

New Hampshire Graduated Assistance Programs Analysis

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About Econsult Solutions, Inc.

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ESI has assisted policy makers to design and evaluate programs that help citizens increase their economic security and opportunity. Our government and public policy practice combines rigorous analytical capabilities with practical experience to help evaluate and design effective public policies and to benchmark and recommend sound governance practices.

Executive Summary

Benefits cliffs arise when increases in earned income cause a reduction in or loss of benefits, leaving households worse off financially and disincentivizing labor force participation. With an aging population and historically low unemployment, New Hampshire's economic growth is constrained by its ability to attract the workforce needed to meet demand in growing industries. As New Hampshire residents age out of the workforce, the state's working age population is stagnant and shrinking in some areas of the state. The state's commitment to studying and mitigating workforce barriers is informed by these broader demographic conditions, and by the goals of enabling households to strengthen their lives, employers to strengthen their workforce and the state to optimize its economy.

This study is responsive to New Hampshire's State Fiscal Year 2024/2025 budget, which requires the New Hampshire Department of Health and Human Services (DHHS) to conduct a Study on Graduated Public Benefits. Stemming from 2019 legislation that established the [Benefit Cliff Effect Working Group](#), this research builds upon [ongoing efforts by the state to address benefits cliffs](#) and enact policies that support working families.¹

Over the past five years, New Hampshire has convened stakeholders, conducted economic research, and collaborated with other New England states. The state has also implemented a range of policy measures to address benefits cliffs and support low- and moderate-income households in transitioning to self-sufficiency. This study reviews these initiatives and the progress that has been achieved to date, analyzes current program design, and provides additional policy options to help mitigate the impacts of benefits cliffs on households and workforce incentives. Notably, the successful implementation of policy design changes in recent years means that the additional options suggested in this report are more modest than many of the initiatives already implemented.

Benefit Programs Analyzed

The following programs were analyzed as part of this analysis:

Temporary Assistance for Needy Families (TANF): This federal program, also known in New Hampshire as Financial Assistance to Needy Families (FANF), provides cash assistance and work support to families who are low-income.

Supplemental Nutrition Assistance Program (SNAP): SNAP helps low-income individuals and families purchase food.

Medicaid/Children's Health Insurance Program (CHIP): These programs provide healthcare coverage to low-income individuals and families.

New Hampshire Child Care Scholarship: Funded through federal Child Care and Development Block Grants, this state and federal partnership subsidy program helps working families afford quality child care.

Low-Income Home Energy Assistance Program (LIHEAP): A federal program that helps low-income households with their energy bills.

Housing Choice Vouchers (HCV): This federally funded program, administered by local public housing authorities, assists low-income families secure affordable housing.

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC): A federal public health nutrition program for low-income pregnant, postpartum, and breastfeeding individuals, as well as infants and young children up to age five.

¹ New Hampshire House Bill (HB) 4 § 24, H.R. 19-1124 (2019): <https://bills.nhliberty.org/bills/2019/HB4>.

Policy Changes Implemented to Date in New Hampshire

Since the establishment of the Benefits Cliff Working group and the state's emphasis on this issue, New Hampshire has adopted several strategies to enhance the effectiveness and accessibility of benefit programs, reduce work disincentives, and promote economic mobility.

Key initiatives to date include:

- **TANF Enhancements:** New Hampshire has taken advantage of the flexibility of the TANF program to implement several enhancements to reduce work incentives. The TANF income disregard is 50 percent, with a voluntary pilot for 100 percent income disregard for high-demand jobs and 75 percent for others, and the asset limit has been raised from \$2,000 to \$5,000. The child care deduction has also been adjusted to better support working families.
- **Expanded SNAP Eligibility:** The gross income eligibility threshold for SNAP has been increased to 200 percent of the Federal Poverty Level (FPL), and the asset test within the program has been removed to help participants achieve greater financial stability. The state has also introduced the Double UP Food Bucks program, which provides a dollar for dollar match, up to \$20 per day, on the purchase of fruits and vegetables with the SNAP EBT card.
- **Medicaid and CHIP Improvements:** Through Medicaid expansion, which was reauthorized in 2024 for an additional seven years, adult eligibility is 138 percent of the FPL with a 5 percent income disregard. Through the Expanded Children's Medicaid program, eligibility for children extends to 323 percent of the FPL with a 5 percent disregard, increasing the security of health insurance for working families. Continuous eligibility for children has been established for one year, and the five-year waiting period for recent immigrants has been waived for pregnant women and children.
- **Restructured Child Care Subsidies:** Eligibility for child care subsidies has been expanded to 85 percent of the SMI, and co-pays have been reduced for families at lower income thresholds. The state has also disregarded TANF income for eligibility and reduced the number of steps from seven to three for easier access to subsidies. Full enrollment for the Child Care and Development Fund (CCDF) has been achieved.² In addition, provider payments have been changed from attendee-based to enrollee-based, increasing provider stability.
- **LIHEAP Enhancements:** LIHEAP eligibility is set at 60 percent of the State Median Income (SMI). A Memorandum of Understanding (MOU) between SNAP and LIHEAP has been established to facilitate data sharing and streamline assistance.

These initiatives represent a comprehensive approach to mitigating benefits cliffs, aiming to provide a more stable transition for families moving from benefit programs to financial independence.³

² The Child Care and Development Fund (CCDF) Plan functions as the application for federal Child Care and Development Block Grant (CCDBG) funding. It details the grantee's child care program and the services available to eligible families. Achieving full enrollment means that New Hampshire has met the necessary criteria and received approval from the Office of Child Care, ensuring the allocation of federal funds for the upcoming fiscal year.

³ While not part of this report's scope, New Hampshire has made strides in addressing potential cliffs related to its school lunch and breakfast programs. This is being achieved through the recently expanded eligibility thresholds of the USDA's [Community Eligibility Provision](#). Despite [low take up rates](#) amongst eligible school districts, ongoing efforts aim to maximize the utilization of this provision to ensure more New Hampshire students benefit.

Economic and Demographic Trends

New Hampshire has experienced extended periods of historically low unemployment both before and after the COVID-19 pandemic. During this period, the limiting factor for economic growth has not been employment opportunities, but rather the availability of a sufficient workforce. These trends are tied closely to the changing demographics of New Hampshire's aging population. As residents age out of the workforce, the state's working age population is plateauing, or even shrinking in some areas. These dynamics also create additional demand for services like health care and nursing.

New Hampshire's working age population grew by just 1 percent, or 6,000 people, from 2012-2022, while its elderly population grew by 45 percent (more than 81,000 people). **Five of New Hampshire's ten counties (Carroll, Cheshire, Coos, Grafton, and Sullivan) saw a decline in the working age population over this ten-year period.**

Figure ES.1: Population Change by County, 2012-2022

County	2012		2022		Net Chg 2012-2022		% Chg 2012-2022	
	16-64	65+	16-64	65+	16-64	65+	16-64	65+
Belknap	39,371	10,126	39,453	14,545	82	4,419	0%	44%
Carroll	30,160	9,951	29,251	14,805	-909	4,854	-3%	49%
Cheshire	52,437	11,482	48,300	16,172	-4,137	4,690	-8%	41%
Coos	21,255	6,412	19,337	7,840	-1,918	1,428	-9%	22%
Grafton	60,777	13,903	58,354	19,954	-2,423	6,051	-4%	44%
Hillsborough	270,588	48,228	279,909	68,925	9,321	20,697	3%	43%
Merrimack	98,750	20,316	99,894	29,128	1,144	8,812	1%	43%
Rockingham	200,042	37,996	203,638	59,533	3,596	21,537	2%	57%
Strafford	86,342	14,841	89,162	20,990	2,820	6,149	3%	41%
Sullivan	28,423	7,248	27,008	9,857	-1,415	2,609	-5%	36%
New Hampshire	888,145	180,503	894,306	261,749	6,161	81,246	1%	45%

Source: ACS 5-year Estimates (2012 & 2022)

While New Hampshire's total employment has recovered strongly from the pandemic and now exceeds pre-COVID levels by 3.5 percent (which translates to over 20,000 additional private sector payroll jobs based upon administrative tax filings by New Hampshire employers), the state's labor force participation rate remains below pre-COVID benchmarks. Demographic differences indicate that this decline is driven in part by the aging population and in part by family responsibilities and preferences.

- Labor force participation for the prime age population (ages 25-54) is strong at more than 85 percent. However, the participation rate is far lower among younger and older workers.
- In addition, the statewide labor force participation rate is nine percentage points lower among women than among men and eleven points lower among workers without a bachelor's degree than among those with it.⁴

⁴ Labor force participation by demographic group is based on 2022 data from the Census Bureau's American Community Survey. This data is reviewed in detailed in report Section 2.2.

Child Care Challenges for Working Families

The child care market faces what has been characterized as a structural market failure: the societal value of child care services far exceeds what most families can reasonably afford.⁵ In 2023, the average annual cost of center-based child care for an infant (\$17,250) would have accounted for 37 percent of the median income for single parents and 12 percent of the median income for married couples in New Hampshire.⁶ Cost challenges are compounded by issues of accessibility, with an estimated 46 percent of New Hampshire residents living in a child care “desert” (areas without enough licensed slots for the number of children needing care).⁷ Low wages are central to workforce shortages in the industry, with child care providers earning an average of \$13.78 an hour in 2022, among the lowest average occupational wages in the state.⁸ This combination of challenges creates significant obstacles for working families, and a significant number of parents may forgo work in order to provide care for their children.⁹

From the benefits cliff perspective, child care workers are of particular importance because policy design may impact their own availability for work, and the supply of child care in turn impacts the workforce availability of other parents. Similar dynamics exist for elder care workers, a sector that will become increasingly important as the state’s elderly population grows.

New Hampshire has made recent efforts to support child care affordability. The 2024/2025 state budget included provisions to increase eligibility for child care scholarships up to 85 percent of the State Median Income and provide payment for full enrollment for those children enrolled in child care scholarship.

Research Methods

In February 2021, Econsult Solutions, Inc. (ESI) and the National Center for Children in Poverty (NCCP) published “Constraints on New Hampshire’s Workforce Recovery Impacts from COVID-19, Child Care and Benefit Program Design on Household Labor Market Decisions.”¹⁰

This study expands upon this prior research, conducting research on potential options to mitigate benefits cliffs along several tracks:

- Analysis of additional benefit programs (including WIC) through a detailed review of the rules governing each program and economic modeling of how household composition and earned income levels impact the dollar value of benefits received.

⁵ Meredith Johnson Harbach, “Childcare Market Failure,” *Utah Law Review* 3 (2015), <https://dc.law.utah.edu/ulr/vol2015/iss3/3>.

⁶ Child Care Aware of America, “Child Care at a Standstill: 2023 Affordability Analysis,” https://info.childcareaware.org/hubfs/2023_Affordability_Analysis.pdf.

⁷ Center for American Progress, “Early Learning Fact Sheet 2021 New Hampshire,” <https://www.americanprogress.org/wp-content/uploads/sites/2/2021/12/New-Hampshire.pdf>.

⁸ New Hampshire Employment Security, “New Hampshire Occupational Employment & Wages 2023,” September 2023, <https://www.nhes.nh.gov/elmi/products/documents/wages-intro.pdf>.

⁹ New Hampshire Fiscal Policy Institute, “The Fragile Economics of the Child Care Sector.” May 17, 2024, https://nhfpi.org/resource/the-fragile-economics-of-the-child-care-sector/#_edn54.

¹⁰ Econsult Solutions, Inc., “Constraints on New Hampshire’s Workforce Recovery,” February 18, 2021, https://www.nccp.org/wp-content/uploads/2021/03/New_Hampshire_Workforce_Recovery_Constraints_FINAL_02-18-21.pdf.

- Outreach led by the consulting firm Pear Associates, who interviewed employers and led focus groups of workers and individuals who receive benefits to get their perspectives on how benefits cliffs affect people's lives and decisions.
- Review of efforts to date in New Hampshire and other states to identify common or promising policy approaches to mitigating certain key benefits cliffs and workforce participation challenges.
- An analysis of policy options that New Hampshire might employ to address benefits cliffs, including modeling that estimates how new policies could affect people's labor market decisions, the level of economic activity in New Hampshire, and the fiscal costs and benefits to the state.

Employee and Employer Outreach Findings

Qualitative research engaged employers, workers and participants in New Hampshire benefit programs through interviews, survey questions, and focus groups. Employer interviews aimed to gather the perspectives and experiences of employers regarding barriers to hiring, retaining, and advancing employees. New Hampshire residents interacting with the benefit system were engaged through a series of focus groups, as well as a survey.

Feedback from the outreach process painted a clear picture of the challenges posed by benefits cliffs to New Hampshire's benefits-eligible population as they navigate benefit programs and workforce participation. Workers face significant financial instability and emotional stress due to abrupt changes in benefit eligibility, potentially triggered by small increases in income. The feedback also underscored the need for program reforms that consider the realities of those on the cusp of benefit thresholds, including better communication, educational support, and a more gradual transition process to reduce the negative impacts of these cliffs.

88 percent of survey respondents said they or someone they knew had experienced a situation where an increase in wages led to a loss in benefits.

Employers expressed interest in supporting their employees and potential workforce in navigating safety net issues, including a potential willingness to spend company resources if initiatives could help them attract and retain workers. However, these employers currently have limited understanding of benefit programs and their interaction with compensation packages, or how to participate in other efforts in concert with the state to address employee challenges like transportation and child care.

"It's embarrassing to request a lesser raise because of benefits."
"As soon as you get a little on track, it's boom, you get cut off (of benefits)."

Benefits Cliff Challenges

A household experiences a benefit cliff when increasing their earned income causes them to lose more in benefits than they gain in income, leaving them with fewer net resources. The relationship between earnings and benefit rules can lead to benefits cliffs in two situations:

- **Earnings increases that push households beyond program income thresholds:** Many benefit programs have strict income thresholds or cutoffs. When a household's income increases (whether by working more hours, getting a raise, or taking a new job), that household may lose access to this benefit, or transition to a lower benefit level.
- **Earnings increases that cause multiple benefits to phase down concurrently:** New Hampshire households may be participating in multiple benefit programs at the same time. In some cases, an increase in earnings can lead to a value loss in multiple benefit programs that in aggregate are greater than the income gain. This situation creates a benefits cliff from the perspective of the household, even though no individual program is creating a cliff if viewed in isolation.

When benefits cliffs occur, they create short-term disincentives for households to participate in the workforce, increase their hours, and better their career opportunities. Benefits cliffs create a paradox where the pursuit of financial independence through employment can inadvertently lead to greater financial instability. These instances put households in “no win” situations where they must choose between reducing their current resources or retaining their reliance on benefit programs.

Over a longer time horizon, workers who do not pursue career advancement due to benefits cliffs suffer reduced economic mobility and risk longer-term reliance on benefit programs. Policy approaches that fail to provide well-designed “off ramps” from benefit programs can therefore increase program cost and reliance over time. The disincentives to workforce participation and economic mobility also limit the growth of the state's economy and degrade the health of its tax base over time.

Policy Options to Mitigate Benefits Cliffs

Research was conducted into the policy approaches that have been discussed, piloted and implemented across the country (including in New Hampshire). Five common strategies were identified that are prevalent across state efforts to address benefits cliffs:

Income Eligibility Adjustments: Modifying income thresholds to broaden benefit eligibility.

Income Disregards: Excluding certain earnings from benefit eligibility calculations.

Asset Limit Changes: Increasing thresholds to allow participants to build / retain more resources.

Transitional Benefits: Providing supports during the transition from benefit eligibility.

Special Programs / Interventions: Targeted initiatives to address context-specific challenges.

Policy Options for New Hampshire

This report presents and analyzes several potential policies to mitigate benefits cliffs in New Hampshire for consideration by state policymakers. Major policy options advanced in this analysis are as follows:

- **TANF:** Expanding the earned income disregard from 50 percent to 75 percent
- **Child Care:** Implementing a “Step 2.5” for CCDF recipients to smooth out the benefits cliff experienced by families moving from Step 2 to Step 3 of the program
- **Child Care:** Extending income eligibility by adding a “Step 4” for CCDF recipients beyond the current income eligibility limit
- **Child Care:** Increased investment in child care and early learning
- **Housing:** Expanding income eligibility for households applying for Housing Choice Vouchers
- **Health Care:** Maintaining the expanded premium tax credit (if federal support expires)
- **LIHEAP:** Smoothing out LIHEAP steps

Additional policy approaches include monitoring pilot efforts extending income redetermination periods and administrative enhancements to make program delivery more efficient.

Modeling Approach

Where possible, detailed economic modeling of policy options is undertaken to estimate the potential participation, cost, labor market impacts, and economic and fiscal impacts of implementation. Modeling of selected policy options seeks to estimate how each policy change would affect not only each household’s benefit amount, but also its labor market behavior. We model the net resource change (from changes in earnings and changes in benefit value) faced by households as they increase their income. We then use estimates of labor supply elasticity to earnings changes from academic literature to estimate how workforce participation would be likely to change under the new policy incentives. Economic and fiscal modeling using the industry-standard IMPLAN framework is then used to estimate overall impacts on the state of these changes in workforce behavior and household resources.¹¹

Through this approach, we seek to help policymakers evaluate the merits of these options by presenting:

- Estimates of the direct government cost of changes in the level of paid-out benefits;
- Estimates of what households would be expected to earn due to extra workforce participation attributable to the mitigation of cliffs;
- Estimates of the total effect of this new economic activity on the state’s total economic output, employment, and earnings; and
- Estimates of additional state tax revenue to be collected because of this new economic activity.

¹¹ IMPLAN (Impact Analysis for Planning): an input/output modeling system that represents an industry standard approach to assess the economic and job creation impacts of economic development projects, the creation of new businesses, and policy changes within its surrounding area.

Modeled policy recommendations are structured as follows:

TANF expanded earned income disregard

Under current policy, a household's cash benefits decrease significantly as income increases, leading some households to lose 50 cents of benefits for every dollar earned. Expanding the disregard to 75 percent (an approach that has been piloted by the state) would reduce the loss to 25 cents of benefits for every dollar gained, easing the losses from increased earnings. The state has the option to put restrictions on this disregard to encourage education and training or participation in priority industries. A robust post-TANF support program could also improve workforce outcomes.

The cost of expanding the TANF earned income disregard is estimated at close to \$9 million annually, which may be possible to cover with federal funds. The policy is estimated to generate an earnings increase of nearly \$5 million and a statewide economic impact of more than \$29 million.

Child care step 2.5

The current CCDF program has three steps based on the income levels of participating families. To address the cliff effect between Step 2 and Step 3, the contribution of each household would gradually increase from \$5 a week at 138 percent FPL to reach 7 percent of income at 60 percent State Median Income, rather than immediately going from \$5 a week to 7 percent of income at 138 percent FPL.¹²

The cost of creating a "Step 2.5" is estimated at around \$1 million per year, which could be paid for with federal funds. The policy is estimated to generate an earnings increase of nearly \$2 million and a statewide economic impact of around \$9 million.

Smoothing out LIHEAP steps

LIHEAP's policy rules create a series of small cliffs as households move through six benefit categories, including a final cliff as they become ineligible for the program. To mitigate benefit cliff effects, the LIHEAP benefit formula could follow a "smooth" slope, rather than falling in six jagged steps, with the benefit amount specified as a portion of household income.

As specified in this report, the approach is estimated to cost around \$4 million annually. Around \$3 million of this cost (smoothing out cliffs in existing categories) could potentially be covered federally, while the cost of extending the eligibility threshold would need to be borne by the state.

¹² Under this policy, the household contribution would continue to be 7 percent of income for the remainder of Step 3: that is, from 60 percent to 85 percent of State Median Income

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1. Introduction

This study is responsive to NH HB2, New Hampshire’s budget bill that passed in 2023 for the State Fiscal Years 2024/2025, requiring the New Hampshire Department of Health and Human Services (DHHS) to conduct a Study on Graduated Benefits.¹³ This work builds upon the ongoing efforts by the state to address benefits cliffs and enact policies that support working families arising from 2019 legislation establishing the Benefits Cliff Effect Working Group.

Since 2019, New Hampshire has convened stakeholders and economic research to study the issue of benefits cliffs, has worked collaboratively with other New England states to develop approaches to mitigate benefits cliffs, and implemented several policy changes to address the issue.¹⁴ Benefits cliffs arise when additional earned income causes a reduction in or loss of benefits where increased earnings do not make up for what is lost in benefits, making the households worse off financially. In addition to their impact on families in need, benefits cliffs disincentivize participation in the labor force and career growth among persons or households receiving benefits.

This study analyzes the current economic and employment conditions in New Hampshire, reviews the state’s benefit programs and continued impediments to workforce participation, and recommends options to adjust program design to enhance labor force participation and economic outcomes. Analysis includes not only those benefit programs administered by NH DHHS but also programs administered by other state departments and agencies: NH Department of Energy (DOE), the NH Department of Employment Security (NHES), and the NH Housing Finance Authority (NHHFA).

In February 2021, Econsult Solutions, Inc. (ESI) and the National Center for Children in Poverty (NCCP) published “[Constraints on New Hampshire’s Workforce Recovery Impacts from COVID-19, Child Care and Benefit Program Design on Household Labor Market Decisions](#).”¹⁵ This study builds upon and extends that earlier work, and addresses the legislative requirement for the department to seek:

Continuation of the 2021 economic analysis regarding mitigation of the benefits cliff effect for the possible creation, funding and implementation of graduated, proportional benefit programs for individuals who do not qualify for existing assistance within the state.¹⁶

Key features distinguishing this study from the prior research include:

- Outreach led by the consulting firm Pear Associates, who interviewed employers and led focus groups of workers and individuals who have received benefits to get an on-the-ground look at how benefits cliffs affect people’s lives and decisions.
- An analysis of policy options that New Hampshire policymakers might take to address benefits cliffs, including modeling that estimates how new policies could affect people’s labor market

¹³ New Hampshire House Bill (HB) 2 § 578, H.R. 23-1064 (2023): <https://legiscan.com/NH/text/HB2/id/2826213>.

¹⁴ To read more on the background and status of New Hampshire’s efforts to address benefits cliffs, please visit DHHS’ website at <https://www.dhhs.nh.gov/solving-benefits-cliff-effect>.

¹⁵ Econsult Solutions, Inc. and National Center for Children in Poverty, “Constraints on New Hampshire’s Workforce Recovery,” February 18, 2021, https://www.nccp.org/wp-content/uploads/2021/03/New_Hampshire_Workforce_Recovery_Constraints_FINAL_02-18-21.pdf.

¹⁶ NH HB 2 § 578 (2023).

decisions, the level of economic activity in New Hampshire, and the fiscal costs and benefits to the state.

- Analysis of additional programs, notably the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).

Like ESI's 2021 report, this 2024 study looks at barriers to full participation in the labor market caused not only by cliffs that result from the structure of benefit rules but also the challenge of ensuring that parents and caregivers who want to work can find affordable and accessible child care.

1.1. What are Benefits Cliffs?

A benefit cliff occurs when an increase in a household's income causes the household to lose benefits in an amount *greater than the increase in income*. This effect is typically associated with means-tested assistance programs that have strict income thresholds for determining and maintaining eligibility and / or benefit levels.¹⁷

How and When Benefits Cliffs Occur

Benefits cliffs most commonly occur under the following circumstances:

- **Earnings increases that push households beyond income thresholds.** Many benefit programs have strict income thresholds or cutoffs (often tied to a percentage of the Federal Poverty Level). When a household's income increases – whether due to working more hours, getting a raise, or taking on new employment – the household may lose a benefit entirely, or enter a new category eligible for a lesser benefit amount. The amount of benefit loss can be greater than the income gained, leaving the household with fewer net resources, which defines a “cliff.”
- **Earnings increases that cause multiple benefits to phase down concurrently.** Even when benefit programs are designed so that benefits “phase out” gradually as income increases (rather than dramatically disappearing at a specific income threshold) an issue may still arise if an income increase causes several benefits to phase down at once. An increase in income may lead to a loss in benefit value in multiple programs in which the aggregate benefits loss is of greater value than the income gain, even though the value loss for each individual benefit is lesser than the income gain. In this case the household is experiencing a benefits cliff, even though no individual program is creating a cliff if viewed in isolation.

Similar Phenomena to Cliffs

Even short of benefits cliffs, low- and moderate-income workers may face related phenomena that are similar in nature to benefits cliffs, and disincentivize workforce participation. These issues are also studied within this report.

¹⁷ National Conference of State Legislatures (NCSL), “Benefits Cliffs: State Strategies to Support Workers and Families,” July 2019, https://documents.ncsl.org/wwwncsl/Human-Services/Benefits-Cliffs_v03_web.pdf.

- **High “effective marginal tax rates” / high marginal rates of benefit loss.** The loss of benefits associated with an increase in income can be analogized to a “marginal tax rate” that reduces the gain in take-home pay for a worker who receives a raise. This occurs when households are subject to federal, state, or local income taxes. A benefit cliff technically occurs when the effective marginal tax rate for a household is 100 percent or above, meaning that all (or more) of their income gain is offset by lost benefits. However, even high marginal rates short of 100 percent still reduce the incentive to pursue income gains, as a significant portion of gains are lost. Any rate above 50 percent implies that more than half of the income increase is lost through benefit reductions. Many households that participate in benefit programs experience effective marginal tax rates far higher than the maximum tax rate of 37 percent in the federal income tax code.

What are effective marginal tax rates?

A household’s marginal tax rate is the rate at which additional income is taxed. In this report, we are concerned not just with how earning additional income may cause a household to owe additional taxes, but how it may cause a household to be eligible for less benefits. Thus we are concerned with the “effective” marginal tax rate.

The term **effective marginal tax rate** refers to how much a household has to give up when it earns additional income, taking into account not just additional taxes owed but also benefits lost. For example, suppose that a household increases its earnings by \$100. If this causes the household to owe an additional \$20 of taxes *and* causes the household to receive benefits worth \$5 less than what it was previously receiving, we would say that the household is “effectively” losing \$25 of that additional \$100 of earnings. Because \$25 is 25 percent of 100, the household in this example faces an effective marginal tax rate of 25 percent.

Source: Suzanne Macartney and Nina Chien, “Marginal Tax Rates: A Quick Overview.”

U.S. Department of Health & Human Services, March 2019.

<https://aspe.hhs.gov/sites/default/files/private/aspe-files/260661/brief1-intromtrs.pdf>

- **Child Care, transportation, and other barriers to labor force participation.** Many households or workers face barriers to entry to the workforce that are similar in concept to the policy-driven cliffs described above. For example, many parents need to secure child care to participate in the workforce, and many workers need to secure transportation to their jobs. If the cost of these necessities for participation approaches or exceeds the take home income earned through employment, the household is effectively experiencing a “cliff,” and may not feel that it is worthwhile to take the job opportunity when most or all income will be spent on expenses that would not be needed but for the job.
- **Other sources of benefit loss.** A household may lose eligibility for benefits based on things other than an increase in earned income. Some benefit rules concern household assets and household

composition, creating situations where people's incentive to save and invest or to get and stay married can be affected by benefit eligibility rules. This report focuses mainly on cliffs related to labor market participation and earned income changes.

The primary concern with benefits cliffs is the disincentive they create for workforce participation and career advancement due to offsetting losses in benefits that leave a household no better (or worse) off in the short-term. This creates a paradox where the pursuit of financial independence through employment can inadvertently lead to greater financial instability. These instances put low- and moderate-income households in "no win" situations where they must choose between reducing their current resources or retaining their reliance on benefit programs. From a policy standpoint, these incentives reduce economic growth, and may increase benefit program costs relative to a program design in which households benefit more directly from increasing their earned income.

The Difficulty of Addressing Benefits Cliffs

Although many people who study and work in public policy are aware of the problems created by benefits cliffs, finding good solutions remains a challenge because of the many considerations involved in benefit program design. In general, benefit programs seek to address multiple objectives at once:

- To provide support to and meet the basic needs of households;
- To avoid disincentivizing benefit participants from working to support themselves; and
- To limit expense for the government, and thus taxpayers.

Benefits cliffs violate the second objective: they make it less desirable for a person to participate in the labor force, because doing so may make the person worse off in terms of their total financial resources. However, paths to reduce the impact of benefits cliffs may come into tension with either the first or third objective. For example, shrinking or eliminating benefit programs would reduce the disincentives for workforce participation, but would not meet the first objective of supporting households in need. This analysis focuses on options that seek to improve workforce incentives without reducing support levels for households in need.

Alternatively, benefits cliffs can be "flattened out" or "graduated" to a greater degree. Under this approach, benefits phase out more gradually, so that a household that earns more income experiences a lesser reduction in benefits for each additional increment of earnings. This approach may increase benefit levels for existing program participants and may also result in new households (above the current income threshold) becoming eligible for the program. Both factors will add to government expenditures on the program.

In addition, while a graduated approach improves earnings incentives for existing program participants, it may have a counteracting effect for newly participating households. For newly eligible households, participating in a benefit program makes the household better off than they were before in terms of their net resources. But if the benefit amount phases out slowly as income increases, this creates a higher effective marginal tax rate and some mild work disincentives for this household.

For this reason, many of the policy options discussed and analyzed in this report have somewhat lessened economic and workforce effects when considering the full population (including newly eligible households) than they do when considering existing program participants only. This effect is reflective of the challenge inherent in benefit program design.

1.2. New Hampshire Workforce Challenges

Benefits cliffs and the associated disincentives to workforce participation create a particular challenge in New Hampshire due to the state's demographic patterns and workforce challenges. Like several of its New England neighbors, New Hampshire is among the oldest states in the nation, with an increasing share of the population aging out of the workforce each year. While the state's overall population is increasing, its working-age population grew by just 1 percent from 2012-2022, with some regions experiencing population decline.

New Hampshire has experienced record low unemployment rates, remaining below 4 percent for all of 2022-2023 and from 2016-2019 before the pandemic. In this environment, the constraint on economic growth is less the ability of workers to find employment and more the ability of businesses to find the workers needed to maintain and expand their activity.

The state's changing industry composition is another key factor in considering the labor supply needed to meet changing economic needs. Growth industries require an increasing number of workers over time to reach their potential. Among these are care industries (child care, health care, and elder care) in which the availability and quality of a workforce also affects the ability of workers in other industries to secure the family care needed to enable them to fully participate.

From a policy perspective, these enduring tight labor market conditions imply that increasing labor force participation would directly boost employment, earnings, and economic growth in New Hampshire.

1.3. Prior Research and Study

New Hampshire established the Benefits Cliff Effect Working Group in 2019 under HB 4, tasked with developing strategies to mitigate this issue.¹⁸ The group subsequently commissioned the report, "Constraints on New Hampshire's Workforce Recovery: Impacts from COVID-19, Child Care, and Benefit Program Design on Household Labor Market Decisions," which was released in February 2021 and included a set of recommendations for potential policy options to mitigate benefits cliffs identified in the study.¹⁹

The Benefits Cliff Effect Working Group included many of these options in a set of recommendations finalized in 2021. Many of these recommendations have since been implemented via Departmental or Legislative action through pilot programs or policy changes. These initiatives range across various benefit categories such as Temporary Assistance for Needy Families (TANF), child care, and food security.²⁰

¹⁸ New Hampshire Department of Health and Human Services, "Cliff Effects Final Report," accessed January 15, 2024, <https://www.dhhs.nh.gov/sites/g/files/ehbemt476/files/documents2/cliff-effects-final-report.pdf>.

¹⁹ Econsult Solutions, Inc. and National Center for Children in Poverty, "Constraints on New Hampshire's Workforce Recovery." See DHHS's webpage on solving the Benefits cliffs effect here: <https://www.dhhs.nh.gov/solving-benefits-cliff-effect>

²⁰ New Hampshire Department of Health and Human Services, "Cliff Effects Final Report."

Section 5.2 of this report describes some of the policy initiatives that have arrived as a result of these efforts.

