Benefits Cliffs in Montana: Best Practices in Reducing Cliffs

February 2022

MEMORANDUM: Summary of Benefits Cliffs in Montana and Best Practices in States
TO: Legislative Economic Affairs Interim Committee
FROM: Jackie Semmens, Policy Analyst

HJ 49 defined benefits cliffs when "increases in their earnings cause a decrease in public assistance benefits, resulting in a net loss of income or only small increases in overall income." This situation can result in a family facing greater financial insecurity after losing benefits. While Montana has taken several steps to mitigate cliff impacts, the state has opportunities to make improvement to ease the transition off benefits and better support families and workers. This memo provides an overview of benefit cliffs imposed in the state and recommendations to policymakers to help strengthen both families and our economy as workers are better positioned to increase wages without losing vital supports.

Main Points:

1. Montana's Best Beginnings child care subsidy program has both a relatively low eligibility cut off and high copay requirements, resulting in families losing assistance when income increases and families living on low incomes paying higher percentages of their wages in child care. Montana should increase eligibility and reduce the Best Beginnings co-pay to better support families living on lower wages and facing rising household costs;
2. The state earned income tax credit (EITC) is one of the best models of how to ease transitions, and increasing the amount would strengthen that impact;
3. Supplemental Nutrition Assistance Program (SNAP) is an effective model of a benefit slope, rather than a benefit cliff; and
4. There are additional opportunities for Montana to reduce benefit cliff impacts, including raising the income eligibility for pregnant women on Medicaid, pursuing summer electronic benefits transfer (Summer EBT) for families on free and reduced-price lunches, and lengthening eligibility periods.

Child Care and Best Beginnings Offer Opportunities to Better Support Families

The Best Beginnings offers some support to ease benefit cliffs, but even small increases in family income can result in a significant reduction of child care support. Families are eligible for child care assistance with copays if they meet income eligibility and are working, seeking work, in school, or eligible for TANF.

Graduated Eligibility

Typically, Montana has a sliding fee scale for Best Beginnings assistance and limits eligibility at 150 percent of the federal poverty line. For a single-parent household with two children, that is $32,940, or for a two-parent household with two children, at $39,756. The federal Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSA) provided support for Montana to temporarily expand eligibility to 185 percent FPL. Additionally, for families already enrolled in Best Beginnings, as they earn more money, eligibility can go up to 200 percent of the federal poverty level. This increased eligibility lasts for 12 months as part of graduated eligibility.

