

# Constraints on New Hampshire's Workforce Recovery

Impacts from COVID-19, Child Care and Benefit Program Design on Household  
Labor Market Decisions

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## About Econsult Solutions, Inc. (ESI)



Econsult Solutions, Inc. (ESI) provides businesses and public policy makers with consulting services in urban economics, real estate economics, transportation, public infrastructure, development, public policy and finance, community and neighborhood development, planning, as well as expert witness services for litigation support. Staff members have outstanding professional and academic credentials, including active positions at the university level, wide experience at the highest levels of the public policy process and extensive consulting experience. Based in Philadelphia, ESI support clients nationwide.

ESI's government and public policy practice combines rigorous analytical capabilities with a depth of experience to help evaluate and design effective public policies and benchmark and recommend sound governance practices. ESI has assisted policy makers at multiple levels of government to design and evaluate programs that help citizens increase their economic security.

Ethan Conner-Ross, Rebecca DeJoseph, and Alix Sullivan were the primary ESI researchers on this study.

## About the National Center for Children in Poverty (NCCP)



The National Center for Children in Poverty (NCCP), founded within Columbia University and beginning in July 2019 located at Bank Street Graduate School of Education, is a nonpartisan public policy research center dedicated to promoting the economic security, health, and well-being of America's low-income families and children. NCCP uses research to inform policy and practice with the goal of ensuring positive outcomes for the next generation. It conducts research and policy analysis and uses existing evidence to identify effective, innovative strategies that can improve the lives of children and families experiencing economic hardship. The center provides accessible information and recommendations about research-informed policies and initiatives that can help families and communities support children's success from infancy through young adulthood.

NCCP reaches a large audience with its reports, online data tools, policy resources, technical assistance, and partnerships. This audience includes state and local policymakers, advocates, community leaders, researchers, and administrators in government agencies that use NCCP's research and analyses to make informed decisions about policies and programs that promote secure, nurturing families and thriving children. NCCP often partners with government officials, advocates, and other stakeholders to plan and carry out policy research and analysis—an approach that fully engages decision-makers and helps ensure that results will be used to strengthen policies and programs.

Key areas of the center's work include safety net policies, immigrant families, paid family leave, disability policies, early childhood mental health, early intervention, early care and education policies, and two-generation approaches. NCCP's online resources include the Family Resource Simulator, the Young Child Risk Calculator, the 50-State Policy Tracker, the 50-State Demographic Data Generator, Early Childhood State Policy Profiles, and the Basic Needs Budget Calculator.

Seth Hartig and Suma Setty were the primary NCCP researchers on this study.



## 6. Summary and Policy Considerations

The preceding sections detailed various barriers to labor force participation facing New Hampshire's families. While some of these challenges may prove to be short-term and tied directly to the unprecedented situation created by COVID-19 pandemic, many were revealed to be structural, and were highlighted or deepened by the pandemic and the associated economic damage.

Through two rich administrative datasets, this analysis has examined these constraints beyond the typical macroeconomic perspective using the lens of the individuals and families faced with these complicated labor market choices. This summary section synthesizes the key takeaways from the unemployment, child care, and benefit cliffs analyses. Then, using these insights as a guide, it offers considerations for New Hampshire's policy makers seeking to alleviate these potential constraints on New Hampshire's workforce recovery.

### 6.1. Summary of Workforce Constraints

#### Unemployment (Section 2)

The nature of the COVID-19 crisis has produced differential effects from prior economic downturns. Service-oriented, client-facing business were disproportionately impacted by health concerns and limited tourism and travel activity, a contrast to the previous recession which struck hardest in sectors like construction and manufacturing. As the pandemic has proceeded, New Hampshire has begun to recover a large portion of the job losses realized during the peak of the crisis. Within this recovery, significant disparities exist:

- Unemployment remains significantly elevated in sectors like hospitality and retail;
- Geographic differentials are material, as towns in Grafton and Carroll Counties that had the largest initial surges remain the locations seeing some of the greatest levels of sustained unemployment;
- Women have suffered the majority of unemployment and detachment from the workplace, due to both the nature of the sectors most impacted, and the disproportionate share of care responsibilities associated with the pandemic borne by women.

While a resolution to the health crisis may alleviate the immediate conditions driving unemployment in the most impacted sectors, the length and depth of the crisis is likely to permanently shutter a large number of businesses, and potentially leave a non-trivial portion of its labor force unemployed. While demand should rebound over the long-term, the regions and industries most impacted may experience a new normal that differs from the historically tight labor market that was prevalent across the state prior to the pandemic.

Importantly, analysis of the reasons for unemployment and characteristics of the unemployed have highlighted disparities that, while worsened by the pandemic, are related to more long-lasting, structural components of the economy. Unemployment stemming from school closings, family, and health needs resulted in a lengthy duration of unemployment and disproportionately affected women. These extended detachments from the labor force may have enduring effects on the labor force

participation, earnings, and career trajectories of these women once the health situation is controlled. Further, these circumstances underscore the barriers that women, in particular low-income women, face when balancing child care responsibilities and family needs with labor force participation opportunities.

### Child Care (Section 3)

Findings from the unemployment analysis are supported by a detailed analysis of child care constraints on New Hampshire's workforce. The lack of affordable, accessible, and quality care can create significant barriers to work, especially for women, single-parent households, and low-income families.

- Formalized child care capacity addresses roughly 60 percent of the estimated child care need for children under the age of six in New Hampshire.
- Furthermore, even when there is enough capacity, available options do not always meet the needs of families, and the cost of child care is a significant concern for many.
- Additionally, because 60 percent of families do not meet the income eligibility requirements for New Hampshire's Child Care Scholarship (CCDF), partnerships between business, government, and community could help bridge the child care gap and help alleviate this barrier to employment.

These issues were exacerbated by the COVID-19 pandemic, which also created a new set of child care issues through the unprecedented educational disruption for school age children.

- As of September 2020, approximately 59 percent of school districts in the state were classified as fully remote or employing a hybrid method of in-person and remote learning. As of January 2021, 62 percent of schools in the state are continuing to operate in a fully remote or hybrid format.<sup>145</sup>
- These conditions create potential constraints for thousands of New Hampshire families that need to manage work while supervising school for their children, with targeted concentrations among school districts in the southern portion of the state, which had high rates of hybrid or remote learning for students.

These child care constraints can reduce productivity, decrease hours of work, and diminish career opportunities for parents. Drawing on national research, this analysis quantified potential economic effects from child care constraints in New Hampshire exacerbated by the pandemic, as parents either exited the labor market entirely or reduced or altered their workforce participation to balance work and home responsibilities.

The economic loss from individuals citing school closure as reason for unemployment is estimated at \$1.3 million per week, as businesses lose workers and individuals earn and in turn spend less throughout the economy. Economic losses from individuals reducing workforce participation and productivity in response to the need to assist school age children with remote learning are conservatively estimated at \$1 million per week, largely driven by the reduction of work hours. Finally, economic losses for those reducing their workforce participation and productivity due to COVID-related child care constraints for

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<sup>145</sup> This is based on the responses from 390 out of 632 schools in the state. New Hampshire Department of Health and Human Services (2021). COVID-19 schools dashboard. Retrieved from <https://www.nh.gov/covid19/dashboard/schools.htm#dash>

young children are estimated at \$115,000 per week, down from an estimated \$600,000 per week during the height of the pandemic when closures were much more widespread.

### Benefit Cliffs (Section 4)

Detailed analysis of benefit program design has identified a number of situations in which New Hampshire households supported by benefit programs face a potential “benefit cliff” in which they risk decreasing their net household resources if they increase their earnings. Household-level modeling of participant data was combined with a risk assessment framework to identify the program, households and earnings situations in which benefit cliffs are most likely to occur and where they have the greatest potential detrimental effects across six programs: healthcare (including Medicaid), child care (including CCDF), SNAP, TANF, housing assistance (including project-based Section 8, Housing Choice Voucher Program, and Public Housing), and LIHEAP.

