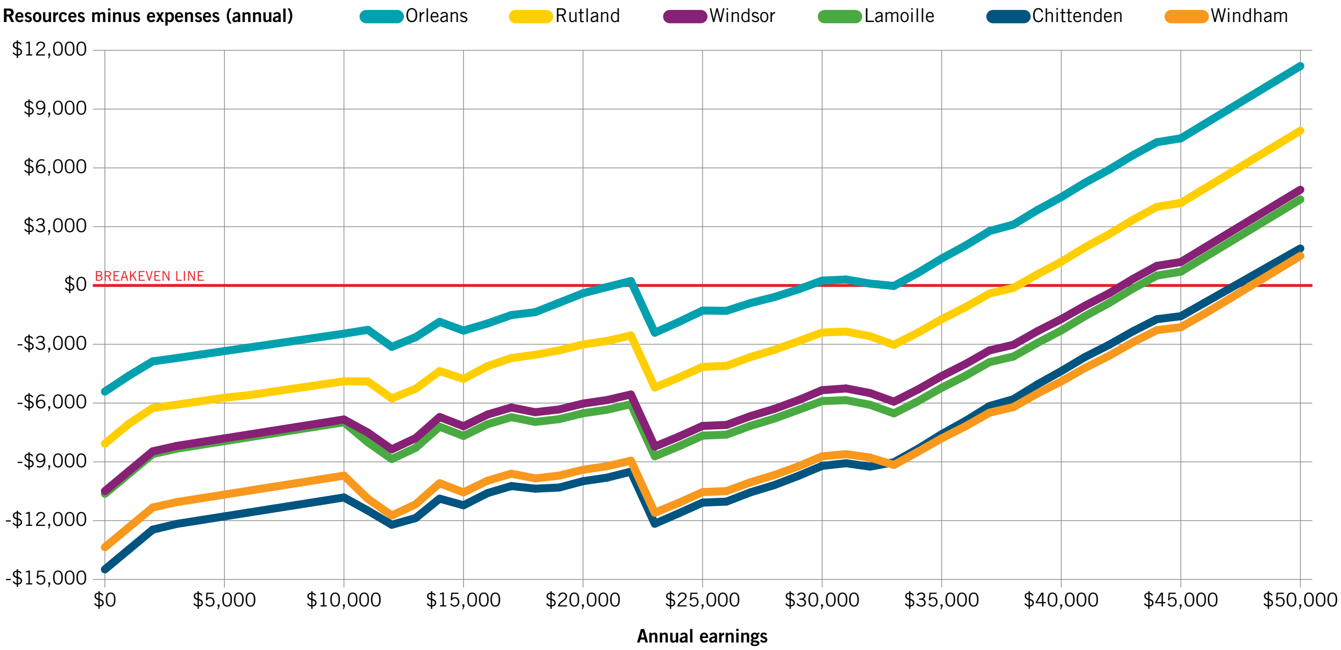
Second, the foregoing analysis treats EITCs as resources that are available to families as they pay for their basic daily expenses, even though in practice, EITC benefits are received as an annual lump sum. A federal option allows families to receive a portion of their federal benefit in advance, but less than 1 percent of recipients do. Thus Figure 5, which shows net family resources *not* counting EITC benefits, perhaps provides a better illustration of the situation families face on a day-to-day basis.

In contrast to Figure 2 above, this figure indicates that a single parent with two children is unable to cover basic expenses throughout most of the earnings range shown even in the lower cost Vermont counties. And without the resources to pay bills on a weekly and monthly basis, families often end up with additional expenses such as late fees and finance charges – expenses not included in NCCP's family budgets. Note also that Figure 5 returns to our earlier assumption that the family receives all of the other benefits it's eligible for, except for a housing voucher.

Finally, as discussed above, NCCP's Basic Needs Budgets are bare-bones budgets that do not leave any room for emergencies or other unexpected expenses. In reality, few families get through a year without experiencing car trouble, an illness, or another unplanned event that can lead to both increased expenses and lost wages. Borrowing money to cover such situations only leads to further increases in family expenses going forward. Thus to get by in the real world, families need at least a small financial cushion beyond the cost of basic daily necessities.

Figure 5: Net Family Resources without EITCs: Six Counties, VT

Single parent with two children, ages 3 and 6



Source: NCCP's Family Resource Simulator, Vermont 2008 <www.nccp.org/tools/frs>. When eligible, family receives the following work supports: federal and state tax credits except EITCs, TANF cash assistance, food stamps, LIHEAP, Lifeline Telephone Service Credit, public health insurance, and a child care subsidy.

PART II

Potential Reforms to Make Work Pay

To encourage employment as the primary path to financial security for all who can work, a comprehensive work support system should:

- Incentivize work.
- Provide adequate family resources for all full-time workers.
- Reward progress in the workforce.

Vermont has a number of important policies in place that help low-wage workers make ends meet, but this analysis has identified several areas in which improvements could be made. We first discuss specific programs and then examine issues that cut across programs.