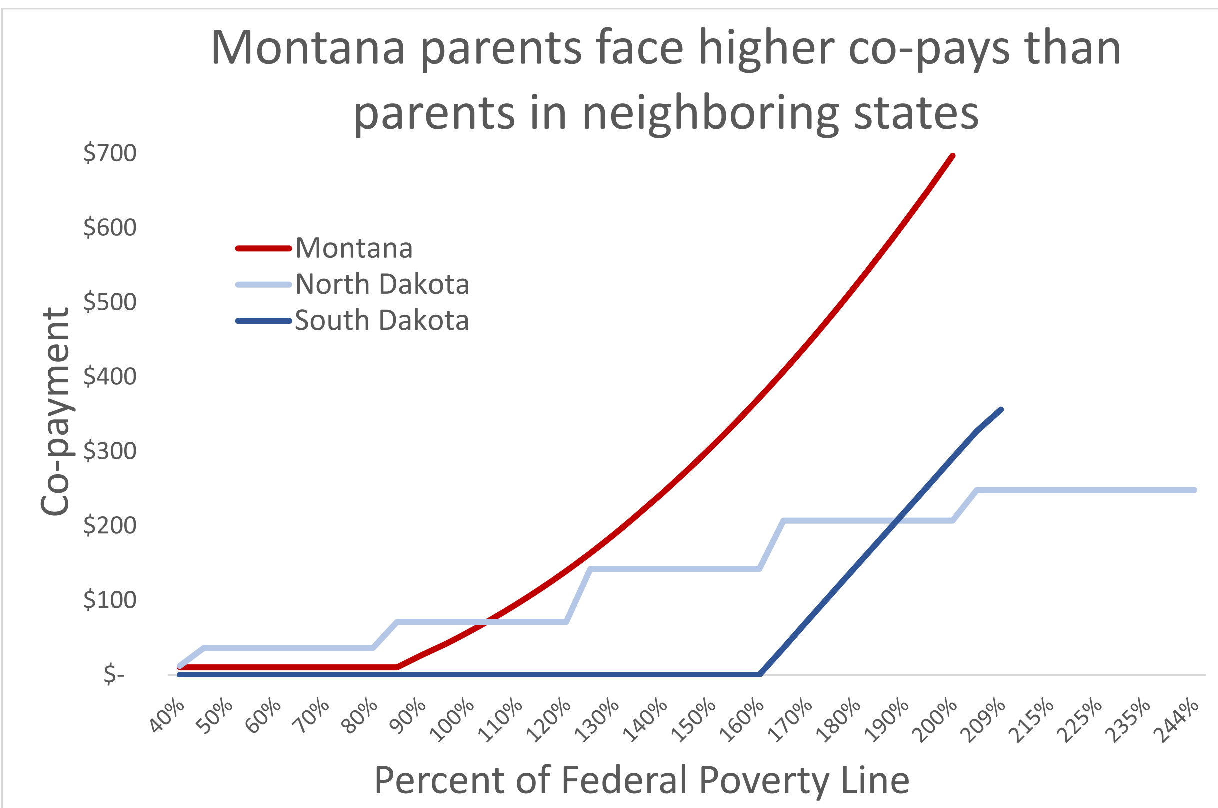
Co-Pays

Generally, families typically pay a co-pay for Best Beginnings based on their income. However, the department is temporarily implementing $10 monthly co-pays as part of the federal funding received from CRRSA. Without this funding, however, as families earn more, they spend a larger percentage of their income on child care.

For example, a single parent with one child earning minimum wage and working full time would pay $96 a month in child care, or 6 percent of their monthly earnings. If the parent takes a new job, earning $12.56 an hour, they would be responsible for a co-pay of $305 a month, or 14 percent of their monthly earnings. While the parent has a greater take home pay, child care is now a significantly larger part of their budget. A single parent with one child who earns maximum eligible income of $2,686 ($15.50 an hour, or 185 percent of the poverty level) would pay a $564 co-pay, equal to 21 percent of their earnings.[1]

As a comparison, North Dakota and South Dakota parents have significantly lower co-pays for subsidized child care, and the income limits extend higher (up to 244 and 209 percent, respectively).[2] These states maintain the co-pay as a percent of income at a steadier rate than Montana.

Not only do Montana families with subsidized child care face higher premiums, but a lack of affordable child care also makes it more difficult to work. In Montana, households with children ages 0-5 lose an average of $5,700 a year in wages due to inadequate care.[3]



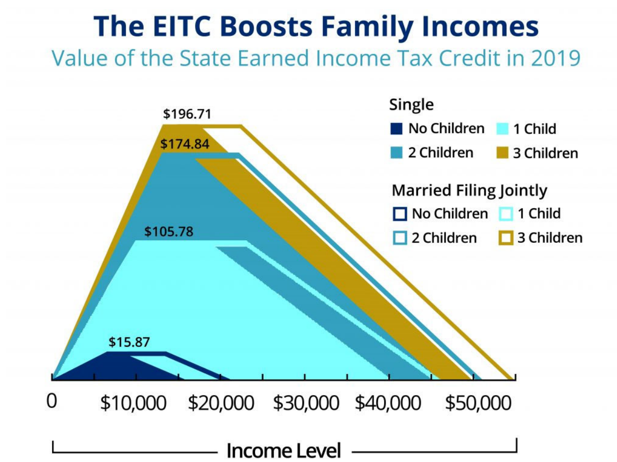
Recommendations

- Expand eligibility for subsidy assistance at the federal allowable level of 85% of state median income (or 265-293% FPL).[4]

- Reduce co-pays for Best Beginnings scholarship to be competitive with neighboring states.
- Refine eligibility determination to include income disregards that consider rising housing and other household costs.

