



The Path from Poverty to Prosperity Can be a Roller Coaster: An Examination of Hourly Wages, Expenses, and Monthly Income

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Introduction

For most families, a pay increase is cause for celebration. A raise means more money in their pockets at the end of the month. The extra could be used to fund a family vacation, pay down debt, or provide cushion in the monthly budget. However, for some families earning low wages, a raise means they will have *less* money in their pockets at the end of the month. In some circumstances, even a small increase in income causes a drop in the public benefits a family can receive, effectively increasing their expenses and hurting their ability to make ends meet.

This phenomenon is often called the “benefit cliff.” Eligibility for public benefits, such as child care subsidies, housing vouchers, and food assistance, is based on income. These benefits phase out or drop off as income increases. As families earn more, they qualify for less. The intent of such “means tested” benefits is to ensure that scarce resources are used for those most in need. Most of the time, they function as intended and provide important support to help families make ends meet. However, there are instances when even a \$1.00 increase in annual earnings results in the loss of a benefit worth hundreds of dollars to a family. As explained by Indiana Institute on Working Families: “Most often the single greatest barrier to self-sufficiency for low-income individuals is the ‘cliff effect’ ... The unintended consequence of this design either leads to a disincentive towards economic mobility, or leads to a situation in which the parent or guardian is working harder, but is financially worse off.”¹

As policymakers, service providers, and philanthropic funders seek to help Ohioans move from poverty to prosperity, the real-world impact of the cliff effect should be considered. To better understand these dynamics for Ohio families, we built a model which shows the cushion a family has at various wage levels after necessary monthly expenses are covered. The family in this study is made up of one working parent and two children, ages three (preschool) and seven (school aged).² Their expenses include food, housing, child care, taxes withheld from paychecks, transportation, and a narrowly defined set of other necessary expenses. Our analysis focuses on family-level economics on a monthly basis and presents information on earnings, costs, and taxes. Public benefits are incorporated into the model as reductions in the expense a family has to cover.³

Instead of a single cliff, our model shows a series of dips and rises as a family moves from poverty to self-sufficiency. It resembles a roller coaster where the family moves ahead and falls behind as their income increases. We examine the path the three-person family takes under three scenarios which vary based on the cost estimates for basic needs.

The Impact of Benefits

Most public benefit programs have income eligibility criteria based on the poverty guidelines, also called federal poverty level (FPL), defined annually by the U.S. Department of Health and Human Services.⁴ Program eligibility is generally established as a ratio of FPL, for example, 130% FPL for initial child care assistance eligibility and 138% FPL for Medicaid expansion coverage. FPL which applies to Ohioans is listed in Table 1.

Table 1: Poverty Guidelines for 2016 for the 48 Contiguous States and the District of Columbia

Family Size	Poverty Guideline 100% FPL		138% FPL		200% FPL		300% FPL	
	Annual Income	Hourly Wage	Annual Income	Hourly Wage	Annual Income	Hourly Wage	Annual Income	Hourly Wage
1	\$11,880	\$5.71	\$16,394	\$7.88	\$23,760	\$11.42	\$35,640	\$17.13
2	\$16,020	\$7.70	\$22,108	\$10.63	\$32,040	\$15.40	\$48,060	\$23.11
3	\$20,160	\$9.69	\$27,821	\$13.38	\$40,320	\$19.38	\$60,480	\$29.08
4	\$24,300	\$11.68	\$33,534	\$16.12	\$48,600	\$23.37	\$72,900	\$35.05
5	\$28,440	\$13.67	\$39,247	\$18.87	\$56,880	\$27.35	\$85,320	\$41.02

Source: U.S. Department of Health and Human Services

Note: Hourly wage is for a person working 40 hours per week 52 weeks per year.

While FPL varies by family size, it does not take family *composition* into consideration. A family of three composed of a single parent and two children has the same FPL as a family of two parents and one child, or a married couple and an aging parent.

At Ohio’s minimum wage of \$8.10 per hour, a single parent with two children who works full time⁵ would qualify for Supplemental Nutrition Assistance Program (SNAP, also called food stamps), public housing or the Housing Choice Voucher Program (Section 8), Medicaid health coverage for all family members, and child care subsidies. They do not qualify for Ohio Works First cash assistance. Eligibility for SNAP, housing assistance, and Medicaid is set by the federal government, although states can opt to provide more robust benefits for residents. The child care benefit subsidizes the cost of day care for low-income working families, and eligibility and benefits are defined by the State of Ohio.

Table 2: At Minimum Wage, Public Benefits Help Families Make Ends Meet

Expense Category	Reduction in Monthly Expense due to Public Benefits		
	Low-Cost Scenario	Median Scenario	High-Cost Scenario
Food	(\$221)	(\$221)	(\$221)
Housing	(\$179)	(\$232)	(\$537)
Health Coverage (Family)	(\$379)	(\$398)	(\$445)
Child Care	(\$751)	(\$971)	(\$1,407)

As shown in Table 2, each of these benefits helps families to make ends meet by reducing or eliminating out-of-pocket expenses for the basic needs of food, housing, health coverage, and child care. They are often referred to as “work supports” because they help families close the gap between low earnings and basic expenses.⁶

What Our Model Measures

For the purposes of this study, we assume the family receives all benefits for which it qualifies, and that benefits are lost or reduced as soon as income exceeds eligibility thresholds. In reality, there is often a delay between initial application and when benefits go into effect, although some are applied retroactively. On the other hand, eligibility is not adjusted immediately.

Instead, income and other changes are evaluated during regular benefit redeterminations, which often occur annually.

As described in detail below, many of the expense estimates in this study are derived from the *2015 Self Sufficiency Standard for Ohio* created by the Center for Women's Welfare, University of Washington.⁷ This source provides expense data for every county in Ohio.⁸ We used the Self Sufficiency Standard when estimating costs for child care, health coverage, housing, food, and transportation. We produced separate estimates for taxes and other necessities.

Even though the cost of living is lower in Ohio than most places in the United States⁹, expenses for basic needs vary across the state. To capture this variation, we produced three scenarios: low-cost, median-cost, and high-cost. For each expense category where county-level information was available, we looked at the range of costs among Ohio's 88 counties and selected the highest, lowest, and median to use in our model.

As shown in Table 3, the largest variation among counties occurs in the two biggest expense categories. Both housing prices and child care fees tend to be set by local market conditions, which results in differences between counties, and, in some case, between municipalities and neighborhoods. Estimated child care expenses for a family with one preschool and one school-age child in the high-cost counties was nearly twice that in the low-cost counties. On the other hand, things like food and health coverage prices are not particularly tied to place, so they vary less across geographies. Taxes are not shown in the table because they vary by income level, while other costs are fixed before public benefits are applied.

