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Study of Family Work Support Programs

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Conducted Pursuant to
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Summary, Conclusions, and Recommendation

Senate Resolution 2013-62 (Appendix A) directed the Legislative Budget and Finance Committee to consider the effect of major federal and state programs in assisting low income families to achieve self-sufficiency and reduce the number of families living in poverty. In particular, we were asked to determine if and how such programs mitigate the “cliff effect.” “Cliff effects” occur when program benefits are not phased out on a sliding scale basis, or increased earnings are not sufficient to cover the full cost of the lost benefit.¹

With one exception, we focused on programs available to all that apply and meet eligibility requirements: TANF (Temporary Assistance to Needy Families), SNAP/Food Stamps (Supplemental Nutritional Assistance Program), several federal tax credits, and Pennsylvania’s Special Tax Forgiveness Program. The one exception, the Child Care and Development Fund (CCDF), is a discretionary federal program offering child care subsidies for low income families, with the number of eligible individuals served limited by available funding.

We found:

TANF, SNAP/Food Stamps, the federal Earned Income Tax Credit (EITC), the Child Tax Credit (CTC), and the Child and Dependent Care Tax Credit (CDCTC) are integrally related and are designed at the national level to help lift low income wage earners out of poverty. In 2009, such programs almost cut in-half (from 48.3 to 27.9 percent) the percentage of families in poverty headed by a single mother, according to the Congressional Research Service. In Pennsylvania:

- TANF provided short term cash assistance in 2012 to about 78,000 families with about 138,000 children, about half of whom are age five or younger.² To promote work, support the move to self-sufficiency, and mitigate the transition away from TANF cash assistance, Pennsylvania’s program:
 - Allocates TANF funds for training and employment services.
 - Provides special allowances (e.g., clothing, transportation, allowances for tools and equipment, etc.) for employment and training activities.

¹As Senate Resolution 62 directed that the study focus on low income families that are able to work, our report does not address national or state policies for children and adults with disabilities or the elderly, who comprise the majority of those in poverty and participating in major national and state income support programs, and for which the effect of the policies we describe may differ. The resolution also did not direct us to review program performance. As a result, we have not considered performance measures that are in place for the programs described within our report.

² Department of Health and Human Services, National TANF DATAFILE as of 9/10/13.

- Disregards 50 percent of earned income when determining if a household remains eligible for a TANF cash grant.
 - Offers Extended TANF Cash Assistance beyond the 60-month federal limit (using 100 percent federal funds) for those with hardships (e.g., battered women who are working).
 - Offers Transitional Cash Assistance benefits of \$100 a month for no more than three months when TANF is discontinued due to excess earned income for families with gross annual incomes that do not exceed 235 percent of the federal poverty level.
 - Offers Extended SNAP/Food Stamp benefits to families moving from TANF due to new employment, increased hours of employment, or increased income from employment.³
 - Guarantees child care subsidies for families that are leaving TANF, working or in work and training for at least 20 hours a week, and have gross annual incomes that do not exceed 235 percent of the federal poverty level (FPL). In federal fiscal year 2013, the Commonwealth expended 26 percent of its federal and required State Maintenance of Effort TANF funds on basic assistance and 35 percent for child care and transfers to the Child Care and Development Fund.⁴
- SNAP/Food Stamps provided 860,000 Pennsylvania households with 1.8 million individuals in 2013 with over \$2.5 billion in supplemental food assistance. Pennsylvania’s SNAP/Food Stamp program takes advantage of a federal program option that allows for “broad-based (non-cash) categorical eligibility.” This has the effect of extending benefits to families with incomes higher than the normal federal SNAP gross income eligibility requirements but with higher expenses, and encouraging savings and asset accumulation. Starting in 2009, in Pennsylvania, the:
 - Gross income eligibility test to qualify for SNAP benefits has been 160 percent of the federal poverty level, rather than 130 percent, and 200 percent for households with an elderly or disabled member.
 - Net income limits have not been applied for purpose of eligibility determination.⁵
 - Asset tests have no longer been required for SNAP benefits.

³ Pennsylvania also offers Transitional Medical Assistance. Such a program, however, is no longer necessary as Pennsylvania has recently elected to participate in Medicaid expansion under the Affordable Care Act. Under the expansion almost all those leaving TANF will qualify as their incomes will likely be under 138 percent of the federal poverty level.

⁴ \$271,504,540 compared to \$395,401,851 of the \$1,042,794,046 federal TANF and required State Maintenance of Effort fund.

⁵ Such limits, however, influence determination of the monthly benefit amount. Technically, households with incomes above 100 percent of the federal poverty level remain eligible for SNAP/Food Stamps, however, because of the way in which the benefit amount is determined the value of benefit is minimal or zero.

Along with TANF and SNAP/Food Stamps, the federal Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) can lift a low income family with a single parent and two children out of poverty—mitigating the reduction in such benefits and further rewarding work.

- The maximum TANF cash benefit in Pennsylvania for a single parent and two children without any earned income (\$421 monthly) is equivalent to about 25 percent of the federal poverty level (FPL).⁶ With the addition of SNAP/Food Stamp benefits, the family's combined income is equivalent to about 55 percent of FPL. Because the family is not working, it does not qualify for the federal Earned Income Tax Credit (EITC),⁷ the Child Tax Credit (CTC),⁸ or the Child and Dependent Care Tax Credit (CDCTC).⁹
- The family working full time¹⁰ at the state minimum wage (i.e., \$7.25 per hour) earning about \$14,000 annually is not eligible for a TANF cash grant, and its earned income is equivalent to just over 70 percent of the 2013 FPL. As this family is working, it qualifies for the maximum EITC credit of \$5,372.¹¹ With earned income, the EITC credit, and an estimated annual \$4,284 in SNAP/Food Stamps,¹² the family's income is equivalent to 120 percent of the federal poverty level. Its income rises to over 125 percent of the federal poverty level when the refundable portion of the Child Tax Credit for which it qualifies (\$1,630) is taken into account.
- The family working full time at the minimum wage will not qualify for the Child and Dependent Care Tax Credit as it has no federal tax liability and the credit is not refundable. The CDCTC is targeted to assist moderate

⁶ The federal poverty level for a three-person household in 2013 was \$19,530. See Appendix B for federal poverty guidelines from 2012 through 2015.

⁷ In 2010, 2.3 million Pennsylvanians resided in EITC eligible households, including over 1 million children. Claims for EITC in Pennsylvania totaled roughly \$2 billion, with 90 percent of the total credit refundable, i.e., the difference between the taxes owed and the amount of the credit for which the household qualifies is provided to the household in the form of a tax refund.

⁸ In 2012, over 885,000 Pennsylvania federal income tax returns claimed the CTC, with such claims totaling \$1.12 billion. The refundable portion of the CTC is limited to 15 percent of earnings above \$3,000 up to the maximum amount of the credit (\$1,000 per child).

⁹ In 2012, Pennsylvania had over 228,000 claims for this credit totaling \$121 million. Low income households with incomes of \$15,000 or less are eligible for the maximum CDCTC credit rate of 35 percent for qualifying care expenses of up to \$3,000 for one dependent and \$6,000 for two dependents. The credit rate declines to 20 percent for households with adjusted gross income of \$43,000. The amount of adjusted gross income a household may have and continue to qualify for the credit, however, is unlimited. The CDCTC is not refundable.

¹⁰ Forty hours a week for four weeks for 12 months.

¹¹ The family in our example qualifies for the maximum EITC as its income is between 69 and 90 percent of the federal poverty level after which time the credit begins to phase out until the family's income reaches a level equivalent to about 220 percent of the federal poverty level.

¹² Our estimate assumes the family qualifies for the national average SNAP/Food Stamp standard benefit deduction, the earned income deduction, and the child care deduction. For Pennsylvania households, any child care payment for which the family is responsible, including a child care subsidy copayment, can qualify for a dependent care deduction for SNAP. In addition, any child care payments families make for child care over and above the family's child care subsidy may also qualify as a SNAP dependent care deduction.

and higher income households who no longer qualify for the CTC or EITC credits:

- 67 percent of Pennsylvania CDCTC filers had adjusted gross income above \$50,000, including 35 percent with adjusted gross income above \$100,000.
- 62 percent of Pennsylvania CTC filers had adjusted gross income above \$50,000, including 18 percent with adjusted gross income above \$100,000.
- Almost none of Pennsylvania EITC filers had income above \$50,000, with approximately 43 percent having adjusted gross income in the \$10,000 to \$25,000 range, and 29 percent having income of \$1 and under \$10,000.

Child care subsidies for low income families are essential for working families. In Pennsylvania in 2014, the annual fee for full-time care:

In a Center was:

- \$10,470 for an infant.
- \$8,727 for a 4-year-old child.
- \$5,601 for a school-age child (before/after-school care).

In a Family Child Care Home was:

- \$7,943 for an infant.
- \$7,128 for a 4-year-old child.
- \$5,263 for a school-age child (before/after-school care).

Child care's high cost and the importance of child care subsidies for very low income families attempting to become self-sufficient are reflected in the value of the subsidy relative to other family support benefits. The monthly subsidy for child care in a southeastern Pennsylvania county for a single parent working full time at the minimum wage with one older toddler in Center Care and second older school-age child in Group Care, for example, is equivalent to:

- four times the family's maximum monthly SNAP/Food Stamp benefit (\$357), and
- three times the average monthly value (\$448) of the family's federal Earned Income Tax Credit.

Pennsylvania invests significant funds to provide child care subsidies to low income families to allow them to transition from poverty to self-sufficiency.

For FY 2015-16, the Department of Human Services (DHS) is proposing to expend almost \$650 million for child care subsidies for low income families, plus approximately \$18 million to reduce the child care subsidy waiting list (which averaged

about 6,700 monthly in the 2013 federal fiscal year). Funding for such subsidies comes from the Child Care and Development Fund,¹³ the TANF and Social Services Block Grants, the SNAP/Food Stamps program, and state matching funds.

In federal fiscal year 2014, Pennsylvania’s child care subsidy program, known as Child Care Works, served approximately 160,000 children, or approximately 22 percent of the U.S. Census Bureau’s estimate of Pennsylvania children under age 12 living below 200 percent of the federal poverty level. To qualify for Pennsylvania’s program a family must:

- need child care, typically for a child under age 13,
- meet minimum work requirements (20 hours or more a week or 10 work and 10 training hours per week), and
- have income at or below 200 percent of the federal poverty level (e.g., \$39,060 for a three-person household in 2013) for initial eligibility and up to 235 percent of FPL (\$45,896 for a three-person household in 2013).

Based on data provided by the Department of Human Services, we found:

- almost all (96 percent) of Pennsylvania Child Care Works families have income at or below 200 percent of the federal poverty level;
- most (85 percent) are working on average more than 20 hours a week; and
- families are not reducing their work hours to avoid loss of the child care subsidy. Rather, for households with income at or below 100 percent of the federal poverty level, about 10 percent worked on average 40 or more hours a week. This increased to approximately 55 percent for those with income between 100 and 200 percent of the federal poverty level, over 80 percent for those with income between 200 and 235 percent of poverty, and over 90 percent for those with income above 235 percent of poverty.

Pennsylvania’s child care subsidy program includes several features that help ease low income families’ transition to self-sufficiency. It:

¹³ The federal Child Care and Development Fund (CCDF) consists of two federal funding streams: the Child Care and Development Block Grant, which is discretionary federal funding, and the “Child Care Entitlement to States,” which is “mandatory funding” authorized in Section 418 of the Social Security Act. The Child Care and Development Block Grant is allocated to states based on each state’s share of children under age five, the state’s share of children receiving free or reduced-price lunches, and state per capita income. States are not required to match the federal Child Care and Development Block Grant funds. With respect to the mandatory funding authorized in the Social Security Act, one part of such funding is based on the amount the state received for child care programs previously authorized for the AFDC program prior to 1996. Sometimes referred to as the “guaranteed mandatory funds,” no state match is required for these funds. The remaining mandatory funds, however, are allocated to states based on their share of children under age 13, and states must meet “maintenance of effort” and matching requirements to receive such remaining mandatory funds.

- *Has “tiered eligibility” thresholds.* Pennsylvania is one of only 16 states that have different eligibility thresholds for initial and continuing eligibility for child care. Such practices are recommended to provide child care continuity as low income family income often fluctuates, and to smooth out the transition associated with the loss of the benefit.
- *Has a relatively high maximum income continuing eligibility threshold.* Only seven states have higher thresholds. They include Texas (at 244 percent of FPL), Minnesota (247 percent), New Jersey, Maine, and New Hampshire (250 percent), North Dakota (302 percent), and Massachusetts (376 percent).
- *Guarantees access to subsidized child care to those leaving TANF cash assistance as long as their income does not exceed 235 percent of the federal poverty level.* To qualify, the family must contact the local Child Care Information Service Agency (CCIS) within 183 days from the date TANF cash assistance ended and meet the work requirement not later than the 184th day following the date TANF ended. Only 15 other states guarantee such access for very low income families.¹⁴
- *Has a family level fixed dollar amount copayment based on family size and income range.* As a result, a family’s child care copayment is not based on the cost of care or calculated as a percent of family income, and does not vary based on the number of children in the family receiving child care. The family’s copayment, moreover, remains constant even if the family income changes slightly. Pennsylvania is one of only nine states with family level fixed dollar copayments¹⁵ that are not based on the cost of the child care selected by the family, calculated as a percent of family income, or based on the number of children in the family receiving child care.

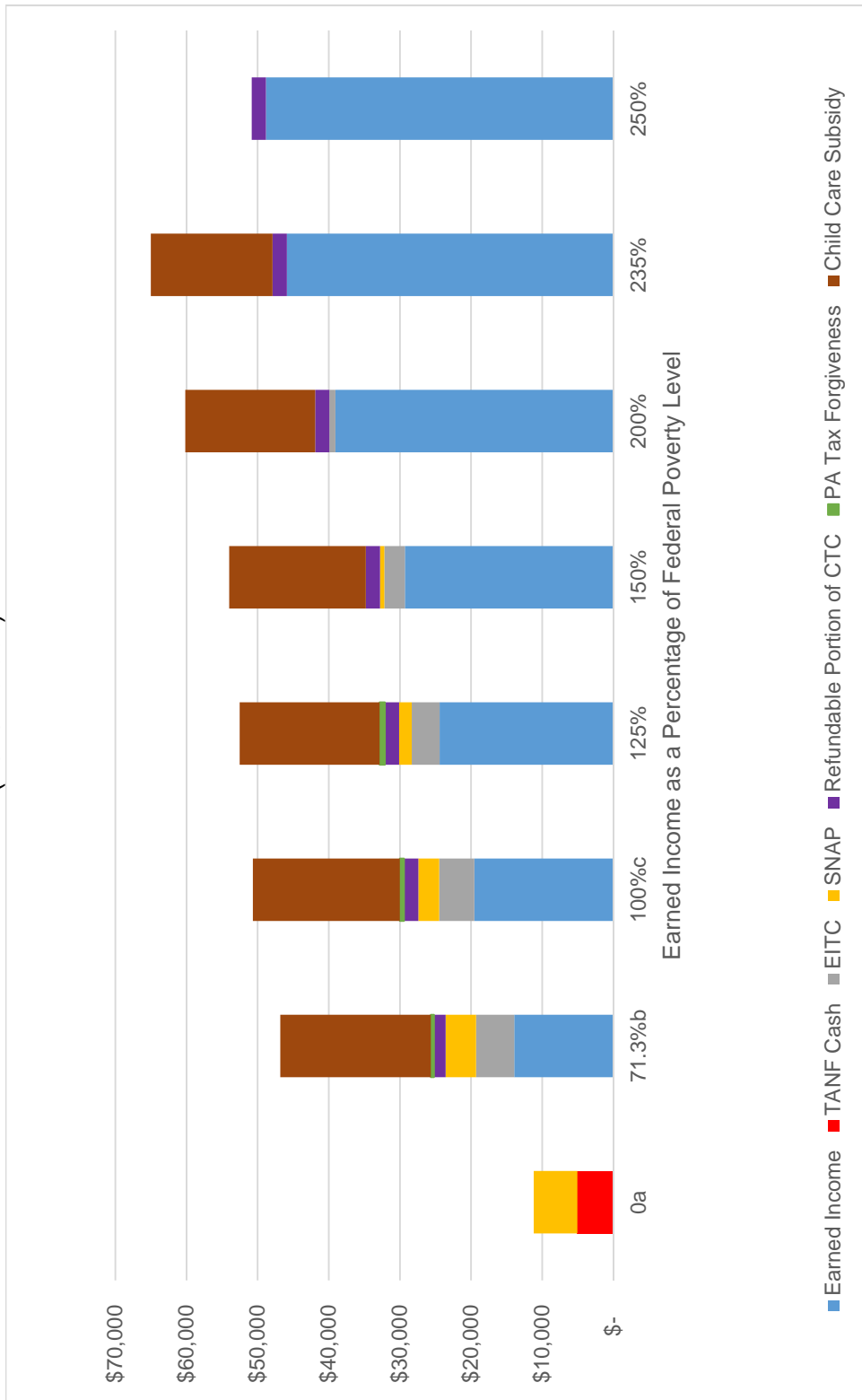
Pennsylvania’s Child Care Works Program clearly assists low income families to work and rise out of poverty with its relatively low copayments, and other features. As shown on the graph on page S-7, however, when their average annual income becomes greater than 235 percent of the federal poverty level they can experience a “cliff effect.” At that point, they lose their child care subsidy, and child care, especially center-based care, is likely unaffordable for most. The graph on page S-8 compares the cost of various types of child care for a single parent with two children relative to various family income levels. It shows:

- The cost of some forms of child care for two children (e.g., full-time Center Infant and Center Older Toddler Care and Center Infant and Group Older

¹⁴ They include Alaska, Arizona, Kansas, Louisiana, Maine, Minnesota, Mississippi, New Hampshire, New Jersey, New York, Ohio, South Carolina, Tennessee, Texas, and Virginia.

¹⁵ In addition to Pennsylvania, Alaska, California, Illinois, Kansas, Minnesota, New York, North Dakota, and Ohio have fixed dollar family level copayments.

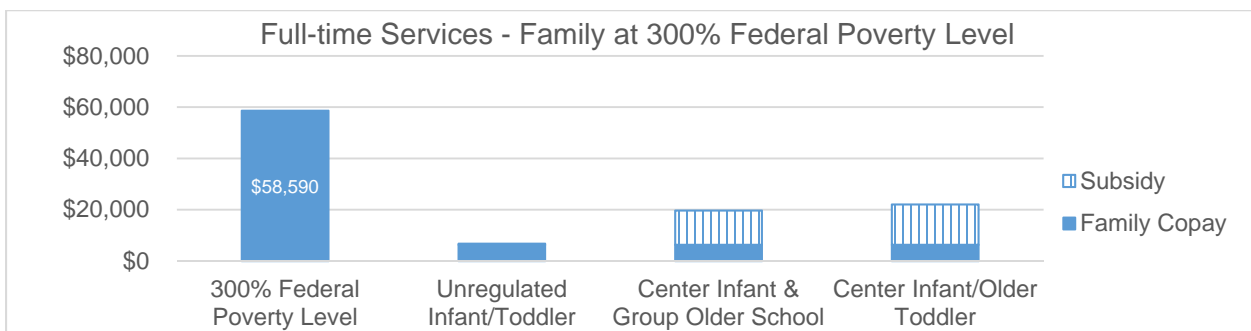
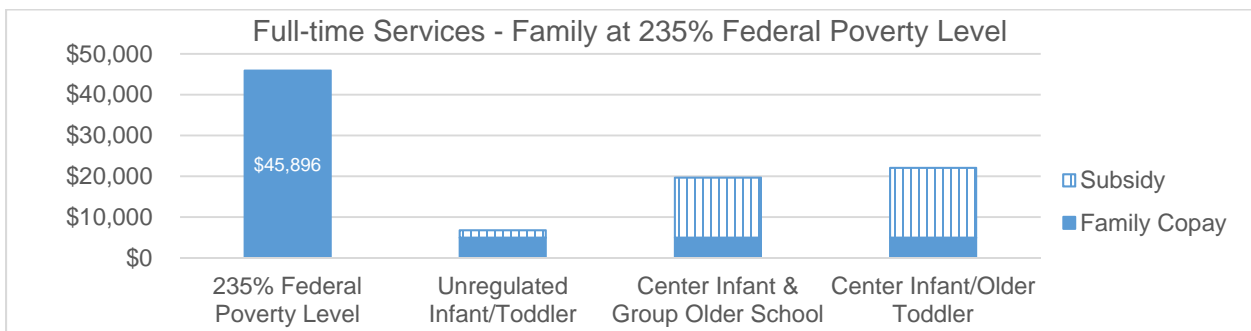
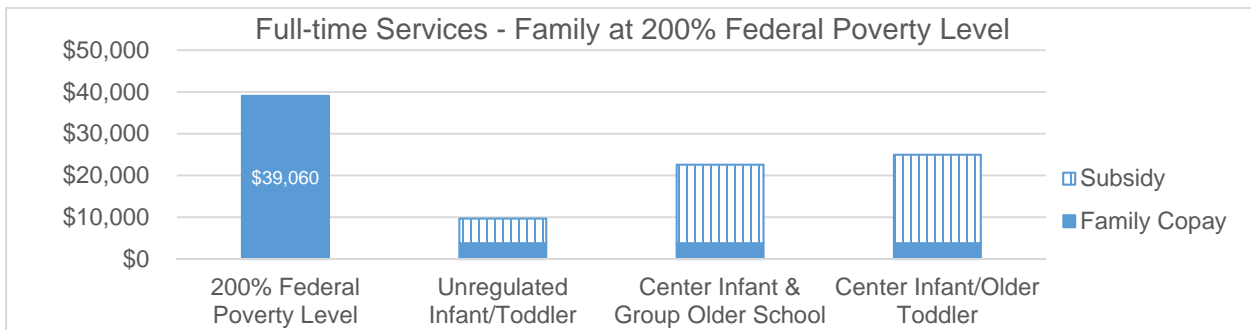
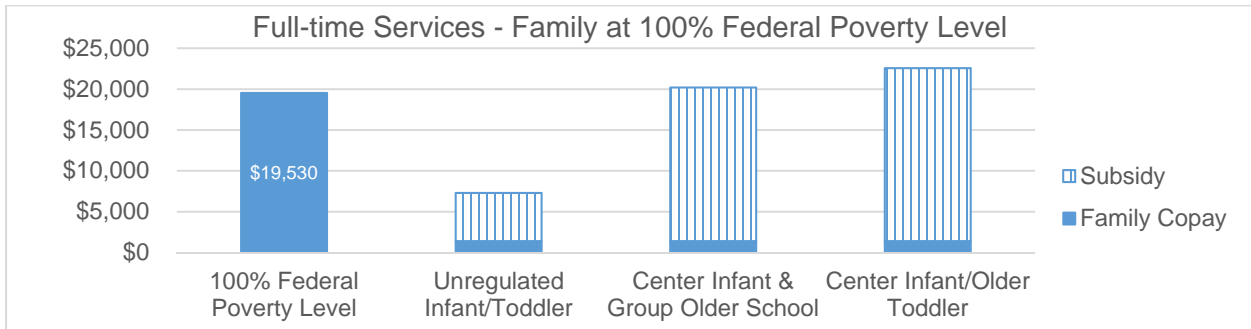
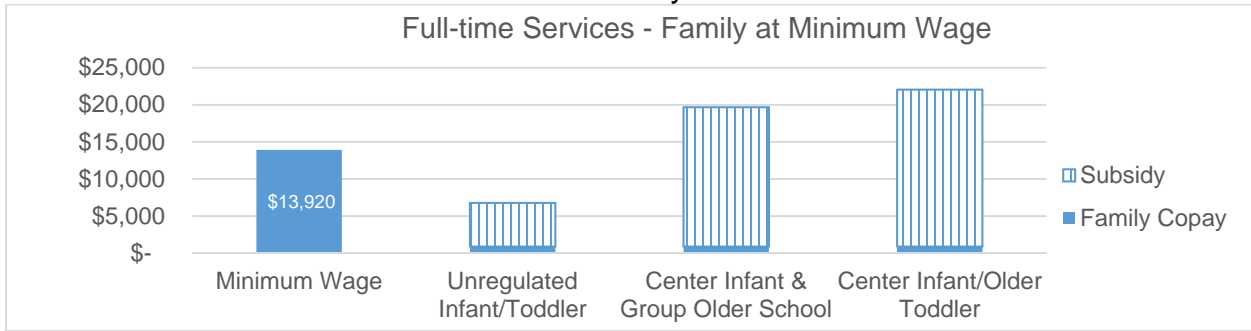
**Benefits at Various Earned Income Levels
(Single Parent With Two Preschool Dependent Children)
(2013 Values)**



^a No earned income.
^b Equivalent to full-time employment at minimum wage (\$7.25/hour).
^c \$19,530 (for single parent with 2 dependents).

Source: Developed by LB&FC staff.

Cost of Various Types of Child Care for a Single Parent With Two Children in Relation to Annual Family Income*



* Family = Single parent with two children.
Source: Developed by LB&FC staff.