Specific Programs

Temporary Assistance for Needy Families

The goal of Vermont's TANF cash assistance program – Reach Up – is to help families afford basic necessities while supporting the transition to work and self-sufficiency. In calculating a family's TANF benefits, the first $200 a month of a parent's earnings are disregarded. But as earnings rise above that level, families' TANF benefits are cut significantly. With just 25 percent of additional earnings disregarded, benefits are reduced by $0.75 for every additional dollar earned. Further, working TANF families may face substantial expenses for child care and commuting.

As a result, parents in the TANF program may have little financial incentive to enter the workforce, even if the family faces a sanction for not working. This is particularly true if federal and state EITC benefits are not considered. These tax credits can provide valuable assistance to families with low earnings, and they are only available to working families. However, families do not receive EITCs until after filing their taxes. Not counting EITC benefits, a single-parent family may actually be *better off* financially if the parent stays home, rather than going to work for low wages.

Consider, for instance, our example of a single parent with two children (ages 3 and 6) living in Lamoille, who receives (when eligible) TANF cash assistance, food stamps, LIHEAP, public health insurance, a child care subsidy, and federal and state tax credits.

- Without employment – and with the maximum sanction for failure to participate in work activities – the family's annual shortfall between resources and basic expenses is about $6,000.[15]
- With a half-time, year-round job paying $9 an hour, the family's annual budget shortfall is:
  - $7,000, *not* including EITC benefits
  - $2,000, including EITC benefits

Thus when EITCs are not included, the family's budget shortfall is greater *with* a half-time job than without one. Reductions in TANF benefits and increases in work-related expenses more than offset the increase in the parent's earnings.

Vermont could better incentivize work by increasing the TANF program's earned income disregard. Nineteen states have TANF programs with disregards of 50 percent or more. If Vermont doubled its earned income disregard from 25 percent to 50 percent, TANF families would lose only $0.50 in benefits (as opposed to $0.75) for every additional dollar in earnings. Continuing the example from above, with a half-time job paying $9 an hour, the family's shortfall would be under $6,000 a year, before considering the EITCs. And with the federal and state EITCs, the family would be just about able to make ends meet.

Vermont could also do more to offset the cost of child care, as discussed below. Reducing work-related expenses would enhance the financial benefits of going to work. Finally, educating families about the federal and state EITCs could provide parents with further incentive to seek increased earnings.

Child Care Subsidies

One of the largest expenses working families face is the cost of child care. Vermont's child care subsidy program can help offset this expense. When a family is enrolled in the subsidy program, the state pays a portion of the cost of care and the family pays the remainder. The state establishes "payment rates" that vary based on locality, the age of the child, and the type of care. But these rates are well below the fees actually charged by the state's child care providers. Depending on the family's income and TANF status, the state pays 10 to 100 percent of the applicable payment rate, but the family must pay the difference between the state's payment and the actual cost.

By setting its payment rates well below "market rates" (what providers actually charge), even families with subsidized child care may incur significant costs.[16] Take the example of a single parent with two children living in Lamoille County. The state's payment rate for a 3-year-old in full-time center-based care and a 6-year-old in part-time center-based care is about $770 a month. But the market rate is much higher – $1,230 a month. That's a difference of $460 a month, or more than $5,500 a year.

For TANF families in the child care subsidy program, the state pays 100 percent of the payment rate. However, the family is still responsible for the difference between those rates and the real cost of care: in this example, $5,500 a year. For non-TANF families, the cost of care is even higher. If a single parent with two children works full-time for $9 an hour, earning about $19,000 a year, the family's child care bill is more than $7,000 a year, even with a subsidy. That's nearly 40 percent of the parent's total earnings.

Moreover, as the parent's earnings increase, the value of the state subsidy quickly falls – by about $500 for every additional $1,000 earned. And when the parent's wages reach $15 an hour – just over $31,000 a year – the family is no longer eligible for assistance.

Vermont could make care more affordable by increasing payment rates to reflect the child care market rate survey data that the state collects every two years. Also important is phasing out the value of the state's subsidy more slowly as family earnings rise, and increasing the income eligibility limit so that families do not lose assistance before they are able to afford care without support.[17] Income limits for child care subsidies in Vermont have not changed in nearly 10 years; the limit for a family of three is $31,032 a year.[18] In 1999, that was equivalent to 224 percent of the federal poverty level, but today it's just 176 percent.[19] Finally, in addition to expanding eligibility limits and increasing the value of subsidy benefits, it is critical for Vermont to serve a greater proportion of eligible families.

Child Care Tax Credits

In addition to its child care subsidy program, Vermont has a refundable child care tax credit worth 50 percent of the federal Child and Dependent Care Tax Credit. To be eligible, family income cannot exceed $30,000 a year ($40,000 for married filers) and child care expenses must be for a "qualified" provider: one with national accreditation or with three or more stars from the state's rating system, the Step Ahead Recognition System (STARS).[20]

The federal Child and Dependent Care Tax Credit is nonrefundable, so while it subsidizes care for some families, it provides no benefits to families whose income is too low to owe federal income tax. Since Vermont's credit is refundable, its value is not limited by the family's state tax liability – families who owe little or no state taxes can theoretically receive the credit as a tax refund. However, it is limited by the family's *federal* income tax liability. That is, families can only claim 50 percent of the (nonrefundable) federal credit that they actually received, after comparing that credit to their federal tax liability.[21] For a single parent with two children who earns close to $19,000 a year and pays about $7,000 a year for child care (with a qualified provider) – the example presented in Table 3 – the credit comes to just $34 a year.