Table 3: Monthly Expenses by County and Under the Three Scenarios, Excluding Taxes, Without Any Public Benefits

County	Child Care	Health Coverage (Family)	Housing	Food	Transportation	Other Necessities	Total Costs (excluding taxes)
Low-Cost Scenario	\$751	\$379	\$600	\$466	\$242	\$235	\$1,543
Defiance	\$751	\$388	\$634	\$477	\$254	\$235	\$1,600
Coshocton	\$751	\$398	\$634	\$469	\$254	\$235	\$1,592
Darke	\$751	\$401	\$634	\$483	\$254	\$235	\$1,606
Sandusky	\$751	\$395	\$634	\$495	\$254	\$235	\$1,619
Belmont	\$751	\$399	\$634	\$499	\$254	\$235	\$1,623
Muskingum	\$751	\$398	\$634	\$508	\$254	\$235	\$1,631
Ashland	\$751	\$394	\$663	\$485	\$254	\$235	\$1,637
Noble	\$751	\$399	\$634	\$510	\$254	\$235	\$1,633
Mercer	\$751	\$409	\$669	\$466	\$254	\$235	\$1,625
Adams	\$751	\$400	\$634	\$516	\$254	\$235	\$1,639
Morgan	\$751	\$399	\$634	\$522	\$254	\$235	\$1,645
Richland	\$751	\$393	\$634	\$528	\$254	\$235	\$1,651
Highland	\$751	\$400	\$634	\$524	\$254	\$235	\$1,647
Logan	\$751	\$397	\$674	\$491	\$254	\$235	\$1,654
Monroe	\$751	\$399	\$634	\$530	\$254	\$235	\$1,653
Crawford	\$751	\$393	\$634	\$542	\$254	\$235	\$1,666
Williams	\$751	\$394	\$634	\$542	\$254	\$235	\$1,666
Paulding	\$751	\$410	\$634	\$526	\$254	\$235	\$1,649
Shelby	\$751	\$401	\$677	\$493	\$254	\$235	\$1,659
Fayette	\$751	\$394	\$707	\$477	\$254	\$235	\$1,673
Clinton	\$751	\$400	\$662	\$491	\$283	\$235	\$1,672
Putnam	\$751	\$407	\$647	\$530	\$254	\$235	\$1,666
Henry	\$751	\$388	\$651	\$549	\$254	\$235	\$1,689
Hardin	\$751	\$410	\$634	\$545	\$254	\$235	\$1,668
Preble	\$751	\$402	\$654	\$534	\$254	\$235	\$1,678
Wyandot	\$751	\$395	\$634	\$561	\$254	\$235	\$1,684
Perry	\$751	\$398	\$634	\$559	\$254	\$235	\$1,682
Vinton	\$751	\$443	\$634	\$518	\$254	\$235	\$1,641
Gallia	\$751	\$443	\$679	\$475	\$254	\$235	\$1,643
Champaign	\$751	\$401	\$634	\$571	\$254	\$235	\$1,695
Washington	\$751	\$437	\$642	\$532	\$254	\$235	\$1,664
Jackson	\$751	\$443	\$634	\$534	\$254	\$235	\$1,658
Pike	\$751	\$445	\$634	\$534	\$254	\$235	\$1,658
Ross	\$751	\$438	\$703	\$495	\$254	\$235	\$1,688

County	Child Care	Health Coverage (Family)	Housing	Food	Transportation	Other Necessities	Total Costs (excluding taxes)
Fulton	\$751	\$388	\$684	\$565	\$254	\$235	\$1,739
Meigs	\$751	\$437	\$634	\$571	\$254	\$235	\$1,695
Madison	\$751	\$394	\$747	\$579	\$254	\$235	\$1,815
Huron	\$971	\$390	\$634	\$485	\$254	\$235	\$1,608
Seneca	\$971	\$390	\$634	\$503	\$254	\$235	\$1,627
Columbiana	\$971	\$392	\$645	\$512	\$254	\$235	\$1,646
Allen	\$971	\$410	\$635	\$510	\$254	\$235	\$1,634
Harrison	\$971	\$399	\$634	\$524	\$254	\$235	\$1,647
Ashtabula	\$971	\$393	\$646	\$528	\$254	\$235	\$1,663
Tuscarawas	\$971	\$399	\$643	\$526	\$254	\$235	\$1,658
Wayne	\$971	\$390	\$674	\$510	\$254	\$235	\$1,673
Scioto	\$971	\$436	\$634	\$503	\$254	\$235	\$1,627
Median-Cost Scenario	\$971	\$398	\$653	\$529	\$254	\$235	\$1,671
Carroll	\$971	\$380	\$600	\$602	\$254	\$235	\$1,691
Lawrence	\$971	\$443	\$638	\$512	\$254	\$235	\$1,639
Clark	\$971	\$401	\$680	\$518	\$254	\$235	\$1,687
Brown	\$971	\$400	\$635	\$542	\$283	\$235	\$1,696
Marion	\$971	\$404	\$708	\$499	\$254	\$235	\$1,697
Miami	\$971	\$402	\$699	\$520	\$254	\$235	\$1,709
Morrow	\$971	\$400	\$657	\$565	\$254	\$235	\$1,711
Hocking	\$971	\$435	\$634	\$557	\$254	\$235	\$1,680
Hancock	\$971	\$407	\$660	\$569	\$254	\$235	\$1,719
Union	\$971	\$394	\$780	\$514	\$254	\$235	\$1,783
Athens	\$971	\$442	\$707	\$547	\$255	\$235	\$1,743
Ottawa	\$971	\$392	\$733	\$600	\$254	\$235	\$1,823
Guernsey	\$1,219	\$398	\$634	\$481	\$254	\$235	\$1,604
Portage	\$971	\$390	\$829	\$584	\$243	\$235	\$1,890
Knox	\$1,219	\$397	\$634	\$516	\$254	\$235	\$1,639
Auglaize	\$1,219	\$409	\$649	\$499	\$254	\$235	\$1,638
Trumbull	\$1,219	\$398	\$662	\$522	\$254	\$235	\$1,674
Mahoning	\$1,219	\$398	\$653	\$534	\$254	\$235	\$1,676
Lucas	\$1,219	\$391	\$665	\$534	\$267	\$235	\$1,701
Erie	\$1,219	\$395	\$716	\$495	\$254	\$235	\$1,701
Stark	\$1,219	\$386	\$678	\$542	\$254	\$235	\$1,710
Van Wert	\$1,219	\$409	\$634	\$569	\$254	\$235	\$1,693
Pickaway	\$1,219	\$394	\$737	\$493	\$254	\$235	\$1,720
Wood	\$1,219	\$393	\$735	\$528	\$254	\$235	\$1,753