School Age Care) actually exceeds the gross annual income of families at or below 100 percent of the federal poverty level. Such costs, moreover, account for about one-third to one-half of family income for those above 100 percent of the federal poverty level.

- Unregulated care is more affordable for families in relation to their incomes. Nonetheless, full-time (or even part-time) unregulated care¹⁶ remains unaffordable for families with income at or below the federal poverty level, accounting for about one-third to one-half of such families' income.
- Increasing the eligibility threshold from 235 to 300 percent would help moderate income families, but it does not eliminate the child care "cliff effect" because of the high cost of child care. With the exception of unregulated care, existing family copayments account for only about one-third of the cost of child care for those at 300 percent of the federal poverty level.

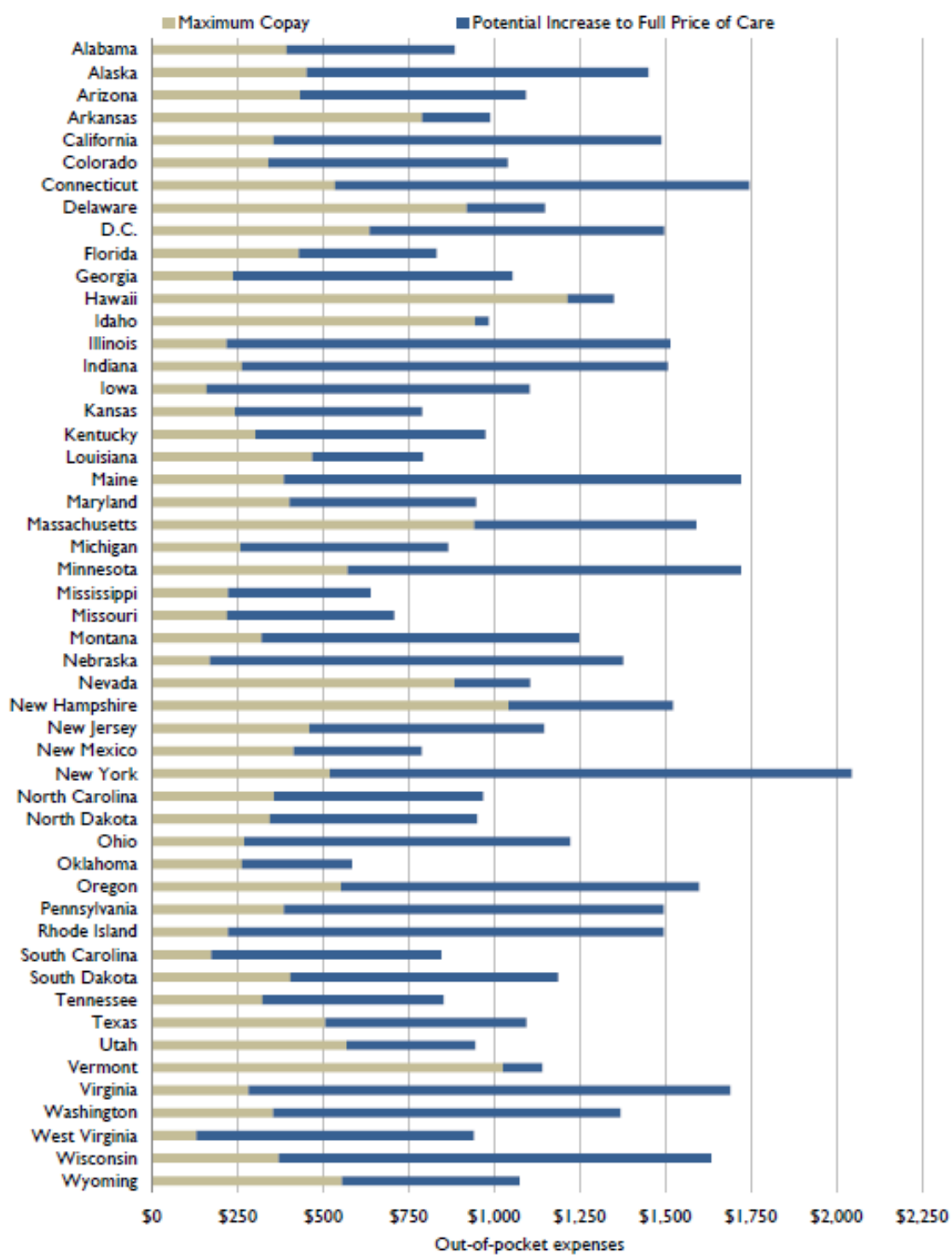
In most states, families experience the "cliff effect" when they lose their child care subsidy. The graph on page S-10 shows how much a family's out-of-pocket child care costs rise in each of the 50 states when families in those states no longer qualify for a subsidy. As the graph shows, only a few states are without a "cliff." There are, however, no simple solutions to eliminating the "cliff effect" without significant changes to program design that could make child care even more unaffordable to those near or at the federal poverty level. For example:

- One state without a major cliff is Idaho, but its child care subsidy policies are significantly different than Pennsylvania's.
 - Idaho's monthly initial and continuing eligibility thresholds in 2011 were \$1,932 for a family of three. Pennsylvania's were substantially higher (\$3,088 and \$3,629).
 - Idaho's copayment is designed as a percentage of the total cost of care selected by the family. Pennsylvania does not vary its family copayments based on the cost of care, the number of children in care, or the type of care selected by the family.

In Idaho, a single parent with a two-year-old and a four-year-old child in full-time child care in 2011, would have a maximum monthly copay of \$206 with an annual income of \$15,000. In Pennsylvania, the family would have an \$82 monthly copay with an annual income of \$15,000, a \$126 copay with an income of \$20,000, a \$178 copay with an income of \$25,000, and a \$221 copay with an income of \$30,000.

¹⁶ These are legally operating non-licensed relative and non-relative homes.

The Cliff Effect



Source: The CCDF Policies Database, 2011 data.

Note: Amounts shown for a single parent with two children, ages 2 and 4.

Source: Minton, S. and C. Durham, *Low-Income Families and the Cost of Child Care: State Child Care Subsidies, Out-of-Pocket Expenses, and the Cliff Effect*, Urban Institute, December 2013.

Pennsylvania has a state income tax forgiveness program for low income families. Pennsylvania is one of only eight states that does not vary its personal income tax based on income and one of only two states with a personal income tax that does not provide for personal exemptions. Its state income tax forgiveness program, therefore, has been designed to adjust for such features and provide income thresholds that have the effect of exempting many low income households from having to pay a state income tax. In 2012, almost \$295 million, or about 3 percent of total taxable state personal income, was forgiven,¹⁷ according to Department of Revenue income tax statistic reports. In Pennsylvania's program:

- The single parent with two children working full time at the minimum wage would have all of the family's state personal income tax liability (\$427) forgiven.
- Generally, a couple with two children can earn up to \$34,250 (about 145 percent of the federal poverty level) and qualify to have at least 10 percent of their state personal income tax forgiven, reducing their tax from \$1,051 to \$946.

Opportunities to Provide Additional Incentives for Work and Self-Sufficiency, and Smooth the Transition for Low Income Families

Senate Resolution 62 directed us to consider programs in other states and opportunities to improve Commonwealth programs. Based on our review of Pennsylvania and other state policies, we identified several opportunities for the Commonwealth to consider.

TANF Asset Test Change: For TANF cash benefits, income alone is not the only criteria for eligibility. Family assets are also taken into account, though the value of at least one family car is not usually counted toward the asset limit, and certain other assets are excluded. Most states have asset limits in the \$2,000 to \$3,000 range. Pennsylvania, however, is among the states with the lowest asset limit (\$1,000) in the nation. The other states with such low asset limits include Georgia, Indiana, Missouri, New Hampshire, Oklahoma, Rhode Island, Texas, and Washington.

States currently have the federal flexibility to eliminate, or substantially reduce, the asset test for TANF, and a handful have done so, including neighboring Maryland and Ohio. In 2009, Delaware did not eliminate its asset limit but increased it to \$10,000. States eliminating the asset test have done so for a variety of

¹⁷ If Pennsylvania were to develop a program similar to the federal EITC credit, based on 2013 EITC claims in Pennsylvania, we estimate that it would cost from an estimated \$70 million (at 3.5 percent of the federal credit) to \$700 million (at 35 percent of the federal benefit). Such costs would likely rise annually as the federal EITC credit is indexed for inflation.

reasons, including state administrative savings¹⁸ and recognition that such tests create savings disincentives for low income families. As a result, they are practically unable to weather the smallest financial setback (e.g., unanticipated medical bills, car repairs, etc.) and maintain family self-sufficiency. Moreover, states that have eliminated the asset test and studied the effect of the policy change on their caseload have not seen caseload increases as a result of the change.

Increase the TANF Earned Income Disregard: Increasing the current TANF earned income disregard from 50 to 75 percent has the effect of permitting families to gain earned income closer to 100 percent of the federal poverty level before the family stops qualifying for a partial TANF grant and more slowly reducing its loss of a partial TANF grant. A single parent family with two children working full time at the minimum wage would continue to be eligible for a partial TANF cash grant if Pennsylvania's earned income disregard was increased from 50 to 75 percent. As the family's partial grant would be approximately \$113 monthly, its annual income would increase from about 72 to 78 percent of the federal poverty level.

As of 2013, four states (Connecticut, Illinois, Indiana, and Colorado) had continuous (rather than one-time) earned income disregards greater than 50 percent. Seven states with continuous disregards (California, Florida, Massachusetts, Michigan, New Mexico, Ohio, and Oklahoma) disregarded a flat amount of earned income and an additional 50 percent of the remainder. The Department of Human Services, based on actual case data from 2014 and 2015, has estimated that increasing the earned income disregard from 50 to 75 percent for continuing eligibility would cost approximately \$1.7 million in TANF Block Grant Funds in the first 12 months. Extending the 75 percent disregard to those initially applying for TANF would cost approximately \$3.5 million in the first twelve months.

Continuation of the Child Care Subsidy for SNAP/Food Stamp-Only Households: When a family qualifies for SNAP/Food Stamps-only and is in training, federal SNAP rules apply to the conditions of the subsidy. Unlike TANF subsidized child care, SNAP/Food Stamp subsidized child care, is not available once the participant is employed. When this occurs, such participants must apply for the low income child subsidy, for which there is often a waiting list. This problem has been seen, in particular, with participants enrolled in community college programs, according to college program managers with whom we spoke. Such federal SNAP/Food Stamp policies, moreover, may account for the higher turnover rate for SNAP/Food Stamp families in the Child Care Works Program (10 percent rather than 6 percent overall).

¹⁸ In 2012, Pennsylvania reintroduced an asset test for SNAP/Food Stamps. In April 2015, the Department of Human Services again eliminated the test. The Department reported it anticipated saving \$3.5 million in state funds annually as a result of the SNAP asset test elimination.

The Department of Human Services is aware of this problem with federal SNAP/Food Stamp policy and is concerned about its impact on families. It has also considered options to address it with the federal SNAP program's rules. A possible option includes offering SNAP job retention as an eligible SNAP employment and training activity. In this way, individuals who have secured employment could continue to receive supportive services for a temporary period. DHS estimates that provision of child care for the almost 900 children whose parents secured employment would annually cost \$7 million, of which 50 percent would be federal funds.

Continue to Address the Child Care Waiting List: The Department of Human Services has continually attempted to reduce the child care waiting list. The Governor's FY 2015-16 budget proposal provides for \$17.805 million in federal funds to serve an additional 3,600 children, or about half the average monthly number of children on the waiting list. In view of the importance of the subsidy in helping lift families out of poverty, such an investment of available funds should be continued.

Recommendation

The Pennsylvania General Assembly, as part of its efforts to promote work and assist low income families, may wish to consider the above options we have identified to further such efforts. In part, such options expand on existing state policies (such as through child care subsidy waiting list reductions). They also do not involve major expenditures of federal and state funds, and serve to advance the policy goal of helping low income families attain self-sufficiency through work.

Introduction

Senate Resolution 2013-62 (Appendix A) directs the Legislative Budget and Finance Committee to study new approaches to family work support programs in view of their importance in helping low income families achieve self-sufficiency while reducing the number of families living in poverty. In particular, we were asked to determine if and how such programs mitigate the “cliff effect.” “Cliff effects” occur when program benefits are not phased out on a sliding scale basis, or increased earnings are not sufficient to cover the full cost of the lost benefit.

Study Scope and Objectives

Specifically, this study seeks to:

1. Identify and assess current policies and practices within Commonwealth programs for Temporary Assistance for Needy Families (TANF), the Child Care and Development Fund, and the State Tax Forgiveness program, in particular, to promote economic opportunity and poverty reduction.
2. Identify additional opportunities for state policies that would further enhance opportunities for work support programs to assist families to move up the economic ladder, and their potential added costs and benefits.
3. Identify existing policies whereby minor increases in income from work make low-income families ineligible for programs that allow them to work, such as child-care assistance, and introduce “cliffs” and other possible disincentives for achieving self-sufficiency.
4. Identify programs in place in other states, in particular Pennsylvania’s surrounding states, which help promote self-sufficiency for low income families that the Commonwealth may wish to consider, and their possible costs and benefits.

Methodology

To identify and assess policies and practices within the Commonwealth’s programs for Temporary Assistance for Needy Families (TANF), the Child Care and Development Fund, and the state tax forgiveness program, we reviewed relevant federal and state laws and regulations, and policy and procedure manuals. In particular, we reviewed information related to each program’s benefit design, including its eligibility provisions and benefit levels. We also reviewed the extent to which each program helped facilitate the transition to employment through specific family work supports, such as child care and other special allowances that promote work and self-sufficiency for low income families.

By federal design, TANF cash assistance and transitioning from TANF cash assistance to employment and self-sufficiency are integrally related to federal SNAP/Food Stamp benefits and certain federal tax credits. For this reason, we have reviewed and included information for such programs, their eligibility and benefit levels and program supports to lift low income families from poverty. We have also included information on Pennsylvania participants in such programs and the value of their contribution in lifting families from poverty.

Throughout the report, we have illustrated the effect of key federal and state programs intended to help lift low income families from poverty by describing the effect of the program on a single parent family with two pre-school age children with the parent working full time (40 hours a week) for a full year (4 weeks¹ per month for 12 months) at Pennsylvania's minimum wage (\$7.25 per hour). We have described the effect of various programs using federal poverty levels as our baseline. (Appendix B provides recent year federal poverty income guidelines based on household size for Pennsylvania that we have used in our analysis.)

To identify additional opportunities for state policies that would further enhance opportunities for work support programs to assist families to move up the economic ladder, we spoke with those involved in assisting low income families to gain economic self-sufficiency, spoke with state program administrators, and reviewed and analyzed information and program data they provided.

We also reviewed information on other state policies, including the extent to which federal policies allow states options, and if Pennsylvania has elected to participate in such federal policy options. The federal Department of Health and Human Services (DHHS), Administration for Children and Families, Office of Planning, Research and Evaluation and the Urban Institute annually summarize and report data for each state's Temporary Assistance for Needy Families (TANF) and Child Care and Development Fund (CCDF) policies. We have relied on such state-reported federal data in our report and analysis. Throughout the report, we have noted if Pennsylvania's policies are similar to or differ substantially from those of other states, and how they differ.

We have relied on information reported by states to federal agencies and federal data for states on program participant characteristics and expenditures. We have also relied on Pennsylvania state agency data on program characteristics, allowances, and expenditures, including fiscal information reported by state agencies for the Governor's budget submissions and agency fiscal analyses. We have used such data in our report to consider the cost of policy changes and their possible consequences.

¹ To allow for approximately 20 non-paid workdays a year.

To identify existing state-established policies where minor increases in income from work make low income families ineligible for programs that allow them to work, such as child care assistance, we reviewed state policies for TANF, the Child Care and Development Fund, and Pennsylvania’s State Tax Forgiveness program to determine how their benefits change as participant income increases. When federal programs and credits offset benefit loss, we have included such information in the report.

To identify state optional programs that promote self-sufficiency for low income families which the Commonwealth may wish to consider, we reviewed national data on the design of such programs in other states, in particular Pennsylvania’s surrounding states. We also requested information from relevant state agencies on the possible added costs and benefits of such state optional programs.

Based on the scope of Senate Resolution 62, our report focuses on low income families that are able to work, and considers the effect of existing federal and state programs in helping such families attain self-sufficiency. Our report does not consider or assess current national or state policies for children and adults with disabilities or the elderly, for which the effect of the policies we describe may differ. Such persons, moreover, comprise the majority of those in poverty and participating in major national and state income support programs.

Our report focuses on major income support programs which, for the most part, are universal in that they are available to all that apply and meet established eligibility requirements. The programs that have been included in the report that are universal include TANF cash assistance and non-assistance services such as child care, SNAP/Food Stamps, federal earned income and child tax credit programs, and Pennsylvania’s Tax Forgiveness program. The major exception is the Child Care and Development Fund, which offers child care subsidies for low income families, and is a discretionary federal program with the number of eligible individuals served limited by available funding.

Throughout the report we have focused on key program requirements in order to consider how such programs help low income families transition to self-sufficiency. Within the report, we have provided the reader with certain key program eligibility requirements for each program. Most of these programs are highly complex and have a variety of eligibility provisions beyond those we have highlighted in the report. For purposes of our analysis, we have assumed that all required eligibility criteria have been met by families illustrated in the report.

In our report, we analyzed the effect of changing income eligibility levels for low income family child care subsidies—the major program in Pennsylvania where a small increase in earnings may result in a benefit loss that is not proportional to the increase in the family’s income (i.e., the family experiences the “cliff effect”).

Our analysis, in part, relied on subsidy allowances for a southeastern Pennsylvania county and included its rates for center-based care. To the extent that such allowances are higher than other parts of the state, our analysis may overstate child care costs statewide. Nonetheless, a majority of program participants are from southeastern Pennsylvania, and a majority of participant children receiving the state child care subsidy are in center-based care. Our analysis, moreover, may to some extent understate the cost of the loss of the child care subsidy for low income families, as such families actually may be required to pay the difference between a provider's market rate and the child care subsidy allowance rate if they are to continue to receive necessary child care.

Throughout the report, we have attempted to use the most recent data available for Pennsylvania and states nationwide. There is, however, often a lag in reporting major program and tax data and their publication. For this reason, our report includes data from various years, and throughout the report, we have specified the time frame for the data used in our analysis.

Acknowledgments

LB&FC staff completed this study with consultation and assistance from the Bucks County Women's Advocacy Coalition, Women's Way, the Community Justice Project, and Community Legal Services. We also received support and assistance from the Pennsylvania Department of Human Services' Office of Legislative Affairs and Office of Income Maintenance, and the Pennsylvania Departments of Education and Human Services' Office of Child Development and Early Learning.

Important Note

This report was developed by Legislative Budget and Finance Committee staff. The release of this report should not be construed as indicating that the Committee members endorse all of report's findings and recommendations.

Any questions or comments regarding the content of this report should be directed to Philip R. Durgin, Executive Director, Legislative Budget and Finance Committee, P.O. Box 8737, Harrisburg, Pennsylvania, 17105-8737.

II. Findings

A. When Taken Together, the Major Benefit Programs for Low Income Families (Such as TANF, SNAP, EITC, and the Child Tax Credit), Reduce the Number of Households in Poverty Headed by Single Mothers by About 40 Percent From 48 Percent to 28 Percent

Since the 1990s, the major federal and state benefit programs to assist low income families have been designed or expanded to encourage and support work for low income families. In 1996, for example, as part of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA, P.L. 104-193), Congress replaced the Aid to Families with Dependent Children (AFDC) program, a federal/state funded, open-ended entitlement program for low income families with children, with a fixed-dollar block grant program¹ known as TANF (Temporary Assistance for Needy Families). In general, the federal TANF Block Grant:

- requires states to maintain spending levels equal to 75 percent of what they spent on AFDC (known as the State Maintenance of Effort provision),
- requires states to have 50 percent of families, and 90 percent of two-parent families engaged in “work” or be at risk of having the state’s grant reduced,
- requires adults to be engaged in approved “work activities” within two years of initial TANF receipt, subject to sanctions for noncompliance, and
- prohibits states from using federal TANF funds to provide cash assistance to families with an adult who has received assistance for 60 months.

While several states, including Pennsylvania, previously relied on federal waivers to experiment with increased work incentives for families receiving cash assistance, TANF provides states with considerable flexibility to promote work incentives by disregarding certain earned income when determining eligibility and allowing TANF funds to be used for a wide variety of activities in addition to cash assistance. Such activities include, for example, services for children (e.g., child welfare system services) and subsidies for child care for those engaged in work or approved training programs. Finding B provides additional information about Pennsylvania’s TANF program, including its work incentives and supports, and how funds are used.

¹ During periods of significant recession, recession-related contingency funds may be added to the fixed block grant at the discretion of the Congress and the President.

In addition to TANF, at the federal level other changes were adopted to help reduce poverty among low income families. Such changes include, for example:

- expansion of the federal Earned Income Tax Credit (EITC),
- changes to the Federal Food Stamp Program, now known as SNAP (Supplemental Nutrition Assistance Program),
- changes to the Child Support Enforcement program to better track down and enforce the obligations of noncustodial parents to pay child support and to send more of the collected child support to families, and
- various tax rebates and credits, including the Additional Child Tax Credit (ACTC), which is refundable and extends benefits to those with earned income who file a tax return even though they may owe no taxes.

Taken together, such policy changes help to reduce the poverty rate, and thus lift many families out of poverty. The Congressional Research Service has estimated the effect of such programs on the overall federal poverty rates for low income households headed by single mothers. As shown in Exhibit 1, the percentage of such households in poverty is reduced substantially when cash income from earnings, child support, unemployment benefits, federal Supplemental Security Income (SSI), TANF, SNAP, EITC² net of FICA³ and federal and state income taxes, and ACTC are taken into account. In 2009, moreover, poverty rates among this group of households were further reduced by Economic Stimulus and Recovery payments.

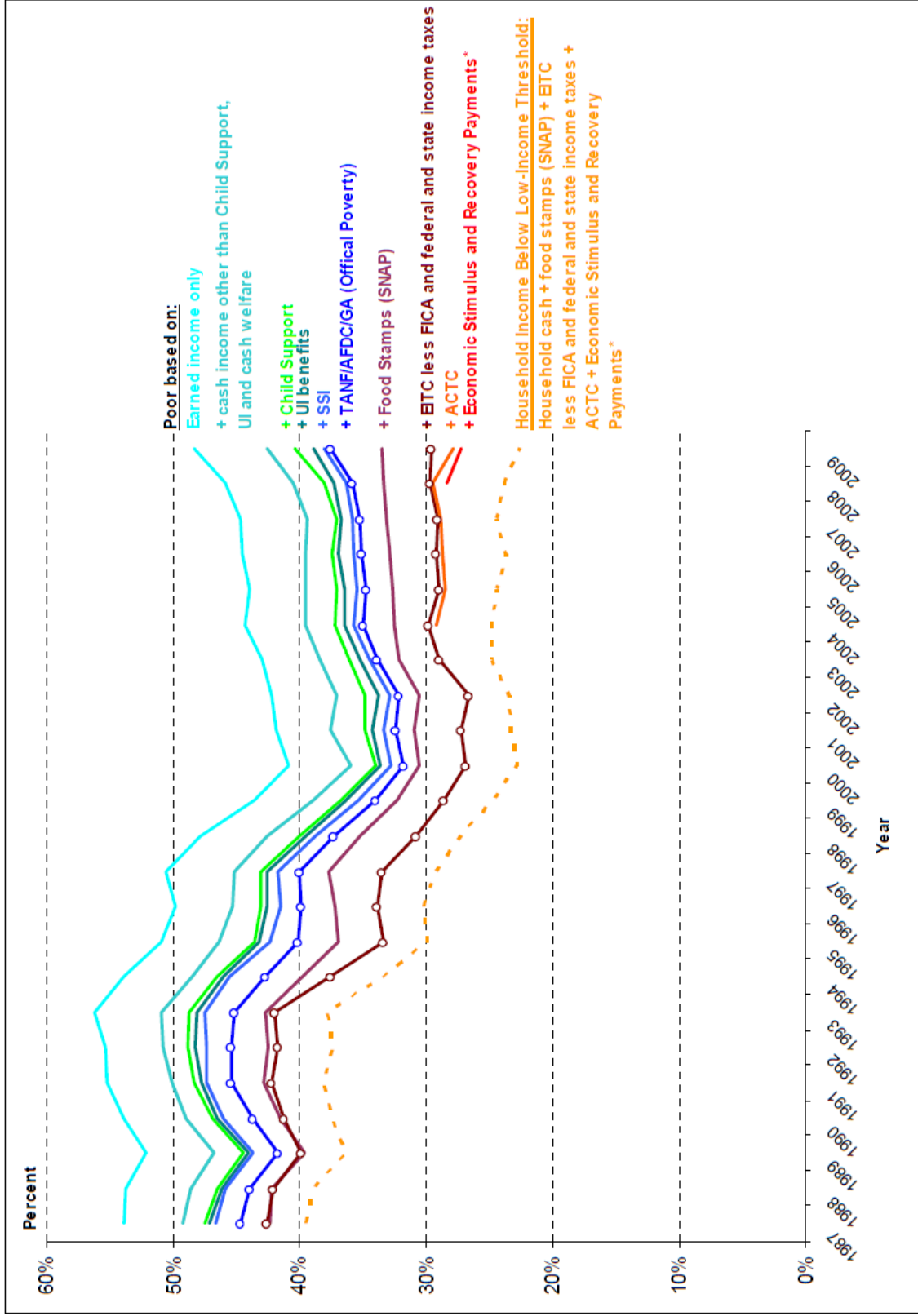
As shown in Exhibit 1, the poverty rate for single mother households in 2009 is substantially reduced (by about 40 percent, from 48.3 to 27.9 percent) when income, cash assistance, food stamps, child support enforcement, and tax credits are all taken into account. Exhibit 1, also shows some of the most significant reduction in the rate of poverty among low income single mother households occurs as a result of SNAP, the Earned Income Tax Credit (EITC) and Additional Child Tax Credit (ACTC) programs. The EITC and ACTC programs are only available to low income households with earned income. Additional information on these and other programs can be found in Findings C and D.

