THE "BENEFITS CLIFF" AND S.40

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Outline of Presentation

- Background
- The "benefits cliff"
- Impact of increasing the minimum wage on programs that benefit low-income households
- Impact of increasing the minimum wage on EITC
- Impact of increasing the minimum wage on CCFAP
- How is the benefits cliff issue addressed by S.40?

Background

- Most public benefits that are designed to be a "safety net" decline as households move out of poverty and their need for financial assistance decreases.
- Benefit levels are generally at the maximum amount when household incomes are less than 100% of the Federal Poverty Level (FPL) and decline at higher incomes.

Federal Poverty Level

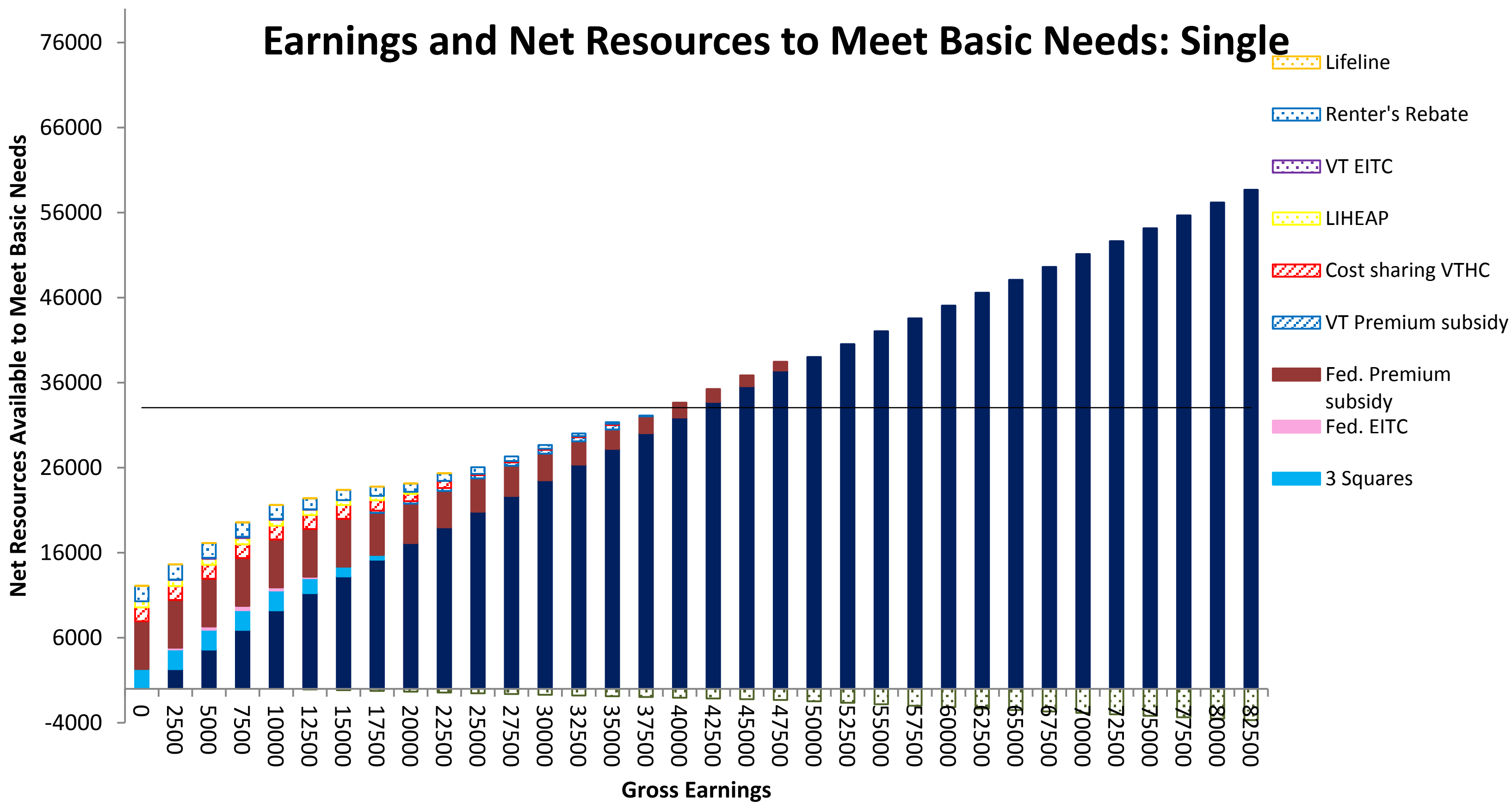
- A household's percentage of Federal Poverty Level is dependent on income and family size.

