



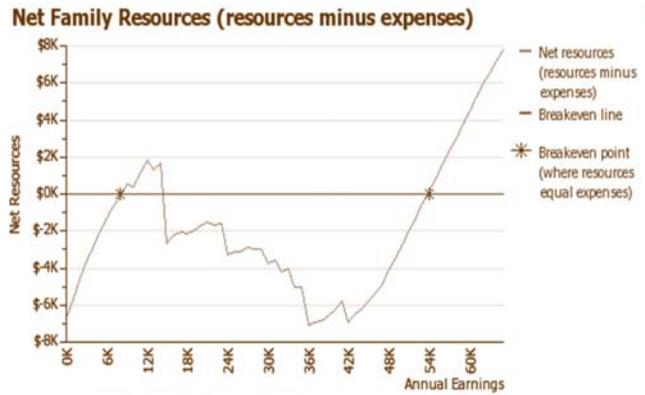
# KIDS COUNT in Delaware Issue Brief



## Benefits Cliffs

Fall 2010

Research conducted by the National Center for Children in Poverty has found that the programs created to assist people in poverty can also trap them as they try to become self-sufficient. Called the “cliff effect,” the phenomenon occurs when individuals in poverty find their work support benefits reduced if their income increases. Those who receive child care subsidies, food stamps and income tax credits may find losing such benefits are not worth the additional income that may come with a higher level of employment or working more hours. In fact, some families find they are worse off after a modest pay increase because of the cliff effect, resulting in a disincentive for the family to strive for self-sufficiency.

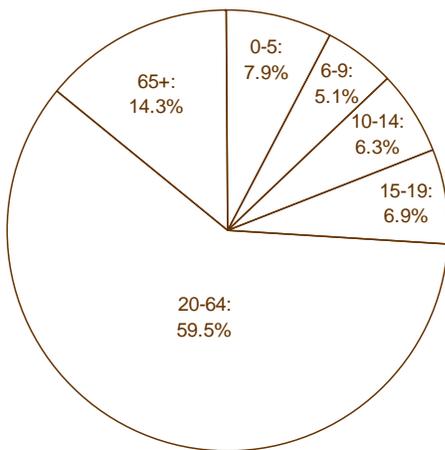


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Family Resource Simulator, Delaware 2009 (Results reflect user choices)

In this issue brief, we use the Family Resource Simulator to examine what these cliffs look like in Delaware and give recommendations for how to tweak the system so that work does pay.

## Counting the Kids: Delaware Demographics

### 2008 Population Estimate and Age Distribution, Delaware



Delaware Total	875,953
Total Children 0-19	229,849
Children 0-5	69,573
Children 6-9	44,613
Children 10-14	55,355
Children 15-19	60,308

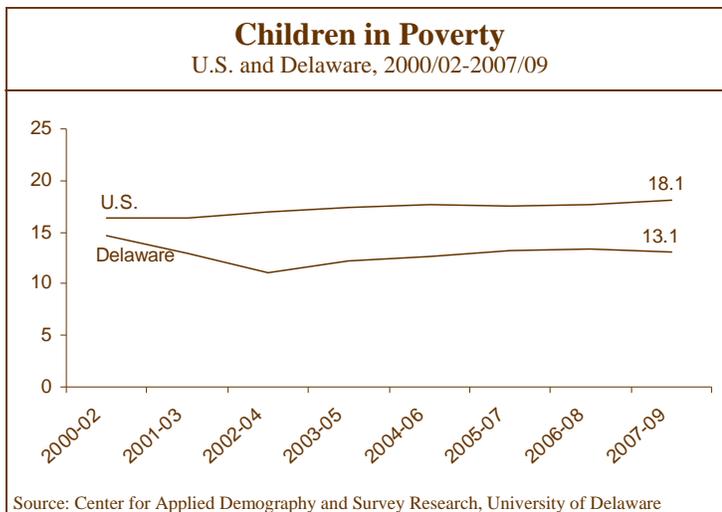
Source: Delaware Population Consortium, Population Projection Series, Version 2008.0

Demographically speaking, we are much less of a child centered society now than we were 100 years ago. In the United States, children accounted for 40 percent of the population in 1900, but only 26 percent in 2000. Similar trends are evident in Delaware.