In addition, state teams across New England have worked together to study and share policy advice to address policy cliffs. In April 2024, groups from six states collaborated and released a report on best practices to address policy cliffs, "[New England States Tackle Benefits cliffs: Cultivating Innovation to Support Family Economic Mobility](#)."²¹

New Hampshire Cliff Effect Policy Response: HB 4 (September 2019)²²

In September 2019, New Hampshire passed HB 4, which addressed the cliff effect in public benefits. The bill required the Department of Health and Human Services (DHHS) to develop a plan to eliminate the cliff effect, ensuring smoother transitions for families moving off public benefits without sudden losses. It established a working group to create strategies, including policy recommendations and a benefits cliff calculator for employers. The group was required to submit an initial report by March 1, 2020, with quarterly updates until June 30, 2021.

²¹ John T. Gorman Foundation, "New England States Tackle Benefits cliffs 2024," April 2024, <https://www.itgfoundation.org/wp-content/uploads/2024/04/New-England-States-Tackle-Benefit-Cliffs-2024.pdf>.

²² New Hampshire House Bill (HB) 4 § 24, H.R. 19-1124 (2019): <https://bills.nhliberty.org/bills/2019/HB4>.

1.4. Organization of Report

This report is organized as follows.

Section 1: Introduction explains what benefits cliffs are and when they occur. It defines cliffs and describes similar phenomena, such as “near cliffs,” where benefit structures create high effective marginal tax rates that allow households to gain some resources from working but provide little incentive to increase their earnings. It also describes additional workforce challenges in New Hampshire, such as costly or insufficient child care options, and outlines the purpose of this study and its connection to prior research.

Section 2: Economic and Demographic Patterns describes relevant trends in New Hampshire, including demographic changes such as aging and geographic movement, as well as recent changes in labor force participation and employment across sectors.

Section 3: Benefit Programs and Participants reviews the benefit programs analyzed in this report. It describes the programs, how their rules interact, and the demographics of those receiving benefits.

Section 4: Benefits Cliff Challenges describes how benefits cliffs impact New Hampshire’s residents and employers. Interviews with employers and focus groups with employees and individuals who receive benefits. The section discusses cliffs resulting from New Hampshire benefit policies in basic mathematical terms and addresses child care challenges impacting New Hampshire’s working families and their relationship to workforce participation.

Section 5: Policy Approaches explores policy options available to mitigate benefits cliffs, including approaches taken by other states – especially those in New England – and current or proposed policies in New Hampshire. This section sets the stage for the various policy options covered in the next section.

Section 6: Policy Options and Potential Impacts introduces several policy options to mitigate remaining benefits cliffs in New Hampshire. When possible, economic models were used to estimate each policy’s cost to the state, impacts on the labor supply and economy, and effect on state tax revenue. The findings were summarized to inform policymakers of the potential outcomes of each option.

2. Economic and Demographic Patterns

New Hampshire has experienced extended periods of historically low unemployment both before and after the COVID-19 pandemic. During this period, the limiting factor for economic growth has not been employment opportunities, but rather the availability of a sufficient workforce. These trends are tied closely to the changing demographics of New Hampshire's aging population. As residents age out of the workforce, the state's working age population is plateauing, or even shrinking in some areas. These dynamics also create additional demand for services like health care and nursing which the state is struggling to meet.

This section reviews New Hampshire's demographic, employment, and workforce patterns and trends. This broad lens helps to demonstrate the importance of workforce participation levels to the state's economy and identify those sectors and job types where New Hampshire employers are struggling to recruit a sufficient workforce.

2.1. Demographic Trends

New Hampshire has seen significant aging of the population in recent decades and has the second oldest median age in the country at 43. The state's demographic change reduces the share of the population within prime working ages, which in turn makes it difficult for employers to access the workforce that they need for the state to achieve steady economic growth.

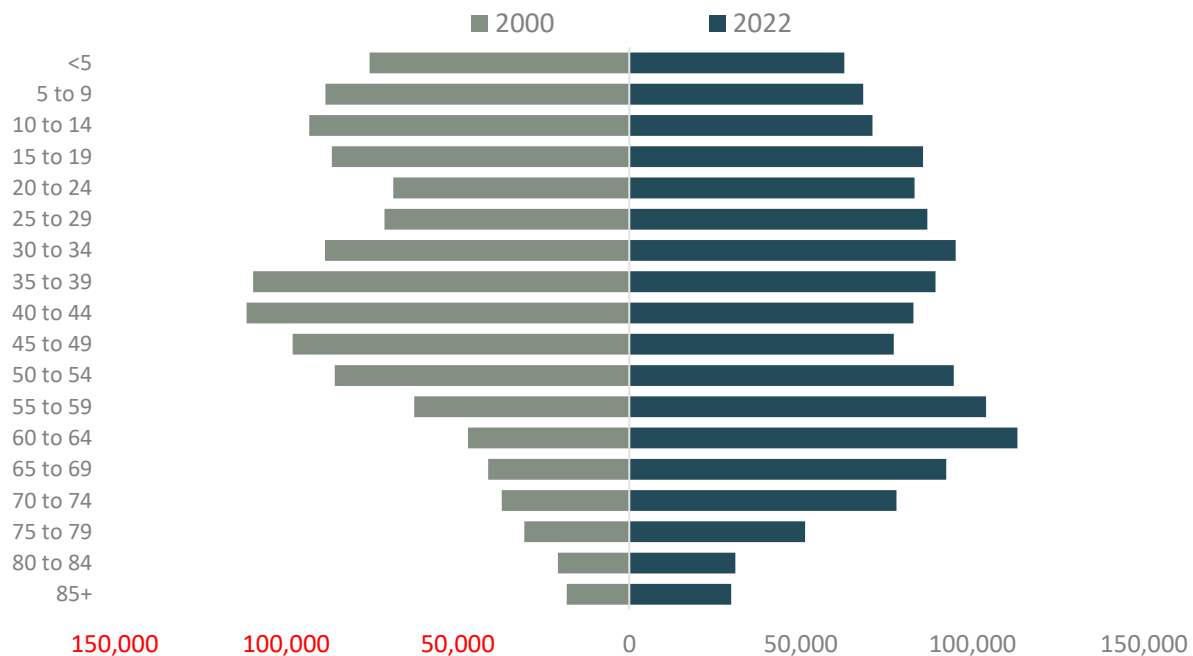
Figure 2.1 below shows the shape of the state's "population pyramid" in five-year age cohorts as of 2022 compared to as of 2000. The largest population cohort, the 'baby boomer' generation, has moved from the 35 – 54 year old age bands in 2000 to the 55 – 74 year old age bands as of 2022.

- New Hampshire's population aged 55 or older has grown from 21 percent in 2000 to 36 percent in 2022.

A combination of population aging and modest levels of overall population growth has resulted in little absolute growth in the working age population over the past decade. Figure 2.2 shows changes in the working age (16-64) and elderly (65+) population by county and statewide from 2012 – 2022.

- New Hampshire's working age population grew by just 1 percent, or 6,000 people, from 2012 – 2022, while its elderly population grew by 45 percent (more than 81,000 people).
- Five of New Hampshire's ten counties (Carroll, Cheshire, Coos, Grafton, and Sullivan) saw a decline in working age population over this ten-year period, with modest growth in the working age population in all five of the counties clustered in the southeast portion of the state (Belknap, Hillsborough, Merrimack, Rockingham, and Stratford).

Figure 2.1: New Hampshire Population by Age, 2000 & 2022



Source: Census 2000, ACS 5-year Estimates (2022)

Figure 2.2: Population Change by County, 2012 – 2022

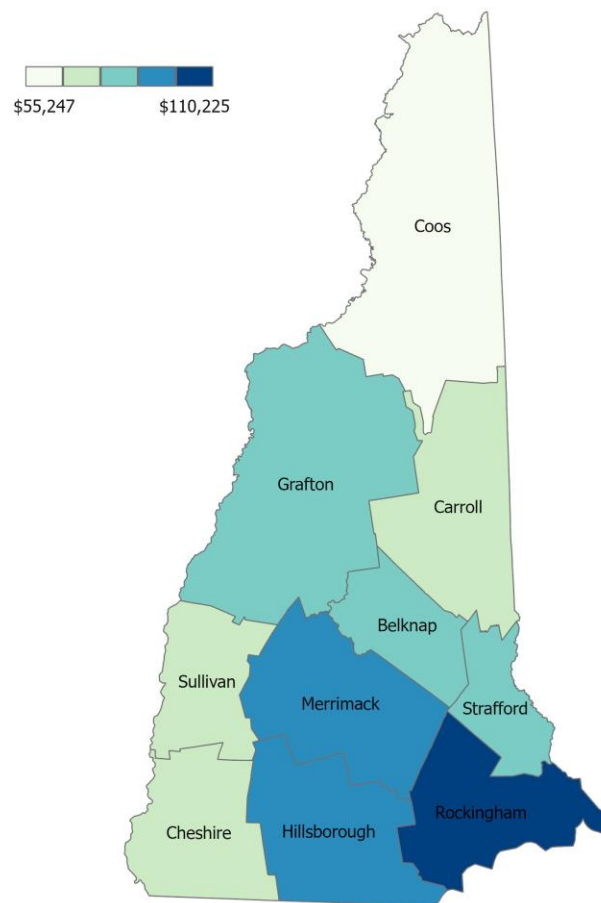
County	2012		2022		Net Chg 2012-2022		% Chg 2012-2022	
	16-64	65+	16-64	65+	16-64	65+	16-64	65+
Belknap	39,371	10,126	39,453	14,545	82	4,419	0%	44%
Carroll	30,160	9,951	29,251	14,805	-909	4,854	-3%	49%
Cheshire	52,437	11,482	48,300	16,172	-4,137	4,690	-8%	41%
Coos	21,255	6,412	19,337	7,840	-1,918	1,428	-9%	22%
Grafton	60,777	13,903	58,354	19,954	-2,423	6,051	-4%	44%
Hillsborough	270,588	48,228	279,909	68,925	9,321	20,697	3%	43%
Merrimack	98,750	20,316	99,894	29,128	1,144	8,812	1%	43%
Rockingham	200,042	37,996	203,638	59,533	3,596	21,537	2%	57%
Strafford	86,342	14,841	89,162	20,990	2,820	6,149	3%	41%
Sullivan	28,423	7,248	27,008	9,857	-1,415	2,609	-5%	36%
New Hampshire	888,145	180,503	894,306	261,749	6,161	81,246	1%	45%

Source: ACS 5-year Estimates (2012 & 2022)

Differences in population patterns correspond with differences in economic outcomes across the state. Figure 2.3 shows the median household income by county as of 2022. Incomes are highest in the southeast region of the state, which is part of the broader Boston Metropolitan area.

- The median household income in the wealthiest county in the state (\$110,000 in Rockingham) is double the median household income in the lowest earning county in the state (\$55,000 in Coos).

Figure 2.3: Median Household Income by County, 2022



Source: ACS 5-year Estimates (2022)

Cross-county and cross-state worker flows are important components of these population and income patterns. Figure 2.4 shows the residential and workplace locations of the New Hampshire workforce. New Hampshire is a net outflow state, with more New Hampshire residents working outside of the state than out of state residents working in New Hampshire.

- The state's net outflow of workers is nearly 43,000, with around 133,000 New Hampshire residents working out of state and around 90,000 out of state workers commuting into New Hampshire.

Figure 2.5 shows the net inflow/outflow with each of New Hampshire's neighboring states.

- New Hampshire has a net outflow of more than 58,000 workers to Massachusetts, but a net inflow of workers from both Maine (10,700) and Vermont (6,000)

Figure 2.4: New Hampshire Residential and Work Employment Locations

	2021		2021
Jobs in in New Hampshire	640,328	Live and Work in New Hampshire	550,244
Workers Living in New Hampshire	683,112	Live in New Hampshire + Work Outside State	132,868
Net Inflow / (Outflow)	(42,784)	Live Outside State + Work in New Hampshire	90,084

Source: US Census Bureau LEHD Statistic via OntheMap (2021)

Figure 2.5: Net Inflow Outflow of Employment among Neighboring States

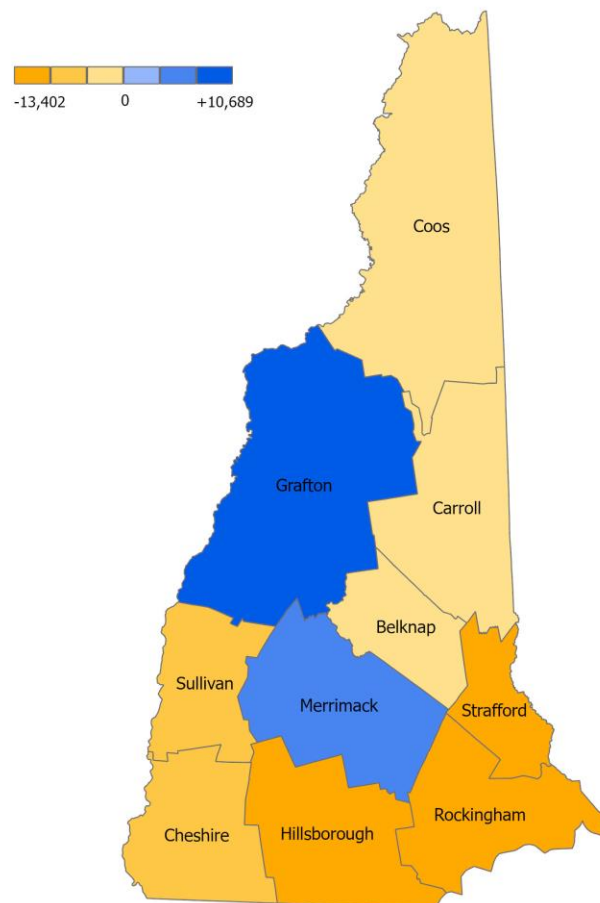
	Net Inflow/(Outflow)
Massachusetts	(58,244)
Maine	10,683
Vermont	6,006

Source: US Census Bureau LEHD Statistic via OntheMap (2021)

Worker flows naturally vary by region of the state. Figure 2.6 shows net inflows and outflows of workers at the county level (which includes both out of state flows and in-state flows between counties).

- The southeast region of the state has a net outflow of workers, with high levels of commuting into Massachusetts and to a lesser extent Maine.
- Grafton County on the western border has the highest net inflow, with commuters coming in from Vermont.

Figure 2.6: Net Inflow / Outflow of Employment by County



Source: US Census Bureau LEHD Statistic via OntheMap (2021)

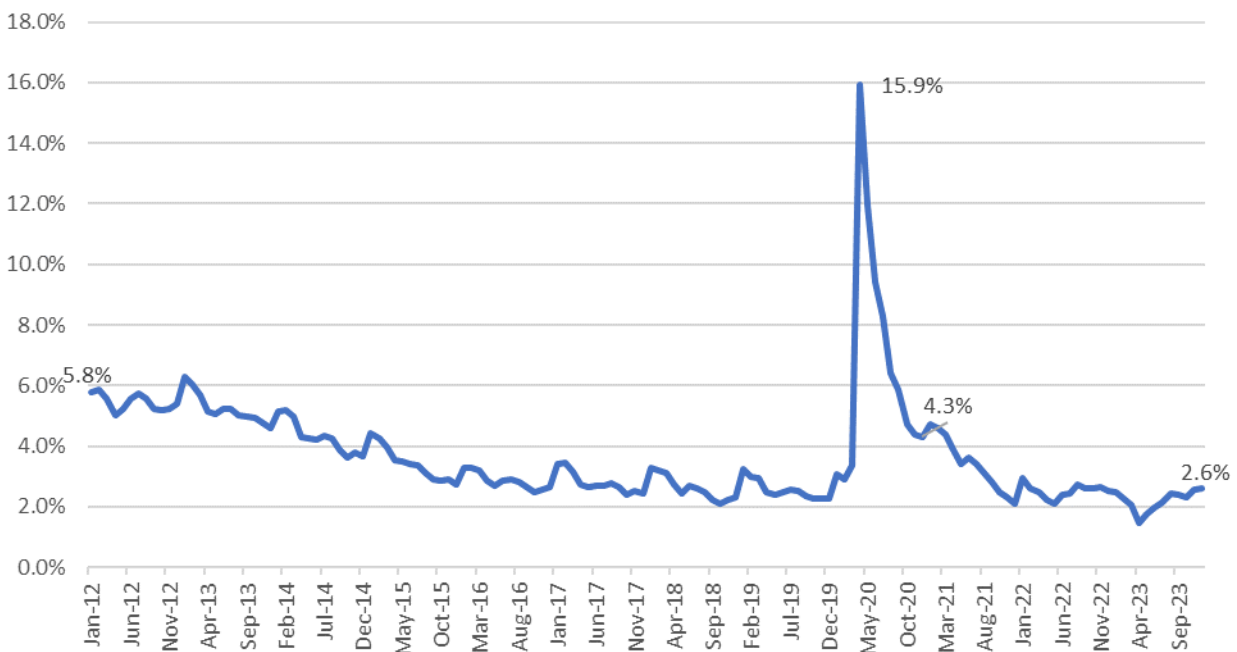
2.2. Employment and Labor Force Participation

Over the past decade, New Hampshire has experienced long stretches with historically low levels of unemployment. This trend was interrupted by the economic shock of the COVID-19 pandemic, but unemployment has returned quickly to pre-pandemic levels.

Figure 2.7 shows New Hampshire's monthly unemployment rate from 2012 – 2023. The unemployment rate fell steadily from around 6 percent at the start of 2012 to between 2 – 4 percent throughout the 2016 – 2019 period. With the onset of the pandemic in April 2020, unemployment jumped to nearly 16 percent. The unemployment rate fell quickly as activity recovered and stood at 4.3 percent at the end of 2020.

- The unemployment rate was below 3 percent for all of 2022 – 2023, lower even than pre-COVID levels.

Figure 2.7: New Hampshire Unemployment Rate, 2012 – 2023



Source: Bureau of Labor Statistics

While unemployment has been historically low (save for the pandemic period), the trends in overall employment and workforce participation are more nuanced due to the state's changing demographics. Figure 2.8 shows New Hampshire's total employment over the past decade, based on the BLS Quarterly Census of Employment and Wages (QCEW), which relies partly on administrative data supplied by the state. Using the 12-month moving average to account for seasonal trends, statewide employment grew by nearly 50,000 from 2014 to March 2020, before falling briefly back to 2014 levels due to the pandemic.

- Employment has risen steadily post-COVID and exceeded the pre-pandemic peak as of the end of 2023.

While the state's employment recovery has been strong, labor force challenges remain, and serve as a constraint on future growth. Figure 2.9 shows New Hampshire's labor force in terms of the participation rate of the working age (16+) population.

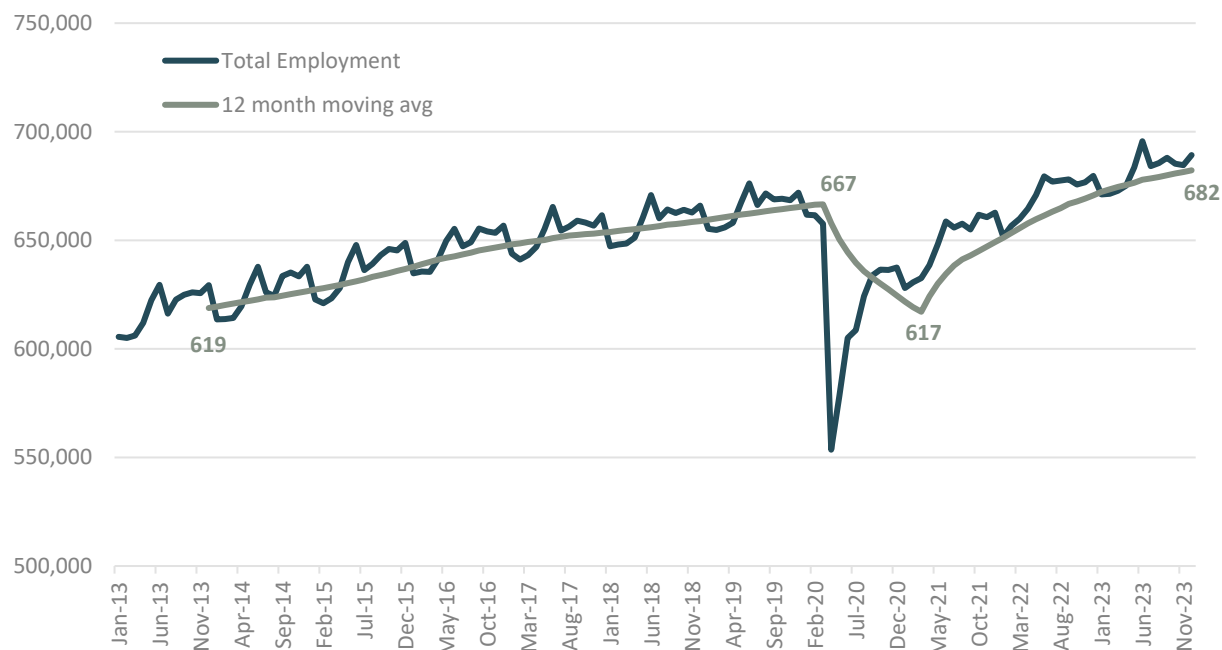
The labor force participation rate fell modestly in the pre-COVID period (due in part to the aging population) and ticked up slightly amidst strong economic conditions in 2018 – 2019.

- Population growth led to an increase in the labor force of around 40,000 workers from Dec 2012 to March 2020 with a relatively constant participation rate.

In 2020, the pandemic caused a sharp drop in the labor force to around 65 percent.

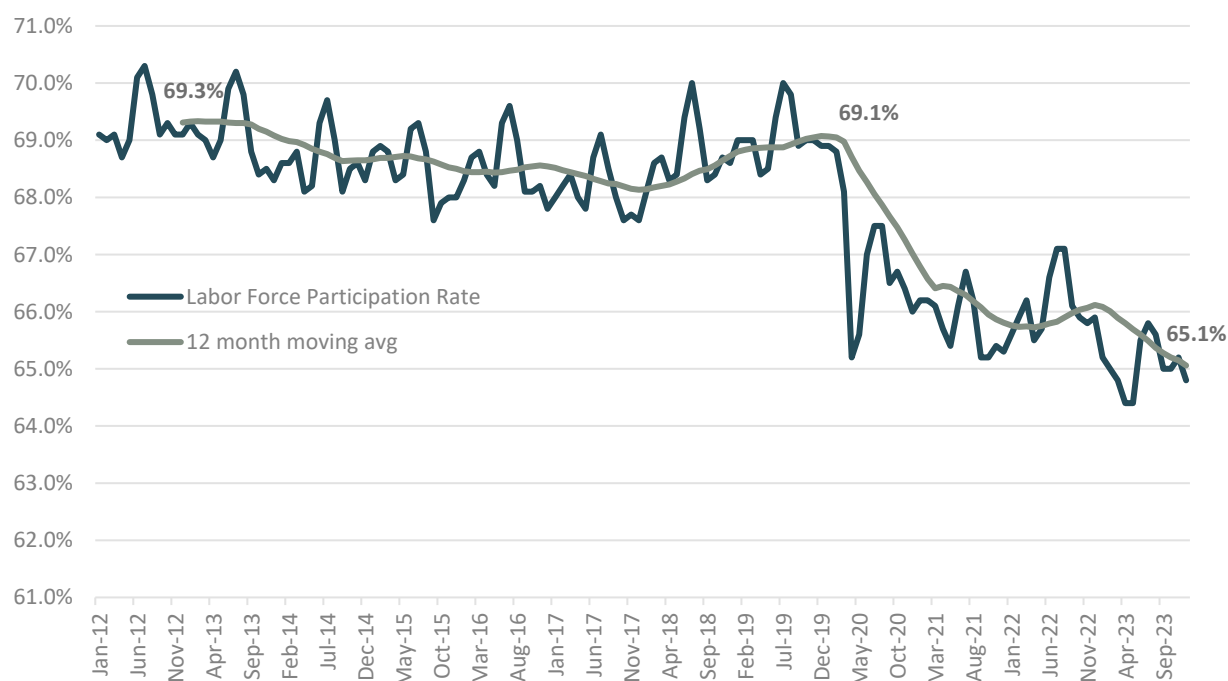
- While the unemployment rate and total employment have recovered to and beyond pre-COVID benchmarks, the labor force participation rate has remained well below historic levels throughout the post-COVID recovery period.

Figure 2.8: New Hampshire Total Employment, 2013-2023



Source: BLS Quarterly Census of Employment and Wages (2024)

Figure 2.9: New Hampshire Labor Force Participation Rate, 2012 - 2023



Source: Bureau of Labor Statistics

Labor force participation and unemployment rates vary materially by demographic group. The figures below show New Hampshire’s labor force metrics by age bracket (Figure 2.10), race/ethnicity (Figure 2.11) and gender (Figure 2.12) for the 16+ population as of 2022.

- Labor force participation and employment peak in the prime working years of 25 – 54. The employment to population ratio for these groups approached 85 percent in 2022
- Participation and employment rates are far lower for younger workers (under 25) and older workers (55+).

Figure 2.10: Labor Force Metrics by Age Bracket (Age 16+), 2022

Age Bracket	Population	Unemployment Rate	Labor Force Participation	Employment: Population Ratio
16-24	158,700	7%	67%	62%
25-34	173,700	4%	87%	83%
35-44	163,600	3%	87%	84%
45-54	181,700	2%	86%	84%
55-64	216,600	3%	73%	71%
65+	261,700	3%	22%	22%
Statewide (16+)	1,156,000	4%	67%	64%

Source: ACS 5-year Estimates (2022)

- The employment to population ratio is similar across race/ethnicity groups. Black and Hispanic residents have a higher unemployment rate than white residents, but also have a higher labor force participation rate. These trends are impacted in part by the different age composition of the racial groups, with the highest proportion of the white population aged 65+.

Figure 2.11: Labor Force Metrics by Race/Ethnicity (Age 16+), 2022

Race / Ethnicity	Population ²³	Unemployment Rate	Labor Force Participation	Employment: Population Ratio
White	1,034,950	3.4%	66.1%	63.8%
Black	16,349	7.8%	68.4%	62.2%
Asian	30,131	3.2%	70.8%	68.3%
Hispanic	39,486	6.2%	73.1%	68.1%
Native American	1,783	1.5%	66.6%	65.6%
Pacific Islander	295	0.0%	65.1%	65.1%
Other	11,735	6.3%	75.1%	69.9%
Two + races	43,052	3.9%	70.4%	67.6%
Statewide (16+)	1,156,000	4%	67%	64%

Source: ACS 5-year Estimates (2022)

- Women have lower labor participation rates and employment to population ratio than men, reflecting the additional caregiving and family responsibilities often borne by women.

Figure 2.12: Labor Force Metrics by Gender (Age 16+), 2022

Gender	Population	Unemployment Rate	Labor Force Participation	Employment: Population Ratio
Male	575,400	4%	71%	68%
Female	580,600	3%	62%	60%
Statewide (16+)	1,156,000	4%	67%	64%

Source: ACS 5-year Estimates (2022)

Educational attainment is also a major factor in labor force participation and employment. Figure 2.13 shows labor force participation and outcomes for the population over 25 as of 2022.²⁴

- Both labor force participation and employment to population rates increase materially with each step in educational attainment.
- The aggregate labor force participation rate for the population 25 – 64 without a bachelor's degree is 78 percent, 11 percentage points below the participation rate of those with a bachelor's degree.

²³ Population numbers by race/ethnicity do not sum to the statewide number due to the possibility of overlap between categories.

²⁴ Comparisons of outcomes by educational attainment are typically limited to the population 25+ which has had the opportunity to attain college-level degrees.

Figure 2.13: Labor Force Metrics by Educational Attainment (Population 25-64), 2022

Educational Attainment	Population	Unemployment Rate	Labor Force Participation	Employment: Population Ratio
Less than HS	40,400	8%	60%	56%
HS Graduate	192,700	4%	77%	74%
Some College / Associate's	206,200	3%	83%	80%
Bachelor's +	296,200	2%	89%	87%

Source: ACS 5-year Estimates (2022)

The changes in labor force participation levels reviewed above appear to be attributable to a mix of economic and lifestyle factors impacted by the pandemic and the broader demographic changes and aging population in the state. Figure 2.14 divides the workforce into three age brackets: younger workers (16 – 24), prime age workers (25 – 54) and older workers (age 55+) to examine changes in the labor force participation and outcomes from 2012-2022.

- Labor force participation within each of these age cohorts is relatively consistent from 2012-2022, growing slightly for young workers (from 65% to 67%), and falling slightly for prime age workers (from 87% to 86%) and for older workers (from 46% to 45%)
- However, the composition of the workforce changes significantly over time, with the number of prime age residents falling by nearly 30,000 and the number of older residents growing by nearly 120,000.
- This changing composition drives the overall labor force participation rate down from 70 percent in 2012 to 67 percent in 2022. It also drives the employment to population ratio down slightly (from 65% to 64%) despite the historically low unemployment level in 2022.

Figure 2.14: Labor Force Metrics by Age Bracket, 2012-2022

Age Bracket	2012	2017	2022
Young (16-24) Population	161,310	162,796	158,702
Unemployment Rate	15%	11%	7%
Labor Force Participation Rate	65%	68%	67%
Employment: Population Ratio	55%	60%	62%
Prime Age (25-54) Population	547,886	518,239	518,993
Unemployment Rate	5%	4%	3%
Labor Force Participation Rate	87%	85%	86%
Employment: Population Ratio	82%	82%	83%
Older (55+) Population	359,452	421,232	478,360
Unemployment Rate	5%	3%	3%
Labor Force Participation Rate	46%	46%	45%
Employment: Population Ratio	44%	45%	44%
Statewide (16+) Population	1,068,648	1,102,267	1,156,055
Unemployment Rate	7%	5%	4%
Labor Force Participation Rate	70%	68%	67%
Employment: Population Ratio	65%	65%	64%

Source: ACS 5-year Estimates (2022)

2.3. Sector Trends

New Hampshire has a diverse economy in terms of industries, with no sector comprising more than 13 percent of the state’s job base and four sectors falling between 10 – 13 percent (see Figure 2.15).

- The sectors comprising the largest share of New Hampshire’s economy are Health Care and Social Assistance (13.0%), Retail Trade (12.3%), Government (11.8%), and Manufacturing (9.6%).

Figure 2.15: New Hampshire Industries by Employment Size (2022)

Industry	2022 Employment	Employment Share
Health Care and Social Assistance	97,523	13.0%
Retail Trade	92,402	12.3%
Government	88,386	11.8%
Manufacturing	72,192	9.6%
Accommodation and Food Services	59,505	7.9%
Professional, Scientific, and Technical Services	53,680	7.2%
Administrative and Support and Waste Management and Remediation Services	44,400	5.9%
Construction	43,021	5.7%
Other Services (except Public Administration)	35,007	4.7%
Wholesale Trade	31,938	4.3%
Finance and Insurance	29,984	4.0%
Educational Services	28,221	3.8%
Transportation and Warehousing	18,578	2.5%
Arts, Entertainment, and Recreation	14,703	2.0%
Information	12,551	1.7%
Management of Companies and Enterprises	10,657	1.4%
Real Estate and Rental and Leasing	10,058	1.3%
Agriculture, Forestry, Fishing and Hunting	4,294	0.6%
Utilities	2,118	0.3%
Mining, Quarrying, and Oil and Gas Extraction	631	0.1%
Total	749,849	100.0%

Source: Lightcast (2023)

Employment trends in New Hampshire's economy between 2017 and 2022 show that sectors with a smaller share of total employment in the state are generally those adding the most jobs (see Figure 2.16).

- The largest growth sector over this period (in both percentage and absolute terms) was Professional, Scientific, and Technical Services, which grew by 22 percent, adding nearly 10,000 jobs.
- Other growth sectors over this period include Administrative and Support and Waste Management and Remediation Services (+3,880), Wholesale Trade (+3,265 jobs), and Construction (+3,000 jobs), none of which currently among the state's top 5 sectors by employment share.
- The retail (-6,470 jobs), Government (-4,613 jobs) and Educational Services (-2,422 jobs) sectors experienced the largest employment declines over this period.