Earned Income Tax Credit Phases Out as an Individual Earns More

The phased-in structure of the EITC boosts wages and reduces the benefit cliff as households increase their income and smooth the transition. The state credit benefited 71,473 working Montanans in 2019.[5]



Montana's EITC is set at 3 percent of the federal credit and offers a **maximum benefit of $201.84 for tax year 2021.**[6] After reaching the maximum benefit level, as income increases, the credit gradually phases down. When the state credit is combined with the maximum federal credit, it is the equivalent to a wage increase of $3.33 an hour for a single parent of three.

Research shows that a more generous EITC for single mothers with young children leads to higher earnings and hours and can lead to higher earnings in the long-term.[7] Most families only use the credit for one to two years, and 80 percent use it for less than five years.[8]

Montana, however, has one of the smallest credits in the nation (see Appendix A).[9] If Montana strengthened the credit, families would be better able to weather the transition from benefit to work.

Recommendations

- Increase Montana's EITC to align it with other states.

SNAP is an effective model of a slope, rather than a cliff

Even though SNAP benefits decrease as income increases, this program still supports work through three main methods – guaranteed access, earned income preference, and a gradual phase out of benefits.

Guaranteed Access

Because SNAP benefits are an entitlement program, all eligible recipients benefit. This is unlike child care subsidies or housing subsidies, which are not fully funded to help all eligible people. Some child care or housing subsidy recipients have to make choices about taking extra hours and losing access to a support that may not be available again if their income falls in the future.

Earned Income Preference

SNAP encourages work by giving preferential treatment to earned income from wages rather than unearned income (like social security or cash assistance). If a worker replaces their unemployment insurance income with earned income, their SNAP benefits increase.[10]

Example:

	Household with Earned Income	**Household with Unearned Income**
Household size	3	3

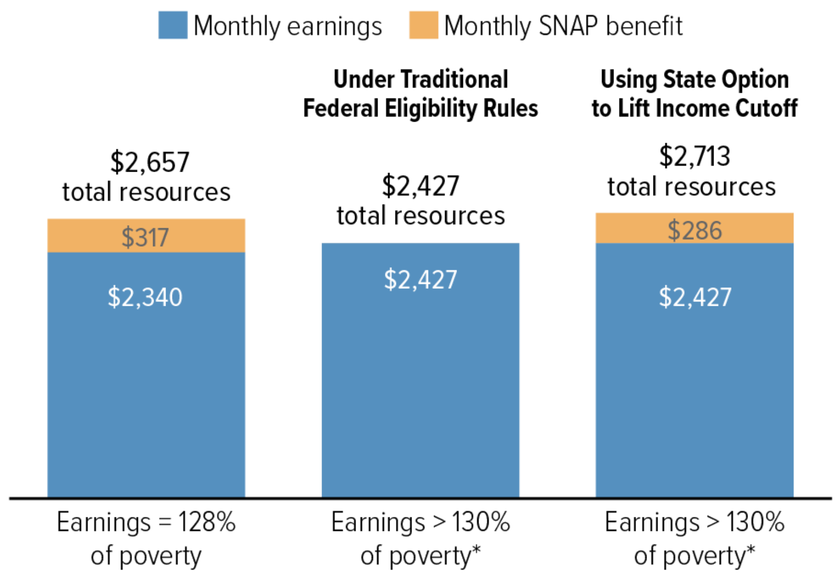
Monthly Gross Income	$1,732	$1,732
Income Source	Earnings	Social Security
Monthly SNAP benefit	$249[11]	$93

Benefit Phase Out and Expanded Categorical Eligibility

SNAP benefits phase out gradually as earnings increase. For most households, every extra dollar of income only decreases SNAP earnings by 24 to 36 cents.[12]

Montana further mitigates a benefit cliff by enacting Expanded Categorical Eligibility (ECE). Under federal guidelines, to be eligible for SNAP, families must have a gross income of less than 130 percent of the Federal Poverty Line.[13] Families who are eligible for non-cash assistance through TANF are also automatically eligible for SNAP through ECE. To be eligible for non-cash assistance through TANF, families must have a gross income of less than 200 percent of the Federal Poverty Line, with no net income limit.[14] But because ECE uses gross income limit, it factors in instances where families are facing high expenses, such as housing, utilities, and child care.

Categorical Eligibility Smooths the Benefit Phase-Out and Encourages Work



*Earnings are equal to about 133% of poverty or $2,427 per month, just above the federal gross income threshold in fiscal year 2022.

