



RESEARCH REPORT

# Balancing at the Edge of the Cliff

Experiences and Calculations of Benefit Cliffs, Plateaus, and Trade-Offs

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# Executive Summary

A parent's primary goal is to provide their children the emotional and material support they need to thrive. Parents who struggle to fully meet their financial needs through employment income sometimes turn to public assistance programs to partially fill the gap. As a family's earnings rise, though, those earnings increases are often offset by declines in public assistance benefits (commonly called "benefit cliffs" when the declines are sharp) and increases in taxes owed. At the same time, refundable tax credits—which offset taxes owed and are delivered as a tax refund—can boost income. These interactions can be confusing and make it difficult for parents to anticipate how increasing their work hours, hourly wage rate, or both will affect their benefits, taxes, and income to support their families. This study estimates what happens to benefits and taxes when earnings increase and also explores how people perceive public benefit interactions, trade-offs, and benefit cliffs as they increase their work hours or earn higher wages.

Public benefit programs, such as Temporary Assistance for Needy Families (TANF) cash assistance, the Supplemental Nutrition Assistance Program (SNAP), Medicaid, child care subsidies, and housing subsidies, have the potential to help stabilize families when their income drops and can provide support as parents enter or reenter the workforce. However, complex program rules can make it difficult for participants to know how the program benefits will interact with new employment income. And benefit reduction rates—the amount that benefits are reduced when families earn additional income—can compound when people participate in multiple programs.

In this report, we summarize results from microsimulation modeling of how benefits and taxes respond when income changes and from qualitative interviews with 43 respondents who currently or recently received TANF. The report includes data from three states: Colorado, Minnesota, and New York.

## Modeling Results

For families receiving TANF cash assistance in Colorado, Minnesota, or New York in 2018, we modeled how increasing their earnings would affect their cash, nutrition, and housing assistance; child care costs; taxes owed or credited; and net income. These increases can come from working more hours, getting paid more for hours worked, or a combination of both. We have distinct estimates by state because benefits and state income taxes differ. We examined the effects for families with various starting incomes (below the federal poverty level, between the poverty level and twice the poverty level, and

between two and three times the poverty level) and earnings increases (\$2,300, \$7,000, and \$10,000). These three earnings increases represent working full time about four more weeks at the state minimum wage, working full time three more months at the state minimum wage, and a substantial increase other researchers have studied. We add hours, jobs, or wages reflective of parents' existing employment, when possible (see detailed methodology in the full report). Our findings underscore the challenge families have in predicting how earnings increases may affect their net income: the complex interactions among earnings, benefits, and taxes vary depending on where they live, their starting income, and the size of the earnings increase. Here is what we found:

- **Considering only the effects on a family's child care expenses and benefits, between one-quarter and two-thirds of TANF recipients starting with incomes below poverty would keep less than half of \$2,300 in new earnings, because of benefit reductions and child care expenses (after subsidies).** In all three states, less than 6 percent of families with starting incomes below the federal poverty level would see a combination of rising child care expenses (after subsidies) and benefit reductions that would exceed \$2,300 in new earnings. In other words, for only this small share of families, earning more would not increase their total income and, considering only their benefits and child care expenses, working more would not pay more.
- **Considering only the effects on taxes in many cases, refundable tax credits received after filing a tax return more than offset the increases in taxes owed by families who received TANF cash assistance with starting incomes below the poverty level, meaning a tax refund would add to new earnings.**
- **Considering the combined effects on child care expenses, benefits, and taxes, in most—but not all—cases, tax credits received after filing a tax return would largely outweigh the benefit declines and tax increases associated with a \$2,300 increase in earnings, especially for those with starting incomes below the poverty level.** While tax credits would not outweigh benefit losses and child care cost increases in every case, accounting for taxes often reduces the total income loss, though less so for families with higher incomes. Those who started with incomes between the poverty level and twice the poverty level, especially, would be more likely to experience net losses even after accounting for tax credits. Because tax refunds and benefit reductions often happen on different timelines, families may not feel the full payoff of tax refunds in their monthly budgets.

# Interviews

Our interviews with parents receiving TANF show that they want to support themselves through employment and turn to benefits as a last resort. Yet many parents feel they have insufficient information for making choices about work effort and benefit participation. Very few understand how the tax system works. And the stakes of losing some benefits, such as housing and child care, feel very high.

- **Parents interviewed across all three states overwhelmingly said that they preferred to earn money from employment instead of receiving public benefits.** Many valued the experience of working outside the home, and having a job gave them a sense of stability and independence. Several said that they found their work meaningful. A few parents expressed shame about applying for benefits.
- **Parents often started receiving TANF and other benefits because of a major life event, such as giving birth and lacking support from family or a partner.** In many cases, people lost work income and turned to TANF and other public assistance programs because they did not have sufficient income to support their children. Domestic violence and other relationship challenges were other factors contributing to financial difficulties that led several people we interviewed to apply for benefits.
- **Most people we interviewed who were receiving benefits were unable to work consistently for a variety of reasons.** Many people said they would be better able to secure a family-sustaining job if a lack of educational credentials did not stand in their way. They also reported that it was difficult to keep jobs that provided limited scheduling flexibility and did not accommodate parents' caregiving responsibilities.
- **Trade-offs around work and benefits are complicated. Rather than choosing among clear options for supporting their families, many parents are acting in an environment of fear, anxiety, and confusion.** Many of the people we spoke with did not fully understand how changes in their employment earnings would affect the exact amount of benefits they would receive or whether they would still qualify for benefits at all. The effects of earnings changes on benefits, child care costs, and taxes can vary widely depending on a family's specific situation, making it very hard to predict total income after an earnings increase.
- **Parents feared losing critical supports.** A few parents opted to not earn extra work income because of the expected changes to their benefits (or uncertainty about potential changes).

- **Almost none of the parents we spoke with had a basic understanding of how tax programs worked, which tax credits they qualified for, or how much they would receive as a tax refund.** Many people did not take tax refunds into account when they thought about their income for the year or consider their tax returns when making decisions about employment. If they received a refund, most respondents regarded it as a surprise bonus. When asked, many said they would prefer to receive their tax credits monthly rather than once a year, but some preferred the lump sum.
- **Housing is among the biggest challenges to making ends meet, even with available resources from employment and benefits.** The people we interviewed expressed a pronounced concern over whether their combination of earnings and benefits might not cover the cost of housing or whether their housing benefits would be decreased or lost.
- **Many people feared that their child care benefits would be changed or lost,** and they did not know how they would fill the immense gap that would result. People who received these subsidies noted that they were critical to allowing them to work and their children to thrive.

