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John Bouman

Kinsey Alden Dinan

Nancy K. Cauthen

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John Bouman, Kinsey Alden Dinan & Nancy K. Cauthen*

I. INTRODUCTION

¶1 Benefits that support labor market participation by lower-income workers have been among the most important workforce policies during the past decade. These benefits help workers in two ways: making work *possible* by providing access to services essential to employability (e.g., child care and health care) and making work *pay* by either supplementing income or offsetting the cost of necessary goods or services. Some of the benefits, which in many states are a crucial support for the lowest-income workers, provide cash; these include refundable federal and state earned income tax credits (EITC), other tax credits, and Temporary Assistance for Needy Families (TANF).[1] Other benefits are in-kind or involve payments to service providers on behalf of workers; these include child care subsidies, health insurance, housing subsidies, and food and nutrition assistance.[2]

¶2 Neither the federal government nor the states, however, have approached these benefits in a coordinated way or as a comprehensive workforce strategy. The EITC and child care programs were designed primarily as work supports, but these programs have evolved separately rather than as components of a unified strategy.[3] Programs such as food stamps and health insurance were not designed primarily as work supports, although their operation as such has been part of the policy case for their expansion. The essential purposes of the Food Stamp Program are to promote nutrition and combat hunger, as well as to support agricultural markets.[4] Medicaid, which has expanded gradually since it began in the 1960s, and the State Children's Health Insurance Program (SCHIP), which

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* John Bouman is the President of the Sargent Shriver National Center on Poverty. Kinsey Alden Dinan is a research associate at the National Center for Children in Poverty. Nancy K. Cauthen is the Deputy Director of the National Center for Children in Poverty. We thank Susanne Pringle, J.D. expected 2009 (Northwestern University School of Law), for substantial research help. This Article was made possible in part by support from the Annie E. Casey Foundation. An earlier version of this Article is available at John Bouman, Kinsey Alden Dinan & Nancy K. Cauthen, *Improving Work Supports: Using the Family Resource Simulator to Identify Problems and Test Solutions*, 41 CLEARINGHOUSE REV. 582 (2008).

[1] *See generally* NANCY K. CAUTHEN, ECONOMIC POLICY INSTITUTE, IMPROVING WORK SUPPORTS: CLOSING THE FINANCIAL GAP FOR LOW-WAGE WORKERS AND THEIR FAMILIES (2007), *available at* http://www.sharedprosperity.org/bp198.html (providing an overview of work support programs).

[2] *See id*.

[3] There is no unified work supports strategy, so to the extent these programs have evolved in concert with other programs that function as work supports, it has not been comprehensive. One effective partial coordination is that the EITC is not counted as "income" to reduce benefits under other programs. *See* 26 U.S.C. § 32(a)(1) (2000).

[4] 7 U.S.C. § 2011 (2000).

began in the late 1990s, are health care and insurance programs.[5] Nor was TANF designed principally as a work support program; rather it was infused with the caseload reduction policies that dominated the conservative welfare reform agenda of the Personal Responsibility and Work Opportunities Reconciliation Act of 1996.[6] A good deal of congressional rhetoric about work accompanied TANF's creation, but the primary policy direction of TANF was to eliminate cash assistance, whether or not the people leaving the program were working.[7]

¶3 As a result of this disjointed history, these work support programs do not always help working parents meet their families' needs.[8] Many who need work supports are not eligible for them, and many workers who are eligible nevertheless do not receive key work supports.[9] Part of the reason for low take-up[10] of work support programs is a lack of consistent eligibility rules on what counts as income, asset limits, co-payments, family composition, and hours of work.[11] A program's response to a recipient's increase in income can actually defeat the goal of workforce advancement when, due to eligibility "cliffs," a marginal increase in earnings causes a loss of benefits far in excess of the increased earnings, so that the family's total resources drop precipitously.[12]

¶4 In Illinois, as in many other states, a major expansion of most of these "work support" benefits during the last decade fueled and supported increased work activity.[13]

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[5] 42 U.S.C. §§ 1396, 1397aa (2000).

[6] *See* CTR. FOR LAW AND SOC. POLICY, COMMENTS TO THE U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES REGARDING THE REAUTHORIZATION OF THE TEMPORARY ASSISTANCE TO NEEDY FAMILIES (TANF) BLOCK GRANT 1–5 (2001), *available at* http://www.clasp.org/publications/comments_regarding_reauthorization.pdf.

[7] *Id.* at 19.

[8] This result has been called the "hardships gap." *See* RANDY ALBELDA & HEATHER BOUSHEY, CTR. FOR ECON. & POL'Y RESEARCH AND CTR. FOR SOC. POL'Y, BRIDGING THE GAPS: A PICTURE OF HOW WORK SUPPORTS *WORK* IN TEN STATES 1 (2007), *available at* http://www.bridgingthegaps.org/publications/nationalreport.pdf [hereinafter BRIDGING THE GAPS]. Work supports combined with wages help many workers meet basic living and employment expenses, but an estimated forty-one million Americans remain in the "hardships gap," where wages plus work supports leave them still unable to meet these expenses. *Id.* at 8.

[9] The BRIDGING THE GAPS study contains information about the dimensions of this "eligibility gap" in a variety of states and about low take-up rates for work support programs that it calls the "coverage gap." *Id.* at 20, 28.

[10] "Take-up" refers to people who meet eligibility requirements for programs actually enrolling in them. This is one of the important variables in assessing program design and program implementation, with low take-up indicating poor design and/or poor performance. It is also an important factor in forecasting program cost. *See* JANET CURRIE, THE TAKE-UP OF SOCIAL BENEFITS 26–28 (2004), *available at* http://urbanpolicy.berkeley.edu/pdf/Ch3Currie0604.pdf.

[11] For example, the Illinois rules for determining eligibility and level of family co-payment in the child care subsidy program count gross earnings with no deductions. *See* ILL. ADMIN. CODE tit. 89, § 50.235 (2004). The rules for determining eligibility and level of benefits for Food Stamps provide a twenty percent standard deduction from earned income and a number of other deductions. *See* ILL. ADMIN. CODE tit. 89, § 121.63 (2008). Finally, the rules for determining eligibility and co-payments for FamilyCare health insurance provide a ninety dollar standard deduction from earned income plus any out of pocket child care expenses. *See* ILL. ADMIN. CODE tit. 29, §125.230 (2006).

[12] *See* CAUTHEN, *supra* note 1, at 11–13; *see also* BETSY L. TESSLER & DAVID SEITH, MDRC, FROM GETTING BY TO GETTING AHEAD: NAVIGATING CAREER ADVANCEMENT FOR LOW-WAGE WORKERS, (2007), *available at* http://www.mdrc.org/publications/465/overview.html.

[13] For more on work support policies across the fifty states, see SARAH FASS, JODIE BRIGGS, AND NANCY K. CAUTHEN, NAT'L CTR. FOR CHILDREN IN POVERTY, STAYING AFLOAT IN TOUGH TIMES: WHAT STATES ARE AND AREN'T DOING TO PROMOTE FAMILY ECONOMIC SECURITY (2008), *available at* nccp.org/publications/pdf/text_833.pdf.

This relatively successful environment is a good context for examining policies on work supports. Ongoing problems with the Illinois system should be understood not as a critique of the effort to date, but as a road map for next steps. The Illinois work support system, while helpful to low-income workers, falls short of being a coordinated strategy that produces the maximum favorable impact on work activity and economic mobility.[14] Describing the system's operation, successes, and shortfalls will, we hope, further the efforts of advocates in other states who are working to improve their own systems.

