The Impacts of Increased Income on Receipt of Benefits and Tax Credits

June 2015

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Executive Summary

To unveil some of the potential impacts of rising incomes on individuals' and families' ability to access government-provided benefits and tax credits (see Table 1), we examined three hypothetical families.

- Single adult with no child
- One-parent, one-child family
- One-parent, two-child family

For the purpose of determining benefits amounts, we assumed each of these families had the following characteristics:

- Adult is 30 years old and the children are between 3 and 6 years old
- Families live either in the Portland metro area or in Burns (Eastern Oregon)
- Adult or parent works either 18 hours per week or 30 hours per week

Table 1. Benefits and Tax Credits
Self Sufficiency:
Supplemental Nutrition Assistance Program (SNAP)
Temporary Aid to Needy Families (TANF)
Employment Related Day Care (ERDC)
Health Care:
Medicaid
Children's Health Insurance Program
Advanced Premium Tax Credit
Rental Assistance:
HUD Section 8 Housing Choice Vouchers
Taxes and Tax Credits:
Federal Income Tax (including the Child Tax Credit)
FICA (or payroll) Taxes
Oregon Income Tax
Federal Earned Income Tax Credit (EITC)
Oregon Earned Income Credit (EIC)
Oregon Working Families Tax Credit

The above characteristics were selected to ensure the analysis demonstrated the impact of increased income for a significant proportion of Oregonians and uncovered whether the impacts vary by region. The impacts described in this analysis are based on 2014 figures and program design.

Overall, becoming ineligible for Medicaid coverage and transitioning to a private health insurance plan, the cost of which is partially offset by the Advanced Premium Tax Credit, represents the most substantial loss of resources for families as their hourly wages increase. Individuals and families become ineligible for Medicaid (and other benefits and tax credits) as their incomes increase depending on family size, with single adults working 30 hours per week becoming ineligible at $10 per hour; one-parent, one-child families becoming ineligible at $13.50 per hour; and one-parent, two-child families becoming ineligible at $17 per hour.

The majority of the benefits programs, income taxes, and tax credits either increase or decrease in tandem with increased earnings, meaning families do not experience a sudden loss of resources (also known as a "benefits cliff"). These include SNAP, the Advanced Premium Tax Credit, and all the taxes and tax credits listed in Table 1. For example, though single adults working 30 hours per week become ineligible for Supplemental Nutrition Assistance Program benefits once they earn $12.50 per hour, they do not experience a sudden decline in benefits because their benefit gradually declines as their income increases. However, though the benefits provided through the Section 8 rental assistance program decline as incomes rise, clients who become ineligible for this program can experience a sudden loss of resources.

In terms of those receiving the Employment Related Day Care (ERDC) subsidies, families with one-parent working 30 hours per week, with one, two, or three children do not lose access to those subsidies as hourly wages rise up to $18 per hour. However, the families' contribution towards child care, or the copayment, gradually increases as the family's income grows.

The total resources available to families receiving benefits through Temporary Assistance to Needy Families (TANF) steadily increases as those families increase the number of hours worked at $9.10 per hour. These families' monthly income available to cover expenses, however, declines at 14 hours of work per week, when they become ineligible for TANF benefits. Once this occurs, families are able to take advantage of ERDC subsidies to offset the costs of child care.

The following pages provide detailed information on the impact of increased income on families' eligibility for government-provided benefits and tax credits and the assumptions used to develop these conclusions.

Background

The impact on individuals' and families' ability to access government-provided benefits and tax credits has been raised as an important potential source of unintended consequences resulting from increases in household incomes. Often, individuals' and families' incomes increase as they work more hours and/or move into higher paying jobs. Due to the potential loss of access to benefits and tax credits, some individuals and/or families could have access to fewer resources to pay for necessities such as food, rent, and health care as their income increases.

For this analysis, we made a series of assumptions, detailed below, intended to ensure that it demonstrated the impact of an increase in the minimum wage for a significant proportion of Oregonians. All assumptions for this analysis, including employment data, benefits eligibility and payments standards, taxes and tax credits, are based on 2014 figures.

Family & Household Assumptions

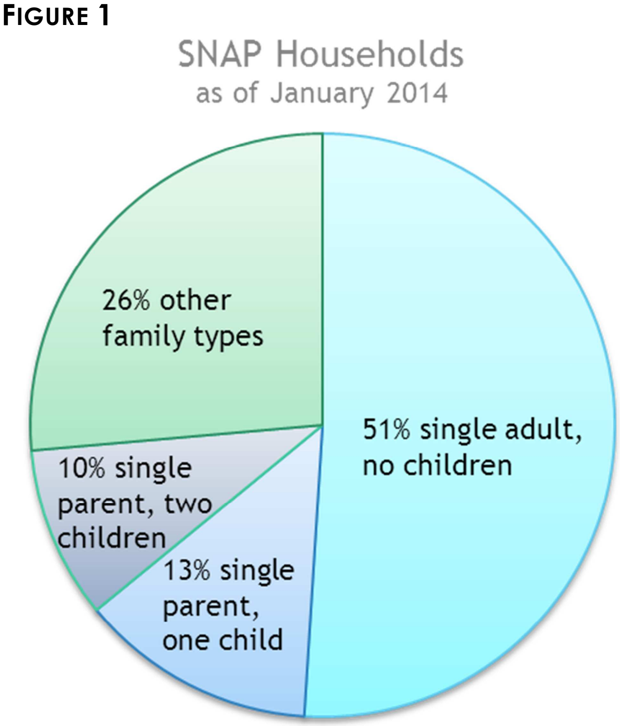
To construct a set of hypothetical families, it was necessary to create a series of assumptions, such as the number of wage-earners, the age of family members, and the region of Oregon in which they reside. Making these assumptions, described in detail below, allowed us to determine eligibility for benefits and tax credits for each scenario.

To capture potential regional variation in the impact of rising incomes, we examined families that live in both Portland (Multnomah County) and Eastern Oregon (Harney County) since the Portland metro area has the greatest number of jobs paying the minimum wage and Eastern Oregon counties have the highest proportion of workers earning the minimum wage. [1]

First, since eligibility for benefits and tax credits are, in part, based on the number of adults and children living in the household, we identified and examined the most common household compositions of those receiving SNAP, TANF, and ERDC benefits. Using data from January 2014, the following household compositions represent 74% of SNAP recipients:

- single adult without children,
- single parent with one child, and
- single parent with two children.

FIGURE 1



[1] Counties with the highest proportion of jobs paying the minimum wage: Malheur (10.9%), Harney (10.6%), Wheeler (10.2%), Sherman (9.3%), and Jefferson (8.6%). Source: State of Oregon Employment Department, "Characteristics of Minimum Wage Workers," February 2015.

FIGURE 2

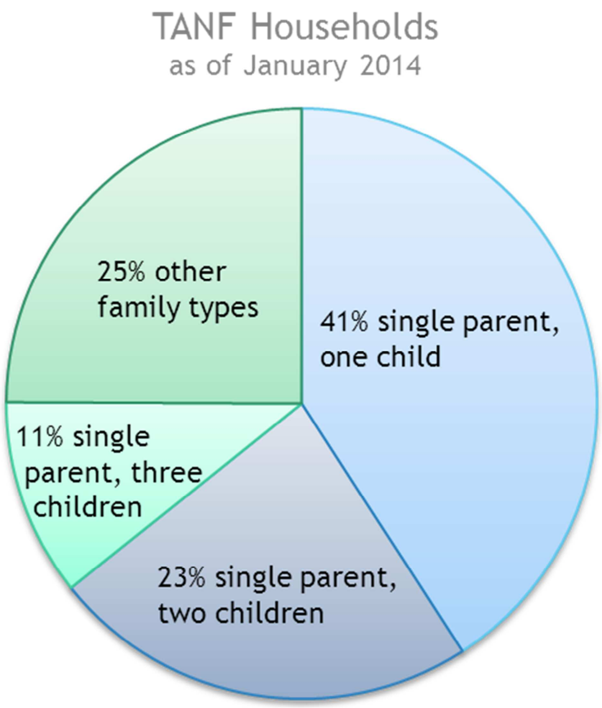
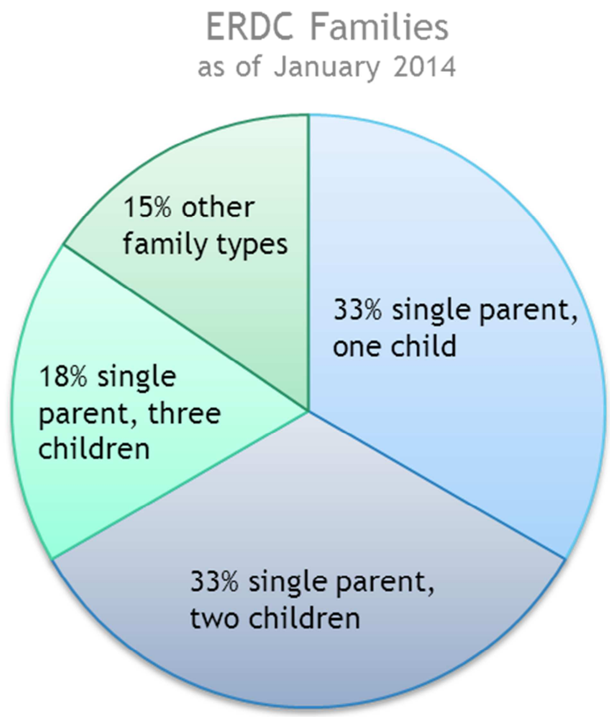