² The value of such income and benefits are not currently factored into the traditional U.S. Census federal income poverty measure.

³ FICA refers to the Federal Insurance Contribution Act. The Act imposes a federal payroll tax on both employees and employers to fund Social Security and parts of Medicare, which provide benefits for retirees, the disabled, and children of deceased workers.

Exhibit 1

Effects of Earnings, Transfers, and Taxes on Family Poverty and Household Low-Income Status of Single Mothers, 1987 to 2009



Source: Congressional Research Service, *Welfare, Work, and Poverty Status of Female-Headed Families with Children: 1987-2009*, July 2011, p. 31.

B. Pennsylvania Has Implemented Several Options to Ease the “Cliff” When Moving From Welfare to Work

The federal Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 (P.L. 104-193) ended the federal entitlement program known as Aid to Families with Dependent Children (AFDC) and also the federal JOBS employment and training program and replaced them with the federal TANF (Temporary Assistance for Needy Families) block grant. TANF was enacted to encourage work and provide states with flexibility to design and operate welfare programs to offer incentives to work. Pennsylvania has taken advantage of such flexibility to re-design its welfare programs to provide such incentives.

Pennsylvania TANF Cash Assistance Families

Currently, Pennsylvania’s TANF program provides:

- short-term cash assistance to families when the support of one or both parents is interrupted, and
- supplemental support when family income from employment and other sources is not sufficient to meet basic needs.

According to the most recent federal data,¹ Pennsylvania’s TANF cash assistance program:

- Served 77,972 families on average monthly in FY 2012, including 55,277 adults and 138,065 children, about half of whom are age five or younger.
 - On average, such families received \$329.20 monthly in cash assistance and \$469.10 in Food Stamps.
 - About 8 percent of such families received \$153.80 on average monthly in child support, and about 8 percent received \$110.30 on average monthly in cash resources other than child support.
 - Just over 20 percent of the (55,277) TANF adults participated in unsubsidized employment, with another 20 percent engaged in work preparation, job search, job training/education, and other work activities.²
 - Fifteen percent of TANF families had earned income averaging \$917.40 monthly.
 - About 17 percent of Pennsylvania’s (77,972) TANF households received federally subsidized child care.
- In FY 2012, 41,018 families ceased receiving cash assistance, with one-third of such closures due to employment.

¹ Department of Health and Human Services, National TANF DATAFILE as of 9/10/13.

² Of the remaining adults, 26.7 percent were disabled, 14.3 percent had children under 12 months, 9.7 percent were parents of children under age 6, and 0.4 percent were teen parents enrolled in school.

Pennsylvania TANF Cash Benefits

In most states, including Pennsylvania, only very poor families qualify for TANF cash benefits. The value of the maximum TANF cash benefit, moreover, is low, and remains well below the federal poverty level even when the value of SNAP/Food Stamp benefits are taken into account.

In the majority of states in 2012, a single mother caring for two children would need to earn less than \$795 per month when applying to qualify for TANF cash benefits. In Pennsylvania, such a family would need to earn less than \$703 per month to initially qualify—an amount equivalent to less than half (44 percent) of the federal poverty level.³

The value of the TANF cash benefit for families that qualify is also well below the federal poverty level. In 2012, the maximum monthly benefit for a single parent with two children was \$421 in Pennsylvania—equivalent to 27 percent of the federal poverty level. Pennsylvania's maximum monthly benefit was lower than New York's (which is equivalent to 48 percent of the federal poverty level) and Maryland's (36 percent), similar to New Jersey's (27 percent) and Ohio's (28 percent), and higher than Delaware's and West Virginia's (21 percent).

One reason TANF cash benefits are low relative to the federal poverty level is that benefit amounts are not automatically adjusted for inflation. As a result, they have lost considerable purchasing power over time due to inflation. Typically, the value of the maximum benefit declined by 44 percent from 1981 through 2012, according to the Congressional Research Service. In other words, in 1981, the maximum benefit for a single parent household with two children was equivalent to 52 percent of the federal poverty level, but by 2012 it had dropped to 27 percent. In Pennsylvania in 1981, the maximum cash benefit was equivalent to 56 percent of the federal poverty, dropping to 27 percent by 2012.

To some extent, benefits available through the Supplemental Nutritional Assistance Program (SNAP) help make up the difference in the lost purchasing power of the cash assistance benefit. SNAP benefits are designed to make up the difference between what is needed to purchase a low-cost nutritionally adequate diet and 30 percent of net income. As a result, the federal SNAP benefit amount is adjusted annually based on annual food-price inflation—unlike cash assistance benefits.

When considering an eligible household's income for purposes of determining its SNAP benefits amount, a family's TANF cash benefit is taken into account with

³ Pennsylvania's surrounding states also have maximum monthly earning levels to qualify for TANF cash assistance that are well below the federal poverty level. Maximum monthly earning levels are equivalent to 45 percent of the federal poverty level in Maryland, 40 percent in New Jersey, 54 percent in New York, 50 percent in Ohio, 36 percent in West Virginia, and 27 percent in Delaware, according to the Congressional Research Service.

the TANF cash benefit counted as income.⁴ As a result, for a family with no income other than TANF, SNAP/Food Stamp benefits will be higher in states with lower TANF benefits. Table 1 illustrates how the SNAP benefit amount decreases as the TANF benefit amount increases using Pennsylvania’s and its surrounding states’ benefits for a single parent caring for two children. Table 1 also shows that even after taking into account the combined TANF and SNAP benefit, the value of the combined benefits is well below the federal poverty level.

Table 1

Maximum Combined Monthly TANF and SNAP Benefit for a Single Parent With Two Children With Benefit Amounts as a Percentage of the 2012 Federal Poverty Level

<u>State</u>	<u>TANF</u>	<u>SNAP</u>	<u>Combined Benefit</u>	<u>TANF % FPL</u>	<u>SNAP %FPL</u>	<u>Combined % FPL</u>
Delaware	\$338	\$468	\$ 806	21.2%	29.4%	50.7%
Maryland.....	574	397	971	36.1	25.0	61.0
New Jersey.....	424	442	866	26.6	27.8	54.4
New York.....	770	339	1,109	48.4	21.3	69.7
Ohio.....	450	435	885	28.3	27.3	55.6
Pennsylvania.....	421	443	864	26.5	27.8	54.3
West Virginia.....	340	468	808	21.4	29.4	50.8

Source: Developed by LB&FC staff from Congressional Research Service, *Temporary Assistance for Needy Families (TANF): Eligibility and Benefit Amounts in State TANF Cash Assistance Programs*, 2014, Table A-5.

TANF Program Incentives for Work and Self-Sufficiency

Pennsylvania has elected to provide many incentives to promote self-sufficiency through work in its TANF block grant. Such incentives include, for example:

- special allowances for employment and training services;
- a continuous 50 percent disregard from gross earned income when determining continued eligibility for a family receiving TANF cash assistance;
- extended TANF Assistance and Transitional Cash Assistance to assist those who are working and moving off of TANF cash assistance;
- extended Food Stamp Benefits and Extended Medical Coverage;
- child care for those who are working and/or in training while receiving cash assistance, and for those who are working and in training after moving off of cash assistance; and
- other “non-assistance” work supports and services in addition to child care.

⁴ In addition to the TANF cash benefit, a family receiving TANF may qualify for special items or special allowances (discussed below), and for supportive services such as child care. Such special items or special allowances for supportive services are not counted as income when considering SNAP benefit eligibility.

Special Allowances for Employment and Training Services: Prior to TANF, Pennsylvania’s welfare program offered training and employment services⁵ and provided “special allowances” to assist those receiving cash assistance to participate in training and employment. With the introduction of TANF, however, such allowances became more available and, in some instances, better tailored to address key obstacles to employment for those in rural areas. Pennsylvania’s TANF program special allowances are capped and based on need. They may include:

- clothing allowances (e.g., work or school clothes or specialized clothing such as uniforms or safety shoes);⁶
- basic transportation allowances (based on actual costs and capped at \$1,500 annually);
- non-basic transportation allowances for the purchase or down payment for a car (i.e., up to \$1,500 and limited to one per lifetime) when basic transportation is not available, or for car repairs required to safely operate a vehicle (i.e., up to \$400 and limited to one per job) when there is no other type of transportation available or other transportation is more expensive;
- allowances for tools and equipment (e.g., carpentry or mechanical tools, items needed for landscaping, etc.), books and note books, GED and other test fees, and license to practice fees for job training or employment (with a lifetime limit of \$1,000 for other work, education and training related allowances); and
- allowances for the costs (actual up to \$200) for moving and relocation to accept verified, permanent employment.

A Continuous 50 Percent Earned Income Disregard: TANF also provided opportunity to change the way earned income was considered when determining continued eligibility for cash assistance in order to provide additional financial incentives for work. Prior to TANF, when determining financial eligibility for someone receiving cash assistance, the earned income disregard only went up to 33.3 percent for a four-month period.⁷

⁵ In addition to programs available through Department of Human Services County Assistance Offices, Pennsylvania uses TANF funding to support work activities and related expenses through programs available through the Department of Community and Economic Development and the Department of Labor and Industry. Such programs include a Supported Work Component program available through the Department of Community and Economic Development, which provides TANF recipients with job search assistance to obtain unsubsidized employment. They also include various RESET (Road to Economic Self-Sufficiency through Employment and Training) program activities available through Department of Labor and Industry Work Force Investment Act fiscal agents. RESET program activities may include job search, education and training, community service, and paid work experience.

⁶ In many areas of the Commonwealth an in-kind benefit is provided rather than a cash disbursement.

⁷ Specifically, \$120 and 33.3 percent of the remainder of earned income was excluded from the eligibility re-determination/benefit calculation for the first four months, \$120 for the next eight months, and \$90 for each month thereafter.

With the introduction of TANF, Pennsylvania revised the way in which it treated earned income in benefits computation. It established different approaches for the earned income of initial TANF applicants and for those receiving the cash benefit.⁸ The revised policy provided for a 50 percent disregard of earned income in the benefit calculation for those currently receiving a cash benefit, and further provided for a continuous disregard of such earned income until the maximum benefit threshold was reached. As a result of this change, in 2013, a single parent with two children may be eligible⁹ to:

- have earned income (\$677 monthly) equivalent to 42 percent of the 2013 federal poverty level when initially applying and qualifying for TANF cash assistance, and
- earn income (\$805 monthly) equivalent to 50 percent of the 2013 federal poverty level before becoming ineligible for continued TANF.¹⁰

Based on the design of TANF in Pennsylvania, the financial situation of a TANF family improves if it moves from TANF cash assistance into full-time work. A single parent with two children working 40 hours a week for the full year at the minimum hourly wage (\$7.25), for example, would see the family's gross income rise to a level equivalent to 72 percent of the 2013 federal poverty level (from 25 percent of the federal poverty level when receiving the maximum grant and having no earned income to 50 percent of the federal poverty level with earned income and the 50 percent disregard).

Extended TANF Cash Assistance and Transitional Cash Assistance: Pennsylvania's TANF program has elected to offer Extended TANF Cash Assistance using 100 percent federal funds. Such a program provides TANF cash assistance beyond the 60-month federal time limit. It is targeted to families that have a hardship as defined by the state or individuals who have been battered or subject to domestic violence. Under federal rules, the number of families that may receive such assistance is limited to 20 percent of the average monthly number of families receiving TANF during the current or preceding fiscal year. In Pennsylvania, among those who may qualify for Extended TANF are recipients who are required and meeting work requirements.¹¹ In 2012, Pennsylvania was one of only nine states with state time limit extension policies that were extended to working households

⁸ The 50 percent disregard for earned income does not apply to TANF "applicants." However, someone who received cash assistance in one of the previous four months and reapplies for cash assistance is treated as a "recipient" rather than an "applicant" for purposes of the 50 percent disregard. See 55 Pa.C. §183.94.

⁹ This assumes all other conditions for receipt of TANF cash assistance are met, including the 60-month lifetime limit on receipt of such benefits.

¹⁰ Pennsylvania's TANF maximum benefit levels are taken from the U.S. Department of Health and Human Services and Urban Institute, *Welfare Rules Databook: State TANF Policies as of July 2013*, September 2014.

¹¹ Others who may qualify include recipients who are exempt or have good cause for not meeting the work requirements and recipients who are victims of domestic violence.

or households with earned income.¹² Only one of Pennsylvania's surrounding states (New Jersey) provides for such extensions.

In Pennsylvania, families leaving TANF cash assistance may also be authorized to receive a temporary supplemental grant if TANF is discontinued due to excess earned income. The transitional cash assistance benefit is \$100 per month for no more than three months. In order to qualify for the transitional cash benefit, a family's gross annual income may not exceed 235 percent of the federal poverty level—which is the eligibility threshold for most TANF services for those no longer receiving cash assistance. Such financial support helps those who are employed with the transition to self-sufficiency. Based on funding set aside for the program in recent years (\$3.5 million), it would cost the Commonwealth possibly an additional \$3.5 million to extend the benefit for an additional three months.

Extended Food Stamp Benefits and Extended Medical Coverage: Families losing TANF due to new employment, increased hours of employment, or increased income from employment may qualify for Extended Food Stamp Benefits. Through this state option, households leaving TANF may receive up to five months of SNAP/ Food Stamp benefits by using the income the household received in the last month of TANF eligibility minus the TANF grant amount to qualify for SNAP. The intention of the Extended Food Stamp Benefit is to offer continued support to meet the nutritional needs of families transitioning from TANF to self-sufficiency and allow such households to stabilize before reducing or removing nutritional support.

Families leaving TANF may also qualify for Extended Medical Coverage (i.e., Transitional Medical Assistance) for up to 12 months. To receive such assistance, an individual must have received Medicaid while receiving TANF cash assistance or qualified to receive the cash benefit but only received Medicaid in at least three of the six months prior to the TANF cash benefit being discontinued.¹³ Such coverage, however, is no longer necessary as Pennsylvania has recently elected to participate in Medicaid expansion under the federal Affordable Care Act. Under the expansion, almost all of those leaving TANF will qualify as their income will likely be under 138 percent of the federal poverty level.

Child Care: One of the greatest barriers to employment for low income families is the cost of child care. Prior to TANF, those receiving cash assistance and working were able to qualify for an income disregard when determining their eligibility. The disregard, however, was limited to \$175 per month for each child in care, and the family was then responsible for all remaining child care costs. Once the family's earnings made them ineligible for cash assistance, the family was transferred to a Transitional Child Care program. This program paid for all child

¹² The District of Columbia and the states of Maine, Massachusetts, Minnesota, New Hampshire, New Jersey, Pennsylvania, South Carolina, Texas, and Utah provide for such time limit extensions.

¹³ To receive Extended Medical Coverage, an individual must also have a TANF-aged child in the household.

care costs, but only for one year. After that time, the family would have to apply to a separate program of “subsidized” child care available to families with income below 235 percent of the federal poverty level. As need for such services always exceeded the available program funding, the former TANF family would then have to join a county waiting list for the subsidy.

To address this significant employment barrier, over time the Department of Human Services, the then Department of Public Welfare, made several significant changes to the child care subsidy program. It eliminated the \$175 income disregard for TANF, replaced it with more realistic child care allowances/vouchers, introduced a co-payment schedule based on family income and size, and facilitated access/continued access to a child care subsidy for families with income who no longer qualified for TANF cash assistance.¹⁴ To qualify for subsidized child care, a family must:

- meet the definition of a needy family,
- be working,
- be a current or former TANF recipient, and
- have a gross annual earned income that does not exceed 235 percent of the federal poverty level.

Pennsylvania’s changes to the child subsidy program were supported with significant investment of TANF block grant funds in Pennsylvania’s child care subsidy program and the designation of child care as a “non-assistance” service in Pennsylvania’s TANF State Plan. According to recent federal reports, child care and transfers to the Child Care and Development Fund accounted for over 35 percent of all Pennsylvania federal and state maintenance of effort TANF expenditures in FY 2013.¹⁵ As shown in Exhibit 2, during the same period, basic assistance accounted for only 26 percent¹⁶ of such expenditures. Finding E provides additional information about Pennsylvania’s child care subsidy program.

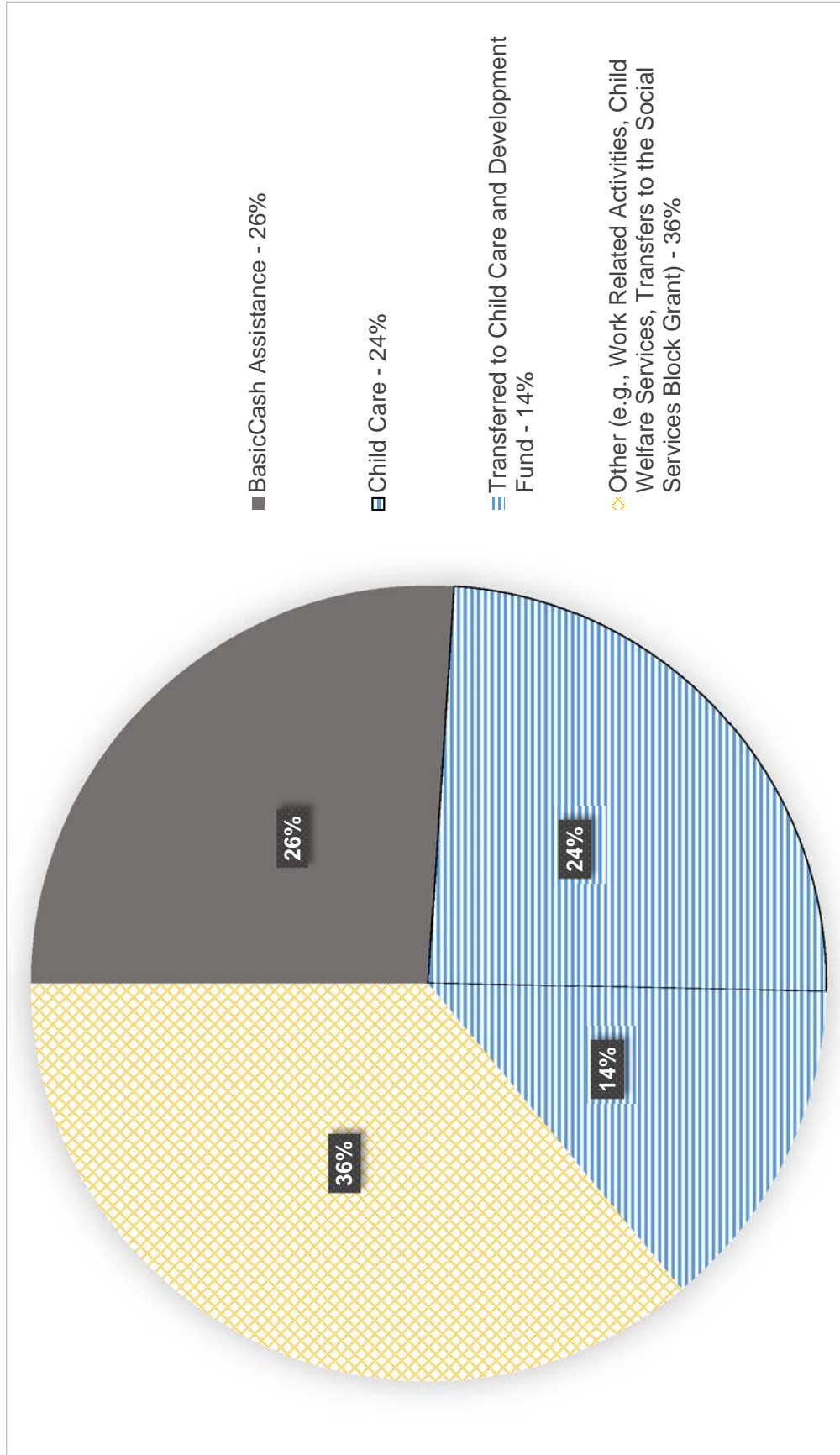
¹⁴ In addition to Pennsylvania, 15 states (Alaska, Arizona, Kansas, Louisiana, Maine, Minnesota, Mississippi, New Hampshire, New Jersey, New York, Ohio, South Carolina, Tennessee, Texas, and Virginia) guarantee access to child care for those transitioning from TANF.

¹⁵ \$395,401,851 of the \$1,042,794,046 federal TANF and required State Maintenance of Effort funds.

¹⁶ \$271,504,540.

Exhibit 2

Pennsylvania: Federal TANF and State MOE Expenditures, FY 2013



Source: Federal Department of Health and Human Services, FY 2013. Expenditures by Funding Stream for Pennsylvania.

Other Non-Assistance Work Supports: TANF funds may be used by states to fund TANF assistance¹⁷ and certain “non-assistance” services. Unlike TANF assistance, “non-assistance” work supports and activities:

- do not count toward the 60-month TANF lifetime time for receipt of TANF assistance, and
- are not subject to the federally-imposed child support requirement.

For the most part, such services are available to needy families¹⁸ that meet certain criteria (e.g., employed or are in school) and have gross annual earned incomes of up to 235 percent of the federal poverty level.

In addition to child care, “non-assistance” work support services in Pennsylvania include:

- *Additional transportation services* provided through Department of Labor and Industry Workforce Investment Boards (WIB) to employed families to resolve specific public transportation-related barriers, including transportation to child care providers, and second and third shift employment.¹⁹ To qualify, a family must be working or in a TANF-funded employment and training program offered through the local WIB and have a gross annual earned income that does not exceed 235 percent of the federal poverty level.
- *Eyeglasses and hearing devices* not covered by Medical Assistance, including an eye exam and eyeglasses once per year per individual up to a maximum actual cost of \$200 and with a lifetime limit, and hearing exams and hearing devices once per year per individual up to a maximum actual cost of \$1,000. Eligibility is limited to needy families and non-custodial parents of a minor child who participates in the ELECT (Education Leading to Employment and Career Training) program, who demonstrates a need for the exam, who are enrolled in a RESET program activity (see the discussion of RESET above), and who need the eyeglasses or hearing devices to participate in pre-employment, education, training, or other approved activities related to job search and employment placement.

¹⁷ Assistance included cash payments, vouchers, and other benefits designed to meet a family’s ongoing basic needs for food, clothing, shelter, utilities, household goods, personal care items, and general incidental expenses. It also includes supportive services such as transportation and TANF-funded child care provided to non-employed cash assistance recipients.

¹⁸ Pennsylvania’s TANF State Plan defines a needy family as “a minor child [i.e., under age 18 or age 18 and a full-time student in a secondary school or in the equivalent level of vocational or technical training] and his parent(s) or other adult specified relative with whom he lives who meet the income and resource standards established under this TANF State Plan.” Eligibility is also extended to pregnant women who have no other children living with them.

¹⁹ Examples include: reverse commutes, guaranteed ride home program services, vanpooling, carpooling, shared taxi service, automobile acquisition, and transit passes or fares.

- *ELECT (Education Leading to Employment and Career Training)* provides intensive case management, parenting and child development education, and health care and nutritional education to assist parents of minor children,²⁰ including expectant parents, to return or remain in school to obtain their high school degree or GED, develop parenting skills, and become positive role models for their children. To qualify, the parent or expectant parent, must be under 22, and receive TANF or SNAP, or have a gross annual earned income that does not exceed 235 percent of the federal poverty level.
- *ELECT After School Component* helps provide comprehensive after school activities for expectant parents and other high risk youth in grades 3 through 8. It is offered in four school districts for TANF and SNAP recipients and students with family income less than 235 percent of the federal poverty level.
- *Nurse-Family Partnership* provides home visitation nurse management services to low-income, first-time mothers to improve pregnancy outcomes, child health and development, and improve family economic self-sufficiency by helping parents plan for their futures, including future pregnancies, continued education, and finding jobs. Program participants must be enrolled by 28 weeks gestation, pregnant with their first child and have a gross annual earned income that does not exceed 235 percent of the federal poverty guidelines.
- *Head-Start Supplemental Assistance Program* provides classroom services or home visits to children age three to five and their families, and allows Early Head Start grantees to enroll new children (whose gross family income does not exceed 130 percent of the federal poverty level) or to extend services funded by the federal Office of Head Start. Participants must meet eligibility criteria for the federal Head Start Program.