## Delaware's Working Poor

Low wages mean that millions of parents in the U.S. work full-time, year-round and yet struggle to provide even a minimum of day-to-day necessities for their families. Government work supports - such as earned income tax credits, child care subsidies, health insurance, food stamps and housing assistance - can help. In theory, these benefits encourage, support and reward work, helping families close the gap between low wages and basic expenses. In practice, however, few families receive all of the benefits for which they are eligible and even multiple supports are often not enough to enable working families to make ends meet. Moreover, work supports are typically means-tested, and families tend to lose benefits before they can get by on earnings alone. In some cases, small increases in earnings can trigger sharp reductions in benefits, leaving families no better off, or even worse off, than before. In short, working more doesn't always pay.

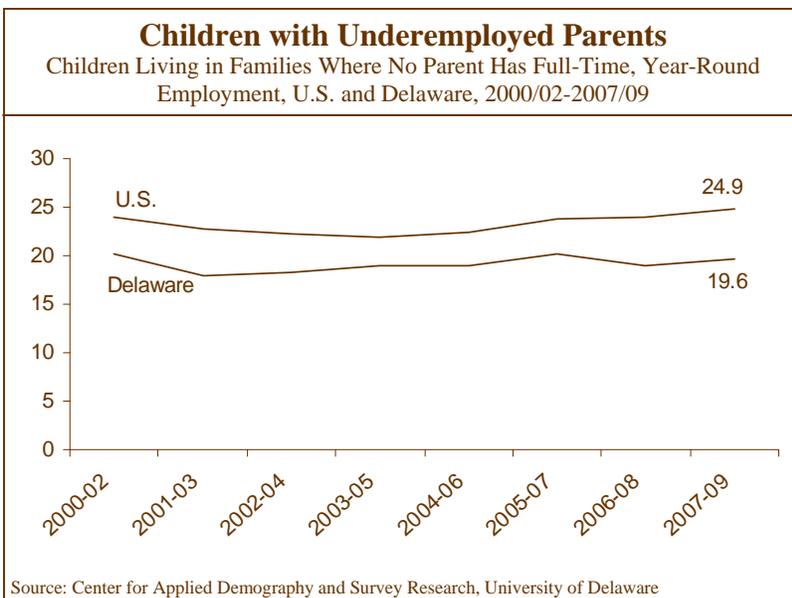


**Did You Know?** In Delaware, there are approximately 26,000 low-income families and 37% of them have a preschool age (under age 6) child.

Among low-income families in Delaware:

- ★ 86% have at least one parent who works
- ★ 60% have a parent who works full-time, year-round
- ★ 42% are two-parent families

Source: National Center for Children in Poverty, Mailman School of Public Health, Columbia University



According to the Delaware Department of Labor, the state shed nearly 12,000 jobs in 2009. The biggest job losses were in manufacturing (down 3,100), wholesale and resale trade (down 2,600), leisure and hospitality (down 2,500) and construction (down 2,100). Because of the decrease in available jobs and greater competition for those jobs, a number of qualified workers are being forced to take low pay jobs, part time jobs or jobs beneath their skill level. This is commonly referred to as 'underemployment.'



## Highlights of Public Benefits Available to Delaware Families

Benefit	Program Intent	Family Income Limit	Notes on Eligibility Criteria
<b>Supplemental Nutrition Assistance Program (SNAP)</b>	Formerly food stamps, program was originally established to improve nutritional levels of low-income households & to bolster the agricultural industry	130% FPL for a small number of families; 200% FPL for most families	A small number must have a current bank balance (savings & checking combined) under \$2,001, otherwise there is no resource limit
<b>School Breakfast &amp; Lunch Program</b>	Provide nutritionally balanced, low-cost or free breakfasts/lunches to children each school day	Varies by family size; Family of 3= \$33,874	If a family is eligible for food stamps, then the child(ren) automatically qualify for school breakfast & lunch program
<b>Child Care Assistance</b>	Assist poor/low income parents to work or educational/training activities	200% FPL	Available for children from infancy through 12 years of age
<b>SCHIP</b>	Cover uninsured children living in low income families	200% FPL; small monthly premium payment (\$10-\$25)	Children under 19 who do not qualify for Medicaid
<b>Medicaid</b>	Provide health care for low income children and adults	birth to 1= 200% FPL age 1-5= 133% FPL age 6-18= 100% FPL over 18 & uninsured= 100% FPL Pregnant women= 200% FPL	Families that include an employable parent are limited to 36 months. Families can receive additional months if the parent is working 30 hours per week. Children living in the homes of non-parent caretakers are not subject to a time limit
<b>Temporary Assistance to Needy Families (TANF)</b>	AFDC established to provide monthly cash assistance to very low income families with children. TANF serves same population with strong incentives for employment and marriage	Varies by family size; Family of 3= \$1,985/month Resources >\$1,000	Delaware has a 36 month time-limit unless an able-bodied parent works 30 or more hours a week, or child lives with a relative other than a parent (federal 60 month lifetime limit)
<b>Energy Assistance (LIHEAP)</b>	Allow low income households to pay heating/cooling bills	200% FPL	FY2009 Benefit: \$200 minimum; \$523 average; \$750 maximum
<b>Earned Income Tax Credit (EITC)</b>	Reward working poor parents and reduce the impact of payroll taxes on low earners	Varies by family size; Family of 3= \$40,295	In Delaware, credit is 20% of federal credit & is non-refundable
<b>Rent and Housing Assistance</b>	Originally intended to alleviate urban slum conditions; promotes market based incentives to low income families to find privately owned housing using vouchers	Gross income <80% of area median income	Rents are linked directly to income. Section 8 promotes market based incentives to low income families to find privately owned housing using vouchers



