

Profiling The Disincentives

and Opportunity Costs for Low-Wage Earners in Clark County



Framing The Issue

Many individuals in Clark County hold jobs with low wages. In some cases, households are not self-sufficient and struggle to make ends meet financially. Public assistance programs help alleviate these existing disparities by providing households additional resources to meet their needs.

Self-Sufficiency

is the level of annual earned income required to provide for a household's basic needs, including housing, food, transportation, childcare, and healthcare without accessing public assistance programs.

However, there are eligibility requirements:



Many public assistance programs require households to participate in work related activities, sometimes full-time, in order to receive benefits. This aspect may be more difficult for certain household types, such as single-parent households, as the work requirement persists regardless of child-related events or illness.



There are specific periods of income eligibility that are occasionally inconsistent with the reciprocity threshold. This occurs when households apply for assistance when annual earnings exceed the eligibility threshold versus households having continued eligibility and receiving assistance dollars if they applied when their incomes were lower.



Occasionally, it is required that individuals meet with benefits representatives in person. It can be difficult for these individuals to visit during business hours while also filling work requirements.

Opportunity Costs

represent the benefits an individual, investor, or business misses out on when choosing one alternative over another.

Cliff Effects

occur at certain income thresholds when the individual receives less in public assistance aid due to increased annual earnings. The loss in public assistance is greater than the increase in earnings.

Under certain conditions, the current public assistance program structure creates economic disincentives for individuals to strive toward career advancement.

Public assistance programs are intended to support low-income families and individuals. However, navigating these programs can be difficult and time-consuming. Opportunity costs include additional time spent working and time spent on personal matters.

An individual applying for assistance may also face the possibility of an income cliff effect. An increase in their income may lead to a decrease in public assistance that is disproportionate to their added wages. The cliff effect may discourage individuals from progressing in their jobs, therefore preventing them from rising out of poverty.

Primary Indicators

The two primary indicators used in this report are the Federal Poverty Level (FPL) and the Self-Sufficiency Standard. The FPL does not take into account different prices by geography (housing, specifically) or the composition of a household (whether a two person household is two working adults or a single parent and a child). Self-sufficiency takes into account a household's size and composition, as well as geographical price differences.

Federal Poverty Level

is a measure of annual earned income used to determine eligibility for certain public assistance programs and benefits, nationwide.

Of the 54,681 households in Clark County:



\$44,154

is the median household income

FPL

16 Percent

are at or below the Federal Poverty Level



26 Percent

are not self-sufficient

Tax Credits & Public Assistance Programs

- Earned Income Tax Credit (EITC)
- Child & Dependent Care Tax Credit (CDCTC)
- Child Tax Credit
- Temporary Assistance for Needy Families (TANF)
- Child Care Assistance
- Supplemental Nutrition Assistance Program (SNAP)
- Affordable Care Act (ACA)
- Medicaid
- Home Energy Assistance Program (HEAP)
- Housing Assistance

Methodology

Three Clark County household compositions were used in this analysis and include a two-adult household with one preschooler and one school-aged child, a single parent household with one preschooler and one school-aged child, and a two adult household with no children. For the adults it was assumed that each were working full-time hours for 50 weeks in a year.

The 2016 self-sufficiency standard for a two adult household with one preschooler and one school-aged child was \$48,745, a one adult household with one preschooler and one-school aged child was \$39,626, and a two adult household with no children was \$29,098. In each example, the household's range of total gross resources* were compared to the equivalent self-sufficiency standard, based on household composition. Full and maximum benefits were also assumed for each example.

Using each public assistance program's specific eligibility requirements, graphs for each household composition were created to show the cliff effects experienced. Cliff effects negatively incentivize individuals to keep their earnings low, in order to keep full assistance benefits and a higher level of total gross resources. These cliff effects negatively impact the labor market and deter individuals from improvement. To counter these effects, households must increase their annual earned income to offset the loss of benefits incurred.

*Total gross resources is defined as the household's annual earned income or wages, plus all public assistance benefits the household receives.

2 Adult, 1 Preschooler, and 1 School-Aged Child Household



Annual earnings for this household ranged from \$33,200 (137% FPL) to \$97,200 (400% FPL). Each adult worked full-time hours at \$8.30 an hour up to \$24.30 an hour.



The 2016 self-sufficiency standard for a 2 adult, 2 child household was \$48,745.*



The only cliff effect occurs from the parents' transition to the Affordable Care Act when household's earned income reaches 138% FPL, or \$33,534. The two children remain enrolled in Medicaid until annual earned income reaches 200% FPL, or \$48,600. An increase of \$1.00 at 138% FPL, from \$33,534 to \$33,535 leads to a loss of \$4,254 in public assistance aid.