Family Size	Full Time at VT Minimum Wage of $10.50	100% of 2017 FPL	Ratio of MW to FPL	100% of 2018 FPL	Ratio of MW to FPL
1	$21,840	$12,060	1.81	$12,140	1.80
2	$21,840	$16,240	1.34	$16,460	1.33
3	$21,840	$20,420	1.07	$20,780	1.05

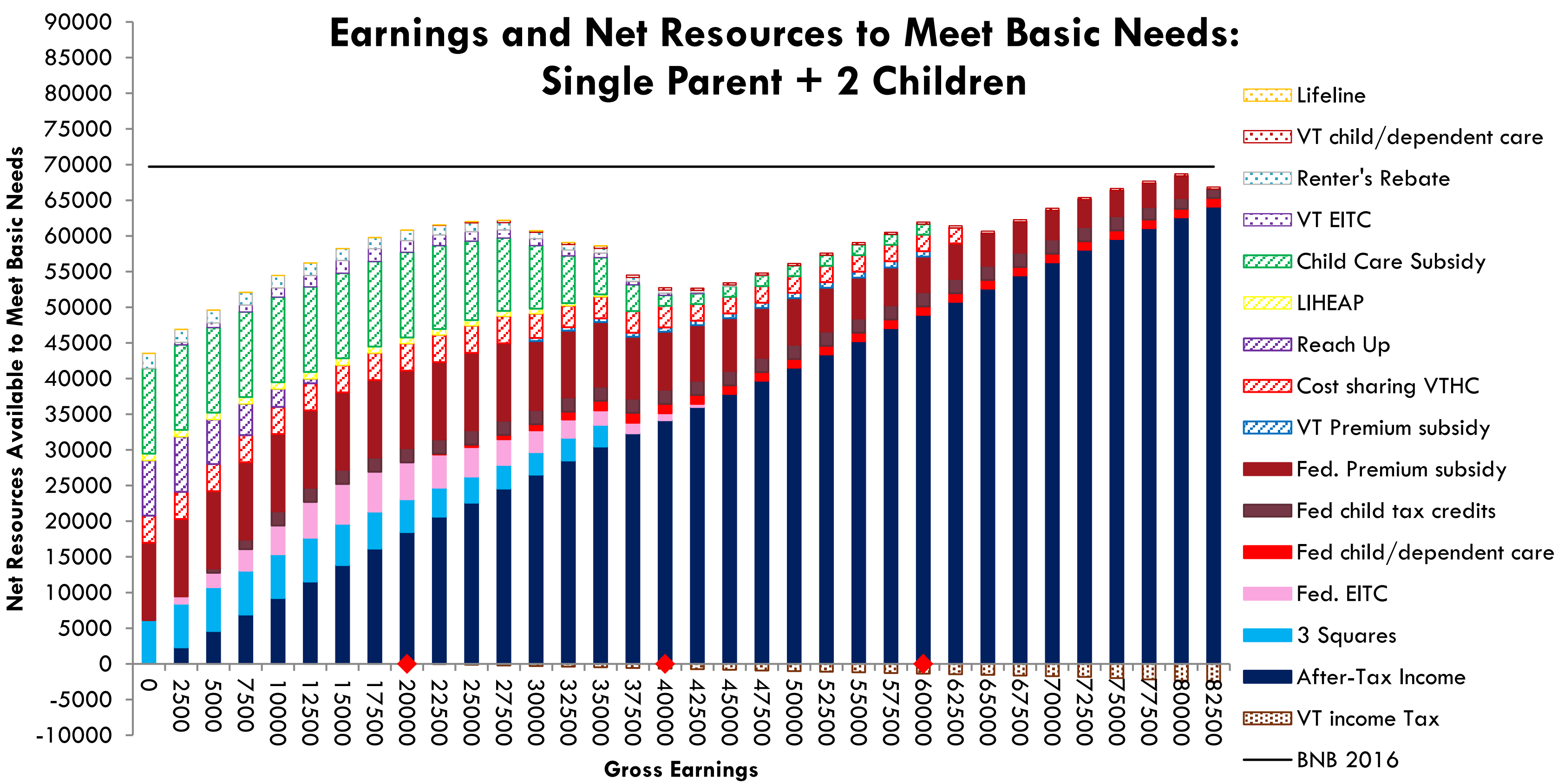
The "Benefits Cliff"

- A "benefits cliff" occurs when an increase in a beneficiary's earnings causes a corresponding decrease in the beneficiary's public assistance by some greater amount, resulting in a net loss in household resources.
- This can cause a worker to choose to turn down increased wages because higher earnings would reduce his or her household's available net resources.
- In recent years, Vermont has made significant progress in reducing or eliminating the benefits cliff in certain programs, but it still persists in some programs.
- No single public assistance program would cause a family to lose ground, but the cumulative impact of losses from multiple programs would present a significant hardship.