County	Child Care	Health Coverage (Family)	Housing	Food	Transportation	Other Necessities	Total Costs (excluding taxes)
Licking	\$1,219	\$396	\$737	\$545	\$254	\$235	\$1,771
Fairfield	\$1,219	\$396	\$780	\$549	\$254	\$235	\$1,818
Cuyahoga	\$1,219	\$390	\$752	\$577	\$267	\$235	\$1,831
Jefferson	\$1,407	\$399	\$656	\$514	\$254	\$235	\$1,659
Greene	\$1,219	\$402	\$820	\$542	\$254	\$235	\$1,852
Holmes	\$1,407	\$379	\$634	\$579	\$254	\$235	\$1,703
Medina	\$1,219	\$387	\$843	\$575	\$242	\$235	\$1,895
Montgomery	\$1,407	\$405	\$711	\$526	\$257	\$235	\$1,729
Lorain	\$1,407	\$393	\$753	\$551	\$243	\$235	\$1,781
Hamilton	\$1,407	\$385	\$727	\$545	\$293	\$235	\$1,800
Summit	\$1,407	\$392	\$766	\$565	\$243	\$235	\$1,808
Clermont	\$1,407	\$399	\$786	\$551	\$283	\$235	\$1,855
Lake	\$1,407	\$390	\$828	\$577	\$243	\$235	\$1,883
Franklin	\$1,407	\$396	\$825	\$569	\$266	\$235	\$1,896
Butler	\$1,407	\$387	\$832	\$559	\$283	\$235	\$1,909
Geauga	\$1,407	\$391	\$824	\$643	\$243	\$235	\$1,944
Delaware	\$1,407	\$398	\$890	\$582	\$254	\$235	\$1,960
Warren	\$1,407	\$387	\$958	\$547	\$283	\$235	\$2,023
High-Cost Scenario	\$1,407	\$445	\$958	\$643	\$293	\$235	\$2,129

Total expenses without public benefits ranged from \$2,673 in the low-cost scenario to \$3,981 in the high-cost scenario, plus taxes. As shown in the table above, none of our scenarios correspond exactly to a specific county. This is a result of our methodology. For example, Defiance County has the lowest basic expenses, but its housing costs are higher than Carroll County. For the low-cost scenario, we use the lowest expense for each category. Likewise, Warren County's food and health care costs are lower than some other counties, but its combined expenses are greatest.

Monthly Income

Monthly income reflects pre-tax, gross earnings. We assume that an individual is working full time, year round or 40 hours per week, 52 weeks per year. We do not account for overtime pay, and we assume that the worker has paid time-off benefits so they retain their wages even if they miss work occasionally. For this reason, our model likely over-estimates monthly income for low-wage workers.

Sixty-two percent of Ohioans over age 16 with earnings reported working full time, year round.¹⁰ However, many low-wage workers do not work full time. Only 26 percent of hourly workers earning at or below minimum wage work more than 40 hours per week at their

primary job, and minimum wage workers are more than twice as likely to be working part time.¹¹

We begin our examination at minimum wage, where our family earns \$1,404 per month, and calculate monthly income at \$1.00 per hour increments until \$29.50 per hour or \$5,113 per month.