Note: SNAP includes a key state option, categorical eligibility, that allows states to raise income cutoffs by aligning SNAP's income limit to that of a household's Temporary Assistance for Needy Families-funded benefit. This chart shows monthly earnings and SNAP benefits for a family of three with children with earned income that claims the $177 standard deduction and the 20 percent earned income deduction and has $1,407 monthly shelter costs.

Source: CBPP calculation based on Fiscal Year (FY) 2022 SNAP federal benefit parameters and FY 2019 SNAP household characteristics data.

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Under traditional SNAP, a single parent with two children working full time at $13.50 an hour would have income at 128 percent of the poverty level and receive about $317 a month from SNAP, making up about 12 percent of the family's total monthly income. If the parent's hourly wage increased by just 50 cents (or $87 a month), lifting the family's income to 133 percent of FPL ($2,427 for a family of three in fiscal year 2022), the family would become ineligible for SNAP under the federal income eligibility cut-off.

Under ECE, however, if the same parent receives a 50-cent raise, their SNAP benefits would be reduced, but not eliminated. The parent would be receiving $31 less a month in SNAP than she was before her raise. With her $87/month raise, she is $56 better off, rather than losing $230 a month.

Recommendations

- Maintain expanded categorical eligibility.

Additional Opportunities for Montana to Smooth Benefit Cliffs

Montana should increase the income limitation for Medicaid eligibility for pregnant women, apply for pandemic EBT to allow children to receive summer food supports, maximize the eligibility periods, and pursue an Elderly Simplified Assistance Project demonstration to increase the certification period for elderly SNAP participants.

Medicaid for Pregnant and Postpartum Women

Montana provides Medicaid coverage for pregnant and immediately postpartum women to 162 percent of the federal poverty level.[15] This income limit lags behind the national median eligibility of 200 percent FPL (see Appendix B). Additionally, states now have the option to extend Medicaid coverage for postpartum women under the American Rescue Plan (ARPA) for one year (compared to the current 60 days).[16] In addition to eliminating a cliff for many new moms, improved access to maternal health can reduce pregnancy-related mortality and provide access for mental health treatment.

Summer Electronic Benefits Transfer (EBT)

Many families face benefit cliffs in the summer when their children are no longer eligible to receive free or reduced-price lunches. Families living on low incomes spend an average $300 more a month on groceries during the summer.[17] Through ARPA, Montana can apply for pandemic EBT to allow children to receive summer food assistance and prevent a summertime benefit cliff.[18]

Lengthen or Maintain Eligibility Periods

If participants are eligible to access benefits for a significant length of time, it reduces the impacts of benefit cliffs. For example, Montana provides continuous eligibility for children on CHIP and Medicaid.[19] This allows children to retain health insurance even if a family's income increases and creates a transition time before the family encounters increased expenses.[20] Montana could also consider pursuing an Elderly Simplified Assistance Project (ESAP) demonstration to increase the certification period for elderly SNAP participants.[21]

Appendix A: State Breakdown of Enacted State Earned Income Tax Credits

State	Percentage of Federal Earned Income Tax Credit
California	45 percent
Colorado	10 percent
Connecticut	23 percent
Delaware	20 percent
District of Columbia	40 percent
Hawaii	20 percent
Illinois	18 percent
Indiana	9 percent
Iowa	15 percent
Kansas	17 percent
Louisiana	3.5 percent
Maine	5 percent
Maryland	50 percent
Massachusetts	30 percent
Michigan	6 percent
Minnesota	Ranges from 25 to 45 percent of federal
Montana	3 percent
Nebraska	10 percent
New Jersey	39 percent
New Mexico	10 percent
New York	30 percent
New York City	5 percent
Ohio	30 percent
Oklahoma	5 percent
Oregon	9 percent (12 percent if qualifying child under age 3)
Rhode Island	15 percent
South Carolina	41.67 percent
Vermont	36 percent
Virginia	20 percent
Wisconsin	One child — 4 percent
	Two Children — 11 percent
	Three Children — 34 percent

Appendix B: Medicaid for Postpartum Women by State

Title: Medicaid Eligibility Limits for Pregnant Women as a Percent of the Federal Poverty Level | KFF	
Timeframe: as of January 1, 2021	
Location	Medicaid
United States (average)	200
Alabama	146
Alaska	205
Arizona	161
Arkansas	214