## NCCP's Family Resource Simulator



The Family Resource Simulator is an online tool that shows the impact of federal and state work support benefits on the budgets of low to moderate income families. Results illustrate how a hypothetical family's resources change as earnings increase, taking public benefits into account. The Family Resource Simulator can be found at: <http://www.nccp.org/tools/frs/index.php>



In order to illustrate how the Family Resource Simulator works and examine the idea of benefit cliffs in Delaware, we will examine the resources of one hypothetical family as their income increases.

### Family 'Cliff' Notes

- ★ Carol just went over a cliff– with disastrous results
- ★ Carol has a part time job so that she can stay home with Isabel (4) and Philip (6).
- ★ Last week, Carol got a promotion to a full time job that increased her wages from \$14,000 to \$18,000/year.
- ★ Great, you say! But wait a minute... Two weeks ago, her head was slightly above water; today she's a couple of thousand dollars a year in the hole.
- ★ What did she do? Buy a new car? Rent a bigger apartment?
- ★ NO! SHE didn't change a thing. WE yanked the rug out from under her and she went over the cliff.
- ★ What cliff? What are you talking about?
- ★ Carol went over the benefit cliff and took Isabel and Philip with her. That promotion caused her income to drop below her modest expenses which now include needed child care.
- ★ It gets WORSE! As her wages rise, she will lose benefits and incur additional expenses– making her sink further below her income/expense break-even point.
- ★ Not until her wages reach \$54,000/year [what are the odds of that in this economy?] will her income exceed her nearly static expenses.
- ★ Carol, Isabel and Philip are now firmly established working poor and will probably remain so for many years, perhaps the rest of their lives.



#### Our current public benefit system...



Is composed of a group of programs which were put in place in a "patchwork" way. Each benefit has its own process - including eligibility criteria, application procedure and rules. For a variety of reasons, not all families will apply for and/or get all of the benefits for which they are eligible. Most of our current public benefit programs serve those who have little or no income and thus, do not typically serve families we classify as working poor (with the EITC program being an exception).