Offset the Cliff

In order to offset the cliff that occurs from the adults switching to ACA, the household would need annual earnings of approximately \$42,000. That would be an additional \$8,466 more in earnings annually to reach the same level above self-sufficiency as before the cliff.

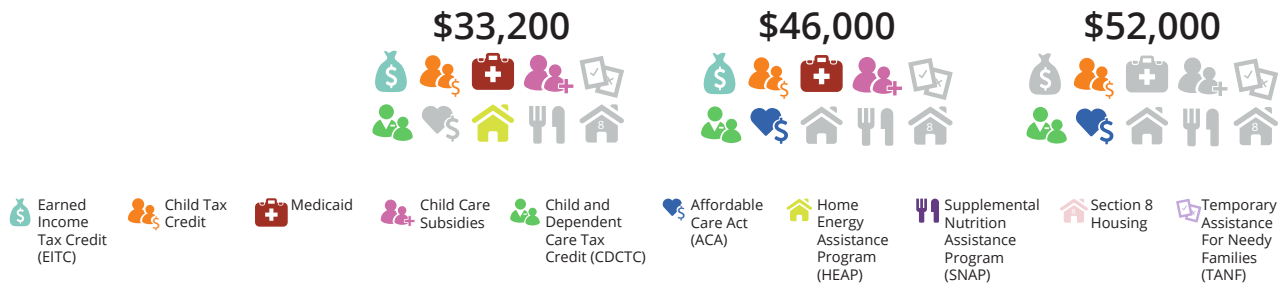
44%

Public assistance aid, when both adults are earning minimum wage, makes up 44% of the household's total gross resources.

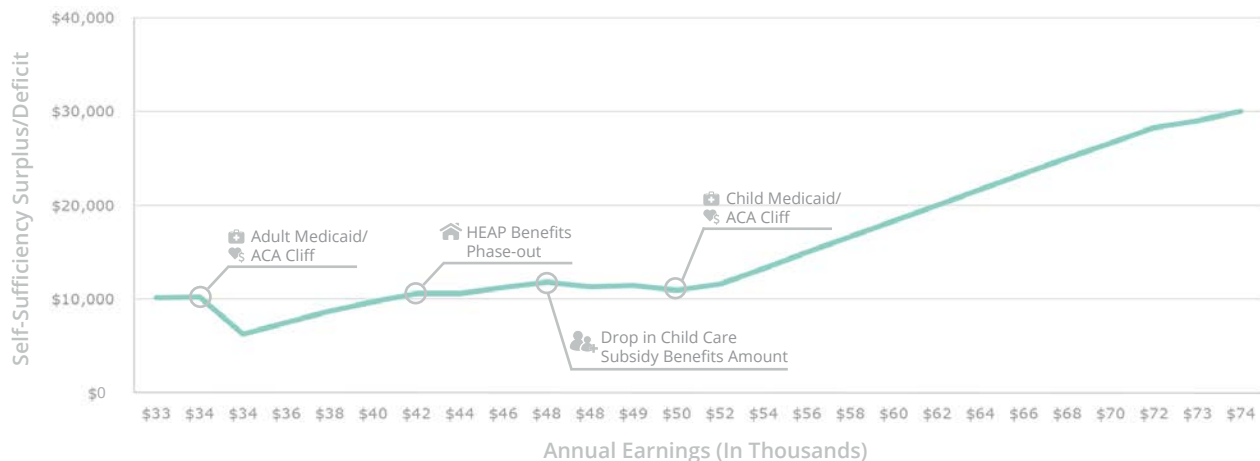
Total gross resources are relatively stagnant until earnings reach approximately \$52,000, after which the household's total gross resources increase rather linearly with annual earnings. Annual earnings of \$52,000 equates to each adult earning \$13.00 per hour.

Public Assistance Eligibility

Annual Earnings



Total Gross Resources



*The self-sufficiency standard of \$48,745 equates to both adults earning \$12.19 an hour when working full-time.

1 Adult, 1 Preschooler, and 1 School-Aged Child Household



Annual earnings for this household ranged from \$16,600 (82% FPL) to \$80,640 (400% FPL). This equals to full-time work paying between \$8.30 per hour to \$40.32 per hour.



The 2016 self-sufficiency standard for the household was \$39,626.*



A cliff effect occurs when the adult transitions from ACA to Medicaid at 138% FPL or \$27,821. Increasing \$1.00 from \$27,821 to \$27,822 at this threshold results in a loss of \$2,522 in public assistance aid.

