

State Policies to Counteract the Cliff Effect in Public Programs

Summary Prepared by National Conference of State Legislatures, October 2011

The cliff effect refers to the sudden decrease in benefits that can happen with a small increase in earnings. Individuals receiving work support benefits, such as child care assistance, nutrition or cash assistance and some tax credits can often lose many of those benefits with just a slight increase in wages. Often times, the wage increase does not offset the amount received through the work support programs.

The research on the cliff effect stresses the importance of policies that take into account the consequences of eligibility cut-offs on overall financial security. Families can lose benefits before their earnings are high enough to adequately meet their basic needs. State policies that can address the cliff effect center around aligning work support programs and benefits with financial self-sufficiency benchmarks. Below are some policy options states have taken that would help counteract the cliff effect.

Define Financial Self-Sufficiency

One way to understand and put into context the cliff effect and is to establish a definition of financial self-sufficiency and the income level a family requires to meet their basic needs without public assistance. Some states use 200 percent of the federal poverty guideline as a proxy for this, while other states have taken a more nuanced approach and factored in the varying costs of living by geography, household size and ages of children. The Center for Women's Welfare at the School of Social Work at the University of Washington has created a Self-Sufficiency Standard, defined as the income needed for a family to meet its basic needs without any public or private assistance. The Standard takes into account the age and composition of the family and includes the costs of all major budget items.

Thirty-seven (37) states, including Colorado, have calculated the Self-Sufficiency Standard for their state. The Standard can be used as a benchmark to identify the "cliffs" and serve as the target income level at which public programs should expire.

There are some examples of states and local districts using the Standard in their public programs:

- Benchmark for self-sufficiency in workforce programs (Chicago)
- Formal measure of self-sufficiency and benchmark for success in welfare programs (Sonoma County, CA)
- Part of eligibility criteria for job training services (DC and Colorado, Eastern Region Workforce Board in Fort Morgan)
- Tool to analyze eligibility levels and program co-payments (Oklahoma, Pennsylvania)
- Create self-sufficiency calculators that staff and consumers can use (Colorado, DC, Pennsylvania and Washington states. Also localities: Chicago, New York City, California Bay Area)

Indiana passed a resolution in 2011, HR62, urging state agencies to use the Self-Sufficiency Standard when counseling individuals who seek assistance, education, training, or employment

Review Eligibility Levels and Include Phase-Outs

The main cause for families to suddenly lose benefits is tied to the eligibility thresholds for programs. In order to lessen the effects of a sudden loss of benefits, states have a few options:

1. Increase the eligibility limit so that it is more closely tied to the amount needed to meet self-sufficiency guidelines
2. Phase out benefits by establishing sliding scales and gradually lowering benefit amounts
3. Align eligibility across programs so that families do not lose all benefits at once

Examples of eligibility choices with the Temporary Assistance to Needy Families (TANF) program include addressing asset policies and how states treat child support income when determining eligibility. Below are states that have taken steps to address these concerns:

Eliminate the asset test allowing families to have some savings and still be eligible for assistance.

Four (4) states have no asset limit:

Alabama, Maryland, Ohio and Virginia

Exempt all vehicles:

18 states:

Alabama, Alaska, Arizona, Delaware, DC, Hawaii, Kansas, Kentucky, Louisiana, Maryland, Michigan, Mississippi, New Jersey, New Mexico, North Carolina, Ohio, Utah, Virginia

Disregard child support collected by the state in determining eligibility

Seven (7) states:

Arizona, Georgia, Indiana, Iowa, Montana, Tennessee, Wisconsin,

Provide Work Supports that Bridge the Gap

Work supports refer to those policies and programs that families can receive while working and serve as a supplement to their wage earnings. The most common include child care assistance, nutrition assistance (formerly called food stamps), tax credits, and other housing, transportation and health care programs. These are often very effective at helping families meet their basic needs, however, eligibility for these programs is often cut off before a family is able to meet those needs on wages alone. Providing these work supports and aligning eligibility with self-sufficiency goals can help bridge the gap between earnings and self-sufficiency.

Examples of state policies that could address the cliff effect in these programs:

Child care assistance – Child Care Development Fund (CCDF) subsidies are an important benefit for working families. Establishing higher income eligibility thresholds or phasing out eligibility as earnings increase can reduce the impact of a sudden loss of benefits. Some states have set eligibility levels at 200% of the federal poverty level or higher.