Figure 1: Expenses Under the Low-Cost Scenario

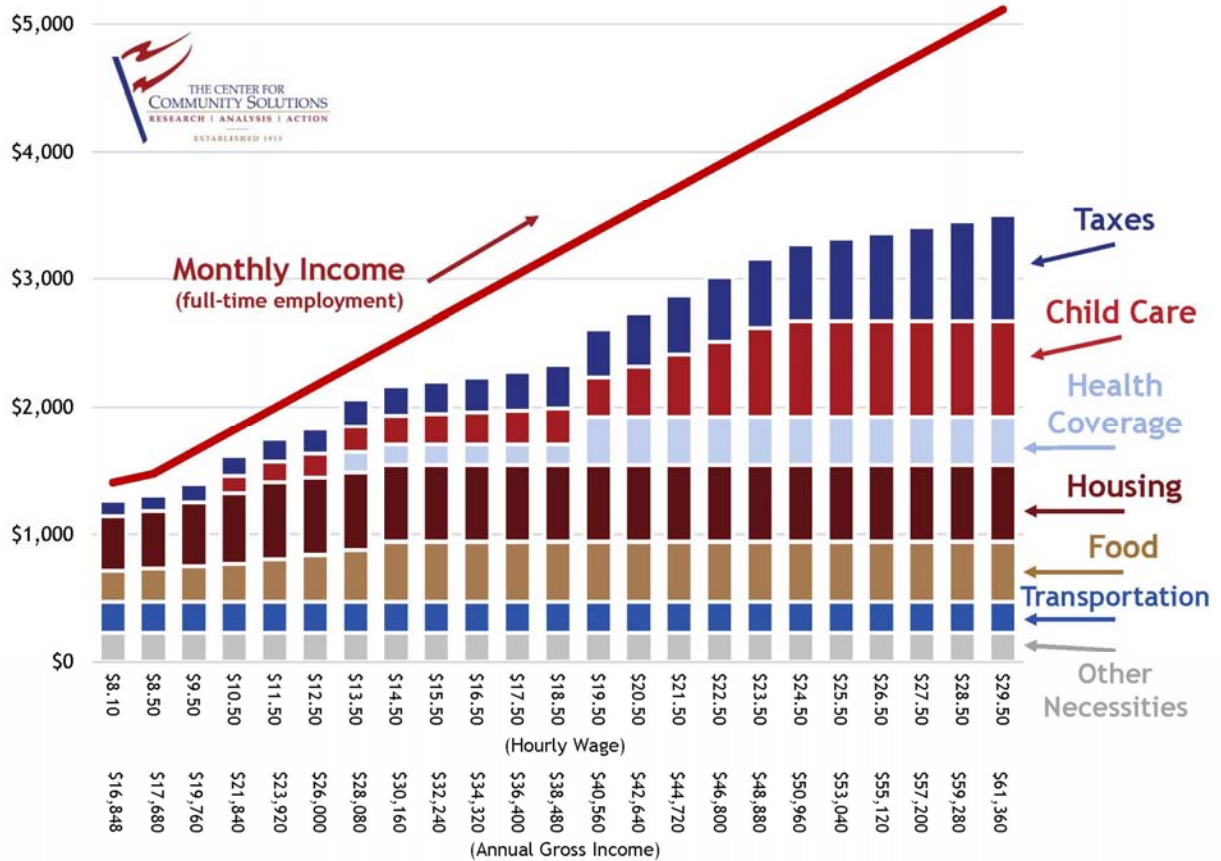


Figure 2: Expenses Under the Median-Cost Scenario

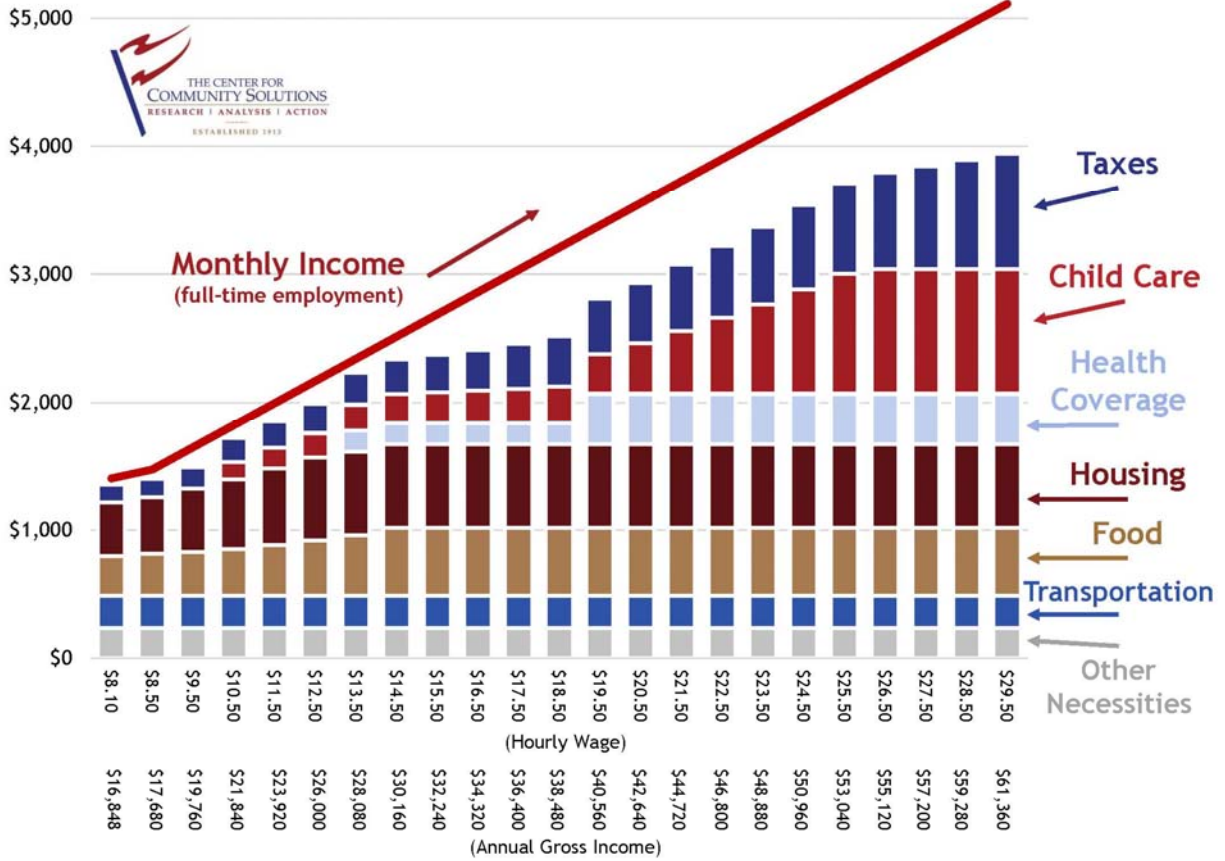
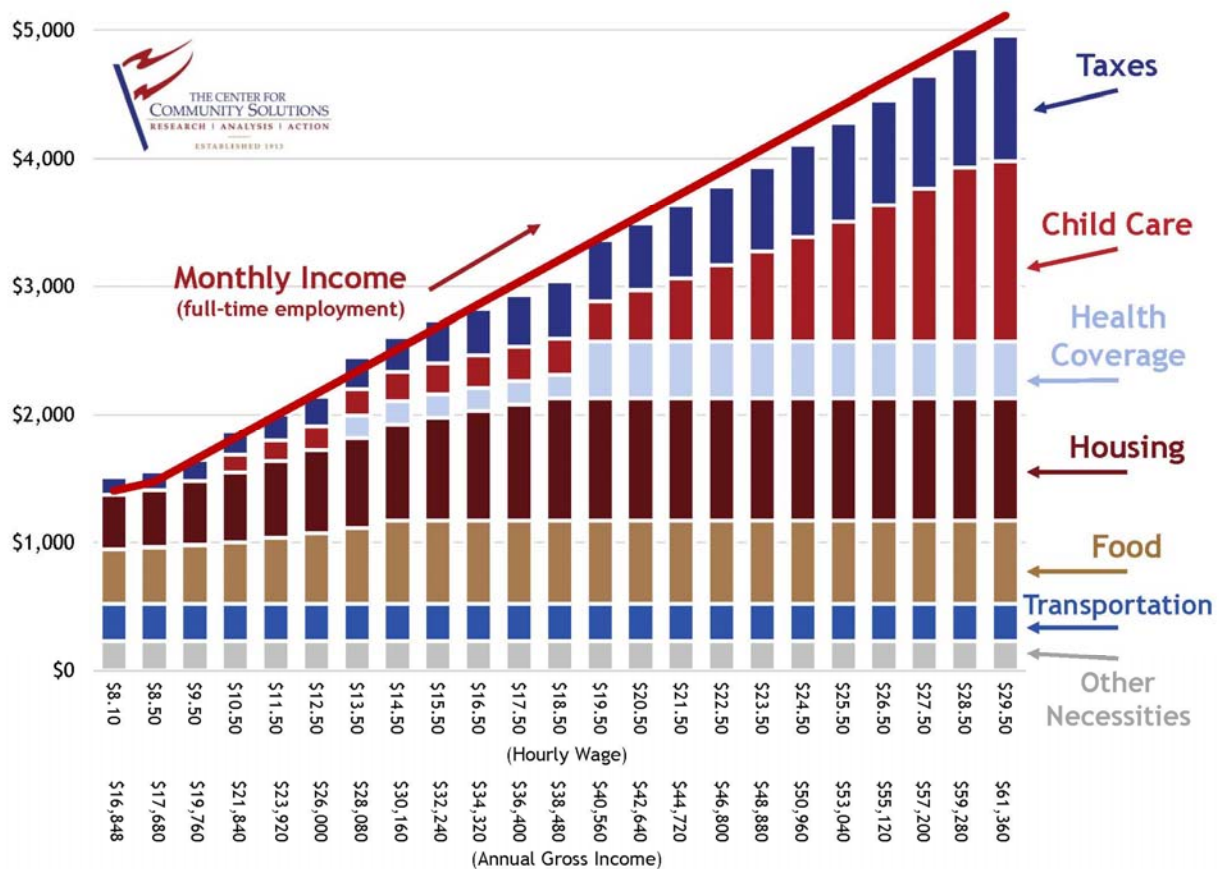


Figure 3: Expenses Under the High-Cost Scenario



Child Care

Child care, sometimes called day care, is one of the largest expenses for working families with children. The annual child care cost for a preschooler and school-age child in our median scenario is greater than one year of in-state tuition and fees at every Ohio public four-year university, except Miami University.¹² Child care is also the expense category with the largest difference between lowest-cost and highest-cost counties. For this model, we assume the family becomes eligible for child care subsidies when they are earning less than 130 percent FPL (\$26,208 per year, \$12.60 per hour), and maintain their eligibility as income increases up to 300 percent FPL. In Ohio, child care assistance is provided for approximately 116,000 children each month.¹³