Vermont could follow the lead of several other states that calculate their child care tax credits based on the federal credit for which a family is *potentially* eligible before that amount is limited by federal tax liability. This, in effect, would make Vermont's "refundable" child care tax credit truly function as a refundable credit and greatly increase its value. Instead of receiving only $34 from Vermont's child tax credit, the hypothetical family above would receive nearly $1,000.

Vermont also has a second child care tax credit worth 24 percent of the federal Child and Dependent Care Tax Credit. This credit is nonrefundable and is available to all families who qualify for the federal credit, without income limit and regardless of the type of care used. Vermont could consider making this credit refundable as well, at least for lower income families. Only a small minority of the state's child care providers qualifies for the state's refundable child care credit[22] and low-income families are generally unable to benefit from nonrefundable provisions. Since this second credit is worth less than half of the first (24 percent versus 50 percent of the federal credit), there would still be a financial incentive to use a "qualified" provider.

Health Insurance

Vermont's health insurance programs offer plans with progressive cost sharing to families with incomes up to 300 percent of the federal poverty level. For a single parent with two children, coverage is free for all family members until income reaches $18,000 a year – about 100 percent of the federal poverty level. After this point, the parent is no longer eligible for Medicaid, but the children remain covered (without cost) and low-cost coverage is available to parents through the Vermont Health Access Program (VHAP). VHAP covers parents with income up to about $38,000 a year, with premiums that gradually rise from $7 to $49 a month per parent.

When the family's annual income reaches $38,000, modest premiums kick in for children's public coverage and the parent ceases to be eligible for VHAP. With this loss, parents may enroll in Vermont's subsidized Catamount Health Plan. Catamount's premiums gradually rise to $185 a month per parent, so employer-based plans may be less expensive for workers who have access to them. In practice, however, such job benefits are often unavailable, particularly to low-wage workers. The subsidized Catamount Health Plan is far less expensive than the market rate for nongroup coverage.

At 300 percent of the federal poverty level, or $53,000 a year for a family of three, public coverage is no longer available for parents or children. When comparing family income to the eligibility limit, deductions are allowed for employment and child care, so that some families can maintain coverage until their annual earnings reach about $58,000. But above this income level, families without access to employer-based health benefits face a choice between buying private nongroup coverage for all family members – which can cost more than rent – or becoming uninsured.[23]

The income limit for subsidized health insurance in most states is substantially lower than 300 percent of the poverty level, particularly for parents. But given that employer-based coverage is becoming increasingly unavailable, Vermont could consider further expansions. Illinois, for example, offers subsidized coverage to *all* children, though at higher income levels, premiums are substantially larger than those in a typical employer-based plan.

Energy Assistance

To help families with the cost of home heating, Vermont's main LIHEAP program – Seasonal Fuel Assistance – provides energy assistance to families with income up to 125 percent of the federal poverty level. That's $22,000 a year for a family of three. The Seasonal Fuel Assistance program allows for earned income disregards and child care expense deductions when calculating family income, so some families can continue to receive assistance until earnings reach several thousand dollars above the official limit. Nonetheless, as seen in Figure 1, for a single parent with two children in Lamoille, LIHEAP benefits are lost before the family is able to make ends meet (even with full-time work and other work supports). Moreover, that loss triggers a notable benefit cliff.

Vermont also has crisis and emergency fuel programs that provide assistance on a case-by-case basis to families in need. These programs have higher income limits: emergency assistance is available to families with income up to 185 percent of poverty. However, they provide short-term relief only in extenuating circumstances or emergency situations, such as utility shutoffs. They do not provide the kind of ongoing support that the Seasonal Fuel Assistance program offers.

Increasing the income limit for Seasonal Fuel Assistance – and eliminating the cliff by allowing for the gradual phase-out of the program's benefits – would help to ensure that families' energy needs are met, even as parents advance in the workforce. Also, benefit levels are set based on estimated family fuel costs. In a time of rapidly rising prices, it is important to ensure that these estimates keep pace with actual costs.[24]

Issues that Cut Across Programs

Simultaneous Phase-Out of Multiple Benefits

In addition to improving individual work support programs as suggested above, Vermont should look across policies to ensure that when taken together, they succeed in supporting work and workplace advancement. Our analysis reveals that families face significant losses across multiple benefits as earnings rise from approximately 100 to 200 percent of the federal poverty level. A large part of the problem is the substantial loss in federal benefits – the EITC and food stamps – that occurs during this earnings range.