Modeling indicated significant differences in the cliff risk and most impacted household types between the focus programs:

- Cliffs related to the loss of healthcare benefits were present for almost all households across the simulation but were often classified as “low risk” because they are not imminent for many families. Healthcare cliffs present the greatest risk for households with no children, who will bear significant health insurance costs if earnings growth makes them ineligible for Medicaid.
- Child care cliffs propose significant potential risks to many households with children, most notably single parent households with children (with or without earnings) and two parent households with children with earnings. These cliff effects are significantly mitigated for families participating in the CCDF program, though many challenges stem from the cost of child care relative to potential earnings, rather than any specific program design feature.
- Significant potential cliffs in the SNAP program are isolated to households with children with incomes near the cutoff of 185 percent FPL. Loss of SNAP also typically results in families losing access to free, federally subsidized school lunches or breakfasts, exacerbating any benefit cliffs families face at 185 percent FPL from losing SNAP alone. Prior to losing access to SNAP benefits, the gradually declining SNAP benefit had significant interactions with other programs, contributing to additional healthcare, housing, TANF, and LIHEAP cliffs.
- Roughly two percent of all cliffs in the simulation are attributed to changes in housing assistance benefits while two percent of all cliffs are attributed to changes in LIHEAP benefits. These cliffs emerge in combination with SNAP, healthcare, and child care.
- The TANF program generates the smallest number of cliffs, which also emerge in combination with declines in benefits from other programs. Seventy-four percent of these cliffs are encountered by single adult families with children currently in the workforce.

The benefit cliff analysis aligns with the previous child care analysis in surfacing the importance of this issue as a barrier to employment. Cliffs related to child care were identified as the most urgent among the programs for many household types, with 78 percent of child care cliffs for single adult households with no initial earnings, 39 percent of cliffs for wage-earning single adult households, and 63 percent of cliffs for wage-earning two adult households considered high risk. These high-risk cliffs reflect the reality that for many workers with children, it makes more financial sense to stay out of the labor force than to

bear high child care costs. For single adult families not currently in the labor force, working could often make them comparatively better off, but entering the labor force may keep their net household resources well below breakeven.

As noted above, the analysis indicates that participation in New Hampshire's CCDF program (the Child Care Scholarship program) does not fully eliminate potential benefit cliffs or broader child care cost challenges, but does substantially reduce their magnitude, potentially encouraging workforce participation. However, the program is limited, based on income eligibility and funding restraints, curbing its impact in its current form.

Figure 6.1: Summary of Benefit Cliffs by Program

| Program    | Enrollment | Unique Families Facing Cliffs | Common Cliffs   | Nature of Cliff                           | Most Impacted Household Types              |
|------------|------------|-------------------------------|---|---|--|
| Healthcare | 61,633     | 57,413                        | Adults 138% FPL<br>Children 318% FPL  | Sudden benefit Loss                       | ALL  |
| Child Care | 25,824     | 18,028                        | Single parent joining workforce<br>Second adult w/children joining workforce<br>Stepwise declines in CCDF program | HH Cost Increase                          | All households w/ children                 |
| SNAP       | 11,786     | 6,440                         | 185% FPL  | Gradual decline up to sudden benefit loss | Single Adult w/Children                    |
| TANF       | 1,653      | 680                           | Combination w/SNAP, Housing   | Gradual decline                           | Single Adult w/Children (without earnings) |
| Housing    | 7,683      | 2,200                         | Combination w/SNAP, TANF  | Gradual decline                           | All households w/ children                 |
| LIHEAP     | 34,301     | 3,031                         | Stepwise declines, common cliffs at 100% FPL, 200% FPL, Combination w/ Healthcare or Child Care                   | Step decrease up to sudden benefit loss   | Single Adult w/Children                    |

Source: New HEIGHTS (2020), NCCP (2020), ESI (2020)

## 6.2. Policy Considerations

New Hampshire's economy and its workforce face a variety of potential constraints as the state seeks to rebuild economic activity. Effects from the COVID-19 pandemic, while temporary in duration, have revealed, created, or exacerbated broad structural challenges for the state. These challenges interact with pre-existing challenges faced by communities and potential slow growth of the workforce based on New Hampshire's long-term demographic trends.

### Unemployment Recommendations

This analysis has highlighted a range of additional situations in which different communities or populations in New Hampshire face particular challenges that impact their economic and workforce prospects. Policy efforts targeted to these issues may yield beneficial returns to the state. These include:

#### Impacted sectors and geographies

While employment levels are on firmer footing in many sectors and areas of the state, certain sectors and areas face far greater challenges over the longer term. While many of these economic challenges

fall outside of the framework of household labor market decisions, the analyses in this report identified target areas of ongoing concern.

### Supporting Communities in Service-Concentrated Industries

For those service-sector businesses that have been able to continue operations throughout the course of the pandemic, the ongoing surge of COVID cases threaten additional shut downs or set of restrictions, potentially forcing businesses in already-shaky positions to close. In order to prevent a subsequent round of business closings and additional job loss, mitigative actions need to be taken now. New Hampshire could consider initiatives to increase these businesses' net margins by lowering their costs of doing business through easing financial and regulatory burdens.

### Supporting Startup Business

Demand should eventually return when health conditions improve, which in a frictionless market would bring activity and employment back to previous levels in impacted sectors like hospitality and retail. However, many businesses, particularly in the Accommodation and Food Services sector, which operate on low margins and cannot survive an extended downturn of this nature, will have closed their doors permanently. While opportunities will exist for new businesses to fill this market demand, increase economic activity, and reemploy workers, there are significant financial and time barriers to opening a new business. New Hampshire could consider implementing initiatives, such as subsidized loan programs for previous or new business owners, that focus on removing these barriers to help the private market function more effectively.

### Utilizing Short-Time Compensation

Economic theory explains that, unlike typical markets in which decreased demand results in lowered prices, when the demand for labor falls, employers will lay off a portion of their workforce rather than lower wages across the board, resulting in cyclical unemployment. The short-time compensation program is designed to distribute the negative effects of a recession to all employees: instead of laying off a few employees, all employees' hours are reduced. When the total demand for labor is reduced, the short-time compensation program allows employers to reduce their employees' total hours of work rather than laying off a select few while others continue to work, hours unchanged. The program covers a percentage of wages lost due to reduction in overall hours. While this program is available to employers in New Hampshire and was utilized during the beginning of the pandemic (roughly 4,000 employees were enrolled in the program), current usage has declined (roughly 1,000 employees are currently enrolled). The expansion or promotion of this program could result in decreased unemployment and allow employers to weather the downturn without a large disruption in their workforce.

### Supporting Unemployed Workers

Where other recovery efforts may be insufficient to address the damage done in certain sectors and communities, the state may seek to consider additional supports for retraining unemployed workers by looking to provide targeted training assistance and supports for workers in hospitality and retail and also for any unemployed worker seeking a career in health care. Supplemental payments through the CARES Act were able to stabilize the earnings of many households that found themselves out of work due to circumstances beyond their control. This helped families keep necessary supports in place and helped to

keep spending flowing through the economy. While the enhanced unemployment payments through the CARES Act are unsustainable, New Hampshire may consider additional retraining supports to assist unemployed workers transition across sectors. Federal policy will also be important to monitor on this front.

### Child Care and Benefit Cliffs Recommendations

Through every analytical lens used in this report, child care emerged as a significant barrier to labor force participation, particularly for low-income households and women. Child care issues were significant prior to the pandemic, which has caused demand to increase and supply to decline, exacerbating these conditions. Importantly, these “temporary” circumstances could lead to long-term detachment from the labor force concentrated among women, disrupting future work opportunities, potential career paths, and earnings potential. In the context of New Hampshire’s long-term challenges in developing a sufficient workforce to grow its economy, finding ways to reduce the disincentives to workforce participation for prime working-age women should be a top priority.