## Suggested Changes

Parents offered several suggestions for clarifying the interactions among earnings, benefit programs, and taxes, and for improving their ability to support their families:

- Benefits could not drop so quickly after an increase in earnings or offer a grace period for families to stabilize their new employment situation.
- Benefit program staff could help program participants effectively use programs, including understanding the interactions between work, benefits, and taxes.
  - » The government could also create public resources to help people better understand program interactions, such as an online calculator, or simplify the rules and interactions among public assistance programs and the tax system.
- Benefit amounts could increase to better fill the gap between earnings and the cost of meeting basic needs.
  - » If some supports, especially related to housing and child care, could be universal, it would provide certainty and stability that may help parents feel more confident fully transitioning off of public assistance.



- » If tax credits were distributed throughout the year instead in a lump sum annually, it may help families incorporate this income into their monthly budgeting.
- Finally, the labor market could reduce barriers to parents getting well-paid, quality jobs and compensate workers at higher wages.



# Balancing on the Edge of a Cliff

A parent's primary goal is to provide their children with the emotional and material support they need to thrive. Parents who struggle to fully meet their financial needs through employment income sometimes turn to public assistance programs to at least partially fill the gap. As a family's earnings rise, though, those earnings increases are often offset by declines in public assistance benefits and increases in taxes owed. At the same time, refundable tax credits—which can offset taxes owed and be delivered as a tax refund—can augment earnings and boost income. These interactions can be confusing and make it difficult for parents to anticipate how increasing their work hours, hourly wage rate, or both will affect their benefits, taxes, and income to support their families. Families who participate in public benefit programs to help meet their basic needs often express concern about how a “benefit cliff” or “the cliff effect”—meaning a sharp decline in benefits resulting from a modest earnings increase—might affect their ability to support their families. This study estimates what happens to benefits and taxes (including tax credits that can be received as part of a tax refund, or “refundable credits”) when earnings increase, and also explores how people perceive public benefit interactions, trade-offs, and benefit cliffs as they increase their work hours or wage rates.

Many parents have difficulty gathering the necessary resources to meet their families' basic needs. Long-standing inequities in access to quality education, good jobs, homeownership, safe communities, and other resources and opportunities have exacerbated the challenge for Black, Latinx,<sup>1</sup> and Indigenous people (Kijakazi et al. 2019). Public benefit programs, such as Temporary Assistance for Needy Families (TANF) cash assistance, the Supplemental Nutrition Assistance Program (SNAP), Medicaid, child care subsidies, and housing subsidies, have the potential to help stabilize families when their income drops—sometimes as a result of losing work or increased caregiving responsibilities. These programs can provide support as parents enter or reenter the workforce. However, complex program rules can make it difficult for parents to know how their new employment income may affect any program benefits they are receiving. And benefit reduction rates—the amount benefits are reduced when families earn additional income—can compound when people participate in multiple programs.

In a hypothetical example, if one program reduces benefits by 30 cents for every new dollar earned and another program reduces benefits by 20 cents, a worker benefiting from both programs could lose 50 cents in benefits for every dollar more they earned. On top of that, they might have additional child care costs associated with working more. These benefit losses and increased costs would be apparent quickly. Workers might feel like they earned a dollar but kept only 50 cents of it—and they had to pay part of that 50 cents for child care. At the same time, families with children and low incomes might

become newly eligible for tax credits or eligible for larger tax credits that not only reduce their taxes owed, but also provide a direct benefit when they file their tax returns.<sup>2</sup> They might receive, say, an additional 55 cents in tax credits for every dollar earned. However, it can be difficult for workers to understand how much their tax credits will change with increased earnings (Greene 2013; Liebman and Zeckhauser 2004), and a tax refund that might arrive many months later cannot offset immediate costs related to work (e.g., child care, transportation, clothes, and supplies). In some circumstances, people may lose eligibility for a public benefit program when their incomes exceed a certain threshold, resulting in an abrupt loss of income or services. These losses can leave families uncertain about whether earning more will actually leave them better off—even if tax credits will offset part or all of the benefit losses when they file their tax returns. Further, predicting exactly when or how these benefit and tax credit trade-offs will occur across multiple programs is difficult, which adds to the uncertainty.

Earlier research documented the existence of a “poverty trap,” the idea that as family earnings rose above the poverty level, transfer benefits declined so the family was either no better off or only minimally better off (Toikka, Yelowitz, and Neveu 2005). Likewise, the “twice poverty trap”—having income between the poverty level and twice the poverty level but losing benefits and owing taxes following an earnings increase, so the family could not move beyond twice the poverty level—was documented in the same manner (Giannarelli and Steuerle 1995). The tax and benefit systems have undergone significant changes since these analyses were performed, and research has documented the role of benefit programs and tax refunds in stabilizing families and promoting positive outcomes (Coleman-Jensen et al. 2021; Waxman, Sherman, and Cox 2021; Wheaton, Giannarelli, and Dehry 2021).

In this report, we focus on people who received TANF at some point in 2018 and who had annual income in any of three ranges: below the poverty level, between the poverty level and twice the poverty level, and between twice the poverty level and three times the poverty level. People in higher income ranges typically received TANF cash assistance for only a small part of the year, because earning more income would make them ineligible for TANF cash assistance.

Nearly 900,000 families (more than 2 million people) received cash assistance at some point in fiscal year 2020 from TANF, which provides time-limited assistance to families with children who meet income eligibility and other requirements.<sup>3</sup> Almost all of these families received benefits from multiple programs: 93 percent received medical assistance through Medicaid, 81 percent received SNAP assistance, and some also received subsidized housing or child care. More than 20 percent of adults who received TANF cash assistance at some point in 2020 were also employed at least some of the time during the year (and employment rates were higher in previous years). In some cases, their incomes were high enough during the months they were working that they were ineligible for TANF.