Still, even without changes to federal policy, there are steps Vermont could take to ameliorate the problem – it could restructure state benefits, such as state income tax credits and LIHEAP, to provide more assistance to families while major federal benefits are phasing out. For example, Vermont's EITC is currently structured as a simple percentage of the federal EITC, as in most other states, but it would be possible to alter the structure so that state EITC benefits begin to phase out at higher income levels and decline more gradually to offset other losses.[25] Likewise, the Renter Rebate could be redesigned to phase out more gradually when family income is below 200 percent of poverty. And phasing out child care subsidies more slowly, while raising the income limit to more than 200 percent of the poverty level, also would soften the compounded effects of multiple benefits phasing out simultaneously.

Treatment of Child Support Income

In addition to supporting and rewarding work, benefit policies can be designed to promote other policy goals, such as increasing the rate of child support payments. Child support payments are a critical source of income for many families, but these payments can also lead to significant reductions in families' benefits. This is particularly true for families receiving TANF cash assistance.

By federal law, TANF families are required to sign over their rights to child support to the state. Most states then withhold most or all of the child support money collected as reimbursement for the state's TANF payments. Vermont is one of only two states in the country that pass on the full amount of child support payments to families in the TANF program. But while passing through child support income allows families to see the contribution that noncustodial parents are making to their children's care, it does not necessarily make the families financially better off.

In Vermont, only the first $50 a month of child support income is *disregarded* when calculating TANF benefits. Every $1 of child support above that amount results in a $1 reduction in TANF assistance; the value of other work support benefits is also affected. The end result is that child support payments may make little financial difference for the families who receive them.

Table 4 shows the net impact of $200 in monthly child support payments – or $2,400 a year – for a single parent with two children living in Lamoille County. This example assumes that the parent has a half-time job paying $9 an hour (for annual earnings of $9,500) and receives TANF along with multiple other work support benefits: federal and state tax credits, food stamps, LIHEAP, the Lifeline Telephone Service Credit, public health insurance, and a child care subsidy.

Table 4: Impact of $200 in Monthly Child Support Payments: Lamoille County, VT

Single parent with two children, ages 3 and 6
(assumes half-time employment at $9 an hour)

	Annual	Monthly
Child support	$2,400	$200
Change in TANF cash assistance	-$1,800	-$150
Change in Vermont Renter Rebate	-$224	-$19
Net financial impact	**$376**	**$31**

Source: NCCP's Family Resource Simulator, Vermont 2008 <www.nccp.org/tools/frs>.

As a result of the family's $200 in monthly child support income, the family's TANF benefits are cut by $150 a month. Moreover, child support income is included in benefit and eligibility calculations for the Vermont Renter Rebate. Thus for families who receive this tax credit, the $50 disregarded by the TANF program is further eroded by a reduction in the value of the Renter Rebate. For a single parent with a half-time job paying $9 an hour, the result is a net financial benefit of just $31 a month. That's less than $400 a year out of $2,400 in annual child support payments.[26]

Even with multiple work supports, a single parent earning $9,500 a year is unable to afford basic family necessities, and $2,400 a year could make a significant difference. Increasing the TANF child support disregard would increase noncustodial parents' incentive to pay child support – and ensure that those payments truly benefit the children for whom they are intended. Vermont could also change its Renter Rebate calculations to disregard at least a portion of the child support payments that families receive.

Important changes in federal policy went into effect in October 2008 that make it less costly for states to increase child support disregards in their TANF programs. When states withhold child support payments made on behalf of TANF families, part of the payment is forwarded on to the federal government.[27] Prior to October, even if a state passed through and disregarded a portion of a family's child support payment, the state still had to send the federal government its share of the full amount. Now, the federal government will waive its share of collections on support that is disregarded, up to $100 a month for one child and up to $200 for two or more children.[28]

PART III

Conclusions and Next Steps

Summary of Recommendations

Vermont has demonstrated a commitment to supporting work and helping low-wage workers make ends meet. Vermont is one of only a few states that offer subsidized public health insurance to parents with incomes up to 300 percent of the federal poverty level. Other notable policy achievements include expanded eligibility for food stamp benefits, multiple refundable tax credits for low-income families, and a state minimum wage that is significantly higher than the federal.

But if the state's goal is to use work supports to help workers adequately meet their basic family needs and to reward increased work effort and higher earnings, there is room for improvement. NCCP recommends the following reforms:

1. **Expand access to child care assistance and make it more generous.**
   - ♦ Child care subsidy program:
     - Increase payment rates to reflect data from the state's child care market rate survey;
     - Phase out the value of the state's subsidy more slowly as family earnings rise; and
     - Increase the income eligibility limit.
   - ♦ Child care tax credits:
     - Calculate the refundable state child care tax credit based on the federal credit for which a family is *potentially* eligible; and
     - Make the nonrefundable state child care tax credit refundable.
2. **Improve work incentives across programs.**
   - ♦ Transition from TANF cash assistance to employment:
     - Increase the TANF program's earned income disregard (such as from 25 percent to 50 percent).
   - ♦ Transition from low-wage work to economic self-sufficiency:
     - Restructure state income tax benefits – the state EITC and Renter Rebate – to provide more assistance to families while major federal benefits – such as the federal EITC and food stamps – are phasing out; and
     - See suggested reforms of child care assistance above.
3. **Enact other reforms to increase overall resource adequacy for low-income working families.**
   - ♦ LIHEAP:
     - Increase the income limit for Seasonal Fuel Assistance;
     - Eliminate the benefit cliff by phasing out benefits gradually; and
     - Ensure that benefit levels reflect rising fuel costs.
   - ♦ Treatment of child support income:
     - Increase the TANF program's child support disregard (for example, from $50 a month per household to $100 a month per child); and
     - Change Renter Rebate calculations to disregard at least a portion of the child support payments that families receive.
   - ♦ Health insurance for children and parents:
     - Consider further expansions so that families who lack employer-based health benefits can access a subsidized plan, with premiums that rise with income.

In terms of priorities for improving Vermont's work support system, NCCP recommends that the state focus first and foremost on access to child care. For families who need paid care, making high-quality, affordable care more widely available is probably the single most important reform the state could make. Such care helps stabilize employment among low-income parents, thereby reducing child poverty. High-quality child care can also make important differences in long-term outcomes (such as school achievement) for young children. Although high-quality early care is not a panacea, it is a necessary (if not sufficient) component of any successful effort to reduce child poverty and to ameliorate its effects.[29]

Beyond child care, it's difficult for NCCP to prioritize specific reforms based on the current analysis. What our results show is that workers receiving multiple benefits fail to get ahead when they earn more – especially as their earnings increase from 100 to 200 percent of the federal poverty level. With further analysis (see below), NCCP would be able to make stronger recommendations about what reforms would provide the most relief to struggling low-income families.

Addressing the Current Economic Crisis

In the time since this analysis was first commissioned, the national economy has deteriorated to depths that were not anticipated. The current crisis has laid bare a fundamental weakness in the nation's safety net, which is largely a joint federal-state enterprise. Because of state balanced-budget requirements, programs for low-income families and individuals are often the first to be cut when revenues are down at the state level, despite increased demand for assistance. States sometimes deal with budget pressures by either lowering eligibility limits or reducing benefit levels – or both. ***This situation underscores the need for federal reform – at present, only the federal government can run a deficit to meet the increased need of Americans during times of economic crisis.***

Hopefully, there will be multiple forms of relief for states in the coming federal stimulus package, but the details have not yet been determined. In the interim, Vermont should:

- Avoid the temptation to solve budget problems by cutting benefits for low-income individuals and families.
- Make the most of federal programs. The state should make every effort possible to expand outreach and educate families about eligibility for the federal EITC and food stamps, including ensuring that families are aware of the recent expansion in food stamp eligibility and benefits enacted under the 2008 Farm Bill.
- Continue to plan for needed reforms so that implementation can move quickly once the budget situation improves.
- Take full advantage of the new federal child support rules that went into effect in October 2008 by increasing the TANF program's child support disregard to at least $100 a month for one child and $200 a month for two or more children.

Suggestions for Further Analysis

Some possible next steps include additional analyses that would:

- Specify the recommendations in greater detail (for example, what should the payment rate be for child care, to what level should eligibility be raised). NCCP's Family Resource Simulator can be used to model policy alternatives and show the impact of various options on family resources.
- Estimate the number of families and children that would be affected by various proposed changes, and determine the likely effects (for example, how many families would be raised above the poverty line and above their basic budget line).
- Estimate the cost of various recommendations, as well as their efficacy.

Endnotes

1. NCCP analysis based on the U.S. Current Population Survey, Annual Social and Economic Supplements; data averaged across the March 2006, 2007, and 2008 surveys, representing information from calendar years 2005, 2006, and 2007. These statistics refer to the employment level of the parent in the household who maintained the highest level of employment in the previous year, with "full-time" defined as working at least 50 weeks and for at least 35 hours during the majority of those weeks. "Part-time" is defined as working less than that.

2. The figure cited here is from the federal poverty *guidelines*, which are issued annually by the U.S. Department of Health and Human Services and used for administrative purposes (such as, benefit eligibility determination). The poverty *thresholds* issued by the U.S. Census Bureau, which are used primarily for research and statistical purposes, differ slightly. For more information about federal poverty measures, see aspe.hhs.gov/poverty/08poverty.shtml.

3. Cauthen, Nancy K. 2007. *Testimony on Measuring Poverty in America*. Testimony before the House Subcommittee on Income Security and Family Support, Committee on Ways and Means. Aug. 1, 2007. Available at www.nccp.org/publications/pub_752.html.

4. NCCP has developed Basic Needs Budgets for multiple family types in about 80 localities across 12 states. These budgets are available through the Basic Needs Budget Calculator, available on NCCP's website at www.nccp.org/tools/budget.

5. Vermont's Basic Needs Budgets are developed by the state's Legislative Joint Fiscal Office and include items such as savings and renters and life insurance. For more information about these budgets, see www.leg.state.vt.us/jfo.