Earnings and Net Resources to Meet Basic Needs



Earnings and Net Resources to Meet Basic Needs



Major Programs that Benefit Low-Income Households

- Earned Income Tax Credit (EITC)
  - Both federal and State taxes
- Child Care Financial Assistance Program (CCFAP)
- 3SquaresVT (also known as the Supplemental Nutrition Assistance Program or SNAP)
- Section 8 Housing Choice Vouchers
- LIHEAP
- Medicaid/VT Health Connect
- SSDI/SSI
- Homeowner’s/Renter’s Rebate

Impact of Increased Wages on Programs that Benefit Low-Income Households

- 3SquaresVT
  - Federally funded program
  - 77,366 3SquaresVT recipients in 2017
  - For each extra dollar a recipient earns, his or her 3SquaresVT allotment decreases by 24 cents
- Section 8 Housing Choice Vouchers
  - Federal program
  - Around 6,000 Section 8 Housing Choice Vouchers are available in Vermont
  - Participants typically pay about 30% of their income toward rent and utilities, thus for each additional dollar a family earns, it will pay an additional 30 cents in rent.

Impact of Increased Wages on Programs that Benefit Low-Income Households

- LIHEAP
  - Federal block grant program with additional State funding
  - Benefits decrease slowly as family income increases from 75% to 154% of FPL and then drops substantially between 155% and 185% of FPL
  - Amount that a family would lose for each additional dollar earned varies depending on type of fuel, family size, and family income
  - In State FY 2017, roughly 21,200 families received LIHEAP assistance, and the average amount was $709

Impact of Increased Wages on Programs that Benefit Low-Income Households

- Medicaid and VT Health Connect
  - Both State and federal funding
  - Individuals and families with incomes up to 138% of FPL can receive Medicaid coverage
    - Pregnant women with income up to 213% of FPL can receive Dr. Dynasaur
  - Families are eligible for premium assistance and cost-sharing subsidies on VT Health Connect from 138% to 400% of FPL
  - Amount that a family's out-of-pocket costs increase for each additional dollar earned varies based on family size and use of medical services

Impact of Increased Wages on Programs that Benefit Low-Income Households

- Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI)
  - Available to working-age Vermonters with severe disabilities
  - Under SSDI, monthly benefits stop if a beneficiary earns too much per month over an extended period
  - Under SSI, if a beneficiary has no income other than SSI benefits, earnings above $85 per month reduce benefits by $1 for every $2 of additional earnings.