This study seeks to understand benefit reductions and cliffs and tax offsets for parents who increase their earnings. We focus on TANF participants because so many receive multiple benefits, and the program emphasizes getting people to work. We first examine the actual changes in benefits and tax offsets for TANF families with increases in earnings, using microsimulation modeling. We use national survey data to model what happens when income increases so we can see how federal benefits and taxes would change for families who received TANF at some point. We then summarize interviews with parents receiving or recently receiving TANF and working or looking for work. We report on their perspectives and experiences making decisions about participation in the labor force and public benefit programs, as well as how they understand the tax system, including tax credits.

## Summary of Findings

Policymakers are likely to consider the effects of changes to tax credits and benefits together when considering what happens when people participating in benefit programs earn more. We find that tax credits often more than offset losses in benefits as earnings increase. (A full offset of benefit losses is less likely for families starting with incomes slightly above the poverty level.) But our interviews indicate that families often see changes to these two income supports quite differently. They tend to perceive the immediate benefit changes (which are often reductions) connected to working more hours or receiving a raise more acutely than the corresponding increases in refundable tax credits, which are typically delivered only after the family files a tax return. They also find it difficult to predict the size of tax refunds. The interviews also confirmed that people rarely understand precisely how benefits decline and taxes change as income increases, making it difficult for them to calculate potential changes in their financial situation if they work more. Parents want to work and often take new employment opportunities as they arise regardless of expected changes to benefits and taxes, but the situation is seen as risky and mired in uncertainty. The potential loss of housing or child care benefits is particularly concerning for parents who rely on these supports for family stability. One mother in Colorado we interviewed summed it up this way:

It feels like they want to...keep you down. Even if you get barely above \$1,500—which in Denver the average range for rent is \$1,500 a month—but if you make that, then you don't qualify for any help. It's like how do they expect you to thrive in life if they're either pushing you down or you have to make an extreme amount of money when you're struggling? It's a black and white—like either you're poor or all of a sudden, you're wealthy and you can buy a house and provide fully by yourself for your family.

## Methods

This study takes a unique approach by combining insights from two sources: modeling that illustrates the types of trade-offs people are likely to face and qualitative interviews and focus groups that reveal how people who recently received TANF cash assistance in Colorado, Minnesota, and New York experience these trade-offs. Unlike previous research, the study also considers changes in program benefits and taxes both individually and together. Because people often experience potential changes in program benefits differently from changes in taxes, because changes in program benefits can happen immediately while tax liability and tax credits lag, we first model only the changes in program benefits (e.g., TANF cash assistance, SNAP assistance, etc.) and then only the changes in tax benefits; then we combine the two to show the net effect.

We chose specific states to model because each state establishes its own program eligibility rules, especially for TANF and child care subsidies, and families face different trade-offs depending on the state in which they live. We selected Colorado, Minnesota, and New York because they had geographic diversity, TANF benefits at least as generous as the national average, substantial TANF caseloads relative to other states, and agencies and organizations willing to partner with the research team to help recruit participants for the study. Many states have very small TANF cash assistance amounts, in which case the potential benefit cliff from TANF is modest. Other states have a very small number of families receiving TANF, which means that it would have been much more difficult to find participants to interview for this study.

We engaged state agency partners to help shape the study. We developed profiles of four family types—single or married parents, with one or two children—that showed how taxes and benefits would likely change as hours of work at the state minimum wage changed, based on the program rules in each state. We presented those insights to state agency and community-based organization representatives in a series of Data Walks—events in which stakeholders jointly review data, interpret the data, and collaborate to come to a shared understanding of the implications (Murray, Falkenburger, and Saxena 2019). We conducted a separate Data Walk in each state. Following the presentation of the data, we sought input on where the project concept, modeling approach, or interpretation of the early models required additional explanation or nuance. We also gathered insights from Data Walk participants regarding interview topics and questions for the qualitative data collection, described in more detail below.

## Quantitative Methods Overview

For the quantitative modeling, we used the Urban Institute’s Analysis of Transfers, Taxes, and Income Security model applied to the 2019 American Community Survey data (which reports 2018 incomes) to estimate what would happen if TANF recipients’ earnings were increased. We selected all families in the 2019 American Community Survey who had received TANF at any point in 2018 and reported living in Colorado, Minnesota, or New York and modeled what would happen if they experienced an earnings increase. We modeled what would happen if families’ incomes increased and then recalculated what benefits they would receive and how much tax they would owe (or how much they would receive in tax credits). This is distinct from an approach that only looks at how program rules interact because we can simulate the effects of these changes for families who responded to the national survey.

We defined families consistent with TANF unit definitions. A family includes the person designated as the head of household (referred to as “head” hereafter) and their partner (if present), as well as their biological or adopted children. A cohabiting partner of the head is counted as part of the family only if they are the biological or adoptive parent of at least one child of the head. We added income only for the head of each family. Only people between ages 15 and 64 who were neither undocumented immigrants nor disabled were eligible for an income increase (undocumented immigrants and people who are permanently disabled are ineligible for TANF).

We tested three wage increases—\$2,300, \$7,000, and \$10,000—to better understand the likely changes in taxes or benefits a person will experience if they earn more. An increase of \$2,300 represents about one month of full-time work at the state minimum wage in our states; \$7,000 represents about one calendar quarter of full-time work at the state minimum wage; and \$10,000 represents an amount used by the US Department of Health and Human Services in similar work.<sup>4</sup>

If a person was working already, we assigned additional hours of work beginning at the start of the year at their current wage rate. We added weeks of work such that the person receiving higher earnings worked the greater of the number of hours worked in other months or 40 hours per week. We increased hours worked per week to this amount in as many weeks as necessary to reach the specified income increment. If working 40 hours per week was not enough to reach the income target, we increased hours worked to a maximum of 50 hours per week. We changed a person’s wage only if working 50 hours per week all year at their current wage was still insufficient to achieve the full targeted increase in earnings. For people in our dataset who were not working, we added a job beginning in a random month and assigned them to work at the state minimum wage for 40 hours per week until the targeted income

increase was reached. Prior studies have typically assumed that any new earnings would be spread out evenly across the year, which tends to result in greater benefit losses (Maag et al. 2012).