¶5 A web-based policy tool, the Family Resource Simulator, developed by the National Center for Children in Poverty (NCCP), is demonstrably useful.[15] The simulator illustrates how work support policies respond to increased family income and sometimes reduce total family resources.[16] The simulator can be used for modeling how policy alternatives, such as new investments or changed program rules, would improve the system by resolving benefit "cliffs" or other problems. Using the Family Resource Simulator, we model specific suggestions to improve the Illinois system. This Article uses recent experience in Illinois to illustrate how the simulator can map the landscape of work support programs and how they affect working families as income rises. The simulator shows the benefits of the Illinois work supports programs and also spotlights where the programs leave gaps or policy problems. Finally, the Article shows how the simulator can be used to model policy solutions to the problems it has revealed.

II. Illinois Expands Work Support Policies

A. Health Care

¶6 Illinois has been a leader in state efforts to expand supports for low-wage workers. Illinois became the first state to offer public health insurance to children at all income levels under its All Kids program, which went into effect in July 2006.[17] At the lowest income levels coverage is free; at higher levels, families pay premiums and co-payments

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[14] *See* Kinsey Alden Dinan & Nancy K. Cauthen, Nat'l Ctr. for Child. in Poverty, Supporting Work in Illinois: The Challenges Ahead 1 (2007), *available at* http://www.nccp.org/publications/pdf/text_702.pdf.

[15] The Family Resource Simulator is described and made available to users at NCCP, Family Resource Simulator, www.nccp.org/tools/frs/ (last visited Feb. 23, 2009).

[16] The Family Resource Simulator is a Web-based tool developed by the National Center for Children in Poverty at Columbia University's Mailman School of Public Health. The Simulator calculates the impact of federal and state work supports on the budgets of low- to moderate-income families and concretely illustrates the effectiveness of current policies in rewarding and encouraging work. The Simulator also illustrates the impact of proposed policy reforms. Family Resource Simulators are available or under development for the District of Columbia and nineteen states—as well as more than 100 localities within those states. The states are Alabama, California, Colorado, Connecticut, Delaware, Florida, Georgia, Illinois, Iowa, Louisiana, Maryland, Massachusetts, Michigan, New Mexico, New York, Pennsylvania, Texas, Vermont, and Washington. The Illinois Simulator includes these localities: Aurora, Chicago, Peoria, Mount Vernon/Jefferson County, Rockford, and Springfield. The Simulator allows policies to be modeled for large city, suburban, small city, and rural environments with different economies and costs of living.

[17] All Kids was established by the Covering ALLKIDS Health Insurance Act, 215 Ill. Comp. Stat. 170/1 *et seq.* (2006). *See also* 305 Ill. Comp. Stat. 5/12-13 (2008). The rules are published at Ill. Admin. Code tit. 89, § 123 (2008). The state's helpful website for the program is State of Illinois All Kids, www.allkidscovered.com (last visited February 23, 2009). The Illinois Department of Healthcare and Family Services operates all the state's health coverage programs. *See also* John Bouman, *The Path to Universal Health Coverage for Children in Illinois*, 39 Clearinghouse Rev. 676 (2006) (tracing the history of health coverage expansions that culminated with the adoption of All Kids).

that rise with income.[18] Illinois FamilyCare program offers coverage to the parents of minor children and has substantially increased parents' access to health insurance; FamilyCare's eligibility limit is 185% of the federal poverty level.[19]

B. Child Care, Food Stamps, etc.

¶7 The Illinois Child Care Assistance Program, another critical work support, subsidizes the cost of care for children in low-income families. In April 2008, the income limit for subsidized care was raised to 200% of the poverty level, or approximately $35,000 for a family of three.[20] While a number of states have higher income limits for child care subsidies, many also have long waiting lists for assistance.[21] Illinois is the largest state to provide subsidies to all eligible applicants.[22] Other benefits available to Illinois's low-wage workers include food stamps and the Federal EITC, which the state supplements with a small but refundable state tax credit.[23] Some workers, if they are lucky, can also access subsidized rental housing or rental housing choice vouchers.[24]

C. Cash Assistance

¶8 Very low-income families may receive cash assistance through the Illinois TANF program.[25] The program is structured in Illinois to function as a wage supplement for the

[18] For information on the All Kids program, see State of Illinois All Kids, www.allkidscovered.com (last visited Feb. 22, 2009).

[19] FamilyCare covers the parents of Illinois children who receive Medicaid or SCHIP benefits. FamilyCare was funded with federal SCHIP funds under a federal waiver, and is authorized under Illinois's SCHIP implementation law, the Children's Health Insurance Program Act, 215 ILL. COMP. STAT. 106/1 *et seq.* (2008). The rules are at ILL. ADMIN. CODE tit. 89, § 125 (2008). *See* State of Ill. FamilyCare, FamilyCare, www.familycareillinois.com. For a report on parent coverage in all the states, see KAISER COMM'N ON MEDICAID AND THE UNINSURED, HEALTH COVERAGE FOR LOW INCOME PARENTS (2007), *available at* http://www.kff.org/uninsured/upload/7616.pdf. *See also* John Bouman, *The Power of Working with Community Organizations: The Illinois FamilyCare Campaign—Effective Results Through Collaboration*, 38 CLEARINGHOUSE REV. 583 (2005) (discussing features of the advocacy campaign that resulted in the establishment of the FamilyCare program in Illinois). An initiative in 2007 to expand eligibility to 400% of the federal poverty level is stalled in litigation. Notice of Emergency Rulemaking, 31 Ill. Reg. 15854 (Nov. 7, 2007), amending ILL. ADMIN. CODE tit. 89, § 120.33 (2008). *See Caro v. Blagojevich*, No. 07 CH 34353 (Ill. Cir. Ct. Cook County, April 15, 2008).

[20] The Illinois Department of Human Services operates the child care subsidy program. *See* 305 ILL. COMP. STAT. 5/9A-11 (2008); ILL. ADMIN. CODE tit. 89, § 50 (2008); Illinois Department of Human Services, Child Care, www.dhs.state.il.us/page.aspx?item=29720 (last visited Feb. 22, 2009).

[21] *See generally* KAREN SCHULMAN & HELEN BLANK, NAT'L WOMEN'S LAW CENTER, STATE CHILD CARE ASSISTANCE POLICIES 2007: SOME STEPS FORWARD, MORE PROGRESS NEEDED (2007) (summarizing the status of eligibility and waiting lists among the states).

[22] *Id*. at 23.

[23] The Illinois Food Stamp Program website includes a benefits calculator. *See* Illinois Department of Human Services, Food Stamps, www.dhs.state.il.us/page.aspx?item=30357 (last visited Feb. 22, 2009). The Illinois earned income tax credit is five percent of the federal credit and is refundable. *See* 35 ILL. COMP. STAT. 5/212 (2008); ILL. ADMIN. CODE tit. 86, § 100.2199 (2008). The Illinois Department of Revenue operates the credit. *See* Earned Income Credit, Illinois Department of Revenue, www.revenue.state.il.us/Individuals/CreditsDeductions/earnedincomecredit.htm.