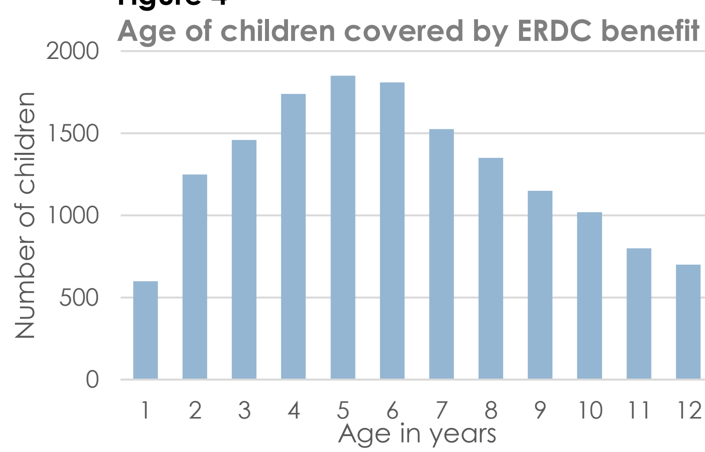
FIGURE 3



Similarly, the following household compositions represent 75% and 85% of those receiving TANF and ERDC benefits, respectively:

- single parent with one child,
- single parent with two children, and
- single parent with three children.

Figure 4



Within each of these households, we assume that the child or children in the households are between the ages of 3 and 6 years old, as these are the most common ages of children served by the ERDC program (see Figure 4). We also assume that the adult is 30 years old because this the most common age of a household head in a low-income[2] household with a 5-year-old.

Wage and Income Assumptions

While households can increase their incomes in a variety of ways, to demonstrate the impact of a rise in wages, we assume the households receive only <u>earned</u> income and fix the number of hours worked by the household at 18 hours and 30 hours per week.

We examine households working 18 hours per week because this represents the average number of hours worked per job with wages up to $11.99 per hour. As such, this is the average number of hours worked by those who would receive a raise if the minimum wage were increased up to $12.50 per hour.[3] Similarly, we examine households working 30 hours per week since approximately half of employees earning between $13 and $13.99 per hour work at least 30 hours per week. This work level

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[2] Low-income, in this case, is defined as 200% of the Federal Poverty Level.

[3] Data includes number of hours worked per job and does not account for hours worked by those employed at more than one job.

captures the impact on households who would be affected if the minimum wage were to increase up to $15 per hour.

Benefits Assumptions

Supplemental Nutrition Assistance Program (SNAP)

This program offers food benefits to eligible, low-income individuals and families. In this analysis, the household is determined to be eligible for SNAP benefits if their monthly income is below 185% of the 2014 Federal Poverty Level for the household size. In determining benefit amounts, we used the 2014 payment standards, including the 2014 standard deduction, utility deduction, and maximum shelter deduction rates.

Temporary Aid to Needy Families (TANF)

The TANF program provides cash assistance to low-income families with children while they strive to become self-sufficient. To qualify for TANF, families must have very few assets and little or no income. In 2014, 96% of all families receiving TANF benefits had no earnings.[4] The 2014 income limit for a two-person family was $499 per month and $616 per month for a three-person family. Similar to other benefits programs, TANF benefits gradually decline as income increases, until the family's income exceeds the eligibility limits and they no longer receive TANF benefits.

In examining the impact of increased income on the receipt of benefits for recipients of the TANF grant there are few important differences to note. First, those receiving a TANF grant receive subsidies for child care for hours spent at work or on other approved activities, plus an additional 25% of hours for meals and travel time. Families on TANF are not required to pay a copayment for child care services. Second, this analysis assumes families transitioning off of TANF benefits receive ERDC subsidies, which do include a copayment.

Employment Related Day Care (ERDC)

This relatively small program, serving a monthly average of approximately 8,079 families during the 2013-15 biennium, pays subsidies directly to child care providers on behalf of eligible families, who are responsible for providing a copayment to their child care provider.

To be eligible to receive ERDC subsidies, the family's income must fall below 185% of the Federal Poverty Level. For 2014, this is equal to $2,425 per month for a one-parent, one-child family and $3,051 per month for a one-parent, two-child family. Participating parents are able to receive ERDC subsidies for the number of hours spent working plus an additional 25% of hours for meals and travel time.

The Department of Human Services sets maximum rates for child care costs based on the region where the care is provided, the type and setting of the child care, and the age of the child receiving services. The analyses of families working both 18 and 30 hours per week assumes the family is receiving subsidies for a part-time licensed, certified child care center for preschool aged children (3- to 6-years-old). For the analysis of the TANF program, we assume this same rate once the family begins using the ERDC program at 14 hours per week and until the parent begins working 32 hours per week, at which point we include full-time child care rates.

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[4] Source: "Report to the 2015 Legislative Assembly Regarding Temporary Assistance for Needy Families As Required by ORS 412.079," http://www.oregon.gov/dhs/assistance/publications/2015%20TANF%20Report%20for%20ORS%20412.079.pdf

Medicaid & Children's Health Insurance Program (CHIP)

Eligibility for Medicaid and the Children's Health Insurance Program (also known as the Oregon Health Plan) are determined on an individual basis, with adults and children in households with incomes below 133% of the Federal Poverty Level eligible for Medicaid and children in households with incomes between 133% and 300% of the Federal Poverty Level eligible for CHIP.

In this analysis, benefit amounts for Medicaid and CHIP are represented by 2014 state spending per individual: $565 for adults and $240 per child.

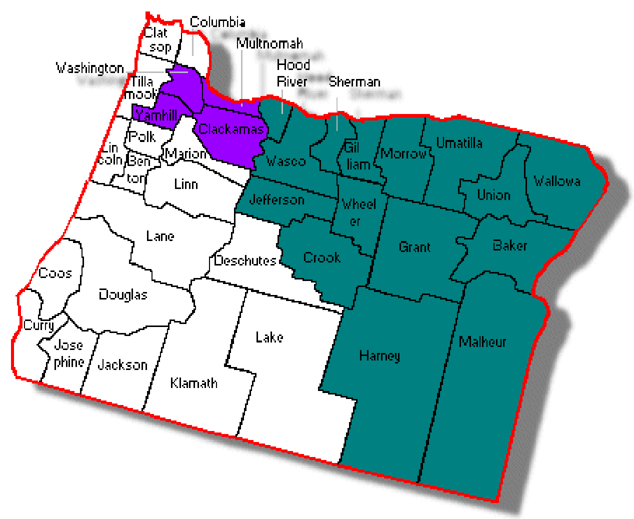
Advanced Premium Tax Credit

The Advanced Premium Tax Credit is a refundable tax credit designed to help eligible individuals and families with low or moderate incomes afford health insurance purchased through the Health Insurance Marketplace, also known as the Exchange, beginning in 2014. Families with incomes above 133% of the Federal Poverty Level who are not eligible for Medicaid and/or CHIP are required by law to purchase health insurance.

Table 2. 2014 Benchmark health care insurance plan rates

Portland Metro		Eastern Oregon	
Age	Premium Amount	Age	Premium Amount
25	$158	25	$173
26	$161	26	$177
27	$165	27	$181
28	$171	28	$188
29	$176	29	$193
30	**$178**	**30**	**$196**
31	$182	31	$200
32	$186	32	$204
33	$188	33	$207
34	$191	34	$210
35	$192	35	$211

FIGURE 5



In this model, we assume the family does not have access to a job-based health insurance plan and instead purchases a Benchmark health insurance plan from the health insurance marketplace. Benchmark plans are the second lowest cost silver health insurance plan available for that individual. Health care costs are represented by the 2014 monthly premium for a 30-year-old adult or parent in Portland ($178) and in Eastern Oregon ($196), *see* Table 2 and Figure 5.[5] The amount of the Advanced Premium Tax Credit is determined by deducting the family's expected contribution from the benchmark plan premium. The expected contribution is a percentage of household income, and varies based on the family's Federal Poverty Level.