6. These credits include the federal and state Earned Income Tax Credits, the federal and state child care tax credits, the federal Child Tax Credit, and the state Renter Rebate.

7. Clemens-Cope, Lisa; Garrett, Bowen; Hoffman, Catherine. 2006. *Changes in Employees' Health Insurance Coverage, 2001-2005*. Washington, DC: Kaiser Commission on Medicaid and the Uninsured, Henry J. Kaiser Family Foundation.

8. Mishel, L.; Bernstein, J.; Allegretto, S. 2004. *The State of Working America, 2004/2005* (An Economic Policy Institute Book). Ithaca, NY: Cornell University Press.

9. Personal communication from Doreen Phillips, Vermont State Housing Authority, Sept. 23, 2008.

10. Cauthen, Nancy K. 2006. *When Work Doesn't Pay*. New York, NY: National Center for Children in Poverty, Columbia University, Mailman School of Public Health www.nccp.org/publications/pub_666.html.

11. A housing voucher was not included since they are currently unavailable to new applicants (see endnote 9).

12. U.S. Department of Labor, Bureau of Labor Statistics. 2007. May 2007 Metropolitan and Nonmetropolitan Area Occupational Employment and Wage Estimates: Vermont www.bls.gov/oes/current/oes_vt.htm (accessed Nov. 12, 2008).

13. This figure assumes that just one parent is employed until earnings reach $19,000 a year and that therefore no child care is needed. Then the second parent enters the workforce and gradually works and earns more. At $38,000 in annual household earnings, both parents are working full-time, earning about $9 an hour each.

14. Participation data for the federal EITC is based on GAO analysis (source: U.S. General Accounting Office. 2001. *Earned Income Tax Credit Participation*. GAO-02-290R. Washington, DC: U.S. General Accounting Office.). All other estimates were calculated by the Vermont Department for Children and Families (personal communication with Robert McIntyre, Vermont Department for Children and Families, Oct. 28, 2008). These rates are based on dividing the actual number of enrollees for a given benefit (based on administrative data) by an estimate of the eligible population. Generating these estimates requires making assumptions and simplifications that may lead to over- or underestimating the actual percent of eligible families served. For example, for TANF cash assistance, the actual income limit varies based on place of residence, housing costs, and other factors. Here, a family with children whose income is below the poverty line was used as a proxy for eligibility. For child care subsidies and the state child care tax credits, all families with children under age 13 who meet the applicable income limits are considered eligible, regardless of their actual need for (or use of) paid child care. Similarly, for the Lifeline Telephone Service Credit, the estimate of the number of eligible families includes all families who meet the income guidelines, regardless of whether they have telephone service (4 percent of Vermont's households do not). On the other hand, the estimate of eligible families for food stamps includes only families with income below the official gross income limit of 130 percent of the poverty level, though Vermont's expansion of categorical eligibility means that some of the families enrolled in the food stamp program may actually have income above that level. Finally, none of the estimates of eligible families take into account family assets, though several of these programs have asset limits.

15. This assumes that the family's TANF benefits are reduced by $225 a month, Vermont's maximum TANF sanction.

16. The findings presented here assume that children are cared for in a center-based setting; the older child is in after-school care. For a discussion of the relationship between Vermont's payment rates and the market rate survey data, see: Legislative Council and Joint Fiscal Office. 2007. *Innovative Funding Options for Vermont Child Care*. Montpelier, VT: Legislative Council, State House, pp. 5-6.

17. Note that if payment rates were increased without substantially raising the income limit for subsidies, the result would be an even faster phase-out of benefits or a much larger cliff at the income limit.

18. State Policy Documentation Project. 2000. "Child Care for Low Income Families: State Income Eligibility for Assistance Funded under the Child Care Development Fund, As of October 1999." www.spdp.org (accessed Sept. 23, 2008).

19. Under federal rules, states can set the income limit for child care subsidies at up to 85 percent of state median income, or nearly 300 percent of the federal poverty level in Vermont.

20. Vermont also has a nonrefundable credit worth 24% of the federal Child and Dependent Care Tax Credit that is available to all filers who receive the federal credit. Filers who are eligible for both Vermont credits may only claim one.

21. According to the National Women's Law Center, the wording in Vermont's statutory provision is ambiguous on this issue, but the state's tax forms make it clear that filers are supposed to use the amount of federal credit *after* its value has been limited by federal income tax liability. Source: Campbell, Nancy Duff; Entmacher, Joan; Matsui; Amy K.; Firvida, Cristina Martin; Love, Christie. 2006. *Making Care Less Taxing: Improving State Child and Dependent Care Tax Provisions*. Washington, DC: National Women's Law Center, p. 21.

22. Personal communication from Robert McIntyre, Vermont Department for Children and Families, May 20, 2008.

23. Families whose income is too high to qualify for the subsidized Catamount Health Plan may enroll in the Catamount Full Premium health insurance plan. The premium for a single parent with two children is $747 a month – nearly $9,000 a year.

24. The recent surge in fuel prices, which is putting an additional strain on low- and moderate-income families, is not reflected in the analysis presented in this report.