Impact of Increased Wages on Programs that Benefit Low-Income Households

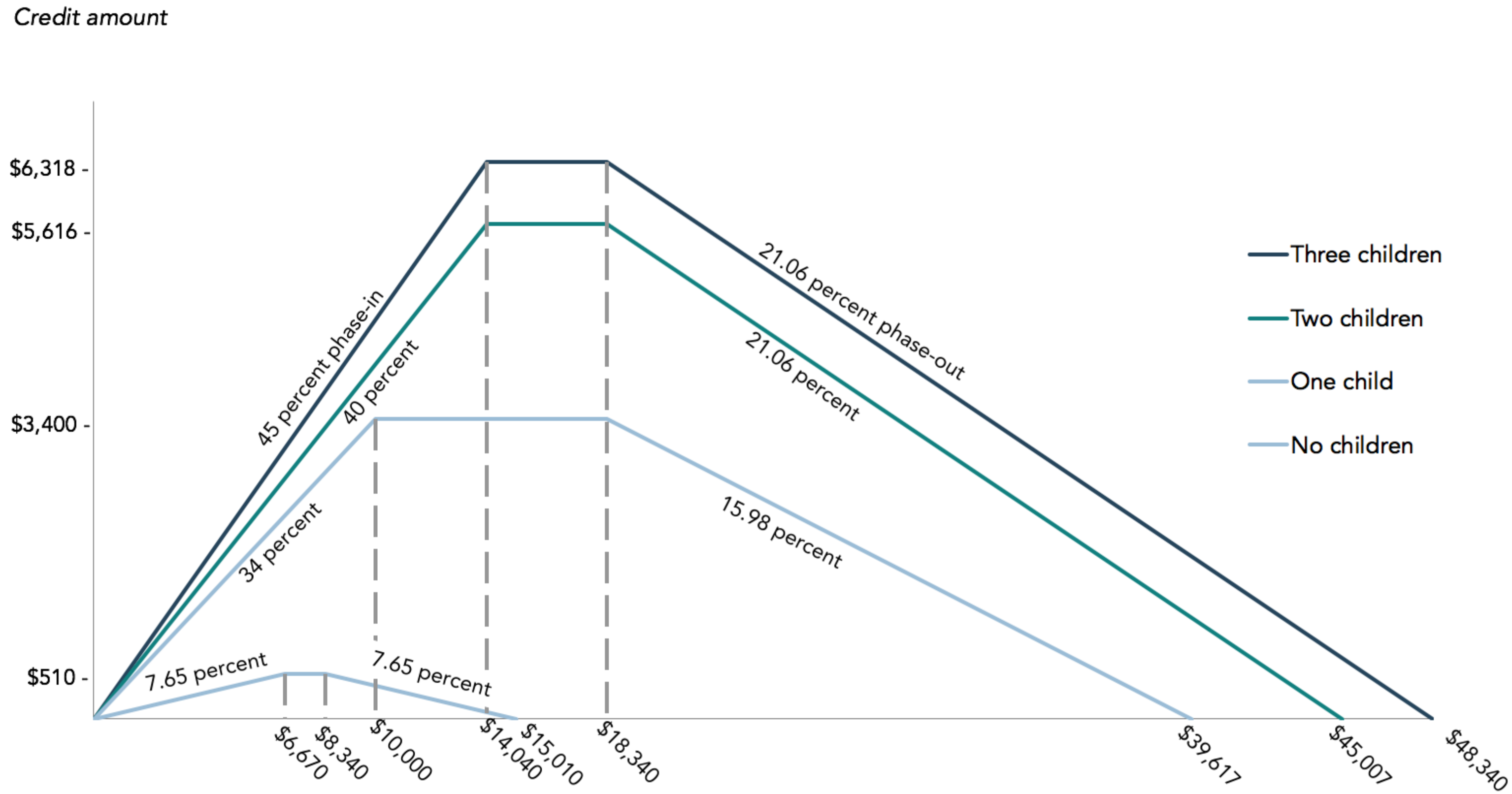
- Homeowner's Rebate and Renter's Rebate
  - Renters and homeowners with incomes below $47,000 are eligible
  - Roughly 32,000 homeowners and 13,000 renters receive these rebates
  - Renters and homeowners with incomes between $25,000 and $47,000 would see a rebate reduction of five cents for each additional dollar earned

Impact of Increased Wages on the EITC

- Earned Income Tax Credit (EITC)
  - Differs from other programs that benefit low-income households in two ways:
    - It functions as a work incentive because the value of the credit increases as wages increase (at low wage levels)
    - The value of the credit does not reduce any other benefits the recipient would otherwise receive
  - Amount of EITC increases as wages increase, up to a maximum, and decreases at higher wage levels
  - Amount of the federal EITC depends on number of children and earned income for a family

Impact of Increased Wages on the EITC

FIGURE 1
Earned Income Tax Credit
2017



Source: Tax Policy Center, IRS Rev. Proc. 2016-55.
Note: Assumes all income comes from earnings. Amounts are for taxpayers filing a single or head-of-household tax return. For married couples filing a joint tax return, the credit begins to phase out at income $5,590 higher than shown.

Impact of Increased Wages on the EITC

- Vermont EITC is calculated as 32% of the federal credit
- Since 2009, the number of Vermont filers receiving the federal and State EITCs has been between 44,000 and 45,000 annually
- In 2015, the average combined credit per filer was $2,541
- Both the federal and Vermont EITCs are refundable credits, so people who do not pay any income tax get the full credit if they file a tax return
  - In 2010, over ½ of Vermont filers who received the credits paid no Vermont income tax, so the credit was fully paid out
  - 29% paid Vermont income tax, but the Vermont EITC was greater than the amount of tax owed, so they received a refund