[5] These represent the minimum amount a family would pay for health care, since they do not include copayments or other expenses related to accessing care.

Section 8 Housing Choice Vouchers[6]

This program provides tenant-based assistance in the form of rental subsidies equal to the household's rent minus 30% of their monthly income. To be eligible for this program, the household's income may not exceed 50% of the median income for the county or metropolitan area in which the family resides.[7] In determining Section 8 subsidy amounts, we used the average rent for a two-bedroom apartment in Portland ($920 per month) and Burns ($637 per month).[8]

	Median Income	FY 2014 Income Limit Category	Persons in Family 1	2	3	4
Multnomah County[9]	$69,400	Very Low (50%) Income Limits	$ 24,300	$ 27,800	$ 31,250	$ 34,700
Harney County	$50,500	Very Low (50%) Income Limits	$ 17,700	$ 20,200	$ 22,750	$ 25,250

Taxes & Tax Credits

Taxes and tax credits included in this analysis are: federal income taxes (including the Child Tax Credit), the Federal Earned Income Tax Credit (EITC), FICA (payroll) taxes, Oregon income taxes, the Oregon Earned Income Credit (EIC), and the Oregon Working Families Tax Credit.

Taxes and tax credits calculations are based on 2014 tax rates and credits. Positive numbers indicate income to the taxpayer and negative amounts represent taxes paid. Households with children are assumed to file their taxes as heads of household, while single adults are assumed to file their taxes as single-filers.

The Oregon Working Families Tax credit is calculated as a percentage of qualified child care expenses. To qualify for the credit, a household's Oregon-earned annual income must be at least $8,550. The credit is 40% for those with a federal adjusted gross income (AGI) at or below 200%.

Results

The following pages provide examples of the impact of increased income on taxes and benefits. These calculations are for a single adult with no children, a single parent with one child, and a single parent with two children working either 18 hours per week or 30 hours per week.

Each of the following charts includes the total net resources (displayed as boldly colored lines) available to the family, which is equal to the sum of all taxes and benefits represented as a monthly average. The charts also include monthly available income (displayed as lightly colored lines)

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6 Rental assistance programs, including Section 8 Housing Choice Vouchers and Project-Based Vouchers serve approximately 53,000 Oregon households.

7 Source: Housing and Urban Development, Economic and Market Analysis Division. http://www.huduser.org/portal/datasets/il/il2014/select_Geography.odn

8 Source: http://www.bestplaces.net/housing/zip-code/oregon/jordan_valley/97910

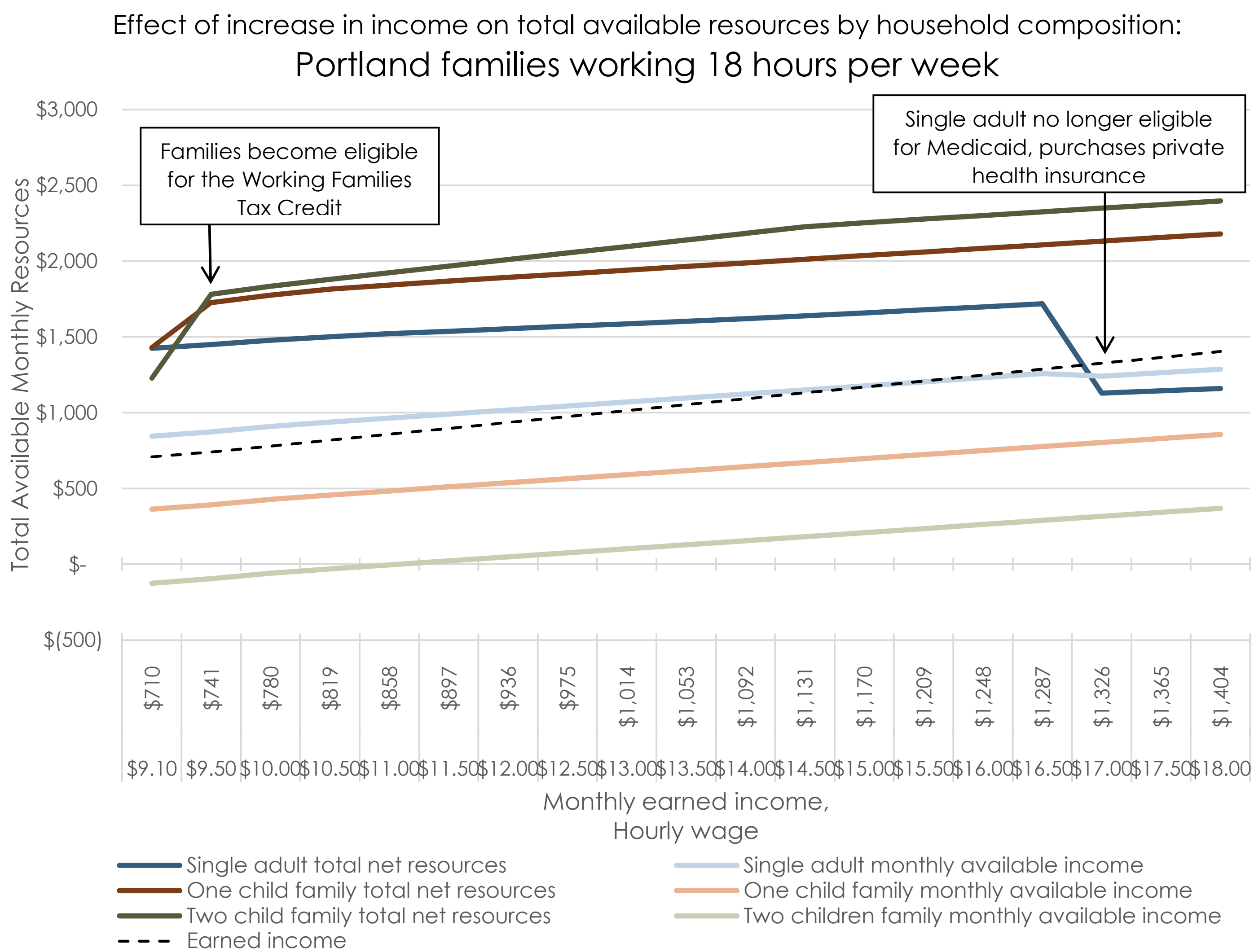
9 Multnomah County is part of the Portland-Vancouver-Hillsboro, OR-WA MSA, so information presented here applies to all of the Portland-Vancouver-Hillsboro, OR-WA MSA. The Portland-Vancouver-Hillsboro, OR-WA MSA contains the following areas: Clackamas County, OR; Columbia County, OR; Multnomah County, OR; Washington County, OR; Yamhill County, OR; Clark County, WA; and Skamania County, WA

representing the resources families have available to them on a monthly basis, minus child care and health care expenses.