25. To ease the effects of other benefits phasing out and terminating, Minnesota's EITC is structured as a percentage of income rather than as a percentage of the federal EITC. See Manzi, Nina; Michael, Joel. 2007. *The Federal Earned Income Tax Credit and the Minnesota Working Families Credit*. St. Paul, MN: Minnesota House of Representatives.

26. Moreover, in this scenario, the family's food stamp benefits were not affected. The food stamp program allows families to deduct a portion of their housing and child care expenses from their income when calculating their benefit; due to high expenses, this family qualified for the maximum food stamp benefit even with $200 in child support income. A family with lower child care and/or housing expenses would have seen about a $15 a month reduction in their food stamp benefits in addition to the other losses.

27. The federal share is determined by the state's Medicaid federal matching rate (FMAP).

28. Legler, Paul; Turetsky, Vicki. 2006. *More Child Support Dollars to Kids: Using New State Flexibility in Child Support Pass-Through and Distribution Rules to Benefit Government and Families*. Denver, CO: Policy Studies Inc. and Washington, DC: Center for Law and Social Policy.

29. Votrbua-Drzal, Elizabeth; Coley Levine, Rebekah; Chase-Lansdale, Lindsay P. 2004. Child Care and Low-Income Children's Development: Direct and Moderated Effects. *Child Development* 75 (1): 296-312.

APPENDIX A

Family Resource Simulator Methodology

The Family Resource Simulator is a web-based policy analysis tool that illustrates the impact of federal and state work supports on the budgets of low- to moderate-income families. It is available on NCCP's website at <www.nccp.org/tools/frs>. The Simulator shows how a hypothetical family's resources and expenses change as earnings increase, taking public benefits into account. The results presented in this report reflect the Simulator's default family budgets estimates, as described below. Determining eligibility for benefits at different earnings levels also requires making certain assumptions and simplifications; see below for more details.

Family Budget Estimates

The Family Resource Simulator uses NCCP's Basic Needs Budgets to estimate the cost of basic family expenses, including rent and utilities, food, child care, transportation, health insurance, other necessities, and payroll and income taxes. Budget estimates for Vermont are calculated according to the methodology described below except where costs are offset by in-kind benefits, such as child care subsidies or public health insurance. In those cases, expenses are calculated based on program rules.

- **Rent and utilities:** The cost of rent and utilities is estimated based on the FY 2008 Fair Market Rent determined by the U.S. Department of Housing & Urban Development. This value varies based on locality and number of children; the Simulator assumes a 2-bedroom unit for families with one or two children and a 3-bedroom unit for families with three children.
- **Food:** The cost of food is estimated based on the June 2007 Low-Cost Food Plan developed by the U.S. Department of Agriculture, which varies based on family size and the ages of family members. Cost estimates are updated for inflation.
- **Child care:** The cost of child care is a function of child care rates and the family's need for paid care (such as, do children need full- or part-time care?).
  - **Child care rates:** The Vermont Simulator allows users to choose between cost estimates for two child care settings based on data from the state's child care market rate survey: licensed center-based care and registered family child care homes. Values are based on the 75th percentile of the market rate from 2006, updated for inflation, and vary depending on location and child's age. The analysis presented in this report assumes that children are cared for in center-based settings.
  - **Family's child care need:** The Simulator assumes that a preschool-aged child (under age 6) needs full-time care when parents work full-time, whereas a school-aged child (ages 6 through 12) needs part-time care. For more details, see "Estimating Family Child Care Needs" <nccp.org/popup.php?name=frs_methods_child_care>.
- **Transportation:** The cost of transportation reflects the assumption that parents commute to work by car and is estimated using the Economic Policy Institute's Basic Family Budget methodology. This methodology relies on data from the National Household Travel Survey and the July 2008 IRS cost-per-mile rate (for more information, see <www.epi.org/datazone/fambud/2008_epi_family_budgets_tech_doc.pdf>). Cost varies based on location and parent(s)' employment status.
- **Health insurance:** The Simulator provides estimates for premiums under two different types of health insurance coverage. Employer-based plan estimates are based on the average employee contribution for employer-based coverage in

the state's private sector, according to the 2005 Medical Expenditure Panel Survey (MEPS) conducted by the federal Agency for Healthcare Research and Quality (www.meps.ahrq.gov/mepsweb/data_stats/quick_tables.jsp). These estimates vary by the number of parents and children covered. Nongroup plan estimates are based on the 2008 cost of Vermont's Catamount Full Premium health insurance plan. Estimates vary based on the number of parents and children covered. The analysis presented in this report assumes that family members have access to employer-based coverage unless otherwise indicated.