Impact of Increased Wages on the EITC

- For a family with two children, the amount of the combined federal and Vermont credits would equal 52.8 cents for every dollar earned—up to earnings of $14,040
- The credits would begin to decline when the family's earnings reach $18,340 or $23,930 for married couples filing a joint return
  - The combined credits would decrease by 28.8 cents for each additional dollar earned

Impact of Increased Wages on CCFAP Subsidies

- Vermont’s Child Care Financial Assistance Program (CCFAP) subsidizes the cost of child care for eligible families in a manner that encourages employment
- State makes payments directly to a family’s child care provider
- Subsidy is administered on a sliding fee scale basis that accounts for both family size and income level

Impact of Increased Wages on CCFAP Subsidies

- Roughly 7,000 families (about 10,800 children) have:
  - at least one child younger than 13 years of age who needs child care because all parents work
  - family income between 100% and 220% FPL
  - family income that would potentially increase if the minimum wage were to increase
- Not all of these families receive CCFAP subsidies
- Currently, roughly 2,000 families (3,000 children) would lose CCFAP subsidies if their incomes increased
  - It is likely that only some of these families would be impacted by an increase in the minimum wage

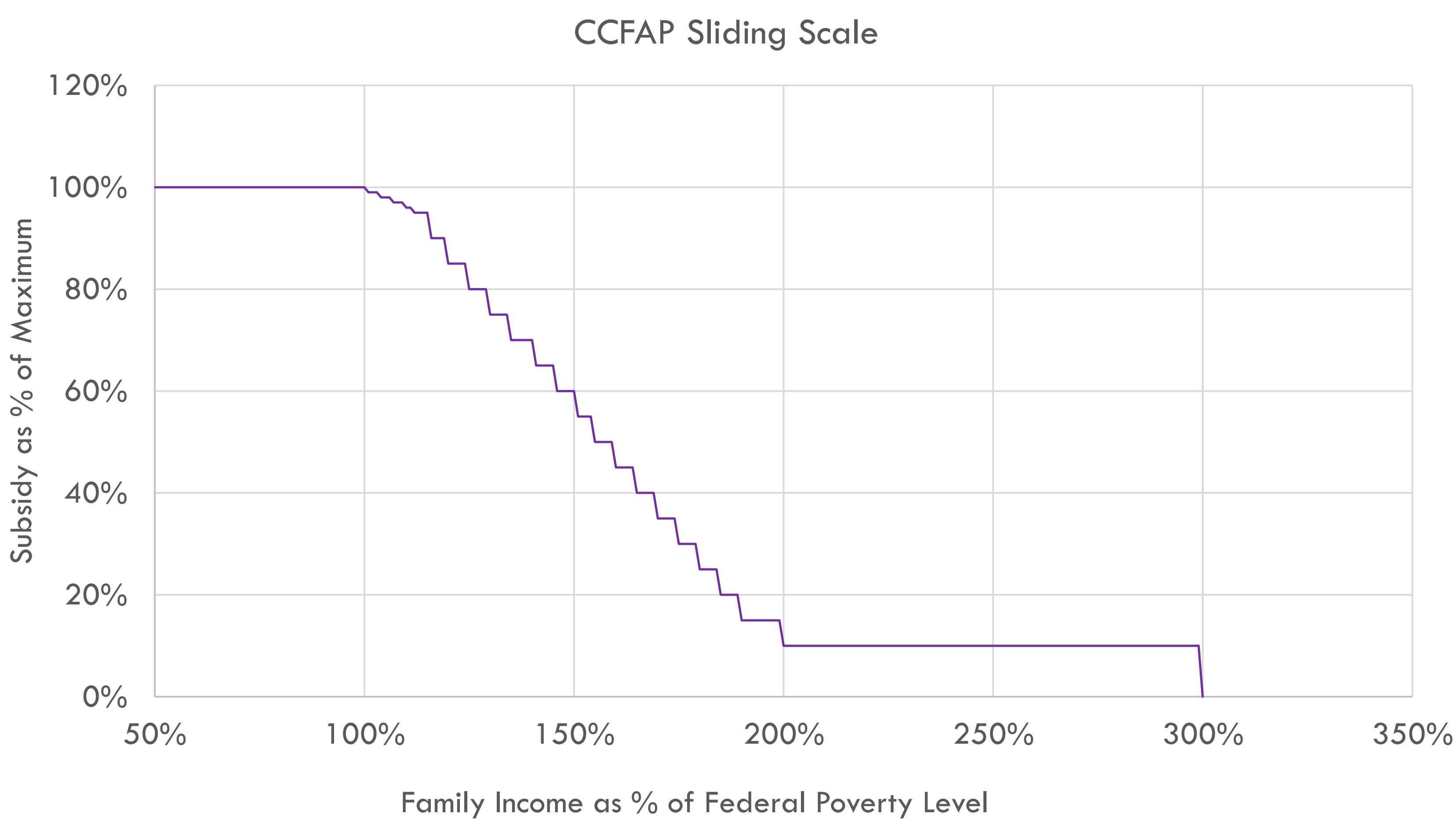
Impact of Increased Wages on CCFAP Subsidies