[24] *See* Antonio Olivo, *Public Housing Shortage is Cited, Demand in Illinois is Double Supply, According to Study*, CHI. TRIB., Jan. 22, 2007, § Metro, at 3.

[25] *See* 305 ILL. COMP. STAT. 5/arts. IV, IXA (2008); ILL. ADMIN. CODE tit. 89, § 112 (2008). The Illinois Department of Human Services operates the TANF program. *See* Illinois Department of Human Services,

lowest income families with a full-time worker. First, two-thirds of recipients' earnings are disregarded (not counted) in benefit calculations, allowing a worker with low earnings to receive a monthly supplement of cash benefits.[26] Second, Illinois pays the wage supplement benefits to those who work "full-time" (defined as at least thirty hours per week) in a way that does not cause those benefits to count towards the TANF 60-month lifetime limit on eligibility.[27] Thus, TANF functions as a non-time-limited wage supplement for full-time workers whose wages remain below the phase-out point for TANF benefits.

III. The Family Resource Simulator Methodology

¶9 The Illinois Family Resource Simulator illustrates how Illinois work support policies can help families meet their basic needs when the families apply for and receive the benefits for which they are eligible. We identify and describe structural problems with the design of the work support system, particularly the incongruous eligibility "cliffs" that result in financial penalties when income improves. We consider the bottom of the income spectrum, where workers in deep poverty struggle to make ends meet. The analyses presented in this Article reflect eligibility and benefit rules in effect as of July 2006.[28]

Temporary Assistance for Needy Families (TANF), www.dhs.state.il.us/page.aspx?item=30358 (last visited Feb. 22, 2009). The best sources for detailed program information and systems are the subregulatory policy manual and worker's action guide published by the Illinois Department of Human Services. *See* Illinois Department of Human Services, Cash, Food Stamp, and Medical Manual, www.dhs.state.il.us/page.aspx?item=4107 (last visited Feb. 22, 2009).

[26] *See* Ill. Dep't of Human Serv., Policy Manual § PM 10-02-01, *available at* www.dhs.state.il.us/page.aspx?item=15856. A family of three with no savings in larger Illinois counties is eligible for a standard monthly grant of $396. With the two-thirds earnings disregard, the family does not phase off assistance entirely until monthly earnings reach $1188. At $8 per hour, this is 148.5 hours of work in a month, or about 34.5 hours a week, considered full-time for TANF purposes.

[27] *Id*. at § PM 01-06-01, *available at* www.dhs.state.il.us/page.aspx?item=13318.

[28] *See* "Work Support Policies in Illinois" table. Note that the Illinois Family Resource Simulator has now been updated to reflect rules as of April 2008. *See* Resource Simulator, *supra* note 15.

Work Support Policies in Illinois (As of July 2006)				
Work support program	**Benefit**	**Income eligibility limits**	**Limits set at national or state level**	**All eligible applicants served?**
Federal Earned Income Tax Credit (EITC)	Tax refund (up to $2,662 a year for 1 child; up to $4,400/year for 2 or more children)	$31,030–$37,263 a year, depending on family structure and number of children	National	Yes
State EITC	Tax refund (up to $133 a year for 1 child; up to $220 a year for 2 or more children)	$31,030–$37,263 a year, depending on family structure and number of children	State	Yes
Food Stamps	Food subsidies (at point of purchase) (up to $399 a month for family of 3; up to $506 a month for family of 4)	130% FPL* *before* subtracting deductions from income	National, with some state options	Yes
		100% FPL* *after* subtracting deductions from income		
FamilyCare	Subsidized health insurance for parents	185% FPL* *after* subtracting deductions from income	State	Yes
All Kids	Subsidized health insurance for children	No income limit (premiums and co-payments increase with income)	State	Yes
Child Care Assistance Program (CCAP)	Child care subsidy	$30,408 a year for a family of 3; $36,204 a year for a family of 4	State	Yes
Section 8 Housing Choice Vouchers	Rental assistance	50% of area median income	National	No

Note: Illinois has a **state minimum wage** that is higher than the federal. It was $6.50 an hour in July 2006, increased to $7.75 in July 2008, and will rise to $8.25 in 2010.[29]

*FPL: Federal poverty level in 2006 was $16,600 for a family of 3; $20,000 for a family of 4.

Source: Data collection conducted by the National Center for Children in Poverty with assistance from the Sargent Shriver National Center on Poverty Law.

[29] The text of Illinois' minimum wage legislation is available at Illinois General Assembly Website. *See* Full Text of Public Act 094-1072, http://www.ilga.gov/legislation/publicacts/fulltext.asp?Name=094-1072 (last visited Feb. 22, 2009).

IV. ELIGIBILITY CLIFFS CAN UNDERMINE WORK SUPPORTS

¶10 Work support benefits in Illinois can close the gap between low wages and basic family expenses. Without such supports, a single parent with two children (one school-aged and the other pre-school-aged) living in Chicago needs about $36,000 a year to cover basic necessities.[30] To reach this income level, a full-time worker would have to earn $17 an hour—more than twice Illinois's minimum wage of $7.50. Moreover, this basic-needs budget includes only the most minimal necessities, with *no room* for entertainment or after-school activities; life or disability insurance; or savings for education, retirement, or a rainy-day fund. The basic-needs budget assumes that the family has access to employer-based health insurance coverage—although in practice most low-wage workers have none—and leaves nothing for out-of-pocket medical expenses such as deductibles and co-payments.[31]

¶11 Covering this basic budget takes far more than a low-wage job. For the many Illinois workers at the lower end of the pay scale, work supports can close or nearly close the gap between their wages and their basic needs. For those who receive them, these benefits can make supporting a family possible even when wages are low and employment-related benefits, such as health insurance, are unavailable. But, as is true in most states, the Illinois system has problems. Benefits fall short of filling the whole gap between wages and a basic budget for every worker; not all workers are eligible for necessary benefits; and not all eligible workers receive benefits.

¶12 Among the causes and indicators of these problems is the phenomenon of eligibility "cliffs." In Illinois, as in other states, the problem flows from the fact that work supports are generally means-tested and phase out at income levels where people still need them. As we demonstrate with the simulator below, as parents succeed in the workforce and their earnings increase, they lose eligibility for critical supports. In some cases, a small raise can lead to a substantial benefit loss, leaving a family worse off. Such losses can even mean that a family that was making ends meet can no longer do so, despite *increased* wages. Figure 1 illustrates how this can happen. For a single parent with two children living in Chicago, this figure shows how net family resources—that is, what remains after subtracting the cost of basic family expenses—change as wages increase. The analysis assumes that when eligible, a family receives food stamps, Federal and State EITC, public health insurance, and child care subsidies.[32]

¶13 Figure 1 demonstrates the value of work support programs. With full-time employment at $8 an hour—just under $17,000 a year—and multiple work support benefits, the family is able to make ends meet. At this wage rate, the family's net resources are just above the "breakeven line"—the point where resources equal expenses.