Offset the Cliff

In order to offset the cliff that occurs from switching to ACA, the household would have to attain annual earnings of approximately \$32,000. In other words, this household would have to earn \$4,179 more annually.

66%

Public assistance aid, when both adults are earning minimum wage, makes up 66% of the household's total gross resources.

Total gross resources are relatively stagnant until earnings reach approximately \$45,000, after which the household's total gross resources increase rather linearly with annual earnings. Annual earnings of \$45,000 equates to the adult earning \$22.50 per hour.

Public Assistance Eligibility

Annual Earnings

\$16,600



\$28,000



\$41,000



\$48,000



Earned Income Tax Credit (EITC)

Child Tax Credit

Medicaid

Child Care Subsidies

Child and Dependent Care Tax Credit (CDCTC)

Affordable Care Act (ACA)

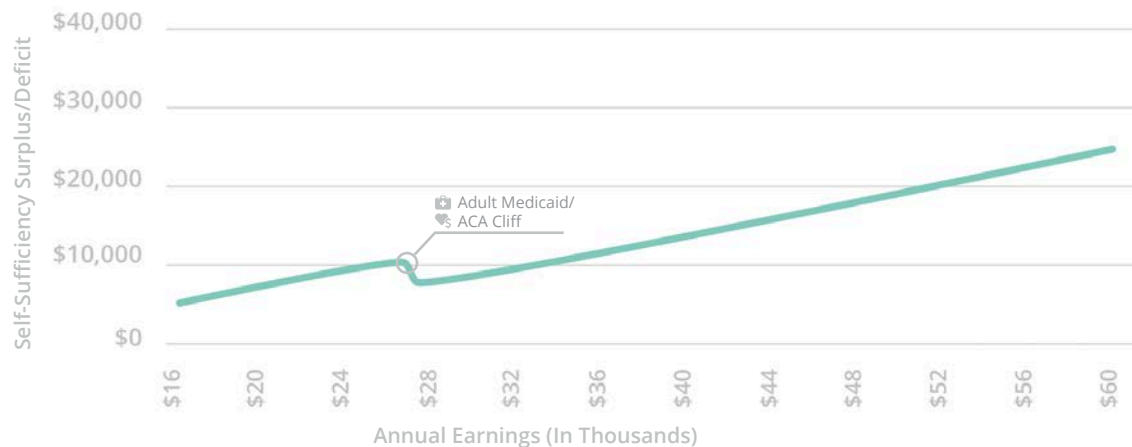
Home Energy Assistance Program (HEAP)

Supplemental Nutrition Assistance Program (SNAP)

Section 8 Housing

Temporary Assistance For Needy Families (TANF)

Total Gross Resources



*The self-sufficiency standard of \$39,626 equates to the adult earning \$19.81 an hour when working full-time.

2 Adult, No Children Household



Annual earnings for this household ranged from \$33,200 (207% FPL) to \$64,000 (400% FPL). Pay for full time work ranged between \$8.30 per hour to \$16.00 per hour.



The 2016 self-sufficiency standard for the household was \$29,098.*



This household composition experiences no cliff effects. The lowest annual earnings associated with this household is already above many public assistance programs eligibility requirements and therefore the household only eligible for ACA aid.

No Cliffs

Unlike the two examples with children, this household composition fairs better in terms of having minimal disincentives to increase earnings. With no children, the household's total gross resources increase at a fairly linear rate with annual earnings.

Public Assistance Eligibility

Annual Earnings

\$33,200



\$58,000



Earned Income Tax Credit (EITC)

Child Tax Credit

Medicaid

Child Care Subsidies

Child and Dependent Care Tax Credit (CDCTC)

Affordable Care Act (ACA)