The survey data indicate which programs the respondents were participating in. For this study, we assumed that people who were participating in certain programs in the baseline would continue to participate as we increased their earnings unless they became ineligible for benefits. If a person added hours of work, we adjusted their child care costs based on how other workers similar to them report using child care. If we assigned a job to a person who was receiving unemployment insurance, they would no longer receive unemployment insurance benefits in months in which they had earnings. The results show how benefits and taxes change when earnings increase by various amounts.

## Qualitative Methods Overview

The people who shared their experiences with us for this project participated in individual interviews and focus groups between October 2020 and April 2021. All participants voluntarily took part in these discussions and received \$35 gift cards as a thank you. Before taking part in an interview or a focus group, each interested person filled out a questionnaire to share information about their demographics, benefits received, work history, and education history.

For the interviews and focus groups, we aimed to recruit people who were ages 18 and older, who were currently receiving TANF cash assistance or had received it in the past few years (and before the pandemic), who had at least one child younger than age 12, and who understood and spoke English well enough to participate in a discussion conducted in English. The last criterion was a potential limitation because many benefit program participants speak other languages. We also sought people who were able to work (i.e., not living with a disability), to the extent that we could determine this before the discussions. State agencies, county agencies, and numerous community partners aided in recruitment. In some locations, our partners had difficulty recruiting people, largely because of the ongoing COVID-19 pandemic and remote service delivery model. We used Facebook advertisements in the Twin Cities area of Minnesota; Buffalo, New York; and New York City to recruit additional participants. We ultimately conducted interviews or focus groups with 43 people in multiple regions across the three states: 19 in Minnesota, 13 in Colorado, and 11 in New York. We asked participants about their work history, job separation, benefit history, and tax credits, and how they thought about and made decisions regarding the trade-offs between work and benefits.

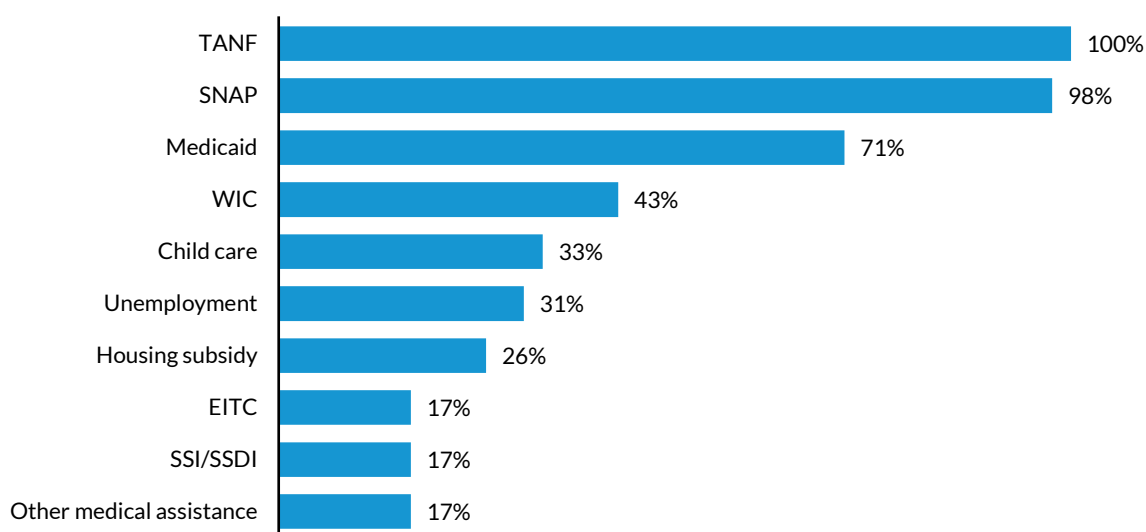
All but one of our participants identified as female. Fifty-five percent of participants were ages 30 to 39, and 26 percent were ages 25 to 29. Thirty-six percent of participants identified as Black or African



American, 30 percent identified as white, and 11 percent identified as American Indian or Alaska Native. Twenty-one percent identified as Latinx. Thirty-five percent had some college education, 23 percent had a college degree, and 65 percent were not currently working. As reflected in figure 1, almost all (98 percent) of the people we spoke with were currently receiving or had recently received SNAP assistance, and most (71 percent) were currently receiving or had recently received Medicaid. Only about one-third received child care subsidies and about one-quarter received housing subsidies.

After concluding the qualitative interviews and focus groups, we held briefings for all partners across the three states to explain our initial findings and receive input.

**FIGURE 1**  
**Current or Recent Benefit Program Participation among Interviewees and Focus Group Participants**



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**Source:** Survey of interview and focus group participants.

**Notes:** EITC = earned income tax credit, SNAP = Supplemental Nutrition Assistance Program, SSDI = Social Security Disability Insurance, SSI = Supplemental Security Income, TANF = Temporary Assistance for Needy Families, WIC = Special Supplemental Nutrition Program for Women, Infants, and Children.