- **Out-of-pocket medical:** Out-of-pocket medical expenses, while included in NCCP's Basic Needs Budgets, are not included in Family Resource Simulator results. This is due to the difficulty of estimating out-of-pocket costs for family members as they move through a variety of different public and then private plans. In the Basic Needs Budgets, the cost of out-of-pocket medical expenses is based on data from the 2005 Medical Expenditure Panel Survey (MEPS) conducted by the federal Agency for Healthcare Research and Quality (www.meps.ahrq.gov/mepsweb/data_stats/quick_tables.jsp). These estimates vary by the number of parents and children covered by employer-based or nongroup coverage.
- **Other necessities:** The cost of other necessities is estimated using the Economic Policy Institute's Basic Family Budget methodology, which relies on data from the Consumer Expenditure Survey. It equals 27 percent of the sum of the family's (unsubsidized) housing and food costs. In Vermont, the cost of other necessities also reflects the Lifeline Telephone Service Credit where applicable.
- **Payroll taxes:** The cost of payroll taxes is calculated following federal tax regulations for tax year 2007.
- **Income taxes:** The cost of income taxes is calculated following federal, state, and local tax regulations for tax year 2007.

Benefit Eligibility Assumptions

The Family Resource Simulator determines families' eligibility and benefit level for multiple state and federal work support programs, taking into account interactions among and between work supports, earnings, and expenses. These calculations reflect the following assumptions and simplifications:

- **Recipient criteria:** The Simulator uses income eligibility criteria that apply to ongoing recipients. For some work supports, new applicants face more restrictive limits.
- **Transitional work supports:** Transitional work supports and time-limited earnings disregards generally are not reflected in the Simulator's results.
- **Non-financial criteria:** The Simulator generally assumes the family meets non-financial criteria for work supports, such as TANF work requirements and immigration status requirements.
- **Household composition:** The Simulator assumes that no family member is pregnant, disabled, or elderly. It also assumes the household contains only those family members listed (parents and minor children).
- **Deductions for housing costs:** In calculating the housing deduction for food stamp benefit and eligibility determinations, the Simulator assumes that the lowest-income families pay no more than 52 percent of their income (including TANF benefits) on rent. As family income rises, the maximum percent paid in rent gradually declines to 30 percent. This method is also applied in calculating Vermont's Renter Rebate.
- **Deductions for child care:** In calculating the child care deduction for LIHEAP benefit and eligibility determinations, the Simulator assumes that families pay no more than $175 a month per child on care.

APPENDIX B

NCCP's Basic Needs Budgets: Two-Parent Families

Two parents with two children, ages 3 and 6: Both parents work full-time

	Chittenden	Lamoille	Orleans	Rutland	Windham	Windsor
Rent and utilities	$12,156	$8,700	$6,912	$8,652	$10,140	$9,192
Food	$7,878	$7,878	$7,878	$7,878	$7,878	$7,878
Transportation	$6,502	$7,284	$7,284	$7,284	$7,284	$7,284
Child care	$13,749	$14,736	$10,201	$11,288	$15,789	$13,616
Health insurance premiums	$2,541	$2,541	$2,541	$2,541	$2,541	$2,541
Out-of-pocket medical	$732	$732	$732	$732	$732	$732
Other necessities	$5,409	$4,476	$3,993	$4,463	$4,865	$4,609
Payroll taxes	$4,167	$3,896	$3,182	$3,532	$4,195	$3,844
Income taxes (includes credits)	$1,342	$682	-$1,128	-$203	$1,408	$557
TOTAL (monthly)	**$4,540**	**$4,244**	**$3,466**	**$3,847**	**$4,569**	**$4,188**
Annual income needed	$54,477	$50,924	$41,595	$46,166	$54,832	$50,253
Hourly wage needed	$13	$12	$10	$11	$13	$12
Percent of the federal poverty level	257%	240%	196%	218%	259%	237%

Two parents with two children, ages 3 and 6: One parent works full-time; one parent not employed

	Chittenden	Lamoille	Orleans	Rutland	Windham	Windsor
Rent and utilities	$12,156	$8,700	$6,912	$8,652	$10,140	$9,192
Food	$7,878	$7,878	$7,878	$7,878	$7,878	$7,878
Transportation	$4,763	$5,419	$5,419	$5,419	$5,419	$5,419
Child care	$0	$0	$0	$0	$0	$0
Health insurance premiums	$2,541	$2,541	$2,541	$2,541	$2,541	$2,541
Out-of-pocket medical	$732	$732	$732	$732	$732	$732
Other necessities	$5,409	$4,476	$3,993	$4,463	$4,865	$4,609
Payroll taxes	$2,487	$1,928	$1,697	$1,904	$2,211	$2,018
Income taxes (includes credits)	-$3,450	-$6,471	-$6,987	-$6,698	-$4,887	-$6,009
TOTAL (monthly)	**$2,710**	**$2,100**	**$1,849**	**$2,074**	**$2,408**	**$2,198**
Annual wage needed	$32,515	$25,202	$22,185	$24,891	$28,898	$26,379
Hourly wage needed	$16	$12	$11	$12	$14	$13
Percent of the federal poverty level	153%	119%	105%	117%	136%	124%

Source: NCCP's Basic Needs Budget Calculator, Vermont 2008 <www.nccp.org/tools/budget>. Note that income tax calculations reflect the value of all tax credits for which the family is eligible; no other work supports are included.