Families working 18 hours per week

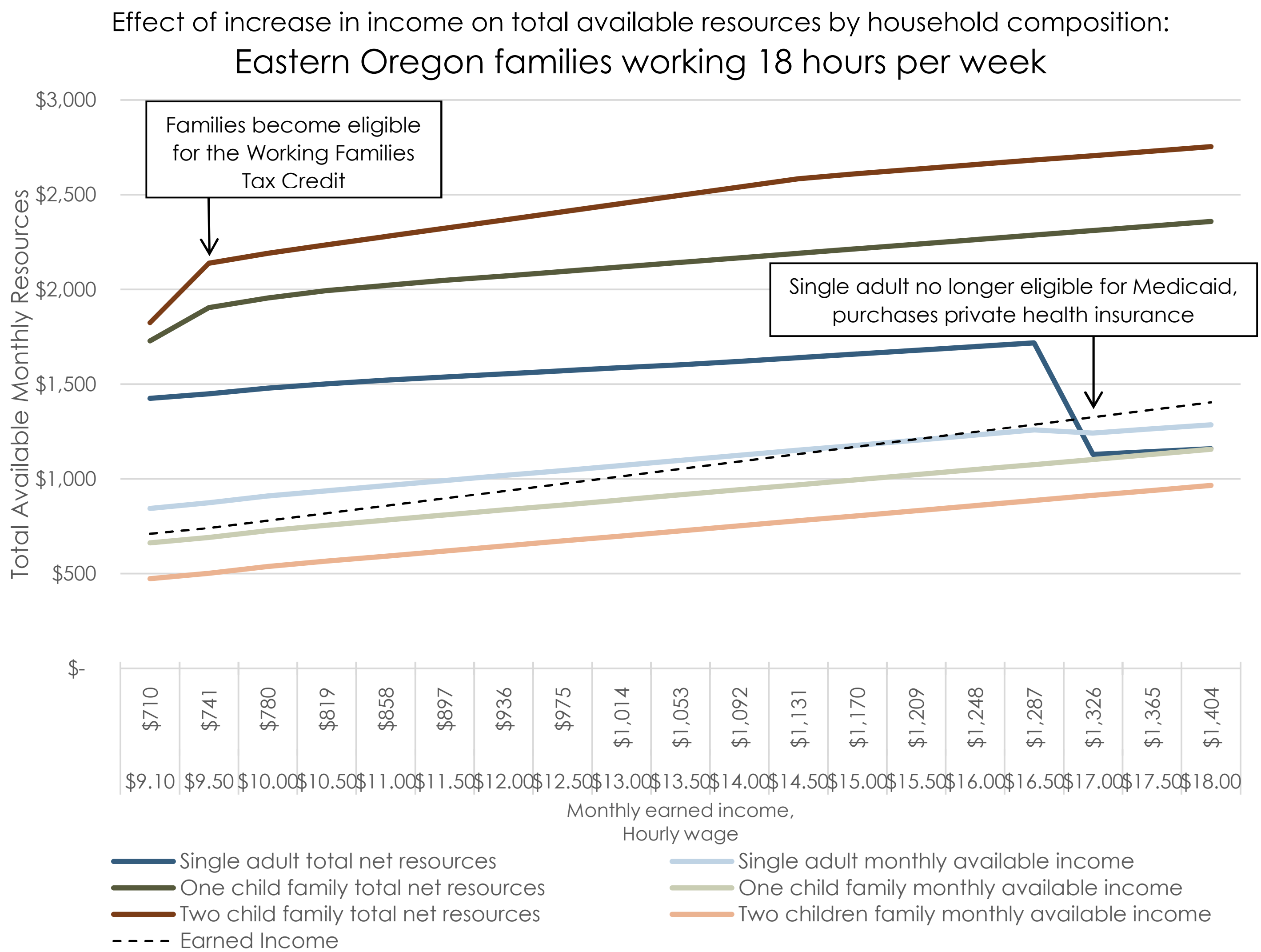
In Figures 6A and 6B, below, we examine the impacts of increased income for families working 18 hours per week receiving SNAP, Medicaid, CHIP, the Advanced Premium Tax Credit, as well as all taxes and tax credits. The chart below excludes ERDC benefits and Section 8 rental assistance, which are analyzed separately due to the relatively small number of individuals served by these programs. TANF benefits do not appear in this analysis, since families working 18 hours per week earn more than the income limits for this program.

FIGURE 6A



Total net resources:	Monthly available income:
the sum of all taxes and benefits represented as a monthly average	the sum of resources families have available to them on a monthly basis, minus child care & health care expenses

FIGURE 6B



Households with and without children working 18 hours per week do not lose access to SNAP benefits if their hourly wages increase up to $18 per hour.[10] While families with children working 18 hours per week retain access to Medicaid, single adults without children become ineligible for Medicaid once their hourly wage reaches $17 per hour. Once these adults become ineligible for Medicaid, they can purchase a private health insurance plan and receive the Advanced Premium Tax Credit to offset the monthly premium. This is consistent for families in both Portland and Eastern Oregon.

The cost of child care has an important impact on the amount of income available to families on a monthly basis. The light green line in Figure 6A indicates that a Portland parent with two children working 18 hours per week and earning up to $11 per hours has a negative amount of income available on a monthly basis to cover expenses. In Eastern Oregon, however, due to the lower cost of child care, a parent with two children working 18 hours per week has between $473 and $592 of monthly income available to cover other expenses (*see* Figure 6B).

[10] For detailed charts displaying the impact of rising income for single adults and one-parent, one-child families *see* Appendices A and B.

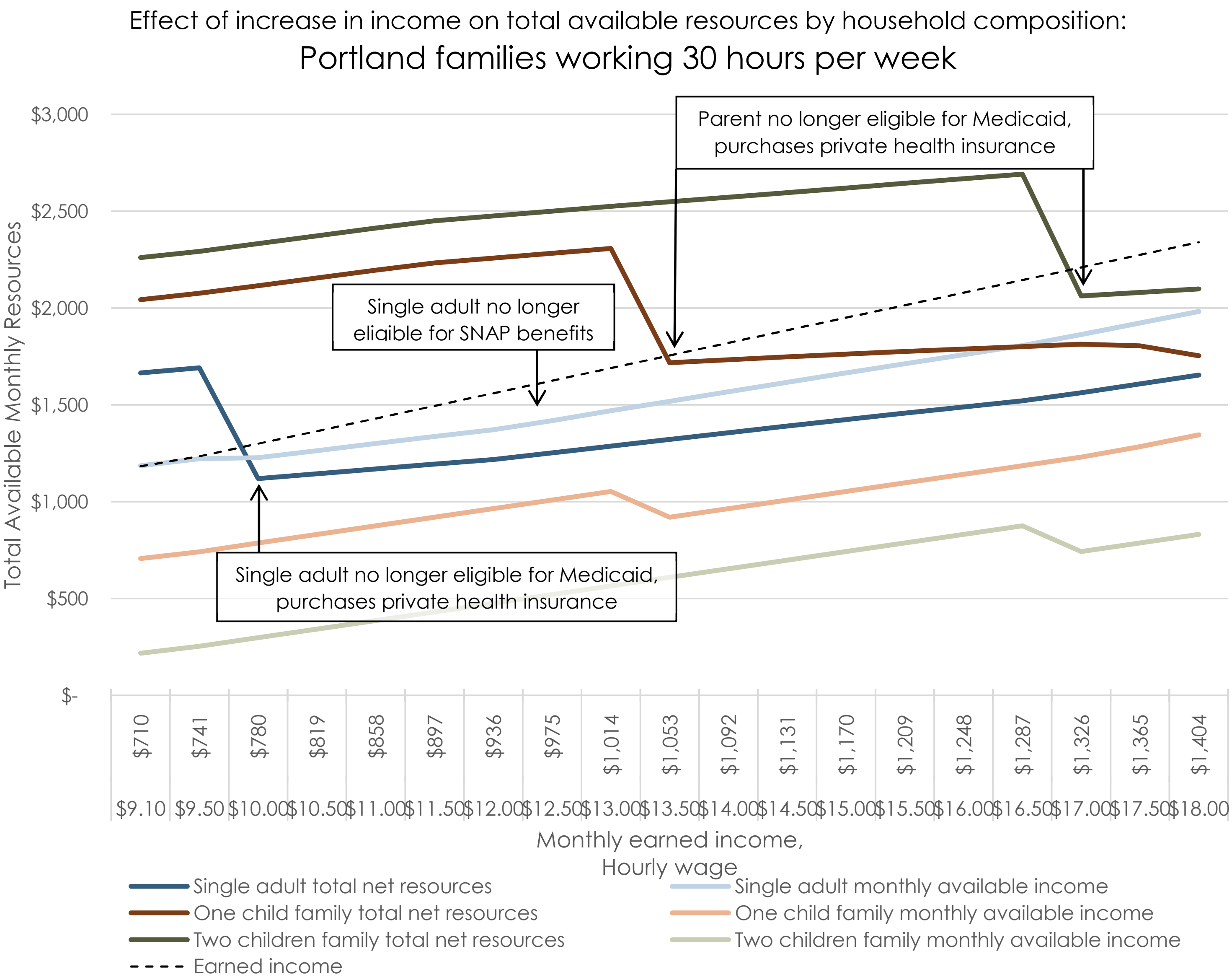
Families working 30 hours per week

In Figure 7, below, we examine the impacts of increased income for families working 30 hours per week receiving SNAP, Medicaid, CHIP, the Advanced Premium Tax Credit, as well as taxes and tax credits.

Overall, families with children working 30 hours per week, in both Portland and Eastern Oregon, experience an increase in both their total net resources and their monthly available income as hourly wages rise, until the adult in these families becomes ineligible for Medicaid (children remain covered).

At this point, families experience a decline in their monthly available incomes caused by purchasing a private, subsidized health care insurance plan. For one-parent, one-child families this decline endures with wages between $13.50 per hour and $15 per hour. In terms of total available resources, additional earned income and tax credits do not fully compensate for the loss of Medicaid coverage.

FIGURE 7



Single adults working 30 hours per week become ineligible for Medicaid coverage at $10 per hour and are no longer eligible for SNAP benefits at $12.50 per hour. Becoming ineligible for SNAP benefits does not contribute to a "benefits cliff" effect, since these benefits gradually decline as clients' incomes rise.

Notably, single adults' monthly available income is greater than their total net income largely because they pay federal and Oregon income taxes and payroll taxes, but do not benefit from any refundable tax credits. Similar to families with children, however, single adults' total net resources are not completely offset by increases in earned income.