The child care expense in our model equals the monthly co-pay estimated from the “Child Care Weekly Copayment Desk Aid Effective 9/28/15” from Ohio Department of Job and Family Services.¹⁴ Under each scenario, there is a point when the required copayment exceeds child care cost estimate from the Self Sufficiency Standard. That occurs at \$24.50 per hour in the low-cost scenario, \$26.50 in the median-cost scenario, and \$29.50 in the high-cost scenario. We assume that the family recognizes that they could save money by paying for their child care directly, so the model uses the Self Sufficiency Standard amount for higher incomes. At the final point in our model, the family earns just over 300 percent FPL so is no longer eligible for

child care assistance. The Self Sufficiency Standard relies on the 75th percentile for both center and family child care with preschoolers in full-time care and school-age children in part-time care.¹⁵

Health Coverage

The only health-related expense counted in our model is health insurance premium. Therefore, while the family members qualify for Medicaid, their health coverage expense is zero. Because the parent works full time, we assume they qualify for employer-sponsored health insurance once they earn too much to receive Medicaid. After the person loses Medicaid coverage, we assume they take advantage of this employee benefit as this would likely be less expensive than acquiring insurance through the Marketplace. Health Care costs from the Self Sufficiency Standard are used, which are based on data from Medical Expenditure Panel Survey (MEPS), Insurance Component.

More than 677,000 Ohioans received health coverage as a result of Medicaid expansion. Expansion raised eligibility for parents from 90 percent FPL to 138 percent FPL. Prior to expansion, Ohio's eligibility criteria for parents was more generous than federal minimums, and expansion did not change eligibility for children.

Unlike SNAP, child care, and housing vouchers, Medicaid has a hard cutoff where even \$1.00 of extra annual earnings makes a family ineligible. Because they would lose the benefit completely, the largest dips in our model are caused by the loss of Medicaid coverage, first for the parent and later for the children.

Housing

Although there are often waiting lists for housing assistance, we assume that the family is living in a public housing unit or has found a rental property where they can use a Housing Choice Voucher (Section 8). These programs require the family to pay 30 percent of income towards rent. We use this threshold until the required rent payment would be greater than housing cost from the Self Sufficiency Standard. The Self Sufficiency Standard relies on Fair Market Rents from the U.S. Department of Housing and Urban Development (HUD), which takes utilities other than telephone service into account.

Ohio has 76 local public housing authorities (PHA).¹⁶ Many housing authorities have long waiting lists for public housing and housing vouchers. In addition, a rental property that accepts vouchers can be difficult to find. According to data compiled by Affordable Housing Online, about half of Ohio's PHAs have waiting lists that are closed.¹⁷ HUD states, "A PHA may close its waiting list when it has more families on the list than can be assisted in the near future."¹⁸ A closed waiting list means that families not currently enrolled cannot even apply.

Food

Food costs from the Self Sufficiency Standard are used as a base. The foundation of their estimates is USDA's Low-Cost food plan. The Standard relies on data from Feeding America's *Map the Meal Gap* to produce county-level expense estimates. We subtract any SNAP benefit from the total food cost.

Although it is arguably the most basic of needs, food assistance for working families is one of the smallest benefits in our model. At minimum wage, it is already low, and phases out as income increases. We estimate SNAP benefit amounts using "SNAP Benefit Estimator" prepared by the Oregon Department of Human Services. Since SNAP benefits and eligibility are set at the federal level, we believe this provides a reasonable estimate for Ohio families.

Transportation

We utilize transportation expenses from the Self Sufficiency Standard, with no adjustments. Since no county in Ohio has more than 7 percent of workers commuting via public transit, the Self Sufficiency Standard for Ohio calculated private transportation costs. This includes per-mile driving costs, auto insurance premiums, and "fixed costs of car ownership." Monthly payments and finance charges are included, but the initial cost of buying a car, such as down payment, are not.

Other Necessities

The Self Sufficiency Standard includes a broader array of expenses in its "Miscellaneous" category, so we opted to calculate the cost of necessities separately. We relied on the Bureau of Labor Statistics Consumer Expenditures Survey (CES) for our estimate.¹⁹ CES provides median spending for a variety of expense categories based on family size. We limit this to include only three categories: housekeeping supplies, personal care products and services, and apparel.²⁰ Because the data source only provides information at the national level, costs for other necessities are constant across the three scenarios and across all income levels.

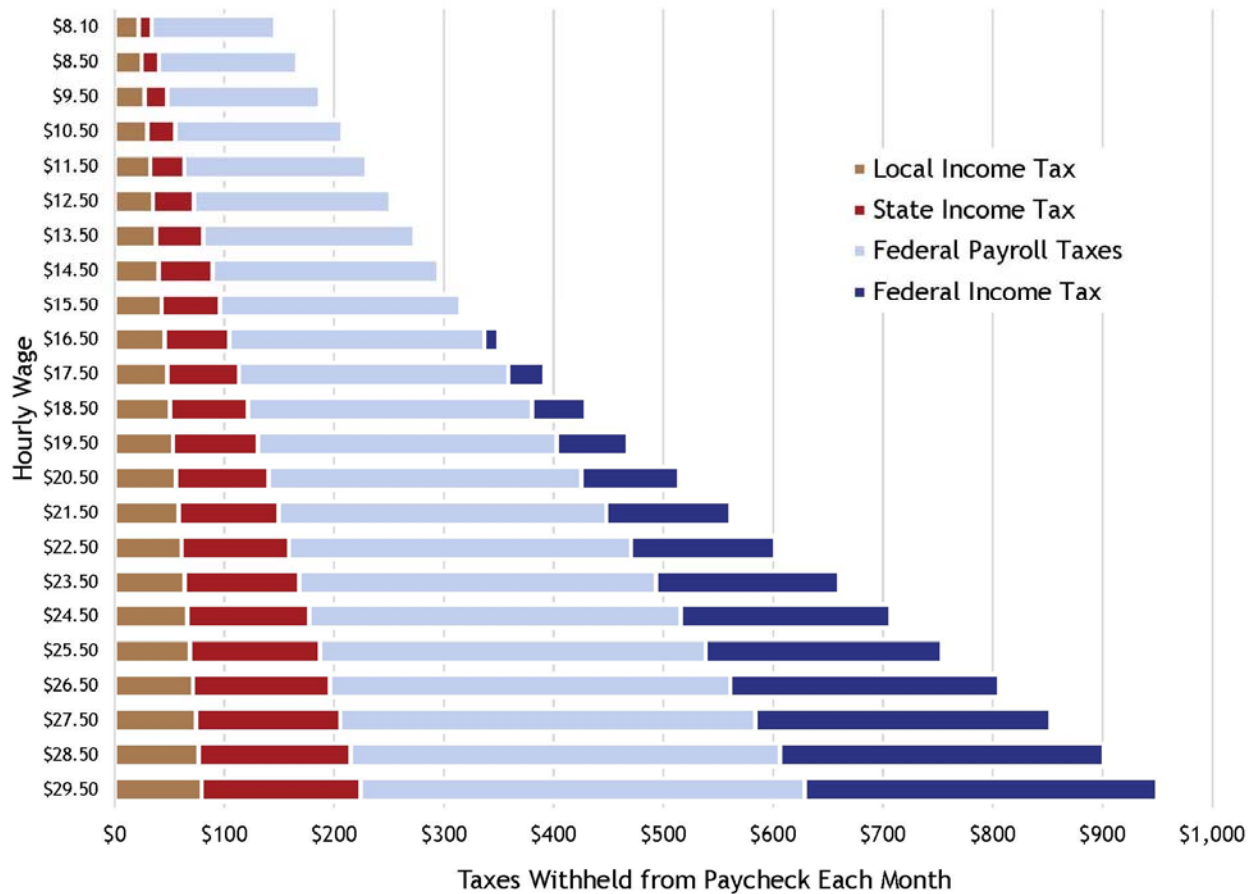
Many expenses are not included in our calculations, such as retirement or other savings, debt payments, prescription or medical costs not covered completely by insurance, school supplies, entertainment, school activity fees or anything relating to extracurricular activities for children, internet or home computer, landline or cellular telephone, and tuition or class fees for parents or children.