## Findings from Modeling Income Gains

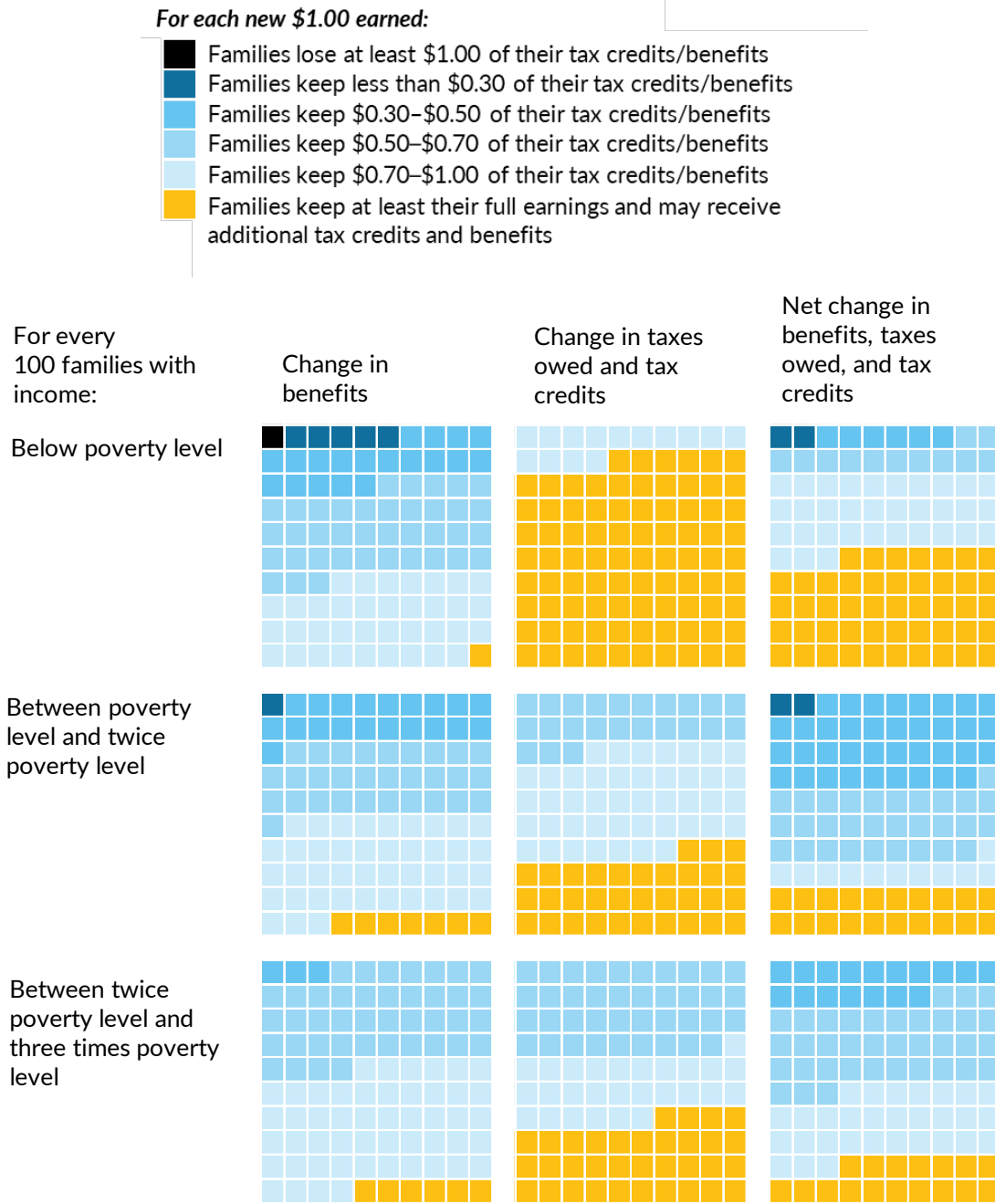
In this section, we use quantitative modeling to show what share of new earnings are likely to be offset by losses in benefits or bolstered by tax credits—both separately and together. In the following section, we discuss our qualitative interview results and tie the quantitative and qualitative findings together.

We analyze how taxes (both taxes owed and tax credits) and benefits change among people in three income groups: below the poverty level, between the poverty level and twice the poverty level, and between twice the poverty level and three times the poverty level. This approach allows us to see whether benefit cuts, tax credits, and net income after an earnings increase differ across income groups. We estimate these changes for three states: Colorado, Minnesota, and New York. In the main body of the report we show what happens when a family in each state, at three income levels, increases their earnings by \$2,300 (about one month of full-time work) (see figures 2–4). In the appendix, we provide findings for earnings increases of \$7,000 and \$10,000. This shows whether lower earnings increases are more vulnerable to benefit cuts than larger earnings increases would be, or vice versa. If a relatively small change in earnings will be mostly offset by benefit cuts, then families might be particularly wary of taking on small earning opportunities (e.g., seasonal or temporary jobs). In general, we find that the pattern of outcomes is similar across earnings increases and states for all levels of earnings increases, though the degree to which benefits are lost and taxes change does vary somewhat.

Figures 2 through 4 (and the appendix figures) show what share of families who received TANF cash assistance at some point in 2018 would see benefit losses, increases in taxes, or both as they gained new earnings. The colors indicate the effect. The share of people whose losses would completely outweigh an earnings increase appear in black. The share of people who would keep less than 30 cents of each new dollar earned appears in the darkest blue. The shares of people who keep between 30 cents and 50 cents of each new dollar earned, people who keep between 50 cents and 70 cents of each new dollar earned, and people who keep at least 70 cents of each new dollar earned are represented with progressively lighter shades of blue. In rare cases, families would keep the full \$2,300 in new earnings and might also receive additional income from tax credits or benefits, as shown with yellow boxes.