Section 8 Housing Choice Vouchers

Some of the 53,000 families who are eligible for and receiving Section 8 rental assistance (meaning their incomes are below 50% of the area median income) could also become ineligible for rental assistance as the hourly wage increases. In this analysis, families working 18 hours per week would remain eligible for Section 8 benefits as wages rise up to $18 per hour; however families working 30 hours per week would become ineligible at varying wage levels. Although Section 8 benefits decline gradually as incomes increase, in this analysis, those who do become ineligible experience a "benefits cliff" when they no longer have access to this benefit.

Of families working 30 hours per week, Portland families remain eligible for rental assistance at significantly higher wages than families in Eastern Oregon. Portland families with one parent and two children remain eligible while one-parent, one-child families become ineligible earning $18 per hour and single adults become ineligible for Section 8 rental assistance earning $16 per hour. For Eastern Oregon residents, single adults become ineligible for rental assistance once they earn $11.50 per hour, families with one child become ineligible at $13 per hour, and families with two children become ineligible at $15 per hour (data not shown in charts).

Employment Related Day Care (ERDC)

Figures 8 and 9 on the following page display the impacts of increased income for families in Portland working 30 hours per week receiving ERDC subsidies, in addition to SNAP, Medicaid, CHIP, the Advanced Premium Tax Credit, as well as taxes and tax credits. [11]

Overall, families working both 18 hours per week and 30 hours per week remain eligible for ERDC subsidies with hourly wage increases up to $18 per hour. Families' contribution towards child care, or the copayment, gradually increases as the family's income grows. For example, a one-parent, one-child family's contribution ranges from $102 per month at $9.10 per hour to $517 per month at $18 per hour and 30 hours per week. For this reason, the monthly available income line in Figures 8 and 9 is lower than the earned income level.

[11] For a chart on the impact of rising income on the receipt of ERDC benefits for Eastern Oregon families, see Appendix C.

FIGURE 8

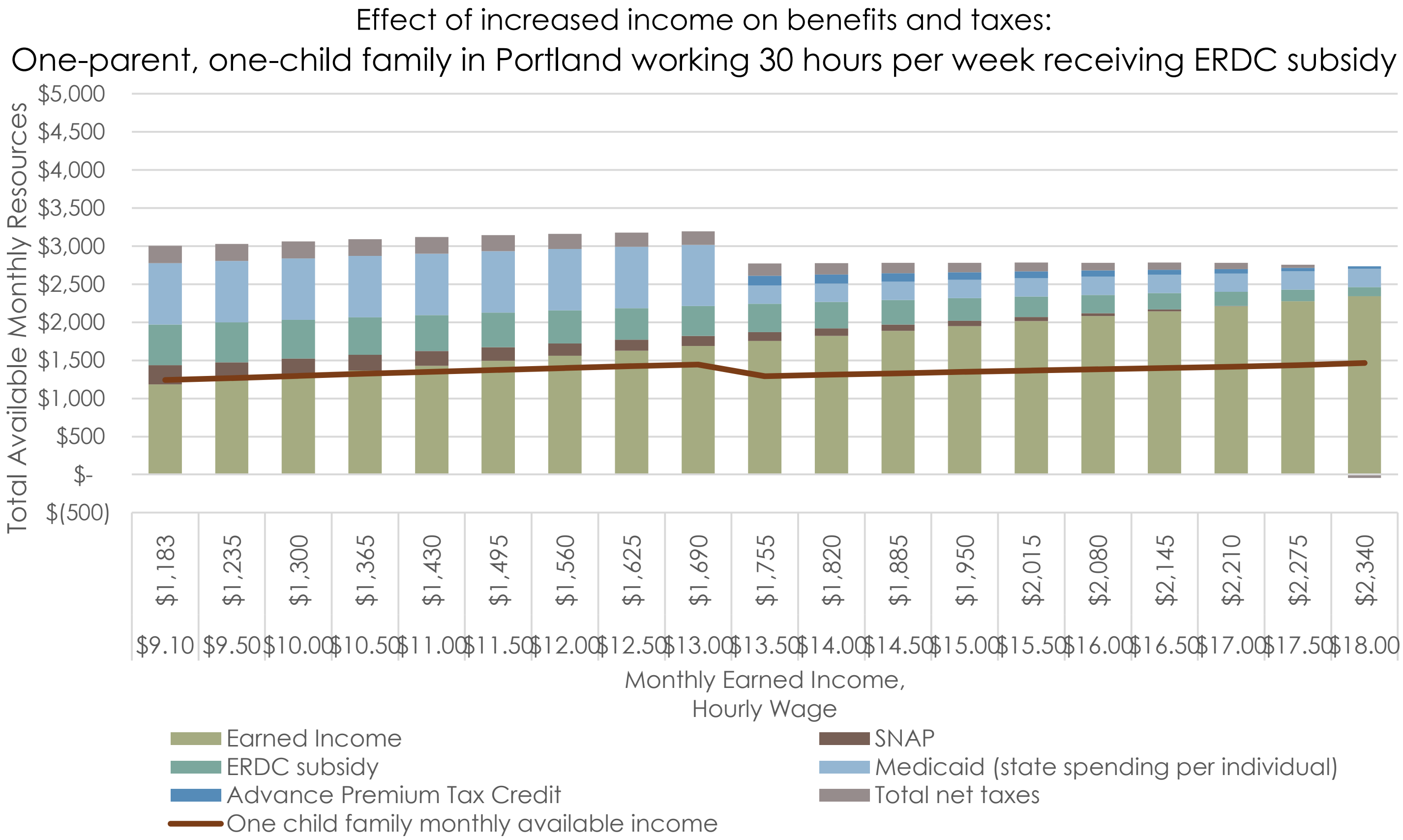
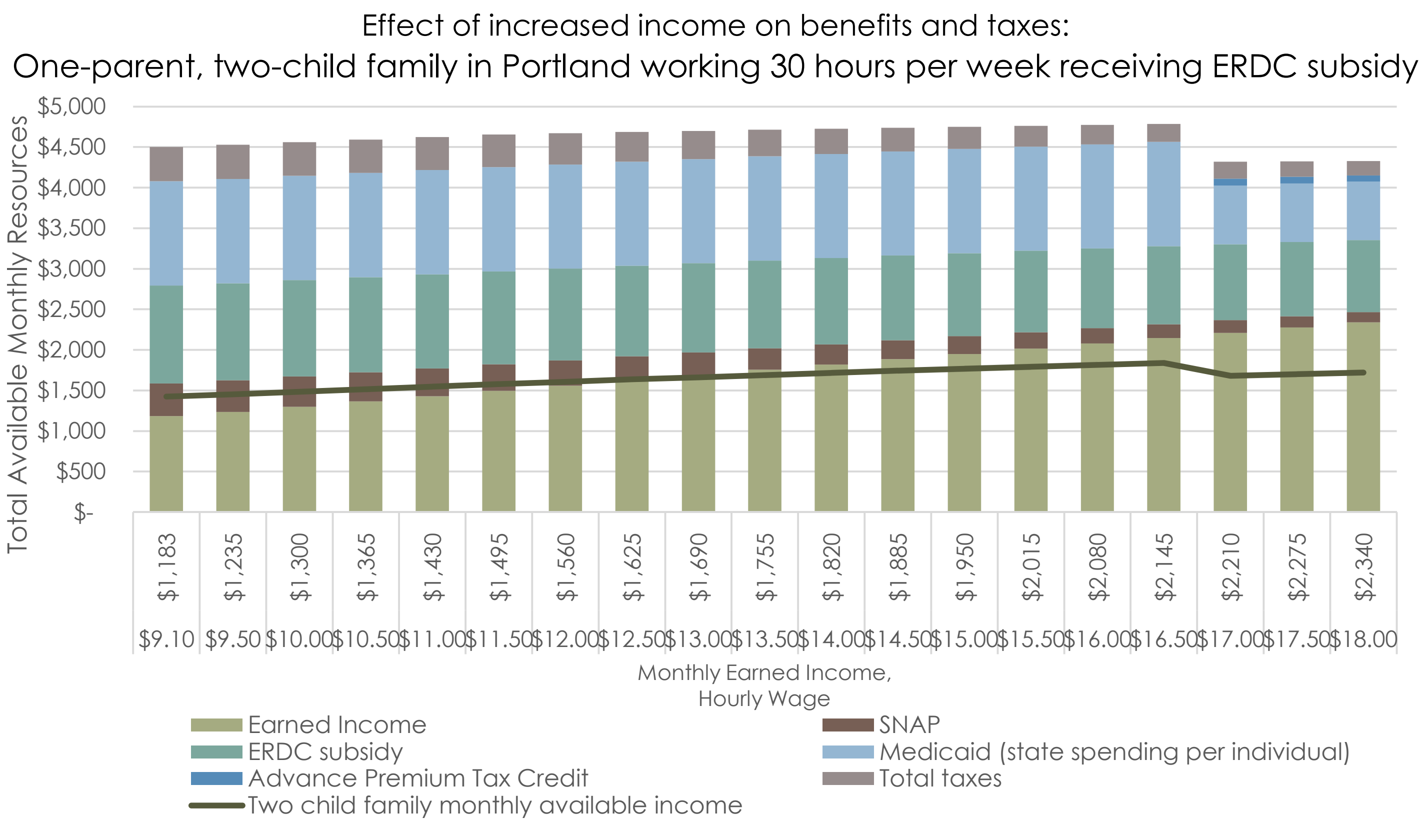


FIGURE 9



Temporary Aid to Needy Families (TANF)

Figures 10 and 11 display the effect of increased number of work hours at the 2014 minimum wage ($9.10 per hour) on TANF and other benefits and taxes. For both one- and two-child families, the total net available resources (represented as the top of the stacked bar charts) gradually increases as the number of hours worked increases.