Figure 2.16: New Hampshire Industries by Employment Growth, 2017-2022

Industry	2017-22 Net Employment	2017-2022 % Change
Professional, Scientific, and Technical Services	9,610	22%
Administrative and Support and Waste Management and Remediation Services	3,880	10%
Wholesale Trade	3,265	11%
Construction	3,000	7%
Transportation and Warehousing	2,287	14%
Management of Companies and Enterprises	1,708	19%
Health Care and Social Assistance	1,321	1%
Manufacturing	966	1%
Finance and Insurance	520	2%
Arts, Entertainment, and Recreation	519	4%
Agriculture, Forestry, Fishing and Hunting	288	7%
Real Estate and Rental and Leasing	64	1%
Mining, Quarrying, and Oil and Gas Extraction	49	8%
Utilities	-5	0%
Information	-703	-5%
Accommodation and Food Services	-958	-2%
Other Services (except Public Administration)	-1,048	-3%
Educational Services	-2,422	-8%
Government	-4,613	-5%
Retail Trade	-6,470	-7%
Total	11,258	2%

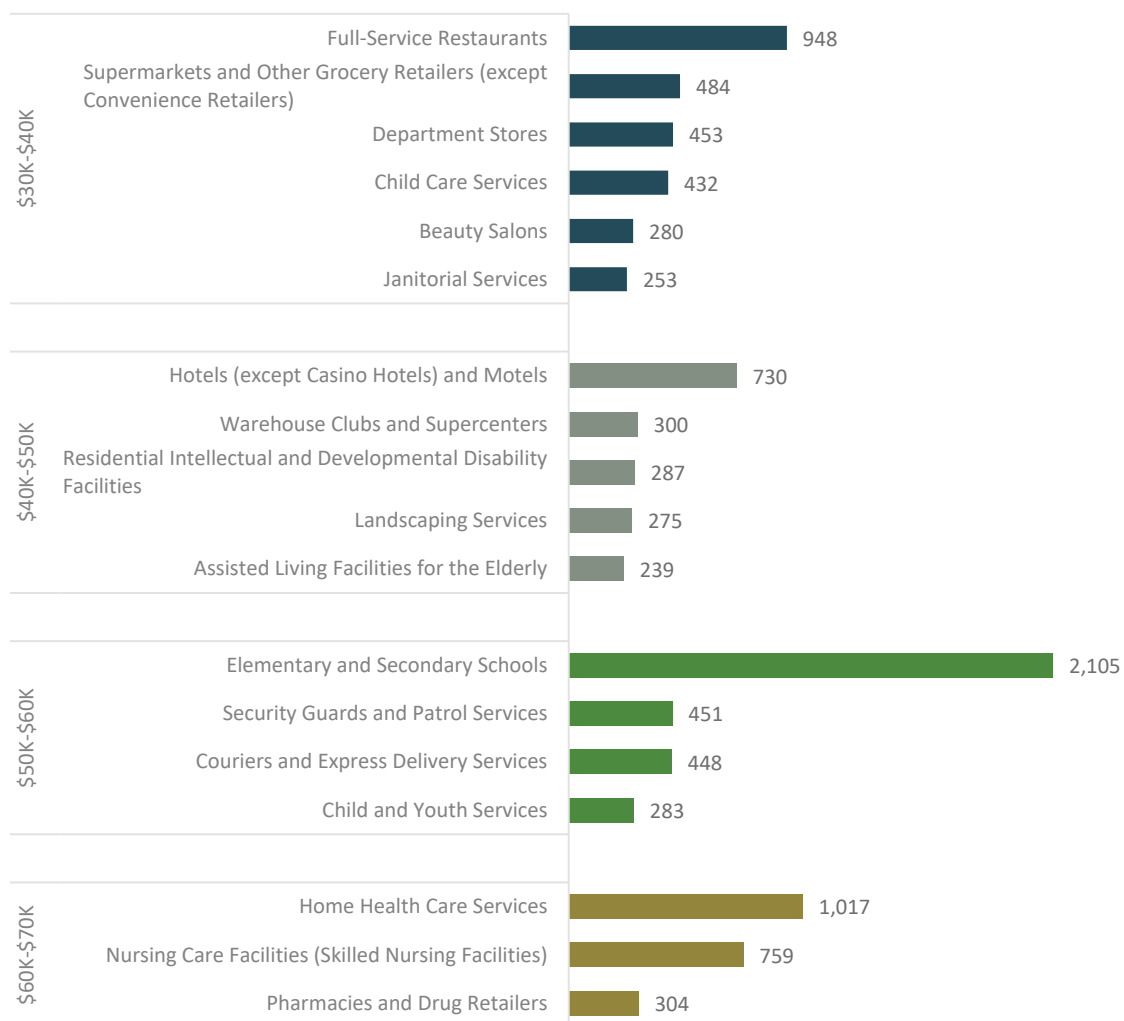
Source: Lightcast (2023)

The changing industry composition underscores the importance of bringing new workers into the state's labor supply to meet future economic needs. Job postings represent another important indicator of potential gaps between labor supply and demand. Figure 2.17 uses job posting data aggregated by labor market intelligence provider Lightcast to look at the top industries for job postings within the State of New

Hampshire over the period from January 2022 to October 2023. This data is sorted by income band associated with the posted position, and the number of postings is annualized.

- At the lower salary levels (\$30-\$50k), the most common job postings are in hospitality and service sector occupations such as restaurants, supermarkets, hotels, and warehouses. However, material demand is also evident for workers in the care industry, including child care services and intellectual and developmental disability services.
- Within the \$50-\$60k salary band, the most common jobs postings are for schools, security, and delivery services.
- Within the \$60-\$70k salary range, health care positions are the most in-demand, including home health care services, nursing care, and pharmacy retailers.

Figure 2.17: Job Postings - Top Industries by Income Band



Source: Lightcast Postings, Jan 2022 – Oct 2023 (annualized)

3. Benefit Programs and Participants

This section provides an overview of the various benefit programs included in this study, focusing on their structures, eligibility criteria, and the interactions in eligibility rules between them. Understanding these programs is crucial for assessing and mitigating the cliff effect, as their specific design and rules dictate how incremental income changes can disproportionately impact the support families receive.

Federal and State Relationship in Benefit Programs

The relationship between state governments and the federal government in administering benefit programs is a fundamental aspect of the U.S. safety net system. This relationship is characterized by a blend of federal oversight and state-level discretion, creating a dynamic and often complex interplay that shapes how benefits interact.²⁵

Most benefit programs are funded and regulated by federal legislation, which sets baseline eligibility criteria, benefit levels, and program structures.²⁶ However, within some of these federal frameworks, states have considerable discretion to modify and expand programs to better suit their populations.²⁷ This flexibility allows states to innovate and tailor programs to local needs but also leads to variability in benefits across the country. For example, the Supplemental Nutrition Assistance Program (SNAP) has federal guidelines for eligibility and benefit formulas, but states can adjust certain parameters, such as gross and net income limits and asset tests. Similarly, Medicaid is governed by federal regulations, but states can apply for waivers to expand coverage, modify service delivery models, and implement cost-saving measures.

3.1. Benefit Programs

Several significant benefit programs are examined in this study, including Temporary Assistance for Needy Families (TANF), the Supplemental Nutrition Assistance Program (SNAP), Medicaid/Children's Health Insurance Program (CHIP), New Hampshire Child Care Scholarship, Low-Income Home Energy Assistance Program (LIHEAP), Housing Choice Vouchers (HCV), and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). Each program operates under a framework of federal and state guidelines, with varying degrees of state control over eligibility and benefits.

General information about each of these programs and their eligibility rules are summarized below.

²⁵ Gabby Headrick et al., "Integration and Coordination Across Public Benefit Programs," *Preventive Medicine Reports* 31 (2023), <https://doi.org/10.1016/j.pmedr.2022.102077>.

²⁶ Lucie Schmidt, Lara Shore-Sheppard, and Tara Watson, "Safety Net Program Interactions and Impacts on Low-Income Families," *The Reporter*, National Bureau of Economic Research (NBER), December 31, 2021, <https://www.nber.org/reporter/2021number4/safety-net-program-interactions-and-impacts-low-income-families>.

²⁷ The federal-state benefit administration dynamic has evolved over time. Initially, federal involvement began with the New Deal, introducing programs like Social Security with state-administered benefits. The 1960s War on Poverty expanded federal roles with Medicare, Medicaid, and SNAP, setting uniform standards but retaining state-level administration. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 further increased state control by converting AFDC into TANF, a block grant allowing states greater flexibility. Today, while states must adhere to federal eligibility criteria for programs like SNAP and Medicaid, they can modify specific requirements, benefit delivery, and calculations. States can expand Medicaid under the ACA, supplement SSI payments, adjust TANF program generosity, and offer state-specific EITC benefits, creating disparities in healthcare access and benefit levels across the country. For more on the history of benefit, see Robert A. Moffitt, "The Deserving Poor, the Family, and the U.S. Welfare System," *Demography* 52, no.3 (2015): 729–749, <https://doi.org/10.1007/s13524-015-0395-0>.

- **Temporary Assistance for Needy Families (TANF):** This federal program provides cash assistance and employment support to families who meet income eligibility requirements. The state administers this program under federal guidelines but has some flexibility in determining eligibility criteria and benefit levels.
- **Supplemental Nutrition Assistance Program (SNAP):** SNAP helps eligible households purchase food. Eligibility and benefits are primarily determined by federal guidelines, with some state-level adjustments.
- **Medicaid/Children's Health Insurance Program (CHIP):** These programs provide healthcare coverage to eligible children, adults, and families. Medicaid and CHIP eligibility and benefits are governed by both federal and state regulations. For simplicity, both the adult and child components of this program are generally referred to as "Medicaid" throughout this report.
- **New Hampshire Child Care Scholarship:** Funded through federal Child Care and Development Block Grants, this program helps working families afford quality child care. The state has some control over setting income eligibility thresholds and reimbursement rates.
- **Low-Income Home Energy Assistance Program (LIHEAP):** A federal program that helps households with their energy bills. States administer the program and have some discretion in setting benefit levels and eligibility criteria.
- **Housing Choice Vouchers (HCV):** This federally funded program, administered by local public housing authorities, helps individuals and families secure affordable housing. While eligibility is federally mandated, states and localities manage waiting lists and other administrative aspects.
- **Special Supplemental Nutrition Program for Women, Infants, and Children (WIC):** A federal public health nutrition program for individuals who are pregnant, postpartum, or breastfeeding, and who meet income requirements, as well as infants and young children up to age five. The federal government funds and sets eligibility guidelines, while state agencies administer the program through contracts with health centers and non-profit organizations.

Eligibility for Accessed Benefit Programs in New Hampshire

Temporary Assistance to Needy Families (TANF)²⁸

TANF provides temporary financial assistance to families who are low-income with dependent children under 18, or up to 20 if enrolled full-time in school. Eligibility is based on specific household composition criteria, such as a lack of parental support due to death, absence, or a parent's disability. In New Hampshire, TANF includes four programs: New Hampshire Employment Program (NHEP), Family Assistance Program (FAP), Interim Disabled Parent (IDP) program, and Families With Older Children (FWOC) program. As TANF is a temporary program, eligibility is limited to 60 months.

All TANF programs have the same cash eligibility requirements and benefit limits. Families can receive assistance for a maximum of 60 months, parents in eligible families also qualify for Medicaid, and their

²⁸ New Hampshire Department of Health & Human Services (DHHS), "Temporary Assistance for Needy Families (TANF)", accessed May 15, 2024, <https://www.dhhs.nh.gov/temporary-assistance-needy-families-tanf>.

children for Children's Medicaid. Additional services include employment and training programs, child care assistance, and emergency housing assistance. TANF also has a Nutritional Supplement for Working Families (NSWF) program that provides a twice-monthly stipend to eligible families receiving SNAP benefits.

Supplemental Nutrition Assistance Program (SNAP)²⁹

SNAP provides nutrition benefits to eligible individuals and families, enabling them to purchase healthy food. Eligibility depends on household size, income, expenses, and resources, with special rules for Able-Bodied Adults Without Dependents (ABAWDs), who are limited to three months of benefits in a 36-month period unless they meet work requirements or qualify for exemptions. Deductions for housing, utilities, medical costs, and child care help determine benefit levels.

Medicaid/Children's Health Insurance Program (CHIP)³⁰

Eligibility for Medicaid in New Hampshire is determined using Modified Adjusted Gross Income (MAGI) rules, based on IRS-defined income and household concepts. Children's Medicaid covers children under 19 with net income up to 196 percent of the federal poverty level (FPL), while Expanded Children's Medicaid covers children with net income up to 318 percent of the FPL. Non-MAGI categories consider household size, income, and resources, including income from employment, self-employment, and unearned sources like child support and veteran's benefits.

Specific programs, such as Home Care for Children with Severe Disabilities (HC-CSD), provide coverage based solely on the child's income, resources, and disability. Non-financial criteria include age, residency, and citizenship.

New Hampshire Child Care Scholarship³¹

The New Hampshire Child Care Scholarship program supports working families by subsidizing child care costs. Eligibility extends to families receiving TANF, those in the TANF work program, working or job-seeking individuals who meet income guidelines, and students who meet income guidelines. Families are required to contribute to the cost of child care through a cost share per child per week, determined by their step level and income. Providers can charge a copayment in addition to this cost share.

Reimbursement to providers is calculated based on the lesser of the provider's rate or the NH Weekly standard rate, minus the parent's cost share. The program allows flexibility in switching providers within the 12-month eligibility period, given proper documentation. Service levels, which determine the number of subsidized hours, depend on the hours spent in approved activities, with categories ranging from part-time to full-time.

²⁹ New Hampshire Department of Health and Human Services (DHHS), "Supplemental Nutrition Assistance Program (SNAP)," accessed February 15, 2024, <https://www.dhhs.nh.gov/programs-services/food-meals-assistance/supplemental-nutrition-assistance-program-snap>.

³⁰ New Hampshire DHHS, "NH Medicaid Medical Assistance Eligibility," accessed February 15, 2024, <https://www.dhhs.nh.gov/programs-services/medicaid/nh-medicaid-medical-assistance-eligibility/nh-medicaid-medical>.

³¹ New Hampshire DHHS, "Child Care Scholarship," accessed February 15, 2024, <https://www.nh-connections.org/families/child-care-scholarship/>.

Energy Assistance Programs / Low-Income Home Energy Assistance Program (LIHEAP)³²

New Hampshire offers several energy assistance programs to help income-eligible households with energy bills, heating costs, and energy efficiency improvements. These programs include the Fuel Assistance Program (FAP/LIHEAP), the Electric Assistance Program (EAP), and the Weatherization Assistance Program (WAP). New Hampshire's Fuel Assistance Program is its state-level arm of federal LIHEAP, providing grants to cover household heating costs. The Electric Assistance Program, funded by ratepayer dollars, offers discounts on monthly electric bills, while the Weatherization Assistance Program, funded by the U.S. Department of Energy (DOE), installs energy efficiency improvements to reduce household energy use. Eligibility for these programs is based on gross household income and residency in New Hampshire, ensuring that households have access to affordable and efficient energy solutions.

Housing Choice Vouchers³³

NHHFA administers the Housing Choice Voucher (HCV) program, which provides rental assistance to households that are low income. Eligible households must have incomes below 50 percent of the Area Median Income. Due to high demand, applicants often face waiting times of up to nine years for a voucher. Through the HCV program, participants pay a portion of their adjusted income towards rent and utilities, while NHHFA pays the balance directly to the landlord. The program also includes a homeownership mortgage assistance option, enabling participants to purchase homes. Rental units selected must meet certain housing quality standards.

Special Supplemental Nutrition Program for Women, Infants and Children (WIC)³⁴

WIC in New Hampshire provides nutrition education, nutritious foods, breastfeeding support, and referrals to health and social services. WIC serves income-eligible pregnant, postpartum, and breastfeeding individuals, as well as infants and children up to age five. Participants in Medicaid, SNAP, or TANF are deemed adjunctively eligible, meaning they meet the income criteria for WIC eligibility.³⁵ The program helps children have a strong, healthy start in life by providing tailored food packages, one-on-one nutrition counseling, and additional services such as screenings for iron deficiency, lead poisoning, and tobacco use. NH DHHS administers the program through contracts based on federal funding and eligibility guidelines.

Benefit Program Interactions

The interaction between different benefit programs can significantly complicate the financial landscape for households that participate, as changes in one benefit can affect eligibility and benefit levels in others. These interdependencies mean that an increase in income or a change in one aspect of a person's life can lead to a cascading effect, impacting multiple areas of support simultaneously. Understanding these

³² New Hampshire Office of Strategic Initiatives, "Help with Energy and Utility Bills," accessed April 5, 2024, <https://www.energy.nh.gov/consumers/help-energy-and-utility-bills>.

³³ New Hampshire Housing (NHH), "Rental Assistance," accessed May 15, 2024, <https://www.nhhfa.org/rental-assistance/>.

³⁴ New Hampshire DHHS, "Women, Infants, and Children Nutrition Program," accessed May 15, 2024, <https://www.dhhs.nh.gov/programs-services/population-health/women-infants-children-nutrition-program>.

³⁵ New Hampshire DHHS, "WIC Adjunctive Eligibility Determination," accessed May 15, 2024, <https://www.dhhs.nh.gov/sites/g/files/ehbemt476/files/documents/2021-11/wic-adjunctive.pdf>.

interactions is essential for devising strategies to mitigate the cliff effect (and avoiding strategies that may unintentionally worsen it), highlighting the need for a coordinated approach to policy adjustments.

Program interactions generally occur through one of three mechanisms, which are discussed below:

- Program benefits counting as income;
- Categorical eligibility and linked benefits; and
- Deductions for unreimbursed expenses

Program Benefits Counting as Income

Income counting interactions occur when benefits from one program are considered income for the purpose of calculating eligibility and/or benefit levels for another program. For instance, TANF benefits are considered income when determining eligibility and benefit amounts for SNAP. As a result, an increase in TANF payments can reduce SNAP benefits. Similarly, TANF benefits are also counted as income when calculating eligibility for Housing Choice Vouchers. This can affect a family's ability to qualify for housing assistance or the level of subsidy they receive, with an increase in TANF benefits potentially pushing a family's income over the threshold for housing assistance.

Categorical Eligibility and Linked Benefits

Some benefit programs have linked or automatic (sometimes referred to as categorical) eligibility, where a participant in one program is automatically qualified for another program. For instance, adults receiving TANF are automatically eligible for Medicaid. If their income increases due to employment or other sources such that they lose TANF eligibility, they might also lose Medicaid coverage, depending on their qualification under Medicaid rules. Additionally, households receiving Low-Income Home Energy Assistance Program (LIHEAP) benefits automatically qualify for the full Heating/Cooling (A/C) deduction in SNAP's eligibility and grant determination calculations. This means that LIHEAP assistance can help maximize SNAP benefits by reducing countable income through the utility cost deduction. However, changes in LIHEAP eligibility or benefits can impact SNAP support, demonstrating another layer of interconnection.³⁶

Deductions for Unreimbursed Expenses

Another type of interaction occurs when a benefit program allows for the deduction of certain unreimbursed expenses related to another benefit program. For instance, unreimbursed child care expenses are deductible when determining TANF eligibility and grant amounts. Families using the New Hampshire Child Care Scholarship can deduct these costs, potentially allowing them to remain eligible for TANF even if their gross income is higher. Without this deduction, these families might lose TANF benefits. Similarly, unreimbursed housing costs that exceed 50 percent of an assistance group's adjusted income can be deducted in SNAP's eligibility and grant calculations. Thus, elevated housing costs can play a role in maintaining SNAP benefits, but changes in housing assistance or costs can directly affect the level of food assistance a family receives.

³⁶ Other examples of program eligibility impacts include the WIC program and the National School Lunch and Breakfast Programs (NSLP). Loss of Medicaid, TANF, or SNAP can result in a household losing WIC benefits, as households participating in Medicaid, TANF, or SNAP have adjunctive eligibility for WIC. Similarly, loss of Medicaid, TANF, or WIC can cause a household's children to lose access to NSLP meal programs.

Figure 3.1 presents a summary of the key benefit program interactions evaluated and included in the policy modeling throughout this report.

Figure 3.1: Benefit Interactions Table³⁷

SNAP	• Unreimbursed housing costs (such as housing costs not covered by Housing Choice Vouchers) which exceed 50 percent of an assistance group's adjusted income are deductible as part of SNAP's eligibility and grant determination calculations. • Households receiving LIHEAP automatically receive the full Heating/Cooling (A/C) deduction as part of SNAP's eligibility and grant determination calculations. • TANF is counted as income in eligibility and grant determination calculations for SNAP.
TANF	• Unreimbursed child care expenses (such as those not covered by child care benefits) are deductible as part of TANF's eligibility and grant determination calculations.
Housing Choice Vouchers	• TANF is counted as income in eligibility calculations for Housing Choice Vouchers.
Medicaid	• Receiving TANF makes adults automatically eligible for Medicaid.

Source: New Hampshire DHHS (2024), Econsult Solutions, Inc. (2024)

3.2. Characteristics of Participants in NH Benefit Programs

Anonymized data on current benefit program participants was provided by the state to the research team in order to calibrate analysis and modeling to the characteristics of New Hampshire's benefit program population. The departments providing data included New Hampshire Housing, the New Hampshire Department of Health and Human Services, and the New Hampshire Department of Energy.

Data for households participating in TANF, Medicaid, and SNAP included individual, anonymized records of all household members with detailed information on demographics, hours worked, as well as earned and unearned income. Households were identified by a unique ID number, making it possible to aggregate individuals by household and to determine family composition. The dataset for housing vouchers contained individual records for all participating households including demographics, family size, and income. Data for households participating in LIHEAP and WIC were provided in aggregated form, at the state-level in the case of WIC and at the level of the administering agency in the case of LIHEAP.

Analysis of the characteristics of households participating in benefit programs highlights several important similarities and differences across participation levels, racial and ethnic composition, and age. Demographics of New Hampshire's benefit participants by program are summarized in Figure 3.2 below.

Participation Level

Medicaid has by far the highest number of participating households (nearly 84,000) followed by LIHEAP (nearly 30,000) and SNAP (more than 22,000), suggesting a broad reach and essential support for basic

³⁷ There are more interactions, in particular cases of adjunctive eligibility. However, the table includes only those interactions which have a tangible effect on benefit amounts.

needs such as health care, heating, and food. Average household size for medical assistance, LIHEAP and SNAP ranges between 2.1 and 2.6, reflecting that a significant number of single individuals and/or small families rely on these programs. In contrast, TANF and Child Care Assistance serve fewer households but have larger average household sizes of 3.0 and 3.3 members, respectively. This differential indicates that these programs are more frequently accessed by larger families with dependent children, reflecting their roles in providing financial assistance and child care support to families in need.

Gender Distribution

There is a notable predominance of female participants across all programs, with the highest percentages in TANF (89%). This trend underscores the critical role these programs play in supporting women, particularly those with young children. Programs such as SNAP and Housing Choice Vouchers also have a high proportion of female participants, indicating their broader support for households that are low-income where women may be the primary caretakers. Given New Hampshire's generally balanced gender distribution, the higher proportion of female participants in benefit programs may point to greater economic challenges faced by women in the state.

Racial and Ethnic Composition

Program data on the racial and ethnic composition reveal that most households across all programs are white, with the highest percentages in Housing Choice Vouchers (97%) and Medical Assistance (91%). This is consistent with New Hampshire's overall population, which is predominantly white. However, there is a notable presence of Black or African American and Hispanic households in certain programs. For instance, WIC and Child Care Assistance have higher than average rates of Black or African American representation (7% and 6%, respectively) and Hispanic representation (15% and 10%, respectively). This suggests that these programs are crucial for minority communities, particularly those with young children, in providing essential nutrition and childcare support.

Age Distribution

One of the most significant observations is the median age of participants, which varies significantly across programs. For example, the heads of household participating in Housing Choice Vouchers have a median age of 55, indicating that older adults in the state significantly benefit from housing assistance. This aligns with the broader demographic trend of an aging population, where the proportion of residents aged 55 or older has grown significantly over the past two decades. In contrast, the median ages for participants in Medicaid and SNAP are 38, likely reflecting the programs' focus on working-age adults. TANF and Child Care Assistance have median ages of 42 and 32, respectively, aligning with the needs of parents with dependent children.

Figure 3.2: Characteristics of Participants by Benefit Program³⁸

	Medical	LIHEAP	SNAP	Housing	TANF	WIC	Child Care
Households	83,941	29,725	22,512	3,908	2,875	* ³⁹	2,321
Average Case Size	2.3	2.1	2.6	1.8	3.0	*	3.3
Median Age	38	*	38	55	42	*	32
Female	67%	*	75%	71%	89%	*	93%
Male	33%	*	25%	29%	11%	*	7%
White	91%	*	91%	97%	93%	87%	91%
Black / African American	3%	*	4%	2%	4%	7%	6%
Asian	2%	*	1%	0%	1%	3%	1%
Native American	1%	*	1%	0%	1%	1%	1%
Pacific Islander	0%	*	0%	0%	0%	0%	0%
Other	2%	*	3%	*	2%	2%	2%
Hispanic	7%	*	9%	6%	7%	15%	10%

Source: State of New Hampshire Program Data

Figure 3.3 shows the distribution of income by family composition across the full distribution of New Hampshire families. The median income for each family type is shaded in blue. Many benefit policies are tied to income levels and household composition, since measures like the federal poverty level vary by household size. Variations in income distributions by distributions across family types are crucial to understanding the effects of benefits cliffs and which distortions may be most impactful for New Hampshire families.

One adult families with children are concentrated at lower income levels, with median incomes between \$40,000 and \$60,000 per year. By contrast two adult households, which may have multiple wage earners, have much higher earnings, with median incomes between \$120,000 and \$140,000 per year for two adult households with children. Policies which affect households currently receiving assistance primarily affect 1 adult households while policies which extend eligibility to new households may have greater impacts on two adult households based on these income distributions.

³⁸ Race/Ethnicity percentages may sum to more than 100 percent as they are not mutually exclusive categories (i.e., households participating in benefits can select more than one race/ethnicity category).

³⁹ WIC generally doesn't use number of households as a data point. The average number of WIC participants (individuals) served per month between March 2023 and March 2024 was 12,955. The other WIC data in this table is from WIC's Program Characteristics 2022 file.

Figure 3.3: New Hampshire Income Distribution by Family Type

Income Bracket	1 Adult 1 Child	1 Adult 2 Children	1 Adult 3 Children	2 Adults No Children	2 Adults 1 Child	2 Adults 2 Children	2 Adults 3 Children
Total Households	15,999	8,978	3,744	246,090	47,168	45,743	18,896
\$0-\$10K	5%	9%	9%	1%	1%	1%	2%
\$10K-\$20K	8%	12%	14%	1%	1%	1%	2%
\$20K-\$30K	10%	10%	9%	3%	2%	2%	1%
\$30K-\$40K	7%	8%	18%	3%	3%	2%	2%
\$40K-\$50K	9%	8%	8%	4%	4%	3%	3%
\$50K-\$60K	12%	11%	5%	5%	3%	4%	5%
\$60K-\$70K	9%	5%	8%	17%	4%	4%	5%
\$70K-\$80K	8%	4%	6%	8%	4%	3%	5%
\$80K-\$90K	6%	3%	5%	5%	4%	5%	5%
\$90K-\$100K	4%	5%	5%	5%	5%	4%	5%
\$100K-\$110K	4%	3%	2%	5%	5%	5%	6%
\$110K-\$120K	2%	4%	2%	5%	7%	6%	4%
\$120K-\$130K	3%	4%	2%	4%	4%	5%	6%
\$130K-\$140K	3%	2%	1%	4%	5%	5%	4%
\$140K-\$150K	2%	1%	0%	3%	6%	5%	4%
\$150K+	9%	11%	9%	28%	42%	44%	41%

Source: ACS 5-year Estimates (2022)

4. Benefit Cliff Challenges

The design and implementation of key benefit programs can serve as a disincentive to labor force participation by creating benefits cliffs, in which additional earnings are offset entirely or in part by losses in benefit resources. On a statewide scale, these disincentives compound the state's existing demographic challenges to limit economic growth.

This section details the challenges created by current benefit program structures for the purpose of identifying key impediments to workforce participation that could be mitigated through policy changes. Multiple research approaches are used to surface challenges of different types.

Employee and employer outreach is used to document the lived experience of New Hampshire residents and businesses navigating these challenges. Detailed economic modeling of program rules is also undertaken to analyze potential disincentives by household type and income level. Additional workforce participation challenges beyond program design are looked at through a focus on child care.

4.1. Outreach Findings

Through its contract with DHHS, ESI engaged Pear Associates, a New England-based consulting firm with expertise in community engagement, existing connections to key sectors in NH, as well as previous involvement in the cliff effect project, to lead the outreach element of the study.

This qualitative research engaged employers, workers and participants in New Hampshire benefit programs through interviews, survey questions, and focus groups. Employer interviews aimed to gather the perspectives and experiences of employers regarding barriers to hiring, retaining, and advancing employees. Simultaneously, the research team sought to understand how benefits programs impacted the capacity to work and achieve self-sufficiency for NH's current and prospective members of the workforce.

A summary of the methods and key findings of this research is included below. A complete report on outreach findings prepared by Pear Associates is included as an Appendix to this report.⁴⁰

Outreach Methodology

Interviews and focus group sessions were organized by industry sector. Pear Associates, ESI, and representative leaders from NH DHHS, NHHFA, DoE, and NHES collectively determined these sectors based, in part, on an analysis of existing conditions and current and projected demographic, employment, and workforce trends, as well as an analysis of NH's benefits programs conducted by ESI.

Employer Interviews

Pear Associates and state partners utilized a multi-pronged outreach approach to engage potential interview targets. Methods included direct communication to HealthForce NH, NH Lodging & Restaurant Association, Early Childhood Regional Leads via the NH Alliance of Early Childhood Coalitions, the Human Resources Association of Greater Concord, the Manchester Area Human Resources Association, and

⁴⁰ Appendix A - *Employer and Workforce Findings: Perspectives on the Effects of New Hampshire's Benefit Program on the Labor Force*. Prepared by Lara Quiroga, MEd and Brittany Little, MSW, Pear Associates.

outreach to key partners by NHES Deputy Commissioner Richard Lavers. Outreach began in January 2024 and continued through March 2024.

A cliff effect interview guide was developed with introductory text, facilitator script, 14 open-ended questions, and closing text including where to find more information on the Cliff Effect and actions taken to date by the State. Interviews were conducted with 10 employers and/or hiring managers from the child care, home and community-based health care, nursing homes and hospitals, and hospitality sectors from February to March 2024. Participants did not receive incentives for participation.

Focus Group / Survey Participants

Focus group outreach included unsolicited emails to individuals and organizations, as well as individual outreach. Flyers were also created including information about the purpose of the focus groups and a link and QR code to guide interested individuals to the registration website. Outreach to child care and health care workers was enhanced by sending industry-focused flyers to relevant entities within those sectors to share with their constituents.

Outreach to individuals who have participated in benefit programs was conducted through:

- Email containing a benefit program-focused flyer sent to twenty-one municipal welfare offices to share with constituents and post in municipal offices.
- Text and email sent by NH DHHS to participants in benefit programs through NH DHHS who are heads of household of cases receiving SNAP, TANF, child care scholarship, Medicaid (Modified Adjusted Gross Income group) who provided DHHS with their phone number for text messaging and/or their email address for communications.

A Cliff Effect Focus Group Protocol was developed that includes descriptions of the outreach and registration processes and focus group participant selection process, as well as eleven open-ended questions and closing text providing participants with resources to find more information on the Cliff Effect and actions taken to date by the State. Four focus groups were scheduled, one each for child care workers, community-based health care workers, nursing home and hospital health care workers, and potential/current/recent recipients of public benefits. Participants did not receive incentives for participation.