- DCF conducts a biennial survey of the market rate for child care in Vermont
- Families that are eligible to receive a 100% subsidy receive an amount based on the rate charged at the 75th percentile for child care providers
- Current subsidy amounts are based on the market rate survey from 2008
  - Equal to roughly the 10th percentile of the current market rates

Impact of Increased Wages on CCFAP Subsidies

Child Care in Licensed Centers							
Age Category	Schedule	Base Rate	1★	2★★	3★★★	4★★★★	5★★★★★
Infant	Full time	$150.36	$157.88	$165.40	$180.43	$195.47	$210.51
	Part time	$82.70	$86.84	$90.97	$99.24	$107.51	$115.78
	Extended care	$204.49	$214.72	$224.94	$245.39	$265.84	$286.29
Toddler	Full time	$137.43	$144.30	$151.18	$164.92	$178.66	$192.41
	Part time	$75.59	$79.37	$83.15	$90.71	$98.26	$105.82
	Extended care	$186.91	$196.25	$205.60	$224.29	$242.98	$261.67
Preschool	Full time	$133.49	$140.16	$146.84	$160.19	$173.53	$186.88
	Part time	$73.42	$77.09	$80.76	$88.10	$95.44	$102.79
	Extended care	$181.54	$190.62	$199.70	$217.85	$236.01	$254.16
School age	Full time	$129.48	$135.96	$142.43	$155.38	$168.33	$181.27
	Part time	$71.21	$74.78	$78.34	$85.46	$92.58	$99.70
	Extended care	$176.09	$184.90	$193.70	$211.31	$228.92	$246.53

Impact of Increased Wages on CCFAP Subsidies



Impact of Increased Wages on CCFAP Subsidies

CCFAP Hypothetical Example: Working Single Parent with one child		
	Current Law	
	Starting Income	Income Increased by 2.75%
Income	23,000	23,633
% of max state payment	95%	90%
Max state payment	180	180
Payment/week (2 X 3)	171	162
Payment/year	8,913	8,444
Change in Income		633
Change in CCFAP assistance		(469)