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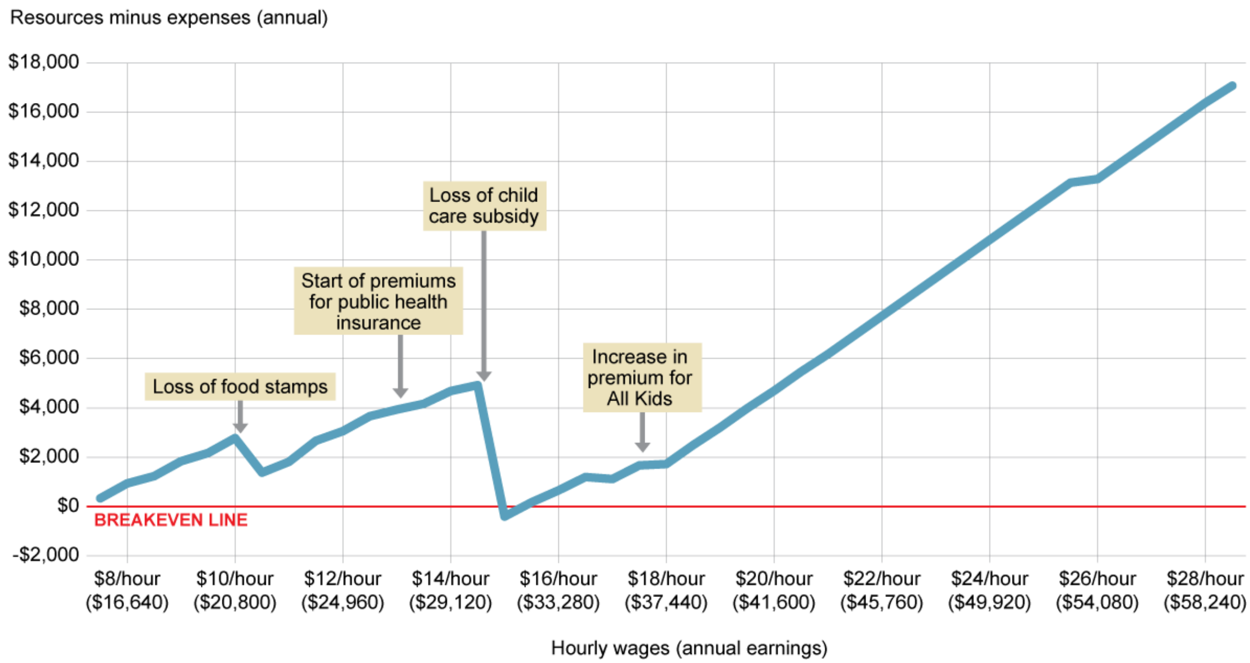
[30] Budget is derived from the Family Resource Simulator and assumes that the children are cared for in a center-based setting while the parent works, with the older child in after-school care. *See* Resource Simulator, *supra* note 15.

[31] Budget developed by the National Center for Children in Poverty. Updated Basic Needs Budgets are available for Illinois on NCCP's website. *See* National Center for Children in Poverty, www.nccp.org (last visited Feb. 22, 2009).

[32] Housing assistance was not included in this scenario. While federal housing assistance is a tremendous benefit for low-income families struggling with the high cost of rent, only a small fraction of eligible families receive assistance. The waiting list for the federal Housing Choice Voucher Program in Chicago, for example, has been closed since 1997. E-mail from staff of CHAC, Inc. (which administers the Chicago Housing Choice Voucher Program) to author (Nov. 16–17, 2006) (on file with author).

The family has a small surplus beyond the cost of basic daily needs (assuming no unexpected expenses or debts). Figure 1 shows the value of work support programs and of enrolling families in the work support programs for which they are eligible.[33]

Figure 1: Net Family Resources as Earnings Increase, Chicago



Notes: Results are based on a single parent with two children, ages 3 and 6. When eligible, the family receives federal and state earned income tax credits, food stamps, public health insurance, and a child care subsidy. Children are in center-based care while their parent works (the older child is in after-school care); family members are covered by employer-based health insurance when public coverage is unavailable or more expensive.

Source: Analysis based on the National Center for Children in Poverty's Family Resource Simulator, Illinois 2006 (reflects policies in effect as of July 2006).

¶14 But Figure 1 shows that, as earnings increase, the family faces a series of financial setbacks. The first "cliff" occurs when wages reach $10.50 an hour and the family loses thousands of dollars annually in food stamps. The family recovers from this loss of income with further increases in earnings, only to face a much bigger cliff when the parent's wages hit $15.00 an hour and income exceeds the eligibility limit for child care subsidies. The loss of child care assistance leaves the family unable to afford basic

[33] Figure 1 also shows these families' fundamental economic fragility if faced with medical expenses that their insurance does not cover. The Simulator accounts for premiums and assumes that the family will phase from public to employer-supported insurance. Even with this favorable assumption, the family is at the mercy of co-payments, deductibles, and policy limits in the event of significant medical needs; this explains why so many personal bankruptcies stem from medical debt incurred by people who are insured. *See* David U. Himmelstein, Elizabeth Warren, Deborah Thorne & Steffie Woolhandler, *Marketwatch: Illness and Injury as Contributors to Bankruptcy*, 24 HEALTH AFF. 63, 63 (2005), *available at* http://content.healthaffairs.org/cgi/content/short/hlthaff.w5.63v1 (stating that about half of all personal bankruptcies stem from medical debt incurred by the uninsured); APARNA MATHUR, AM. ENTERPRISE INST., MEDICAL BILLS AND BANKRUPTCY FILINGS 1 (2006), *available at* http://www.aei.org/docLib/20060719_MedicalBillsAndBankruptcy.pdf (showing that twenty-seven percent of bankruptcies are primarily caused by medical debt and that thirty-six percent involve medical debts).

expenses and significantly worse off—below the breakeven line—than when the parent was earning just $8.00 an hour.

¶15 All together, the eligibility rules for work support programs in Illinois can leave workers facing untenable choices, such as between turning down a raise and moving children into cheaper, but potentially lower-quality, care. Workers' inability to get ahead by working and earning more jeopardizes workers' opportunities for advancement and economic mobility. And these disappointing outcomes can lead to negative information spread by word-of-mouth, resulting in suppressed enrollment in valuable work support programs.[34]

V. Policy Options Can Surmount Eligibility Cliffs

¶16 While Illinois has been a leader in promoting policies that support low-wage workers, there remains significant room for improvement. The Family Resource Simulator can model policy options that would better support Illinois's low-wage workers and their families; several options directly meet the problems described above. For example, to overcome the first cliff, created by loss of food stamps, Illinois could, as federal law permits, opt to extend food stamp benefits to families in which the worker's income is somewhat above the official federal limit.[35] Benefits would phase out gradually as earnings increase rather than dropping sharply at the eligibility limit (see Figure 2).