Opportunities to Provide Additional Incentives for Work and Self-Sufficiency

TANF Asset Test Change: For TANF cash benefits, income alone is not the only criteria for eligibility. Family assets, for example, are also taken into account, though the value of at least one family car is usually not counted toward the asset

²⁰ A minor parent is a TANF eligible individual under 18 years of age who has never been married and is the natural parent of a dependent child living with the minor parent, or is pregnant. Such parents are required to live in the home of the minor parent's parent, legal guardian, or other adult relative who is at least 18 years of age or in an adult-supervised supportive living arrangement unless exempt. The Department of Human Services in consultation with the county child welfare agency provides assistance in locating a suitable living arrangement when the minor parent cannot reside in the home of a parent, legal guardian, or other adult relative.

limit. Most states have asset limits in the \$2,000 to \$3,000 range. Pennsylvania,²¹ however, is among the states with the lowest asset limit (\$1,000) in the nation. The only other states with such low asset limits include Georgia, Indiana, Missouri, New Hampshire, Oklahoma, Rhode Island, Texas, and Washington.

States currently have the federal flexibility to eliminate, or substantially reduce, the asset test for TANF. A handful of states have done so, including neighboring Maryland and Ohio.²² Ohio eliminated its TANF asset test in 1997, and Maryland in 2009. In 2009, Delaware did not eliminate its asset test, but increased its TANF asset limits to \$10,000.

States that have eliminated or significantly reduced their asset limits have done so for a variety of reasons, including state administrative savings²³ and recognition that asset tests create saving disincentives for low income families. As a result, they are practically unable to weather even the smallest financial setback (e.g., unanticipated medical bills, car repairs, etc.), and maintain family self-sufficiency.

States that have eliminated their TANF asset tests and have studied the effect of such policy changes on their caseload have seen little, if any, caseload increases as a result of the change. A Virginia program manager perhaps best described the reasons why such tests are no longer relevant for TANF and reasons for their elimination:

- TANF benefits have time limits and work requirements that make asset limits obsolete.
- People use their resources before applying for TANF benefits.
- Asset tests have little impact on the caseload, with less than 0.5 percent of applicants denied benefits due to excess assets.
- Making people get rid of resources only to then encourage them to build resources back up is counterproductive.
- Allowing assets puts greater emphasis on employment and self-sufficiency.

Increase the Earned Income Disregard: Further increasing the income disregard for TANF continuing eligibility from 50 to 75 percent has the effect of permitting families to gain earned income closer to 100 percent of the federal poverty

²¹ When considering resources, in addition to the value of one vehicle, Pennsylvania also excludes burial spaces; common residence furnishing; major appliances; items used to equip, provide, and maintain a home; personal items of limited value; pets; family heirlooms; farm equipment and farm animals; equipment needed for employment, rehabilitation, or self-care; Uniform Transfer to Minors Act accounts; educational assistance in the form of grants or scholarships; the federal earned income credit and any tax refund; educational savings accounts; and certain other benefits. Pennsylvania, moreover, has no asset test for Medicaid for families.

²² Other states without an asset limit are Alabama, Colorado, Hawaii, Illinois, Louisiana, and Virginia.

²³ The Illinois Department of Human Services found that in only 8 out of more than 190,000 cases did family assets exceed its state limit (\$3,000), and that it cost the state nearly \$1 million annually to administer asset tests.

level before the family stops qualifying for a partial TANF cash grant.²⁴ In the example of our single parent family with two children and the parent working full-time at the minimum wage, the family would continue to be eligible for a partial TANF cash grant if Pennsylvania's earned income disregard was increased from 50 to 75 percent. The family's partial TANF grant would be approximately \$113 monthly. As a result, its annual income would increase from 72 to 78 percent of the federal poverty level.²⁵

In 2013, of the states with continuous earned income disregards when calculating TANF benefits, one state (Connecticut) disregarded 100 percent of earned income up to the federal poverty level, two states (Illinois and Indiana) disregarded 75 percent of a family's earned income, and one state (Colorado) disregarded 67 percent. Seven states (California, Florida, Massachusetts, Michigan, New Mexico, Ohio, and Oklahoma) disregarded a flat amount of earned income (e.g., \$250 in Ohio) and 50 percent of the remainder.²⁶ Three states (New Hampshire, Oregon and Washington), like Pennsylvania, continuously disregarded 50 percent of earned income when calculating benefits.

The Pennsylvania Department of Human Services (DHS) has estimated the cost of increasing the earned income disregard for TANF households from 50 to 75 percent and extending the earned income disregard to those who apply for TANF. In the 12-month period from May 1, 2014, to May 1, 2015, just over 2,800 cases (or an estimated 240 per month) would not have closed if the 75 percent income disregard had been in place. Based on a sample of such cases, each case would cost on average \$92.21 per month. This would equate to approximately \$22,100 monthly, and a first 12-month cost of approximately \$1.724 million.

Based on data for the period April 1, 2014, through April 30, 2015, 3,733 applicants (or an estimated 311 cash cases monthly) that were rejected due to income would have been initially eligible for TANF if a 75 percent earned income disregard had been in place for TANF applicants. The average monthly cost for such cases was approximately \$143 per month, with the added costs for such cases approximately \$44,340 monthly. This would equate to a first 12-month cost of approximately \$3.5 million. In total, the overall added cost to modify the current earned income disregard would be approximately \$5.2 million based on DHS estimates.

²⁴ With a 75 percent disregard, a working TANF family could earn up to \$1,612 monthly before becoming ineligible for a partial TANF grant. Annualized, such earnings are equivalent to about 100 percent of the 2013 federal poverty level for a three-person household.

²⁵ Working full-time at the minimum wage, the family has income of \$13,920 annually, and \$1,160 monthly. If 75 percent of the family's earned income was disregarded, \$870 of the \$1,160 would not be taken into account when considering a family's TANF eligibility. As a result the family would qualify for a partial TANF grant of \$113 monthly [$\$403 - (\$1,160 - \$870)$]. The family's annual income would thus increase by \$1,356. With such an increase ($\$13,920 + \$1,356 = \$15,276$), its annual income would be equivalent to 78 percent of the federal poverty level in 2013.

²⁶ Kansas also disregards a flat amount (\$90) and 60 percent of the remainder.

C. About 870,000 Pennsylvania Households (1.8 Million Individuals) Participate in the SNAP (Food Stamp) Program, 21 Percent of Whom Have Incomes That Are Above the Federal Poverty Level

When families on the road to self-sufficiency earn income such that they no longer qualify for TANF cash assistance, their incomes often continue to be below the federal poverty level.¹ As noted in Finding B, a single parent family with two children receiving TANF cash assistance no longer qualifies for cash assistance when its earnings reach about 50 percent of the federal poverty level. If such a family works full time at the federal minimum wage, the family's income will be equivalent to just over 70 percent of the federal poverty level. Such families, however, can continue to qualify for other benefits, including SNAP (Supplemental Nutrition Assistance Program) benefits, also known as Food Stamps.

SNAP/Food Stamp benefits are important supports for families and have an important anti-poverty effect. Nationwide and in Pennsylvania, in 2013, when SNAP benefits are added to the gross income of SNAP households, 12 percent of such households are moved above the federal poverty level, according to the most recent data available from the United States Department of Agriculture.

The importance of the federal SNAP benefits can also be seen in the volume of participants and households and the value of the benefits issued. Table 2 provides the number of Pennsylvania participants and households, the value of the benefits issued, and the average monthly benefit amount for the past 10 years. As shown in Table 2, in 2014, the federal SNAP program provided over \$2.5 billion in federal supplemental nutritional assistance for Pennsylvania low income families. To place this in context, in 2013, Pennsylvania's total TANF cash assistance program was equivalent to only about 15 percent of Pennsylvania's total Federal SNAP 2014 benefit amount.

¹ There are, of course, exceptions. A single parent with two children, who has completed nurse training and obtained a license as a registered nurse, for example, could obtain a job with an annual salary of \$65,000—more than three times the federal poverty level for such a family.

Table 2

Federal Food Stamp Program Participation and Issuance in Pennsylvania
by Federal Fiscal Year

Fiscal Year	Persons Participating	Households Participating	Issuance	Average Monthly Benefit Per Person	Average Monthly Benefit Per Household
2014.....	1,796,154	889,725	\$2,573,657,445	\$119.41	\$241.05
2013.....	1,784,790	869,836	2,748,346,529	128.32	263.30
2012.....	1,799,209	869,157	2,772,898,224	128.43	265.86
2011.....	1,718,211	815,765	2,647,473,519	128.40	270.45
2010.....	1,574,783	740,186	2,332,575,204	123.43	262.61
2009.....	1,337,803	631,566	1,900,787,569	118.40	250.80
2008.....	1,187,822	558,939	1,386,964,117	97.30	206.79
2007.....	1,135,146	530,243	1,258,604,269	92.40	197.80
2006.....	1,092,298	496,774	1,182,249,827	90.20	198.32
2005.....	1,042,809	471,960	1,104,711,263	88.28	195.06
2004.....	960,941	431,664	933,273,618	80.93	180.17

Source: USDA, Food Stamp Program State Activity Reports.

Pennsylvania SNAP Participants

In 2013:

- About 870,000 Pennsylvania households with about 1.8 million individuals participated in SNAP, according to the 2013 federal characteristic study.
- About 40 percent of the approximate 1.8 million participants were children, including 12.6 percent of all participants who were preschool-age children and 26.4 percent who were school-age children.
- Twenty-three percent of the households were headed by a single adult with children.²
- Seven percent of the households received TANF cash assistance, averaging \$435 monthly.

² Thirty-one percent of Pennsylvania SNAP households included a non-elderly disabled individual and 21 percent an elderly individual.

- Twenty-six percent of the households had earned income, averaging \$1,070 monthly.
- Thirty-two percent of the households had gross income below 50 percent of the federal poverty level, 47 percent had gross income between 51 and 100 percent of poverty, and 21 percent had income above the federal poverty level.

In addition to the transitional SNAP benefits discussed in Finding B, Pennsylvania takes advantage of some important federal SNAP program options to make the SNAP benefits available to low income families and help lift them from poverty.

SNAP Eligibility and State Eligibility Options

Under traditional federal rules, to qualify for federal SNAP/Food Stamps benefits, a family needs to meet three tests. Its

- **Gross monthly income:** must be at or below 130 percent of the federal poverty level.
- **Net monthly income:** after allowed deductions must be at or below 100 percent of the federal poverty level to receive a SNAP benefit.
- **Assets:** cannot be in excess of \$2,000 or \$3,250 if the household member is elderly or disabled.

Under the SNAP program, however, states have the option of using somewhat different tests for families that qualify as “categorically eligible.” The federal rules governing the SNAP program permit states to define “categorically eligible” to include:

- **Pure public assistance households:** in which all members are authorized to receive cash assistance from TANF, SSI, or General Assistance.
- **Broad-based (non-cash) households:** in which members benefit from services³ funded with federal TANF and State Maintenance of Effort (MOE) TANF funds.

³ Such services may include a brochure prepared with TANF/MOE funds informing the household of possible benefits for which it may qualify. Pennsylvania’s brochure is entitled “Help for Pennsylvanians in Need” and includes services such as SNAP, Free or Reduced Cost School Meals, Employment Placement Services, Low-Income Home Energy Assistance, Housing Assistance, Earned Income Tax Credit, Medical Assistance, Children’s Health Insurance, Women Infants and Children (WIC), Child Care through the Child Care Works program, Child Support Enforcement, Domestic Violence, Homeless Housing and Services, Social Security Disability Insurance and Supplemental Security Income, Refugee and Immigrant Assistance, and Cash Assistance.

When a household is considered “categorically eligible” by the state,⁴ certain federal SNAP eligibility rules need not apply. Such rules include the gross, net income, and asset tests. All other federal SNAP rules, however, apply,⁵ including the use of net income to calculate the benefit amount.

States that elect to use “broad-based (non-cash) categorical eligibility” are thus able to extend food assistance to families with high expenses but with gross incomes that are higher than the normal federal SNAP gross income eligibility test. This option is intended to encourage savings and certain asset accumulation.

Pennsylvania is one of many states that has elected to provide for “broad-based (non-cash) categorical eligibility” for federal SNAP benefits. As a result, in Pennsylvania, the

- gross income eligibility test to qualify for SNAP benefits in Pennsylvania is 160 percent of the federal poverty level (rather than 130 percent) and 200 percent for households with an elderly or disabled member,
- net income eligibility limits do not apply,⁶ and
- asset test is not required for SNAP benefits.⁷

SNAP broad categorical eligibility is important for many low income households nationwide and in Pennsylvania. According to the most recent federal data,

⁴ Households cannot be designated categorically eligible if the entire household is institutionalized, any member is disqualified for intentional program violation or for failure to comply with monthly reporting requirements, the household head has failed to comply with work requirements, any member is ineligible because of a drug-related felony, or the household refuses to provide the state agency with enough information to determine SNAP eligibility.

⁵ No one can be included in a household that is otherwise categorically eligible if the person is an ineligible alien, a student who is ineligible under SNAP student provisions, an SSI recipient in a state that has increased its state SSI supplemental payment to include the value of the Food Stamp benefit, an institutionalized person in a non-exempt facility, ineligible because of failure to comply with work requirements, ineligible because of failing to provide or apply for a social security number, disqualified for intentional program violation, or on strike.

⁶ Technically, a single parent household with two children in a categorically eligible household having net income above 100 percent of the federal poverty level remains eligible for a SNAP benefit, however, the value of the benefit is minimal or zero. In the SNAP program, a household’s monthly benefit is based on (1) the maximum SNAP benefit for the household’s size, (2) its net monthly income, and (3) the standard federal benefit reduction rate (i.e., 30 percent of net income). The maximum SNAP benefit is established annually by the USDA at 100 percent of the cost of USDA’s Thrifty Food Plan. So, for example, a three-person categorically eligible household in 2014 with a net monthly income of \$1,700—\$50 above 100 percent of the federal poverty level—is eligible for a SNAP benefit. As the 2014 maximum monthly SNAP benefit is \$511 for such a family and federal rules provide that 30 percent of a household’s net income is available for food, the amount of the family’s benefit is only \$2 [(\$511) - (\$1,700 x .3)]. Such a family while technically eligible for SNAP receives no benefit if its net income reaches \$1,701 monthly. See the Department of Human Services’ Food Stamp Handbook Chapter 568, Appendix B.

⁷ Pennsylvania’s asset test for SNAP was eliminated in 2009. In 2012, Pennsylvania reinstated the SNAP asset test, making it one of only 12 states that continued the federal asset test for SNAP benefits. In April 2015, the Department of Human Services (DHS) again eliminated the SNAP asset test. As the SNAP benefits are 100 percent federally funded and the state is required to pay for a portion of the program’s administrative costs, DHS anticipated saving \$3.5 million in state funds annually as a result of the asset test elimination for SNAP benefits.

- 29 percent of all Pennsylvania SNAP households in 2013 were categorically eligible as they received cash assistance through programs such as SSI and TANF and
- 71 percent were broad-based (non-cash) categorical eligible.

SNAP Allowable Deductions and Benefits

As noted above, to receive a SNAP benefit a household effectively must have net income at or below 100 percent of the federal poverty level. The net income amount is based on gross income minus allowed deductions, and is key to determining a family's monthly SNAP benefits (including benefits for families that are categorically eligible for SNAP). SNAP allowable deductions include, for example:

- Standard deductions: \$149 for a household with one to three members in 2013.
- Earned Income Deductions: 20 percent of the combined earnings of households with earnings.
- Dependent Care Deductions: Actual (uncapped) costs for expenses incurred in caring for dependents while other household members work, seek employment, or attend school.

Nationwide, in 2013, more than half of the SNAP households with earned income had children (5,300,000 of 7,112,000), and almost all such households received the earned income deduction.⁸ The average value of the earned income deduction for households taking the deduction with children was \$238.

In 2013, moreover, about 8 percent of all households with children (809,000 of 10,224,000) received a dependent care deduction. For those households with children taking the deduction, the average value of the deduction was \$246 monthly, with the average deduction value slightly higher (\$265) for households with pre-school-age children. For Pennsylvania households, any child care payment for which the family is responsible, including a child care copayment, can qualify for a dependent care deduction for SNAP. In addition, any child care payments families make for child care over and above the family's child care subsidy may also qualify as a SNAP dependent care deduction.

The importance of the SNAP deductions for a family can be illustrated for the single parent with two young children. If the family had no income, its maximum monthly SNAP benefits would be \$511. If the parent works full time at the minimum wage (\$7.25 per hour) and has gross monthly income of \$1,160, the family qualifies for:

⁸ Similar data is not available for individual states.

- \$163 monthly SNAP benefit without any deductions,
- \$277 monthly SNAP benefit with a standard deduction (\$149) and the earned income deduction (\$232 or 20 percent of gross income), and
- \$357 monthly SNAP benefit with a standard deduction, the earned income deduction, and the average child care deduction for preschool-age children (\$265).

By working full time at the minimum wage, moreover, this family has gross income equivalent to 72 percent of the federal poverty level. With a \$357 monthly food stamp benefit, its annual gross income becomes equivalent to 93 percent of the federal poverty level. The availability of several tax credit programs can bring this working low income family out of poverty and provide other strong incentives and support for work. Such tax credit programs and their effect on low income working families are discussed in Finding D.

D. The Earned Income Tax Credit and Child Care Tax Credit Are Important in Reducing the “Cliff Effect” for Low Income Working Families Who Lose Other Forms of Public Support

Two federal tax credits are in place that lessen tax burdens and/or provide direct subsidies to families with children: the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC) with its Additional Child Tax Credit (ACTC) portion. According to the U.S. Department of the Treasury:¹

- Nationwide, in 2015, 27 percent of families filing federal tax returns will benefit from the EITC and Child Tax Credit (including the refundable portion).
- Families at the lowest cash income levels adjusted for family size² benefit the most from such credits:
 - 42 percent of families with family size adjusted cash income of less than \$16,311 receive one or more of these credits, and
 - 37 percent of families with family size adjusted cash income between \$16,311 and \$28,448 receive one or more of the credits.³

The Earned Income Tax Credit, in particular, subsidizes work for low-income families and is a major force in lifting many low income families out of poverty. Estimates indicate that nationwide, the EITC lifts more than 6 million people out of poverty on average each year, and reduces the severity of poverty by another 22 million. In 2012, an estimated 230,000 Pennsylvanians were lifted out of poverty by the EITC and CTC, including 120,000 children.⁴

Earned Income Tax Credit

The federal Earned Income Tax Credit (EITC) is the largest cash or near cash⁵ assistance program for low-income families in the nation—comparable in size only to the Supplemental Nutrition Assistance Program (SNAP). Its primary

¹ U.S. Department of the Treasury, Office of Tax Analysis, July 2014.

² As defined by the U.S. Department of the Treasury, cash income includes wages and salaries, net income from a business or farm, taxable and tax-exempt interest, dividends, rental income, realized capital gains, cash and near-cash transfers from the government, retirement benefits, and employer-provided health insurance (and other employer benefits). As the claimant must have at least some earned income to qualify for the EITC, families that only receive a TANF cash benefit do not qualify for the credit. Employer contributions for payroll taxes and the federal corporate income tax are added to place cash on a pre-tax basis. Such income is then adjusted by dividing income by the square root of family size.

³ Such credits also assist moderate income families. According to the U.S. Department of the Treasury, 30 percent of families with family-size adjusted income between \$28,448 and \$47,339 receive one or more of these credits, and 24 percent of families with family size adjusted income between \$47,339 and \$77,997 receive one or more of the credits.

⁴ Center on Budget and Policy Priorities, State Fact Sheets: The Earned Income and Child Tax Credits Report, June 30, 2015.

⁵ SNAP is an example of a “near cash” assistance program.

purpose is to help employed low-wage earners⁶ achieve financial self-sufficiency by offsetting taxes, supplementing wages, and making work more attractive than welfare. Nationwide, over 28 million eligible families benefited from the EITC program and its approximate \$63 billion in tax credits.

The EITC benefit is fully refundable. In other words, EITC recipients need not owe taxes to receive EITC benefits for which they qualify. The difference between the taxes owed and the amount of the credit for which they qualify is provided to the households in the form of tax refunds.

Researchers from the University of Illinois, Harvard, and the Congressional Budget Office in a 2010 study of EITC recipients with refunds of at least \$1,000⁷ found that many planned to use some of their refund to save and build assets.⁸ The study found that:

- 34.7 percent of the EITC refund was planned for savings and asset building,⁹
- 9.5 percent for back debt repayment,
- 13.4 percent for atypical expenses,¹⁰ and
- 42.3 percent for typical expenses.¹¹

Pennsylvania EITC Recipients: In 2010, according to estimates of the Brookings Institute:

- 2.3 million Pennsylvanians resided in EITC eligible households, including over 1 million children;
- 49 percent of Pennsylvania's EITC filers were single heads of households; and
- 30 percent received SNAP benefits.

⁶ Earned income for purposes of calculating the EITC credit includes wages, tips, and other compensation included in gross income and self-employment income after the deduction for self-employment taxes. It does not include pension or annuity income or TANF benefits. To be eligible for the EITC in 2015, moreover, workers must have no more than \$3,400 in investment income (which is indexed for inflation). Workers must also file a tax return to get the credit even if their income is below the federal filing requirement. For tax year 2014, for example, a head of household under 65 with W-2 income below \$13,050 or self-employment income below \$400 is not required to file a federal tax return, but may wish to do so to qualify for the EITC.

⁷ National Poverty Center, *The Role of Earned Income Tax Credit in the Budgets of Low-Income Families*, June 2010.

⁸ SNAP benefits are not counted as income for purposes of federal and state taxes. The EITC credit, moreover, cannot be counted as income when determining eligibility for benefits under any federal program or under any state or local program financed in whole or in part with federal funds. Such programs include SNAP, TANF, SSI, and Medicaid. In addition, when determining eligibility for such programs, the EITC refund cannot be counted as a resource for at least 12 months after its receipt, according to the IRS.

⁹ Including initial savings, car purchase or repair, consumer durables, educational expenditures, and home purchase or repair.

¹⁰ Including treats, given to family and friends, and prepaying bills.

¹¹ Including overdue bills, current expenses, non-regular necessities, and fees.

As shown in Table 3, the EITC provides significant income support for Pennsylvania low income families with earned income. The EITC, which is indexed for inflation, provided \$2 billion to over 900,000 Pennsylvania households in 2013. From 2008 through 2013, the number of claims has increased by about 10 percent, the total claims amount increased by 27 percent, and the average benefit amount increased by 15 percent.

Table 3

Earned Income Tax Claims and Amounts for Pennsylvania Households for the 2008 Through 2013 Tax Years

<u>Tax Year</u>	<u>Number of EITC Claims</u>	<u>Total EITC Amount</u> (\$ in Billions)	<u>Average EITC Amount</u>
2013.....	936,000	\$2.00	\$2,185
2012.....	925,000	1.95	2,113
2011.....	933,000	1.89	2,000
2010.....	916,000	1.82	2,000
2009.....	926,000	1.83	2,000
2008.....	850,000	1.57	1,900

Source: Internal Revenue Service Statistics for Tax Returns with EITC.

According to the most recent IRS data, in 2012,¹² 87 percent of Pennsylvania EITC claims qualified for the refundable portion of the EITC credit, and 90 percent of the total EITC credit was refundable. Of the Pennsylvania EITC claimants, approximately:

- 29 percent had adjusted gross income of \$1 and under \$10,000,
- 43 percent had adjusted gross income of \$10,000 and under \$25,000, and
- 28 percent had adjusted gross income of \$25,000 and under \$50,000.

EITC Benefit Design: EITC encourages low income families to work, and specifically accomplishes this through its benefit design. The EITC benefit is not initially set at a maximum and then reduced as income rises (as occurs with TANF cash and SNAP). Rather, it has:

- *An initial phased-in range* where each additional dollar results in a larger EITC credit.
- *A maximum range* where additional dollars of earned income or adjusted gross income have no effect on the size of the credit.

¹² IRS, *Table 2 Individual Income and Tax Data, by State and Size of Adjusted Gross Income, Tax Year 2012*.

- *A phase-out range* where each additional dollar of the larger of earned income or adjusted gross income results in a smaller total credit until the credit is phased out.

A family's actual EITC credit amount is based on several criteria, including the:

- number of qualifying children in the worker's household,¹³
- household earned income,
- household adjusted gross income,¹⁴ and
- household filing status.

Exhibit 3 provides the 2013, 2014, and 2015 EITC parameters taking into account such criteria and the three phases that determine the credit amount. As the EITC takes into account inflation, the maximum benefit, and the various thresholds have risen over time (though the phase-in and phase-out rates have remain unchanged).