FIGURE 2

Colorado: How Benefits and Taxes Change When Families Earn \$2,300 More

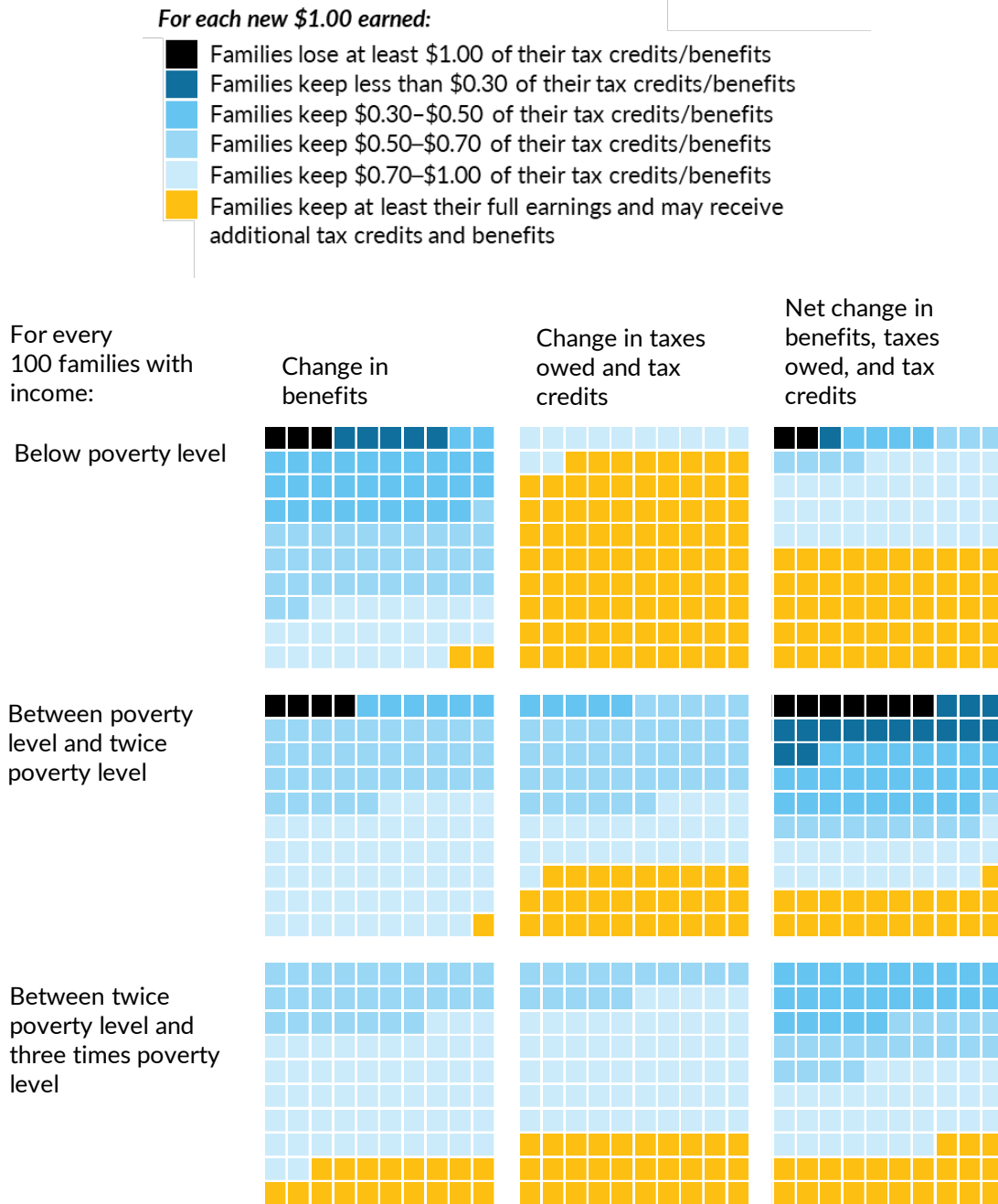


Source: Urban Institute’s Analysis of Transfers, Taxes, and Income Security model, using data from the 2019 American Community Survey.

Notes: The changes in benefits refer to child care expenses, child support, the Low Income Home Energy Assistance Program, public and subsidized housing, the Special Supplemental Nutrition Program for Women, Infants, and Children, the Supplemental Nutrition Assistance Program, Supplemental Security Income, Temporary Assistance for Needy Families, and unemployment compensation. The changes in taxes owed and tax credits refer to payroll taxes, state income taxes, and federal income taxes.

FIGURE 3

Minnesota: How Benefits and Taxes Change When Families Earn \$2,300 More



Source: Urban Institute’s Analysis of Transfers, Taxes, and Income Security model, using data from the 2018 American Community Survey.

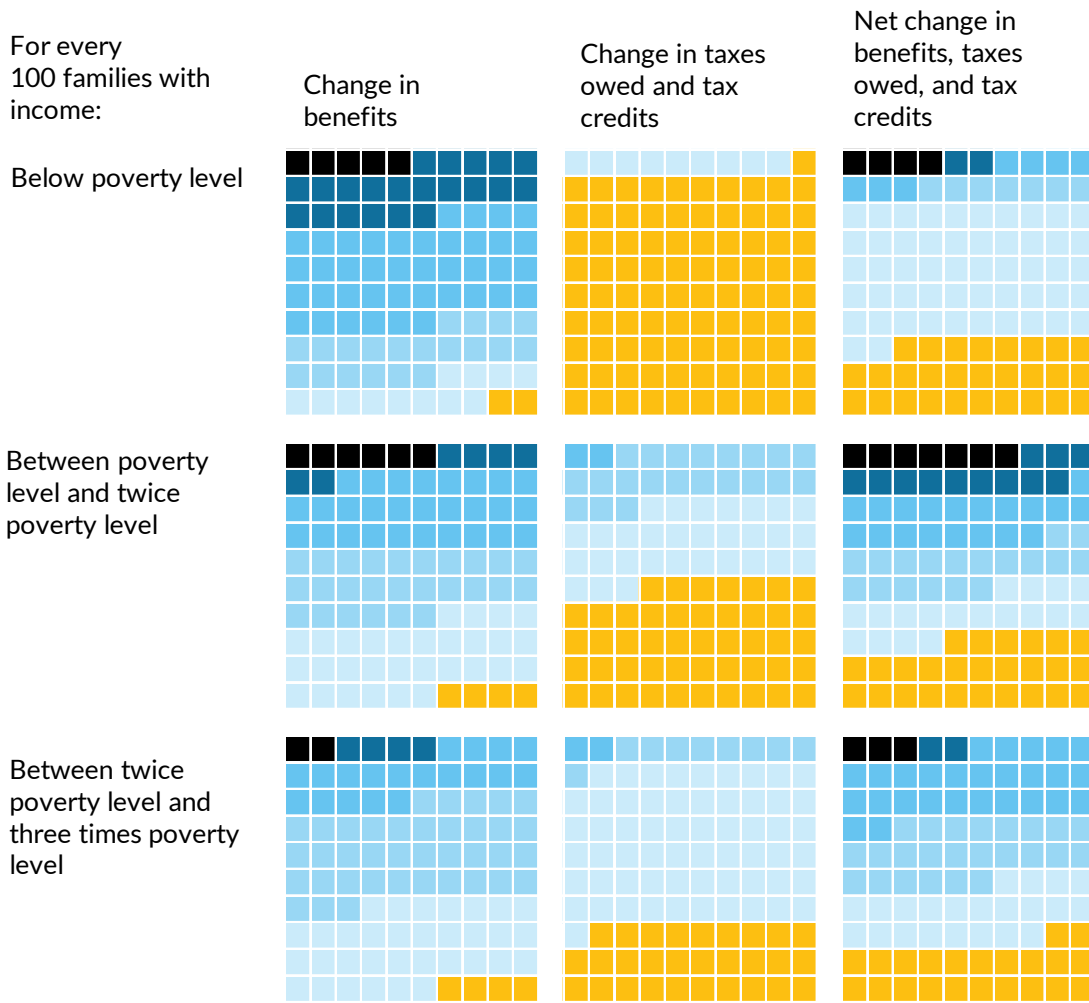
Notes: The changes in benefits refer to child care expenses, child support, the Low Income Home Energy Assistance Program, public and subsidized housing, the Special Supplemental Nutrition Program for Women, Infants, and Children, the Supplemental Nutrition Assistance Program, Supplemental Security Income, Temporary Assistance for Needy Families, and unemployment compensation. The changes in taxes owed and tax credits refer to payroll taxes, state income taxes, and federal income taxes.