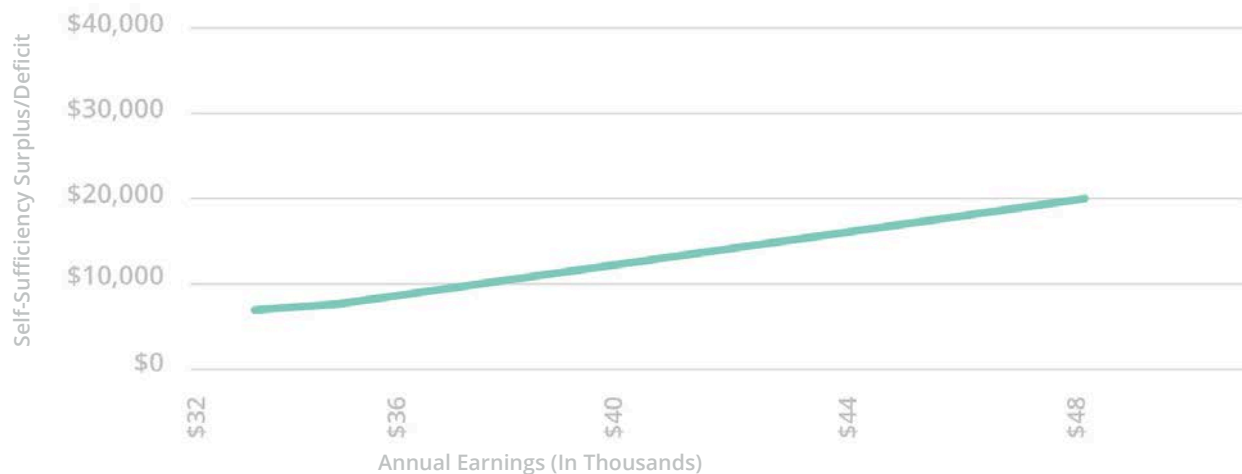
Home Energy Assistance Program (HEAP)

Supplemental Nutrition Assistance Program (SNAP)

Section 8 Housing

Temporary Assistance For Needy Families (TANF)

Total Gross Resources



*The self-sufficiency standard of \$29,098 equates to each adult earning \$7.28 an hour when working full-time.

Evaluating the Economic Benefits of Policy Revision

The Just Above Poverty Gap

The just above the poverty gap is a hidden trap for households with annual income between 130 - 199% FPL as they are not eligible to apply for certain public assistance programs. Households that fall into this just above poverty gap do not qualify for child care subsidy assistance if earnings are more than 130% of the FPL at the time of application. Additionally, these households are not eligible for TANF cash assistance, Section 8 housing or SNAP benefits.

Problems



For some households, cliff effects require large hourly raises to offset the amount of total gross resources lost through benefits reductions.

Households may not be willing to go through training or additional education to earn more money, as increasing their annual earnings does not necessarily mean their total gross resources rise at a similar rate. Workers may be reluctant to take out student loans when they are already struggling financially.



Employers may be keeping wages low due to existence of public assistance programs available to their employees. Employers may know that at certain earnings thresholds employees are eligible to receive benefits and therefore have little incentive to increase wages. An increase in employee wages may also require the employee to either attain a higher level of education or receive additional training.

Some employers may reimburse employees for a portion of their education expenses once the employee completes the training or education.



Individuals who do not have their own vehicle, must use other means like public transportation to get to work and public assistance agencies. Public transportation in some cases is not reliable, or timely for household and workers receiving public assistance benefits.

The process for applying for public assistance benefits itself may be a deterrent to some.



Workers receiving TANF and SNAP assistance may not be able to take time off work in order to attain a higher level of education or skills, as both programs require work participation activities to receive and maintain benefits.

For example, if a household has annual earnings amounting to 150% FPL, when applying for child care subsidy assistance, they are ineligible, since the "at time of application" threshold is 130% FPL. If another household, earning 175% FPL applied when their income was below 130% FPL, they are continually eligible for child care subsidy assistance. The second household, earning more annually, continues to receive child care subsidies while the first household, earning less, is not eligible to apply.

Solutions

Educational and training institutions would have the opportunity to help these individuals attain higher levels of education. Subsidies or grants could be created for low-wage workers in Clark County to make it easier for them to attend school or training.

Educational institutions must also verify that individuals are aware of the financial aid currently available to them, such as the Pell Grant.

Educational grants or subsidies could be created for low-wage workers in Clark County to make it easier for those individuals to attend school or training. This would also help employers offset the cost of reimbursement and paying higher wages.

Employers providing continual aid throughout the employee's education or training, instead of at completion, would both incentivize workers to advance in their careers as well as aid the individual financially while they are attending classes or training sessions.

This would also incentivize other workers to advance their educations, thereby increasing their on-the-job skill sets as well as improving productivity as a result.

It is important for public assistance agencies to be accessible to everyone in terms of hours open and location along bus routes.

Streamlining the application and information process would be helpful to maximize the impacts of programs. Information on all public assistance programs and eligibility requirements should be readily available and accessible, as well.

The concept of public assistance work requirements in general must also be analyzed as they assume workers, regardless of current education/training level, would be able to work/fill a vacant position.

If there are no positions currently available or vacant for low-skill/low-education workers, aiding the workforce in attaining higher levels of education and training would be necessary.



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