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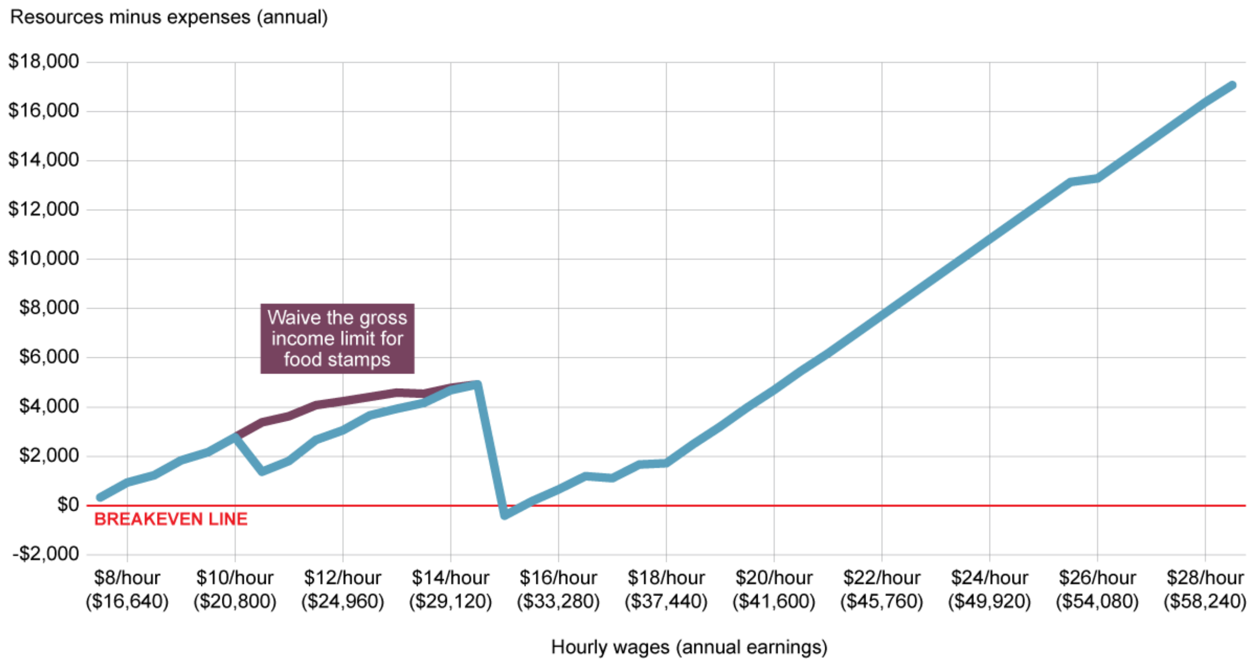
[34] CURRIE, *supra* note 10, at 11–14.
[35] For more details on this option, see STACY DEAN, CTR. ON BUDGET AND POLICY PRIORITIES, STATES HAVE THE FLEXIBILITY TO SET THEIR OWN FOOD STAMP ASSET TEST (2008) (on file with author); *See* 7 C.F.R. § 273.2(j)(2) (2007).

Figure 2: Impact of a Change in Food Stamp Eligibility, Chicago

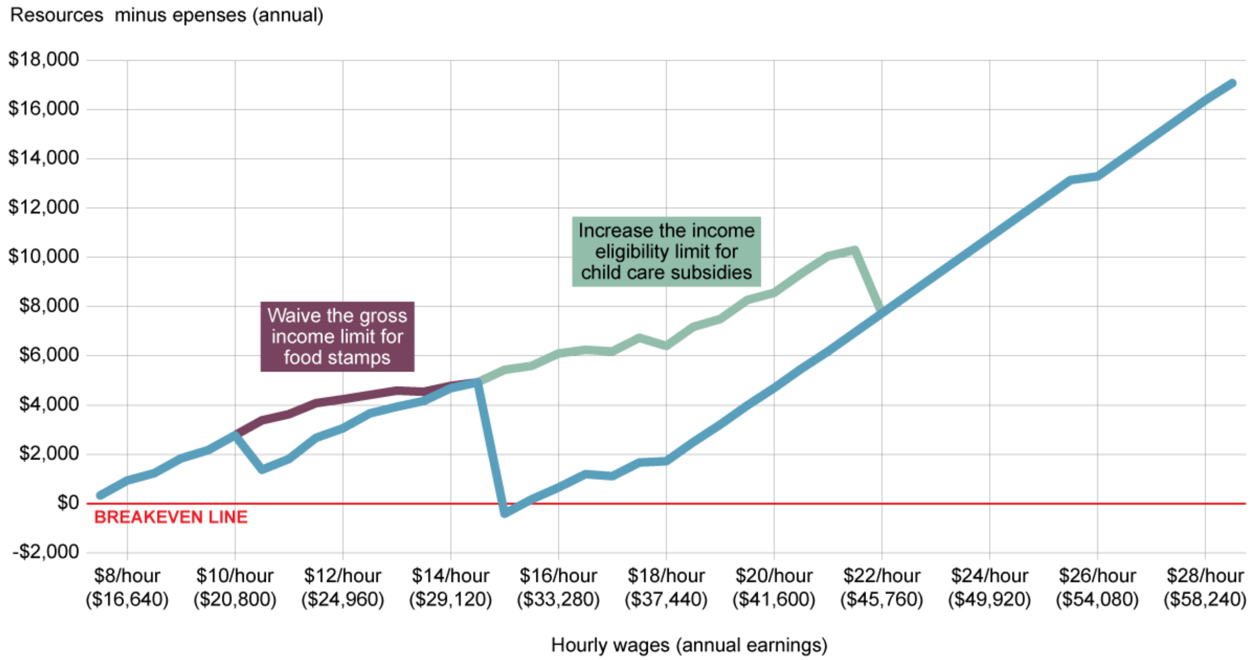


Notes: Results are based on a single parent with two children, ages 3 and 6. When eligible, the family receives federal and state earned income tax credits, food stamps, public health insurance, and a child care subsidy. Children are in center-based care while their parent works (the older child is in after-school care); family members are covered by employer-based health insurance when public coverage is unavailable or more expensive.

Source: Analysis based on the National Center for Children in Poverty's Family Resource Simulator, Illinois 2006 (reflects policies in effect as of July 2006).

¶17 Similarly, Illinois could take several approaches to phase out child care assistance as income rises to ease the cliff that now faces a family whose income exceeds the eligibility limit for subsidies. One option is to extend the subsidy eligibility limit at the upper end of the income scale. Families with subsidies could contribute to the cost of care through a co-payment that increases as earnings rise. Under this option, a family that reaches a higher income limit will already have assumed a larger share of the full cost of care and will have more earnings available to sustain a loss in benefits. Figure 3 shows that extending the eligibility limit for child-care subsidies from 185% to 275% of the federal poverty level would significantly reduce the magnitude of the child care cliff and ensure that the family remains able to meet basic expenses as earnings increase.