As shown in Exhibit 3, in 2013, the maximum EITC benefit is reached for a single parent with two children when EITC earnings reach \$13,430, at which time the family's EITC benefit would be \$5,372. While not shown in Exhibit 3, prior to its earned income reaching \$13,430, and receiving a \$5,372 credit, the family would have received an EITC credit equivalent to 40 percent of its income.¹⁵ Such a family would continue to receive the \$5,372 credit until its income reached \$17,530. After reaching \$17,530, the family's EITC would begin to decline. The EITC credit would decline until the family's income reached \$43,756 when the value of the EITC credit would be \$0. In other words, the family would qualify for the maximum EITC credit with income between 69 and 90 percent of the federal poverty level and then no longer qualify when its income reached a level equivalent to 220 percent of the federal poverty level.

Poverty Effect for a Family Working Full Time at the Minimum Wage: The effect of the EITC credit on the income of a single parent family with two children working full time at the minimum wage in 2013 is significant. Such a family would have earnings of \$13,920 and thus qualify for the maximum EITC credit of \$5,372. The family would receive the full value of the EITC benefit as a refund as it would

¹³ Childless households may also qualify for an EITC credit.

¹⁴ Adjusted gross income is the measure of income under the federal income tax and is the income measurement before deductions and personal exemptions are taken into account.

¹⁵ According to IRS EITC tables for tax year 2013, the single parent with two children would receive a \$10 EITC credit with income of \$1, a \$410 credit with income of \$1,000, a \$810 credit with income of \$2,000, a \$1,210 credit with income of \$3,000, a \$1,610 credit with income of \$4,000, a \$2,010 credit for income of \$5,000, a \$2,410 credit for income of \$6,000, a \$2,810 credit for income of \$7,000, a \$3,210 credit for income of \$8,000, a \$3,610 credit with income of \$9,000, a \$4,010 credit with income of \$10,000, a \$4,410 credit for income of \$11,000, and a \$4,810 credit for income of \$12,000.

Exhibit 3

EITC Parameters for 2013

	Childless Taxpayers	Taxpayers With Qualifying Children		
		One Child	Two Children	Three or More
Phase-in rate	7.65%	34.00%	40.00%	45.00%
Minimum earnings for maximum credit	\$6,370	\$9,560	\$13,430	\$13,430
Maximum credit	\$487	\$3,250	\$5,372	\$6,044
Phase-out rate	7.65%	15.98%	21.06%	21.06%
Phase-out begins	\$7,970 (\$13,310 joint)	\$17,530 (\$22,870 joint)	\$17,530 (\$22,870 joint)	\$17,530 (\$22,870 joint)
Phase-out ends	\$14,340 (\$19,680 joint)	\$37,870 (\$43,210 joint)	\$43,038 (\$48,378 joint)	\$46,227 (\$51,567 joint)

EITC Parameters for 2014

	Childless Taxpayers	Taxpayers With Qualifying Children		
		One Child	Two Children	Three or More
Phase-in rate	7.65%	34.00%	40.00%	45.00%
Minimum earnings for maximum credit	\$6,480	\$9,720	\$13,650	\$13,650
Maximum credit	\$496	\$3,305	\$5,460	\$6,143
Phase-out rate	7.65%	15.98%	21.06%	21.06%
Phase-out begins	\$8110 (\$13,540 joint)	\$17,830 (\$23,260 joint)	\$17,830 (\$23,260 joint)	\$17,830 (\$23,260 joint)
Phase-out ends	\$14,590 (\$20,020 joint)	\$38,511 (\$43,941 joint)	\$43,756 (\$49,186 joint)	\$46,997 (\$52,427 joint)

EITC Parameters for 2015

	Childless Taxpayers	Taxpayers With Qualifying Children		
		One Child	Two Children	Three or More
Phase-in rate	7.65%	34.00%	40.00%	45.00%
Minimum earnings for maximum credit	\$6,580	\$9,880	\$13,870	\$13,870
Maximum credit	\$503	\$3,359	\$5,548	\$6,242
Phase-out rate	7.65%	15.98%	21.06%	21.06%
Phase-out begins	\$8,240 (\$13,750 joint)	\$18,110 (\$23,630 joint)	\$18,110 (\$23,630 joint)	\$18,110 (\$23,630 joint)
Phase-out ends	\$14,820 (\$20,330 joint)	\$39,131 (\$44,651 joint)	\$44,454 (\$49,974 joint)	\$47,747 (\$53,267 joint)

Source: Developed by LB&FC staff from the Congressional Research Service, *The Earned Income Tax Credit (EITC) an Overview*, October 2014 for 2013 and 2014 parameters and U.S. Department of the Treasury, *General Explanations of the Administration's Fiscal Year 2016 Revenue Proposals*, February 2015 for the proposed 2015 parameters.

not have federal taxable income after taking into account standard deductions and exemptions. The \$5,372 EITC credit refund, moreover, exceeds the amount the family could have received if it had not been working and had received the maximum TANF cash assistance grant for the full year ($\$421 \times 12 = \$5,052$).

In this illustration, the family’s gross income from earnings alone are equivalent to 71 percent of the 2013 federal poverty level. With the EITC credit, its income is equivalent to 99 percent of the federal poverty level. With the value of the SNAP benefits taken into account, the family’s income is equivalent to 121 percent of the federal poverty level.

Child Tax Credit

The federal Child Tax Credit (CTC) is also available to assist low and moderate income working families. In general, the CTC is only available to families that owe an income tax. A component of the CTC, known as the “additional child tax credit,” however, can provide a refund to certain families even if they do not owe any federal income tax. In tax year 2012, 886,970 Pennsylvania federal income tax returns claimed the CTC. Such claims amounted to \$1.12 billion, according to the IRS.

The CTC differs in several key ways from the EITC credit. In particular, it is not indexed for inflation, is not fully refundable, and is more likely to assist moderate rather than lower income families based on its design.¹⁶ Exhibit 4 provides the current parameters for the Child Tax Credit.

Exhibit 4

Key Child Tax Credit (Including Additional Child Tax Credit) Parameters 2015

Parameter	Through 2017
Maximum credit per child	\$1,000
Refundability threshold	\$3,000
Refundability rate	15%
Phase-out threshold	\$75,000 unmarried taxpayer \$110,000 (married joint return)
Phase-out rate	5%

Source: Developed by LB&FC staff.

As shown in Exhibit 4, the maximum amount of the credit is \$1,000 per child. The credit begins to phase out for higher income taxpayers when their adjusted

¹⁶ To qualify as a child for the CTC credit, the child must be under age 17 at the end of the tax year. To qualify for the EITC credit, the child must be under age 19 at the end of the tax year or under age 24 if a full-time student, or any age if permanently and totally disabled, according to the IRS.

gross income reaches specific income thresholds (e.g., \$110,000 for a married couple filing a joint return). The maximum amount of income at which the credit will equal zero depends on the number of eligible children in the family. As a result, families with income in the \$100,000 to \$200,000 range and above can qualify for the CTC. In general, the \$1,000 child tax credit is reduced to zero for every \$20,000 of adjusted gross income above the phase-out threshold.

Unlike the EITC, the CTC credit is not fully refundable. A low income household may not be able to claim the maximum amount of the credit, as it may have no or insufficient tax liability and as the refundable portion of the CTC credit (i.e., the Additional Child Tax Credit) is limited to 15 percent of earnings above \$3,000 up to the maximum amount of the credit (\$1,000 per child). For example, a taxpayer with two children, earning \$10,000 would have no tax liability and would only be eligible for a \$1,050 refundable credit for two children rather than the \$2,000 maximum credit for two children ($[\$10,000 - \$3,000] \times 0.15 = \$1,050$).¹⁷

Given its design, the CTC is more likely to assist moderate rather than lower income households. This can be seen in IRS data for Pennsylvania tax filers in 2012, with over 50 percent of Pennsylvania households receiving the CTC having incomes above \$50,000. Of those filing for the CTC in Pennsylvania, approximately:

- 8 percent had adjusted gross income from \$10,000 to under \$25,000,
- 30 percent had adjusted gross income from \$25,000 to under \$50,000,
- 25 percent had adjusted gross income from \$50,000 to under \$75,000,
- 19 percent had adjusted gross income from \$75,000 to under \$100,000, and
- 18 percent had adjusted gross income from \$100,000 to under \$200,000.

This contrasts with Pennsylvania EITC filers where approximately 43 percent had incomes in the \$10,000 to \$25,000 range, and almost none had incomes above \$50,000. As a result of such differences in the design of the two credits, the CTC effectively serves as a benefit that helps offset the loss of the EITC credit, which terminates when the family's income reaches about \$50,000.

As noted above, certain families with earned income and no tax liability qualify for a refund under the Additional Child Tax Credit portion of the CTC. Our single parent with two children working full time at the minimum wage, while not having a federal tax liability, currently does qualify for a refundable credit as the

¹⁷ According to the Congressional Research Service, in 2014, a family with three children in a married household filing jointly would need to have income in the \$23,000 to \$23,260 range to qualify for the maximum EITC and CTC credits (\$9,143 combined). Such income (\$23,000) is equivalent to about 98 percent of the federal poverty level for such a household in 2014. Taking into account the value of the two credits, the family's gross annual income is equivalent to 135 percent of the 2014 federal poverty level.

family's income from earnings is more than \$3,000. As such, it qualifies for an Additional Child Tax Credit refund of \$1,630. In 2013, such a refund would raise the family's income to 129 percent of the federal poverty level with the value of the household's EITC credit and SNAP benefits taken into account.

Child and Dependent Care Credit

A third federal tax credit, the federal Child and Dependent Care tax credit (CDCTC), assists certain low income households, but primarily assists moderate and higher income families. In tax year 2012, Pennsylvania had over 228,000 claims for the Child and Dependent Care Credit. Such claims amounted to \$121 million, according to the IRS.

Over one-third of the Pennsylvania CDCTC households filing for the credit have incomes of \$100,000 or more. This compares with half that amount for the CTC households, and none for the EITC households. Of those filing for the CDCTC in Pennsylvania, approximately:

- 8 percent had an adjusted gross income of \$10,000 to under \$25,000,
- 24 percent had an adjusted gross income of \$25,000 and under \$50,000,
- 16 percent had an adjusted gross income of \$50,000 to under \$75,000,
- 16 percent had an adjusted gross income of \$75,000 to under \$100,000,
- 28 percent had an adjusted gross income of \$100,000 and under \$200,000, and
- 7 percent had an adjusted gross income of \$200,000 to under \$500,000.

By design, the CDCTC is substantially different than the other two federal credits, and provides a benefit to families that might no longer qualify for the EITC or CTC credits. One reason the CDCTC does not benefit many lower income households is that the credit is nonrefundable, i.e., the tax credit cannot exceed the taxpayer's tax liability. Low income households with incomes of \$15,000 or less are eligible for the maximum CDCTC credit rate of 35 percent for qualifying care expenses of up to \$3,000 for one dependent and \$6,000 for two or more dependents. As they are unlikely to have a tax liability, however, they are effectively ineligible for the CDCTC credit.

The CDCTC's credit rate starts to decline from 35 percent for households with adjusted gross income not over \$15,000 to 20 percent for households with adjusted gross income of \$43,000. The amount of adjusted gross income a household may have and continue to qualify for the CDCTC credit, however, is unlimited.

To effectively qualify for the CDCTC credit provided for in statute, a single parent household with two children in 2015 would need to have income of \$35,240,

according to the Congressional Research Service. A single parent household with two children, working full time at the minimum wage, however, while statutorily eligible for a \$2,100 credit ($\$6,000 \times 0.35$) would not receive the CDCTC credit as they would not have a tax liability.

In addition to the above tax credits, the federal government also assists low income working families by subsidizing the cost of child care through the Child Care and Development Fund grant. Finding E provides information on this important support for low income working families.

The Commonwealth does not offer an earned income tax credit. It does, however, provide for tax forgiveness for low income families. Finding F provides information on Pennsylvania's assistance for low-income families through its tax forgiveness program.

E. Child Care Service Subsidies Are an Important Work Support for Low and Middle Income Families, Though Not All Families That Qualify Receive the Subsidy and Those That Do May Face Challenges When Such Subsidies Are No Longer Available

With parents in the labor force, child care arrangements are essential for families. For this reason, the federal government studies child care arrangements while parents are working or in school, and it has programs that provide direct subsidies for child care for low income families.

Child Care Arrangements Nationwide

According to the U.S. Census Bureau, in 2011,¹ 61 percent of all children under 5 had “regular child care arrangements” during periods when one or both parents were employed, and 39 percent had no regular arrangement.² Many children had more than one regular child care arrangement. Twenty-seven percent of the children with an employed mother, 30 percent of the children with parent(s) employed part-time, and 33 percent of the children with parent(s) employed on a non-day shift had more than one regular child care arrangement.

Regular child care, during periods when the parent works, can be provided by relatives and non-relatives, including organized care facilities (e.g., day care center) and other non-relative care (e.g., family day care home). As shown in Table 4, relatives frequently provide regular child care during periods when the parent works. Forty-two percent of children under 5 receive regular child care from a relative and 32 percent receive non-relative care. Table 4 also shows that mothers (during the period when working or in school) and grandparents are key providers of relative care. Organized care facilities, such as day care centers, nursery or preschool, and Head Start/school provide regular child care for about 24 percent of all children under 5, and other non-relative care (such as family day care) for about 11 percent of such children.

¹ U.S. Census Bureau, *Who’s Minding the Kids? Child Care Arrangements: Spring 2011, Household Economic Studies*, April 2013.

² No regular arrangement includes children only in kindergarten/grade school or only in self-care.

Table 4

Preschoolers in Types of Child Care Arrangements: Spring 2011

<u>Arrangement Type</u>	<u>Number of Children (in thousands)</u>	<u>Percent in Arrangement</u>
Total children under 5 years	20,404	100.0%
In a regular arrangement	12,499	61.3
Relative care	8,585	42.1
Mother ^a	723	3.5
Father ^a	3,623	17.8
Sibling	520	2.6
Grandparent.....	4,834	23.7
Other relative.....	1,520	7.4
Non-relative care	6,721	32.9
Organized care facility	4,797	23.5
Day care center.....	2,726	13.4
Nursery or preschool.....	1,231	6.0
Head Start/school ^b	1,140	5.6
Other nonrelative care	2,286	11.2
In child's home	750	3.7
In provider's home	1,554	7.6
Family day care	946	4.6
Other care arrangement.....	656	3.2
Self-care	d	d
No regular arrangement^c	7,905	38.7

^a Only asked for the time the reference parent was working or in school.

^b Includes children in a federal Head Start program or in kindergarten or grade school.

^c Also includes children only in kindergarten/grade school or only in self-care.

^d Base less than 75,000.

Note: Numbers of children in specified arrangements may exceed the total because of multiple arrangements.

Source: Developed by LB&FC staff from the U.S. Census Bureau's Table 1 in *Who's Minding the Kids? Child Care Arrangements: Spring 2011, Household Economic Studies*, April 2013.

Child Care Costs

Child care can be very expensive. Nationwide in 2011, the average weekly child care payment for a child under 5 was \$179, with an annual cost of \$9,300, according to the U.S. Census Bureau. For children age 5 through 14, the average cost was \$93 weekly, with an annual cost of over \$4,800. Based on such costs for regular child care arrangements, the Census Bureau reported that child care accounted for:

- 7 percent of the average family's income,
- 11 percent of the income of families with a young child,
- 5 percent of the income of a family with an older child, and
- 30 percent of the income of a family below the poverty level.

Somewhat higher child care costs are reported by ChildCare Aware® of America, based on data from state and local child care resource and referral agencies. According to ChildCare Aware® of America in Pennsylvania in 2014³ the average annual fee for full-time care:

- *In a Center was:*
 - \$10,470 for an infant,
 - \$8,727 for a 4-year-old child, and
 - \$5,601 for a school-age child (before/after-school care).

- *In a Family Child Care Home was:*
 - \$7,943 for an infant,
 - \$7,128 for a 4-year-old child, and
 - \$5,263 for a school-age child (before/after-school care).

The Pennsylvania Department of Human Services (DHS), based on market studies, has established maximum child care allowances for its program to assist low income families with the high cost of child care.⁴ In 2013, in a southeastern county, the Department's maximum full-time care allowance:

- *In a Center was:*
 - \$11,664 for an infant,
 - \$10,387 for an older toddler, and
 - \$8,749 for an older school-age child.

- *In a Family Child Care Home was:*
 - \$7,787 for an infant,
 - \$7,709 for an older toddler, and
 - \$7,605 for an older school-age child.

Such DHS maximum child care allowances are highly significant when considered as a portion of a low or middle income family's income. For Center Care, they represent between:

- 63 (for an older school-age child) and 84 (for an infant) percent of the gross annual income of a single-parent three-person household with the parent working full time at the minimum wage;

³ ChildCare Aware®, *Child Care in America: 2014 State Fact Sheets*, March 2014.

⁴ Maximum allowances are developed following a market survey and vary by type of child care and county. They also vary for full-time (at least 5 hours per day) and part-time (less than 5 hours per day) care.

- 45 (for an older school-age child) and 60 (for an infant) percent of the gross annual income of that same family at 100 percent of the federal poverty level in 2013; and
- 19 (for an older school-age child) and 25 (for an infant) percent of the gross annual income of that same family at 235 percent of the federal poverty level in 2013.

For Family Center Care, they represent between:

- 55 (older toddler and older school-age child) and 56 (infant) percent of the gross annual income of a single-parent three-person household with the parent working full time at the minimum wage;
- 34 (older toddler) and 40 (infant) percent of the gross annual income of that same family at 100 percent of the federal poverty level in 2013; and
- 17 (for an infant and older school-age child) and 18 (older toddler) percent of the gross annual income of that same family at 235 percent of the federal poverty level in 2013.

Such estimates are based on the cost of care for a single child. They can more than double with additional children in need of child care when the parent is working and/or in school or training.

Direct Child Care Subsidies for Low Income Families

To address the high cost of child care, federal and state programs provide direct child care subsidies for low income families. The value of such subsidies for a low income family can be significantly larger than a TANF, SNAP, or EITC benefit. The monthly subsidy for child care in a southeastern county⁵ for a single parent working full time at the minimum wage with one older toddler in Center Care and a second older school-age child in Group Care, for example, is equivalent to:

- Four times the maximum monthly TANF benefit (\$421 for a household with two children and no income).⁶
- Four times the maximum monthly SNAP benefit (\$357) for such a household.
- Three times the average monthly value (\$448) of the household's federal Earned Income Tax Credit.

⁵ \$866 monthly for older toddler center care and \$668 monthly for older school-age child care in group care.

⁶ The family's working full time at the minimum wage with two young children could qualify for the child care subsidy but would not qualify to receive even a partial TANF cash grant.

Federal/state programs that provide direct subsidies for child care for low income families also differ from the TANF cash assistance, SNAP, and refundable federal tax credit programs in other ways. In particular, all eligible families that apply can receive such benefits. Child care subsidies for low income families, however, are not available to all who are eligible and apply. Roughly two-thirds of the states, including Pennsylvania, have waiting list policies for when full funding for child care subsidies is not available.⁷

Waiting List: In Pennsylvania, the low income worker waiting list varies from month to month. On average, in the 12-month period prior to the start of the 2014 federal fiscal year, about 6,700 children were on the low income worker waiting list. Children in southeastern Pennsylvania account for more than two-thirds of the children on the Pennsylvania low income worker waiting list. Over the years, the Department of Human Services has made efforts to reduce the waiting list for child care subsidies. The Governor’s 2015-16 proposed budget includes \$17.805 million in federal dollars to serve an additional 3,600 children on the waiting lists.

Pennsylvania’s Child Care Works Program

To provide support for low income families with children to work and move out of poverty, Pennsylvania directly subsidizes child care costs for low income families through a program known as “Child Care Works.” As shown in Table 5, in recent years, the Department of Human Services has annually budgeted over \$600 million for child care subsidies. Table 5 also shows that Child Care Works is supported by two separate state appropriations: the Child Care Services and the Child Care Assistance appropriations.

- *The Child Care Services Appropriation:* provides child care subsidies to low income families that meet minimum work and income eligibility requirements.
- *The Child Care Assistance Appropriation:* provides child care financial assistance to families receiving TANF that are in approved employment and training activities, families that have transitioned off of TANF, and families that participate in unpaid employment and training activities through SNAP (Supplemental Nutritional Assistance Program).

⁷ State waiting list policies differ. For example, 19 states provide for statewide waiting lists, and 17 states, including Pennsylvania, provide for local area waiting lists. They also have varying policies as to when such lists are reviewed and updated.

Table 5

Consumer Child Care Proposed Budget SubsidiesBy Source of Funds*
(\$000)

	<u>Total</u>	<u>State</u>	<u>Social Services Block Grant</u>	<u>Child Care and Development Fund Block Grant^a</u>	<u>Temporary Assistance for Needy Families Block Grant</u>	<u>Supplemental Nutrition Assistance Program</u>
<u>FY 2015-16</u>						
Child Care Services.....	\$347,988	\$131,709	\$30,977	\$185,302		
Child Care Assistance	<u>301,817</u>	<u>148,809</u>	_____	<u>129,866</u>	<u>\$20,798</u>	<u>\$2,344</u>
Total.....	\$649,805	\$280,518	\$30,977	\$315,168	\$20,798	\$2,344
<u>FY 2014-15</u>						
Child Care Services.....	\$319,026	\$131,709	\$30,977	\$156,340		
Child Care Assistance	<u>303,915</u>	<u>148,809</u>	_____	<u>130,630</u>	<u>\$21,430</u>	<u>\$3,046</u>
Total.....	\$622,941	\$280,518	\$30,977	\$286,970	\$21,430	\$3,046
<u>FY 2013-14</u>						
Child Care Services.....	\$321,356	\$129,618	\$30,977	\$160,761		
Child Care Assistance	<u>334,354</u>	<u>159,069</u>	_____	<u>144,922</u>	<u>\$21,439</u>	<u>\$8,924</u>
Total.....	\$655,710	\$288,687	\$30,977	\$305,683	\$21,439	\$8,924
<u>FY 2012-13</u>						
Child Care Services.....	\$344,593	\$152,855	\$30,977	\$160,761		
Child Care Assistance	<u>378,595</u>	<u>187,968</u>	_____	<u>145,300</u>	<u>\$31,686</u>	<u>\$13,641</u>
Total.....	\$723,188	\$340,823	\$30,977	\$306,061	\$31,686	\$13,641

* Excludes funds for quality improvements, special operations, Head Start, and other special grants. Also, does not include \$17.805 million in funding for the FY 2015-16 initiative to reduce the waiting list.

^a Includes TANF Block Grant transfers to the Child Care and Development Block Grant.

Source: Developed by LB&FC staff from the Department's Governor's Executive Budgets.

As shown in Exhibit 2 (in Finding B) and in Table 5, a significant portion of the TANF block grant is transferred to the Child Care and Development Fund Block Grant Fund⁸ for families that have transitioned off of TANF cash assistance. Families that previously received TANF cash assistance can receive subsidized child care through the Child Care Works Program's Former TANF Program component.⁹ Under the Former TANF program, the parent must contact the local Child Care Information Service Agency (CCIS)¹⁰ within 183 days from the date TANF cash assistance ends. The parent must also be working an average of at least 20 hour a week¹¹ no later than the 184th day following the date TANF ended.

Low income working families that do not or have not received TANF can also qualify for a child care subsidy. To do so, the family must be in need of child care, typically for a child under age 13, and meet minimum work requirement (20 hours or more a week or 10 work hours and 10 training hours a week¹²) and the income guidelines for the program.

Currently, in Pennsylvania, a low income household may be eligible to receive the child care subsidy if its income is at or below 200 percent (\$39,060 for a three-person household in 2013) of the federal poverty level. If the family is eligible and receives the subsidy, it can continue to receive the subsidy until such time as its income exceeds 235 percent of the federal poverty level (\$45,898 for a three-person household in 2013). This is often referred to as "tiered eligibility." Such eligibility policies are intended to provide for child care continuity, as low income family income often fluctuates. Nationwide, Pennsylvania is one of only 16 states that have "tiered eligibility" for subsidized child care.

⁸ The federal Child Care and Development Fund (CCDF) actually consists of two federal funding streams: the Child Care and Development Block Grant, which is discretionary federal funding, and the "Child Care Entitlement to States," which is "mandatory funding" authorized in Section 418 of the Social Security Act (42 U.S. Code §618). The Child Care and Development Block Grant is allocated to states based on each state's share of children under age five, the state's share of children receiving free or reduced-price lunches, and state per capita income. States are not required to match the federal discretionary Child Care and Development Block Grant funds. With respect to the mandatory funding authorized in the Social Security Act, one part of such funding is based on the amount the state received for child care programs previously authorized for the AFDC program prior to 1996. Sometimes referred to as the "guaranteed mandatory funds," no state match is required for these funds. The remaining mandatory funds, however, are allocated to states based on their share of children under age 13, and states must meet "maintenance of effort" and matching requirements to receive such remaining mandatory funds. Specifically, the state must spend all of its "guaranteed" federal entitlement funds, plus 100 percent of the amount spent of their own state funds in FY 1994 or FY 1995, whichever is higher, under the previous AFDC-related child care programs. In addition, the state must provide matching funds at its Medicaid matching rate to receive the additional entitlement funds for child care. In federal fiscal year 2013, Pennsylvania's CCDF allocation consisted of \$66.178 million in discretionary Child Care and Development Block Grant funds, \$55.336 million in "Guaranteed Mandatory" funds, and \$62.032 million in the federal share of the mandatory funds, with federal only funds totaling \$183.547 million.