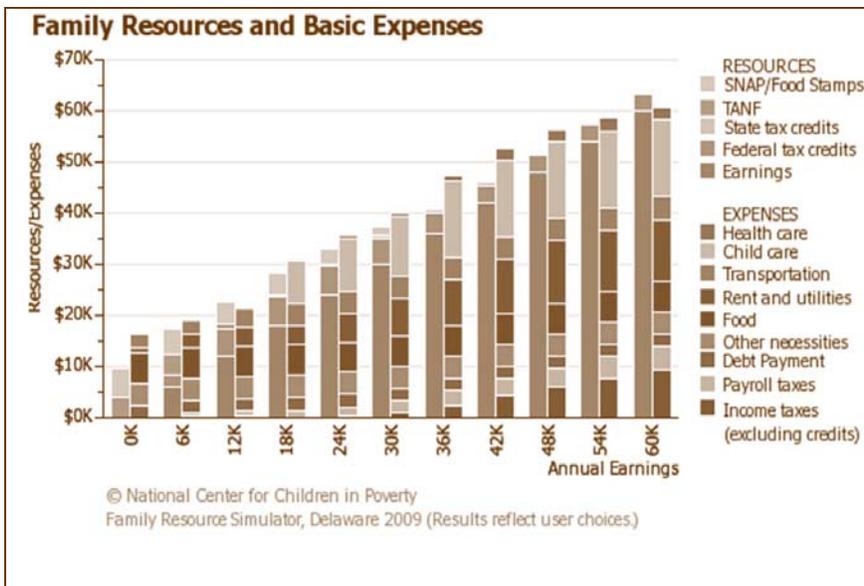




## Using a Hypothetical Family to Understand the FRS Tool

The online Family Resource Simulator tool calculates the Family's Resources and Basic Expenses based on the data input regarding the family. The tool has the ability to analyze a family using default resource and expense levels, or the user may customize the level.

**DID YOU KNOW?** Minimum wage is \$7.25/hr in Delaware. A person working full-time, year-round at this level would earn just over \$14,000/year.



For our hypothetical family - when mother's earnings are between \$6,000-\$12,000 and the family is benefiting from work supports, the family is above the break even point - they are doing OK. At \$12,000 (the equivalent of part-time work), the family begins to lose ground due to increases in expenses related to maintaining employment (transportation & child care). They continue to lose ground as supports are reduced or eliminated with increased income levels. At \$42,000 (equivalent of \$21/hour), our hypothetical family has no more benefits to lose. However, it's not until wages reach \$54,000 (the equivalent of approximately \$27 per hour, full-time) that resources will break even with expenses again.

### Net Family Resources (resources minus expenses)



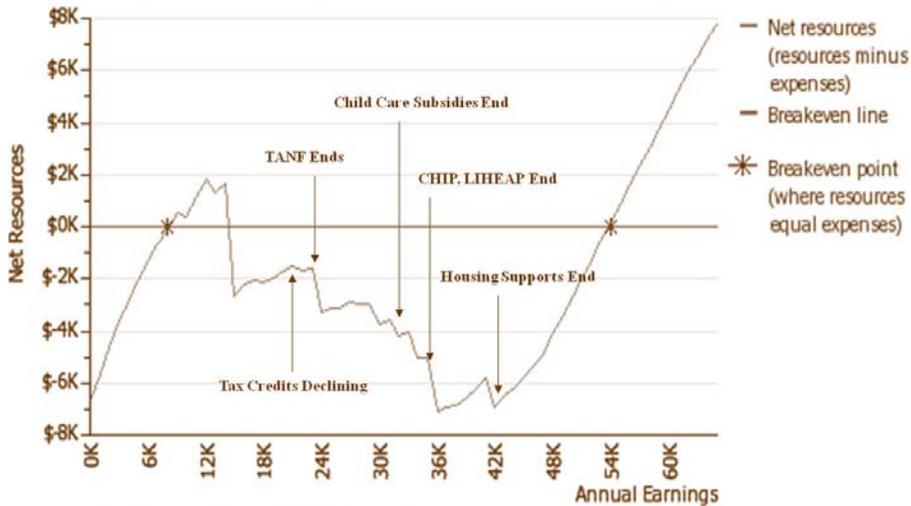
### Meet our Hypothetical Family...

- ★ Single Mother
- ★ Lives in New Castle County
- ★ Two 2 Children: 4 and 6 years old respectively
- ★ Children are in child care centers when mother is working
- ★ Family lives in public housing or receives rental assistance
- ★ Receives no child support
- ★ Medical Insurance is available through mom's employer
- ★ Monthly credit debt of \$200



## The Cliff Effect Demonstrated for a Hypothetical Family

### Net Family Resources (resources minus expenses)



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Family Resource Simulator, Delaware 2009 (Results reflect user choices.)