Figure 3: Impact of a Change in Child Care Subsidy Eligibility, Chicago



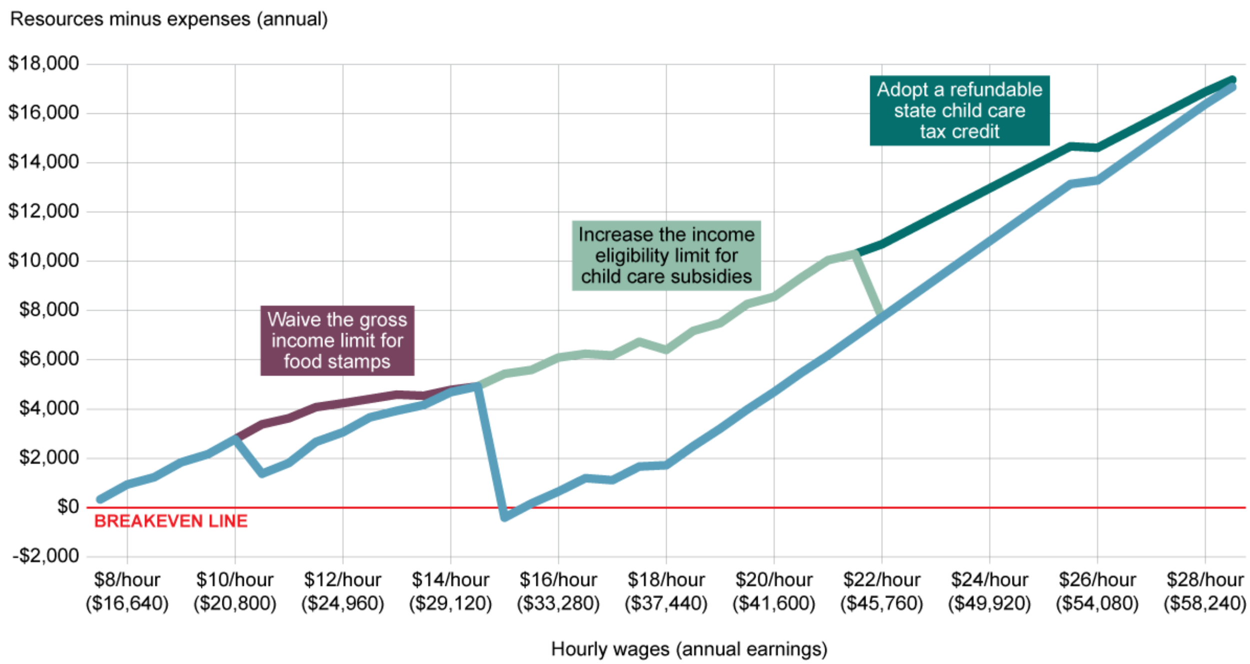
Notes: Results are based on a single parent with two children, ages 3 and 6. When eligible, the family receives federal and state earned income tax credits, food stamps, public health insurance, and a child care subsidy. Children are in center-based care while their parent works (the older child is in after-school care); family members are covered by employer-based health insurance when public coverage is unavailable or more expensive.

Source: Analysis based on the National Center for Children in Poverty's Family Resource Simulator, Illinois 2006 (reflects policies in effect as of July 2006).

¶18 Many states provide child care assistance through refundable tax credits. Figure 4 shows how the child care cliff facing Illinois families could be eliminated entirely by combining an increase in the eligibility limit for subsidies with a refundable state child care tax credit for families whose income exceeds the (expanded) limit. This example assumes that, upon loss of the child care subsidy, the family initially receives an annual tax credit of about $1500 per child. The value of this credit gradually declines to $0 as the parent's earnings approach the state's median income—or about $60,000 per year for a family of three.[36]

[36] Eligible families pay co-payments for their child care on a sliding scale. In Illinois, the co-payments have been calibrated to remain an affordable portion of family income. As long as a family is eligible, its co-payment will be affordable. This is the reason why the system cannot simply be re-designed with higher co-payments that would phase out the child care subsidy without a "cliff" at $45,000 per year. The co-payments would be so high that eligible families would not be able to afford to participate in the program.

Figure 4: Impact of a Hypothetical State Child Care Tax Credit, Chicago



Notes: Results are based on a single parent with two children, ages 3 and 6. When eligible, the family receives federal and state earned income tax credits, food stamps, public health insurance, and a child care subsidy. Children are in center-based care while their parent works (the older child is in after-school care); family members are covered by employer-based health insurance when public coverage is unavailable or more expensive.

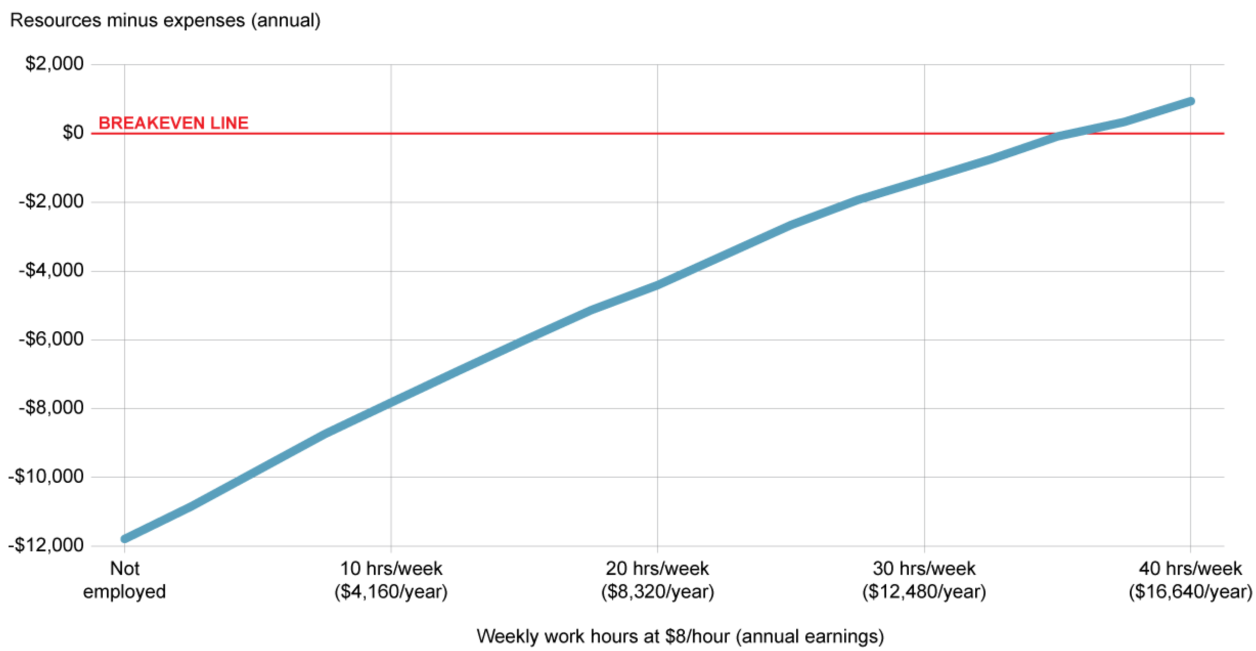
Source: Analysis based on the National Center for Children in Poverty's Family Resource Simulator, Illinois 2006 (reflects policies in effect as of July 2006).

¶19 Of course, obstacles underlie all of these potential solutions to the problem of eligibility cliffs; cost is primary among the obstacles. Nevertheless, the Family Resource Simulator helps illustrate an ironic truth: the cliffs penalize people for striving to get ahead economically and penalize them even more for succeeding. This truth is antithetical to core American values. Shining a light on how the cliffs harm families can drive the necessary changes. The simulator helps model the extent to which various solutions can actually solve the problem.

VI. WORK SUPPORTS MATTER AT THE LOWER END OF THE INCOME SPECTRUM

¶20 Work supports make a difference at the lower end of the income spectrum, even before a parent takes a job. Assuming a family receives the benefits for which it is eligible (TANF, food stamps, Medicaid), the system can provide the basic support that mitigates the need to focus on mere survival and allows the parent's focus to turn to employment, at which point other supports (TANF earnings disregards, child care subsidies, and the EITC) take effect to nurture that effort. Figure 5 shows how the current array of work supports in Illinois comes into play at the lower end of the income spectrum.

Figure 5: Net Family Resources as Work Hours Increase, Chicago



Notes: Results are based on a single parent with two children, ages 3 and 6. When eligible, the family receives federal and state earned income tax credits, TANF cash assistance, food stamps, public health insurance, and a child care subsidy. Children are in center-based care while their parent works (the older child is in after-school care).

Source: Analysis based on the National Center for Children in Poverty's Family Resource Simulator, Illinois 2006 (reflects policies in effect as of July 2006).