If we broaden the definition of miscellaneous expenses to include telephone expenses, educational expenses, and medical expenses beyond health insurance premiums, the family would need an extra \$227 per month. Families in every scenario would be below the break-even point at minimum wage if these expenses are included. Since families can do without or often delay paying for these items, we did not include them in our model.

Taxes

We include federal payroll taxes and federal, state, and local income taxes which would be withheld from the worker's paycheck. We used IRS form W9 to estimate realistic withholding exemptions for the family. For a family of one parent and two children, that meant eight withholding exemptions. State taxes were estimated using withholding tables for monthly payroll period, single adult.²¹ Federal taxes were estimated using the percentage method of calculation.²² Payroll taxes are calculated for the employee share of Social Security tax and Medicare tax, at a total cost of 7.65 percent of income. We assume that the individual lives and works in the same municipality, and local tax rates were identified using the "Municipal Income Tax Rate Database Table" from Ohio Department of Taxation.²³ The local income tax rate is zero for the low-cost scenario, 1.5 percent for the median scenario, and 3.0 percent for the high-cost scenario. Sales tax is not included.

Figure 4: Taxes Withheld from the Paycheck, Median Scenario



As shown in Figure 4, a family of three with eight exemptions would not have federal income taxes withheld from their paycheck until they earned more than \$16.00 per hour. Local and state tax rates are relatively low, so the increase in tax expense at higher incomes is due to rising federal withholding for both income and payroll taxes. Although the Earned Income Tax Credit has been an effective anti-poverty program for working families, the refundable federal

credit is typically received as a lump sum when annual taxes are filed, so does not impact the family's monthly budget. On the other hand, withholding tables do partially account for the impact of child tax credits and the child and dependent care credit.

Examining the Cushion

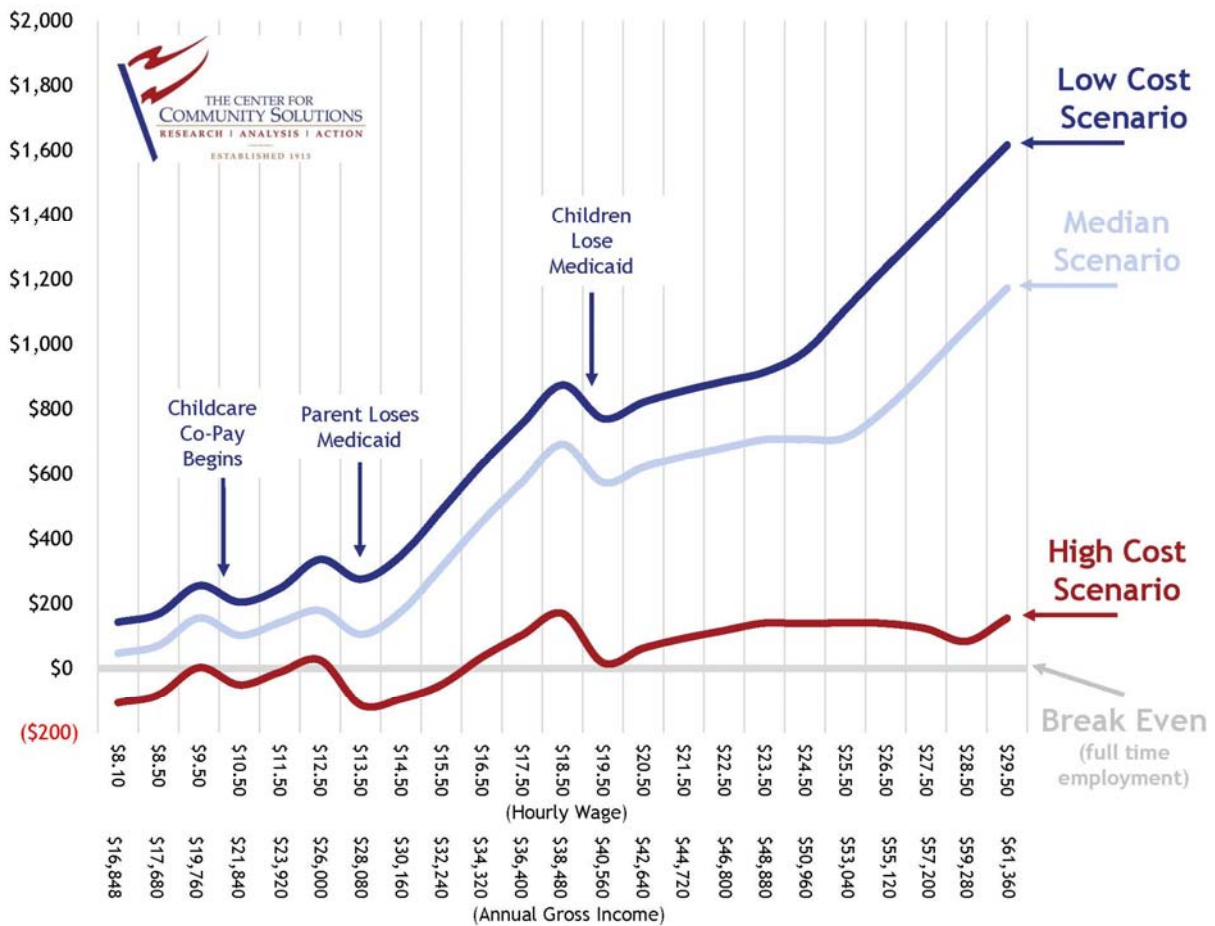
Once families cover their basic expenses, the amount left in their pockets can be used for other costs, debt payments, or savings. This is their cushion. For each of the three scenarios, we calculate the monthly cushion for a single-parent working family with two children, ages three and seven. As with expenses, the total monthly cushion is presented beginning with Ohio's current minimum wage of \$8.10 per hour, and as the worker receives a \$1.00 per hour raise beginning after \$8.50 per hour (\$1,473 per month, \$17,680 annually), until \$29.50 per hour (\$5,113 per month, \$61,360 per year). The family's cushion at various wages under the three scenarios is presented in Table 3, below. An extra \$1.00 per hour means \$173 in additional monthly earnings. We follow the family as they move from around 85 percent FPL to just over 300 percent FPL.