In addition, a survey was developed to ensure language access and provide an opportunity for all interested NH residents to provide input. The survey link was sent to individuals not selected for focus groups, individuals who registered and were selected for participation but did not show up for focus groups, individuals who registered and were selected but declined focus group participation, and individuals who attempted to participate in the focus groups but had difficulty staying connected to Zoom. The survey was available in English and Spanish. Spanish was identified as the critical additional language by the Office of Health Equity (OHE). Survey questions mirrored focus group questions (see Appendix D of the report by Pear Associates). The survey was available beginning March 12, 2024 and closed on March 28, 2024, aligning with the outreach and closure of focus groups. Participants did not receive incentives for participation.

Employer Feedback

Feedback gathered from employers across various sectors, including child care, home and community-based health care, hospitality, and nursing homes and hospitals, highlights several key insights into the management and perception of employee benefits in relation to benefit:

- **Personalized Support in Smaller Businesses:** Smaller businesses tend to take a personalized approach to supporting their employees, recognizing the unique challenges each employee faces, especially in navigating benefits cliffs.
- **Challenges with Fringe Benefits:** Smaller businesses often struggle to provide additional fringe benefits such as health, dental, and vision insurance, which impacts their ability to fully support employees' needs.
- **Impacts on Recruitment and Retention:** Critical factors such as housing, child care, and transportation significantly influence recruitment and retention efforts. These factors are often intertwined with the availability and stability of employee benefits.
- **Awareness of Benefit Programs in Compensation Offers:** Employers generally reported that they do not consider benefit program design when creating wage and benefit packages offered to employees. This information gap may unintentionally exacerbate benefit cliff effects or reduce hiring.
- **Multiple-Level Impact in Child Care Programs:** Child care programs are uniquely affected at three levels: the staff, the families they serve, and the funding they receive from programs like the Child Care Development Fund.
- **Benefit Program Transitions:** Employers report that transitions on and off benefits can create ripple effects, causing instability for workers and their children and families involved.

Employer Recommendations

Based on the challenges identified, employers provided several recommendations aimed at mitigating the impact of benefits cliffs and enhancing employee support:

- **Enhanced Safety Net Support:** Employers showed interest in offering more robust support mechanisms, such as paying into discounted programs or subsidies that help reduce the effect of benefits cliffs.
- **Streamlining Services:** There is a need for more streamlined services and centralized places for information to assist both employers and employees in navigating benefit programs more effectively.
- **Sliding Scale Assistance:** Implementing assistance on a sliding scale was suggested to better match the varying needs of employees as their income levels change.
- **Improved Communication with Employers:** Better communication between job service agencies and employers regarding the progress and performance of former job seekers could help tailor support to individual needs more effectively.

- **Inclusion of Benefit Considerations in Benefit Design:** Some employers are considering integrating benefit considerations into their future wage and benefit designs to prevent negative impacts on employees.
- **Flexible Benefits Menu:** Offering a menu of benefits, where employees can choose what is most important to them within a specified dollar amount, was recommended. This approach allows employees to tailor benefits according to their specific needs and may help mitigate the abrupt loss of benefits as incomes rise.

Employee Feedback

The feedback gathered from workers through the employee focus groups and surveys in New Hampshire provided detailed insights into the experiences and challenges faced by employees dealing with benefits cliffs. This feedback was vital in understanding the impact of these cliffs on various aspects of workers' lives, particularly in the industries targeted by the outreach—Child Care, Home and Community-based Health care, Hospitality, and Nursing Homes and Hospitals.

Worker Feedback: Program Design

Workers also provided feedback on the overall design of benefit programs:

- **Incentives for Transition:** Identifying and implementing incentives that encourage a smoother transition from benefits was a common suggestion.
- **Savings Allowances:** Allowing higher amounts of savings without affecting benefit eligibility was another recommendation, to help provide a financial cushion.
- **Benefit Tapering:** Rather than benefits being cut off abruptly, workers preferred a gradual decrease in benefits, which would provide time to adjust financially.
- **Protection from Temporary Work Penalties:** Workers expressed concerns about losing benefits due to temporary increases in income, suggesting that benefits should not be stopped for temporary or fluctuating work scenarios.

“It’s embarrassing to request a lesser raise because of benefits.”
“As soon as you get a little on track, it’s boom, you get cut off (of benefits).”

Employee Survey Insights

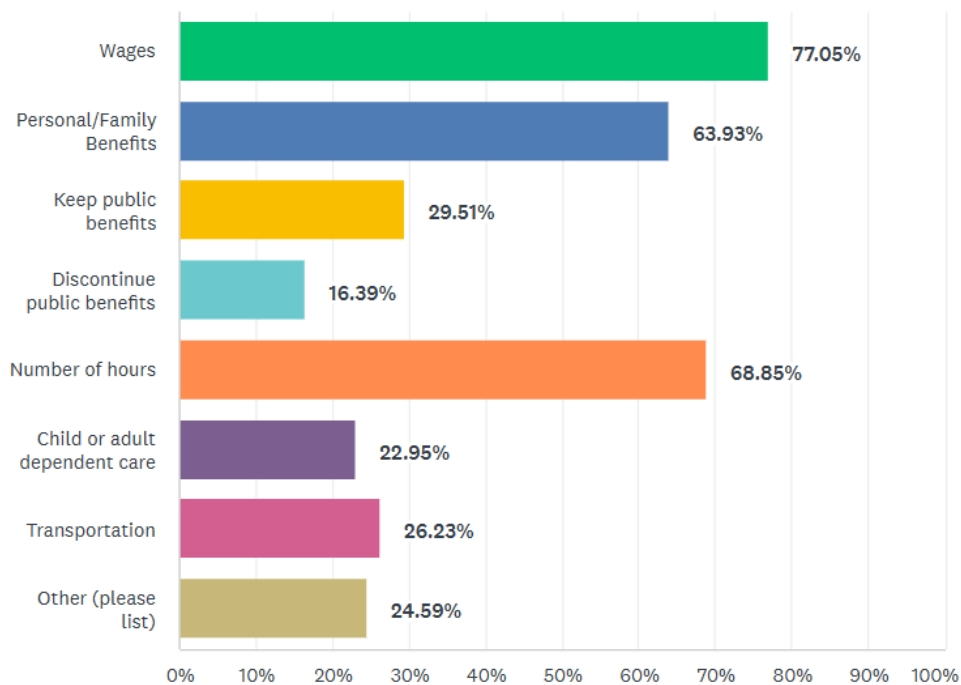
The survey mirrored the focus group questions and brought additional quantitative data into the discussion:

- **High Concern Over Benefit Loss:** A significant portion of the survey respondents reported having personally experienced or knowing someone who had been impacted by an increase in wages leading to a loss in benefits, indicating a widespread issue.

88 percent of survey respondents said they or someone they knew had experienced a situation where an increase in wages led to a loss in benefits.

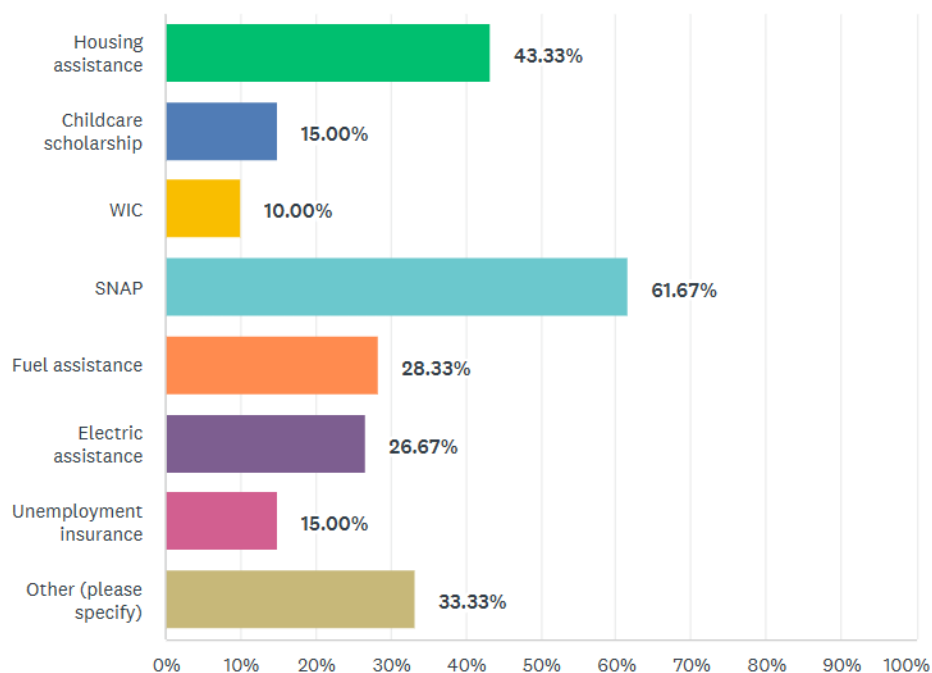
- **Decision Making:** The loss of benefits was a considerable factor when considering job opportunities, with many employees having to choose lower wages or fewer hours to maintain benefit eligibility (see Figure 4.1).
- **Programs Most Affected:** The most frequently cited programs affected by benefits cliffs were SNAP, housing assistance, and health care benefits (see Figure 4.2).

Figure 4.1: Key Factors Considered in Changing Jobs



Responses to the survey question "When you are looking for a new job or thinking about changing jobs, what are the key factors you consider? Check all that apply"

Figure 4.2: Benefits Considered Most When Thinking About Employment Change



Responses to the survey question "Which type of public benefits do you consider most when thinking about employment change?"

Worker Feedback: Program Administration

Employees highlighted several issues and offered suggestions for improving the administration of benefit programs:

- **Responsiveness of Benefits:** Workers emphasized the need for benefits to be reinstated as quickly as they are discontinued to avoid periods of hardship.
- **Communication Improvements:** There was a strong call for proactive notifications about eligibility changes, preferably through multiple modes of communication to ensure that all affected individuals are aware of and can prepare for changes.
- **Educational Support:** Participants suggested offering educational classes on budgeting and understanding the financial impact of income gains, which would help in better preparing for transitions off of benefits.
- **Call Center Enhancements:** There was feedback on the need to enhance the call center operations, in the area of call escalation related to benefits cliffs and the impact on the loss of benefits, which has the potential to help the participant with information to make decisions in a timely manner.

"They need to put themselves in our shoes... I am a person too. I am a customer."

Summary of Findings

Feedback from outreach process painted a clear picture of the challenges posed by benefits cliffs to New Hampshire's residents as they navigate benefit programs and workforce participation. Workers face significant financial instability and emotional stress due to abrupt changes in benefit eligibility, potentially triggered by small increases in income. The feedback also underscored the need for program reforms that consider the realities of those on the cusp of benefit thresholds, including better communication, educational support, and a more gradual transition process to reduce the negative impacts of these cliffs.

Employers expressed interest in supporting their employees and potential workforce in navigating safety net issues, including a potential willingness to spend company resources if initiatives could help them attract and retain workers. However, these employers currently have limited understanding of benefit programs and their interaction with compensation packages, or how to participate in other efforts in concert with the state to address employee challenges like transportation and child care.

4.2. Key Cliffs in New Hampshire's Benefit Structures

This section reviews key "cliffs" in New Hampshire's benefit structures.⁴¹ In general, when designing benefit rules, policymakers seek to achieve three goals:

- 1) To ensure the benefits are designed to help those in need;
- 2) To ensure the benefits are not too expensive for the taxpayer; and
- 3) To ensure the benefit structures do not disincentivize participating households from earning more income, and reducing dependency on the benefit programs over time.

Achieving these goals simultaneously is challenging. In particular, provisions designed to limit program costs often create policy cliffs that disincentivize income growth, increasing program dependency (with the unintended consequence of potentially increasing costs over the long run).

Cliffs commonly arise in the following situations:

- 1) When a benefit has an income-eligibility threshold that abruptly cuts off at a certain point, rather than gradually getting smaller as income increases.
- 2) When a benefit gets smaller as income increases but falls steeply rather than gradually.
- 3) When multiple benefits decrease gradually with increasing income, combining to produce a steep aggregate drop in benefit levels.

Correcting the above problems often requires that benefits phase out gradually as income increases. Adjusting the rules in this manner often means making more of the population eligible for higher benefits, which conflicts with the goal of keeping benefit programs not overly expensive for the taxpayer. Thus, addressing cliffs often requires tradeoffs between conflicting goals.

⁴¹ All sources used for determining program eligibility can be found in Appendix C – New Hampshire Benefit Program References..

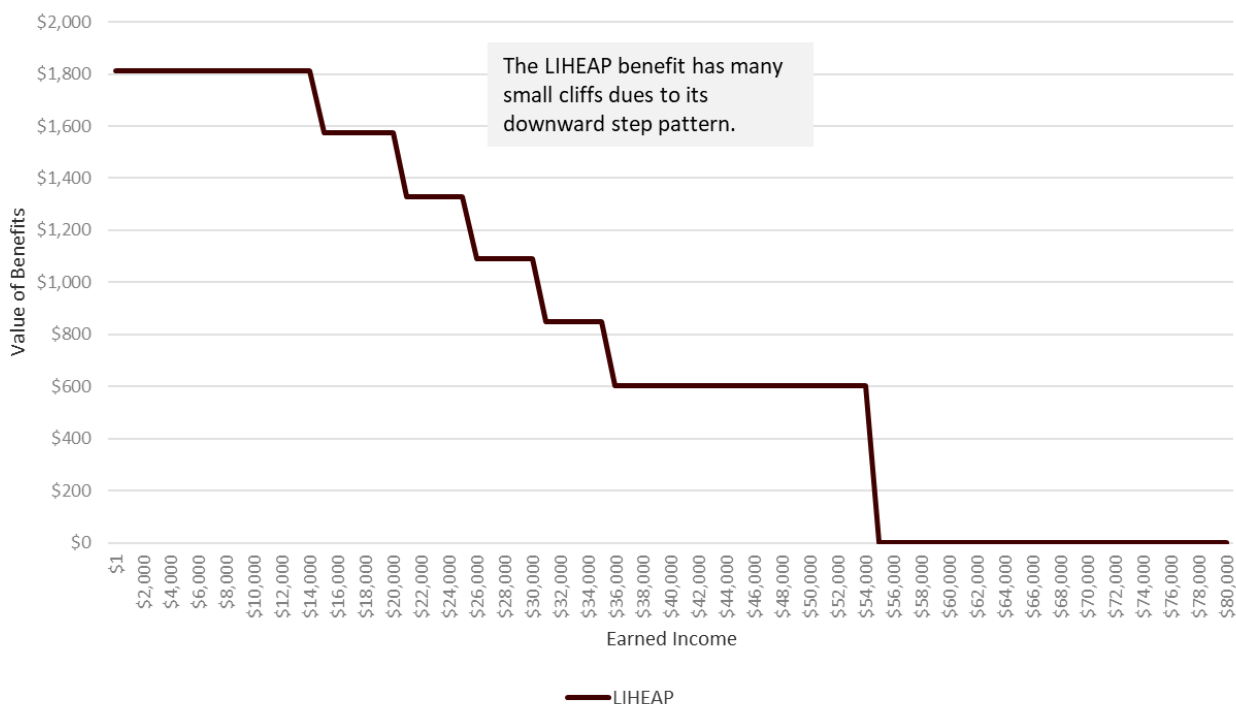
Examples of Cliffs in New Hampshire's Benefit Structure

In practice, benefits cliffs vary by program, household type, and income level. A simplified framework to identify and visualize potential cliffs is to graph benefit levels for a household type as its income changes. The figures in this section focus on 1 adult, 1 child households to illustrate the concept. In each graph, benefit levels are shown on the vertical (y) axis, changing as earned income levels increase in \$1,000 increments across the horizontal (x) axis.

LIHEAP

Figure 4.3 below illustrates the structure of LIHEAP benefits, which feature a series of step-like cliffs, with benefit declining by approximately \$200 with an earnings gain of \$1,000 at certainly regular intervals. We show this as a representative example of easily visible cliffs. However, while these cliffs are visibly prominent, the impact is relatively small due to the modest size (amount) of the LIHEAP benefit when compared to other programs.

Figure 4.3: LIHEAP Benefit Value for 1 Adult, 1 Child Household⁴²



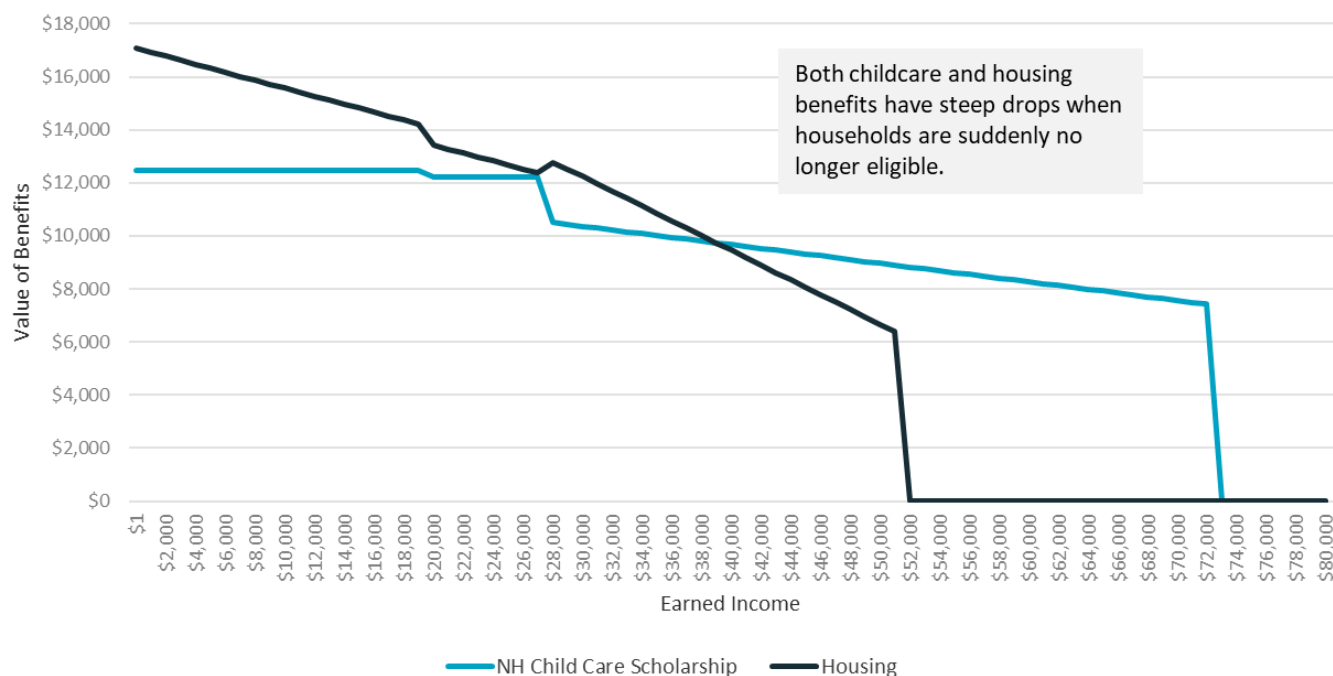
⁴² The federal government grants flexibility to states to increase the maximum income eligibility threshold of the program from 200 percent of the federal poverty threshold to 60 percent of state median income. The increased threshold is used in the model. However, in times of either reduced federal funding or a large influx in applications, the state would return the eligibility threshold to 200 percent of the federal poverty threshold, in order to avoid waitlists and preserve funding for the neediest households.

Housing and Child Care

For both the housing voucher and child care scholarship programs, households face significant cliffs where increases in income take them beyond the income eligibility threshold of the program. Figure 4.4 graphs the benefit levels by income for these programs for a one-adult, one-child household. Benefit levels for both programs are calculated proportionally to income, and decline relatively gradually for eligible households, mitigating the drawbacks to incremental increases in earnings. However, each experiences a drop at the point where the household is ineligible, with a loss in housing benefits of more than \$6,000 beyond \$50,000 in income, and a loss in child care of more than \$7,000 beyond \$72,000 for these households. This structure creates a strong disincentive for households to cross this earnings threshold.

For both housing and childcare, there are nuances to how the cliff works. In the case of housing, the cliff only exists for those *applying* for housing choice vouchers. Once a household is participating in the voucher program, they can earn income beyond the threshold without experiencing a cliff. In the case of child care, eligibility is continuous for one year, so midyear income changes do not lead to immediate ineligibility.

Figure 4.4: Child Care and Housing Benefit Value for 1 Adult, 1 Child Household

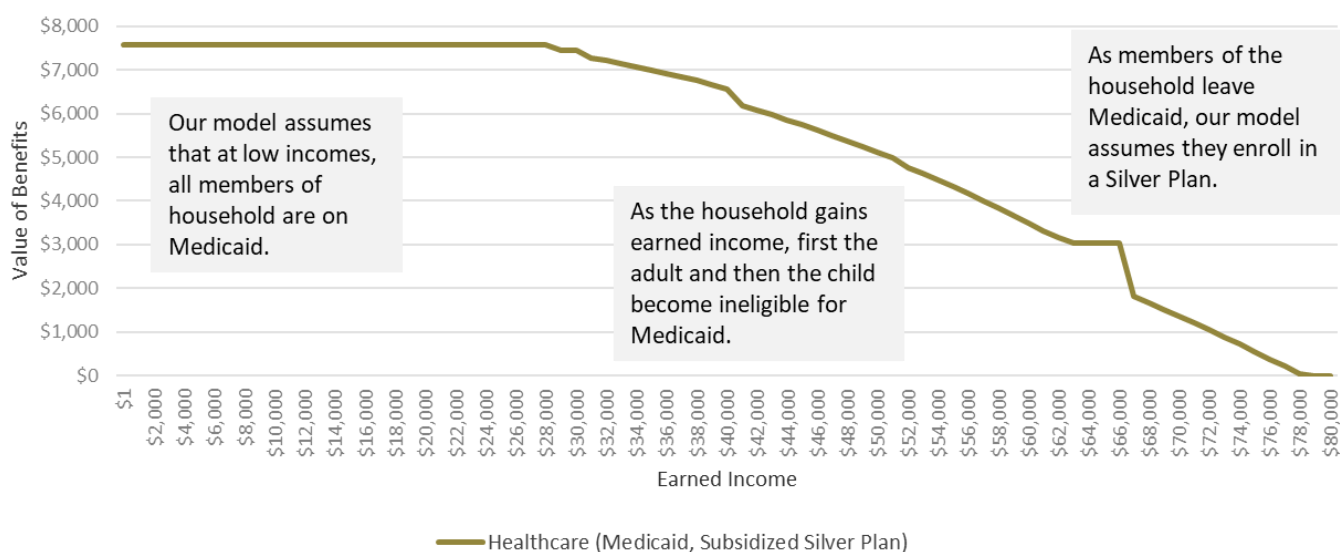


Health Care

Households in New Hampshire may participate in a variety of health programs. Our model assumes that qualifying low-income households enroll in Medicaid. When income exceeds Medicaid eligibility levels, we assume they enroll in a Silver Plan on the health insurance marketplace and partake in available federal subsidies. In practice, this means adults leave Medicaid when earnings are greater than 138 percent of Federal Poverty Income Guidelines (FPL), and children leave Medicaid when earnings are greater than 323 percent of FPL.⁴³

Within this structure, the value of health benefits to a one-adult, one-child household is flat at lower income levels, where both family members are covered by Medicaid. It begins to decline when the household exceeds the income eligibility level for the adult (around \$29,000), moving the household on to the health care exchange market, where subsidy levels decline slowly as income grows. Next, a cliff is experienced as the household reaches the income threshold (around \$67,000) where the child is no longer eligible for Medicaid⁴⁴, and then declines slowly as the subsidy value decreases (see Figure 4.5).

Figure 4.5: Health Care Benefit Value for 1 Adult, 1 Child Household



TANF

Some cliff or near-cliff situations can be caused by benefits which decline quite steeply as income increases, even if there is no sudden drop. In the case of TANF, there is a 50 percent earned income disregard, which has the effect of making the benefit drop by \$50 for every additional \$100 the household earns, one of the steepest drops among benefits. (The state is currently running a pilot program in which

⁴³ Switching health plans can be disruptive to households in a variety of ways, beyond the pure financial and labor market incentives that are the focus of this analysis.

⁴⁴ For many programs, eligibility is continuous across a year or other period of time, so an income gain doesn't necessarily lead to the household immediately becoming ineligible for the program. However, income gains can lead to program ineligibility at the next eligibility determination period.

this issue is largely corrected; many households receive TANF with a 75 or even 100 percent disregard under the pilot program.)

Earned Income Tax Credit

The cliffs phenomena can also be affected by provisions in the federal income tax code, such as the Earned Income Tax Credit. The federal EITC has significant implications for work incentives and aggregate benefits cliffs for many households.

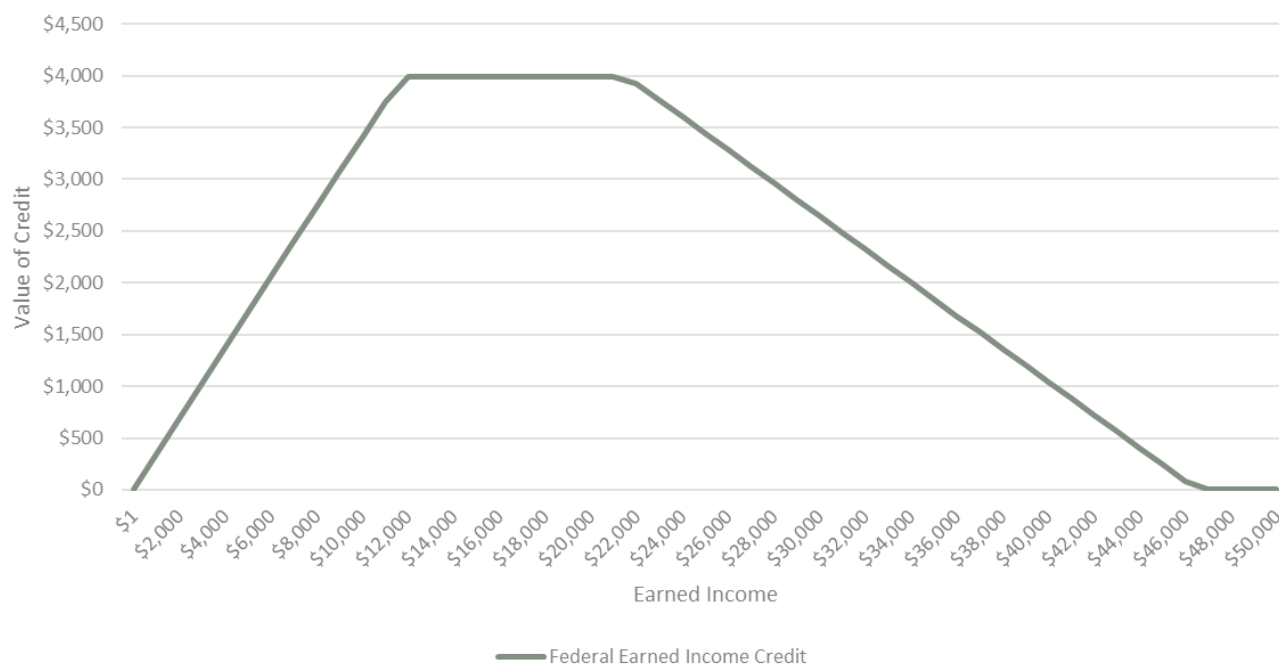
The EITC, which many analysts believe is a powerful antipoverty weapon, is refundable, meaning even people who owe no federal income taxes (often due to relatively low-income levels) can receive the credit. Furthermore, the credit is designed so it has no sudden eligibility cutoff and avoids the most dramatic version of the “cliff” design problem. Instead, at low-income levels the credit gradually grows in value as the tax filer (individual or household) makes more earned income. At a certain level of earned income (depending on filing status and number of children) the credit levels out, remaining at the same amount as earnings increase. Then – at an even higher level of earned income – the credit slopes downward, decreasing as earnings grow, until eventually the household exceeds the eligibility threshold and the credit’s value is zero.

A corollary of the EITC’s rules is that a family with no earned income – that is, a family who only gets income from cash assistance benefits, from Social Security, from stocks and other investments, or has no income whatsoever – will not be eligible for the Earned Income Tax Credit.

Figure 4.6 below shows this design for a single adult household with one child.

- On the upward slope to the left of the graph, the federal EITC reduces the effective marginal tax rate, because the value of the benefit increases with each increment of additional earnings.
- On the flat plateau at the top of the graph, the federal EITC does not change the effective marginal tax rate, because the value of the benefit stays the same with each increment of additional earnings.
- On the downward slope to the right of the graph, the federal EITC increases the effective marginal tax rate to some extent, because the value of the benefit decreases with each increment of additional earnings.

Figure 4.6: Value of Federal Earned Income Credit for Single Adult with One Child



This diagram – which is drawn for an adult filing single, head of household, or qualifying surviving spouse that can claim one qualifying child – shows the value of the federal EITC. At low-income ranges, the EITC is an “anti-cliff” that slopes upwards as earned income grows. It then flattens, then decreases. As it decreases, it can contribute to a cliff or near-cliff effect.

In practice, the federal EITC often counteracts in part cliffs associated with other benefit programs in the earned-income-range in which the credit is upward sloping. For instance, as a household with less than \$12,000 in income increases their earnings, benefit levels for TANF and other benefit programs tend to fall, driving up the effective marginal tax rate. The increase in EITC pushes this effective rate back down, thus avoiding or lessening potential cliffs. And for people who do not collect benefits, the EITC in the low-income range causes them to face negative tax rates, meaning they have strong incentives to work because they pay very low (in effect negative) tax rates.

However, the downward sloping part of the EITC – that in the relatively higher income ranges – can contribute to a cliff effect. Notably, the slope of the EITC is not dramatically steep by itself (generally creating an effective tax rate of 20-25 percent) but can combine with other benefit phaseouts to cause cliffs and elevated effective marginal tax rates.⁴⁵

⁴⁵ Many states (including Maine, Massachusetts, and Rhode Island) have a state version of the EITC. Often, these state EITCS are structured as a certain percentage of the federal EITC. In those cases, the state EITC exaggerates the “anti-cliff” effects of the EITC in the lower income ranges (where the benefit increase with earnings growth), but then deepens the “cliff” effect because the downward slope of the federal program is exacerbated in the higher income ranges (where the benefit decreases with earnings growth).

Aggregate Benefits

Benefit levels by program for a one-adult, one-child household are shown together in Figure 4.7. This illustration assumes that the household participates in all programs for which it is eligible at a given income level, and accounts for interactions between these programs. The chart also adds benefits from WIC⁴⁶ and from federal income taxes, including the earned income tax credit, which grows, plateaus, and then declines as income increases.

At different points along the income spectrum, different programs and potential cliffs are most relevant to this household. Housing and child care represent the most valuable benefits, and each presents a sudden cliff as the household exceeds the income eligibility threshold. TANF and SNAP begin as a significant benefit for low-income households but decline relatively rapidly, while the health care benefit starts lower but is maintained at higher income levels, experiencing changes as the household exceeds Medicaid eligibility thresholds first for the adult and then the child.

Importantly, the level and shape of this graph differs for each household type. For example, for households with multiple children, the value of the child care benefit exceeds the housing benefit.

⁴⁶ In our model, we assume that the value of WIC to a household is \$44.63 per month per child, which is the cost of the benefit to the state of New Hampshire in FY2023. The actual value to the household may differ, as the price of items in stores may differ. In addition, a household with an infant receiving formula gets a benefit worth considerably higher.