14 states with eligibility levels at or above 200% FPL

Alaska
Arkansas
California
Connecticut
Delaware
Dist of Columbia
Hawaii
Maine
Massachusetts
Mississippi
Nevada
North Carolina
Rhode Island
South Dakota

Nutrition Assistance – Expand categorical eligibility

The Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps) allows states to expand eligibility for the program by establishing automatic eligibility for individuals who qualify for other public assistance programs.

41 states have taken advantage of this policy by establishing broad-based categorical eligibility for SNAP benefits if they qualify for non-cash TANF or State maintenance of effort (MOE) funded benefit.

State Earned Income Tax Credit –

The federal earned income tax credit is credited with lifting millions of families out of poverty by offsetting the federal income tax for lower income earners. At least 24 states have implemented a state credit to do the same for state and local income taxes. The majority of state credits are refundable and based on the federal credit amount. The credits range from as low as 3.5% of the federal credit in Louisiana up to 40% in DC.

Refundable credits: 21 states

Connecticut, District of Columbia, Illinois, Indiana, Iowa, Kansas, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Nebraska, New Jersey, New Mexico, New York, North Carolina, Oklahoma, Oregon, Rhode Island (partially refundable), Vermont, Wisconsin

Non-refundable: 3 states

Delaware, Maine and Virginia

Other low-income tax credits –

Some states have created tax credits targeted to low-income families with incomes below a certain level. Most of these are nonrefundable.

Targeted tax credit for low-income families: 11 states

Arizona – Family Tax Credit based on family size

Georgia – Low Income Credit if income less than \$20,000

Indiana – Unified Tax Credit for the Elderly if income less than \$10,000

Kentucky – Family Size Credit based on family size and income

Maryland – State Poverty Level Credit equal to 5% of earned income based on family size and structure

New York – Household Credit if income less than \$28,000 for single and \$32,000 for others

Ohio – credit to ensure low-income families do not pay any income tax

Pennsylvania – Tax Forgiveness Credit to reduce all or part of tax liability

Virginia – Tax Credit for Low-Income Individuals can be taken in lieu of EITC; based on family size and structure

Wisconsin – Working Families Tax Credit if income less than \$19,000 for married filers

West Virginia – Family Tax Credit based on family size and structure

Other policy areas to consider:

- Public health insurance
- Housing assistance
- Transportation
- Education and training programs

While many states have passed various policies that fit within the self-sufficiency framework, few have done so as part of an intentional effort to address the cliff effect. This document is meant to describe those policies recommended by researchers who have examined the cliff effect, and to identify states that have implemented some of these policy options. (See the attached policy matrix for a listing of states and which policies they have implemented.) Addressing the full effects of eligibility cut-offs requires a comprehensive review of public programs and an understanding of the interaction between various policy and program areas. NCSL would be happy to provide any assistance necessary to examine policy options and learn from other state experiences.

Resources:

Self Sufficiency Standard – Center for Women’s Welfare, School of Social Work, University of Washington, <http://www.selfsufficiencystandard.org/index.html>

National Center on Child Poverty (NCCP) – Making Work Supports Work project
<http://www.nccp.org/projects/mwsw.html>

Institute on Taxation and Economic Policy (ITEP) – *State Tax Code as Poverty Fighting Tools* report
<http://www.itepnet.org/pdf/poverty2011report.pdf>

State EITC information – Tax Credits for Working Families,
<http://www.taxcreditsforworkingfamilies.org/>

Child Care Assistance – National Center on Child Poverty (NCCP) State Policy Wizard
<http://www.nccp.org/tools/policy/>

Supplemental Nutrition Assistance Program (SNAP) – expanded categorical eligibility information
Map of states, Food Research and Action Council http://frac.org/newsite/wp-content/uploads/2009/05/map_eliminating_asset_test.pdf

USDA, FNS State Options report, November 2010
http://www.fns.usda.gov/snap/rules/Memo/Support/State_Options/9-State_Options.pdf

Chart of broad-based categorical eligibility - <http://www.fns.usda.gov/snap/rules/Memo/BBCE.pdf>

Temporary Assistance for Needy Families (TANF) Policies
Urban Institute Welfare Rules Database - <http://anfdata.urban.org/WRD/maps.cfm>

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