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Agency of Human Services

Memorandum

To: **Ann Pugh, Chair, House Human Services Committee**
From: **Karen Vastine, Senior Advisor to the DCF Commissioner**
Date: **March 10, 2017**
Subject: **Reach Up Income Disregard Scenarios**

In response to the request to develop scenarios that address the benefits cliff posed by your committee, DCF staff from the Economic Services Division (ESD) and the Child Development Division (CDD) have provided descriptions of impact. As your committee continues its discussion, please let me know if additional information could be helpful.

Scenario 1:
Income disregarded for purposes of determining eligibility for a grant or subsidy amount for Reach Up (RU), Reach Ahead, and the Child Care Services Program, or extraordinary expenditures to pay down debt, etc.:

- *i) Participant income disregarded in amount equal to contributions to long term savings accounts*
- *ii) Employer contributions to employee's long term savings accounts are disregarded as employee income*

DCF Response:

- While 529 College Savings plans are not excluded as a resource in RU rules, in practice, 529 balances are not typically counted as a resource because the balance is inaccessible to the family. Furthermore, once 529 distributions begin for the beneficiary for qualifying education expenses, the beneficiary is typically no longer part of the RU assistance group; in most cases, children who are attending college are typically no longer counted in the RU household.
- ESD disregards income and assets associated with IDAs (Individualized Development Accounts).
- Reach Ahead does not have income or asset limits.
- Employer contributions to employee retirement accounts do not currently count as income. Only upon the asset liquidation of a retirement account would previous employer contributions affect RU eligibility. The proposal above to disregard retirement accounts would address this scenario.
- Regarding the Child Care Financial Assistance Program(CCFAP), the Child Development Division waives income eligibility requirements for families whose children are included in the RU assistance group and provides assistance at 100% of the State established subsidy.
- With respect to the anticipated caseload increase or cost of disregarding retirement accounts for RU eligibility:
  - The ACCESS eligibility system's available data does not include types of accounts, or level of assets. However, an estimate based on the number of cases that were not eligible for RU due to available resources and current asset limits as defined in rules (retirement accounts, savings accounts, vehicles, etc.) is obtainable: an estimated $250,000 in additional state funds would be required. This number does not account for how many of these applicants quickly "spent down" their assets and returned as eligible for RU.

- The Pew Charitable Trust conducted a research study of the nine states who eliminated asset limits and found that eliminating asset limits for TANF:
  - Did not affect the number of monthly applicants (after controlling for unemployment, population and other characteristics)
  - Reduced administrative costs
  - Ohio was the first state to eliminate the asset limit for TANF recipients in 1997. Though budget analysts in Ohio predicted an increase in caseload due to this change, no increase occurred.
- Regarding the ability for households to use earned income to either make contributions to savings plans or to pay down debt and address other extraordinary expenditures, ESD considered the costs associated with increasing the current income disregard amount, which would be applicable to all RU applicants:
  - Increasing the limit from $250 + 25% of remaining income (the current limit) to $265 + 25% would cost an additional $47,640 in state funds;
  - Increasing the limit from $250 + 25% to $275 + 25% would cost an additional $78,432 in state funds.

Scenario 2:
Assets excluded; such as the value of assets in college savings plans.

DCF Response:
Currently 529 college savings plans are not specifically disregarded for the purposes of RU eligibility. As mentioned above, they are typically not accessible to the family. If they are accessible to the family, the value of the account, minus the penalty for liquidating the account, is counted as a resource.

Scenario 3:
Graduated benefit levels for child care benefits.

DCF Response:
The chart following reflects the current Child Care Financial Assistance Program (CCFAP). On the sliding fee scale there are 23 benefit levels between 100% FPL and 300% FPL. The last column shows that people cluster at 100% FPL as that is where a subsidy of 100% is provided. Please note that the State's 100% benefit is 100% of the rate the State pays toward the provider's cost, therefore families receiving a 100% benefit may have to pay the provider additional money to reach the full cost. All Reach Up participants are at the 100% benefit level.