⁹ Receipt of former TANF child care assistance is not included in the lifetime limit for receipt of TANF.

¹⁰ DHS contracts with local CCIS agencies to determine eligibility for child care payments for working parents who previously received TANF cash assistance or that have income at or below certain poverty level thresholds based on family size.

¹¹ This may include training, but at least 10 hours must be work.

¹² If not working at the time of the application for subsidized child care, the applicant must have a promise of a job that will start within 30 days of the application for subsidized child care.

Table 6 provides the initial and continuing maximum monthly countable income for initial and continuing eligibility for a three-person family to qualify for the child care subsidy in Pennsylvania and surrounding states. As shown in Table 6, Pennsylvania's initial eligibility threshold is higher than four of its surrounding states, and the same as New York's and New Jersey's. Among the surrounding states, none have a higher initial eligibility threshold, and only New Jersey has a higher continuing eligibility income threshold.¹³

Table 6

Maximum Countable Monthly Income Eligibility Thresholds for a Three-person Household to Receive a Child Care and Development Fund Subsidy, 2013

State	If Thresholds Vary for Initial and Continuing Eligibility		Initial Eligibility	Continuing Eligibility
	Eligibility			
Delaware	No		\$ 3,182	\$ 3,182
Maryland.....	No		2,499	2,499
New Jersey.....	Yes		3,255	4,069
New York.....	No		3,255	3,255
Ohio.....	Yes		2,035	3,256
Pennsylvania.....	Yes		3,255	3,825
West Virginia	Yes		2,386	2,943

Source: *The CCDF Policies Database Book of Tables: Key Cross-State Variations in CCDF Policies as of October 1, 2013*, OPRE Report 2014-72, October 2014.

In addition to variation in income eligibility thresholds, states vary in their copayment policies and maximum allowable child care subsidy allowances. Table 7 provides eligibility and copayment information for a three-person household with a two-year old and a four-year old in full-time child care for Pennsylvania and its surrounding states. As shown in Table 7, Pennsylvania's copayments are based on family income and size, but not the number of children receiving a child care subsidy (as in Maryland, New Jersey, and West Virginia) or the cost of the subsidy (as in Delaware). Pennsylvania's required copayment from a single parent with two children and a \$15,000 annual income is less than the copayment for the same family in Delaware, Maryland, and West Virginia. For the family with annual earnings of \$30,000, Pennsylvania's required copayment is less than that of Delaware and New York. In Maryland, Ohio, and West Virginia, such families would no longer qualify for a child care subsidy.

¹³ In addition to New Jersey (at 250 percent of the federal poverty level), the only states with maximum continuing eligibility thresholds for the child care subsidy higher than Pennsylvania's are Maine (at 250 percent of federal poverty level) Massachusetts (376 percent), Minnesota (247 percent), New Hampshire (250 percent), North Dakota (302 percent), and Texas (244 percent).

Table 7

Copayment Policies and Monthly Copayment Amounts for a Single Parent With a Two-year-old Child and a Four-year-old Child in Full-time Child Care, 2013

State	Copayment for Families	Annual Earnings \$15,000	Annual Earnings \$20,000	Annual Earnings \$25,000	Annual Earnings \$30,000
Delaware	Copay is a percent of cost or the maximum rate	\$138	\$241	\$367	\$551
Maryland	Separate copayment amounts based on additional children in care	\$103	\$313	\$384	Not eligible
New Jersey	Additional copayments are required for the second child in care (i.e., 75 percent of one child copayment).	\$0	\$134	\$152	\$186
New York	Copayment is family level	\$65	\$65	\$186	\$334
Ohio	Copayment is family level	\$68	\$120	Not eligible	Not eligible
Pennsylvania	Copayment is family level	\$74	\$134	\$169	\$230
West Virginia	Copayment is per child but capped at three children.	\$108	\$152	\$195	Not eligible

Source: *The CCDF Policies Database Book of Tables: Key Cross-State Variations in CCDF Policies as of October 1, 2013*, OPRE Report 2014-72, October 2014.

Table 8 provides information on child care subsidy allowances for various types of child care for Pennsylvania and its surrounding states. As shown in Table 8, Pennsylvania, Maryland, New Jersey, Ohio, and West Virginia have tiered rates, with rates higher than the base rate paid to providers that meet certain quality standards. Only New York has higher rates than Pennsylvania for licensed child care centers and some forms of licensed family center care. Pennsylvania's maximum monthly reimbursement rates for in-home child care, however, are lower than most of the surrounding states, with some exceptions. Maryland's rates for such care for toddler and preschool children are lower than Pennsylvania's, and West Virginia's rate for before and after school are lower than Pennsylvania's.

Table 8

Maximum Monthly Reimbursement Rates for Full-Time Care, 2013

Licensed Child Care Center								
State	Infant Base Rate	Infant Highest Rate	Toddler Base Rate	Toddler Highest Rate	Pre-school Base Rate	Pre-school Highest Rate	Before and After School Base Rate	Before and After School Highest Rate
Delaware	\$708	\$708	\$574	\$574	\$574	\$574	\$275	\$275
Maryland	794	1,143	474	597	474	597	316	398
New Jersey	695	730	573	604	573	604	287	302
New York	1,430	1,430	1,105	1,105	940	940	542	542
Ohio	713	892	652	815	570	713	253	317
Pennsylvania	902	1,011	772	881	707	816	494	523
West Virginia	560	640	480	560	460	540	190	230
Licensed Family Child Care Homes								
State	Infant Base Rate	Infant Highest Rate	Toddler Base Rate	Toddler Highest Rate	Pre-school Base Rate	Pre-school Highest Rate	Before and After School Base Rate	Before and After School Highest Rate
Delaware	\$498	\$498	\$448	\$448	\$448	\$448	\$217	\$217
Maryland	596	769	450	576	450	576	300	384
New Jersey	655	688	514	538	514	538	257	269
New York	693	693	693	693	650	650	433	433
Ohio	600	660	547	602	504	554	259	285
Pennsylvania	729	837	642	751	603	712	429	458
West Virginia	400	480	400	480	400	480	160	200
In-Home Child Care								
State	Infant Base Rate	Infant Highest Rate	Toddler Base Rate	Toddler Highest Rate	Pre-school Base Rate	Pre-school Highest Rate	Before and After School Base Rate	Before and After School Highest Rate
Delaware	\$498	\$498	\$448	\$448	\$448	\$448	\$217	\$217
Maryland	292	292	232	232	232	232	154	154
New Jersey	394	394	307	307	307	307	154	154
New York	451	485	451	485	425	455	282	303
Ohio	1,387*	1,387	1,387	1,387	1,387	1,387	693	693
Pennsylvania	276	276	264	264	245	245	216	216
West Virginia	360	360	320	320	320	320	160	160

*In home care aide rate for Cuyahoga County.

Source: CCDF Policies Database 2013 Book of Tables, OPRE: Report 2014-72, October 2014.

Pennsylvania Child Care Works Participants

In the 2014 federal fiscal year (10/1/2013 through 9/30/2014), Pennsylvania's Child Care Works Program served 157,362 children from 98,318 families.¹⁴ In other words, the program served:

- Approximately 7 to 8 percent of the U.S. Census Bureau's estimate of children in Pennsylvania age 13 and younger.¹⁵
- Approximately 22 percent of the U.S. Census Bureau's estimate of the number of Pennsylvania children under age 12 living below 200 percent of the federal poverty level.¹⁶

Program Components: Based on a one-month snapshot of children served during the 2014 federal fiscal year, the majority of children served in Pennsylvania's Child Care Works program qualify for the subsidy under the low income family component of the program.

- 54 percent of the children served qualified as children from low income working families.
- 26 percent were from former TANF families.
- 19 percent were from families currently receiving TANF cash assistance.
- 1 percent were from families currently receiving only Food Stamps/SNAP.

Children's Age: School-age children account for the largest single category of children served through the program.

- 44 percent were school-age.
- 28 percent were preschool-age.
- 12 percent were older toddlers.
- 10 percent were young toddlers.
- 6 percent were infants.

Type of Care Received: The majority of the 157,262 children served through Child Care Works in 2014 were served in licensed child care centers.

¹⁴ These are unduplicated counts for a 12-month period.

¹⁵ Estimate based on the U.S. Census Bureau's *Interim Projections of the Population by Selected Age Groups for the United States and States: April 2000 to July 1, 2030*, for Pennsylvania for July 1, 2015. Typically, children are eligible for the child care subsidy through age 12. The available U.S. Census data, however, only provide population estimates through age 13.

¹⁶ Estimate based on the U.S. Census Bureau's *2009-2013 Ratio of Income to Poverty for the Population Under 18 Years for Pennsylvania Counties*, March 2015.

- 75.84 percent were served in center care.¹⁷
- 7.41 percent in legally operating non-licensed relative homes.¹⁸
- 6.65 percent in legally operating non-licensed non-relative homes.
- 5.91 percent in family child care homes.¹⁹
- 3.95 percent in group child care homes.²⁰

Program Attrition Rates: With some exceptions, low income children can only qualify to receive the child care subsidy up to age 13, and their families must continue to meet income, work, and other program requirements.²¹ As a result, turnover occurs in the program. Based on a one-month snapshot of data from the 2014 federal fiscal year, the Child Care Works program’s overall monthly attrition rate was 6 percent. Attrition rates, however, varied by source of subsidy, with a rate of:

- 13 percent for the TANF children,
- 10 percent for the SNAP/Food Stamp children,
- 5 percent for the former TANF children, and
- 4 percent for the low-income children.

The lower attrition rates for low income and former TANF children may be due to their family’s greater employment stability, according to child care advocates with whom we spoke. Such employment stability also appears to be reflected in their greater likelihood for full-time employment (discussed below).

The higher attrition rates for those supported by federal Food Stamp/SNAP funding, moreover, is likely due in part to federal SNAP program child subsidy rules. The specific rules that apply to a family’s child subsidy depend on the source of the federal funds that support it, and federal Food Stamp/SNAP child care subsidy rules differ substantially from those in place for TANF, former TANF, and low income workers.

¹⁷ Child care centers are facilities in which seven or more children unrelated to the operator receive child care and are licensed by the Department of Human Services in order to legally operate.

¹⁸ Currently, relatives and neighbors may legally provide child care to three or fewer unrelated children and not have a state license. To receive a child care subsidy, however, such relatives and neighbors are required to complete CareCheck—the Department of Human Services’ program that requires State Police criminal history and child abuse background clearances. Such providers must also obtain federal criminal history clearances.

¹⁹ Family child care homes are facilities located in a home in which four, five, or six children unrelated to the operator receive child care and must have a certificate of registration in order to legally operate.

²⁰ Group child care homes are facilities in which 7 through 12 children of various ages or in which 7 through 15 children from 4th grade through 15 years of age who are unrelated to the operator receive child care. Such homes must be licensed by the Department of Human Services in order to legally operate.

²¹ For example, timely payment of the family’s required copayment.

Under the federal SNAP/Food Stamp program, its child care subsidy funding can only support those participating in certain education or training activities or looking for work.²² The SNAP/Food Stamp child care subsidy funding is not available for periods when the participant is in paid employment—unlike the subsidy for TANF, former TANF, and low income worker families, where the subsidy is available when the participant is in paid employment. As a result, a former TANF participant may work and be enrolled in training and qualify for subsidized child care while participating in both activities. A SNAP/Food Stamp only participant, however, would only qualify to receive the child care subsidy while in training.

The Food Stamp/SNAP child care subsidy program also differs from the TANF program in that it has no provision for families to continue receiving a child care subsidy when their earned income rises above the SNAP maximum income eligibility level and they are no longer eligible for SNAP benefits. Such families can only continue to qualify for the child care subsidy if they also received TANF cash assistance within the previous 184 days. Families that received only SNAP/Food Stamps benefits and do not qualify for TANF (or former TANF benefits) and continue to need child care must apply for the low-income worker component of the Child Care Works program to receive a subsidy. As there is a waiting list for that part of the program, the former SNAP family may lose access to subsidized child care while on the waiting list.

The Department of Human Services is aware of this issue and has reviewed SNAP federal program requirements in an attempt to identify possible options to address this problem. DHS advised LB&FC staff within the Federal SNAP program's rules a possible option includes offering SNAP retention as an eligible SNAP employment and training activity. In this way, individuals who have secured employment could continue to receive supportive services, such as child care, for a temporary period. DHS estimates that provision of child care for the almost 900 children whose parents secure employment would annually cost \$7 million of which 50 percent would be federal funds.

Family Income and Hours Worked: Almost all (96 percent) of the participants in the Child Care Works Program have incomes at or below 200 percent of the federal poverty level, and most (85 percent) work more than 20 hours a week on average.²³ As shown in Table 9, over one-half (55 percent) of all participating households work 35 or more hours on average per week. Table 9 also shows that as the household's income increases, the proportion working an average of 40 or more hours per week substantially increases. For those households with income at or below 100 percent of the federal poverty level, about 10 percent worked on average 40

²² The activity must also be included in the County Assistance Office approved Employment Development Plan for the person.

²³ Participants also participate in training, with such participation more likely to occur for those with income at or below 100 percent of the federal poverty level.

or more hours per week. This increases to approximately 53 percent for those with income between 100 and 200 percent of the poverty level, to over 80 percent for those with income between 200 and 235 percent of the poverty level, and reaches over 90 percent for those with income greater than 235 percent of the poverty level. Based on such data, it does not appear that families are reducing their working hours to avoid losing their child care subsidy.

Table 9 also shows that participants pay a relatively modest share of their income for subsidized child care—somewhat comparable to the national family average reported by the U.S. Census Bureau. Pennsylvania Child Care Works copayments represent about 5 percent of the average weekly income for those with income less than or equal to 100 percent of the federal poverty level, about 8 percent for those with income between 100 and 200 percent of the federal poverty level, and about 9 percent for those with income between 200 and 235 percent of the federal poverty level.²⁴ Our estimates, however, may understate the actual payments some participant families make for child care, since the Department of Human Services regulations permit providers to require families to pay the difference between the provider’s market rate and the Department’s maximum child care subsidy allowance in addition to the subsidy required copayment.²⁵

²⁴ The reader should note that averages for the poverty cohorts have been weighed based on the number of families by family size within each cohort.

²⁵ In 2013, the Pennsylvania Child Care Association surveyed its members and asked if the member planned to charge families receiving subsidies the difference between the published private pay rate and what the state pays. At the time, 55 percent of respondents indicated they did not charge an additional fee, 15 percent said they were considering implementing a policy, 10 percent indicated they already charged a percentage of the difference, and about 20 percent reported charging the full difference between their private pay rate and the state subsidy.

Table 9

**Selected Characteristics of Pennsylvania Families With Child Care Subsidies
by Poverty Status and Household Size**

	Number of Families	Average Weekly Pay	Average Weekly Copay	Copay %	Average Hours Working Per Week						Average Hours Training/Week		
					Less Than 20 Hours	20-24 Hours	25-29 Hours	30-34 Hours	35-39 Hours	40 or More Hours	1-5 Hours	6-10 Hours	More Than 10 Hours
100% or Less Poverty^a													
2	8,511	\$171.34	\$9	5.29%	3,413	1,881	1,488	1,034	422	273	163	383	1,712
3	7,106	204.08	10	4.94	2,360	1,438	1,222	1,007	556	523	161	254	1,134
4	4,966	259.57	13	5.08	1,359	717	726	769	682	713	84	168	654
5	2,445	297.73	16	5.37	564	312	297	376	388	508	48	74	315
6	978	345.43	19	5.58	229	91	111	127	143	277	17	28	121
7	354	369.13	20	5.40	81	36	39	41	64	93	11	7	49
8	131	397.67	20	5.12	35	7	10	19	15	45	4	1	20
Total	24,491	\$222.36	\$11	5.13%	8,041	4,482	3,893	3,373	2,270	2,432	488	915	4,005
101% to 200% Poverty^a													
2	13,234	\$462.64	\$40	8.68%	198	438	839	1,739	3,763	6,257	56	173	522
3	11,780	508.56	42	8.24	185	390	649	1,299	3,341	5,916	37	126	432
4	5,758	606.44	50	8.18	112	138	222	508	1,329	3,449	21	61	202
5	2,004	711.16	58	8.16	50	41	60	114	330	1,409	13	19	63
6	553	849.45	71	8.38	9	10	9	20	81	424	1	8	23
7	167	979.10	78	7.95	3	3	4	3	18	136	-	1	10
8	62	1,053.05	84	7.97	3	2	-	1	5	51	-	1	2
Total	33,558	\$528.31	\$44	8.38%	560	1,022	1,783	3,684	8,867	17,642	128	389	1,254
201% to 235% Poverty^a													
2	133	\$926.25	\$36	3.92%	-	-	3	3	23	104	1	1	9
3	1,115	786.41	76	9.63	5	5	10	37	190	868	3	8	19
4	482	959.39	92	9.55	4	4	5	9	51	409	1	3	10
5	134	1,146.54	106	9.23	2	-	-	2	9	121	1	-	6
6	29	1,317.73	128	9.72	-	-	-	-	-	29	-	-	1
7	8	1,757.69	99	5.65	-	-	-	-	-	8	-	-	-
8	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	1,901	\$877.63	\$80	9.15%	11	9	18	51	273	1,539	6	12	45
More Than 235% Poverty^a													
2	105	\$1,474.14	\$31	2.10%	-	-	-	-	-	-	-	-	-
3	50	1,647.63	30	1.83	2	1	1	1	7	93	-	-	3
4	34	1,717.18	41	2.41	-	-	-	1	3	46	-	-	1
5	9	1,862.73	58	3.11	-	-	-	-	-	9	-	-	-
6	-	-	-	-	-	-	-	-	-	-	-	-	-
7	-	-	-	-	-	-	-	-	-	-	-	-	-
8	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	198	\$1,577.35	\$34	2.14%	2	1	2	3	11	179	-	-	5
Grand Total	60,148				8,614	5,514	5,696	7,111	11,421	21,792	622	1,316	5,309

^a 2014 Federal Poverty Guidelines.

Source: Developed by LB&FC staff from data provided by the Department of Human Services.

The Child Care Subsidy Cliff

Pennsylvania's Child Care Works subsidy clearly assists low income families to work and rise out of poverty. The challenge for such families occurs when they continue to need child care and their average annual income becomes greater than 235 percent of the federal poverty level. At that point, they incur both the cost of the subsidy copayment and the cost of the subsidy itself, often for more than one child. When a family experiences this jump to the full costs of care, the family can experience "the cliff effect."

As shown in Exhibit 5, unlike the cash assistance and SNAP/Food Stamp programs where federal tax credits effectively substitute for lost benefits due to increased earnings, the child care subsidy has no such substitute. When the upper income eligibility threshold is reached, at that point, the additional income from working is less than the benefits lost.

The child care cliff effect is not unique to Pennsylvania. Its extent, however, varies from state to state given differences in their costs for child care and how they have elected to implement their low income family subsidy programs. The Urban Institute has studied the child care cliff effect,²⁶ and, as shown in Exhibit 6, provides a graphic display of the cliff that can be encountered by families in the various states when they are no longer eligible for a child care subsidy. The exhibit displays for each state its maximum monthly copayment and the potential increase to the full price of care for a single parent with two children, ages 2 and 4.

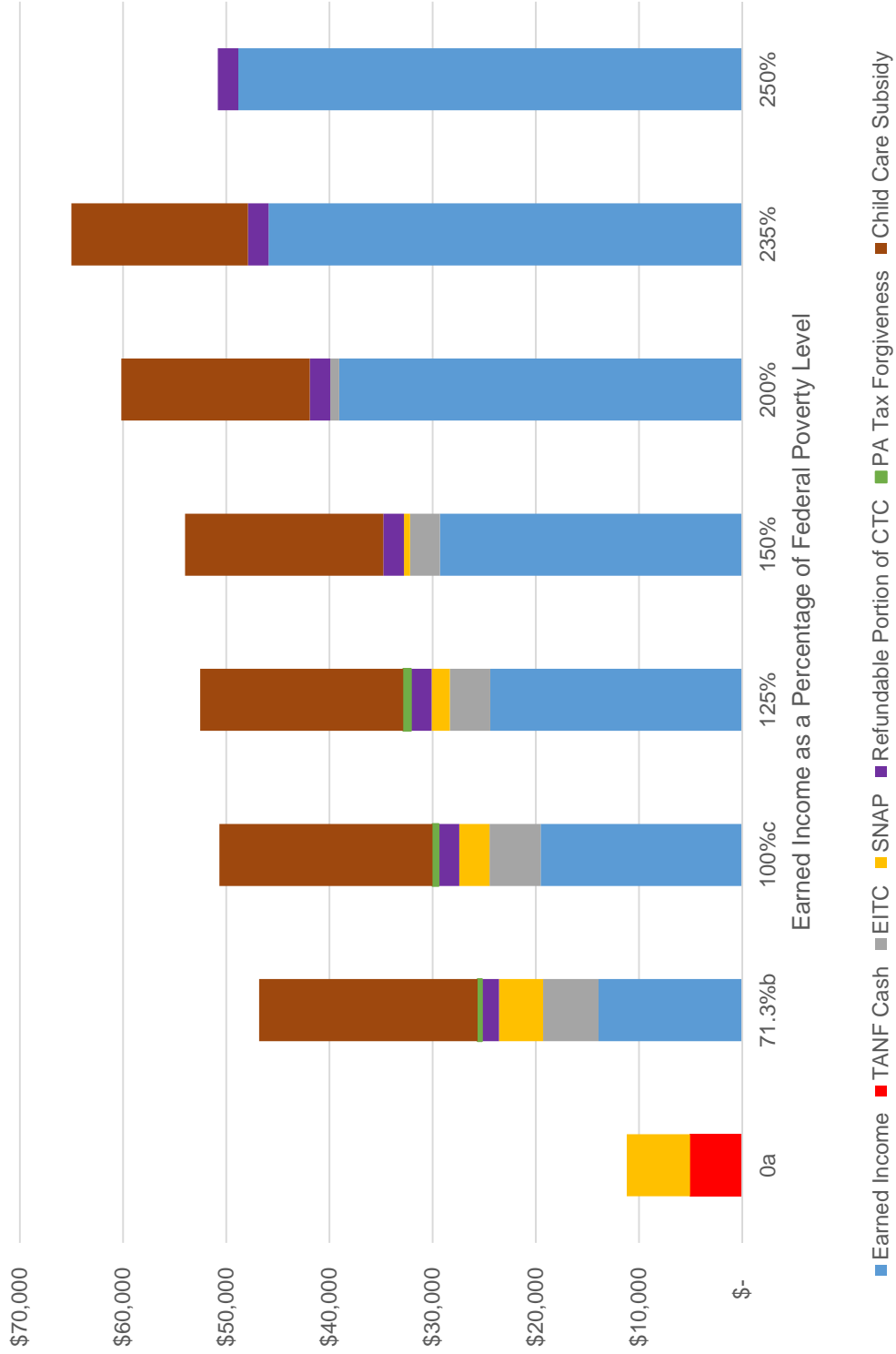
As shown in Exhibit 6, Pennsylvania is among the states with a significant cliff. Idaho is an example of a state without a cliff, but largely because its child care copay policies are significantly less generous than in Pennsylvania.

- Idaho's monthly initial and continuing eligibility thresholds in 2011 were \$1,932 for a family of three. Pennsylvania's were substantially higher (i.e., \$3,088 and \$3,629).
- Idaho's copayment is designed as a percentage of the total cost of care selected by the family. Pennsylvania's copayment is a family level copayment that does not vary based on the number of children in the family or the cost of the type of care selected by the family.
- In Idaho, a single parent with a two-year-old and four-year-old child in full time child care in 2011, would have a maximum monthly copay of \$206 with an annual income of \$15,000, \$548 with an income of \$20,000, and be ineligible with an income of \$25,000 or \$30,000. In Pennsylvania, the family would have an \$82 monthly copay with an annual income of \$15,000, a \$126 copay with an income of \$20,000, a \$178 copay with an income of \$25,000, and a \$221 copay with an income of \$30,000.

²⁶ Minton, S and C. Durham, *Low-Income Families and the Cost of Child Care: State Subsidies, Out-of-Pocket Expenses, and the Cliff Effect*, Urban Institute, December 2013.