FIGURE 4

New York: How Benefits and Taxes Change When Families Earn \$2,300 More

For each new \$1.00 earned:

- Families lose at least \$1.00 of their tax credits/benefits
- Families keep less than \$0.30 of their tax credits/benefits
- Families keep \$0.30–\$0.50 of their tax credits/benefits
- Families keep \$0.50–\$0.70 of their tax credits/benefits
- Families keep \$0.70–\$1.00 of their tax credits/benefits
- Families keep at least their full earnings and may receive additional tax credits and benefits



Source: Urban Institute’s Analysis of Transfers, Taxes, and Income Security model, using data from the 2018 American Community Survey.

Notes: The changes in benefits refer to child care expenses, child support, the Low Income Home Energy Assistance Program, public and subsidized housing, the Special Supplemental Nutrition Program for Women, Infants, and Children, the Supplemental Nutrition Assistance Program, Supplemental Security Income, Temporary Assistance for Needy Families, and unemployment compensation. The changes in taxes owed and tax credits refer to payroll taxes, state income taxes, and federal income taxes.

Families will experience different changes in benefits and taxes depending on many factors. Families who are eligible for and participate in more programs can lose more benefits than families who participate in fewer programs. Changes in unemployment insurance receipt can make a big difference in the predicted effects of working more weeks of the year. Child care costs will differ depending on if families receive subsidies or have low-cost arrangements (the modeling accounts for the probability of getting a subsidy and the likely cost of subsidized and market-rate care). And family composition may matter, where larger families may remain eligible for benefits even as a parent earns somewhat more.

## **When TANF Recipients Earn \$2,300 More, Benefit Losses Often Offset Some of Those Earnings**

**Earning an additional \$2,300 often decreases benefits—sometimes significantly.** We begin this section by describing the effects of changes in benefits and child care costs as earnings increase, before we add in the effects of taxes. **In all three states we studied, there would be some cases in which TANF recipients with starting incomes below the poverty level would see their full \$2,300 in new earnings outweighed by a combination of rising child care expenses and benefit reductions.** In other words, earning more would not increase their total income. In Colorado, about 1 percent of families would experience this complete loss (see black square in upper-left section of figure 2); in Minnesota, about 3 percent of families (figure 3); and in New York, about 5 percent of families (figure 4).

**This small share of families could conclude that working more would not pay, based only on their benefit and child care cost changes (excluding tax credits).** In these models, families who would experience a complete loss of new earnings were those for whom going to work would result in a loss of unemployment insurance benefits or who would face relatively high child care costs that would not be offset by child care subsidies.

**It would be more common for families to lose more than half of their new earnings to benefit reductions and child care cost increases.** Twenty-five percent of families in Colorado, 39 percent of families in Minnesota, and 66 percent of families in New York would lose more than half of their new \$2,300 in earnings because of these changes.

For families with starting incomes between the poverty level and twice the poverty level, a somewhat larger group of families would experience benefit losses in excess of new earnings in Minnesota (4 percent) and New York (6 percent), though not in Colorado (shown in black squares in the middle rows of the figures). Only in New York would some families between twice the poverty level and

three times the poverty level lose benefits in excess of their new earnings (2 percent), shown with black squares in the bottom row.

Having some new earnings offset by losses in benefits and increases in child care costs would be much more common than a family having all of their new earnings offset. On average, TANF recipients who had incomes below the poverty level before the earnings increase in Colorado would see about 46 cents of each new dollar offset by losses in benefits or increases in child care costs. This average would be 36 cents in Minnesota and 65 cents in New York.

In general, **as starting incomes rise above the poverty level, families tend to participate in fewer programs. Therefore, families with somewhat higher incomes relative to the poverty level would lose fewer benefits when bringing home new earnings.** Particularly in Minnesota, families with the lowest incomes would be more likely to face relatively large reductions in benefits for an additional \$2,300 in earnings compared with families whose starting incomes put them between twice the poverty level and three times the poverty level.

In Colorado and New York, many families with starting incomes between the poverty level and twice the poverty level would experience increased child care costs and losses in benefits that would offset at least half of the \$2,300 increase in earnings. In Colorado, child care cost increases and benefit losses would total at least half of the new earnings for about 20 percent of families. In New York, this would be true for 40 percent of families, including the 6 percent whose new income would be completely outweighed by benefit losses and increased child care costs. In Minnesota, 10 percent of families would see at least half of their new \$2,300 in earnings offset by benefit losses or child care cost increases of more than 50 cents of each new dollar earned. These percentages are lower than among families with incomes below the poverty level.

Families with incomes between twice the poverty level and three times the poverty level would tend to see less than half of their new earnings offset by losses in benefits and increases in child care costs if they earned \$2,300 more. In Colorado, only 3 percent of families in this starting income bracket would lose more than 50 cents of every new dollar earned to benefit cuts and child care cost increases. No households in Minnesota in this starting income range would lose more than 50 cents of every new dollar earned. But about one-quarter of families in New York with starting incomes between twice the poverty level and three times the poverty level would lose more than 50 cents of every new dollar earned (though even in this group some would experience complete losses, as noted previously).

## **When TANF Recipients Earn \$2,300 More, Tax Credits Often Further Add to Those Earnings**

For most workers with low incomes, the tax system gives back money on net. Refundable tax credits like the earned income tax credit and child tax credit offset payroll and income taxes owed and provide a refund at tax time. (The 2021 change in the child tax credit provides an advance on half of the projected benefit monthly, based on the previous year's tax filings, but that policy change occurred after our study period.)