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CCFAP Subsidy Analysis

Annual Income Family of 3 or less	Annual Income Family of 4	Child Care Financial Assistance Eligibility Percentage	Number of Families	% of all CC FAP families*
$60,480	$72,900	10%	188	3.01%
$39,816	$47,964	15%	35	0.56%
$38,760	$46,692	20%	53	0.85%
$37,704	$45,444	25%	64	1.03%
$36,660	$44,184	30%	67	1.07%
$35,640	$42,900	35%	64	1.03%
$34,572	$41,640	40%	81	1.30%
$33,516	$40,404	45%	80	1.28%
$32,472	$39,120	50%	92	1.47%
$31,428	$37,860	55%	107	1.71%
$30,372	$36,588	60%	111	1.78%
$29,328	$35,352	65%	113	1.81%
$28,272	$34,068	70%	113	1.81%
$27,240	$32,808	75%	133	2.13%
$26,172	$31,548	80%	153	2.45%
$25,140	$30,264	85%	122	1.95%
$24,168	$29,136	90%	131	2.10%
$23,208	$27,972	95%	82	1.31%
$22,512	$27,120	96%	73	1.17%
$21,996	$26,484	97%	65	1.04%
$21,456	$25,860	98%	65	1.04%
$20,940	$25,224	99%	94	1.51%
$20,160	$24,300	100%	4155	66.58%
		Grand Total	**6241**	100.00%

Scenario 4

For 2 person and 4 person households: Maintain the original Reach Up grant, but for no longer than 60 months, until a family reaches $31,000 in income at which point all RU supports except child care stop. Child care subsidies may continue for up to 24 months until earnings reach $35,360.

DCF Response:

- Assuming no increases in the subsidy level under current CDD rates, Child care subsidies would continue for a household earning up to $35,360 (please see table above).
- The average duration of RU benefits is three years. Therefore, ESD assumes a duration of two additional years for those households that leave the program due

to increased earnings, and have used a benefit amount of $640 (benefit level for a family of 3).

- The cost for a fourth year of benefits, given the assumptions described above, would be $1,996,800 in state funds;
- The cost for a fifth year of benefits, give the assumptions described above, would be $4,300,800 in state funds.

Please note: There are programmatic implications to be considered that are not factored into our analysis such as:

- Whether or not the Reach Ahead (RA) population would be eligible to reapply to RU assuming allowable earnings of up to $31,000 for a maximum of 60 months (RA is not included in the estimates above, but is a large caseload). Including RA would magnify the estimates provided;
- This scenario considers two different household compositions held to the same income standard of $31,000 (i.e., 2 versus 4 person households). Currently in the program, as the number of household members increase, the allowable income standard also increases.
- This is a relatively complex change to the ACCESS system's logic. Programming the ACCESS eligibility system for these changes would be required. The needed resources (number of hours and associated funding necessary) to do so cannot be assessed within the timeline of this response.
- New rules for such a structure of eligibility would need to be developed and adopted.
- New operational procedures and associated training would be required for District Office workers.

Additional Questions from the Committee:

What are the income criteria/maxes for IDA's out of the Community Action Agencies? How would the above proposal interact?

Since IDAs are excluded resources for the purpose of Reach Up eligibility, the value of that asset is not relevant to the above proposal.

What are other states or countries doing to address work supports/benefit cliffs that we have not yet explored?

In line with policy recommendations from organizations such as CLASP and Urban Institute, states' attempts to address the benefits cliff fall into two major categories: eliminating the asset limit and increasing work supports/incentives (i.e. by extending eligibility, disregarding more income, or providing specific support such as child care).

Oregon implemented three major policy changes in April 2016:

1. Increased the income level which closed the grant by approximately $400 for a family of three. Previously $616 of earned income closed a TANF grant in Oregon; currently that amount is $1,012.
2. Phase out monthly cash assistance. When families become ineligible due to earned income, they continue to receive a gradually diminishing payment for three months after closure.
3. Reduce the childcare co-pay for the first three months after exiting TANF. For reference, many if not most, families receiving a 100% child care subsidy in Vermont pay a "co-pay" for childcare. This co-pay costs $25-100 per week, depending on the facility and number of children in the family.

Additionally:

- At least seven states disregard all child support income in the calculation of the TANF benefit
- Nine states have completely eliminated the asset limit
- 18 states exempt all vehicles as resources
- Other tax credits targeted at low income working families:
  - Maryland offers a “State Poverty Level Credit” equal to 5% of earned income
  - Several states have a “Family Tax Credit” based on the size of the family and an income threshold
- Other states have SNAP Transitional Benefits