CIRCLES USA
Building Community to End Poverty

Circles USA's Cliff Effect Report for New Mexico First

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Context

This report completes the first phase of collaboration between NM First and Circles USA. On April 21, 2018, Circles USA committed to the following, which is included below:

1. Working with New Mexico First, and with input from New Mexico government staffers, develop up to three hypothetical frameworks for cliff effect reform options? (i.e., graduated step down by X% over Y months in one or more programs, tweaking basic eligibility thresholds to reduce churning)
2. Use Circles USA's existing calculator to apply those frameworks to case studies of families, with the goal identify the best framework(s) that can result in financial gain.

Report Introduction

Circles USA has identified the cliff effect as the biggest barrier to families to getting out of poverty. The cliff effect occurs when working families lose public benefits faster than they can earn income to replace the lost resources. This report will examine the cliff effect felt by New Mexico families using three hypothetical cases. The cases are followed by recommendations for possible remediation to lessen the impact of the cliff effect. The data presented in this report is based upon the cliff effect estimating tool (CEPT) developed by Circles USA for New Mexico.

Demographic Information

The most recent census data shows New Mexico's population to be 2.0 million, with 401,000 individuals (20%) living in poverty. There are 1.6 million families (defined as two or more persons) living in New Mexico, with 16% of these families living in poverty; 27% of New Mexico's children are currently being

raised in poverty. A disproportionate share of single parent households (39%) in New Mexico are currently living in poverty, exceeding the national average (31%). The 2017 median income for New Mexico was $46,744, which was significantly lower than the median income of $60,336 in the United States for the same year.[1, 2]

Case Family 1

Mia is a single mother (age 28) with a daughter Ava (3 years old) and son Luis (7 years old). Mia will soon complete a program to become a Licensed Practical Nurse (LPN) and is looking forward to finding a new job once she graduates. Mia has been working as a personal care aid while in school for 35 hours/week, earning $13.00/hour. Her annual income is $23,205 (111% of the FPLs).[3, 4] Mia and her children receive public assistance from several programs, including food stamps ($511), child care assistance ($467), and medical assistance ($469).

Mia recently received a LPN job offer and is excited to start her new career. The starting salary would be $3,600/month and includes health insurance. Her out-of-pocket cost for individual coverage would be $100/month.[3, 4] The new salary will place Mia and her family at 208% of the FPLs. Although the increase in salary is significant, Mia starts to question how much better off she will be if she accepts the new position. With the increase in income, Mia will lose all assistance from public programs ($978) and she estimates that child care will cost about $1,000/month. Mia isn't concerned about losing food stamps as she's considers herself quite resourceful in managing her food budget, but the child care assistance she receives is critical to the well-being of her children. She doesn't know how she'll be able to keep her daughter in the quality-rated child care center she's been in since birth and still feed the family. With the new job, she'd be responsible for the full amount of both. Mia quickly realizes that although she will be making $1,600 more per month, her family may not be much better off. Mia wonders why she even enrolled in the LPN program if she can't afford to take an LPN job.

Case Family 2

Sofia (age 33) and Alejandro (age 35) have been married for 12 years and have two children: Daniel (age 3) and Lucas (age 6). Alejandro works in a local machine shop for $15/hour full-time, while Sofia works at a local hotel at the front desk several days a week in the afternoon and evening ($10/hour for 24 hours/week).[3, 4] Based on their work schedules, the family's daycare requirements are limited to approximately 8 hours/week. A neighbor watches Daniel and Lucas (after school) for $150/month. Alejandro's employer does not provide healthcare since it's a small shop with only four employees. The family purchases healthcare on the ACA marketplace for $180/month after federal subsidies.[5] The family does not receive any other public benefits. The household has a monthly income of $3,570, which is 171% of the FPLs. Monthly expenses average $3,400 so the family lives paycheck to paycheck and they are often short at the end of the month.[4]

Sofia has been offered a full-time position at the hotel, making $12/hour as a front desk manager. With the promotion, the family's combined income would increase to $4,590/month, placing them at 219% of the FPLs. With the new job, however, the family will need full-time daycare for Daniel and daily after school care for Lucas. Their neighbor is unwilling to provide the increased level of child care, so Sofia investigated a local daycare center for Daniel and looked at the after-school program at Lucas' elementary school. Sofia estimates that full-time child care costs for the family will run $1,000/month instead of the $150/month they used to pay. The family would not eligible for any assistance from New Mexico's (Children, Youth & Family Department since all assistance ends at 200% FPL.[9] The increase in the family's income would be fully offset by increased child care costs. Even though the promotion at the hotel could lead to further salary increases and career advancement in the future, Sofia decides to pass on the current front desk manager position.

Case Family 3

David and Karen (now both 66 years of age), along with their two daughters (Nicole and Sarah), settled in New Mexico in the late 1980s. David was a truck driver and Karen was a stay-at-home mom while their children were at home. Sarah (now age 38) is divorced and has sole custody of her three children: John (age 13), Ryan (age 8), and Jessica (age 5). Sarah's husband is estranged from the family and, despite court orders, does not provide any spousal or child support. David, Karen, Sarah, and her 3 children live together in the family's original home. Sarah works-full time as an administrative assistant with a monthly salary of $2,500 (116% of the FPLs), but receives no health care coverage from her employer since the office has only three employees.[3, 4] Karen works part-time at a retail store approximately 15 hours/week for $10/hour. David is retired and receives a small pension along with social security benefits. Both Karen and David have Medicare coverage. Sarah receives food stamp assistance of $925/month and is eligible for Medicaid. Her children are covered through New MexiKids. Although all six individuals live together, the size of the household is based upon tax returns. In this case, the family files two returns: one for Sarah and her three children and one for David and Karen. As a result, household income and percentage of the FPLs is based on Sarah's tax return.