¶21 Figure 5 reflects Illinois's relatively low TANF payment level, which is now about twenty-seven percent of the federal poverty level.[37] It shows how net family resources change as a parent transitions into full-time work, assuming the family receives TANF cash assistance, food stamps, public health insurance, and a child care subsidy. The low TANF benefit level makes the move into employment more difficult because of the survival distractions that a family so poor inevitably encounters. However, Figure 5 shows the impact of a favorable set of policies that take effect once the parent enters employment. Illinois has a TANF earnings disregard of two-thirds, so that the monthly payment decreases by only one dollar for every three dollars in earnings. Illinois pays a residual TANF benefit (calculated as the maximum benefit *minus* one-third of earnings) without regard to the TANF time limit if the parent works at least thirty hours a week, so that the TANF payment functions as a non-time-limited earnings supplement while wages remain low.[38] The state and federal earned income credits take effect when a

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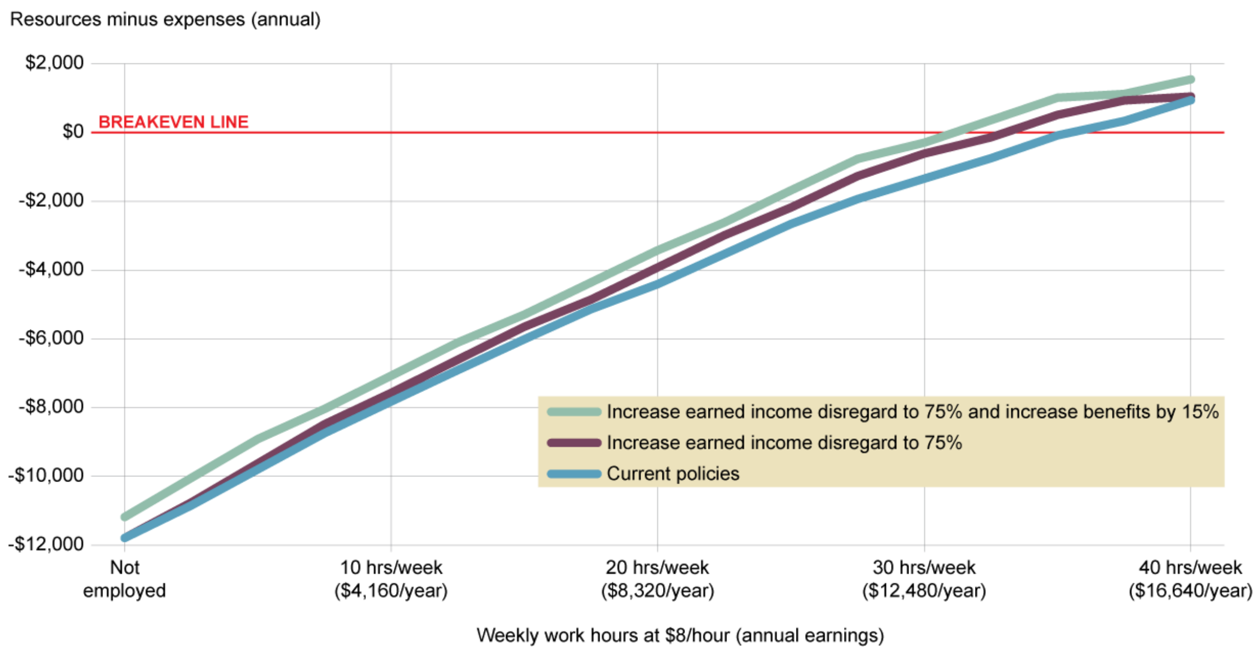
[37] Illinois adopted a nine percent TANF grant increase, effective July 1, 2008. *See* 32 Ill. Reg. 10607 (July 11, 2008). The grant level remains very low compared to other states. The results in Figure 5 would be slightly different if the grant increase were reflected, but not enough to alter the basic lessons revealed by the simulator.

[38] These policies—a generous earnings disregard and non-time-limited benefits for full time workers—have the ancillary administrative benefit of keeping more working people in the TANF caseload. For the relatively low cost of residual TANF benefits paid to these working families, the state receives a strong boost toward meeting the strict TANF work participation rates imposed under the federal regulations, in that the state has a higher percentage of families who are in the program and meet work requirements through paid employment. For more on Illinois's TANF program, see John Bouman, Margaret Stapleton &

parent goes to work. The child care subsidy has a nominal co-payment, and public health insurance stays in place without premiums or co-payments until income is higher. Figure 5 shows the net impact of these policies in helping the family get to the "breakeven" point—the point where resources equal expenses—relatively quickly, at an earnings level equivalent to thirty-five hours of work per week at eight dollars an hour.

¶22 Strategies to improve work supports policy for those with the lowest incomes have to involve the TANF program because it is the starting point for those not yet in the labor force. TANF can function as an earnings supplement before the parent's earnings trigger the highest EITC. Relatively modest improvements in the program make a difference in real life for families that start so far below their breakeven point. A few dollars can mean a great deal in the harsh calculations that people in deep poverty must make—rent or food, carfare or shoes, gas bill or light bill—and small improvements in a family's bottom line can make all the difference in whether a transition to employment is successful. Figure 6 shows the impact of two policy improvements in Illinois: increasing the earnings disregard from two-thirds to three-fourths, and increasing the TANF payment levels by fifteen percent.

Figure 6: Impact of Changes in TANF Policy, Chicago



Notes: Results are based on a single parent with two children, ages 3 and 6. When eligible, the family receives federal and state earned income tax credits, TANF cash assistance, food stamps, public health insurance, and a child care subsidy. Children are in center-based care while their parent works (the older child is in after-school care).

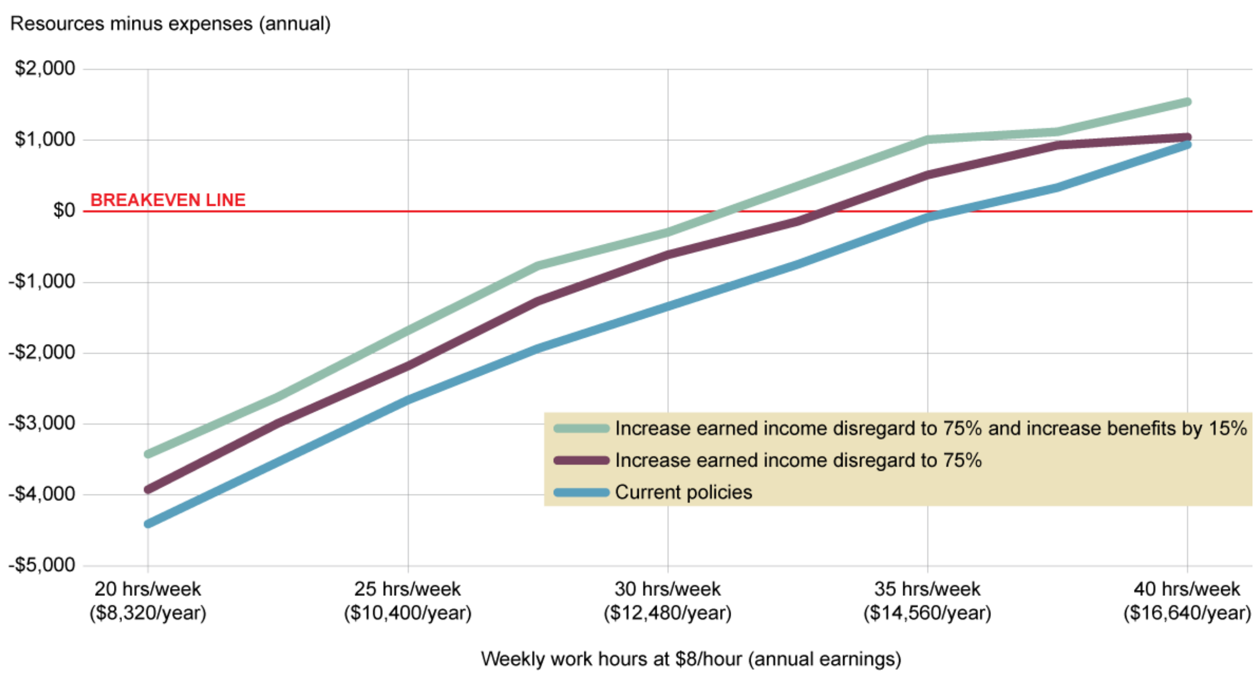
Source: Analysis based on the National Center for Children in Poverty's Family Resource Simulator, Illinois 2006 (reflects policies in effect as of July 2006).