California	213
Colorado	200
Connecticut	263
Delaware	217
District of Columbia	324
Florida	196
Georgia	225
Hawaii	196
Idaho	138
Illinois	213
Indiana	213
Iowa	380
Kansas	171
Kentucky	200
Louisiana	138
Maine	214
Maryland	264
Massachusetts	205
Michigan	200
Minnesota	283
Mississippi	199
Missouri	201
Montana	162
Nebraska	199
Nevada	165
New Hampshire	201
New Jersey	199
New Mexico	255
New York	223
North Carolina	201
North Dakota	162
Ohio	205
Oklahoma	138
Oregon	190
Pennsylvania	220
Rhode Island	195
South Carolina	199
South Dakota	138
Tennessee	200
Texas	203
Utah	144
Vermont	213
Virginia	148
Washington	198
West Virginia	190
Wisconsin	306
Wyoming	159

[1] Department of Public Health and Human Services, "Best Beginnings Child Care Scholarship Sliding Scale Fee," Jun. 2021.
[2] North Dakota Department of Human Services, "North Dakota Child Care Assistance Program Sliding Fee Schedule," Oct. 2021 and South Dakota Department of Social Services, "South Dakota 2021 Child Care Subsidy Co-Payments," Mar. 2021.
[3] Bureau of Business and Economic Research, University of Montana, "Lost Possibilities: The Impacts of Inadequate Child Care on Montana's Families, Employers, and Economy," Sep. 2020.
[4] Department of Public Health and Human Services, "Child Care and Development Fund (CCDF) Plan for Montana FY 2022-2024," accessed Jan. 2022.
[5] Montana Budget and Policy Center, "A State Earned Income Tax Credit: Helping Montana Families and the Economy," Dec. 2020.
[6] Internal Revenue Service, "Earned Income Tax Credit Income Limits and Maximum Credit Amounts Tax Year 2019," Nov.9, 2020.
[7] EITCs benefit all parents. The study focused on women's earnings. Neumark, D. and Shirley, P., "The Long-Run Effects of Earned Income Tax Credit on Women's Earnings," Dec. 2017.
[8] Marr, C., Huang, C., Sherman, A., and Debot, B., "EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development, Research Finds," Oct. 2015.
[9] Internal Revenue Services, "States and Local Governments with Earned Income Tax Credit," Dec. 2021.
[10]Wolkomir, E. and Cai, L., "The Supplemental Nutrition Assistance Program Includes Earnings Incentives," Center on Budget, Jun. 2019.
[11] Calculation prior to increase in Thrifty Food Plan which increased SNAP benefits. Wolkomir, E. "The Supplemental Nutrition Assistance Program Includes Earnings Incentives."
[12] Calculation prior to increase in Thrifty Food Plan which increased SNAP benefits. Wolkomir, E. "The Supplemental Nutrition Assistance Program Includes Earnings Incentives."
[13] U.S. Department of Agriculture Food and Nutrition Service, "Supplemental Nutrition Assistance Program (SNAP) Fiscal Year (FY) 2022 Income Eligibility Standards," Oct. 2021.
[14] Department of Health and Human Services, "SNAP304-1 Non-Financial Requirements," accessed Jan. 2022.
[15] Kaiser Family Foundation, "Medicaid and CHIP Income Eligibility Limits for Pregnant Women as a Percent of the Federal Poverty Level," Jan. 2021.
[16] Clark, M., "CMS Issues Guidance on New Postpartum Coverage State Option in Medicaid and CHIP," Georgetown University Center for Children and Families, Dec. 2021.
[17] No Kid Hungry, "Summer Hunger is Too Expensive to Ignore," Jun. 2015.
[18] U. S. Department of Agriculture Food and Nutrition Service, "State Guidance on Coronavirus P-EBT," Jan. 2022.
[19] Kaiser Family Foundation, "State Adoption of 12-Month Continuous Eligibility for Children's Medicaid and CHIP," Jan. 2021.

[21] U.S. Department of Agriculture Food and Nutrition Service, "Elderly Simplified Application Project," Dec. 2020.