An individual earning Ohio's minimum wage of \$8.10 per hour who works full time²⁴ would earn \$16,848 annually. In a family with one worker, they would have money left over at the end of the month if their expenses were less than their \$1,404 in monthly earnings. We consider this to be the break-even point. As the worker's pay increases, the break-even amount rises.

Table 3: The Amount Left Over After Basic Expenses Differs Depending on Scenario

Hourly Wage	Monthly Income (Break-Even)	Monthly Cushion		
		Low-Cost Scenario	Median Scenario	High-Cost Scenario
\$8.10	\$1,404	\$143	\$47	(\$106)
\$8.50	\$1,473	\$168	\$71	(\$82)
\$9.50	\$1,647	\$255	\$156	\$3
\$10.50	\$1,820	\$204	\$102	(\$51)
\$11.50	\$1,993	\$247	\$142	(\$11)
\$12.50	\$2,167	\$336	\$179	\$26
\$13.50	\$2,340	\$275	\$105	(\$113)
\$14.50	\$2,513	\$348	\$175	(\$95)
\$15.50	\$2,687	\$487	\$312	(\$50)
\$16.50	\$2,860	\$629	\$451	\$34
\$17.50	\$3,033	\$755	\$575	\$103
\$18.50	\$3,207	\$874	\$691	\$169
\$19.50	\$3,380	\$771	\$573	\$17
\$20.50	\$3,553	\$821	\$621	\$63
\$21.50	\$3,727	\$857	\$654	\$93
\$22.50	\$3,900	\$886	\$680	\$117
\$23.50	\$4,073	\$914	\$706	\$140
\$24.50	\$4,247	\$977	\$707	\$138
\$25.50	\$4,420	\$1,107	\$713	\$141
\$26.50	\$4,593	\$1,236	\$800	\$138
\$27.50	\$4,767	\$1,359	\$921	\$122
\$28.50	\$4,940	\$1,489	\$1,048	\$84
\$29.50	\$5,113	\$1,616	\$1,172	\$155

Figure 5: Monthly Cushion Under the Three Scenarios



As Figure 5 shows, the family experiences dips and rises as they move from poverty to self-sufficiency. Dips are the direct result of eligibility rules and reduced benefit levels. In each scenario, the first dip in monthly cushion appears at \$10.50 per hour when child care copayments begin. Additional drops occur at \$13.38 per hour when the family’s earnings exceed 138 percent FPL and the parent loses Medicaid health coverage, and when the children lose Medicaid health coverage at 200 percent FPL (\$19.39 per hour). By this level of income, the required copayment for child care benefits increases more rapidly, effectively erasing the net benefit to the family of continuing to increase hourly wages.

In all the scenarios, at lower hourly wages, the family is barely getting by. But at middle income (between about 200 percent FPL and 250 percent FPL), they are prevented from getting ahead by rapidly increasing child care premiums.

In the median and low-cost scenarios, the family of three remains above the break-even point. The family in the high-cost scenario is worse off because at minimum wage, they are in the red by \$82 per month. At the dip when the parent loses Medicaid, necessary expenses are \$113 more than their monthly income. When a family is below the break-even point, they will need to use

savings or credit cards or get assistance from family, friends, and private organizations just to meet their basic expenses. Without outside help or personal savings, the family will need to go hungry, skip paying rent, or go into debt to make ends meet. In the high-cost scenario, they do not remain above the break-even point until they are earning \$15.50 per hour. At the highest wages on our model (\$29.50 per hour or \$61,360 per year) the family in the high-cost scenario has a monthly cushion of \$155, less than the cushion at minimum wage in the low-cost scenario.

Conclusion: Smoothing the Roller Coaster Ride

Many Job and Family Service caseworkers can share stories about clients who turned down a raise, walked away from a higher-paying job opportunity, or declined additional hours at work because it would impact their public benefits. Due to the cliff effect, Ohioans are making financial decisions that are wise in the short term, but prevent them from moving further into prosperity in the future.

Our findings are somewhat different than benefit cliff studies from other parts of the country or from several years ago. Recent policy changes in Ohio, most notably expansion of Medicaid and improvements to child care benefits, have helped many families, but challenges remain.

It is based on full-time year round work with employment benefits including employer-sponsored health insurance coverage and paid time off, our model is more optimistic than the situation facing many low-income families in Ohio. Encouraging employers to schedule low-wage hourly workers for 40 hours per week would help families living in poverty to earn more. Likewise, providing paid sick time would enable a parent to occasionally miss work to care for a sick child or participate in their school activities without losing valuable income.

Employers could also assist their employees by providing innovative benefits such as negotiating group discounts with local child care providers or providing assistance for employees to pay for child care. Many companies offer a flexible spending account for dependent care which allows families to set aside up to \$5,000 before taxes to help pay these expenses. Some of these incentives would count as income, so they could impact other public benefit programs.

Higher child care and housing costs are the main drivers of the difference between low- and high-cost scenarios. With regard to housing expenses, waiting lists mean that many families are unable to access benefits for which they qualify. A lack of affordable housing options compounds this problem. The National Low Income Housing Coalition found that, across the country, there were just 31 affordable and available rental units for every 100 extremely low-income renter households, a shortage of 7.1 million units.²⁵ The Ohio Housing Trust Fund provides funding to address critical housing needs, but advocates have pointed out that revenues for the trust fund have remained basically flat for the past decade.²⁶

Improvements to the child care subsidy were made in the last state budget to eliminate the child care copayment for families earning less than the federal poverty level, to raise the initial

eligibility criteria from 125 percent FPL to 130 percent FPL and to allow families with higher incomes to remain in the program. More children are receiving public child care subsidies yet the state is spending less than in 2009, when initial eligibility was 200 percent FPL, raising concerns about the quality of care.²⁷ If initial eligibility were restored to that level, someone working full time, full year and earning \$15.00 per hour in a three-person family would qualify for this critical work support. Reducing the required copayment at incomes between 200 percent FPL and 300 percent FPL would also allow Ohio families to retain more of their hard-earned wage increases.

The sharpest dips in our model are the result of the loss of Medicaid coverage. Medicaid expansion is covering thousands of Ohio parents, yet the Healthy Ohio 1115 Demonstration Waiver presents a threat to recent improvements in Ohio's Medicaid program, particularly for parents and certain groups of low-income children.²⁸ Introducing a low-cost buy-in option for parents between 138 percent FPL and 200 percent FPL and for children above 200 percent FPL would reduce the cliff effect caused by the program's strict eligibility criteria. However, collecting premiums is problematic and has caused declines in program enrollment and increases in administrative costs in other states.²⁹

The Ohio Benefit Bank of the Ohio Association of Foodbanks has helped more than 717,000 Ohioans gain access to tax credits and public benefits for which they qualify.³⁰ Continued support should be given to efforts which connect families to work supports.