Figure 4.7: All Benefit Values for 1 Adult, 1 Child Household

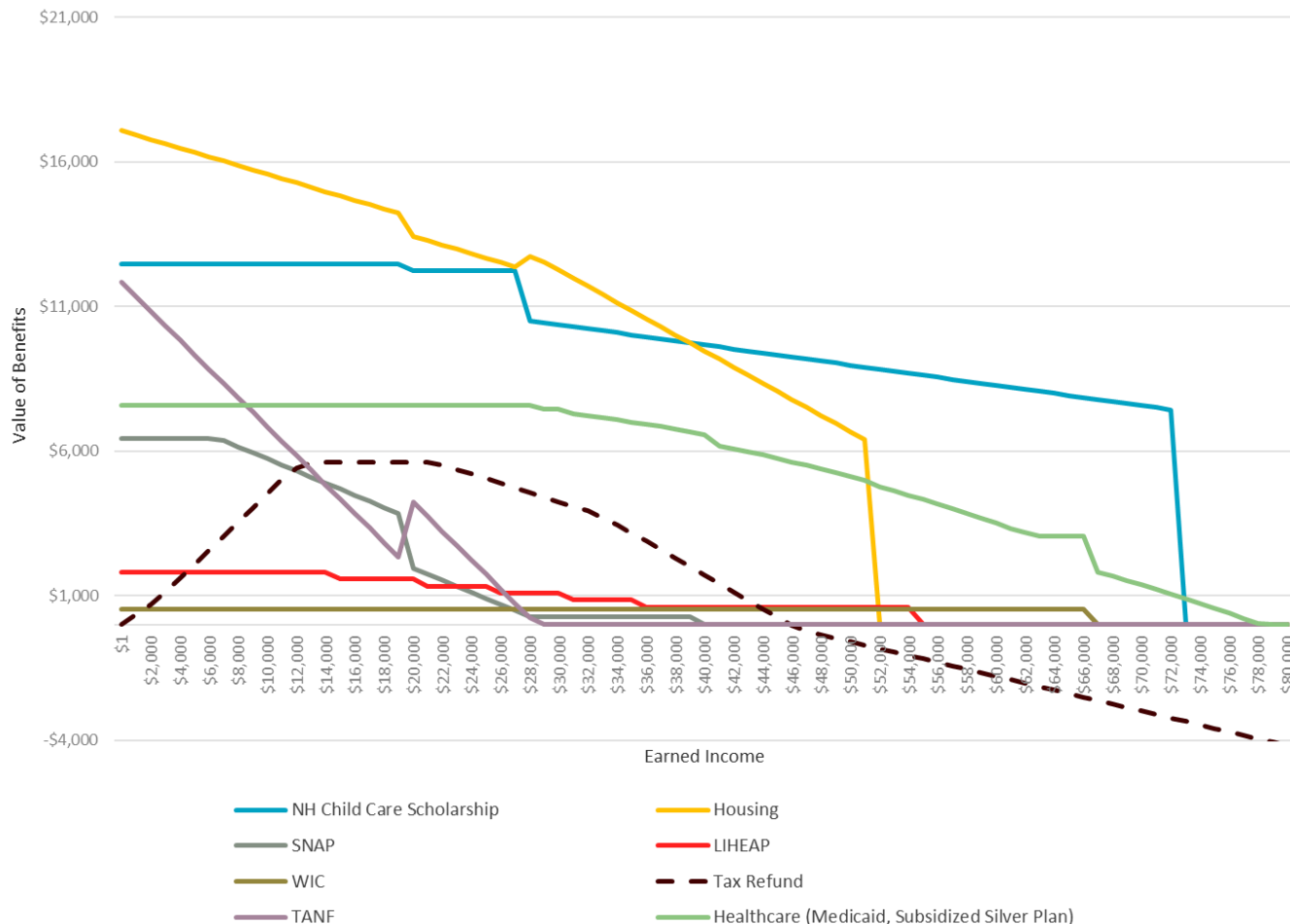
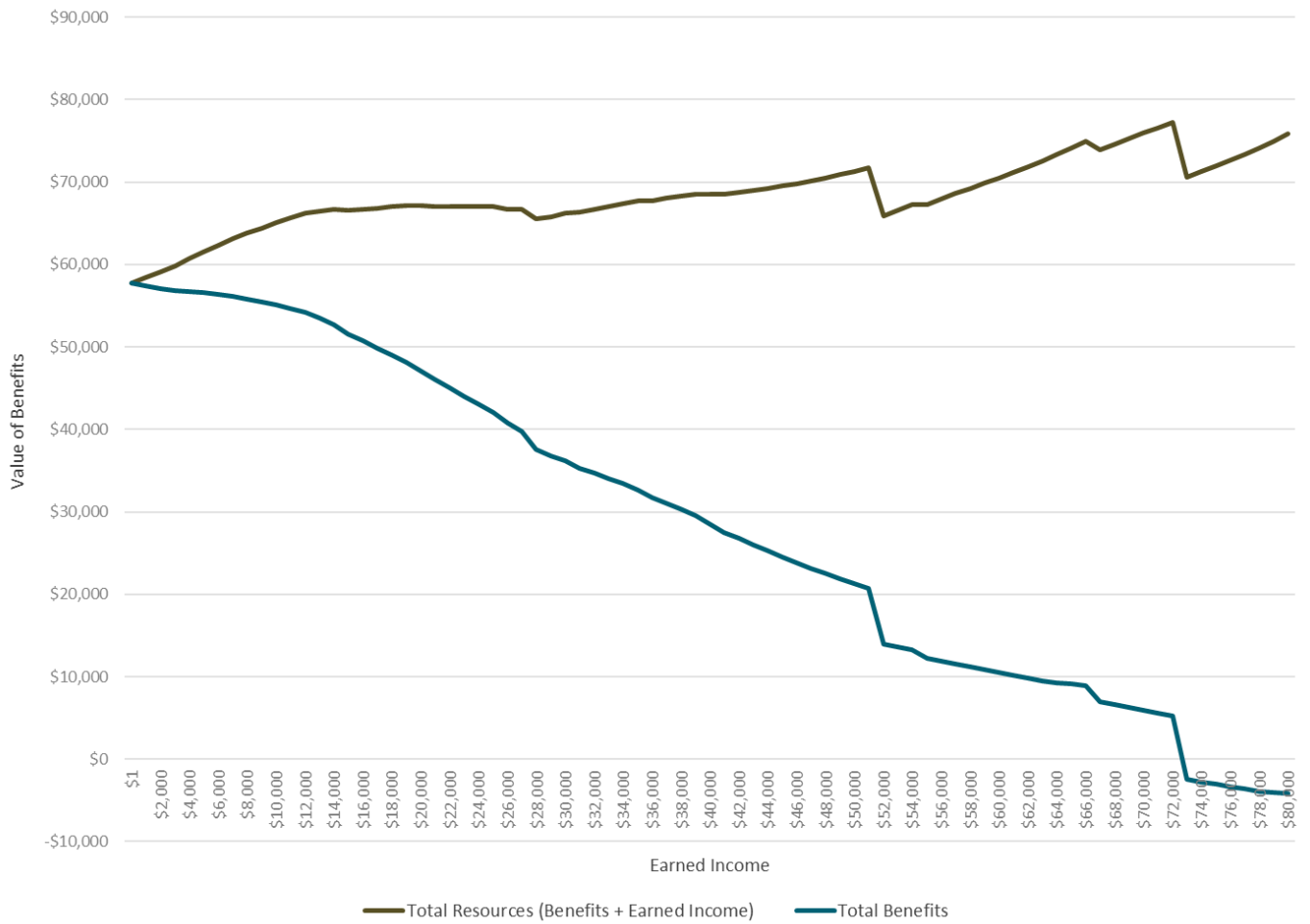


Figure 4.8 aggregates total benefits (from the programs shown in Figure 4.7 above) as well as total resources.⁴⁷ The total resources line is the sum of earned income and the aggregate value of benefits.

After growing at lower income levels, the total resources line is relatively flat across a large range of the income levels shown. A one-adult, one-child household with \$80,000 of earned income is estimated to have about \$20,000 more in total resources (income + benefits) per year than a household with \$1 in income that is participating in all the benefit programs for which it is eligible. This effect occurs because the line representing the sum of benefits falls only moderately faster than the growth in earned income.

⁴⁷ The benefit line becomes negative for higher income households because taxes owed exceeds the value of benefits received.

Figure 4.8: Value of All Benefits and All Resources, for 1-Adult, 1-Child Household⁴⁸



⁴⁸ The value of total benefits includes federal income tax refunds or federal income taxes owed. The value of total benefits can be negative because it includes taxes owed.

4.3. Child Care Challenges for Working Families

The child care market faces what has been characterized as a structural market failure: the societal value of child care services far exceeds what most families can reasonably afford.⁴⁹ Despite the essential nature of child care, the cost can be prohibitively high for many families. In 2023, the average annual cost of center-based child care for an infant (\$17,250) would have accounted for approximately 37 percent (37.3%) and 12 percent (11.9%) of the median income for single parents and married couples, respectively, in New Hampshire.⁵⁰ These figures, far exceeding the U.S. Department of Health and Human Services recommendation that child care costs should not exceed 7 percent of household income. These costs rose more than 12 percent between 2022 and 2023, significantly outpacing the inflation rate and exceeding the combined estimated living expenses for some families.⁵¹

At the same time, wages for child care workers are often low. This presents a challenge to attract enough qualified providers, leading to availability issues, persistent shortages, and continued high prices. Supply problems are particularly acute in New Hampshire, where an estimated 46 percent of residents live in a child care desert— areas without enough licensed slots for the number of children needing care.⁵² This shortage is estimated at around 8,300 licensed child care spots annually— a number that is likely higher in practice due to a reported staffing vacancy rate of 26 percent for the child care industry in the state.⁵³ Low wages also impact child care availability with providers earning an average of \$13.78 an hour in 2022, one of the lowest average occupational wages in the state.⁵⁴

These challenges create significant obstacles for working families who rely on accessible and affordable child care to maintain employment and advance their careers. The high cost of child care, combined with low wages for providers, results in a market that fails to meet the needs of many families, with broader economic implications. This failure limits the ability of parents, often mothers, to participate fully in the workforce.⁵⁵ It is estimated that from March 2023 to March 2024, an average of 15,500 New Hampshire residents per month did not work due to the need to care for children not in school or child care.⁵⁶ The economic impact of these lost wages is substantial, estimated between \$441 million and \$661 million annually.⁵⁷

⁴⁹ Meredith Johnson Harbach, "Childcare Market Failure," *Utah Law Review* 3 (2015), <https://dc.law.utah.edu/ulr/vol2015/iss3/3>.

⁵⁰ Child Care Aware of America, "Child Care at a Standstill: 2023 Affordability Analysis," accessed May 15, 2024, https://info.childcareaware.org/hubfs/2023_Affordability_Analysis.pdf.

⁵¹ New Hampshire Fiscal Policy Institute (NHFPI), "Annual Price of 2023 Child Care for Two Granite State Children Under Five Averaged Nearly \$32,000," May 15, 2024, <https://nhfpi.org/blog/annual-price-of-2023-child-care-for-two-granite-state-children-under-five-averaged-nearly-32000/>.

⁵² Center for American Progress, "Early Learning Fact Sheet 2021 New Hampshire," accessed May 15, 2024, <https://www.americanprogress.org/wp-content/uploads/sites/2/2021/12/New-Hampshire.pdf>.

⁵³ New Hampshire Fiscal Policy Institute (NHFPI), "Child Care in New Hampshire: High Price, Low Supply," October 13, 2023, <https://nhfpi.org/resource/child-care-in-new-hampshire-high-price-low-supply/>.

⁵⁴ "New Hampshire Occupational Employment & Wages 2023," New Hampshire Employment Security, September 2023, accessed May 15, 2024, <https://www.nhes.nh.gov/elmi/products/documents/wages-intro.pdf>.

⁵⁵ The COVID-19 pandemic has played a role in shifting labor force dynamics in response to child care needs. In New Hampshire from February 2020 to June 2023, the labor force participation of mothers with children under 14 years old declined by nearly 13 percentage points (77.6% to 64.7%) and by close to 9 percentage points (70.6% to 62.0%) for mothers with children under the age of 5 years old.

Committee for Economic Development, "Child Care in State Economies Report Series, Part I: Recent Trends in Paid Child Care Usage," 2024.

⁵⁶ New Hampshire Fiscal Policy Institute, "The Fragile Economics of the Child Care Sector." May 17, 2024, https://nhfpi.org/resource/the-fragile-economics-of-the-child-care-sector/#_edn54.

⁵⁷ Ibid.

The current child care market dynamics in New Hampshire highlight a critical tension between affordability for families and sustainability for providers. High costs for families and low wages for providers create a cycle that hinders both access to care and the economic viability of child care businesses. From the household perspective, the availability and cost of child care creates a “natural cliff” where participation in the workforce or an increase in labor for a primary caregiver requires the household to secure child care coverage and absorb the cost. This cost may outweigh the increase in earnings, leaving the household worse off on net, unless the earnings increase is significant.

Recent New Hampshire Policy Interventions

In response to New Hampshire’s ongoing child care affordability and accessibility challenges, the state has made significant investments in its child care sector, particularly through federal relief funds and state budget allocations, totaling over \$555 million in funding to support the child care sector since FY 2016.⁵⁸ This substantial investment includes both ongoing and one-time funds aimed at addressing various aspects of child care affordability, availability, and quality. Notably, 26 percent of these funds came from one-time federal relief dollars associated with the COVID-19 pandemic, which are set to expire by September 30, 2024.^{59,60}

Some of the state’s more recent measures to address child care affordability included:⁶¹

- **Expanded Subsidies:** The state increased child care subsidies by \$45.5 million, expanding eligibility to families earning up to 85 percent of the SMI. Copayments were eliminated for families below 100 percent of the federal poverty level (FPL) and limited to \$5 per week for families below 138 percent of the FPL.
- **Workforce Support:** New Hampshire allocated \$15 million for the recruitment, retention, and scholarships for early childhood professionals to address staffing shortages.⁶² This funding supports initiatives such as training programs, wage increases, and health insurance benefits to address staffing shortages and improve the quality and availability of child care services in the state.
- **Reimbursement Policy Changes:** Child care providers will now be reimbursed based on enrollment rather than attendance, ensuring more stable funding. Reimbursement rates were increased to the 75th percentile of the most recent market rate survey, or alternatively set through a “true cost of care” mechanism.

These efforts aim to reduce the financial burden on families and stabilize the child care sector, ensuring more consistent and reliable care. However, challenges remain, such as the impending expiration of federal relief funds and ongoing workforce shortages. The high costs of child care and low wages for

⁵⁸ Nicole Heller, “Child Care in the Granite State: End of One-Time Funding Approaching,” *New Hampshire Business Review*, April 12, 2024, <https://www.nhbr.com/child-care-in-the-granite-state-end-of-one-time-funding-approaching/>.

⁵⁹ Heller, “Child Care in the Granite State: End of One-Time Funding Approaching.”

⁶⁰ New Hampshire Department of Health and Human Services, “Child Care COVID-19 Funding,” January 29, 2024, <https://www.dhhs.nh.gov/sites/g/files/ehbemt476/files/inline-documents/sonh/child-care-covid-funding-01292024.pdf>.

⁶¹ New Hampshire Fiscal Policy Institute (NHFPI), “New Hampshire Child Care Scholarship Eligibility to be Expanded in 2024, Provider Reimbursement Rates Increased,” January 19, 2024, <https://nhfpi.org/blog/new-hampshire-child-care-scholarship-eligibility-to-be-expanded-in-2024-provider-reimbursement-rates-increased/>.

⁶² Office of the Governor of New Hampshire, “15M in Funding Approved for Child Care Recruitment and Retention,” June 21, 2023, <https://www.governor.nh.gov/news-and-media/15m-funding-approved-child-care-recruitment-and-retention>.

providers create a persistent cycle of inaccessibility and financial strain. This dynamic limits parents' ability to participate fully in the workforce, contributing to significant economic implications. Additionally, the state's investment measures, while substantial, may not fully address the long-term sustainability of the child care market. The persistent imbalance between affordability for families and financial viability for providers underscores the need for nimble and multifaceted policy approaches to address child care challenges in New Hampshire.

From the benefits cliff perspective, child care workers are of particular importance because policy design may impact their own availability for work, and the supply of child care in turn impacts the workforce availability of other parents. Wages for child care workers are sufficiently low that many workers and potential workers in this sector interact with the benefits system, and policy cliffs could create disincentives for workers that might otherwise participate in this industry. Similar dynamics exist for elder care workers, a sector that will become increasingly important as the state's elderly population grows. In some cases, working age adults have their employment opportunities constrained by the need to provide care for elderly family members.⁶³ Policies that increase the workforce availability for elder care thus may also unlock additional workforce participation from current caregivers.

⁶³ A recent national study found that "high frequency eldercare provision is associated with a decreased probability of being in the labor force for women (2.7 percentage points) and a decrease in weekly hours worked for both men (3.4 hours) and women (2.3 hours)." Jessica Forden, "The Effect of Elder Caregiving on Labor Force Participation." *The New School Schwartz Center for Economic Policy Analysis*, December 2023. <https://www.economicpolicyresearch.org/resource-library/the-effect-of-elder-caregiving-on-labor-force-participation>

5. Policy Approaches

Addressing benefits cliffs and workforce challenges necessitates a comprehensive policy framework. This section explores potential policy approaches by reviewing initiatives in other states, particularly within New England, and assessing ongoing efforts in New Hampshire. The objective is to establish a framework for evaluating potential programmatic interventions that can mitigate the adverse effects of benefits cliffs, promote economic mobility, and support workforce development.

One major focus of policy interventions is the creation and implementation of graduated, proportional benefit programs. These programs aim to provide support for individuals who do not qualify for existing assistance, thereby preventing sudden loss of benefits as their income increases—a key component in addressing benefits cliffs. By examining successful models from other states, this report will highlight recent efforts and potential adaptations suitable for New Hampshire.

5.1. How States are Addressing Benefits Cliffs

Addressing the challenge of benefits cliffs requires a nuanced approach across various benefit programs. States are tackling this issue through legislative reforms, policy adjustments, and innovative programs aimed at smoothing the transition as individuals and families increase their incomes. The focus extends across multiple areas, including health care, child care, and financial assistance programs, with strategies tailored to address the specific dynamics of each benefit system.

Through a review of policy approaches that have been discussed, piloted, and implemented across the country, five common strategies have been identified that are prevalent across state efforts to address benefits cliffs.

- **Income Eligibility Adjustments:** Modifying income thresholds to broaden benefit eligibility;
- **Income Disregards:** Excluding certain earnings from benefit eligibility calculations;
- **Asset Limit Changes:** Increasing asset thresholds to allow participating households to build / retain more resources;
- **Transitional Benefits:** Providing supports during the transition from benefit eligibility; and
- **Special Programs / Interventions:** Targeted initiatives to enhance support and address specific challenges.

Adjustment of Income Eligibility Limits

By raising the income thresholds for eligibility, states provide a safety net that accommodates gradual income improvements without penalizing beneficiaries, reducing disincentives to workforce participation. In the case of health care, this approach has helped align state policies with the Affordable Care Act (ACA), which expanded federal support for access to health care for individuals and families that are low-income. Massachusetts has made significant changes by expanding the income eligibility limit for its ConnectorCare program from 300 percent to 500 percent of the Federal Poverty Level (FPL), expanding

health care access to over 50,000 Bay Staters.^{64,65} Other states, like Massachusetts and Vermont have increased asset limits for TANF from \$2,000 to \$5,000 and \$9,000, respectively.⁶⁶ Additionally, some states exclude certain assets, such as vehicles or savings accounts, from eligibility calculations. For instance, Delaware and Oregon allowed higher vehicle value exemptions, and several states disregarded savings in education and retirement accounts.⁶⁷

Income Disregards

States use income disregard policies to mitigate the impact of benefits cliffs by excluding certain amounts or types of income from eligibility calculations for benefit programs. These policies help beneficiaries retain their benefits even as their earnings increase, smoothing the transition from dependence on benefit programs to financial independence, commonly targeted at programs such as TANF, SNAP, and child care subsidies. For example, Massachusetts implemented a 100 percent earned income disregard for the first six months of employment for participants in TANF, provided the family income does not exceed 200 percent of the federal poverty level.⁶⁸ Similarly, Maine has a policy that disregards 100 percent of earnings for the first three months, with a gradual decrease thereafter.⁶⁹ Colorado takes a comprehensive approach by allowing TANF eligibility rules to incorporate income disregards from other benefit programs, ensuring that beneficiaries do not lose access to multiple supports simultaneously when their income rises slightly.⁷⁰ New Hampshire is also piloting a voluntary program that offers a 100 percent income disregard for individuals with newly earned income in high-demand jobs and a 75 percent disregard for others (for more details, see page 65).

Asset Limits

States are eliminating or adjusting asset tests that may restrict eligibility. This is particularly relevant in Medicaid and other assistance programs where individuals may face asset limits. The focus is on ensuring that households are not penalized for having modest savings or assets, promoting financial stability. California, for example, eliminated the asset test for its Aged, Blind and Disabled (ABD) Medicaid program and Medicare Savings Programs, allowing participants to maintain eligibility without facing restrictions based on assets. States like Massachusetts and Vermont have made significant adjustments in this area. Massachusetts eliminated its TANF limit, while Vermont raised its limit from \$2,000 to \$9,000.⁷¹ Additionally, most state's TANF policies have varying exclusions from eligibility calculations for certain assets, such as vehicles or savings accounts.⁷² For example, Delaware and Michigan allow exemptions for

⁶⁴ ConnectorCare is available to low- or moderate-income residents of Massachusetts who do not have affordable insurance through their employer and do not qualify for other forms of public insurance such as Medicare or MassHealth (Medicaid). A summary of the ConnectorCare program can be found here: <https://www.mahealthconnector.org/wp-content/uploads/ConnectorCare-Overview-2024.pdf>.

⁶⁵ Massachusetts Health Connector, "ConnectorCare 2024," accessed June 8, 2024, <https://www.mahealthconnector.org/connectorcare2024>.

⁶⁶ John T. Gorman Foundation, "Report: New England States Tackle Benefits Cliffs."

⁶⁷ National Conference of State Legislatures (NCSL), "Introduction to Benefits Cliffs and Benefit Programs," November 29, 2023, <https://www.ncsl.org/human-services/introduction-to-benefits-cliffs-and-public-assistance-programs>.

⁶⁸ John T. Gorman Foundation, "Report: New England States Tackle Benefits Cliffs."

⁶⁹ Ibid.

⁷⁰ Colorado General Assembly, House, "Concerning Income-Based Eligibility for Medical Assistance Programs," HB22-1259, 2022 Sess., https://leg.colorado.gov/sites/default/files/documents/2022A/bills/2022a_1259_01.pdf.

⁷¹ John T. Gorman Foundation, "Report: New England States Tackle Benefits Cliffs."

⁷² Welfare Rules Database, "2022 Welfare Rules Databook," December 2023, [https://wrd-prod.urban.org/wrd/Data/databooks/2022%20Welfare%20Rules%20Databook%20\(final%2012%2022%202023\).pdf](https://wrd-prod.urban.org/wrd/Data/databooks/2022%20Welfare%20Rules%20Databook%20(final%2012%2022%202023).pdf).

the value of all vehicles belonging to a household, and several states disregard savings in education and retirement accounts.⁷³

Transitional Supports

Some states are implementing gradual phase-outs of benefits instead of abrupt cutoffs. This allows participants to maintain certain benefits while transitioning to higher incomes. Gradual phase-outs have been commonly applied to programs like SNAP, TANF, and childcare subsidies. For example, the Tennessee TANF Opportunity Act includes the pilot program, "Beyond the Cliff Demonstration," which focuses on providing timely cash assistance and wraparound services to help families navigate the loss of benefits as their earnings increase.⁷⁴ Nebraska raised the gross income eligibility limit and asset cap requirement for SNAP, allowing more people to increase their earnings without fear of losing benefits.⁷⁵ Virginia modified its Full Employment Program by allowing participants to continue receiving TANF assistance while participating in employment activities, thereby encouraging workforce participation.⁷⁶ New Hampshire is also in the process of developing a post TANF support program.

Special Programs / Interventions

Special programs and interventions are targeted initiatives designed to address specific challenges related to benefits cliffs and support the overall economic mobility of individuals and families. These programs often involve innovative approaches and pilot projects. For instance, in Massachusetts the "Runway to Careers Pilot" by the Massachusetts Rehabilitation Commission aims to create pathways to livable wage jobs, allowing beneficiaries to retain full benefits and earnings while gaining skills.⁷⁷ Ohio's two-year "Benefit Bridge Employer Pilot Program" provides grants to employers to incentivize households participating in benefit programs to complete additional training for higher-paying jobs.⁷⁸ These programs are designed to provide customized support, enhance skills, and facilitate a smoother transition to economic independence.

Significant Strides in New England

New England states have made notable progress in mitigating the impact of benefits cliffs on families through various policy changes, cultural shifts, and frontline practices. These efforts have been informed by a nationally recognized regional initiative, "A Whole Family Approach to Jobs: Helping Parents Work and Children Thrive," led by the Administration for Children and Families (ACF) Region 1, with national and state collaborators since 2017.⁷⁹ This initiative has established New England states at the forefront of addressing the challenges associated with benefits cliffs, implementing various policy interventions to support low-income families as they transition to higher incomes. These interventions encompass a range of strategies, including adjusting income eligibility thresholds, income disregards, asset limits, transitional

⁷³ NCSL, "Introduction to Benefits Cliffs and Benefit Programs."

⁷⁴ Tennessee Department of Human Services, "TANF Opportunity Act," accessed March 10, 2024, <https://www.tn.gov/humanservices/tanf-opportunity-act.html>.

⁷⁵ Nebraska (L 108, 2021). NCSL, "Introduction to Benefits Cliffs and Benefit Programs."

⁷⁶ Virginia (H 2035, 2021). Ibid.

⁷⁷ Massachusetts Rehabilitation Commission, *Cliff Effect Presentation*, accessed March 10, 2024, <https://www.mass.gov/doc/mrc-cliff-effect-presentation/download#:~:text=At%20the%20end%20of%20this,or%20avoiding%20the%20benefits%20cliff>.

⁷⁸ Ohio Department of Job and Family Services, "Family Assistance Policy Letter (FAPL) No. 116," accessed May 5, 2024, <https://emanuals.ifs.ohio.gov/LocalAdmin/FAPM/FAPL/FAPL-116.stm>.

⁷⁹ John T. Gorman Foundation, "Report: New England States Tackle Benefits Cliffs."

supports, and special programs. Figure 5.1 highlights the efforts of New England states in each of these areas, providing a detailed overview of their approaches.

Figure 5.1: Summary of Recent Policy Interventions by New England States⁸⁰

Benefit Program	Income Eligibility (%FPL)	Income Disregards	Asset Limits	Transitional Supports	Special Programs / Interventions
TANF	CT (55%), MA (200%), NH (60%), RI (40%)	CT (Up to 230% FPL for 6 mos.), ME (100% then decrease), MA (\$200 + 50%), NH (50% disregard), RI (\$300 plus half), VT \$350 + 25% remaining income	CT (\$6K; car <\$9,5K), ME (No gross income test), MA (No limit), NH/RI (\$5K limit), VT (\$9K limit for savings)	CT (CT Safety Net; No family cap), ME/MA (child care & transport.), NH (<i>In dev.</i>): Post-TANF support), RI (No inc. test for new job), VT (Reach Ahead)	CT (Time limit increase), MA (Grant increases), NH (Pilot income disregard for new job), RI (Mental health support)
SNAP	CT/ME/MA/ NH/RI (200%), VT (185%)	—	CT/ME/MA/NH/ RI (No asset test), VT (\$4.25K for >185% FPL with senior/disabled)	CT/ME/MA (5 mo. food assistance)	ME (Job retention support), NH (Double Up Food Bucks), RI ("Eat Well Be Well" farmer's markets)
Medicaid/ CHIP	CT (160%), ME/MA/NH/RI /VT (138%; child only varies)	NH (5% disregard)	—	ME/RI (Streamlined eligibility for transitional Medicaid), NH (1 yr. cont. child eligibility)	CT (Covered CT), ME (No premiums/wait for children), NH (New Americans Program)
Child Care	CT (60% SMI), ME/NH (85% SMI), MA (50% SMI), RI (200%), VT (350%)	NH (TANF disregard)	—	CT (65% SMI redet.), MA (85% SMI cont.), NH (250% FPG redet.), RI (300% FPL cont.), VT (85% SMI)	RI, VT (Wrap-around Head Start & Pre-K), VT (575% CCFAP income eligibility)
LIHEAP	MA/NH/RI/VT (60% SMI)	—	—	—	CT (Electricity discount rate), ME (\$3M transfer from TANF), MA/NH (SNAP data sharing), RI (30% off bill if TANF recipient)
EITC	—	—	—	—	CT (40%), ME (25%), MA (30%), RI (15%), VT (38%)

Source: Administration of Children and Families Region 1 Whole Family Approach to Jobs Initiative (2024)

In addition to these core policy strategies, states have sought to mitigate benefit cliff challenges by improving program administration and information.

Coordination of Benefits

States are working to coordinate benefits across different programs to create a more seamless and integrated support system. This coordination helps individuals access multiple benefits without

⁸⁰ This is a non-exhaustive list. Some pilot programs have been excluded due to insufficient information.

encountering cliffs when their circumstances change. For example, Minnesota implemented a joint powers data sharing agreement between its departments of Education and Health and Human Services that allows families with young children to enroll in benefit programs more seamlessly within either department, thereby reducing administrative burdens and minimizing the likelihood of benefits cliffs.⁸¹ Similarly, New York's 2Gen Onondaga program provides intensive case management services, integrating benefits and services to provide support for families transitioning off benefit.⁸²

Data Sharing and Integration

Improved data sharing and integration across agencies help states identify individuals who may be at risk of benefits cliffs and implement targeted solutions. Integrated data systems enable a more holistic understanding of a person's circumstances and streamline the application and renewal processes. Colorado has implemented an integrated data system that allows for better coordination between various assistance programs, ensuring a comprehensive understanding of individual needs and circumstances.⁸³ New Hampshire and Massachusetts have established SNAP data-sharing programs to better manage benefits and mitigate cliffs by facilitating seamless transitions and reducing paperwork for participating households.⁸⁴

Outreach and Awareness

Outreach and awareness initiatives ensure that individuals understand their eligibility and the resources available to them. California has been proactive in increasing awareness through multiple legislative measures, including requiring colleges to provide SNAP information to incoming students, and clarifying eligibility requirements for a SNAP student exemption program. California's Covered California program conducts extensive outreach to inform residents about health insurance options and eligibility requirements, helping to prevent sudden loss of coverage due to income changes. Kentucky has also embarked on several initiatives to increase awareness and understanding of benefits cliffs, including the establishment of a cliffs-focused work group that led to the creation of a bridge insurance program as a stopgap for families no longer qualifying for Medicaid but unable to afford private insurance.⁸⁵ In Maine, the "Family Development Account Program" includes outreach efforts to educate eligible families about matched savings accounts for education, home purchases, or starting a business, ensuring they are aware of benefits and how to maximize their use without losing eligibility for other assistance programs.⁸⁶ These efforts are designed to help beneficiaries navigate the complexities of benefit programs and make informed decisions about their employment and financial futures.

The overarching goal across these states is to create a supportive environment that facilitates economic mobility without penalizing individuals for earning more. By adjusting income eligibility limits, phasing out benefits gradually, coordinating benefits, and employing other targeted strategies, states are making significant progress in addressing the complex issue of benefits cliffs. These efforts aim to ensure that the

⁸¹ Administration for Children and Families, *Minnesota Final PDG B-5 Initial Grant Report*, November 24, 2020, https://www.acf.hhs.gov/sites/default/files/documents/ecd/Minnesota%20Final%20PDG%20B-5%20Initial%20Grant%20Report_0.pdf.

⁸² Onondaga County Department of Social Services, "2Gen Initiative," accessed May 28, 2024, <http://www.ongov.net/dss/2Gen.html>.

⁸³ NCSL, "Introduction to Benefits Cliffs and Benefit Programs."

⁸⁴ John T. Gorman Foundation, "Report: New England States Tackle Benefits Cliffs."

⁸⁵ Kentucky Youth Advocates, "Health Insurance Updates for Kentucky Families," accessed May 28, 2024, <https://kvyouth.org/health-insurance-updates-for-kentucky-families/>.

⁸⁶ John T. Gorman Foundation, "Report: New England States Tackle Benefits Cliffs."

transition to higher earnings does not result in the loss of essential support for low-income families and individuals.

5.2. How New Hampshire is Addressing Benefits Cliffs

New Hampshire has been focused on research and efforts to mitigate benefits cliffs for several years through several initiatives, sometimes in partnership with other New England states. Below is a description of policy initiatives that have arrived from these efforts.