The high costs of child care and the potential cliffs that arise from increased child care need – the latter often a consequence of working more hours – are mitigated by child care considerations across different benefit programs, which can be crucial to supporting a family’s ability to pay for child care. CCDF provides subsidies that support the provision of child care, and SNAP, HUD’s housing assistance programs, and New Hampshire’s TANF programs allow families to claim child care deductions to increase the value of the benefits they receive, smoothing out changes in child care costs on the part of working families. CCDF, along with SNAP, TANF, Housing Assistance, and LIHEAP – the six programs of interest – also provide crucial supports for families to pay for basic family expenses. Below, this section explores a range of different potential policy or supply-side changes that could reduce the benefit cliffs that families might face with increases to earnings. Both changes that New Hampshire state government could implement on its own as well as some changes that could only realistically be performed with outside support from the federal government, private actors, or a combination of both are considered. Where possible, these suggestions are modeled and the results are contrasted against the baseline of families potentially impacted by these policies. **Recommendations below with an asterisk (\*) indicate that the policy change was implemented within the model and the resulting impacts will be analyzed within each section. Recommendations without an asterisk were not able to be modeled in a useful manner.** Each policy is described and, when possible, the model output is interpreted and summarized at the end of each subsection.

#### Child care

The lack of accessible and affordable child care can be a major barrier to individuals seeking higher earnings through more work.

#### Expand funding for the CCDF program

The CCDF program, while not alleviating child care cliffs altogether, greatly dampens the magnitude of each loss due to increased child care need; this dampening effect can be seen by comparing the benefit cliffs faced by households with children enrolled in CCDF and those that are not enrolled. Roughly 5,000 children benefit from CCDF funds each year. CCDF programs operate through formula-based block grants provided by the federal government, so one way to expand access to this valuable program is to

support its expansion through increasing funding for this program at the federal level. In addition to expanding funding for the program to extend benefits to more families, New Hampshire should explore and potentially consider utilizing funding to extend the length of time beyond 12 months between program recertification, while aligning the redetermination periods with child care enrollment schedules. By extending determination periods and aligning them with enrollment schedules in a reasonable manner, more children will be able complete school terms in a stable child care environment, and families may be more willing to work more hours or seek a higher wage in the short term.

#### Adjust CCDF step options so that there are more intervals with smaller increments\*

New Hampshire's CCDF program works to prevent sharp cliffs through a sliding scale payment system, but the increments between steps are wide enough that families can face a financial loss due to a gain in earnings when that gain increases their CCDF "step," which may disincentivize earnings. The CCDF program could be adjusted so that there are more step intervals with smaller payment increments, thus eliminating the existing disincentive to increase earnings and/or workforce participation.

While expanding the program to cover more people might require more CCDF funding than is currently available, the cost of smoothing out the CCDF sliding scales in a manner that results in more gradual cost increases could be nominal. By introducing more gradual steps, the losses families face in earnings can be lowered to lead to financial gain instead.

Figure 6.2 shows modeled changes in benefit cliffs among the population participating in the CCDF program:

- Implementing smoothed child care steps could result in fewer child care cliffs (-8 percent) and a smaller average size of those cliffs (-17 percent), as well as a lower risk of families encountering those cliffs (-4 percent).
- This approach reduces the total amount families are projected to lose from all cliffs, regardless of cause, from \$15.8 million to \$14.9 million (-6 percent).

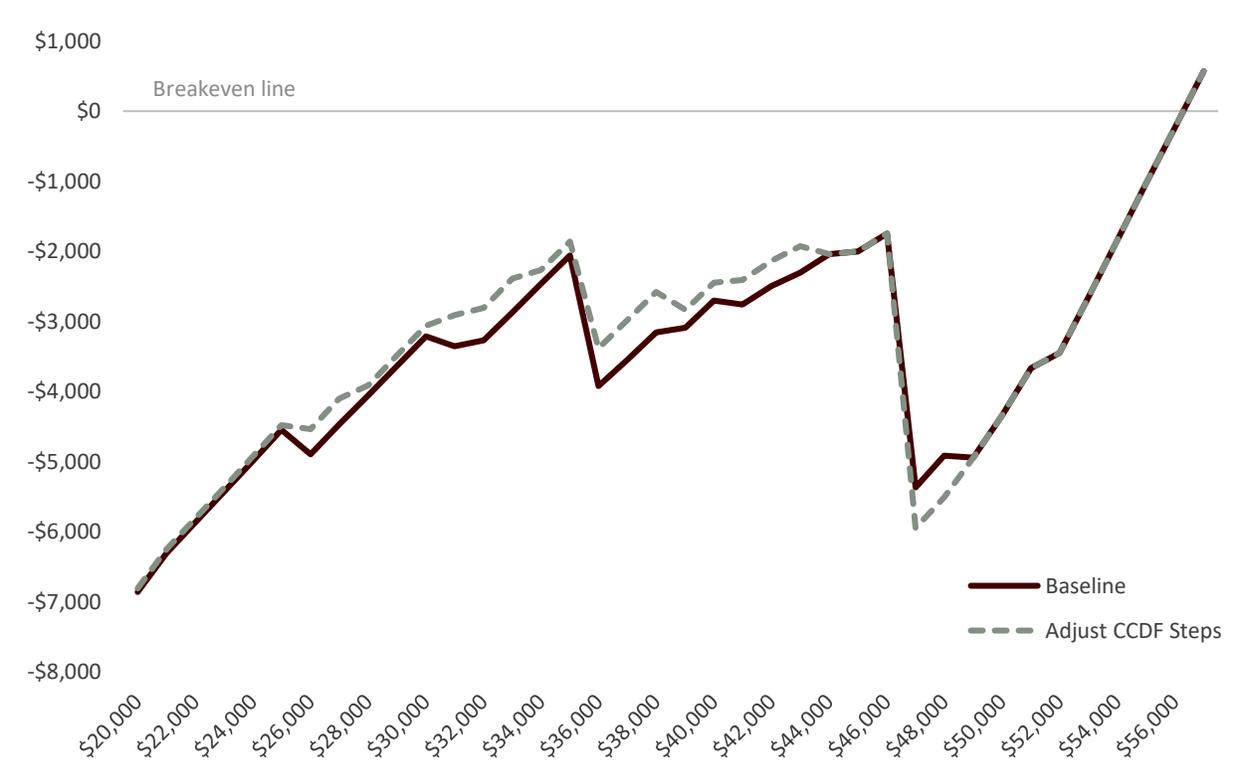
Figure 6.2: Model Outputs, Smoothed CCDF Steps

|                          | CCDF<br>Baseline | Smoothed<br>CCDF Steps | Net Chg |
|--------------------------|------------------|------------------------|---------|
| <b>All Cliffs</b>        |                  |                        |         |
| Total Number             | 12,621           | 12,340                 | -2%     |
| Total Amount (\$M)       | \$15.8           | \$14.9                 | -6%     |
| Avg Cliff Amount         | \$1,253          | \$1,210                | -3%     |
| Avg Cliff Risk Score     | 0.75             | 0.74                   | -2%     |
| <b>Child Care Cliffs</b> |                  |                        |         |
| Total Number             | 6,118            | 5,632                  | -8%     |
| Total Amount (\$M)       | \$4.8            | \$3.6                  | -24%    |
| Avg Cliff Amount         | \$779            | \$645                  | -17%    |
| Avg Cliff Risk Score     | 0.8              | 0.77                   | -4%     |

*Source: New HEIGHTS (2020), NCCP (2020), ESI (2020)*

Figure 6.3 below shows the impact of this particular “smoothed CCDF steps” policy alternative, for a single adult with three children living in Keene. The benefit cliffs resulting from moving to a higher CCDF “step” become less severe for this family with the adjusted steps (dashed line) relative to the baseline (solid line). The total amount of CCDF dollars supporting this family would also likely increase in this scenario (with the difference in net resources between the dashed line and the solid line primarily resulting from lower parent child care contributions). It is also possible to design other approaches to smoothing out New Hampshire’s CCDF program that could be budget neutral while reducing the impacts of benefit cliffs in a similar manner.