Exhibit 5

Benefits at Various Earned Income Levels
 (Single Parent With Two Preschool Dependent Children)
 (2013 Values)

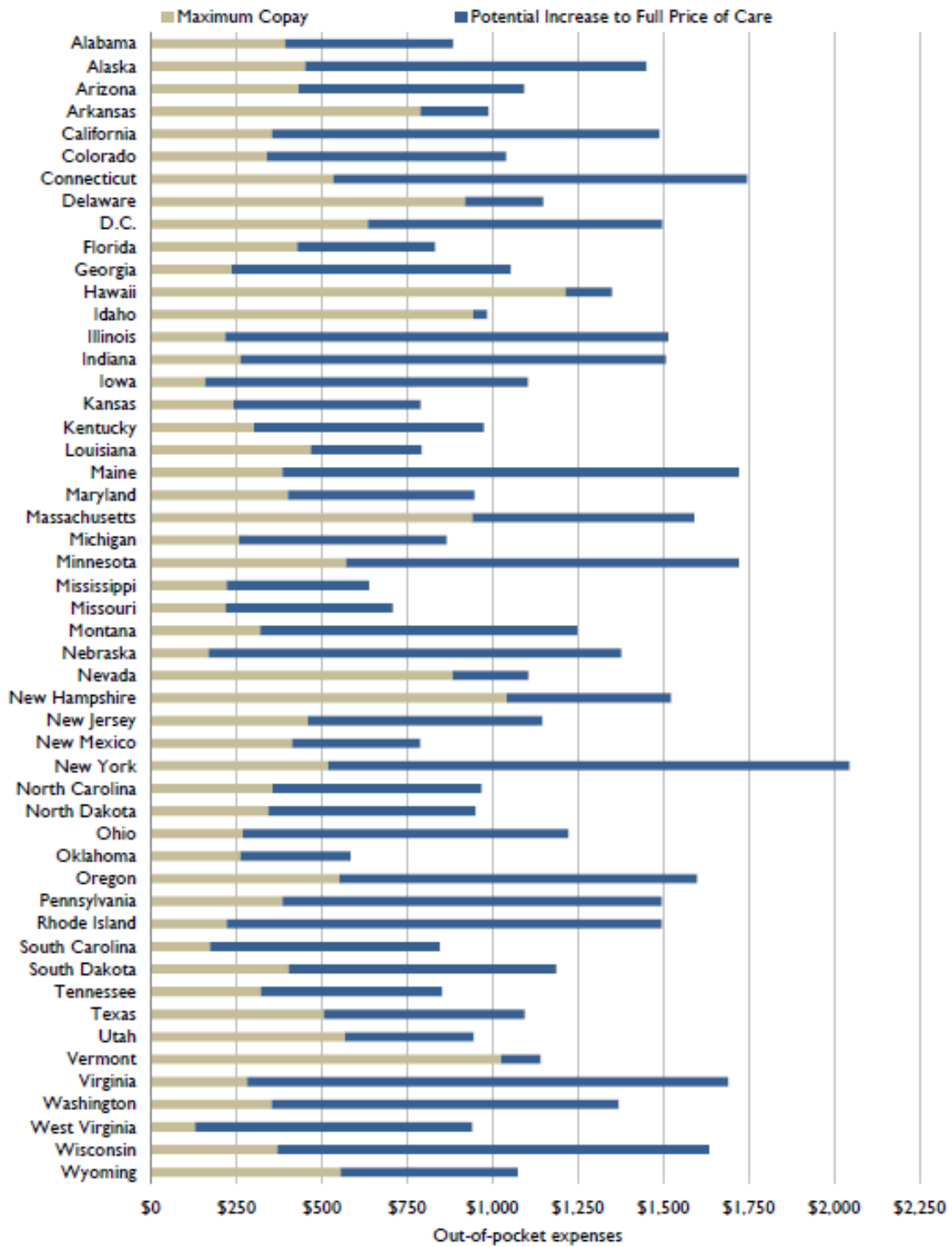


^a No earned income.
^b Equivalent to full-time employment at minimum wage (\$7.25/hr.).
^c \$19,530 (for single parent with 2 dependents).

Source: Developed by LB&FC staff.

Exhibit 6

The Cliff Effect



Source: The CCDF Policies Database, 2011 data.
 Note: Amounts shown for a single parent with two children, ages 2 and 4.

Source: Minton, S. and C. Durham, *Low-Income Families and the Cost of Child Care: State Child Care Subsidies, Out-of-Pocket Expenses, and the Cliff Effect*, Urban Institute, December 2013.

In other words, families in Idaho qualify for the subsidy and become ineligible for it at lower income thresholds (125 percent of the federal poverty level) than families in Pennsylvania (200 and 235 percent of the federal poverty level). They also have significantly higher copayments, and their copayments increase much more rapidly than similar families in Pennsylvania.

Based on its analysis, the Urban Institute concluded that states face challenging trade-offs when structuring their child care subsidy systems. Such trade-offs may include, for example:

- Serving more low income families with somewhat lower benefits as a result of higher family copays, or providing higher benefits to keep copayments lower, but with families facing larger out-of-pocket increases when they no longer qualify for the subsidy.
- Setting lower eligibility thresholds to allow more funds to serve low income families, but families with increased earnings then more likely to become ineligible.
- Providing for small copayment increases as income rises during receipt of the subsidy, and the family then having significantly larger payment increases when its subsidy ends, or increasing copayment amounts significantly over the life of the subsidy, and having a relatively small “cliff” when the subsidy ends.

There are no simple solutions to the child care cliff effect. Some have suggested the cliff effect could be eliminated by increasing the continuing eligibility threshold for the Child Care Works program to 300 percent of the federal poverty level.²⁷ To determine if raising the continuing eligibility threshold to 300 percent of the federal poverty level, based on the current design of Pennsylvania’s child care subsidy program would eliminate the cliff effect, LB&FC staff considered the cost of child care for a single parent in southeastern Pennsylvania with two children at various income levels and in a variety of care settings.

As shown in Table 11, with a maximum eligibility threshold of 300 percent of the federal poverty level (rather than 235 percent), families still face a considerable cliff, in particular, if they have one or more young children in a regulated care setting. A single parent family with income at 300 percent of the federal poverty level and an infant and an older toddler in center care, for example, would need to pay approximately 70 percent more than the amount of the subsidy copayment in order

²⁷ The Department of Human Services (DHS) has estimated that it would require \$13.649 million, likely in state funds, to increase the continuing eligibility threshold from 235 to 300 percent of the federal poverty level. Its estimate assumes that just under 3,000 families would remain eligible. In other words, based on DHS estimates, it costs approximately the same amount per family to remove a child from the waiting list as it does to expand eligibility from 235 to 300 percent of the federal poverty level (\$4,945 based on the Governor’s budget for wait list reduction and \$4,606 to expand the eligibility threshold for one family).

Exhibit 6

The Child Care Cliff Resulting From Loss of the Subsidy for Various Income Levels and Types of Care for a Single Parent With Two Children in Need of Child Care, 2013

Family Income Level*	Family Copay for Full-Time Care	Copay as a Percent of Total Care Cost for Full-Time Care	Subsidy as a Percent of Total Care Cost for Full-Time Care	Family Copay for Part-Time Care	Copay as a Percent of Total Care Cost for Part-Time Care	Subsidy as a Percent of Total Cost for Part-Time Care
Center Care-Infant and Center Care Older Toddler	\$22,051 Total Cost Full-Time			\$17,909 Total Cost Part-Time		
Minimum Wage Working Full-Time	\$884	4.0%	96%	\$884	4.9%	95.1%
100% FPL	\$1,404	6.4%	93.6%	\$1,404	7.8 %	92.2%
200% FPL	\$3,796	17%	83%	\$3,796	21%	79%
235% FPL	\$4,940	22%	78%	\$4,940	28%	72%
300% FPL	\$6,304	29%	71%	\$6,304	35%	65%
Center Care-Infant and Group Care-Older School	\$19,685 Total Cost Full-Time Care			\$17,056 Total Part-Time Care		
Minimum Wage Working Full-Time	\$884	4.5%	95.5%	\$884	5.0%	95%
100% FPL	\$1,404	7.1%	92.9%	\$1,404	8.2%	91.8%
200% FPL	\$3,796	19.2%	80.8%	\$3,796	22%	78%
235% FPL	\$4,940	25%	75%	\$4,940	29%	71%
300% FPL	\$6,304	32%	68%	\$6,304	37%	63%
Unregulated Infant and Unregulated Older Toddler Care **	\$6,773 Total Cost Full-Time Care			\$6,344 Total Cost Part-Time Care		
Minimum Wage Working Full Time	\$884	13%	87%	\$884	14%	86%
100% FPL	\$1,404	21%	79%	\$1,404	22%	78%
200% FPL	\$3,796	56%	44%	\$3,796	60%	40%
235% FPL	\$4,940	73%	27%	\$4,940	78%	22%
300% FPL	\$6,304	93%	7%	\$6,304	99%	1%

* 100 % FPL for a three-person household was \$19,530 in 2013; 200%FPL was \$39,060, 235% FPL was \$45,896, and 300%FPL was \$58,590. The estimated annual income for a single parent working 40 hours a week for a full year at the minimum wage is \$13,920.

**Unregulated child care providers are those legally operating outside of the scope of 55 Pa.C. Chapters 3270, 3280, and 3290.

Source: Developed by LB&FC staff based on the Department of Human Services' Maximum Daily Child Care Allowances effective 1/1/13 for a southeastern county.

to continue to receive this level²⁸ of child care. If the children were in part-time²⁹ rather than full-time care, the family would need to pay 65 percent more for their child care. The cliff for this family at 300 percent of the federal poverty level is only effectively eliminated when both children are in lower cost, unregulated care.

Table 11 also shows that families at lower income (below 200 percent of the federal poverty level) levels experience significantly greater cliffs should they lose the subsidy prior to reaching the maximum income eligibility threshold for the program. They confront a steep cliff even when their children are in unregulated care settings.

Exhibit 7 displays the cost of various forms of child care for a single parent with two children in relation to the family's gross annual income. As shown in Exhibit 7, the cost of some forms of child care for two children (e.g., full-time Center Infant and Center Older Toddler and Center Infant and Group Older School Age) actually exceeds the gross annual income of families at or below 100 percent of the federal poverty level. Such costs, moreover, account for about one-third to over one-half of family income for those above 100 percent of the federal poverty level.

As shown in Exhibit 7 unregulated care is more affordable in relation to family income. Nonetheless, full-time (or for that matter part-time) unregulated care can still be unaffordable for families with income at or below the federal poverty level, accounting for about one-third to one-half of such families' incomes.

²⁸ Five hours or more per day.

²⁹ Less than five hour per day.

Cost of Various Types of Child Care for a Single Parent With Two Children in Relation to Annual Family Income*

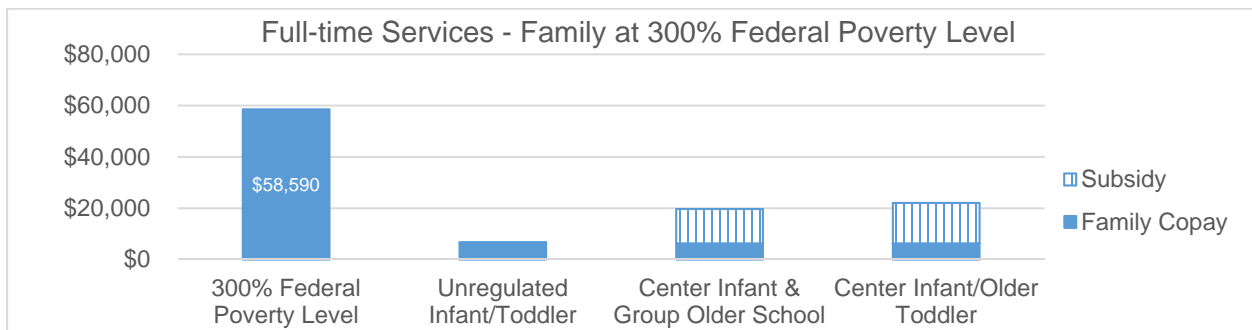
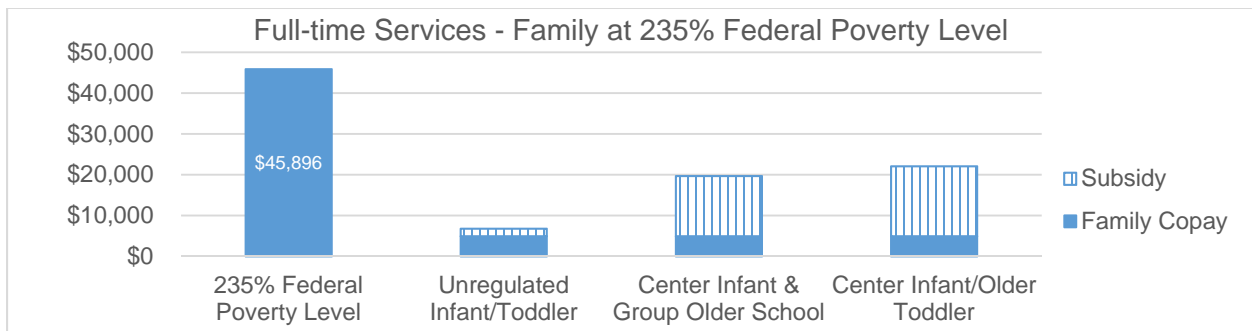
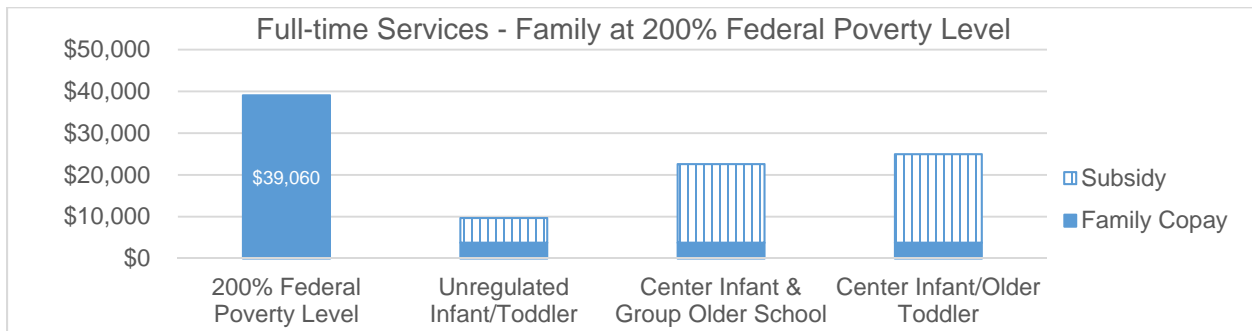
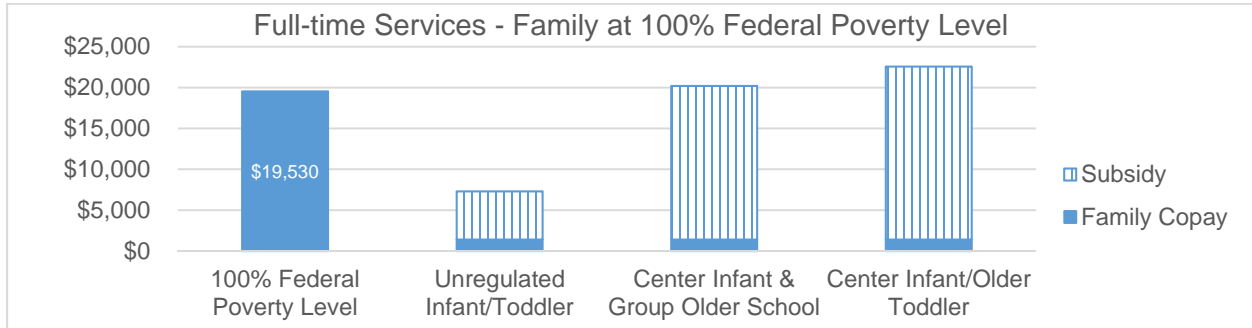
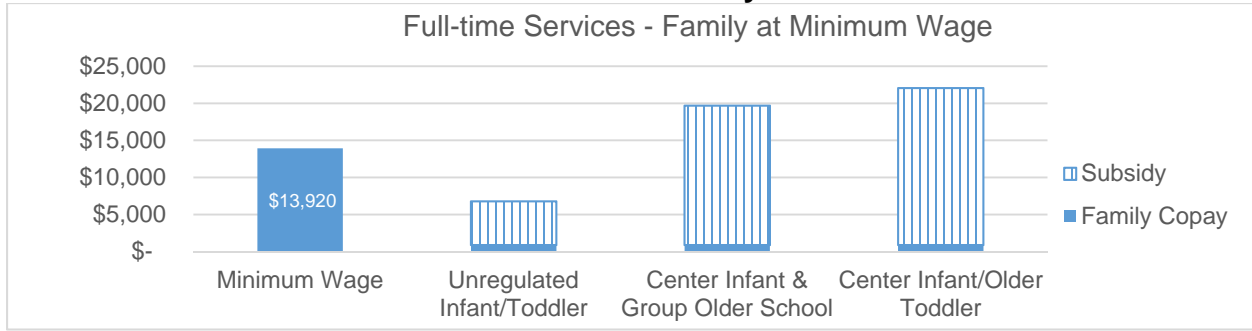
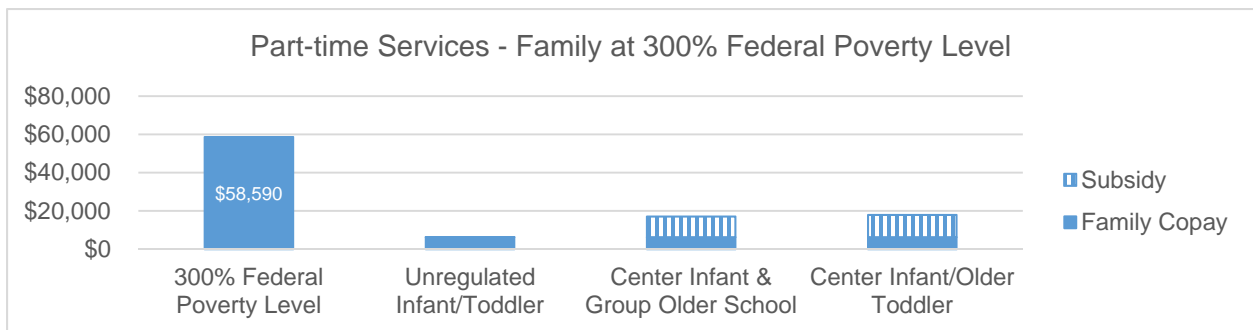
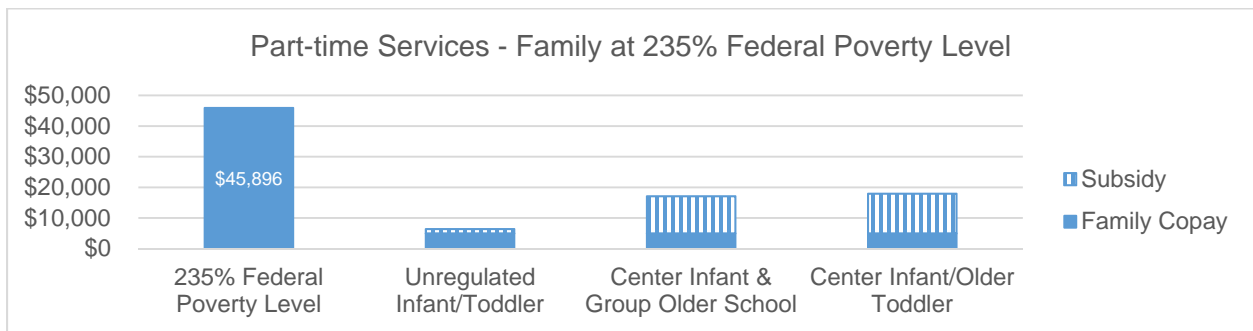
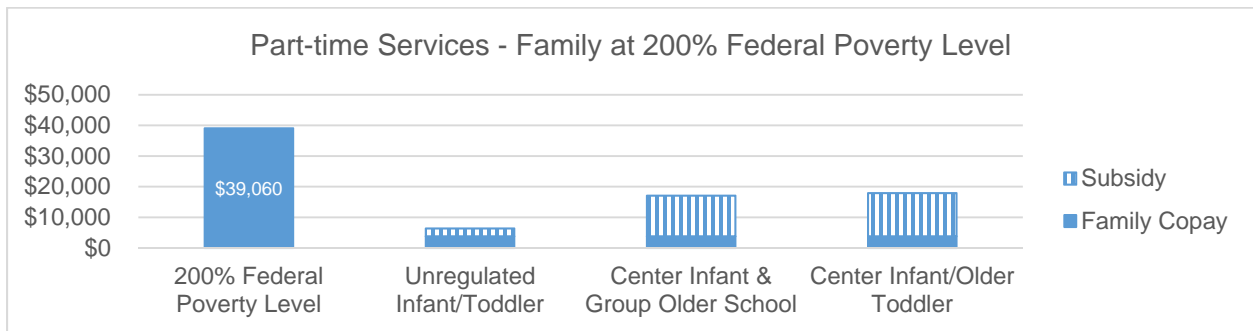
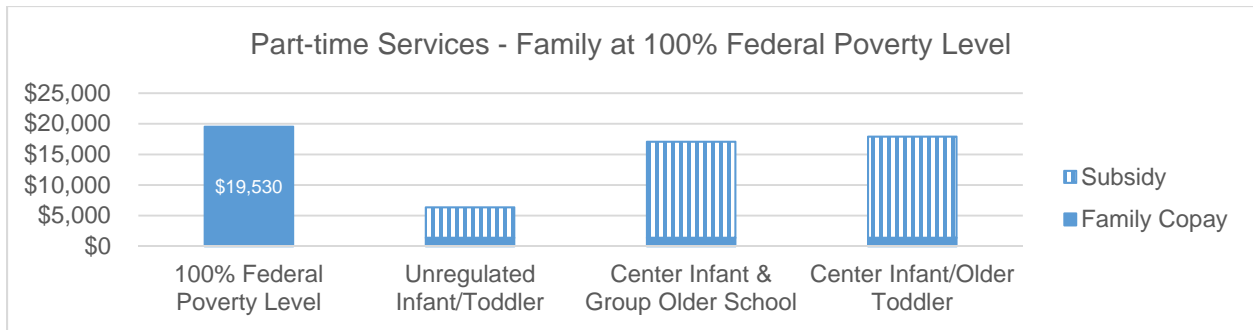
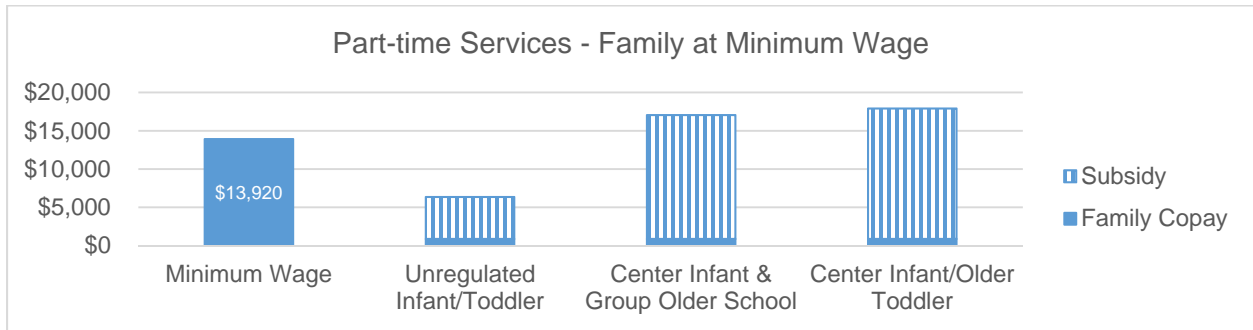


Exhibit 7 Continued



* Family = Single parent with two children.
Source: Developed by LB&FC staff.

F. Pennsylvania Does Not Impose a State Income Tax on Cash Assistance or SNAP Benefits, and Has a State Income Tax Forgiveness Program for Low Income Families That Helps Alleviate the Cliff Effect

Pennsylvania is one of 41 states with a state income tax. It is also one of eight¹ states with a flat tax rate, which does not vary based on income, and therefore differs from the federal income tax's graduated rates. Pennsylvania, moreover, is one of only two states with a state income tax that does not provide for personal exemptions.

Pennsylvania taxes eight classes of income.² It does not, however, tax pension and retirement benefits, Social Security, or public assistance benefits, such as TANF or SNAP/Food Stamp.

While Pennsylvania does not have a graduated income tax (i.e., rates lower for households with lower incomes) or allow for personal exemptions, it does offer a state tax forgiveness program known as the Pennsylvania Special Tax Forgiveness Program. The program is structured in such a way as to take into account household status (i.e., single or married) and the number of dependents in the household, thus reducing or eliminating the state income tax burden for certain families.

Pennsylvania's state tax forgiveness program income thresholds have the effect of exempting many low income households from having to pay the state personal income tax. According to the Tax Policy Center, Pennsylvania is a state which has established relatively high income thresholds for excluding families from the state income tax liability. Its threshold for a two-parent family of four in 2011 was \$32,000. In effect, this meant that such families with a gross income equivalent to about 145 percent of the federal poverty level were exempt from Pennsylvania's state income tax.