The families' monthly income available to cover expenses declines at 14 hours per week at $9.10 per hour, when they become ineligible for TANF benefits. Once this occurs, families are able to take advantage of ERDC subsidies to offset the costs of child care, however they are now required to provide a copayment towards child care. At 20 hours per week, a one-child family's monthly available income surpasses the family's peak monthly income while receiving the TANF benefit. For a two-child family, this occurs at 22 hours per week.

FIGURE 10

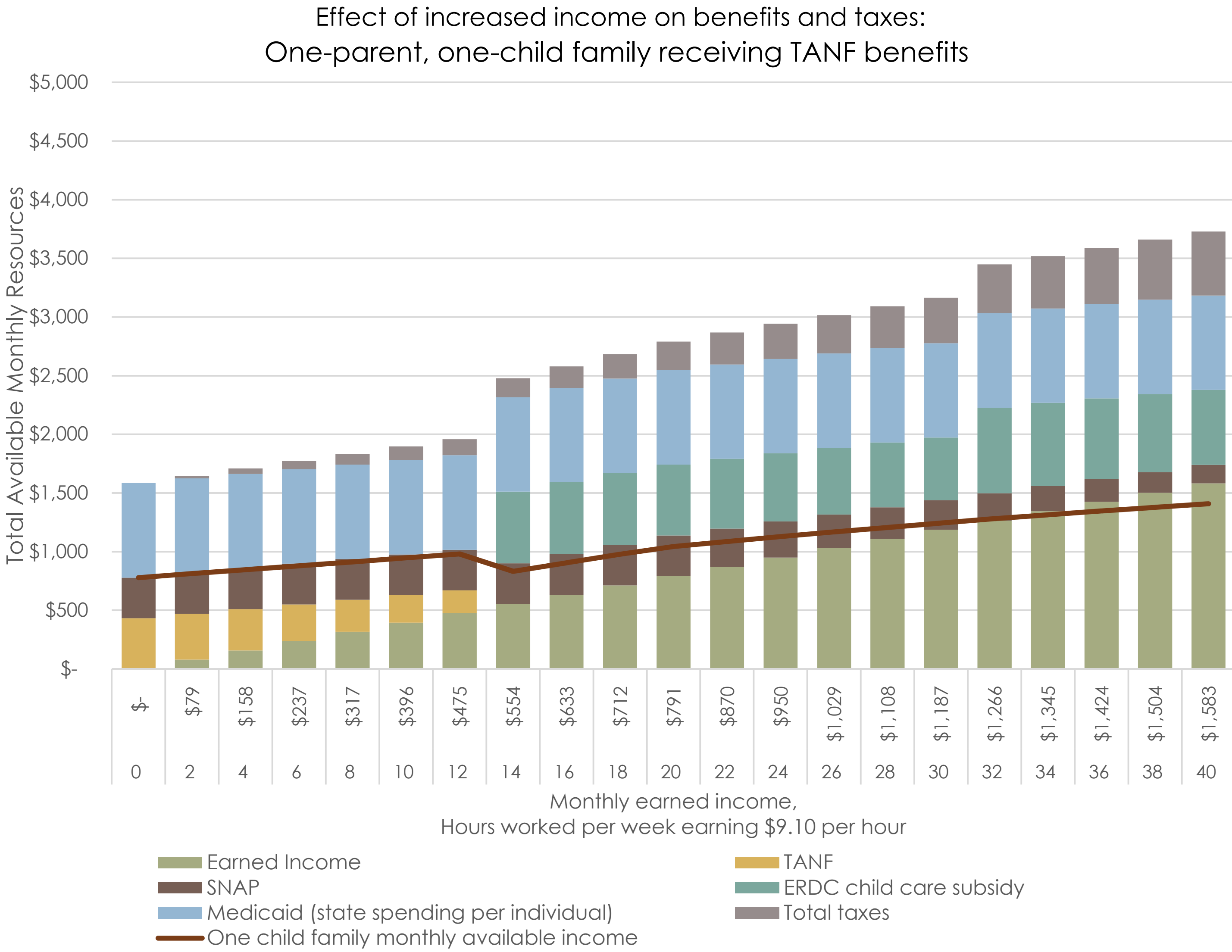
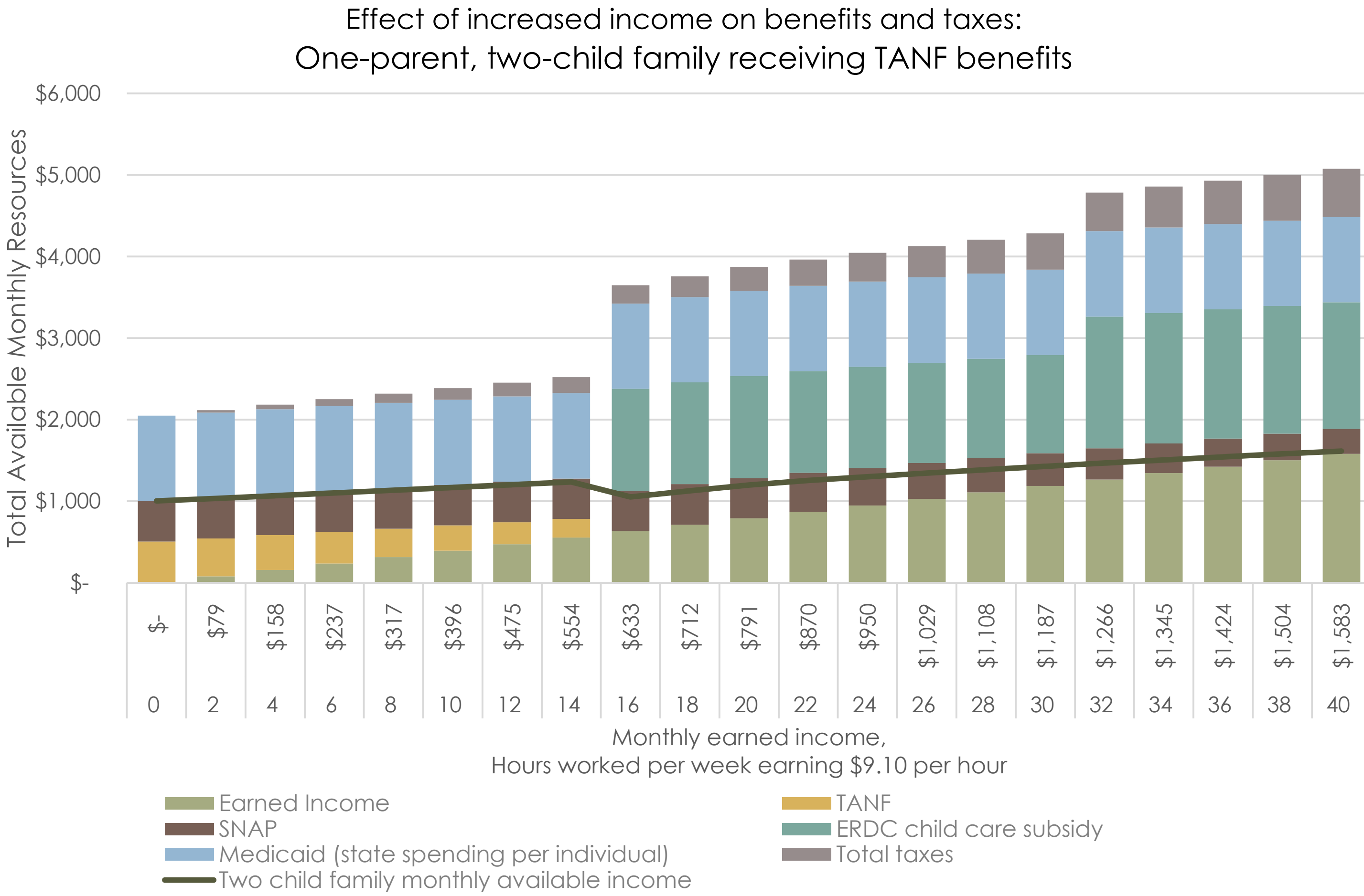


FIGURE 11



Conclusion

The goal of this study is to show the impact on individuals' and families' ability to access government-provided benefits and tax credits as household incomes increase. Often, individuals' and families' incomes increase as they work more hours and/or move into higher paying jobs. Due to the potential loss of access to benefits and tax credits, some individuals and/or families could have access to fewer resources to pay for necessities such as food, rent, and health care as their income increases.