Figure 6.3: Model Outputs Example, Smoothed CCDF Steps



Source: New HEIGHTS (2020), NCCP (2020), ESI (2020)

### Raise state payment rates for non-traditional hours

The most recent New Hampshire child care market rate study noted that their surveys revealed that very few child care providers provide child care during weekends or evenings, despite a demand for these services.<sup>146</sup> Low-income families are most likely to require child care at nontraditional hours, since these workers are more likely to lack access to jobs with traditional or flexible work schedules and support networks to provide care alternatives.<sup>147</sup> Raising the state payment rates (SPRs) for nontraditional hours would increase New Hampshire's payments to child care providers for many CCDF recipients and increase the supply of providers that offer nontraditional hours

### Continue to pay child care providers based on enrollment, not attendance

At the start of the pandemic, New Hampshire allowed for providers to use "Disaster Billing" to bill for full enrollment, regardless of whether the program is open and the child is present. Even after the risk of COVID-19 has been substantially lowered, New Hampshire could continue the policy of paying all child care providers based on enrollment rather than attendance, as child care programs are staffed based on enrollment, not on anticipated attendance. Tying provider payment based on enrollment will likely

<sup>146</sup> Kalinowski, M. & Kalinowski, M. (2018). 2018 New Hampshire child care market rate report. NH Connections. Retrieved from <https://nh.childcareaware.org/data-report/nh-market-rate-survey/>

<sup>147</sup> Karoly, L. & Steiner, E., et al. (2020). Understanding the New Hampshire Birth through Five System. [https://mypages.unh.edu/sites/default/files/pdg/files/nh\\_b-5\\_needs\\_assessment\\_pdg.pdf](https://mypages.unh.edu/sites/default/files/pdg/files/nh_b-5_needs_assessment_pdg.pdf)

make staff salaries and other fixed costs less burdensome and provide predictable revenue streams for providers to better plan their operations. A more stable revenue stream could stabilize the child care industry and lay the foundation for reliable, more affordable child care that meets household needs and reduces the costs of working more hours.

### Include license-exempt providers in next market rate study

While New Hampshire has set its state payment rates (SPRs) to the 60<sup>th</sup> percentile market rate for licensed care, which are close in price to the federal standard 75<sup>th</sup> percentile market rate, the estimates used for reimbursing licensed-exempt child care providers do not necessarily reflect market rates, as the latest market rate study used to inform SPRs limited its scope to licensed providers. Given that COVID-19 has pushed many parents toward other providers, requiring the next market rate study to include a survey of licensed-exempt providers would help ensure that SPRs are adequately close to market rates to help avoid the large, fixed costs that can occur when available rates for child care providers exceed maximum state payment rates.

### Implement a statewide pre-K program\*

Currently, school districts in New Hampshire may choose to provide public pre-K programs using Title I and local funds, and in 2019, these programs provided pre-K to approximately 25 percent of four-year-olds in the state. However, New Hampshire is one of six states nationwide that does not implement a statewide pre-K program that meets the standards of the National Institute for Early Education Research's (NIEER) definition of a state-funded pre-K program, and local options in the state are largely limited to child care, Head Start, and Early Head Start programs.<sup>148</sup> Expanding the voluntary pre-K program could be an important support in reducing barriers to employment for working families.

While the costs of incremental or smaller expansions to voluntary pre-K programs at the local level could continue to rely on current funding structures, the cost of implementing such a program on a statewide level would be substantial. Yet, other states have appropriated a mix of general funds, state school funding formulas, CCDF, Head Start, Early Head Start, and other funding, as available. Given limited funding, New Hampshire could prioritize enrollment of low-income children, whose families would benefit the most from access to free child care. The Head Start funding stream could be utilized toward expanding pre-K options on a large scale for New Hampshire children. Also, it is possible to blend similar funds in a more targeted Head Start expansion and seek private support to do so (see following recommendation).

Pre-K programs at free or reduced cost to families, especially full-day programs, lead to substantial child care savings among working parents. Any child care subsidy benefit cliffs or associated effective marginal tax rates, as well as costs of working more hours among people not enrolled in CCDF, would be reduced substantially or, for some families, eliminated altogether. And while Head Start programs utilize income limits to ascertain eligibility at program entry, very few families are required to recertify income eligibility within Head Start programs once admitted (the period of recertification is two school years, usually after children admitted to the program have aged out of it); this means that for families enrolled

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<sup>148</sup> *The state of preschool 2019: State preschool yearbook.* (2019). The National Institute for Early Education Research. Retrieved from [http://nieer.org/wp-content/uploads/2020/04/YB2019\\_Executive\\_Summary.pdf](http://nieer.org/wp-content/uploads/2020/04/YB2019_Executive_Summary.pdf)

in Head Start, there is effectively no benefit cliff. Expanding Head Start options to cover more children, or to provide more child care to young children, can deeply and significantly reduce benefit cliffs associated with child care, especially as parents seek to work more hours.

Figure 6.4 shows the results of implementing a universal pre-K program on potential cliffs for families with children between the ages of 3 and 4 years old.

- The potential losses from child care cliffs are reduced from \$42.3 to \$35.8 million (-15 percent).
- The average child care cliff amount families face declines from \$2,684 to \$2,339 (-13 percent).

Figure 6.4: Model Outputs, Universal Pre-K Program

|                          | Pre-K<br>Baseline | Universal<br>Pre-K | Net Chg |
|--------------------------|-------------------|--------------------|---------|
| <b>All Cliffs</b>        |                   |                    |         |
| Total Number             | 29,640            | 29,130             | -2%     |
| Total Amount (\$M)       | \$68.6            | \$61.5             | -10%    |
| Avg Cliff Amount         | \$2,314           | \$2,111            | -9%     |
| Avg Cliff Risk Score     | 0.80              | 0.78               | -1%     |
| <b>Child Care Cliffs</b> |                   |                    |         |
| Total Number             | 15,771            | 15,320             | -3%     |
| Total Amount (\$M)       | \$42.3            | \$35.8             | -15%    |
| Avg Cliff Amount         | \$2,684           | \$2,339            | -13%    |
| Avg Cliff Risk Score     | 0.91              | 0.90               | -2%     |

Source: New HEIGHTS (2020), NCCP (2020), ESI (2020)

### Expand Head Start and Early Head Start\*

Head Start and Early Head Start programs reduce child care costs substantially or can eliminate them outright among working parents. As the necessity of child care during working hours raises family expenses, increasing the availability of free child care through Head Start, Early Head Start, or other means helps to remove these cliffs. Expanding Head Start for 3-year-olds or 4-year-olds would have a similar impact as providing free pre-K to this same population, and there can be significant overlap between Head Start and what can be considered pre-K. Substantially expanding the availability of Early Head Start—which traditionally serves younger children—would similarly have a very large impact on reducing the child care needs of workers with these younger children as expanding Head Start would have on 3- and 4-year-olds.

Figure 6.5 shows the modeled impact of providing Early Head Start to all parents of children under 4 years old in the New HEIGHTS sample:

- The overall number of cliffs these families face is reduced from 48,817 to 37,588 (-23 percent).
- The financial impact of these cliffs is reduced from a total \$116.1 million in net resource loss to \$67.0 million (-42 percent).