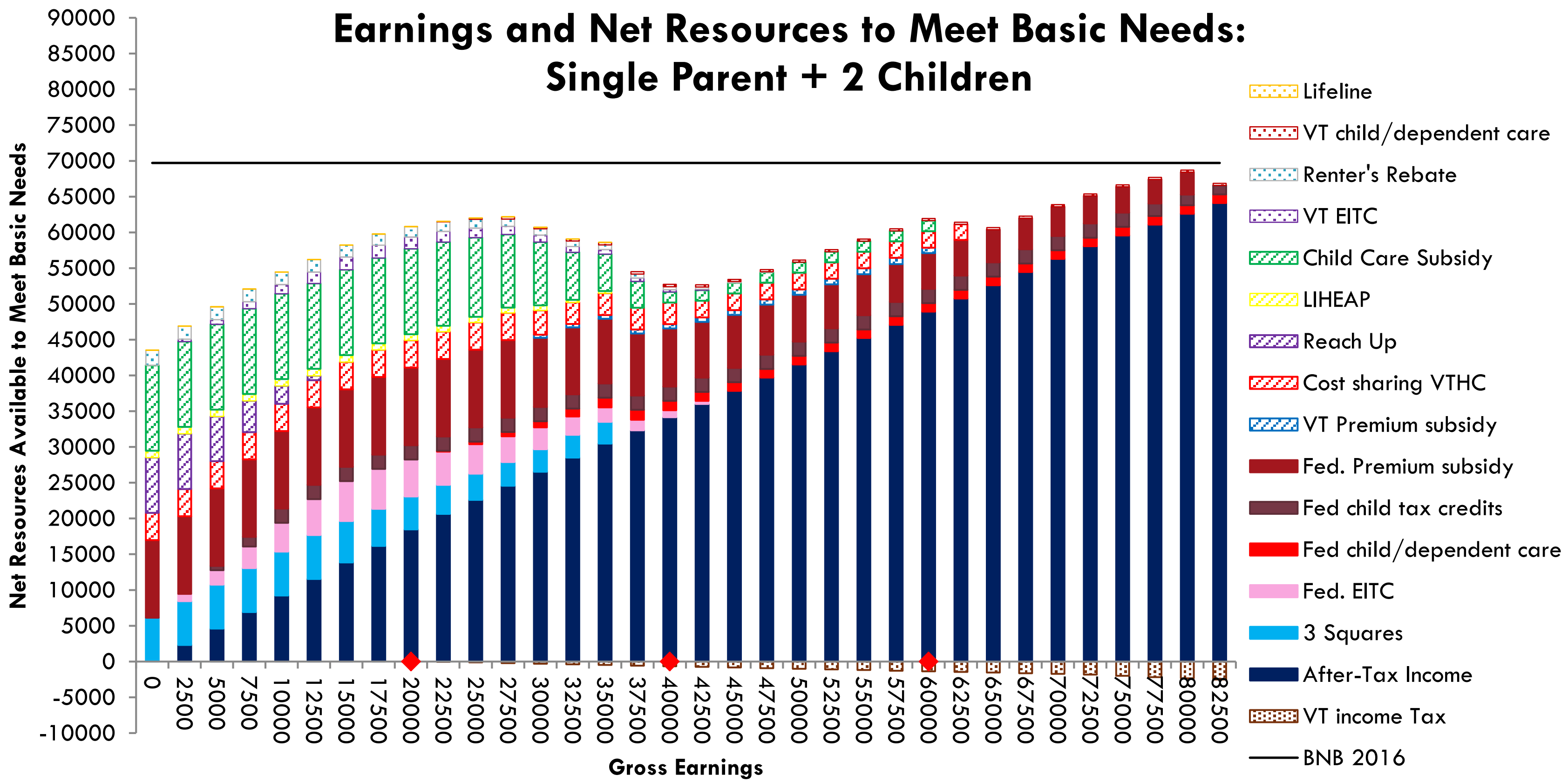
Impact of Increased Wages on CCFAP Subsidies

Single Parent Working Full Time, One Infant			
	Current Law		
	Starting Income	**New Income**	**Change**
	23,000	23,633	633
3 Squares	1,223	1,212	(11)
Child Care Subsidy	8,913	8,444	(469)
Fuel Assistance	737	705	(32)
Federal EITC	2,596	2,500	(96)
State EITC	831	800	(31)
Renter Rebate	1,311	1,284	(27)
Health Insurance*			(99)
change in income			633
gain (loss) in benefits			(765)

Impact of Increased Wages on CCFAP Subsidies

- Workers who, because of increased wages, experience a decrease in CCFAP and decreases in other public assistance are likely to experience a total loss in benefits that exceeds their income gain
- Increasing the minimum wage without enacting corresponding changes to CCFAP would intensify the existing potential loss in benefits
- Shifting the CCFAP subsidy to correspond with increases in the minimum wage so that affected families continue to receive the same CCFAP subsidy will mitigate the potential for an increased loss in benefits
  - The proposed shift does not eliminate the existing potential loss in benefits