In this study, we found two specific "benefits cliffs" that occur as clients earn more income. The "benefits cliff" with the potential to impact the most people occurs when adults become ineligible for the Medicaid program and the adult must purchase a private health insurance plan for themselves. As a result, families experience an overall reduction in disposable income and benefits received from the state. About a million Oregonians enrolled in Medicaid could be impacted by this "benefits cliff" if they achieved the appropriate income level.

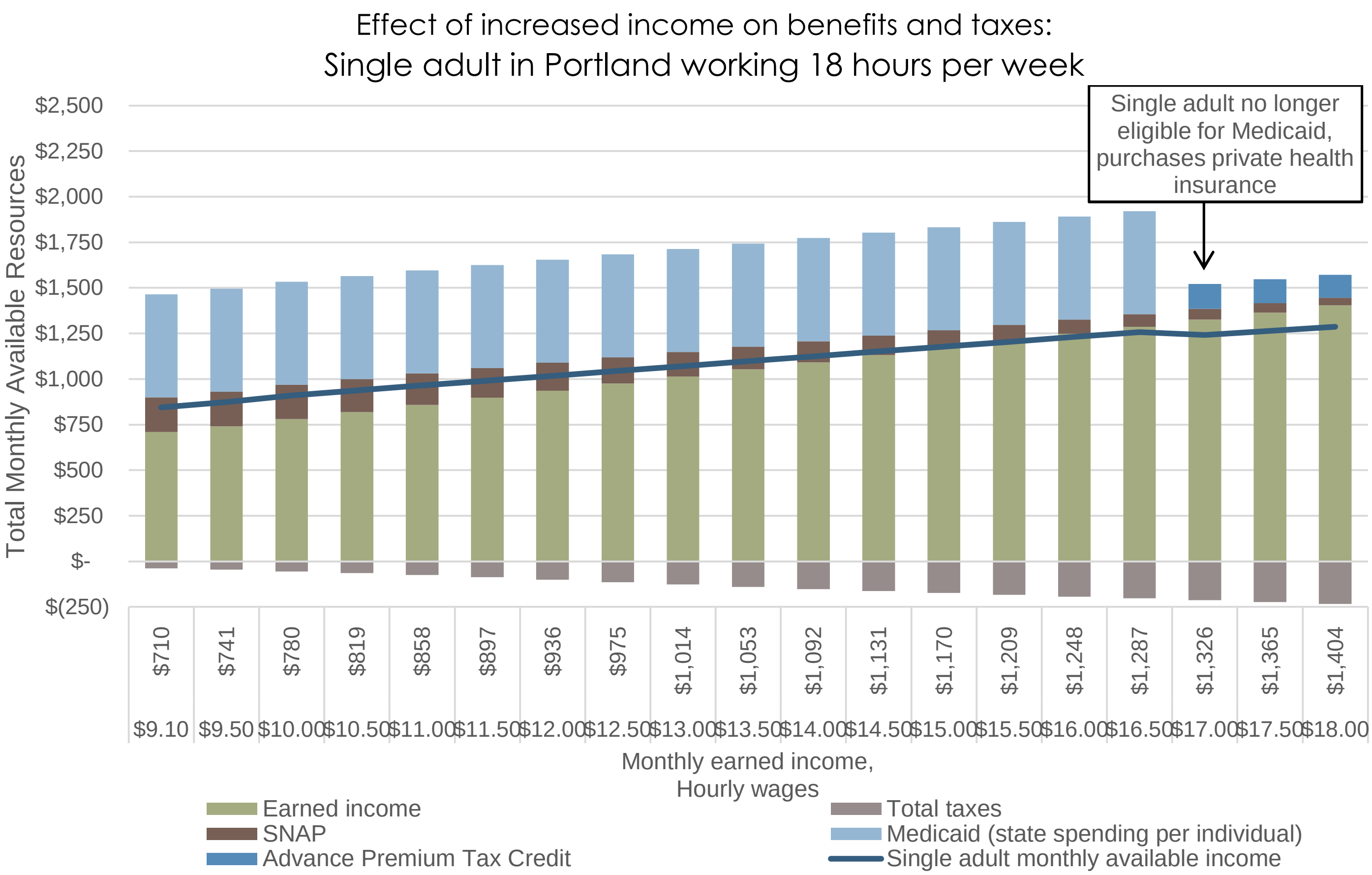
The second "benefits cliff" is also a significant issue for those who are living in poverty with little (under 40% of the Federal Poverty Level) to no income. This "cliff" occurs when families become ineligible for TANF benefits. The over 23,000 families who received TANF benefits in May of 2015 could experience this "cliff." Although families who become ineligible for TANF as their income increases are then enrolled into ERDC and thus initially have an increase in overall benefit receipt, their disposable income is lower when they work between 14 hours and 24 hours per week earning $9.10

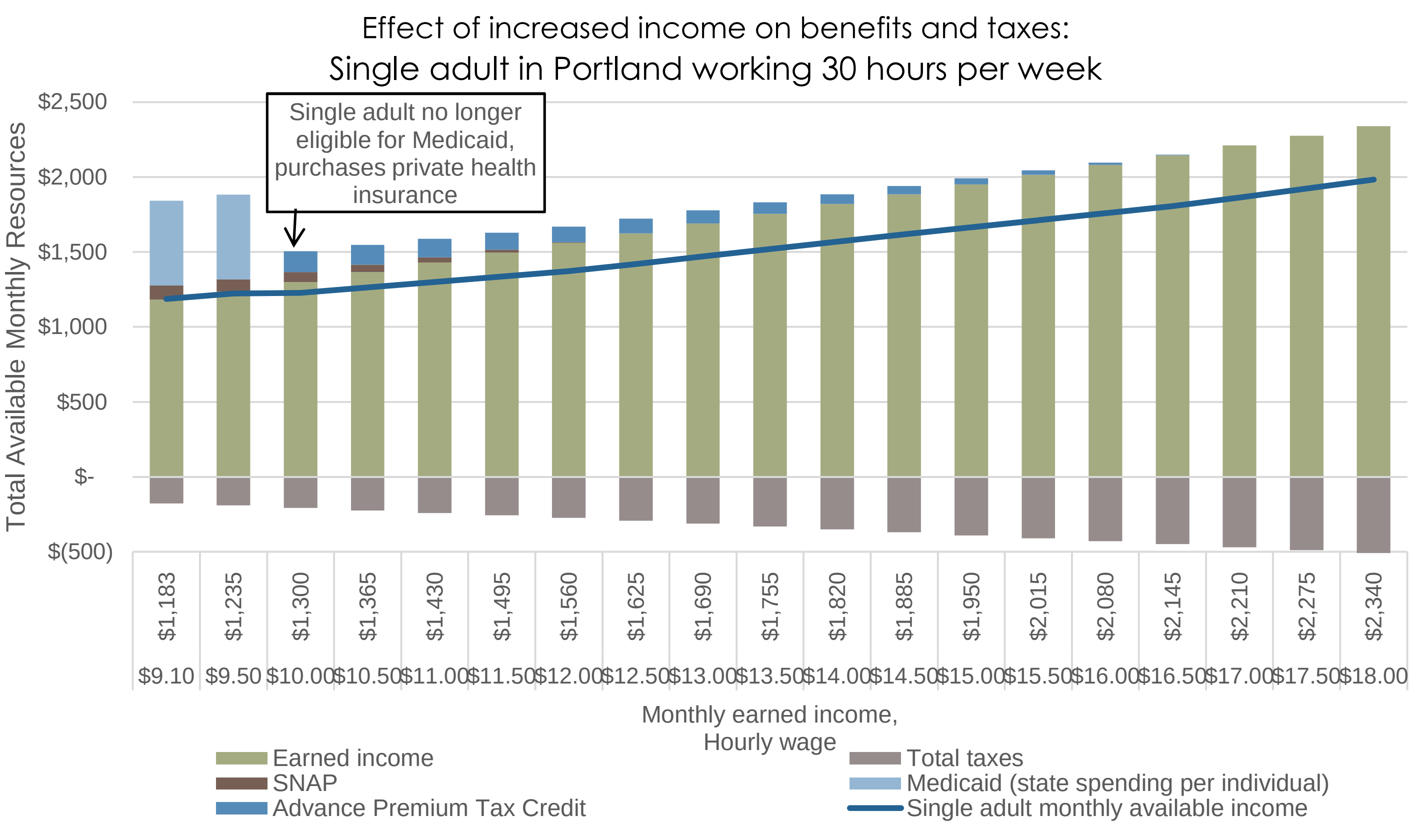
per hour. Since families' disposable incomes are reduced when working between 14 and 24 hours per week, their economic incentive to work is diminished. A potential strategy to address this "benefit cliff" and incent people to work more than about 14 hours at minimum wage (which would allow them to exit TANF) could be to ensure that the decline in TANF benefits continues over a wider income range.