Figure 6.5: Model Outputs, Expand Early Head Start

|                          | Early<br>Head Start<br>Baseline | Universal<br>Early<br>Head Start | Net Chg |
|--------------------------|---------------------------------|----------------------------------|---------|
| <b>All Cliffs</b>        |                                 |                                  |         |
| Total Number             | 48,817                          | 37,588                           | -23%    |
| Total Amount (\$M)       | \$116.1                         | \$67.0                           | -42%    |
| Avg Cliff Amount         | \$2,378                         | \$1,782                          | -25%    |
| Avg Cliff Risk Score     | 0.80                            | 0.76                             | -6%     |
| <b>Child Care Cliffs</b> |                                 |                                  |         |
| Total Number             | 26,877                          | 16,228                           | -40%    |
| Total Amount (\$M)       | \$74.2                          | \$29.6                           | -60%    |
| Avg Cliff Amount         | \$2,759                         | \$1,827                          | -34%    |
| Avg Cliff Risk Score     | 0.92                            | 0.90                             | -3%     |

Source: New HEIGHTS (2020), NCCP (2020), ESI (2020)

### Continue funding for full-day kindergarten

Prior to the COVID-19 pandemic, the vast majority of New Hampshire school districts already offered a full-day kindergarten option for parents of 5-year-olds. The availability of full-day kindergarten can alleviate workforce constraints for numerous New Hampshire families with young children.

While state funding to school districts for providing kindergarten has increased in recent years, the lack of statutory required full-day kindergarten could de-prioritize kindergarten funding in future years given the impact of COVID on the state budget. While the impact of a lack of full-day kindergarten was not modeled, child care costs would certainly increase for parents of kindergarten age children if full-day kindergarten is not available. The state should continue the allocation of adequate funding to school districts to provide full-day kindergarten to mitigate high child care costs for working families.

### Encourage or support employer provision of onsite child care\*

High-quality, employer-supported child care could wipe out any child care needs a family may require for working more or for higher wages. This would eliminate the vast majority of benefit cliffs across the sample. While New Hampshire's options of incentivizing employers to provide onsite child care are limited, some employers have started to consider the provision of onsite child care in order to recruit and retain workers.<sup>149</sup> Especially during the COVID-19 pandemic, onsite child care could significantly boost incentives for work at jobs for which working at home is not an option.

Figure 6.6 shows the modeled impact of onsite child care among families with children. Unsurprisingly, given the space this report has dedicated to discussing child care needs, impacts are dramatic:

<sup>149</sup> Burch, K. (2020, September 3). Pinkerton launches on-site childcare for staff. *Concord Monitor*. Retrieved from <https://www.concordmonitor.com/Pinkerton-Academy-Launches-On-Site-Childcare-For-Staff-36070786>.

- Removing child care cliffs completely would result in a 45 percent reduction in benefit cliffs among families with children (from 112,517 down to 61,636)
- The total net resources lost from all cliffs from this group would fall from \$224.3 million to \$98.1 million (-56 percent).

Figure 6.6: Model Outputs, Onsite Child Care

|                          | Child Care<br>Baseline | Onsite<br>Child Care | Net Chg |
|--------------------------|------------------------|----------------------|---------|
| <b>All Cliffs</b>        |                        |                      |         |
| Total Number             | 112,517                | 61,636               | -45%    |
| Total Amount (\$M)       | \$224.3                | \$98.1               | -56%    |
| Avg Cliff Amount         | \$1,993                | \$1,591              | -20%    |
| Avg Cliff Risk Score     | 0.76                   | 0.65                 | -15%    |
| <b>Child Care Cliffs</b> |                        |                      |         |
| Total Number             | 45,935                 | 0                    | -100%   |
| Total Amount (\$M)       | \$111.8                | \$0.0                | -100%   |
| Avg Cliff Amount         | \$2,434                | -                    | --      |
| Avg Cliff Risk Score     | 0.92                   | -                    | ---     |

Source: New HEIGHTS (2020), NCCP (2020), ESI (2020)

#### Food insecurity and SNAP eligibility

Benefit cliffs in the SNAP program are of particular concern to single adult households with children as they approach the program income limit and also contribute to numerous cliffs that are the result of a combination of the six programs of interest. Technical changes to the program could potentially increase eligibility among needy families. One of the advantages to expanding eligibility and benefit receipt within the SNAP program is that the federal government covers the full cost of the amount of SNAP benefits distributed to eligible families, while states cover only the administrative costs of maintaining the program.

#### Increase SNAP gross income limit\*

New Hampshire's current income gross income limit is 185 percent of the Federal Poverty Line (FPL). While SNAP benefits decline gradually for these families at earnings lower than this limit, the modeling described in Section 4 indicates a material number of families encounter a benefit cliff at that level. While the net income limit from SNAP benefits is universally 100 percent of the FPL across all states, families can reduce their gross income through SNAP deductions, including the shelter deduction (which is not capped among households that include people with disabilities), and the child care deduction, which is not capped for all households. This combination of identified cliffs in our sample and program design elements indicate that these SNAP cliffs at 185 percent FPL are likely derived from families with significant child care needs or people with disabilities in their households, and that these households could be aided by an increase in the gross income limit, allowing them to access additional federal benefits. Rather than push their SNAP cliffs to higher incomes, raising the SNAP gross income limit

would provide further room for families' SNAP benefits to decline gradually to \$0 rather than dropping suddenly by potentially thousands of dollars. Eighteen states have now set SNAP gross income limits at 200 percent FPL,<sup>150</sup> the maximum gross income limit that the federal government allows to states.

Figure 6.7 below shows the modeled impact of increasing the gross income eligibility for SNAP to 200 percent in New Hampshire:

- The number of SNAP cliffs would be reduced by an estimated 10 percent.
- The total net resources lost by families through benefit cliffs would be reduced by an estimated 3 percent.

Total reductions in the severity of cliffs resulting from this policy change are higher than the reductions to SNAP cliffs alone for several reasons:

- 1) First, because SNAP's child care deduction can help reduce the impact of increase in child care need, extending eligibility to 200 percent also reduces the impact of child care cliffs.
- 2) Second, expanding SNAP eligibility in this manner also confers categorical eligibility for free school meals to children in these families, so a family's food expenditures will further decrease.

Figure 6.7: Model Outputs, Increased SNAP Gross Income Limit

|                      | SNAP<br>Baseline | Increase<br>Gross<br>Income Limit | Net Chg |
|----------------------|------------------|-----------------------------------|---------|
| <b>All Cliffs</b>    |                  |                                   |         |
| Total Number         | 44,057           | 43,863                            | <-1%    |
| Total Amount (\$M)   | \$78.3           | \$75.8                            | -3%     |
| Avg Cliff Amount     | \$1,778          | \$1,728                           | -3%     |
| Avg Cliff Risk Score | 0.77             | 0.76                              | -1%     |
| <b>SNAP Cliffs</b>   |                  |                                   |         |
| Total Number         | 7,380            | 6,669                             | -10%    |
| Total Amount (\$M)   | \$14.8           | \$11.9                            | -19%    |
| Avg Cliff Amount     | \$2,002          | \$1,791                           | -11%    |
| Avg Cliff Risk Score | 0.74             | 0.70                              | -6%     |

Source: New HEIGHTS (2020), NCCP (2020), ESI (2020)

Additionally, separate from the model output above, schools and school districts qualify for the option to provide free meals to all students regardless of individual eligibility when the percentage of their pupils eligible for SNAP is at least 40 percent (via the Community Eligibility Provision, or CEP, discussing later). Increasing the SNAP's eligibility requirements would mean that more schools may be able to offer

<sup>150</sup> USDA. (2020). *Broad-based income eligibility*. <https://fns-prod.azureedge.net/sites/default/files/resource-files/BBCESatesChart%28May2020%29.pdf>

free lunches to all students under this criterion, also unlocking more federal funds to subsidize school meals.