TANF Initiatives

A pilot program was launched to disregard 75 percent of new income for TANF participants starting full-time employment, with a 100 percent disregard for those in high-demand jobs, running from October 2022 to September 2024. As of March 2023, there were 62 participants with a 75 percent income disregard and 100 with a 100 percent disregard.

Adjustments to TANF child care deduction age bands and the inclusion of a master's degree as an educational activity are in progress, pending rule changes and system updates.

In addition, DHHS is working with subcontractors to enhance support of TANF recipients after they have left the program. This support could potentially include career counselling, counselling with regard to job training, college, and credentialing, assistance with vehicle breakdown, and financial assistance with buying clothes, uniforms, and tools.

Child Care Initiatives

The Child Care Scholarship Program has been restructured, reducing the number of steps from seven to three, simplifying the application process. Income eligibility for child care subsidies is now set at 85 percent of the State Median Income (SMI), allowing more families to qualify. Additionally, TANF income is now disregarded, enabling participating families to retain child care assistance as their earnings increase. The state has also reduced co-pays, lowering the out-of-pocket costs for child care services to no more than 7 percent of household income for eligible families.⁸⁷

To further support child care providers, New Hampshire has shifted provider reimbursements from attendance-based to enrollment-based models. This change ensures consistent funding for providers, helping them manage budgets more effectively and plan for long-term sustainability. By receiving payments based on enrollment, providers can better handle attendance fluctuations due to illness or other absences, avoiding financial instability.⁸⁸

⁸⁷ This change also aligns with the U.S. Department of Health and Human Services' definition of child care affordability, which recommends that child care costs should not exceed 7% of a household's income.

"Fact Sheet: Vice President Harris Announces Action to Lower Child Care Costs for More Than 100,000 Families," The White House, February 29, 2024, <https://www.whitehouse.gov/briefing-room/statements-releases/2024/02/29/fact-sheet-vice-president-harris-announces-action-to-lower-child-care-costs-for-more-than-100000-families/>.

⁸⁸ "Child Care Payments: Attendance vs. Enrollments," Child Care Aware, June 26, 2023, <https://info.childcareaware.org/blog/child-care-payments-attendance-vs-enrollments>.

Food Security Initiatives⁸⁹

One of New Hampshire's primary initiatives includes increasing the gross income eligibility limit for the Supplemental Nutrition Assistance Program (SNAP) to 200 percent of the Federal Poverty Level (FPL). This change allows more households to qualify for assistance, thus improving access to essential nutrition for low-income families. The state has also implemented the Double Up Food Bucks program, which enhances the purchasing power of participants in SNAP by providing a dollar for dollar match, up to \$20 per day, on the purchase of fruits and vegetables with the SNAP EBT card.⁹⁰

A data-sharing agreement between SNAP and LIHEAP has also been established. The agreement allows for the automatic enrollment of eligible households in LIHEAP, ensuring that those receiving SNAP benefits are also aware of and can access assistance for their heating costs during the winter months. This integration aims to streamline access to multiple forms of assistance, reducing administrative burdens on families and potentially increasing program participation.

Figure 5.2 provides a summary of some recent changes to New Hampshire benefit programs.

⁸⁹ While not in the scope of this report, New Hampshire has also adopted the Community Eligibility Provision (CEP) for school meals. The CEP allows schools in low-income areas to provide free breakfast and lunch to all students, regardless of individual family income. Despite the benefits of CEP, uptake has been relatively low in New Hampshire. Many eligible districts have not yet adopted the provision. Efforts are ongoing to improve awareness and participation in the program.

⁹⁰ Double Up Food Bucks is a national program sponsored by the nonprofit organization, Fair Food Network. The program is designed such that it not only improves the nutritional quality of food for participants in SNAP but also supports local agriculture.

"Double Up Food Bucks," Granite State Market Match, accessed June 27, 2024, <https://granitestatemarketmatch.org/double-up-food-bucks/>.

Figure 5.2: Recent Cliff-Related Changes to New Hampshire Benefit Programs

Benefit Program	Income Eligibility Adjustments	Income Disregards	Asset Limit Changes	Transitional Benefits	Special Programs / Interventions
TANF	60% FPL	50% earned income, child care disregard; Pilot: 75% income disregard for new full-time employment; 100% for high-demand jobs	Asset limit increased from \$2,000 to \$5,000	Post-TANF Support Program	Cash supplement for families also receiving SNAP
SNAP	200% of FPL	—	No asset test	—	Double Up Food Bucks; SNAP-LIHEAP data sharing agreement
Medicaid/CHIP	138% FPL, child only 323% FPL	5% disregard	—	1-year continuous child eligibility	New Americans Program
Child Care	Increase eligibility cap to 85% SMI; adjusted cost share criteria	TANF disregard	—	Adjusted income step within Child Care Scholarship	Provider payment based on enrollment not attendance
LIHEAP	60% SMI	—	—	—	Data sharing with SNAP
Housing	—	—	—	—	Less frequent income redetermination (Limited number of housing authorities can do this ⁹¹)

Source: Administration of Children and Families Region 1 Whole Family Approach to Jobs Initiative (2024)

5.3. Economic Modeling Approach

Multiple economic models are used to assess the presence of cliffs, and the potential program, workforce, and economic impacts of policy recommendations to address them.

The following methodology steps are described below:

- Modeling approach to identifying cliffs and near-cliffs;
- Modeling approach to estimating cost and labor supply response to policy changes; and
- Modeling approach to estimating economic and tax revenue impacts of policy options.

Modeling Approach to Identifying Cliffs and Near-Cliffs

Throughout this report, we discuss benefit “cliffs” – situations where a household that increases its earned income will lose at least that amount in benefits, and “near-cliffs” – situations where a household that

⁹¹ Keene Housing, “Moving to Work,” accessed May 15, 2024, <https://keenehousing.org/about-keene-housing/moving-to-work/>.

increases its earned income will lose a significant amount of benefits that may deter work incentives, though not so much to fully cancel out the income gain.

As discussed earlier, benefit policies can cause cliffs when the rules contain an income threshold at which a household suddenly becomes ineligible for a benefit or becomes eligible for a much lower amount. A cliff can also occur due to the aggregate effect of multiple benefit rules; a household's income gain may lead to several benefits being lost all at once, which adds up to a cliff or near-cliff.

Therefore, in identifying the most significant cliffs in New Hampshire benefit structures, care has been taken to incorporate interactions between the benefit rules. Modeling was undertaken as follows:

- First, we calculated for each benefit program how much a household would be eligible for at different levels of earned income (specifically, from annual incomes from zero to \$200,000 by thousand-dollar increments.)
- We did this for eight different household types that represent a combination of the most common household types in the state, and the most common household types participating in existing benefit programs based on state data. These household types are: a single adult with zero, one, two, or three children; and two adults with zero, one, two, or three children.⁹²
- In calculating how much of each benefit a household is eligible for, we considered interactions between the benefit rules. For example, since TANF is counted as income when calculating eligibility for several benefits, our model first calculates how much TANF a household is eligible for and then takes that number into account when calculating eligibility for other benefits.⁹³
- For each household type, we added up the total value of benefits at each income level.

The result of this model is the ability to evaluate, for any household type and income level, how much total benefits a household is eligible for.

Identifying cliffs in the model's results. Since the model shows the value of benefits at different income levels by thousand-dollar increments, we define a cliff as any situation where a household loses at least one thousand dollars in benefit value when they go up an earnings increment, resulting in a loss of net resources (earned income + benefit value).

Calculating marginal rates and identifying near-cliffs in the model's results. The model can also be used to calculate the effective marginal tax rate at different income levels. For example, when a \$1,000 gain of earned income leads to a \$1,000 loss of benefits, we can express this as an effective marginal tax rate of 100 percent. If only \$900 of benefits was lost, the effective marginal tax rate is 90 percent. A near-cliff is a situation where this marginal rate is high and may discourage workforce participation, but less than 100 percent. No formal threshold is set for near-cliffs, as the effective rate discouraging work will naturally vary by individual and family situation.

⁹² These household types represent the vast majority of current or potential benefit program participants. In modeling results for policy options, results for these groups are extrapolated to the remainder of the population by assigning non-represented household types to their nearest represented group (for example, households with one adult and four children are added to the one adult, three children analysis as a proxy to ensure that results account for the full state population).

⁹³ The list of benefit-rule interactions incorporated into modeling in this analysis can be found in Figure 3.1.

Modeling Approach to Identifying Cost and Labor-Supply Response of Policy Changes

In the chapter that follows, we describe several policy options to address the benefit cliff challenges identified throughout this report. Some of these options directly address the problem of households facing high effective marginal tax rates, that is, near-cliffs or cliffs. What follows is a description of how we modeled these options.⁹⁴

To understand how households would respond to changing effective marginal tax rates associated with policy changes, we used the concept of labor supply elasticity. Labor supply elasticity is the percentage change in the amount of labor a person supplies (e.g., how many hours that person works) in response to a percentage change in their effective wage (that is, how much the person makes per hour after considering taxes owed and benefits received). Changes in earnings can result from a change in hours worked, a change in the wage earned (either with the same employer or by switching to a different job), or by entering / leaving the work supply. Some workers may also make no changes in their work behavior in response to policy changes. Percentage impacts should be understood as averages across the population, inclusive of all these potential responses.

Academics have produced a wide range of estimates of labor supply elasticity, depending on such factors as the population being studied and the methodology being used. In our model, we use an average estimate of 0.40 for the labor supply elasticity, following the Congressional Budget Office's estimate.⁹⁵ A labor supply elasticity of 0.40 implies that a one percent increase in effective wages causes households to increase their labor supply by 0.40 percent.⁹⁶

Again following the Congressional Budget Office, our model assigns higher labor supply elasticities to low-income people, and vice-versa. The elasticities used are .51, .39, and .30 (with the elasticity decreasing as income goes up); these numbers follow estimates in a paper cited by the Congressional Budget Office but have been adjusted so that they center around 0.40.⁹⁷

To model these policy options, we used the following modeling approach.

- We re-calculated effective marginal tax rates – taking all benefits into account – for eight different household-types and for income levels up to \$80,000 in thousand-dollar increments with modified policy rules represented by the policy options.

⁹⁴ The policy options that fit this description are the change to the TANF disregard and adding Step 2.5 to the child care benefit (each described in the next chapter). For the other policy options, we take a unique modeling approach to each option, and we describe how we modeled each of those options in Chapter 6.

⁹⁵ "CBO incorporates into its analyses an estimate of the Frisch elasticity that ranges from 0.27 to 0.53, with a central estimate of 0.40. That range comes from the agency's assessment of the research literature on the Frisch elasticity as well as from values the agency derives from the research literature on the substitution elasticity." [Review of Estimates of the Frisch Elasticity of Labor Supply \(cbo.gov\)](#)

⁹⁶ The labor supply elasticity varies across populations. A household's primary wage earner, if committed to working a full-time job, will tend to have a low elasticity. A household's second earner, or people considering retirement or otherwise with a looser tie to the labor market, will have a higher elasticity because their labor supply decisions depend heavily on what wages are available.

⁹⁷ "We find evidence that low-income workers have higher elasticities of labor supply than other workers, especially in the component of their labor response that reflects movement in and out of the workforce." See the abstract of [A Review of Recent Research on Labor Supply Elasticities \(cbo.gov\)](#). Juhn, Murphy, and Topel, 2002, are cited on page 22. The elasticity numbers come from page 144 of that report ([0675-02 BPEA/Juhn \(brookings.edu\)](#)), although we applied proportional adjustments so that the average elasticity would be 0.40, which is the CBO's central estimate of Frisch elasticity.

- For each household type and income level, we compared their original effective marginal tax rate to the rate under modified rules. Then, using labor supply elasticities, we estimated how the change in effective marginal tax rate would change that household's labor supply.
- Using program data provided by the state, we estimated the current distribution of income and household types for the set of participants in each benefit program.
- Some policy options modeled result in currently-ineligible households becoming eligible for benefits. In these cases, we used estimates of the current take-up rates for benefit programs (estimated based on observed participation and potential participants, as estimated from Census data on the state's population) to inform estimates of how many of these newly-eligible households would receive the new benefits.
- Combining our estimates of how currently-receiving households will change their labor supply and how policy rules will cause new households to apply for benefits, we estimate the new distribution of household types and income for each benefit after the policy option has been implemented.
- Using this new distribution of income and household types, combined with our model of how much benefit each household receives, we estimate the level of additional state cost associated with each policy option, compared to the status quo. These additional state-funded benefits represent the additional direct cost to the state of each policy option.

Modeling Approach to Estimating Economic and Tax Revenue Impacts of Policy Options

As described earlier, our modeling approach allows us to estimate behavioral changes on the part of households receiving benefits. Specifically, we estimate how households of different types and at different earned-income levels will see their effective marginal tax rate change due to implementation of policy options, and we then use the concept of labor supply elasticity to model how these households will change how much they work and earn. These additional earnings are then modeled in terms of their impact on the state's economy and tax base.

- Using these estimates of how much more income is being earned at jobs, we use the IMPLAN modeling framework to estimate the increase in statewide economic activity, employment, earnings, and tax revenue. IMPLAN is industry-standard software that uses input-output modelling to show how new economic activities in particular geographies can multiply to create additional spending and employment. In other words, our own model gives estimates of how implementing policy options will change behavior in various types of households at different income levels, in terms of their labor supplied; IMPLAN then estimates how this direct increase in economic activity can also have a multiplier effect on the New Hampshire economy through impacts on the supply chain for the original activity ("indirect impacts") and through the local recirculation of earnings from the original activity as household spending ("induced effects").⁹⁸

⁹⁸ Specifically, IMPLAN will estimate how a direct effect (such as an increase in the earnings of households that were previously facing policy cliffs) can be accompanied by an indirect effect (as businesses buy more goods and services in response to the increase in economic activity) and an induced effect (as workers spend their increased earnings). Further detail on input-output modeling theory and practice is included in Appendix B to this report.

- In addition, we use IMPLAN to estimate how this increase in labor supply activity will increase tax revenue in New Hampshire, partially offsetting the state cost of each policy option.

To help policy makers evaluate the merits of these suggestions, for each fully-modelled policy option in Section 6, we will present estimates of:

- How much the policy option will directly cost the state in terms of changes in the level of paid-out benefits;
- How much households are expected to earn due from extra workforce participation, attributable to the mitigation of cliffs;
- Estimates of the total multiplied effect of this new economic activity on the state's total economic output, employment, and earnings; and
- Estimates of additional state tax revenue to be collected because of this new economic activity.

6. Policy Options and Potential Impacts

Based on the information and research of the preceding chapters, each program studied in this analysis is reviewed through the lens of benefits cliffs and impacts on workforce participation. Potential policy options are reviewed, with an eye towards opportunities for the state to implement graduated assistance approaches, which address cliffs caused by eligibility cutoffs or benefit level drops at income thresholds by expanding eligibility or benefit levels to create a smoother off-ramp. When applicable, we use methods described in Section 5.3 to estimate the potential expenditure and economic impacts of these policy options.

6.1. TANF and SNAP

The TANF benefit, with a 50 percent disregard, has a relatively steep phaseout slope compared to other benefits. Due to this earned income disregard, participants in TANF generally face an effective marginal tax rate of 50 percent. While this rate is not technically a cliff (because it's less than 100%), it still creates a "near cliff" situation. Moreover, the effective marginal tax rate can become even higher when considering the potential concurrent phasing out of other benefits as earned income increases.

In this section, we discuss a policy option to address TANF's near-cliff. We also discuss the interaction between TANF and SNAP benefits, as well as potential policy changes to SNAP.

TANF Expanded Income Disregard

New Hampshire's TANF program is structured so that participants face a high effective marginal tax rate. In general, a household loses 50 cents of TANF benefits for every additional dollar of earned income received. This effective marginal tax rate of 50 percent can go even higher when accounting for other benefit programs a household may be eligible for, which often layer on additional benefit losses for each extra dollar earned. Recognizing that TANF's 50 percent rate is a significant contributor to cliff and near-cliff situations, **New Hampshire is running a pilot program to expand the earned income disregard from 50 percent to 75 percent** (which would have the effect of reducing TANF's effective marginal tax rate from 50% to 25%) and in some instances 100 percent. Below, we discuss this policy in more detail and **the potential impacts of making this pilot approach permanent**.

In New Hampshire, a participating household's TANF benefit calculation starts with a payment standard, which is an amount based on 60 percent of the federal government's poverty threshold (FPL, or federal poverty level), which increases with household size. From that payment standard, a household's "income" is subtracted, with "income" calculated as the household's income after 50 percent of earned income has been disregarded (subtracted) and a deduction for child care has also been subtracted.⁹⁹

For example: a three-person household has a monthly payment standard of \$1,243 because that is 60 percent of FPL for a three-person household. If the household makes \$1,000 in earned income, then the household's TANF benefit is $\$1,243 - (\$1,000 * 50\%) = \$743$. If the household's earned income increases to \$1,200, then the household's new TANF benefit is $\$1,243 - (\$1,200 * 50\%) = \$643$.

⁹⁹ This description leaves out several nuances but is sufficient for our purposes here.

This example shows how a benefit can reduce the reward of earning more income through work. In the example, the household's monthly income increased by \$200 (\$1,000 to \$1,200) and \$100 of benefits was lost (\$743 to \$643). Thus, the household only gained \$200-\$100=\$100 in net resources.

New Hampshire could change the disregard from 50 percent to 75 percent permanently, meaning that only 25 percent of the household's income would be subtracted from the payment standard. Returning to the example, a household making \$1,000 would receive $\$1,243 - (\$1,000 * 25\%) = \$993$ and a household making \$1,200 would receive $\$1,243 - (\$1,200 * 25\%) = \$943$. Thus, with a 75 percent disregard, a gain of \$200 of earned income leads to only \$50 of lost benefits (\$993-\$943), for a net resource gain of \$200-\$50=\$150 (see Figure 6.1).

Figure 6.1: Three-Person Household's Gain From \$200 Raise Under Different Disregards

	Monthly Earned Income	Monthly Payment Standard	Countable Earned Income (After Disregard)	Benefit Estimate	Income + Benefit
50% Disregard					
Initial	\$1,000	\$1,243	\$500	\$743	\$1,743
Increased Income	\$1,200	\$1,243	\$600	\$643	\$1,843
<i>Net Change</i>	<i>+\$200</i>	--	<i>+\$100</i>	<i>(\$100)</i>	<i>+\$100</i>
75% Disregard					
Initial	\$1,000	\$1,243	\$250	\$993	\$1,993
Increased Income	\$1,200	\$1,243	\$300	\$943	\$2,143
<i>Net Change</i>	<i>\$200</i>	--	<i>+\$50</i>	<i>(\$50)</i>	<i>+\$150</i>

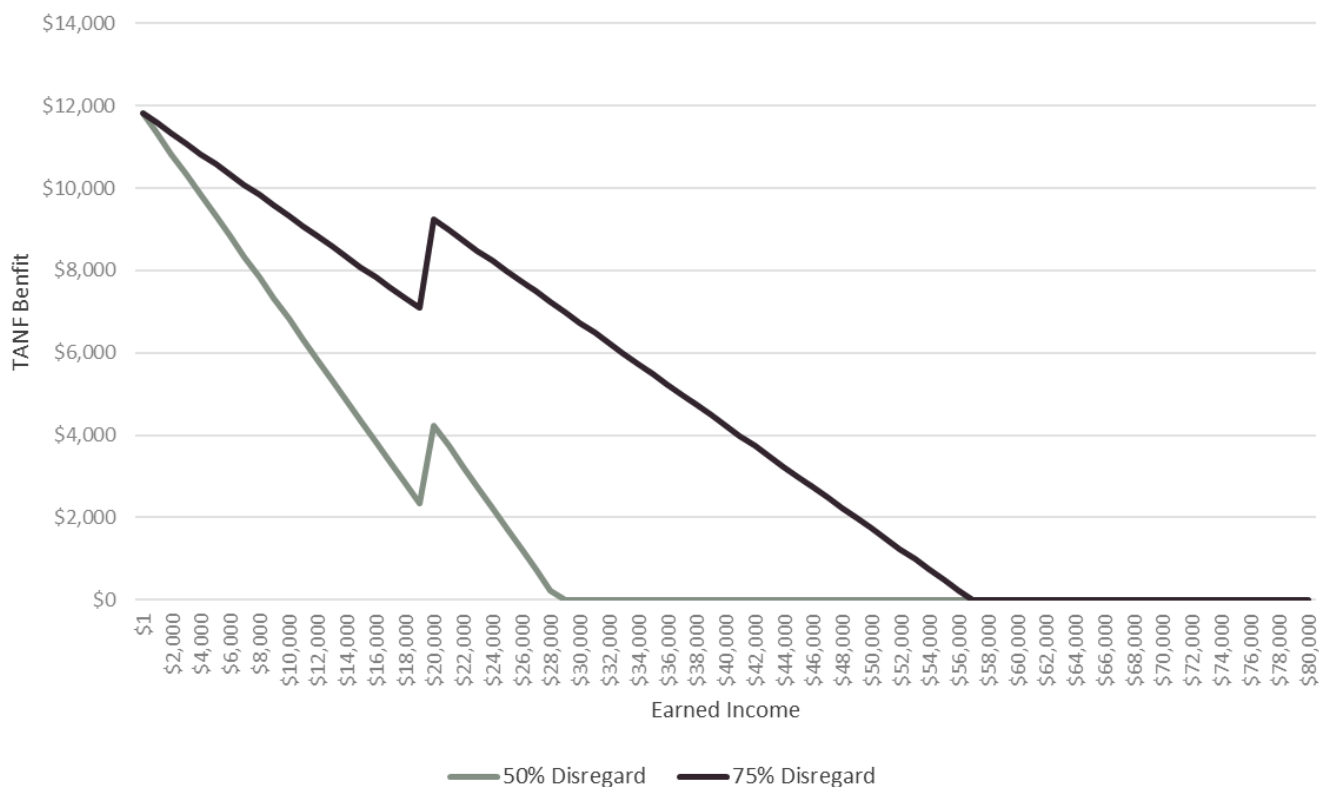
With a 50 percent disregard, a three-person household gains \$100 when their earned income increases from \$1,000 to \$1,200. With a 75 percent disregard, the raise from \$1,000 to \$2,000 allows them to gain \$150.

The logic of this policy option is that households will face a lower effective marginal tax rate. The effective marginal tax rate from TANF alone changes from 50 percent to 25 percent, and the starting point for the total marginal effective rate for many households may be higher than 50 percent, depending on what other benefits the household is eligible for. The effect would be across the income range of households collecting TANF; in this specific example, the additional \$200 leads to a \$150 gain under the new policy, when it was only \$100 under the current policy.¹⁰⁰

Figure 6.2 below shows how much TANF a household with one adult and two children can collect at different levels of income under the 50 percent policy rule and the 75 percent policy rule, using our detailed model of benefit rules and interactions.

¹⁰⁰ For simplicity, the above example ignored the child care deduction and a few other nuances in TANF rules.

Figure 6.2: TANF Benefit for One Adult, Two-Child Household Using 50% Disregard vs 75% Disregard



With a 50 percent disregard, a three-person household's TANF benefits decline more rapidly than with a 75 percent disregard.¹⁰¹

New Hampshire is currently running a pilot program in which certain participants are eligible for a 75 percent or even a 100 percent disregard. To be eligible for these disregards, a person must work at least 28 hours a week and – in the case of a 100 percent disregard – be working in a high-demand job as defined by the Workforce Innovation and Opportunity Act. The policy option described here bears similarities to this pilot but is proposed as a permanent change to New Hampshire's TANF policies.

Using the modeling approach described in Section 5.3, we estimate that if New Hampshire were to implement a 75 percent TANF disregard on a permanent basis, approximately 900 additional households would enroll in the program.¹⁰² In addition, benefit levels would increase for many of the approximately 1,530 currently enrolled households. Additional TANF payments are estimated to total \$8.8 million annually (or about \$3,600 per participant), and this can most likely be funded by federal TANF dollars.

¹⁰¹ Note that, regardless of the disregard, the household experiences TANF "spikes" at certain points; these occur because the child care benefit has "drop-off points" and – because the TANF formula deducts unreimbursed child care expenses – the drop-off in the child care benefit causes spikes in the TANF benefit.

¹⁰² Because an adult receiving TANF can be deemed automatically eligible for Medicaid, this interaction could add significant cost to the proposal. In our modeling, we assumed that the proposed policy option does not allow newly-eligible-for-TANF households to become automatically eligible for Medicaid, and that only adults eligible for TANF under the old rules become automatically eligible for Medicaid.

This policy change would also reduce disincentives to earning additional income, spurring additional work and earnings among program participants. We estimate based on labor supply elasticity that program participants would change their behavior and earn an additional \$4.6 million in aggregate annual income, or about \$1,900 per participant (see Figure 6.3).

Figure 6.3: Projected Changes to Earnings and Benefits Upon Implementation of 75% TANF Disregard

	Current Recipients	New Recipients	Total
Households	1,530	900	2,430
Benefit Level Change	\$4,589,000	\$4,208,000	\$8,797,000¹⁰³
Average Benefit Change	\$3,000	\$4,660	\$3,620
Earned Income Change	\$4,136,000	\$427,000	\$4,562,000
Average Income Change	\$2,700	\$470	\$1,870

These additional earnings and benefits received would have an economic impact on the State of New Hampshire. Our model estimates this impact by modelling the multiplier effect of the spending of new benefit payments and additional work by program participants.

The additional economic activity spurred by these additional federal benefit payments and increases in earned income would generate an annual economic impact of \$29.3 million in New Hampshire, supporting 186 FTE jobs and \$10.2 million in employee compensation (Figure 6.4). This economic activity is also estimated to generate approximately \$500,000 in annual state tax revenue.

Figure 6.4: Economic Impact from Implementation of 75% TANF Disregard

New Hampshire	
Direct Output (\$M)	\$10.5
Indirect and Induced Output (\$M)	\$18.9
Total Output (\$M)	\$29.3
Total Employment (FTE)	186
Employee Compensation (\$M)	\$10.2
State Taxes (\$M)	\$0.50

Source: Econsult Solutions, Inc. (2024), IMPLAN (2022)

Funding Considerations for Increasing TANF Income Disregard

Increasing the income disregard for TANF eligibility in New Hampshire can be undertaken within the existing federal framework, provided the state complies with Maintenance of Effort (MOE) requirements and federal regulations.¹⁰⁴ Federal TANF dollars are provided to states as block grants, allowing states flexibility in how they meet the program's core purposes. States can allocate TANF funds across various

¹⁰³ We expect that this can be funded by federal TANF dollars.

¹⁰⁴ Gene Falk and Patrick A. Landers, "The Temporary Assistance for Needy Families (TANF) Block Grant: Responses to Frequently Asked Questions," Congressional Research Service, updated April 1, 2024, <https://sgp.fas.org/crs/misc/RL32760.pdf>.

categories, including basic assistance, work support, and child care. Budget adjustments may be necessary, involving reallocating funds within the existing TANF budget or using TANF balance funds.

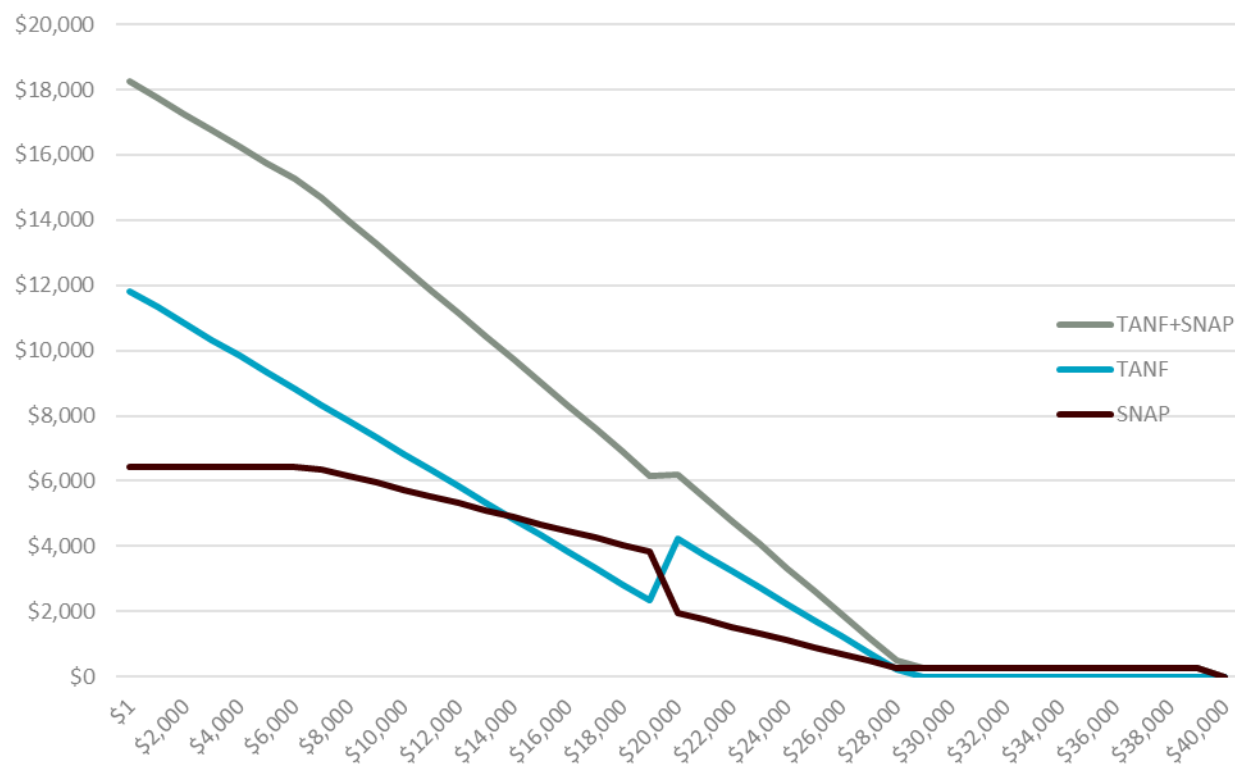
TANF + SNAP + Child Care Interactions

Interactions between the rules of TANF and SNAP with each other, as well as interactions for each of these programs with child care benefits, are critical to the realized impacts of families participating in both programs. TANF rules allow recipients to deduct child care expenses that they pay out of their own pocket when determining eligibility and benefit amount. TANF recipients enrolled in both programs see their child care benefits fall as their income crosses certain thresholds, increasing their out-of-pocket child care expenses. This can result in a “spike” in the amount of TANF benefit they are eligible for as their income increases (as seen in Figure 6.2 above as a one adult, two children household nears \$20,000 in income).

In addition, TANF benefits are counted as income when eligibility and benefits levels for SNAP are calculated. For households participating in both programs, SNAP benefits will decline as the household receives a higher level of TANF (holding all else equal). Returning to the earlier interaction with child care, when a household increases their income and sees a reduction in child care assistance (increasing their out of pocket child care costs), not only does their TANF benefit increase (because they can deduct the increased child care that they are paying out of their own pocket) but in turn their SNAP benefit goes down (because this increased TANF benefit is counted as income in the SNAP calculation).

When program interactions cause sudden spikes or drops in benefit levels for individual programs, it is useful to analyze the change in combined benefit levels across multiple programs to understand the overall effects of these change on family well-being and workforce incentives. Figure 6.5 below shows the aggregate TANF + SNAP benefit for a one adult, one child household participating in both programs, in addition to the individual benefit amount for each program. At around \$20,000 in household income, TANF benefits spike and SNAP benefits fall, due to the interactions between these programs and with child care benefits described above. However, these two counteracting changes are largely offsetting, resulting in a relatively flat trajectory for the combined benefit line at this location. Thus, while this location appears to represent a benefit cliff when considering SNAP in isolation, its overall impact is modest, and is not identified as a crucial issue for policy intervention.