When an Ohio family earns more and leaves public benefit programs, the state saves money. To incentivize families to take raises even if they jeopardize their public benefits, local entities or the State of Ohio could provide a small exit grant to help them make ends meet in the short term.

Finally, efforts to increase minimum wage would eliminate the low-income end of our model and the first set of dips. However, a three-person family with someone working full time, full year earning \$15.00 per hour would earn too much to meet the current initial eligibility criteria for child care. In our model, child care expenses at \$15.00 are subsidized, so the family's expense is only \$242, the amount of their required copay. Without this benefit, the family would need to pay the full cost of child care, erasing \$1,186 in extra monthly earnings in the high cost scenario, which amounts to \$6.82 per hour in wages. Therefore, if Ohio's minimum wage is increased, the child care eligibility criteria should be adjusted accordingly.

The struggle for a single parent to move from poverty to self-sufficiency is challenging and can be emotional. Our model shows that the current structure of public benefits provides a short-term economic disincentive for some families at both low and middle incomes to seek higher wages. Employers, nonprofit service providers, philanthropy, and government can all play a role in helping families who are on the roller coaster and trying to make ends meet.

¹ <http://www.incap.org/cliffeffect.html#.Vzt9f-QcO8g>

² The age of the children impacts child care costs, so we define them for this study.

³ In this study, we do not examine the cost to provide benefits to the family, or the spending on public programs.

⁴ "Poverty Guidelines 01/25/2016". U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation. <https://aspe.hhs.gov/poverty-guidelines>

⁵ For this study, we assume the parent is working 40 hours per week for 52 weeks per year.

⁶ National Center for Children in Poverty, "Work Supports".

<http://www.nccp.org/topics/worksupports.html>

⁷ Pearce, Diana M. "Self Sufficiency Standard for Ohio 2015", Center for Women's Welfare, University of Washington School of Social Work, prepared for the Ohio Association of Community Action Agencies, December, 2015. <http://selfsufficiencystandard.org/sites/default/files/selfsuff/docs/OH2015.pdf>

⁸ In certain circumstances, we are able to run the model for individual Ohio counties. Contact Emily Campbell at ecampbell@CommunitySolutions.com for more information.

⁹ "Real personal Income for States and Metropolitan Areas, 2014" U.S. Department of Commerce, Bureau of Economic Analysis, July 2015. http://www.bea.gov/newsreleases/regional/rpp/rpp_newsrelease.htm

¹⁰ U.S. Census Bureau, 2014 American Community Survey one-year estimates.

¹¹ "Characteristic of minimum wage workers, 2015." United States Department of Labor, Bureau of Labor Statistics, April, 2016. <http://www.bls.gov/opub/reports/minimum-wage/2015/home.htm>

¹² University cost data from U.S. Department of Education's College Affordability and Transparency Center, <http://collegecost.ed.gov/cats/>

¹³ Ohio Department of Job and Family Services, "Fact Sheet: Child Care Assistance".

<http://jfs.ohio.gov/factsheets/ChildCareAssistance.stm>

¹⁴ This table is available at <https://jfs.ohio.gov/cdc/docs/September2015CopaymentTable.stm>

¹⁵ For a detailed description of the methodology used in the Self Sufficiency Standard, see Pearce, Diana M. "Methodology Report: The Self-Sufficiency Standard for Ohio 2015".

http://selfsufficiencystandard.org/sites/default/files/selfsuff/docs/OH2015_Methodology.pdf

¹⁶ U.S. Department of Urban Development, Housing Authority (HA) Profiles,

<https://pic.hud.gov/pic/haprofiles/haprofilelist.asp>

¹⁷ "Public Housing Waiting Lists", Affordable Housing Online,

<http://affordablehousingonline.com/public-housing-waiting-lists/>

¹⁸ "Housing Choice Vouchers Fact Sheet", U.S. Department of Housing and Urban Development,

http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/hcv/about/fact_sheet

¹⁹ U.S. Department of Labor, Bureau of Labor Statistics, 2014 Consumer Expenditure Survey, Table 1502: "Composition of consumer unit: Annual expenditure means, shares, standard errors, and coefficients of variation."

²⁰ Personal care products and services includes products for the hair, oral hygiene products, shaving needs, cosmetics and bath products, electric personal care appliances, other personal care products, and personal care services for males and females. Housekeeping supplies includes laundry and cleaning supplies, cleaning and toilet issues, stationary supplies, postage, delivery services, miscellaneous household products, and lawn and garden supplies. For a full description of CES categories, see

<http://www.bls.gov/cex/csxgloss.htm>

²¹ This table is available at

http://www.tax.ohio.gov/Portals/0/employer_withholding/August2015Rates/WTH_Monthly%20Rate_2015_FS_073015.pdf

²² See IRS Publication 15, “Employer’s Tax Guide”. <https://www.irs.gov/pub/irs-pdf/p15.pdf>

²³ This resource is available here:

<https://thefinder.tax.ohio.gov/StreamlineSalesTaxWeb/Download/MuniRateTableInstructions.aspx>

²⁴ For this study, we consider full-time work to mean 40 hours per week for 52 weeks per year.

²⁵ “Affordable Housing is Nowhere to be Found for Millions.” *Housing Spotlight*, National Low Income Affordable Housing Coalition, March 2015. http://cohhio.org/files/HS_5-1_8pages%281%29.pdf

²⁶ “Expand the Housing Trust Fund”, *Akron Beacon Journal*, 30 November 2015.

<http://www.ohio.com/editorial/editorials/expand-the-housing-trust-fund-1.644407#.V12RZ3ZXDTE.email>

²⁷ Patton, Wendy. “Improving how Ohio cares for Kids.” *Policy Matters Ohio*, January 2016.

<http://www.policymattersohio.org/wp-content/uploads/2016/01/Early-ed-childcare-final-draft.pdf>

²⁸ Comments provided by The Center for Community Solutions to Ohio Department of Medicaid regarding Healthy Ohio Program 1115 Demonstration Waiver, 21 April 2016.

http://www.communitysolutions.com/assets/docs/Health_Policy/2016/healthy%20ohio%20comments%20for%20the%20ohio%20department%20of%20medicaid%20-%20center%20for%20community%20solutions%20-%204%202016%20updated.pdf

²⁹ “New Medicaid Waiver Proposal Will Disrupt Coverage and Increase Costs.” The Center for Community Solutions, November 2015.

http://www.communitysolutions.com/assets/docs/Public_Policy_incl_testimony/1115%20waiver%20fact%20sheet_healthy%20ohio_11232015.pdf

³⁰ Ohio Association of Foodbanks, <http://www.ohiobenefits.org/about.html>

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