#### Provide a nominal Heat and Eat payment to SNAP recipients receiving housing subsidies

New Hampshire currently does not provide a nominal LIHEAP payment to SNAP applicants. If New Hampshire enacted a state option to provide such a payment to people not paying utility costs out of pocket, these individuals would not only be able to remain on SNAP at higher incomes, but would also remain eligible for USDA's free meal programs (free school lunch and breakfast), as described above. For many families, the most financially damaging aspect of losing SNAP eligibility is not the difference between receiving a small SNAP benefit every month and receiving no SNAP benefit, but is instead the loss of free meal eligibility, which can result in thousands of dollars per year in lost resources, and is a "true" benefit cliff families encounter. Some states have isolated the provision of nominal LIHEAP payments – also called "Heat and Eat" payments -- to residents of Public Housing or project-based Section 8 housing, who typically pay utilities as part of their rent bill, thereby specifically targeting families who have experienced housing instability. Modeling does not indicate that this policy would produce a material change in the number of cliffs faced by New Hampshire families. For some families, the change would increase the distance to income cut-offs that would cause families to lose access to SNAP and free school meals. However, by extending SNAP eligibility to higher incomes, at least some families would face steeper SNAP benefit cliffs at 185 percent FPL. Modeling the provision of a nominal Heat and Eat payment in tandem with an increase in the SNAP income limit to 200 percent reduces the total number of cliffs and total net resource loss resulting from these cliffs, but to a lesser extent than does increasing the income limit to 200 percent in isolation, described in the above analysis. On net, this policy recommendation does not in itself reduce the likelihood or monetary impact of the benefit cliffs families face (at least, while SNAP gross income limits are federally bound at 200 percent FPL) but could increase the financial stability of many families receiving both SNAP and housing assistance and do so using primarily federal funds.

#### Encourage Community Eligibility Provision take up\*

Households can lose access to free school meals through the National School Lunch Program (NSLP) or School Breakfast Program (SBP) once a family no longer qualifies for SNAP. Children in families not receiving SNAP lose eligibility for free meals when their income exceeds 130 percent FPL, and for reduced price meals when their income rises above 185 percent FPL. This potential cliff can be eliminated when children are attending schools that participate in the USDA's Community Eligibility Provision (CEP), which makes it easier for schools in which 40 percent or more of students qualify for free meals to provide them to all their students. Participating schools or school districts can allow students to receive free breakfast and lunch, regardless of their household income

Pre-COVID, few if any of New Hampshire's schools participated in CEP. As a result of legislation to address the COVID-19 crisis, the USDA is now allowing all students to access free meals, effectively universalizing this program. Assuming that policy will end as the pandemic wanes, the lingering economic effects of the COVID crisis will still most likely increase school CEP eligibility in future years compared to pre-COVID levels.

Figure 6.8 below shows the modeled impact of the provision of free breakfast and lunch at all schools in New Hampshire attended by families in the New Heights sample. Because not all schools or school districts will qualify for free school meals under this program, the below figures do not reflect the impact of a policy change that could be enacted without major federal legislation expanding or continuing to universalize CEP eligibility. The figures below do, however, show how important this policy can be for working families:

- The amount of total cliffs families would face would decrease by an estimated 4 percent, and the total net resources lost through these cliffs would be reduced by approximately \$7.7 million.
- A very large portion of these cliffs result from eliminating or reducing cliffs the model attributes to SNAP cliffs, reflecting the interrelationship between the SNAP program and the school meal programs.

Figure 6.8: Model Outputs, Universal CEP Take Up

|                      | CEP<br>Baseline | Universal<br>CEP<br>Take Up | Net Chg |
|----------------------|-----------------|-----------------------------|---------|
| <b>All Cliffs</b>    |                 |                             |         |
| Total Number         | 112,517         | 107,864                     | -4%     |
| Total Amount (\$M)   | \$224.3         | \$216.6                     | -3%     |
| Avg Cliff Amount     | \$1,993         | \$2,008                     | 1%      |
| Avg Cliff Risk Score | 0.76            | 0.77                        | <1%     |
| <b>SNAP Cliffs</b>   |                 |                             |         |
| Total Number         | 7,321           | 6,277                       | -14%    |
| Total Amount (\$M)   | \$14.8          | \$9.8                       | -34%    |
| Avg Cliff Amount     | \$2,018         | \$1,559                     | -23%    |
| Avg Cliff Risk Score | 0.72            | 0.69                        | -4%     |

Source: New HEIGHTS (2020), NCCP (2020), ESI (2020)

#### TANF Cash Assistance

##### Increase the TANF earned income disregard\*

TANF recipients are able to claim an earned income disregard worth half (50 percent) of their earned income in order to claim a higher TANF cash assistance grant. Raising this disregard to a higher percentage would result in TANF recipients receiving more TANF cash assistance, improving their net resources (their “bottom line”), and reducing the effective marginal tax rate they face in the TANF program as earnings increase, which, as a result, could help prevent steep benefit cliffs.

Figure 6.9 below describes the results from alternative earned income disregard percentages in 5 percent increments from the baseline (50 percent of earnings) up to 80 percent of earnings. The total amount of lost net resources resulting from benefit cliffs decline with each successively higher disregard, meaning that the total monetary impact of benefit cliffs declines by between \$190,000 and \$730,000 across families in New HEIGHTS.

At an earnings disregard of 55 percent, however, the increased number of people who would be newly eligible for continued TANF receipt at higher income levels would actually increase the number of benefit cliffs people face, as the number of “combination cliffs” – cliffs that result from program interactions across TANF, SNAP, Housing Assistance, and other programs – would increase when a family remains on TANF at higher incomes. In other words, the reduction in the effective marginal tax rate from 50 percent to 45 percent (equal to one minus the earned income disregard) is not high enough to reduce the total effective marginal tax rates below 100 percent at higher incomes. It is not until the TANF earned income disregard is increased to 60 percent that the combined effective marginal tax rate across all these means-tested programs would be reduced such that both the total number of cliffs and the total cash equivalent of those cliffs are reduced. Higher disregards similarly result in a smaller number of benefit cliffs and decreased losses due to these cliffs.

The increasing average cliff amount that occurs with increasing earned income disregards result from the elimination of many of these “combination cliffs,” which are almost all lower than cliffs associated with the loss of major benefit programs such as Medicaid or school meals, or that can occur in SNAP at the SNAP gross income limit. The removal of many of these smaller cliffs as a result of these policy alternatives results in fewer cliffs, such that a greater proportion of cliffs are these larger, “true” benefit cliffs. Lowering the incidence and severity of these cliffs are covered in other policy recommendations in this section.

Figure 6.9 Model Outputs, TANF Earned Income Disregard

|                      | TANF<br>Baseline | 55% Earned<br>Income<br>Disregard | 60% Earned<br>Income<br>Disregard | 65% Earned<br>Income<br>Disregard | 70% Earned<br>Income<br>Disregard | 75% Earned<br>Income<br>Disregard | 80% Earned<br>Income<br>Disregard |
|----------------------|------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| <b>All Cliffs</b>    |                  |                                   |                                   |                                   |                                   |                                   |                                   |
| Total Number         | 8,643            | 9,281                             | 8,631                             | 8,144                             | 7,723                             | 7,467                             | 6,810                             |
| Net Chg              |                  | 7%                                | 0%                                | -6%                               | -11%                              | -14%                              | -21%                              |
| Total Amount (\$M)   | \$12.1           | \$11.9                            | \$11.8                            | \$11.4                            | \$11.1                            | \$10.7                            | \$10.3                            |
| Net Chg              |                  | -2%                               | -3%                               | -6%                               | -9%                               | -12%                              | -15%                              |
| Avg Cliff Amount     | \$1,404          | \$1,287                           | \$1,363                           | \$1,400                           | \$1,436                           | \$1,436                           | \$1,508                           |
| Net Chg              |                  | -8%                               | -3%                               | 0%                                | 2%                                | 2%                                | 7%                                |
| Avg Cliff Risk Score | 0.74             | 0.73                              | 0.73                              | 0.73                              | 0.73                              | 0.72                              | 0.74                              |
| Net Chg              |                  | -2%                               | -2%                               | -2%                               | -2%                               | -2%                               | 0%                                |