Sarah has the opportunity to move to a new job with a monthly salary of $3,000. The new position, like her current position, won't include healthcare benefits. Sarah is concerned that the increase in income will cause her to lose her food stamp benefits and/or her Medicaid and New MexiKids coverage. Sarah does some research and discovers that with the increased salary her food stamp benefits will drop to $715/month, leaving her a net gain of $290/month. The Medicaid and MexiKids benefits would remain unchanged.[6] Sarah is disappointed that she will only keep 58 cents for every dollar of increase in salary but decides to take the new job.

Shortly after accepting the new job, Sarah realizes that if her income was to increase further, say to $3,750, she would lose Medicaid coverage and would be forced to buy health insurance through the ACA marketplace. Sarah decides she will not agree to take on overtime work, even if this causes conflict with her new employer. If she worked overtime and exceeded the Medicaid threshold, the cost of buying health care coverage through the ACA marketplace would wipe out a large portion of her new income. More importantly, she doesn't want to go through the hurdles associated with going on and off Medicaid and possible face gaps in her health care coverage.

Mitigation Opportunities

The three cases described above illustrate the impact of the cliff effect on New Mexico families as they cross different income thresholds on their journey out of poverty. In the first two cases, the issue of child care subsidies plays a critical role in the tough decisions that low-income parents must face. The child care assistance threshold that is currently in place in New Mexico is set at 200% of the FPLs. Crossing over 200% of the FPLs, a marker often used to denote financial self-sufficiency, instead results in a net decrease of family resources. A family with two working parents and one child (and FPL of $20,780) may cross 200% of the FPL threshold while both parents work minimum wage jobs (e.g., as in both Santa Fe and Le Cruces, which are raising the local minimum wage to over $10/hour in 2019). Nevertheless, its is unlikely a family under this circumstance will be able to afford quality-rated child care on their own.[7, 8, 9]

One way to mitigate the child care cliff effect would be to simply revise the threshold for child care assistance benefits to a level above 200% of the FPLs. In the United States, there are currently 14 states with child care eligibility thresholds that are set at greater than 200% of the FPLs. In Colorado and Vermont, the child care assistance thresholds are nearly 300%.[9] The new threshold could be raised for all families (i.e., child care benefits would continue in full until the new threshold was reached) or a

sliding scale could be implemented between 200% of the FPLs and the new, higher threshold. With a sliding scale, families would more gradually lose benefits as their income increased. Another way to mitigate the child care cliff would be to cap child care costs to a percentage of household income, with families living under 200% of the FPLs receiving full child care benefits.

> "Child care is an invisible part of the economy. Economists don't typically look at child care — they don't often study the people who are employed by it, nor do they look at how many of our nation's employees are dependent on it [in order to do their jobs]." --Ellen Galinsky, president and co-founder of the Families and Work Institute.[10]

On the one hand, child care costs have an obvious impact on an individual family's budget. On the other hand, lack of affordable child care negatively affects our local, state, and national economies. When a family's budget is constrained by child care costs, their consumption of other goods necessarily decreases. Further, lack of affordable child care is seen as a common reason a parent may choose – at least temporarily – to drop out of the labor market. When these effects are added across families, economic growth is hindered. Researchers in Louisiana, for example, estimated that $84 million in tax revenue was lost annually due to issues related to child care. Meanwhile, businesses across the United States estimate they lose $3 billion child care-attributed absenteeism of their employees.[10, 11]

Finally, the Institute for a Competitive Workforce, an affiliate of the United States Chamber of Commerce, has stated that for every dollar invested in high quality, early childhood education for disadvantaged children, future savings range from $2.50 to $17. Research by Nobel Prize Laureate and University of Chicago Economist, James Heckman, has demonstrated that investment in high-quality early childhood programs deliver a seven to 10% return on investment (ROI), annually. Heckman showed the highest returns were received for programs that targeted the earliest years, from birth to age three. The observed ROI is received by preventing achievement gaps, improving health outcomes, and

boosting future earnings.[12] From Circle USA's relationships with other regions, we know that the Florida Chamber of Commerce has place a high priority on addressing the child care cliff in their state, with early discussion that a large non-profit funder may underwrite at least a portion of the mitigation effort.

Going back to our initial families, the third case highlights the cliff effect as a family potentially transitions from Medicaid to the ACA marketplace. Although federal subsidies are available for the ACA marketplace, the transition from Medicaid to the ACA marketplace (even with subsidies) may present a challenge for many. As part of the research for this summary, it was noted in several sources that each public benefit program in New Mexico requires different information on different forms. Many families face switching on and off benefits as income rises and falls (e.g., in the case of overtime hours), with resulting gaps of coverage leading to frustration, fear, and reluctance to move beyond the status quo. One possible mitigation approach might be to implement a common application for all New Mexico benefit programs. The common application would simplify and de-mystify the application (and re-application) process for families. This is analogous to commercial tax preparation programs which can generate state and federal tax returns based upon the basic information entered plus a few specific details. A common application for benefits would not only facilitate the application process for families but would also ensure that consistent and accurate information is provided across multiple agencies.

References

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