Finally, it is important to note that this was a limited study done in a very short period of time. This study focuses on three types of families with a specific makeup and basic assumptions about their incomes. However, there are many more factors at play in the real world than those included in this paper. For these reasons, in policy discussions going forward, it will be important to consider impacts to those whose family compositions and characteristics vary from those included in this study.

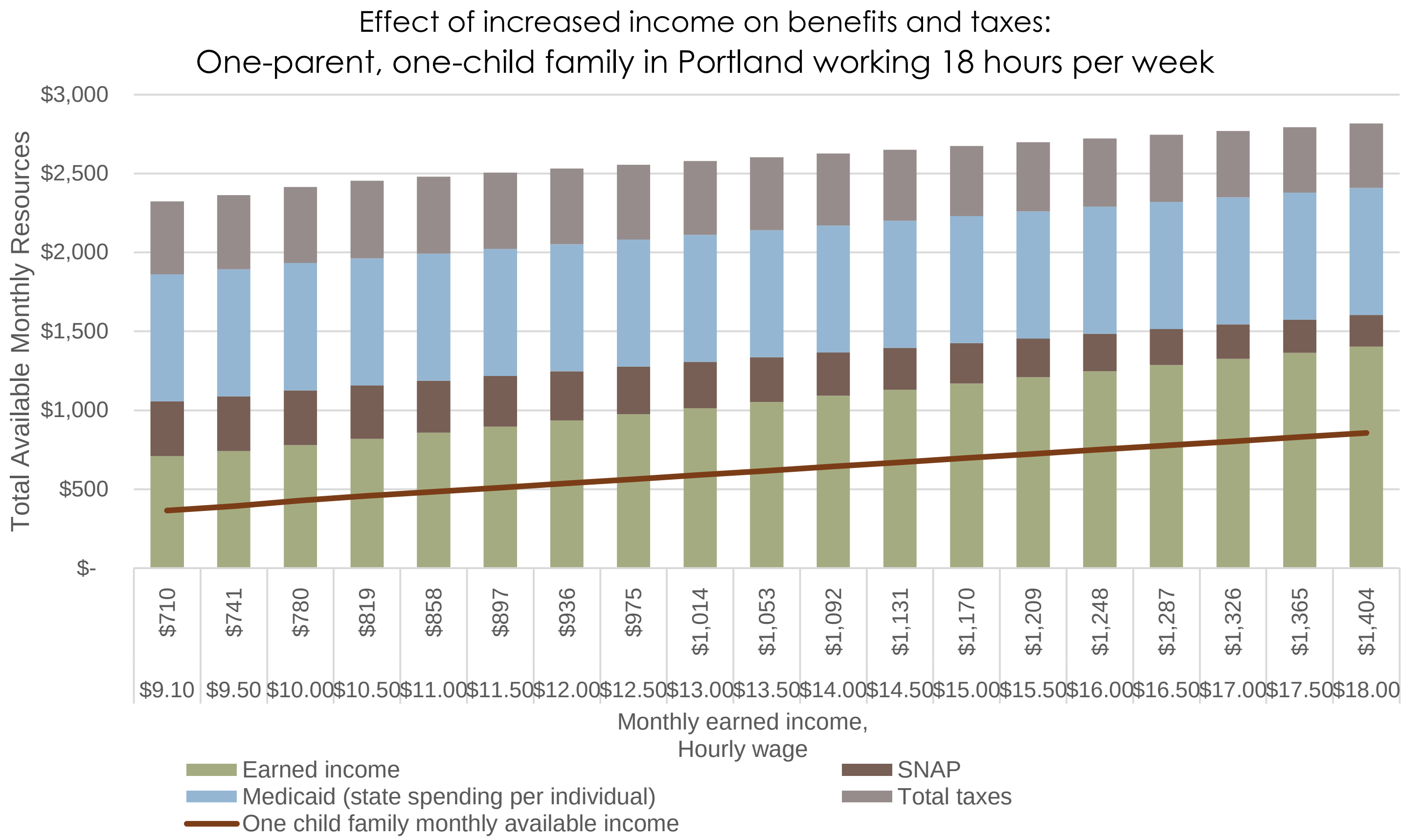
In any case, this quick study identifies the impacts to families on access to government benefits as their income increases for whatever reason. Whether a change in the minimum wage, working more hours, getting a raise or taking a second job, this report provides insight into the impacts of increasing income on benefit levels and tax credits.

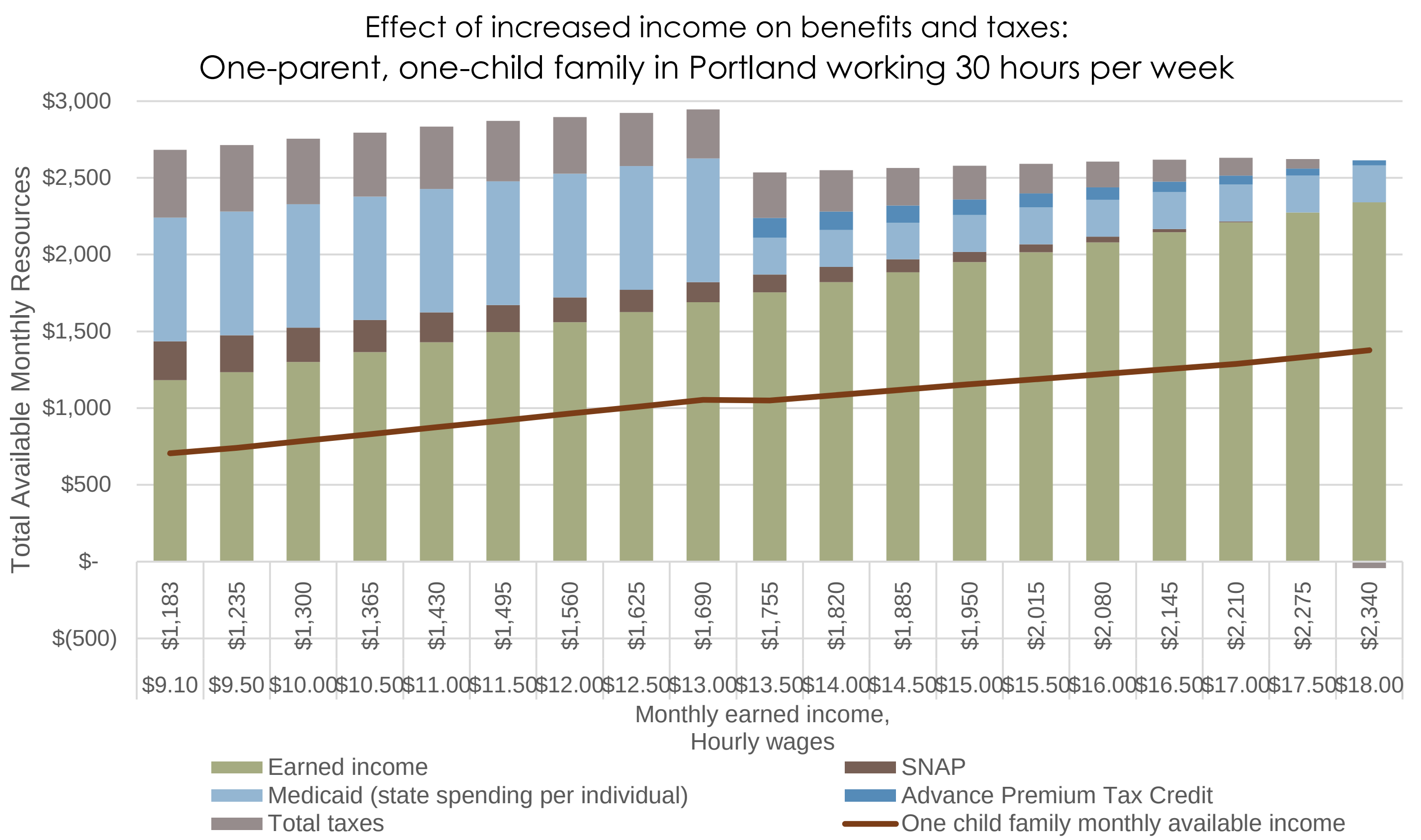
Appendix A: Single adults





Appendix B: One-parent, one-child families





Appendix C: Employment Related Day Care – Eastern Oregon