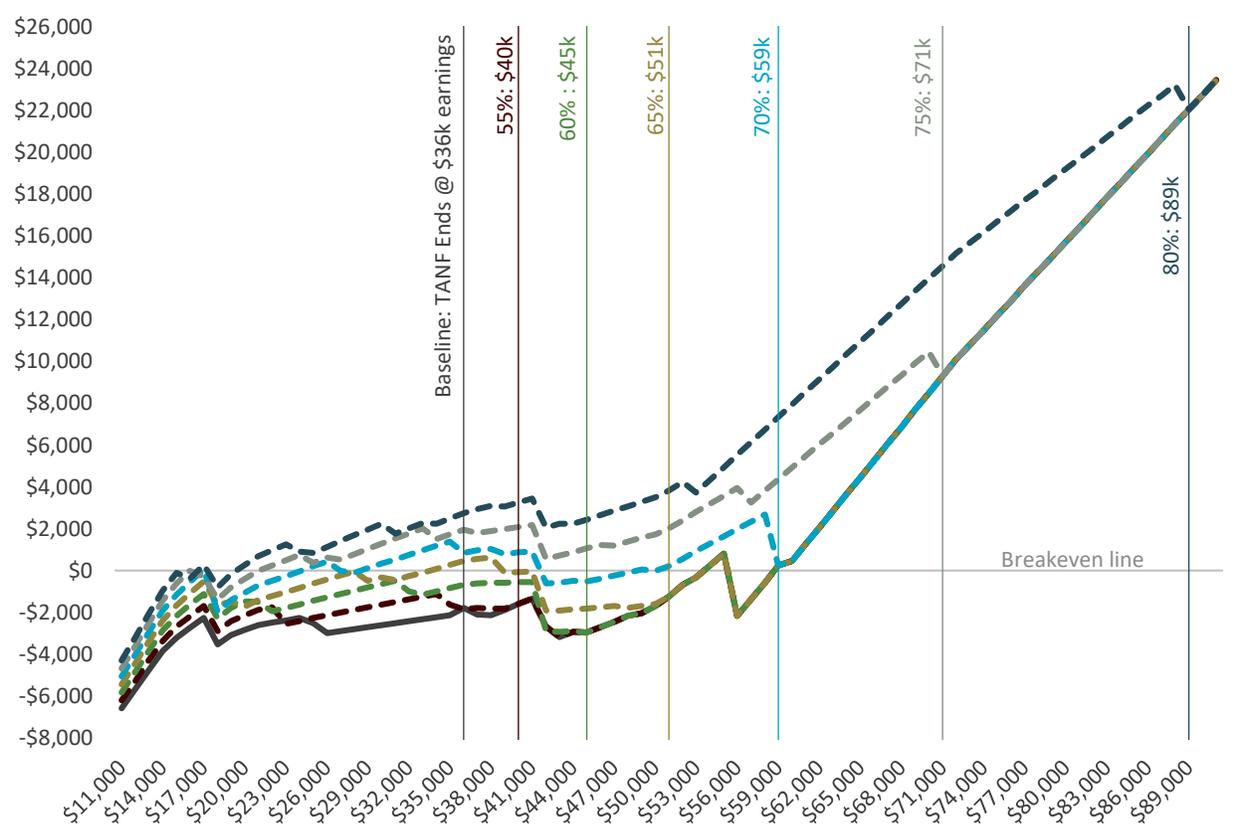
Source: New HEIGHTS (2020), NCCP (2020), ESI (2020)

A select number of these alternative earned income disregards are modeled below in Figure 6.10 for a single family. As is evident below, increased earned income regards would both smooth out benefit cliffs as well as decrease marginal tax rates of the program that are associated with higher earnings levels. Adjusting this parameter upward thereby removes some key disincentives within the TANF program, albeit at the additional cost of more TANF cash assistance distributed to families.

One interesting aspect of these adjustments is that because school meal eligibility can also be met by a family's TANF receipt (along with SNAP receipt, as described above), eligibility for free school meals is

extended to families with much higher incomes than the current effective limits on school meal eligibility, as there is no evidence TANF eligibility ever extends to higher incomes than SNAP gross income limits for New Hampshire families. While federal rules limit categorical eligibility for SNAP to 200 percent FPL, there does not appear to be a similar federal cap for categorical eligibility for school meals. Increasing the TANF earned income disregard would thereby allow for even a small amount of TANF cash assistance to be used to space out benefit cliffs experienced both from exceeding SNAP income limits and losing access to school meals. Thus, in the graph below, the major difference in the net resources between the lines representing different earned income disregards reflect continued school meal eligibility as TANF gradually declines, with school meal eligibility no longer as intertwined with SNAP eligibility as it is under current policies.

Figure 6.10: Model Outputs Example, TANF Earned Income Disregard



Source: New HEIGHTS (2020), NCCP (2020), ESI (2020)

### Increase the TANF child care deduction\*

TANF recipients are permitted to reduce their TANF gross income by a capped amount of child care expenses per child per month. This results in an increase in TANF cash assistance received by families with child care needs. The child care deduction also mitigates benefit cliffs or sudden increases in child care expenses (the latter potentially due to working more hours) because it can increase with higher child care costs. Yet, that responsiveness is limited by the current TANF maximum value of the deduction. Currently, the monthly caps are \$200 per infant child (children under two years old) and

\$175 per non-infant child for workers working more than part time (earning more than \$377 per month), and \$100 per infant child and \$87.50 per non-infant child for workers working part time. Increasing these caps could mitigate or eliminate benefit cliffs in the CCDF program (especially as they experience increases in CCDF's sliding scale "steps") and can also help mitigate increases in child care costs. The model output below demonstrates that increasing the TANF child care deduction can reduce the total amount, average amount, and risk score of benefit cliffs. However, these changes can also increase the total number of cliffs families face, similarly to the potential TANF changes discussed above, by extending TANF eligibility.

Figure 6.11 below describes modeled results of three alternative approaches: doubling the maximum child care deduction available to TANF recipients, increasing the child care deduction by \$50, and removing the distinction between full-time and part-time workers. Despite adding to the total number of cliffs (due to extending TANF eligibility), the total impact of these cliffs is reduced across three potential adjustments to the child care deduction, due to decreases in the average cliff size.

- Doubling the maximum child care deduction available to TANF recipients reduces the total amount of net resources lost across all benefit cliffs from \$12.1 million to \$11.4 million among TANF families (-6 percent).
- Increasing the maximum child care deduction by \$50 results in slightly lower but still negative impacts on the total amount and total impact of benefit cliffs, while also increasing the number of cliffs due to extending eligibility to higher incomes.
- Removing the distinction between part-time workers and full-time workers for this disregard slightly lowers the total number of all cliffs while also reducing the total net resource loss due to these cliffs by about \$130,000.

Figure 6.11: Model Outputs, TANF Child Care Deductions

|                      | TANF<br>Baseline | Current Max<br>x2 | Current Max<br>+ \$50 | Part-Time<br>Worker<br>Access |
|----------------------|------------------|-------------------|-----------------------|-------------------------------|
| <b>All Cliffs</b>    |                  |                   |                       |                               |
| Total Number         | 8,643            | 9,418             | 9,131                 | 8,607                         |
| Net Chg              |                  | 9%                | 6%                    | 0%                            |
| Total Amount (\$M)   | \$12.1           | \$11.4            | \$11.9                | \$12.0                        |
| Net Chg              |                  | -6%               | -2%                   | -1%                           |
| Avg Cliff Amount     | \$1,404          | \$1,209           | \$1,307               | \$1,396                       |
| Net Chg              |                  | -14%              | -7%                   | -1%                           |
| Avg Cliff Risk Score | 0.74             | 0.71              | 0.73                  | 0.74                          |
| Net Chg              |                  | -4%               | -1%                   | 0%                            |

Source: New HEIGHTS (2020), NCCP (2020), ESI (2020)

## Healthcare

Medicaid benefit cliffs are driven by cut-offs in Adjusted Gross Income (AGI) relative to the poverty level, which disincentivizes workers near these income cut-offs from earning extra income. Employers facing

this issue could consider offering employee benefits that increase overall compensation packages without producing additional income that counts against towards Medicaid eligibility.