### Decreasing Public Supports

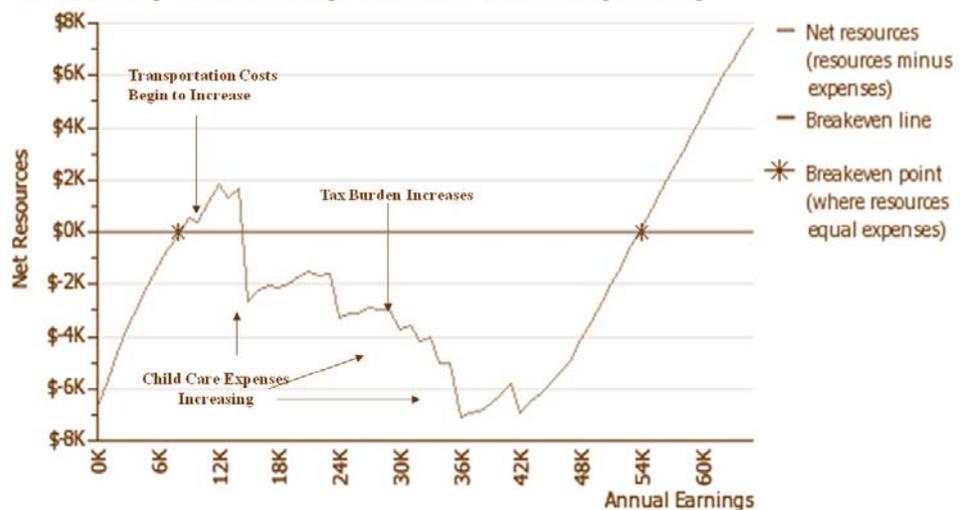
Eligibility for work support benefits is typically based on income, so as earnings increase, families lose eligibility for support. Work supports can help narrow, and in some cases close, the gap between low wages and the cost of basic expenses. But as earnings increase, loss of public supports acts to keep families struggling.

As a family earns more income, they face two distinct challenges to hitting the “break even” point where resources equal expenses. Specifically, families **lose public supports** and families **incur more or higher expenses** related to the increased work load that accompanies an increase in income.

### Increasing Expenses

A family’s total expenses increase as a parent works more - there is an additional demand related to transportation for getting to/from the job, additional costs related to child care as the number of hours a parent is on the job increases, and a higher tax burden as family income increases.

### Net Family Resources (resources minus expenses)



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Family Resource Simulator, Delaware 2009 (Results reflect user choices.)



## Recommendations for Policy Reform

Moving from our current patchwork system to a more comprehensive system of public benefits is a promising strategy for policy reform.

### A Comprehensive Work Support System should:

- ★ **Incentivize work.** A family should be better off financially with work than without.
- ★ **Provide adequate family resources.** If parents work full time, their earnings combined with public benefits should be sufficient to cover basic family expenses.
- ★ **Reward progress in the workforce.** When parents increase their earnings, their families should always be better off.

Recommendations for Policy Reform:

- ★ Make state income tax credits refundable to reach low-income families (to put money directly into the pockets of those working and still struggling).
- ★ Increase investments in child care subsidies (the high cost of child care is one of the biggest barriers; while high quality care can serve to close achievement gap and break the cycle of poverty).
- ★ Expand access to public health insurance for parents and children (covering all kids is important, but healthy children need healthy parents too).

### Making An Immediate Impact Using Stimulus Funding

Over the past year, Delaware has undertaken tasks aimed at re-structuring “benefits cliffs”

- ★ Under the American Recovery and Reinvestment Act, the Supplemental Nutrition Assistance Program (SNAP) received nearly \$20 billion in additional funds for FY 2009-2010, increasing average household benefits by 20%
- ★ Through the American Recovery and Reinvestment Act, a new TANF emergency contingency fund was created to enable states to provide more help to low income families. The \$5 billion fund is a temporary provision for federal fiscal years 2009 and 2010. The fund provides for an 80% federal reimbursement for funding increases for basic assistance, short-term benefits and subsidized employment. Through the TANF emergency contingency fund, states can help more needy families avoid foreclosure or eviction, or meet expenses like high energy bills and car repairs.

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### Impacting the Long Term by Restructuring Delaware’s EITC

Currently, Delaware’ non-refundable EITC is set at 20% of the federal level credit. A non-refundable credit allows taxpayers to benefit only to the extent that they owe taxes. Such a credit can reduce a family’s taxes to zero, but if a family does not owe any taxes then they cannot benefit from the credit.

Potential ways to restructure the state level EITC include:

- ★ Making the state level EITC refundable in Delaware
- ★ Increasing Delaware’s percentage of the federal credit from 20 to 40
- ★ Making non-custodial dads eligible for EITC conditional to their child support payments

Such restructuring of policy clearly encourages work. Despite the fact that it incentivizes positive behavior and reduces the “benefit cliff” it is difficult to consider this type of program expansion during a time of serious financial shortfalls in government. Implementation of such a policy change would be quite expensive. Thus, our recommendation given the current economic climate is for a phased-in implementation over a four year period at 5% each year unless economic circumstances allow for this phase-in to be accelerated.