Impact of Increased Wages on CCFAP Subsidies



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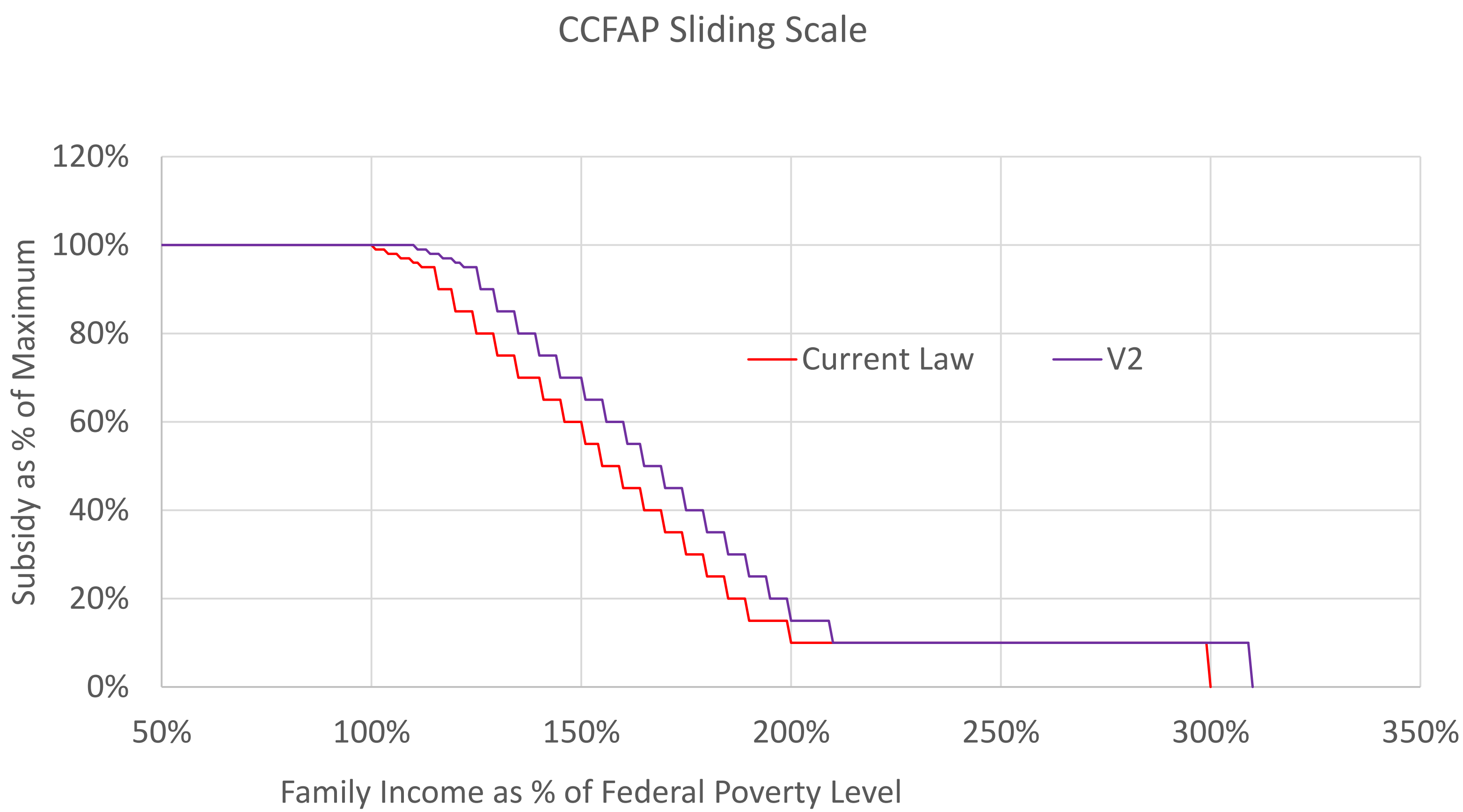

Impact of Increased Wages on CCFAP Subsidies

Single Parent Working Full Time, One Infant					
	Current Law			With CCFAP Change	
	Starting Income	New Income	Change	New Income	Change
	23,000	23,633	633	23,633	633
3 Squares	1,223	1,212	(11)	1,072	(151)
Child Care Subsidy	8,913	8,444	(469)	8,913	-
Fuel Assistance	737	705	(32)	705	(32)
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Renter Rebate	1,311	1,284	(27)	1,284	(27)
Health Insurance*			(99)		(99)
change in income			633		633
gain (loss) in benefits			(765)		(436)

Impact of Increased Wages on CCFAP Subsidies

		1	2
	Min Wage ($2018)	State Gov. Gain Assuming no CCFAP savings (mil $)	Best estimate of change in pay rate and new people (mil $)
2019	10.79	0.3	1.0
2020	11.11	3.0	2.0
2021	11.53	6.4	3.4
2022	11.95	8.6	4.9
2023	12.44	13.2	6.6
2024	12.95	17.5	8.5

Language Addressing Benefits Cliff in S.40

Sec. 2. CHILD CARE FINANCIAL ASSISTANCE PROGRAM; STATE PLAN

To the extent funds are appropriated, the Commissioner for Children and Families shall amend the Department for Children and Families' federal Child Care and Development Fund State Plan to:

(1) adjust the sliding scale of the Child Care Financial Assistance Program benefit to correspond with each minimum wage increase required pursuant to this act to ensure that the benefit percentage at each new minimum wage level remains the same as the percentage applied under the former minimum wage; and

(2) adjust the market rate used to inform the fee scale in a manner that offsets the estimated increased cost of child care in Vermont resulting from the increase in the minimum wage required pursuant to this act.

Any Questions?