Figure 6.5: TANF and SNAP benefits for One Adult, One Child Household



SNAP

As seen in Figure 6.5 (above), the phaseout of the SNAP benefit is far less steep than the TANF benefit, creating a lesser impact on family well-being and workforce incentives. This report does not recommend a “flattening out” of SNAP benefits as a policy priority, despite proposing similar changes for TANF. The reasons for this are threefold: First, because the phaseout of SNAP benefits is already less steep than that of TANF under current policy. Second, under certain circumstances TANF benefits are already being “flattened out” in a pilot program that allows households to have 75 or even 100 percent of their earned income disregarded, a pilot effort that may be worthwhile to build upon. Third, the federal block grant structure of TANF makes it more feasible for changes to the TANF benefit structure to receive federal funding compared to similar modifications for SNAP benefits.

SNAP Redetermination and Policy Recommendation

In state fiscal year 2024, New Hampshire Senate Bill 499 introduces a change to the SNAP redetermination period for elderly and disabled residents.¹⁰⁵ Under this bill, New Hampshire will implement the USDA’s Elderly Simplified Application Project (ESAP), which extends the redetermination period for SNAP from one year to three years for households where all members are elderly (60 years or older) and / or disabled

¹⁰⁵ New Hampshire Senate Bill (SB) 499 § XIII-d, S. 24-2907 (2024): <https://legiscan.com/NH/text/SB499/id/2966455>.

with no earned income.¹⁰⁶ This initiative aims to streamline the application process, reduce administrative burdens, and improve access to SNAP benefits for these vulnerable groups.¹⁰⁷

Monitoring the outcomes under SB 499-FN will provide valuable insights into the effectiveness of these changes and help determine if further adjustments are necessary to optimize support for elderly and disabled populations. Although the direct impact on labor supply may be minimal due to the modest employment participation levels of the target demographic, the policy could indirectly affect labor supply by alleviating financial stress and enabling family caregivers to seek employment.

6.2. Child Care

As discussed throughout this report, the availability, quality, and cost of child care is a crucial factor in determining workforce availability for parents with children. New Hampshire and other states have considered and pursued a range of policy options on this issue, some of which focus on increasing the supply of child care facilities and workers. This analysis focuses on the structure of benefit programs and other potential approaches designed to reduce the cost of child care for working families.

The structure and allocation of child care benefits play a critical role in determining access and affordability for families. The CCDF is a critical program that provides child care subsidies based on household income.

CCDF Child Care Benefit levels are structured in three steps based on household income.

- The lowest income households are at Step 1, where they are not required to contribute to child care expenses.
- After passing an income threshold (100% FPL), households move to Step 2, where they pay \$5 per week towards child care costs.
- At the next income threshold (138% FPL), households reach Step 3, where they have to contribute up to 7 percent of their income toward child care expenses, with the benefit covering the remaining costs. After exceeding the final threshold (85% of the State Median Income), these households no longer qualify for any assistance.

Figure 6.6 below plots the impact of these three steps on child care benefit levels by household income for a two adult, two child family. This figure illustrates that the transition from Step 1 (fully subsidized) to Step 2 (\$5 household contribution per week) is modest. However, there is a significant cliff from Step 2 to Step 3 (as households transition from contribution a flat dollar amount to a portion of their income), and another steep cliff from Step 3 to ineligibility.

In this section, we consider a policy option (shown in Figure 6.6) in which the cliff between Step 2 and Step 3 is mitigated. Specifically, we propose that the contribution of each household gradually increase from \$5 a week at 138 percent FPL to 7 percent of income at 60 percent State Median Income, rather

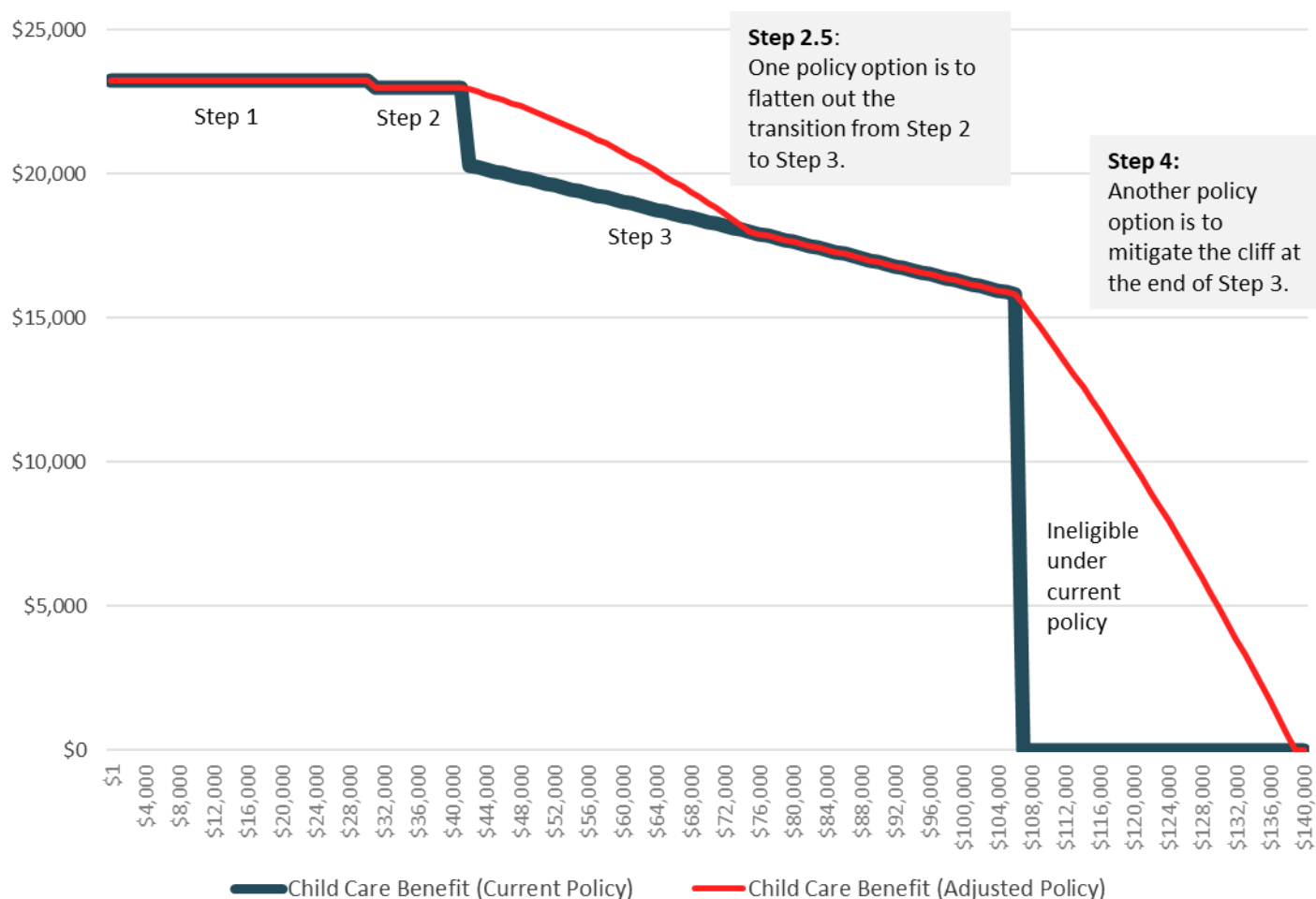
¹⁰⁶ Administered by the USDA's Food and Nutrition Service., the ESAP is a five-year demonstration project aimed at increasing SNAP participation among low-income elderly and disabled individuals by streamlining the application process. More on the project can be found on the Food and Nutrition Service's website: <https://www.fns.usda.gov/snap/elderly-simplified-application-project>.

¹⁰⁷ NH SB 499 also mandates the implementation of the [Summer EBT \(SUN Bucks\) program](#), giving an additional \$120 per eligible child for groceries during the summer. Families can receive SUN Bucks alongside SNAP and WIC benefits. The bill also provides disaster relief funding to municipalities affected by natural disasters.

than immediately going from \$5 a week to 7 percent of income at 138 percent FPL.¹⁰⁸ We refer to this policy option as “**Step 2.5**” because it deals with the cliff taking place at the transition between the existing Step 2 and Step 3.

As a second policy option (also shown in Figure 6.6) we consider a graduated approach mitigating the cliff at the end of Step 3. Under this approach, a household would transition gradually from contributing 7 percent of their income to child care expenses at 85 percent of State Median Income to an increasingly large contribution (or declining benefit) until finally receiving no child care assistance at all at 500 percent of FPL. We call this policy option “**Step 4**” because it would add another category beyond the existing three steps.

Figure 6.6: Policy Options Related to Child Care Benefit, Shown for Two Adult, Two Child Family



¹⁰⁸ Under this policy, the normal Step 3 rule – which is that the household pays no more than 7 percent of their income – would continue to apply between 60 percent and 85 percent of SMI. For example – a two adult one child family passes 138 percent of the FPL at \$35,000 in income. At this point, they jump from owing around \$250 annually (\$5 per week) to nearly \$2,500 annually (7% of income), creating a cliff. This policy option would calculate a share of income contribution that reduces the gap between these two amounts, and gradually phase up the share of income to 7%, creating a smoother slope.

CCDF Step 2.5: Share of Income Calculation

Implementing a Step 2.5 would ‘smooth out’ the existing drop in child care benefits for households as they reach and exceed 138 percent of the FPL, reducing the current disincentive for a households participating in CCDF to increase its income beyond this level. Using the modeling approach described in Section 5.3, we estimate that if New Hampshire were to implement a policy to flatten the transition in Childcare benefits from step 2 to step 3, benefit levels would increase for approximately 230 currently enrolled households. Additional Childcare payments from this policy are estimated to total \$0.95 million annually (or about \$410 per participant).

This policy change would also reduce disincentives to earning additional income, spurring additional work and earnings among program participants. We estimate based on labor supply elasticity that program participants would change their behavior and earn an additional \$1.9 million in aggregate annual income, or about \$830 per participant (see Figure 6.7).

Figure 6.7: Projected Changes to Earnings and Benefits Upon Implementation of Childcare Step 2.5

	Current Recipients	New Recipients	Total
Households	230	N/A	230
Benefit Level Change	\$954,000	--	\$954,000
Average Benefit Change	\$410	--	\$410
Earned Income Change	\$1,941,000	--	\$1,941,000
Average Income Change	\$830	--	\$830

These additional earnings and benefits received would have an economic impact on the State of New Hampshire. Our model estimates this impact by modelling the multiplier effect of the spending of new benefit payments and additional work by program participants.

The additional economic activity spurred by these additional federal benefit payments and increases in earned income would generate an annual economic impact of \$9.2 million in New Hampshire, supporting 57 FTE jobs and \$3.4 million in employee compensation (Figure 6.8). This economic activity is also estimated to generate approximately \$140,000 in annual state tax revenue.

Figure 6.8: Economic Impact from Implementation of Childcare Step 2.5

	New Hampshire
Direct Output (\$M)	\$4.4
Indirect and Induced Output (\$M)	\$4.8
Total Output (\$M)	\$9.2
Total Employment (FTE)	57
Employee Compensation (\$M)	\$3.4
State Taxes (\$M)	\$0.14

Source: Econsult Solutions, Inc. (2024), IMPLAN (2022)

CCDF Step 4: Extending Income Eligibility

When exiting step 3 (at 85% of SMI), the drop-off is significant because households go from paying no more than 7 percent of income to exiting the program and covering the full childcare amount. Based on expected child care costs in New Hampshire, this represents a potential benefit loss of around \$7,500 at a household income around \$73,000 for a one-adult one-child family, a potential \$17,000 loss around \$90,000 for a one-adult, two-child family, and a potential benefit loss of around \$26,500 at a household income of around \$107,000 for a one-adult, three-child family.

The ‘Step 4’ policy change would reduce disincentives to earning additional income among households currently receiving assistance, spurring additional work and earnings, because they would no longer face a cliff. However, the new ‘Step 4’ would increase the effective marginal tax rate for newly eligible households whose income puts them just past the cliff. It is possible that some of these households may respond by working less, which would partially lessen the positive economic impact that comes from flattening out the cliff faced by current participants.

Figure 6.9 provides a graphic representation of the value of the child care benefit, under current policy and under the new ‘Step 4’ policy. Figure 6.10 shows the number of households that are currently receiving the benefit and are making within \$10,000 of the earned-income cliff they face. It also shows the number of households, of each family type, that would be newly eligible under the ‘Step 4’ policy; note that only a small percentage of these families would likely enroll, judging by the participation rate of households just below the cliff.

CCDF funds are typically only available to children in families making less than 85 percent of the state median income.¹⁰⁹ Supplemental state funds would thus be needed to create a “Step 4” in the program. However, it may be possible to use federal funds to create the modified “Step 2.5,” which falls well below this threshold.

¹⁰⁹ Congressional Research Service, “The Child Care and Development Block Grant. November 2022.
<https://crsreports.congress.gov/product/pdf/R/R47312>

Figure 6.9: Child Care ‘Step 4’ Policy Change for a Two Adult, Two Child Family

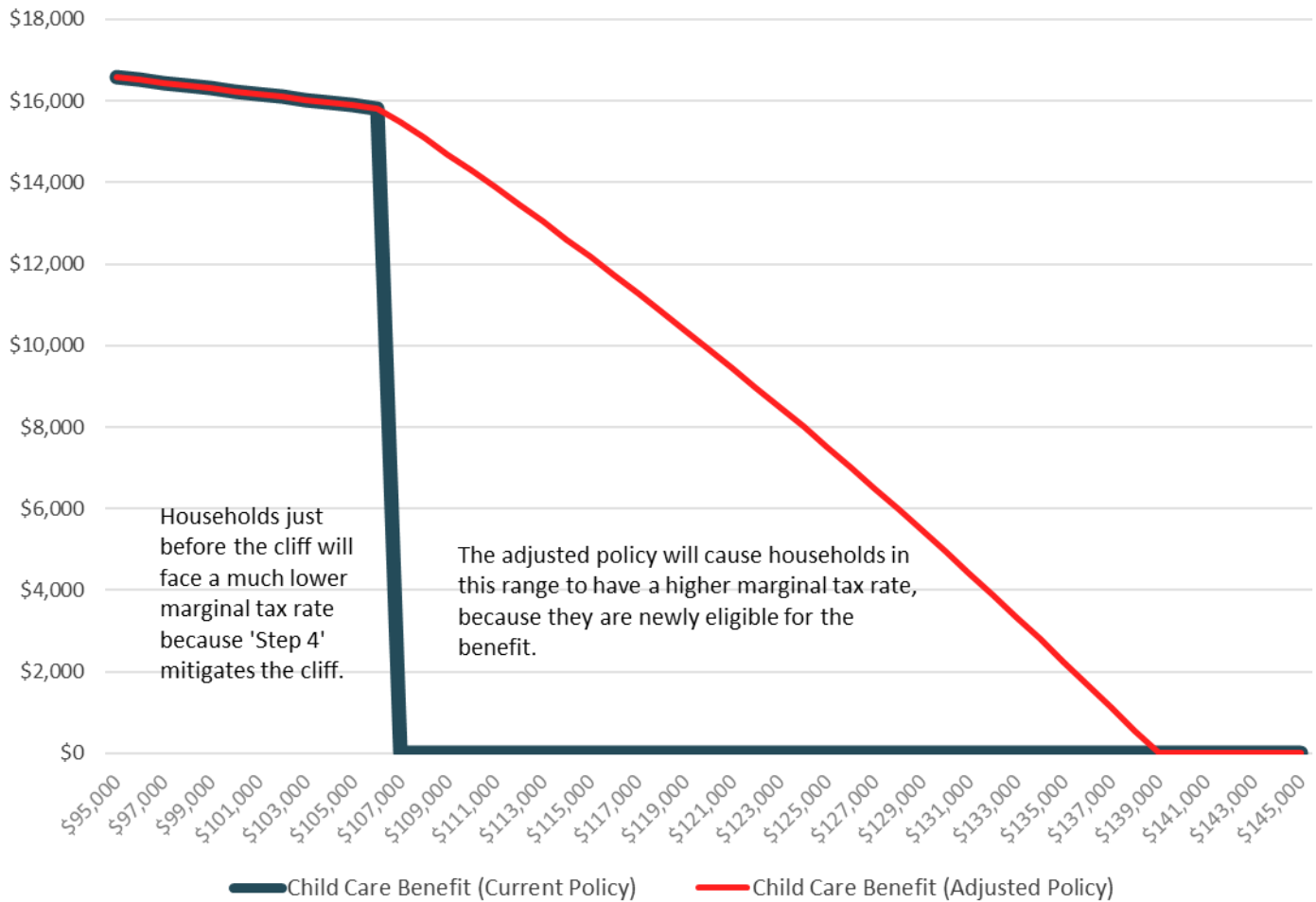


Figure 6.10: Household Count and Income by Family Type before and after Childcare Cliff

Family Type	Cliff (85% SMI) under Current Policy	Families Currently Receiving Benefit within \$10,000 of Cliff	Participation Rate for Families within \$10,000 of Cliff	Potential Number of Families That Would Be Newly Eligible Under 'Step 4' Policy ¹¹⁰
1 adult, 1 child	\$72,193	10	0.75%	2,478
1 adult, 2 children	\$89,180	3	1.05%	1,313
1 adult, 3 children	\$106,167	0	0.00%	225
2 adults, 1 child	\$89,180	5	0.23%	8,539
2 adults, 2 children	\$106,167	4	0.23%	10,611
2 adults, 3 children	\$123,153	2	0.21%	3,984

Source: New Heights Database

Source: New Heights Database & 2022 ACS Microdata

Source: 2022 ACS Microdata

¹¹⁰ Note that current take-up rates suggest less than 1 percent of these households would enroll. Furthermore, the benefit would be worth less to these families than current participants.

Child Care: Increased Investment in Child Care and Early Learning

Public investment in child care and early learning programs can reduce barriers to employment by providing subsidized child care options for families with young children, in addition to the long-term benefits to the educational and quality of life outcomes for children. A range of initiatives are being considered and adopted across the United States to support early childhood education and facilitate workforce participation for parents. Many states offer some form of state-funded early care and education, though few have programs that are universal and completely free.

Child Care Availability and Labor Force Participation Among Parents

Several research efforts have sought to establish and quantify the link between child care availability and enrollment and the labor force participation of parents. This research has generally established a clear effect on maternal participation, with less evidence on paternal impact. A 2021 study from the Federal Reserve Bank of Kansas City analyzed research on a range of programs to assess how maternal labor force participation responded to the availability of subsidized early care and education programs and estimated the increase at 2.3 percent.¹¹¹ Results from Washington DC and in an international context have shown larger effect sizes, with maternal labor force participation growing by around 10 percent in Washington DC following the introduction of full-day subsidized early care and education programs with larger effects among unmarried mothers.¹¹² Applying these findings to New Hampshire, an early childhood investment could potentially add 400 to 1,700 mothers to the labor force, based on an estimated population of 25,000 mothers with eligible children.¹¹³

Employer Incentives to Subsidize Child Care

Another common approach to mitigate child care challenges for adults in the workforce is to incentive employers to subsidize child care. In 2001, a federal tax credit was instituted for employers who incur expenses to provide child care to their employees – either through an onsite child care facility, or through purchase or partnership with third party providers. Despite the potential value of this credit, utilization of the credit has fallen below expectations when the credit was implemented, in part because the credit is non-refundable and many potentially eligible corporations do not have a federal income tax liability.¹¹⁴

Several states have implemented state tax credits that supplement the federal program, with mixed success. Georgia employers redeemed \$16 million in tax credits in FY 2024 through a credit of up to 75 percent of direct costs for businesses that provide or sponsor childcare for employees.¹¹⁵¹¹⁶

¹¹¹ Elias Ilin, Samantha Shampine, and Ellie Terry, "Local Economic Conditions and Upward Mobility," *Federal Reserve Bank of Kansas City Research Working Paper RWP 21-11*, November 2021, <https://www.kansascityfed.org/documents/8503/rwp21-11ilinshampineterry.pdf>.

¹¹² Rasheed Malik, "The Effects of Universal Preschool in Washington, D.C.: Children's Learning and Mothers' Earnings." *Center for American Progress*, 2018. https://cdn.americanprogress.org/content/uploads/2018/09/14125635/Children-Learning-Mothers-Earning-report.pdf?_ga=2.121734536.228363175.1625670894-455886727.1621976187

¹¹³ Early education programs are also associated with numerous other benefits, such as improved academic outcomes and overall well-being for children, alongside broader societal benefits. This analysis, however, focuses on the potential labor force participation impacts, aligning with the study's emphasis on benefits cliffs and workforce issues.

¹¹⁴ National Women's Law Center Fact Sheet. "Employer Child Care Tax Credits are Ineffective at All Levels." March 2018. <https://nwlc.org/wp-content/uploads/2018/03/Employer-Child-Care-Tax-Credit.pdf>

¹¹⁵ Georgia Governor's Office of Planning and Budget, "Georgia Tax Expenditure Report FY 2024," December 16, 2022, <https://opb.georgia.gov/budget-information/budget-documents/tax-expenditure-reports>.

¹¹⁶ "Child Care Affordability," Georgia Early Education Alliance for Ready Students, accessed April 10, 2024, <https://gears.org/take-action/business toolkit/child-care-affordability/>.

New Hampshire utilizes a conceptually similar model for Paid Family and Medical Leave (PFML) through the Granite State Paid Family Leave Plan, which was passed in 2021 and took effect in 2023. Under this structure, employers can voluntarily purchase a PFML insurance plan that provides employees with 6 or 12 weeks of paid leave. Employers receive 50 percent of the premium amount paid on behalf of workers as a credit against the employer's BET tax liability, effectively sharing the cost between the employer and the state through the tax credit.

In other cases, however, state tax credits have struggled to achieve significant utilization levels.¹¹⁷ An alternative policy option to lessen the burden of childcare costs on working parents is a cost share or cost matching program among parents, employers, and the government. A recent example of this approach is Michigan's Tri-Share Program, where eligible employees at participating businesses would only need to cover one-third of their childcare expenses, while the remaining two-thirds would be funded equally by their employer and the state.¹¹⁸ The benefit of this approach is that it spreads the cost of childcare across multiple parties, provides employers an attractive benefit to offer as they compete for workers, and does not rely on a tax liability to recoup value.

An evaluation of Michigan's pilot program found that it reduced the cost of child care for participating employees by two thirds and that participating employers viewed the program favorably.¹¹⁹ The program has expanded from a select geography and an initial enrollment of 52 families and 54 employers to additional counties and a current enrollment of 514 employees and 195 employers.¹²⁰

Initial results suggest that this approach can be effective for participants where it is implemented and adopted by employers but may be unlikely to reach a scale where it impacts labor market dynamics at a broad scale. While it is difficult at this stage to assess potential participation for a similar model in New Hampshire, we can utilize data from the Michigan pilot to estimate potential program costs and impacts per 100 participating employees for a similar model in New Hampshire. Based on New Hampshire's child care cost, we estimate a cost to the state of \$585,000 for each 100 children participating (with the same level of cost borne by the employers and by the families, per the tri-share model).

Academic research has identified a link between reductions in child care costs and maternal labor force participation.¹²¹ Using estimates of the response of maternal labor force participation to a reduction in childcare costs, a reduction in childcare costs of two-thirds is estimated to result in a 6 to 7 percent increase in maternal labor force participation.¹²² This implies approximately five additional mothers joining the New Hampshire labor force from every 100 participants in the Tri-Share program.¹²³

¹¹⁷ National Women's Law Center Fact Sheet, "Employer Child Care Tax Credits are Ineffective at All Levels," March 2018, <https://nwlc.org/wp-content/uploads/2018/03/Employer-Child-Care-Tax-Credit.pdf>.

¹¹⁸ Families had to be between 185 percent and 300 percent of the federal poverty level to satisfy the eligibility requirements.

¹¹⁹ Michigan Women's Commission, "MI Tri-Share Pilot Evaluation Report," accessed May 25, 2024, <https://www.michigan.gov/mileap/-/media/Project/Websites/mwc/Tri-Share/MI-Tri-Share-Pilot-Evaluation-Report-FINAL.pdf?rev=b22e11e8ff544f4ba7666644447647fd>.

¹²⁰ Heidi Reijm, "Michigan's Tri-Share Program: One Promising Childcare Solution for Working Parents," *Chicago Fed Insights*, April 2024, <https://www.chicagofed.org/publications/chicago-fed-insights/2024/michigan-tri-share-childcare>.

¹²¹ Note that while the initial sign-ups for the program would by definition come from families already in the workforce due to the employer-sponsored nature of the program, over time its availability would change worker behavior such that some share of mothers participating in the program through their employers would likely be working less or not at all without the availability of the program.

¹²² Taryn W. Morrissey, "Child Care and Parent Labor Force Participation: A Review of the Research Literature," *Review of Economics of the Household* 15 (2017): 1-24, <https://link.springer.com/article/10.1007/s11150-016-9331-3>.

¹²³ To simplify the analysis, we assume that, among the 100 households, 100 women are present (either as single mothers or as part of a married or cohabitating couple).

6.3. Housing

Eligibility Cliff for Those Applying for Housing Choice Vouchers

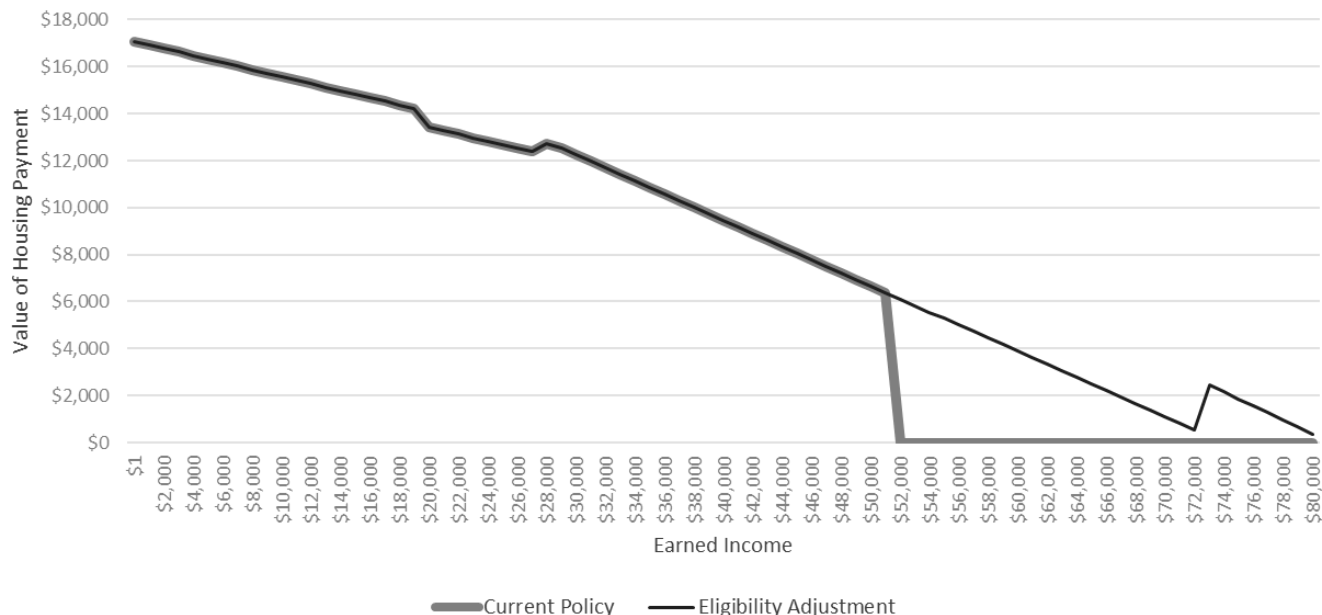
The Housing Choice Voucher is structured so that it has a “drop-off” where the benefit drops precipitously when the household’s earned income goes over a threshold. This “drop-off” mainly affects people applying for Housing Choice Vouchers; once someone is receiving the vouchers, they do not face a sudden disqualification after they cross this threshold.

The Housing Choice Voucher program involves both an income-based criteria for eligibility and an income-based formula for benefit levels. In some cases, households pass the income eligibility threshold, driving their available benefit to \$0, at an income level which would still provide a material subsidy under the benefit formula were they not categorically ineligible. This design creates a sudden and significant cliff, where the loss of housing benefits is not compensated for by increased earned income. Adjusting the income limits for eligibility to better align with the benefits formula could address this cliff and the earnings disincentives that it creates.

A straightforward technical fix is to remove the eligibility condition that requires the adjusted income to be less than 50 percent of area median income. Since the level of benefit assistance is broadly described as the local fair market rent minus 30 percent of adjusted income, the level of assistance for households in this situation would gradually decrease to zero as their income increases under this adjusted policy.

Figure 6.11 shows how benefit amounts would decrease gradually as income rises for a one-adult, one-child household under this policy option, rather than dropping sharply beyond \$50,000 as under current policy.

Figure 6.11 Value of Housing Payment for One Adult-One Child Household (New Applicant)



When the one-adult, one-child family earns income over 50 percent of the Area Median Income, they face a dramatic cliff. By eliminating the requirement that households must be making under the 50 percent Area Median Income, the benefit slopes downward relatively gently.¹²⁴

This policy change would require additional funding, or additional cooperation from the federal government, which institutes the cap of 50 percent of the Area Median Income. Because of the federal cooperation or funding required, and because this cliff only affects those applying for (as opposed to receiving) the vouchers, the state may not give this policy option highest priority. Nonetheless, it is a cliff worth considering because it is a cliff of several thousands of dollars for many families.

Under Study: Recertification Periods

When benefit eligibility or amounts are tied to income, an increase in earnings may result in lower benefit amounts or disqualification at the next eligibility check, essentially serving as a penalty for higher earnings. Where allowable under applicable rules, extending the amount of time between eligibility checks can reduce the prevalence of these penalties improving work incentives for households receiving benefits (in addition to reducing program administration costs).

The efficacy of longer recertification periods has been the topic of several studies, including one by HUD's Office of Policy Development and Research which tested the employment and participation effects of an alternative rent policy for the Housing Choice Voucher (HCV) program using a Randomized Controlled Trial

¹²⁴ Note that, somewhat unrelatedly, the value of the housing payment has a slight bump at around \$73,000 due to the household becoming ineligible for child care subsidies, which raises the level of the housing benefit because child care expenditures are deducted when calculating eligibility for the housing benefit.

(RCT).¹²⁵ This alternative rent policy featured a triennial recertification schedule rather than the existing annual recertification schedule.¹²⁶ The results of the study demonstrated limited success of the alternative rent policy; there were some statistically significant positive effects of the policy on employment and earnings, but these effects dissipated towards the end of the 3 year period. Tenants in the treatment group had lower exit rates from the program than the control group and expressed a preference for the alternative rental policy, demonstrating a positive effect on housing stability. Importantly, increased tenant payments after the triennial recertification period and the reduced administrative burden due to less frequent recertification showed signs of offsetting the increased cost from additional benefits.

Another study on longer recertification periods is being produced by the Public and Affordable Housing Corporation for Keene Housing, a public housing authority in New Hampshire.¹²⁷ This study examines households living in subsidized housing across three cohorts, each defined by different rent determination methods: annual recertification (which is the standard), stepped-rent, and triennial recertification. The goal is to determine if the alternative rent models lead to better economic outcomes for residents. The study is ongoing and will require more households and additional time to assess whether the longer recertification period has a positive and statistically significant effect.

Although the efficacy of longer time between eligibility checks is still under review, the promising aspects of these policies suggest they have the potential to enhance economic outcomes for residents while reducing administrative burdens.

6.4. Health Care

Medicaid is a public program, jointly funded by federal and state governments, that provides health insurance for low-income individuals and households. In New Hampshire, eligibility for Medicaid for children (including the expanded Children's Medicaid program) extends to those in households at up to 323 percent of FPL. For adults, Medicaid coverage extends to those in households at 138 percent of FPL. Thus, many households have children enrolled in Medicaid while the adult(s) are not eligible.