Deb McKee, *Time Limits, Employment, and State Flexibility in TANF Programming: How States Can Use Time Limits and Earnings Disregards to Support Employment Goals, Preserve Flexibility, and Meet Stricter Federal Participation Requirements*, 37 CLEARINGHOUSE REV. 289 (2003).

¶23 Figure 6 shows that increasing the earnings disregard moves the family more quickly from pre-employment with no earnings to the breakeven point. It illustrates how, compared to current policies, increasing the earnings disregard becomes incrementally more helpful the higher the family's earnings, and how the disregard phases out with no cliff when the family's income is high enough to exit TANF. This is a productive design that provides incentives and support without imposing inadvertent punishments. Figure 6 illustrates the somewhat obvious proposition that increasing the TANF payment level would help families make the transition to work. Even before employment, a higher grant places a family closer to its breakeven point, providing a stronger platform for the transition to work. And Figure 6 shows how marrying the grant increase to the improved earnings disregard would get a family to the breakeven point more quickly and supplement income higher up the income scale.

¶24 To focus more closely on these proposed policy changes, Figure 7 shows the same changes as Figure 6, but starting when the parent is working twenty hours a week rather than having no earnings.

Figure 7: Impact of Changes in TANF Policy, Chicago



Notes: Results are based on a single parent with two children, ages 3 and 6. When eligible, the family receives federal and state earned income tax credits, TANF cash assistance, food stamps, public health insurance, and a child care subsidy. Children are in center-based care while their parent works (the older child is in after-school care).

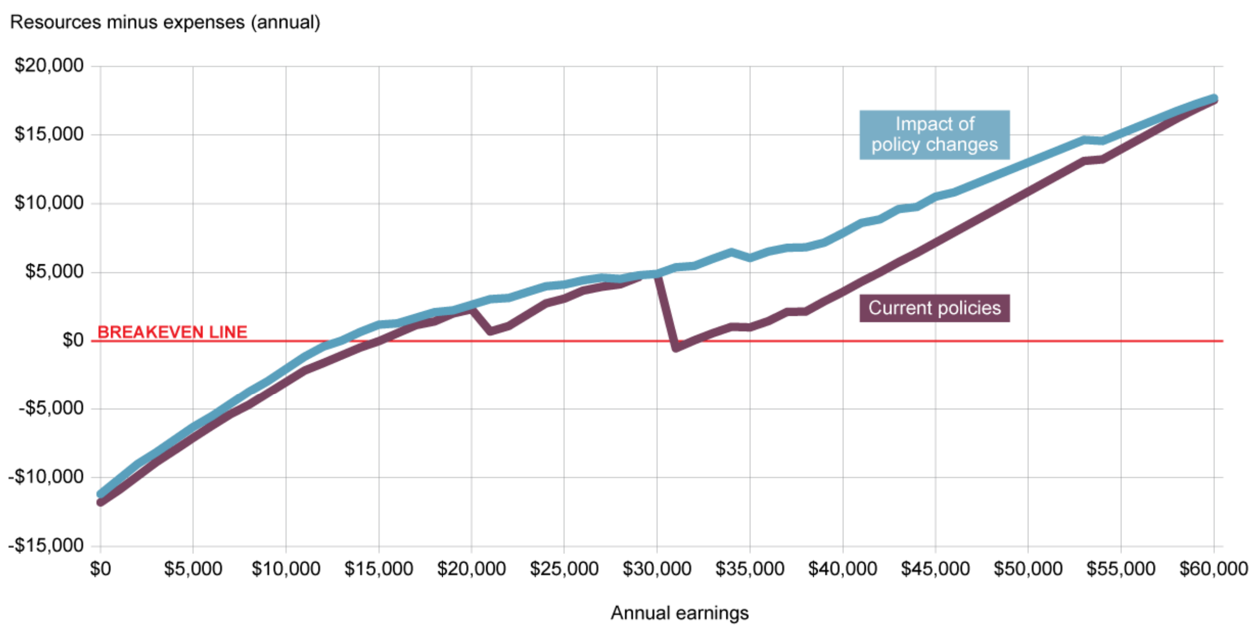
Source: Analysis based on the National Center for Children in Poverty's Family Resource Simulator, Illinois 2006 (reflects policies in effect as of July 2006).

¶25 Figure 7 better illustrates the impact of these proposed changes, which can look deceptively small on the larger graph. With the policy changes, the family would break even when earnings are roughly $13,000 a year, while under current policies the family would break even when earnings are roughly $15,000 a year. While the difference may seem small, it is a substantial improvement for a family struggling to survive on such low earnings. Even under current policies, work supports have a large impact on a family's ability to make ends meet, and the public policy value of those policies is clear. The proposed changes would increase the impact and value of these programs.

VII. CONCLUSION

¶26 A next step in shaping policy is to see all of these work support programs as parts of a coherent whole, to understand how the programs interact, and how together they can most productively affect employment activity and family support. Figure 8 shows the impact of this combined approach by modeling all of the policy proposals discussed here, compared to current Illinois policies.

Figure 8: Impact of Changes in TANF, Food Stamp, and Child Care Policies, Chicago



Notes: Results are based on a single parent with two children, ages 3 and 6. When eligible, the family receives federal and state earned income tax credits, TANF cash assistance, food stamps, public health insurance, and a child care subsidy (family resources with policy changes also include a hypothetical state child care tax credit, when eligible). Children are in center-based care while their parent works (the older child is in after-school care); family members are covered by employer-based health insurance when public coverage is unavailable or more expensive.

Source: Analysis based on the National Center for Children in Poverty's Family Resource Simulator, Illinois 2006 (reflects policies in effect as of July 2006).

¶27 All the proposed changes, working together, can provide strong incentives for the poorest working families to keep working and increase their earnings. Then, as earnings rise, the combined policies continuously reward greater effort and success and avoid the damaging and counterproductive "cliffs."

¶28 Work supports are already highly effective. The more work support programs are improved, the greater their impact will be on workforce policy and the lives of the workers and their families. The Family Resource Simulator is a fine policy-making tool for understanding the positive effects of current policies, identifying the remaining problems, and modeling proposed changes.