#### Incentivize or encourage employers to offer dependent care FSA

Pre-tax contributions to dependent care Flexible Spending Account (FSA) plans do not count toward MAGI income, including FSA plans that employers have the option of providing to employees to help cover the costs of reasonably anticipated child care expenses. The limit on dependent care FSA contributions is \$5,000 for individuals and married couples. The availability of dependent care FSA plans thereby effectively raises the income limit for Medicaid for individuals with children who need child care; by reducing MAGI income, contributions to FSA accounts also increase the premium tax credit that individuals on marketplace plans can receive. Use of this pre-tax option also has the advantage of lowering a household's federal tax liability and possibly increasing tax credit amounts. While child care paid through a dependent care FSA cannot be deducted from taxes through the federal child and dependent care credit (CDCTC), that credit is a nonrefundable one and therefore not accessible by many low-income families. Even families who are eligible for the CDCTC often incur greater costs than the maximum deduction for this credit, so an FSA for those remaining costs would remain beneficial. While New Hampshire's ability to incentivize employer benefits is limited, finding ways to encourage or incentivize this employer benefit—which for employers costs only the operation of this benefit through an FSA provider—would potentially decrease the onset of Medicaid cliffs while helping to pay for child care as well.

#### Housing

##### Encourage greater use of the Public Housing flat rent option among families receiving or seeking housing assistance

All residents in Public Housing must annually be given the option of paying flat rents that do not rise with increases in income, a unique feature for Public Housing distinct from HUD's other major rental assistance programs. By remaining constant over the course of a year, the flat rent option may be appealing to individuals who can reasonably expect to earn a high enough income that year that they would pay less through flat rents than through income-based rents. This option eliminates any housing-specific effective marginal tax rates on income that these families experience, which is around 30% for tenants opting for income-based rent— for every additional dollar earned, rental assistance subsidies for families opting for income-based rent decline by about 30 cents. Additionally, before the end of a given year (before residents are again given the choice of rent options), residents paying flat rents can switch to income-based rents if their financial situations become dire due to loss or reduction of employment, a further benefit to opting for flat rent among higher-income Public Housing residents.

Given that families must make incomes below fairly low income limits in order to qualify for HUD's rental assistance programs, and the difficulty in achieving upward mobility for these families, it is unsurprising that a relatively small portion of subsidized housing tenants make use of Fair Market rents.<sup>151</sup> The prospect of a flat rent at 80% FMR is likely an unappealing one except for families who are

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<sup>151</sup> Finkel, M. & Lam, K. (2008). Use of flat rents in the public housing program. *Cityscape*, 10(1).  
<https://www.huduser.gov/periodicals/cityscape/vol10num1/ch4.pdf>

already making high enough incomes such that they can reliably expect to pay less rent using the flat rent option compared to the income-based rent option.<sup>152</sup> However, understanding the benefits of flat rents could help families seeking housing assistance who are able to choose between Public Housing and HUD's Section 8 housing options (where flat rents are not an option), insofar as supporting their future financial stability. If Public Housing stock or development expands significantly in the coming years, as President Biden's administration has indicated a willingness to consider,<sup>153</sup> ensuring that families know about Public Housing's flat rent option through public information campaigns could support efforts to address high effective marginal tax rates faced by low-income families seeking housing assistance.

## Transportation

### Incentivize or encourage employers to provide free transportation to employees\*

When a worker begins working away from home, picks up an additional shift or job, or starts working an extra day, they can incur higher transportation costs. While higher transportation costs are usually insufficient to lead to a benefit cliff on their own, they often are part of the combination of increased expenses and lost benefits that can result in "combination cliffs" explored in detail in Section 5, especially where public transportation is unavailable. The added costs for working more due to transportation costs can be eliminated outright, however, if employers provide free transportation to workplaces.

Figure 6.12 shows the modeled results of employers adopting this policy for all households in the New HEIGHTS sample for this study. An example of an employer transit policy could be a partnership with a ride-sharing company such as Uber or Lyft to shuttle employees to workplaces. Like the analysis of the provision of onsite child care, employer-provided transportation also eliminates all cliffs at least partially resulting from transportation increase. Moreover, this illustrates the benefit of having employees work from home, if possible, to eliminate transportation costs to both employee and employer. Also, like the model output above for onsite child care, these results are intended to demonstrate the impact that employer transit could have on their employees, and not specifically as a recommendation for wholly state-financed solutions.

- Families would see an estimated reduction of about 4,000 cliffs (-3 percent).
- The total reduction in net resources lost due to cliffs of about \$4 million (-2 percent).
- As with other recommendations that decrease the number of "combination cliffs," this policy alternative would increase the average dollar amount of cliffs, as a higher proportion of cliffs faced by families would be substantial compared to the baseline model. This impact could be potentially reduced or eliminated by several of the above recommendations.

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<sup>152</sup> Based on recent HUD regulations, flat rents are not available to tenants who earn more than 120% Area Median Income for two consecutive years.

<sup>153</sup> *The Biden plan to build a modern, sustainable infrastructure and an equitable clean energy future.* (2020). Retrieved from <https://joebiden.com/clean-energy/>

Figure 6.12 Model Outputs, Employer-Provided Transportation

|                      | Full<br>Dataset<br>Baseline | Employer<br>Transit | Net Chg |
|----------------------|-----------------------------|---------------------|---------|
| <b>All Cliffs</b>    |                             |                     |         |
| Total Number         | 138,043                     | 134,222             | -3%     |
| Total Amount (\$M)   | \$252.8                     | \$248.8             | -2%     |
| Avg Cliff Amount     | \$1,831                     | \$1,854             | 1%      |
| Avg Cliff Risk Score | 0.78                        | 0.78                | 0%      |

Source: New HEIGHTS (2020), NCCP (2020), ESI (2020)

Figure 6.13 below shows a summary of recommended policy approaches in this section.

Figure 6.13: Summary of Child Care and Benefit Cliff Policy Considerations

| Category                             | Policy Recommendations   |
|--------------------------------------|--|
| Child care                           | <ul style="list-style-type: none"> <li>Expand funding for the CCDF program</li> <li>Adjust CCDF step options so that there are more intervals with smaller increments</li> <li>Include license-exempt providers in next market rate study</li> <li>Raise state payment rates for non-traditional hours</li> <li>Continue to pay child care providers based on enrollment, not on attendance</li> <li>Implement a statewide pre-K program</li> <li>Expand Head Start and Early Head Start</li> <li>Continue adequate funding for full-day kindergarten</li> <li>Encourage or support employer provision of onsite child care</li> </ul> |
| Food insecurity and SNAP eligibility | <ul style="list-style-type: none"> <li>Increase SNAP gross income limit</li> <li>Provide a nominal Heat and Eat payment to SNAP recipients receiving housing subsidies</li> <li>Encourage Community Eligibility Provisions take up</li> </ul>  |
| TANF Cash Assistance                 | <ul style="list-style-type: none"> <li>Increase the TANF earned income disregard</li> <li>Increase the TANF child care deduction</li> </ul>  |
| Healthcare                           | <ul style="list-style-type: none"> <li>Incentivize or encourage employers to offer dependent care FSA</li> </ul>   |
| Housing                              | <ul style="list-style-type: none"> <li>Encourage greater use of the Public Housing flat rent option</li> </ul>   |
| Transportation                       | <ul style="list-style-type: none"> <li>Incentivize or encourage employers to provide free transportation to employees</li> </ul>   |