Unlike the federal tax credits discussed in Finding D, Pennsylvania's state tax forgiveness program has not been specifically designed to incentivize work, or to provide credits to take into account the high cost of child care. Rather, it is designed to exempt low income households (including the elderly and disabled who are not expected to participate in the work force) from the state's income tax, and somewhat adjust for the absence of personal exemptions and progressivity in its state income tax structure.

¹ Colorado, Illinois, Indiana, Massachusetts, Michigan, North Carolina, Pennsylvania, and Utah.

² The eight classes include: compensation; net profits from the operation of a business, profession or farm; net gains or income less net losses from dispositions of property; net gains or income from rents, royalties, patents and copyrights; dividends; interest; gambling and lottery winnings (except Pennsylvania Lottery winnings after 1983); and net gains or income derived through estates or trusts.

Pennsylvania has a flat tax, rather than a progressive personal income tax, because of its Constitution's Uniformity Clause, which requires: "All taxes shall be uniform, upon the same class of subjects, within the territorial limits of the authority levying the tax, and shall be levied and collected under general laws."³ When a new state constitution was adopted in 1968, however, it included a Special Provision permitting the General Assembly by law to:

Establish as a class or classes of subjects of taxation the property or privileges of persons who, because of age, disability, infirmity or poverty are determined to be in need of tax exemption or of special tax provisions, and for any such class or classes, uniform standards and qualification.....⁴

As a result, the Pennsylvania General Assembly enacted legislation in 1974⁵ creating the program known today as the Pennsylvania Special Tax Provision Program.⁶

Pennsylvania's Special Tax Forgiveness Program

According to the Pennsylvania Department of Revenue's Personal Income Tax Guide, "Tax forgiveness is a credit that allows eligible taxpayers to reduce all or part of their Pennsylvania personal income tax liability. Tax forgiveness: A) provides a reduction in tax liability, and B) forgives some taxpayers of their liabilities even if they have not paid their Pennsylvania personal income tax." The tax forgiveness credit, therefore, is not refundable. Any credit excess above a person's tax liability is not returned to the applicant—unlike the federal Earned Income Tax Credit discussed in Finding D.

Eligibility Criteria: A person is eligible for tax forgiveness in Pennsylvania if they:

- are subject to Pennsylvania personal income tax,
- are not a dependent of another person for federal tax purposes (with some exceptions) and
- have income that falls within defined eligibility thresholds.⁷

³ Pennsylvania Constitution, Article VIII, §1.

⁴ Pennsylvania Constitution, Article VIII, §2(b)(ii).

⁵ Act 1974-32.

⁶ The initial legislation has been amended twelve times since its adoption. Initially, the income threshold for a single individual was set at \$3,000 with an additional allowance of \$1,200 for one dependent and \$750 for each additional dependent, with the tax reduction phased out at a rate of 10 percent for each increment of \$100 over the applicable threshold. Over time the program parameters were changed by the General Assembly. By 1998, the income threshold had increased to \$6,500 for a single individual and \$13,000 for married claimants with an allowance of \$6,000 for the first dependent of a married claimant and \$6,500 for a single claimant, and \$6,000 for each additional dependent. In 1998, the phase-out rate was also changed to 10 percent for each increment of \$250. Since that time the additional allowance for all dependents has changed, increasing from \$6,000 to \$9,500 in 2003.

⁷ A person is also not eligible if they are a ward of a federal, state, or local prison; a patient in a federal or state hospital; or a student at a federal, state, or local residential school for ½ year or more.

According to the Department of Revenue, nearly one-in-five Pennsylvania households qualifies for tax forgiveness.

Eligibility income for purposes of calculating tax forgiveness differs from taxable income for Pennsylvania personal income tax purposes. In addition to such taxable income, other non-taxable income is also considered, including:

- interest, dividend, and gain income from exempt direct obligations of the Commonwealth of Pennsylvania;
- alimony and spousal support;
- income earned, received, or realized by nonresidents or part-year residents while residing outside Pennsylvania that is not taxable for Pennsylvania personal income tax purposes;
- insurance payments or the value of an inheritance including distribution code 4 payments reported on federal form 1099-R;
- gifts, awards and prizes received in recognition of civic and social achievements, or winnings from the PA Lottery;
- military pay earned while on federal active duty and federal active duty for training outside Pennsylvania, excluding combat pay or hazardous duty pay;
- educational assistance such as the total value of nontaxable scholarships, fellowships, and stipends received unless in the name of the dependent child; and
- other cash payments received from people living outside the filer's household.

Tax Forgiveness Income Eligibility Thresholds. As noted above, the statute sets forth an income threshold for a single individual (\$6,500) and married claimants (\$13,000). It further provides for a \$9,500 allowance for each dependent. The tax reduction then phases out at a rate of 10 percent for each increment of \$250. Exhibit 8 provides the Pennsylvania Department of Revenue's Pennsylvania's Tax Forgiveness Program's Eligibility Income Tables and Tax Forgiveness rates for single and married claimants for 2014.

Exhibit 8

**ELIGIBILITY INCOME TABLE 1. Unmarried and Deceased Taxpayers
If Eligibility Income Does Not Exceed:**

YOU	\$6,500	\$6,750	\$7,000	\$7,250	\$7,500	\$7,750	\$8,000	\$8,250	\$8,500	\$8,750
DEPENDENT CHILDREN										
1	\$16,000	\$16,250	\$16,500	\$16,750	\$17,000	\$17,250	\$17,500	\$17,750	\$18,000	\$18,250
2	\$25,500	\$25,750	\$26,000	\$26,250	\$26,500	\$26,750	\$27,000	\$27,250	\$27,500	\$27,750
3	\$35,000	\$35,250	\$35,500	\$35,750	\$36,000	\$36,250	\$36,500	\$36,750	\$37,000	\$37,250
4	\$44,500	\$44,750	\$45,000	\$45,250	\$45,500	\$45,750	\$46,000	\$46,250	\$46,500	\$46,750
5	\$54,000	\$54,250	\$54,500	\$54,750	\$55,000	\$55,250	\$55,500	\$55,750	\$56,000	\$56,250
6	\$63,500	\$63,750	\$64,000	\$64,250	\$64,500	\$64,750	\$65,000	\$65,250	\$65,500	\$65,750
7	\$73,000	\$73,250	\$73,500	\$73,750	\$74,000	\$74,250	\$74,500	\$74,750	\$75,000	\$75,250
8	\$82,500	\$82,750	\$83,000	\$83,250	\$83,500	\$83,750	\$84,000	\$84,250	\$84,500	\$84,750
9	\$92,000	\$92,250	\$92,500	\$92,750	\$93,000	\$93,250	\$93,500	\$93,750	\$94,000	\$94,250

Your percentage of Tax Forgiveness and the Decimal Equivalent is:

100%	90%	80%	70%	60%	50%	40%	30%	20%	10%
1.0	.90	.80	.70	.60	.50	.40	.30	.20	.10

Exhibit 8 (Continued)

**ELIGIBILITY INCOME TABLE 2. Married Taxpayers
If your Eligibility Income from PA Schedule SP, Line 11, does not exceed:**

YOU & SPOUSE	\$13,000	\$13,250	\$13,500	\$13,750	\$14,000	\$14,250	\$14,500	\$14,750	\$15,000	\$15,250
DEPENDENT CHILDREN										
1	\$22,500	\$22,750	\$23,000	\$23,250	\$23,500	\$23,750	\$24,000	\$24,250	\$24,500	\$24,750
2	\$32,000	\$32,250	\$32,500	\$32,750	\$33,000	\$33,250	\$33,500	\$33,750	\$34,000	\$34,250
3	\$41,500	\$41,750	\$42,000	\$42,250	\$42,500	\$42,750	\$43,000	\$43,250	\$43,500	\$43,750
4	\$51,000	\$51,250	\$51,500	\$51,750	\$52,000	\$52,250	\$52,500	\$52,750	\$53,000	\$53,250
5	\$60,500	\$60,750	\$61,000	\$61,250	\$61,500	\$61,750	\$62,000	\$62,250	\$62,500	\$62,750
6	\$70,000	\$70,250	\$70,500	\$70,750	\$71,000	\$71,250	\$71,500	\$71,750	\$72,000	\$72,250
7	\$79,500	\$79,750	\$80,000	\$80,250	\$80,500	\$80,750	\$81,000	\$81,250	\$81,500	\$81,750
8	\$89,000	\$89,250	\$89,500	\$89,750	\$90,000	\$90,250	\$90,500	\$90,750	\$91,000	\$91,250
9	\$98,500	\$98,750	\$99,000	\$99,250	\$99,500	\$99,750	\$100,000	\$100,250	\$100,500	\$100,750

Your percentage of Tax Forgiveness and the Decimal Equivalent is:

100%	90%	80%	70%	60%	50%	40%	30%	20%	10%
1.0	.90	.80	.70	.60	.50	.40	.30	.20	.10

Source: PA Department of Revenue PA-40.

As shown in Exhibit 8, a single individual applying for tax forgiveness with eligible income of \$6,500, such as an elderly widow with interest income or dividends totaling \$6,500 and no other taxable state income, would qualify to have 100 percent of her \$200 state personal income tax forgiven [$(\$6,500 \times 0.0307 = \$200) \times 1.0$]. The single parent household with two children, working full time at minimum wage, discussed throughout our report, would also have all of the family's \$427 [$(\$13,920 \times 0.0307 = \$427) \times 1.0$] state income tax forgiven.

Generally, a family of four (a married couple with two dependent children) can earn up to \$34,250 a year and qualify for at least 10 percent state tax forgiveness, reducing their state income tax from \$1,051 to \$946. A single-parent, two-child family with annual income up to \$27,750 can also qualify for at least 10 percent state tax forgiveness, reducing their state income tax from \$852 to \$767.

Pennsylvania Impact. According to the last three available (2010-2012) Personal Income Tax Statistics reports from the Department of Revenue, tax forgiveness under the special provisions amounted to nearly \$317 million in 2010, \$305 million in 2011, and \$294 million in 2012. As shown in Table 11, such tax forgiveness is equivalent to approximately 3 percent of total state taxable income in each of those years.

Table 11

Tax Forgiveness		
2010 to 2012		
<u>Total Tax Returns</u>	<u>Forgiveness Amount</u> (\$000)	<u>Percent of Total Taxable Income</u>
1,410,177 (2010)	\$316,703	2.8%
1,362,972 (2011)	\$304,978	2.8%
1,292,424 (2012)	\$293,714	2.8%

Source: Developed by LB&FC staff using information obtained from the PA Department of Revenue.

Tax Forgiveness Income Thresholds and Federal Poverty Levels. Eligible income levels for the Pennsylvania tax forgiveness program are not directly related to federal poverty levels. As shown in Table 12, the maximum eligible income level for a single person household to qualify for the state tax forgiveness program is equivalent to 74 percent of the federal poverty level. As the number of dependents increases, the maximum income eligibility threshold increases to almost 200 percent of the federal poverty level. Somewhat similar results occur for married households. In part, this reflects the state tax forgiveness program's attempt to address the absence of personal exemptions for purposes of the state tax.

Table 12

Tax Forgiveness Income Thresholds and Federal Poverty Levels

Single Claimant

Federal Poverty Guidelines (2015)	Maximum Income Eligibility for <u>PA Tax Forgiveness</u>	Tax Forgiveness Income Eligibility <u>as % of Federal Poverty</u>
\$11,770 (1 person)	\$ 8,750	74%
15,930 (2 person)	18,250	115
20,090 (3 person)	27,750	138
24,250 (4 person)	37,250	154
28,410 (5 person)	46,750	165
32,570 (6 person)	56,250	173
36,730 (7 person)	65,750	179
40,890 (8 person)	75,250	184

Married Claimant

Federal Poverty Guidelines (2015)	Maximum Income Eligibility for <u>PA Tax Forgiveness</u>	Tax Forgiveness Income Eligibility <u>as % of Federal Poverty</u>
\$15,930 (2 person)	\$15,250	96%
20,090 (3 person)	24,750	123
24,250 (4 person)	34,250	141
28,410 (5 person)	43,750	154
32,570 (6 person)	53,250	163
36,730 (7 person)	62,750	171
40,890 (8 person)	72,250	177

Source: Developed by LB&FC staff.

Some have advocated to supplement Pennsylvania's state tax forgiveness program with an earned income tax credit based on the federal EITC. In 2009, the Joint State Government Commission estimated the cost of adding a Pennsylvania EITC based on a percentage of Pennsylvania's share of the federal EITC. At the time, the Commission estimated the cost to be \$51 million, assuming the credit would be equivalent to 3.5 percent of the federal credit, and \$506 million if the credit would be equivalent to 35 percent of the federal credit. As noted in Finding D, the federal EITC is indexed for inflation, and in 2013, federal EITC claims in Pennsylvania totaled \$2 billion dollars. Based on 2013 EITC claims for Pennsylvania, the addition of an EITC credit to the state tax forgiveness program based on the federal credit would cost an estimated \$70 million (at 3.5 percent of the federal credit) to \$700 million (at 35 percent of the federal credit).

III. Appendices

APPENDIX A

PRINTER'S NO. 753

THE GENERAL ASSEMBLY OF PENNSYLVANIA

SENATE RESOLUTION

No. 62 Session of 2013

INTRODUCED BY McILHINNEY, TEPLITZ, TOMLINSON, STACK, GREENLEAF, WASHINGTON, ERICKSON, SCHWANK, FONTANA, RAFFERTY, WAUGH, WARD, BROWNE, BREWSTER, SOLOBAY AND TARTAGLIONE, MARCH 20, 2013

REFERRED TO AGING AND YOUTH, MARCH 20, 2013

A RESOLUTION

Directing the Legislative Budget and Finance Committee to study new approaches to family work support programs.

WHEREAS, It is in the public interest to pursue the common good whereby all families in this Commonwealth have improved access to economic and educational opportunities that help families achieve self-sufficiency and financial security while reducing the number of families living in poverty; and

WHEREAS, More and more middle-class families are living paycheck to paycheck, especially in these very difficult economic times; and

WHEREAS, Nearly one in five children in Pennsylvania live in poverty, which increased in this Commonwealth from 11.6% to 13.4% in 2010; and

WHEREAS, More states are recognizing that reducing poverty is a critical economic development issue which requires strategic, integrated and comprehensive approaches that create opportunities for families to achieve economic success, including creating quality jobs, providing work supports, promoting greater collaboration with the private sector and implementing targeted tax policies; and

WHEREAS, An assessment of current State policies and practices within the Department of Public Welfare, the Department of Education, the Department of Health, the Department of Revenue, the Department of Labor and Industry and the Pennsylvania Housing Finance Agency may promote economic opportunity and poverty reduction by revealing inconsistencies across agencies which determine eligibility for individuals and families to move up the economic ladder; and

Appendix A (Continued)

WHEREAS, An examination of evidence-based solutions utilized in other states may reveal significant efforts to reduce poverty as well as mitigate the "cliff effect"; and

WHEREAS, Working parents who receive a minor increase in income making them ineligible for various programs that allow them to work, such as child-care assistance, transportation, food stamps and free and reduced school lunches, face the "cliff" and disincentives for achieving self-sufficiency; therefore be it

RESOLVED, That the Legislative Budget and Finance Committee assess current State practices that promote economic opportunity and poverty reduction and develop a strategic, integrated and comprehensive plan to mitigate the "cliff effect"; and be it further

RESOLVED, That in its review the committee consult with the Department of Public Welfare, the Department of Education, the Department of Health, the Department of Revenue, the Department of Labor and Industry and the Pennsylvania Housing Finance Agency; and be it further

RESOLVED, That in its review the committee consult with recipients, advocates and providers with experience in job support and welfare-to-work programs; and be it further

RESOLVED, That the committee evaluate and make recommendations regarding:

(1) Identifying best policies and practices that build family assets and financial stability.

(2) Making work pay through the use of fair and sustainable targeted tax policies.

(3) Expanding the work force with quality jobs that meet private sector needs.

(4) Assessing work support issues such as child care, transportation, nutrition and housing needs of families.

(5) Creating a coordinated effort among State agencies to develop policies on education, health care, housing, income, child care, nutrition and transportation that are consistent and create incentives for self-sufficiency.

(6) Identifying those policies and regulations that conflict with the goal of self-sufficiency;

and be it further

RESOLVED, That the committee make a report with recommendations to the Senate within one year of the adoption of this resolution.

APPENDIX B

Federal Poverty Guidelines for the 48 Contiguous States 2012 to 2015

2015

Persons in Family/Household	Poverty Guidelines
1	\$11,770
2	15,930
3	20,090
4	24,250
5	28,410
6	32,570
7	36,730
8	40,890
For families/households with more than 8 persons, add \$4,160 for each additional person.	

2014

Persons in Family/Household	Poverty Guidelines
1	\$11,670
2	15,730
3	19,790
4	23,850
5	27,910
6	31,970
7	36,030
8	40,090
For families/households with more than 8 persons, add \$4,060 for each additional person.	

2013

Persons in Family/Household	Poverty Guidelines
1	\$11,490
2	15,510
3	19,530
4	23,550
5	27,570
6	31,590
7	35,610
8	39,630
For families/households with more than 8 persons, add \$4,020 for each additional person.	

2012

Persons in Family/Household	Poverty Guidelines
1	\$11,170
2	15,130
3	19,090
4	23,050
5	27,010
6	30,970
7	34,930
8	38,890
For families/households with more than 8 persons, add \$3,960 for each additional person.	

Source: U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation.

APPENDIX C

Response to This Report



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF HUMAN SERVICES

NOV 30 2015

Mr. Phillip R. Durgin
Executive Director
Legislative Budget and Finance Committee
P.O. Box 8737
Harrisburg, Pennsylvania 17105-8737

Dear Mr. Durgin:

Thank you for your October 29, 2015 letter sharing the Legislative Budget and Finance Committee (LBFC) report titled Study of Family Work Support Programs and allowing the Department of Human Services (DHS) to review the draft report and provide written comments regarding your findings and recommendations.

Senate Resolution 62 of 2013 directed the LBFC to assess state practices that promote economic opportunity and poverty reduction, and develop a strategic, integrated and comprehensive plan to mitigate any impact of the "cliff effect."

The LBFC found that programs designed to assist low-income families achieve self-sufficiency and reduce the number of families living in poverty, such as Temporary Assistance for Needy Families (TANF), Supplemental Nutritional Assistance Program (SNAP), the federal Earned Income Tax Credit (EITC), the Child Tax Credit (CTC), and the Child and Dependent Care Tax Credit (CDCTC), are integrally related and designed to help lift low-income working families out of poverty. DHS agrees, that when combined, these benefit programs reduce the number of families living in poverty, particularly those headed by single parents. The LBFC also found that along with TANF and SNAP, the EITC and CTC mitigate the impact of a reduction in benefits, reward employment, and lift a low-income family consisting of a single parent and two children out of poverty. DHS agrees with this finding as well.

The Committee's finding that child care subsidies are essential supports for low-income, working families further reinforces the need for the \$17.805 million in federal funding to serve an additional 3,600 children included in Governor Wolf's Fiscal Year (FY) 2015-16 budget proposal. For Pennsylvania's lowest income families, the cost of child care can rival that of a mortgage payment and without these vital supports, child care is simply unaffordable and many low-income families would not be able to make the transition to self-sufficiency.

The LBFC concluded that the child care subsidy program consists of several features that help ease low-income families' transition to self-sufficiency. These features include tiered eligibility thresholds, a higher maximum income continuing eligibility threshold, guaranteed access to subsidized child care to those leaving TANF cash assistance up to 235 percent of the federal poverty level, and a family level fixed dollar amount copayment based on family size and income range.

The LBFC also notes that the Child Care Works Program assists low-income families to maintain employment and exit out of poverty through low copayments and other features. Despite these features, the LBFC notes that the current system still includes a “cliff” when family income surpasses 235 percent of the federal poverty level and they are no longer eligible for the child care subsidy. Importantly, the LBFC found that while this “cliff” structurally exists, it does not lead parents to reduce their work hours in order to stay in the program.

To the contrary, the report found a correlation between family income and hours worked; the LBFC noted that as family income increased, the number of hours worked increased as well. This data shows that families receiving a child care subsidy are increasing their employment and moving toward self-sufficiency. For example, the report noted that 10 percent of households with income at or below 100 percent of the federal poverty level worked on average 40 or more hours per week, approximately 53 percent of households with income between 100 and 200 percent of the federal poverty level worked on average 40 or more hours per week, over 80 percent households with income between 200 and 235 percent of the federal poverty level worked on average 40 or more hours per week, and over 90 percent of households with income above 235 percent of the federal poverty level worked on average 40 or more hours per week. DHS agrees with the LBFC findings that families do not appear to be reducing the number of hours they work in order to avoid losing this valuable benefit.

The LBFC found that families in most states experience the “cliff effect” when they lose their child care subsidy. Out-of-pocket expenses for child care rises in all states when the family no longer is eligible for the child care subsidy. While there are a few states that are without a cliff, these state have substantially higher eligibility thresholds or they have varied copayments based on the cost of care, number of children in care and the type of and quality of care selected by the family. The LBFC found DHS’ tiered eligibility threshold to be a feature that helps ease low income families’ transition to self-sufficiency, allowing for continuity of child care, and also noted that DHS’ child care copay policies are more generous than other states. DHS agrees that tiered eligibility and fixed copayment are beneficial for families. Additionally, in examining the “cliff effect,” the report notes potential repercussions of extending the eligibility exit point – without additional funding to support families on the waiting list, lower-income families will have to wait longer for services while higher income families remain in the program.

In response to the above findings, the LBFC noted opportunities to provide incentives for employment and self-sufficiency, and tools for smoothing the “cliff.” One tool that LBFC highlighted was eliminating or significantly reducing the TANF asset test, which states have done for such reasons as to find state administrative savings or as recognition that asset tests create saving disincentives for low-income families. The report examined the impact states have experienced with this policy change and found that it did not affect caseload. DHS agrees that the TANF asset test should be eliminated in Pennsylvania as DHS has found that these asset tests are a heavy burden on clients and caseworkers tasked with verifying resources, and it results in very few denials for excessive resources. Eliminating the asset test would allow TANF recipients to build up assets without penalty, increasing their odds of becoming self-sufficient and transitioning off of TANF, and better position them to respond to financial setbacks. The asset test is currently required under Pennsylvania law at Section 432.5 of the Act of June 13, 1967 (P.L. 31, No. 21), known as the Public Welfare Code. In order to eliminate the asset test, DHS will determine what changes need to be made to our information technology systems and work with the General Assembly to amend this law.

NOV 30 2015

Mr. Phillip R. Durgin

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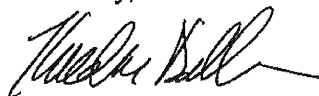
The LBFC found that increasing the TANF earned income disregard from 50 percent to 75 percent can help families gain earned income closer to 100 percent of the federal poverty level before they would no longer qualify for a partial TANF grant. In addition, this change would allow more low-income families to be eligible for TANF cash assistance, educational or employment assistance and child care. Individuals who gain employment and remain on TANF are more likely to meet work participation hours, increasing work participation rates. While DHS recognizes the positive benefits of increasing the disregard, we estimate that the total overall added cost would be at least \$54 million in increased TANF expenditures. For this reason, DHS does not believe this is a viable option at this time.*

The LBFC found that continuing child care subsidy for SNAP-only households would smooth the transition for low-income families. System changes would be needed in order to continue child care eligibility for SNAP-only households. DHS estimates approximately \$3.5 million in state funds would be needed to cover the cost of child care for SNAP-only households, and that a maximum of \$714,000 in state funds would be needed to implement the necessary information technology changes. DHS understands from the federal Food and Nutrition Services (FNS) that federal funding could be available for a demonstration waiver to show that SNAP recipients who gain employment and receive SNAP Employment and Training funded child care maintain jobs and have less movement in and out of self-sufficiency. The waiver would allow DHS to pay child care for those employed. DHS will further explore the demonstration waiver, which would allow DHS to access federal funding from FNS to cover 100 percent of the programmatic and information technology costs.

Lastly, the LBFC recommended that DHS continue to address the child care waiting list by investing available funds, recognizing the importance of the child care subsidy in lifting families out of poverty and smoothing the transition to self-sufficiency for low-income families. This finding supports the Governor's FY 2015-16 budget proposal to provide \$17.805 million in federal funds to serve an additional 3,600 children and the DHS' continued efforts to reduce the waiting list. Currently, the waiting list stands at approximately 6,100 children. DHS agrees with this recommendation and will continue working as part of the Wolf Administration's fight for these important investments.

We appreciate the thorough nature of the work of the LBFC and appreciate your findings and recommendations to the General Assembly to promote employment and assist low-income working families. If you need further information or have any questions, please contact Mr. Abdoul Barry, Director, Office of Legislative Affairs, at (717) 783-2554. Thank you again for the opportunity to provide comments on the draft report.

Sincerely,



Theodore Dallas
Secretary

cc: Mr. Abdoul Barry

*LB&FC Note: The estimate cited in the report (\$5.2 million) is based on a DHS estimate for HB1291, P.N. 1722.