Many families that do not qualify for Medicaid purchase health insurance in the marketplace established by the Affordable Care Act. The federal government provides subsidies for Silver Plans bought in the marketplace (plans are classified with metallic categories: bronze, silver, gold, platinum, in order of increasing costs (premiums) and increasing coverage of out-of-pocket costs). Those purchasing Silver Plans may qualify for both premium assistance through the Premium Tax Credit, and assistance with out-of-pocket costs as well.

Households in the workforce often enroll in health care through employer sponsored plan. For those not in the workforce or whose employers don't offer health plans of comparable quality, the public assistance options described above are available for those who meet eligibility requirements.

¹²⁵ James Riccio, Nandita Verma, Gilda Azurdia, and Edith Yang, *The Rent Reform Demonstration: Impacts on Work, Housing, and Well-Being After 42 Months*, January 13, 2021, <https://www.huduser.gov/portal/sites/default/files/pdf/The-Rent-Reform-Demonstration-Impacts-on-Work.pdf>.

¹²⁶ It is important to note that the alternative rent policy also included changes to total tenant payments and additional safeguards to protect tenants from drops in income. This means that the effects of the policy cannot be solely attributed to the lengthened recertification schedule.

¹²⁷ Keene Housing, "Moving to Work."

Modeling the level of health care benefits by income received by New Hampshire households under this system is challenging. As described above, there are a variety of ways that a household might go about seeking health care; and the monetary value placed on these different options varies from household to household. Furthermore, the options available to each household depends on a variety of factors, such as age and health condition and whether or not an employer offers a health plan.

For this analysis, individuals are assumed to enroll in Medicaid when they are eligible for it. As households gain more earned income and thresholds are crossed, first adults and then children are no longer eligible for Medicaid. In this model, we assume that individuals who are not eligible for Medicaid enroll in a Silver Plan in the Affordable Care Act marketplace, thus making them eligible for federal subsidies such as the Premium Tax Credit and cost-sharing if they are income-eligible and meet other criteria.

In this section, we discuss the potential extension of the expanded Premium Tax Credit and the implications of New Hampshire's Expanded Children's Medicaid Program.

Expanded Premium Tax Credit

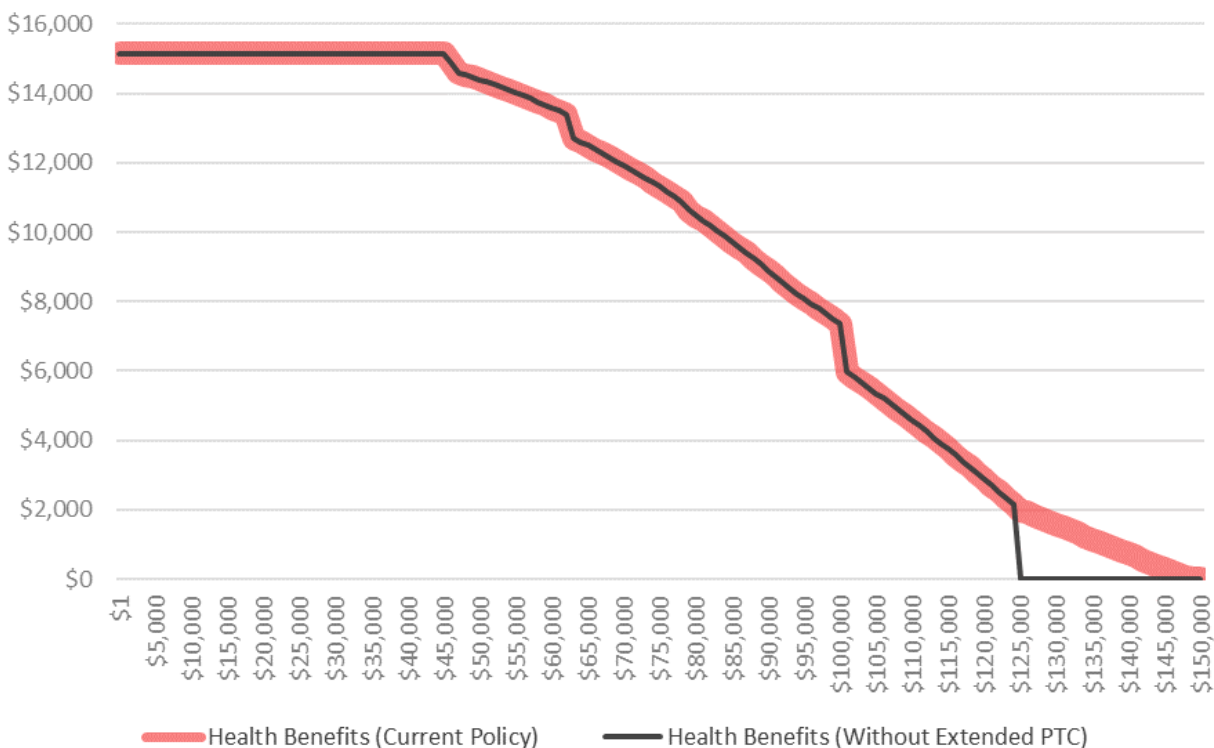
The Premium Tax Credit under the Affordable Care Act generally allows households to buy Silver Plans while spending no more than 8.5 percent of their income on premiums. Households must meet certain criteria to qualify for this credit, including an income below 400 percent of FPL and not being offered other health plans through employment or government. Under the American Rescue Plan and later the Inflation Reduction Act, these rules have been temporarily changed so households making over 400 percent of the FPL can still be eligible for the Premium Tax Credit (though these families may still be ineligible for other reasons, such as getting health plans through an employer). This expansion will expire at the end of 2025, after which this benefit will no longer be available to households over 400 percent FPL, unless this provision is renewed.

The expiration of this provision would create a material benefit cliff in health care costs for certain households crossing 400 percent FPL. Figure 6.11 below shows the value of health benefits for a two adult, two family household with or without the expanded Premium Tax Credit.^{128,129} The expiration of this credit would cause a cliff in benefits at the point (400% FPL) where the tax credit is lost (i.e. an increase in the share of premiums paid by the household) of about \$2,000.

¹²⁸ Louise Norris, "Obamacare's 'subsidy cliff' eliminated through 2025," [healthinsurance.org](https://www.healthinsurance.org/obamacare/beware-obamacares-subsidy-cliff/), August 19, 2022, <https://www.healthinsurance.org/obamacare/beware-obamacares-subsidy-cliff/>.

¹²⁹ Dena Bunis, "Expanded ACA Subsidies Extended Through 2025," AARP, August 15, 2022, <https://www.aarp.org/politics-society/advocacy/info-2022/affordable-care-act-subsidies-extended.html>.

Figure 6.12: Value of Health Benefits for Two-Adult, Two-Child Family With and Without Extended Premium Tax Credit Beyond 400 FPL



If the relevant provision in the Inflation Reduction Act expires at the end of 2025, the dark line shows that a cliff would exist at 400 percent of FPL, which is about \$125,000 for a family of four.

If this provision expires, the state could consider enacting a similar policy in the form of a state subsidy to cover the gap so that households above 400 percent FPL continue to pay premiums for a Silver Plan at no more than 8.5 percent of their income and avoid this potential cliff. Currently, there are nearly 40,000 New Hampshire residents that are enrolled in health insurance through the marketplace. Of these households, about 4,260 marketplace enrollees in New Hampshire belonging to households between 400 and 500 percent of the FPL, and 5,604 belong to households above 500 percent of the FPL (see Figure 6.13) This group of nearly 9,000 households are those potentially impacted by the expiration of the premium tax credit.

Figure 6.13: Estimated Distribution of Market Place Enrollees in Certain Income Categories by Household Size¹³⁰

HH Size	>400% to ≤500%	>500%
1	76.3%	0.0%
2	10.8%	53.2%
3	6.1%	23.4%
4	5.2%	18.0%
5	1.6%	5.3%

Source: ACS Microdata (2022), CMS Open Enrollment Period Report (2023)

This data estimating the distribution of New Hampshire enrollees can be combined with a recent study by the Congressional Budget Office (CBO) for the Congressional Joint Committee on Taxation (JCT) to assess the potential state cost of this option at the state level.¹³¹ Nationally, CBO estimates indicate that making the expanded premium tax credit permanent for those above 400 percent of the FPL would cost around \$1.4 billion per year over the next ten years. New Hampshire households currently represent about a quarter of a percent (0.26%) of marketplace enrollees. Using this proportion, we estimate that funding an equivalent provision at the state level in New Hampshire would cost around \$3.6 million.

This cost would cover the gap between premium levels and 8.5 percent of income for New Hampshire households above 400 percent of the FPL currently enrolled through the marketplace and receiving this credit. This estimate is “static” in the sense that it is based on just the cost attributed to people who have already taken advantage of the (apparently temporary) expansion of the Premium Tax Credit.¹³²

Existing Policy Impact: Expanded Children’s Medicaid

New Hampshire’s Children’s Medicaid program covers children in households making up to 196 percent of the Federal Poverty Guidelines, and Expanded Children’s Medicaid covers those between 196 percent and 318 percent (although, for practical purposes, it extends to 323% due to a 5% income disregard). Figure 6.14 below shows the value of health benefits for a two-adult, two child family under the current policy relative to the value if Expanded Children’s Medicaid was not available.

As the diagram shows, a cliff is present under either policy when the household is no longer income eligible for Medicaid for its two children. Without Expanded Children’s Medicaid, this cliff occurs at 201 percent of FPL (196% plus the 5% disregard), an income of around \$62,000 for a family of four. Under the current policy of Expanded Children’s Medicaid, this same cliff happens much later at 323 percent of FPL (an

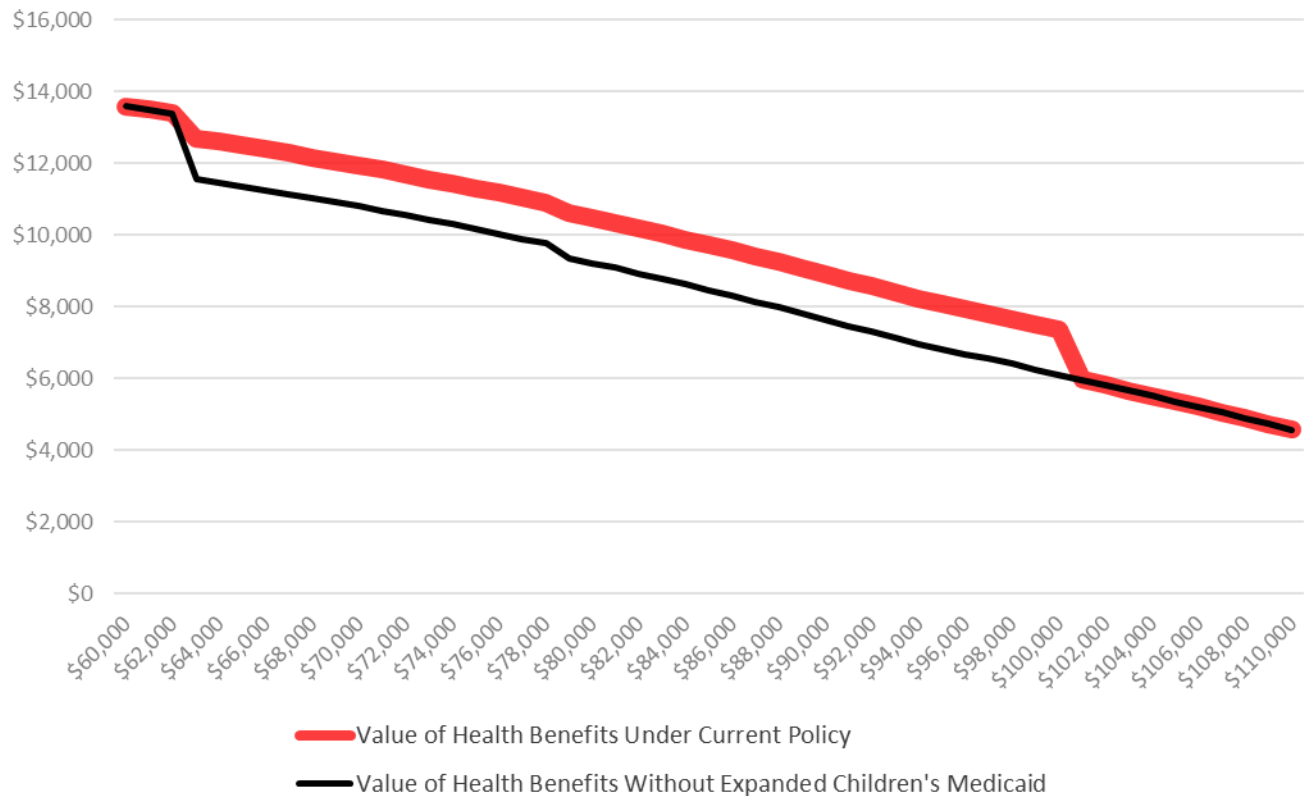
¹³⁰ Using 2022 ACS Microdata, the distribution of households by size and share of the Federal Poverty Level (FPL) was utilized to estimate the household sizes enrolled in a Market Place health care plan in 2023 with incomes over 400 percent of the FPL.

¹³¹ Letter to Chairman Arrington and Chairman Smith Concerning Premium Tax Credits, <https://www.cbo.gov/system/files/2024-06/60437-Arrington-Smith-Letter.pdf>

¹³² This estimate is “static” in the sense that it is based on just the cost attributed to people who have already taken advantage of the (currently temporary) expansion of the Premium Tax Credit. The CBO report for the JCT indicates that if the provision is made permanent, employers may respond by changing their coverage offerings, pushing more households onto the marketplace and increasing the cost of the premium tax credits. These potential market dynamics are likely to be less prevalent in a state context, and are not estimated directly in this report, but could in principle add significant costs. For example, the CBO estimates that 89 percent of the cost over ten years of making the program permanent would come from new enrollees.

income of around \$100,000). The Expanded Children’s Medicaid program, in addition to making health care more accessible for a larger number of children, pushes back the cliff so that wealthier households experience it. Importantly, these higher earning households are more likely to have access to employer-sponsored healthcare, in which case this cliff may be further mitigated.

Figure 6.14: Value of Health Benefits for Two-Adult, Two-Child Family Under Current Policy vs Policy Without Expanded Children’s Medicaid



6.5. LIHEAP

Compared to other benefits in this report, LIHEAP is a relatively low-dollar program, and features a high proportion of elderly participants who may be retired from the workforce. As a result, LIHEAP is not a high priority program in terms of benefits cliffs that impact workforce incentives. Nonetheless, the “stepped” design of program benefits could be adjusted in ways that would improve workforce incentives.

Federal funding for LIHEAP generally is not available for households with earned income over 60 percent of the state median income.¹³³ Policy options for LIHEAP can be divided into two parts: smoothing out the LIHEAP steps for households with earned income below 60 percent of state median income (which may be eligible for federal funding), and smoothing out the “final cliff” at the end of program eligibility which occurs after income crosses the 60 percent line and would require supplemental state funds.

¹³³ Often, the final cliff occurs at 200 percent of the FPLs. However, when additional funding is available, the final line is at 60 percent of state median income, which is higher than 200 percent of FPL.

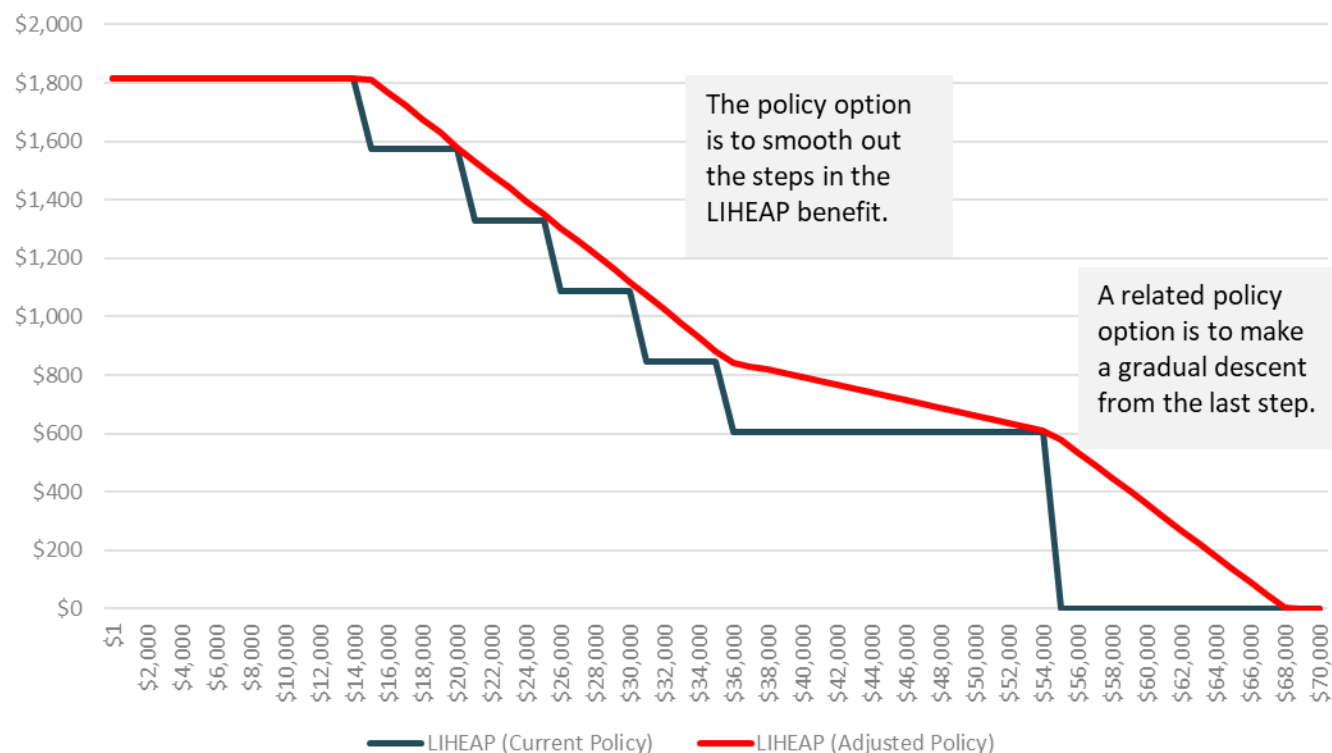
Smoothing Out LIHEAP Steps

LIHEAP's policy rules create a series of small cliffs as households move from one benefit level to the next. A household's income puts them in one of six categories (A through F), within which benefit levels are consistent. When their income exceeds the threshold and moves to the next category, the benefit value of LIHEAP drops suddenly to the next tier (see Figure 6.15).

For example, an adult with one child loses over two hundred dollars when they move from category A to category B. More concretely, going from \$14,000 of earned income to \$15,000 of earned income causes the benefit value to drop by \$241, an effective marginal tax rate of 24 percent. That benefit level is then maintained until earnings reach category C at about \$21,000 of earned income at which point another drop of \$242 is experienced.

To mitigate benefit cliff effects, the LIHEAP benefit formula could follow a "smooth" slope, rather than falling in six jagged steps. To do so, the benefit amount would be specified as a proportion of household income, rather than assigning amounts in six categories. Figure 6.15 shows an example of how this could be implemented, with the "slope" modeled by connecting each step with a linear diagonal line, such that each participant receives an equal of greater benefit to the current formula.

Figure 6.15: Value of LIHEAP for One Adult-One Child Household, Under Current Policy and Under Potential “Smoothed” Benefit Slope



The red line represents an alternative LIHEAP policy in which the value of benefits gradually goes down with income rather than going down in jagged steps. The dark line is current policy.

The final (rightmost) step which occurs at \$54,446, or 60 percent of state median income, when households become ineligible for the benefit, a loss of \$600 in benefit value. Addressing this cliff through a graduated approach to reducing the benefit is functionally a distinct policy approach, requiring state funding and making new households eligible for the program that are not currently participating.

Here we estimate the cost of each of these policies, and the amount of households that may be expected to enroll in the second one. The “Current Recipients” column shows that almost 30,000 recipient households would see their benefit level rise as a result of smoothing out the already-existing steps, by an average of \$105 each per year. The “Novel Households” estimate shows that about 4,000 new households may enroll as a result of making a gradual descent from the final step, receiving an average benefit of \$150 per household.¹³⁴ Expanding benefits to novel households is likely to require state funds, as these households are above 60 percent of the state median income, while refining the benefit amounts for existing participants by smoothing out the benefit “slope” may be achievable through federal funds.

¹³⁴ Note that the average current benefit participant would be receiving more than the newly eligible participants in total LIHEAP benefits. The \$105 represents the average *change* in benefit levels for currently participating households affected by the smoothing out of the current steps; the \$150 is the average *new* benefit for households that enroll and are eligible as a result of the gradual descent from the final step.

Figure 6.16: Projected Changes to Benefits Upon Implementation of Smoothed Benefit Slope for LIHEAP

	Current Recipients	Novel Households	Total
Households	29,700	4,000	33,700
Benefit Level Change	\$3,100,000	\$603,000	\$3,703,000
Average Benefits Change	\$105	\$150	\$110

LIHEAP benefit levels are low compared to other benefit programs, and each step in benefit reduction is well below the level defining a benefit cliff, so the effects of this change on labor force participation are unlikely to be significant and are not estimated in this report. Still, this adjustment would reduce the cliff effect for impacted households, including those for which LIHEAP combines with other programs to create cliff or near-cliff situations.

6.6. WIC

The WIC program, which provides nutrition education and nutritious food to pregnant women, new mothers, and young children, is the least related to the problem of benefits cliffs, compared to other benefits in this report. The relatively low monetary value of the WIC benefit, combined with its unique and targeted purpose, means that it does not raise concerns about skewing incentives for workforce participation. Furthermore, our research and outreach did not indicate any need to modify the WIC program with respect to benefits cliffs.

6.7. Additional Policies to Enhance Benefit Delivery Efficiency

During this study, we spoke with many people involved in benefit program delivery, and some ideas were repeatedly mentioned that were not directly related to benefits cliffs but would potentially enhance the overall efficiency of the benefit system. These suggestions generally have the potential to make the benefit system cheaper and easier to deliver for taxpayers, administrators, and participants. They are included within this report for completeness.

Potential enhancements include:

- Standardizing the timing at which households have their income and asset eligibility checked, so that they do not have to go through the cumbersome process more often than necessary. Thus, even if a household applies for Medicaid three months after applying for SNAP, their next eligibility “re-check” should be scheduled simultaneously to avoid overburdensome paperwork.
- Standardizing the process by which households have their income and asset eligibility checked, so that only one set of rules needs to be followed.
- Some state policymakers and administrators would benefit from the development of a “federal policy matrix” which makes clear all the “policy levers” that states are allowed to modify or experiment with, under federal benefit rules.

6.8. Summary of Recommended Policy Options

This section has reviewed the design challenges and options to mitigate benefit cliff issues for each of the benefit programs analyzed in this study.

Major policy options advanced in this section are as follows:

- TANF: Expanding the earned income disregard from 50 percent to 75 percent
- Child Care: Implementing a “Step 2.5” for CCDF recipients to smooth out the benefits cliff experienced by families moving from Step 2 to Step 3 of the program
- Child Care: Extending income eligibility by adding a “Step 4” for CCDF recipients beyond the current income eligibility limit
- Child Care: Increased investment in child care and early learning
- Housing: Expanding income eligibility for households applying for Housing Choice Vouchers
- Health Care: Maintaining the expanded premium tax credit (if federal support expires)
- LIHEAP: Smoothing out LIHEAP steps

Additional policy approaches discussed include monitoring and potentially scaling pilot efforts extending income redetermination periods, and administrative enhancements to make program delivery more efficient.

Where possible, economic modeling is performed for the policy options to estimate the potential cost, the potential impact on program participants, and the potential impact on the New Hampshire economy. Two potential policy options (increasing the TANF earned income disregard and adding a CCDF “step 2.5”) are fully modeled through this framework, while participation and costs are estimated for two additional policies (smoothing out LIHEAP steps and extending income eligibility for child care). The modelled policy options are summarized below.

Summary of Modeled Policy Options

TANF expanded earned income disregard

Under current policy, a household’s cash benefits decrease significantly as income increases, leading some households to lose 50 cents of benefits for every dollar earned. Expanding the disregard to 75 percent (an approach that has been piloted by the state) would reduce the loss to 25 cents of benefits for every dollar gained, easing the losses from increased earnings. The state has the option to put restrictions on this disregard to encourage education and training or participation in priority industries. A robust post-TANF support program like the one being piloted could also improve workforce outcomes.

The cost of expanded the TANF earned income disregard is estimated at close to \$9 million annually, which may be possible to cover with federal funds. The policy is estimated to generate an earnings increase of nearly \$5 million and a statewide economic impact of more than \$29 million.

Child care step 2.5

The current CCDF program has three steps based on the income levels of participating families. To address the cliff effect between Step 2 and Step 3, the contribution of each household would gradually increase from \$5 a week at 138 percent FPL to reach 7 percent of income at 60 percent State Median Income, rather than immediately going from \$5 a week to 7 percent of income at 138 percent FPL.¹³⁵

The cost of creating a “Step 2.5” is estimated at around \$1 million per year, which could be paid for with federal funds. The policy is estimated to generate an earnings increase of nearly \$2 million and a statewide economic impact of around \$9 million.

Smoothing out LIHEAP steps

LIHEAP’s policy rules create a series of small cliffs as households move through six benefit categories, including a final cliff as they become ineligible for the program. To mitigate benefit cliff effects, the LIHEAP benefit formula could follow a “smooth” slope, rather than falling in six jagged steps, with the benefit amount specified as a portion of household income.

As specified in this report, the approach is estimated to cost around \$4 million annually. Around \$3 million of this cost (smoothing out cliffs in existing categories) could potentially be covered federally, while the cost of extending eligibility threshold would need to be borne by the state.

¹³⁵ Under this policy, the household contribution would continue to be 7 percent of income for the remainder of Step 3: that is, from 60 percent to 85 percent of State Median Income

Appendix

Appendix A – Outreach Report

Employer and Workforce Findings: Perspectives on the Effects of New Hampshire’s Benefit Program on the Labor Force. Prepared by Lara Quiroga, MEd and Brittany Little, MSW, Pear Associates.

Attached separately.

Appendix B – Economic and Fiscal Impact Methodology

In an inter-connected economy, every direct dollar spent generates two spillover impacts:

- First, some amount of the proportion of that expenditure that goes to the purchase of goods and services gets circulated back into an economy when those goods and services are purchased from local businesses. This represents what is known as the **indirect effect** and reflects the fact that local purchases of goods and services support local businesses, who in turn require additional purchasing with their own set of vendors.
- Second, some amount of the proportion of that expenditure that goes to labor income gets circulated back into an economy when those employees spend some of their earnings on various goods and services. This represents what is known as the **induced effect** and reflects the fact that some of those goods and services will be purchased from local businesses, further stimulating the economy.

To model the impacts resulting from the direct expenditures of the state's benefit programs, ESI utilized IMPLAN's input/output modeling system to create an economic impact model. Utilizing an industry standard approach, IMPLAN's input/output modeling system allows users to assess the economic and job creation impacts of industry-based events and public policy changes within a county or its surrounding area. IMPLAN has developed a social accounting matrix (SAM) that accounts for the flow of commodities through economics. From this matrix, IMPLAN also determines the regional purchase coefficient (RPC), or the proportion of local supply that satisfies local demand. These values not only establish the types of goods and services supported by an industry or institution, but also the high level at which they are acquired locally. This assessment determines the multiplier basis for the local and regional models created in the IMPLAN modeling system. IMPLAN takes these multipliers and divides them into 546 industry categories in accordance with the North American Industrial Classification System (NAICS) codes.

Appendix C – New Hampshire Benefit Program References

When available, official program manuals were used to determine program eligibility and regulation rules. These sources, and any other materials used for determining programmatic rules, are as follows:

All Programs

- HHS Federal Poverty Guidelines (FPL) for 2024: <https://aspe.hhs.gov/topics/poverty-economic-mobility/poverty-guidelines>.

Fuel Assistance Programs: Electric, Fuel & Weatherization Assistance Programs (LIHEAP)

- Annual Heating Cost and Benefit Amount Matrix (Attachment C-2): Provided by NHDOE program staff.
- Income Guidelines for 23-24 Fuel Assistance Program (Attachment B): Provided by New Hampshire Department of Energy (NHDOE) program staff.
- State Median Income (SMI) by Household Size for Mandatory Use in LIHEAP for FY 2024—Households of Size 1 through 6:
https://www.acf.hhs.gov/sites/default/files/documents/ocs/COMM_LIHWAP_Att1SMITable_FY2023.pdf.
- State of New Hampshire Fuel Assistance Program Procedures Manual PY 2024:
<https://www.energy.nh.gov/sites/g/files/ehbemt551/files/inline-documents/sonh/fuel-assistance-program-procedures-manual.pdf>.

Housing Choice Vouchers

- Fair Market Rents FY 2024: <https://www.nhhfa.org/wp-content/uploads/2019/08/Fair-Market-Rents-FY24.pdf>.
- HUD Metropolitan FMR Area Income Limits (2024): <https://www.nhhfa.org/wp-content/uploads/2024/04/HUD-Income-Limits-2024.pdf>.
- New Hampshire Housing (NHH), 2023 Residential Rental Cost Survey Report:
<https://www.nhhfa.org/wp-content/uploads/2023/07/NHH-2023-Res-Rental-Survey-Report.pdf>.
- New Hampshire Housing, Housing Choice Voucher Administrative Plan (Revised September 1, 2023):
<https://www.nhhfa.org/wp-content/uploads/2022/10/Housing-Choice-Voucher-Administrative-Plan.pdf>.
- Payment Standards by NH Municipality (Effective January 1, 2024): <https://www.nhhfa.org/wp-content/uploads/2021/01/Payment-Standards-Town-Current.pdf>.

Medicaid/Subsidized Silver Plan

- Health Insurance Marketplace Premium and Subsidies Calculator – NH Silver Plan:
<https://www.kff.org/interactive/subsidy-calculator/>.
- New Hampshire Medical Assistance Manual (Medicaid):
https://www.dhhs.nh.gov/mam_html/index.htm#html/introduction_mam.htm.
- Premium Adjustment / Maximum Annual Limitation on Cost Sharing (2024 Benefit Year):
<https://www.cms.gov/files/document/2024-papi-parameters-guidance-2022-12-12.pdf>.

New Hampshire Child Care Scholarship

- New Hampshire Family Assistance Manual: https://www.dhhs.nh.gov/fam_html/newfam.htm.

- New Hampshire Child Care Scholarship Gross Monthly Income Limits (SR 24-08): https://www.dhhs.nh.gov/fam_html/html/935_gross_monthly_income_limits_fam.htm.
- Maximum Weekly Standard Rates (SR 23-31): https://www.dhhs.nh.gov/fam_html/html/937_reimbursement_rates_fam.htm.
- Family Cap Amount, Cost Share and Provider Co-Pay (SR 24-08): https://www.dhhs.nh.gov/fam_html/html/938_cost_share_and_provider_co_pay_fam.htm.

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

- Annual State Level Data: New Hampshire Average Monthly Food Cost Per Person (as of April 12, 2024): <https://www.fns.usda.gov/pd/wic-program>.
- New Hampshire WIC Eligibility: <https://www.dhhs.nh.gov/programs-services/population-health/women-infants-children-nutrition-program/wic-eligibility>.
- New Hampshire WIC Income Guidelines (FY23-24): <https://www.dhhs.nh.gov/sites/g/files/ehbemt476/files/documents/2021-11/wic-income-guidelines.pdf>.

Supplemental Nutritional Assistance Program (SNAP)

- New Hampshire Food Stamp Manual: https://www.dhhs.nh.gov/fsm_html/.

Tax Refund (2023 Tax Year)

- Internal Revenue Service (IRS), 1040 (and 1040-SR) Instructions, Tax Year 2023: <https://www.irs.gov/pub/irs-pdf/i1040gi.pdf>.

Temporary Assistance to Needy Families (TANF)

- New Hampshire Family Assistance Manual: https://www.dhhs.nh.gov/fam_html/newfam.htm.
- Standard of Need (SR 23-20): https://www.dhhs.nh.gov/sr_html/html/sr_23-20_dated_07_23.htm.



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