The second column of figures 2 through 4 shows what would happen to taxes with an increase in earnings of \$2,300 for families at different levels of starting incomes. In all three states, families with incomes below the poverty level would be most likely to see their incomes increase because of refundable tax credits. Families with higher starting incomes would tend to be eligible for smaller tax credits.

**The vast majority of families with starting incomes below the poverty level who earn \$2,300 more would not pay additional taxes, and many would get a refund because of tax credits.** Looking only at taxes and not considering changes in public assistance, about 86 percent of families in Colorado with incomes below the poverty level would see their incomes either unchanged or boosted—on net—by tax credits if they earned \$2,300 more. The remaining 14 percent would owe up to 30 cents in new taxes for each new dollar earned. In both Minnesota and New York, about 90 percent of families with starting incomes below the poverty level would see net gains because of refundable tax credits.

## **Gains from Tax Credits May Outweigh Benefit Losses when TANF Recipients Earn \$2,300 More, but Many Lose Some of Their New Earnings**

The final column of figures 2 through 4 shows how taxes and benefits would combine if earnings rose. **In most—but not all—cases, if families earned an additional \$2,300, tax credits would at least partially offset major losses. Very few families would lose all of their new earnings when accounting for benefit decreases, child care cost increases, and tax credits. This is especially true for those starting below the poverty level.** In Minnesota and New York, a small number of families who started with incomes below the poverty level—2 percent in Minnesota and 4 percent in New York—would still see all \$2,300 of new earnings outweighed by losses in benefits and increases in child care costs and not made up by tax credits.



**Although tax credits would not offset benefit losses and child care cost increases in every case, accounting for taxes often reduces the total income loss.** Nearly half (47 percent) of Colorado families, half of Minnesota families, and 28 percent of New York families who started with incomes below the poverty level would keep the full \$2,300 in new earnings when changes to benefits, child care costs, and taxes are considered. In all three states, at least 80 percent of families with starting incomes below the poverty level would keep at least 70 cents of each new dollar earned of that \$2,300.

Meanwhile, **those who started at higher income levels relative to the poverty level would see less of a positive offset from taxes against benefit losses and child care cost increases, especially in the range between the poverty level and twice the poverty level.** In both Minnesota and New York, 7 percent of families with starting incomes between the poverty level and twice the poverty level would lose more than a dollar for each dollar earned when accounting for changes in benefits, child care costs, and taxes. And an additional 15 percent of families in Minnesota and 12 percent of families in New York would keep less than 30 cents of each new dollar earned of that \$2,300 earnings increase. In Colorado, no families in the range between the poverty level and twice the poverty level would lose all their new income, but 2 percent would keep less than 30 cents of each new dollar earned.

## Parents' Perspectives on Work and Benefits

The modeling work reveals that many families experience benefit reductions and increases in child care costs when they earn new income. For many families, the benefit losses and increased costs are partially, but not fully, offset by tax credits. For about half of the families with starting incomes below the poverty level, earnings gains are boosted by tax refunds so that incomes increase on net by more than the new earnings alone, though some families still experience large losses even after accounting for taxes. The qualitative portion of this study examined how working families who were receiving (or had recently received) TANF perceived these trade-offs and thought about the effect on their income of increasing hours or earning higher wages.

The interviews indicate that many parents feel they lack sufficient information for making choices about work effort and benefit participation. Very few understand how the tax system works. And the stakes of losing some benefits, such as housing and child care, feel very high.

The discussion below is not specific to a particular state. Rather, we describe salient themes across the interviews and focus groups. We tie these themes back to state context and refer to the modeling

work as appropriate, but these findings are largely taken from the respondents' personal perspectives and experiences, and in many cases we use their own words to illustrate common themes.

## **Parents Want to Work and View Benefits as a Last Resort**

**Parents interviewed across all three states overwhelmingly said that they would prefer to earn money from employment instead of receiving benefits**, if they had the choice. Several people described turning to public benefits as a last resort when they were either unable to work or their income from work was insufficient to meet their basic needs. Many respondents said they believed that responsible people were supposed to earn their income from work and also that they enjoyed working and earning income. For instance, a mother in New York mentioned that she felt she had to apply for benefits because she had previously had trouble feeding her children without assistance: “[Because of this,] I didn’t have a concern or a hesitation [about applying for benefits] because it just had to be done.” But, she added, “You want to grow and be a responsible adult. I don’t think it’s a forever thing unless it has to be for a cause, like a terminal illness or something like that.”

**A few people also expressed shame about applying for benefits**, including one mother in New York who recently began receiving SNAP benefits for the first time after her husband lost his job. She was looking forward to him going back to work so they could afford to buy groceries without SNAP assistance and would not need to use the SNAP electronic benefit transfer card at the checkout. She told us, “When I have to pull that card out it takes every ounce of me to take the card out and swipe it through because the embarrassment sweeps over me.”

Beyond feeling that supporting their families through paid employment was the “right” thing to do, people we spoke with frequently described **valuing the experience of working outside the home**. Among the most common comments we heard across states was that working outside the home is important because it allows parents an opportunity to interact with other adults and have their own identity. A mother in Colorado shared her perspective:

Feeling self-worth, feeling that I have a purpose more than just being a mom, which is good but you need that outside one. Now I know, being with [my daughter] for so long, I’m like, “Oh, my gosh. I have got to start working. I’m going crazy.” You have to have that social interaction, your own peers just to thrive, I think.

Parents we spoke with also said that **having a job gave them a sense of stability and independence** that they would not have if they relied on benefits alone. For instance, a mother in Minnesota told us about a job she had a few years ago: “I had life insurance. I had an HSA [health savings account]. I had free medical care. It was awesome. That, to me, was security.” She never felt the same sense of security

relying on public benefit programs. Another mother in Minnesota said that getting money from a job would reduce her stress about taking care of her family: “I would have that stability of knowing I’d be getting a paycheck every single month, and I’d have that to count on...[I] would not have to have the stress of, ‘Okay, are we going to be okay with [public assistance alone]?’”

Several people across the three states mentioned that they enjoyed their current or previous jobs, or that **they found their work meaningful**. One mother in Colorado, who worked with children professionally, told us that she was motivated to play an important role in their lives because she grew up without a lot of parental support: “I work with a lot of kids with a similar background. I want to be that space for them where they can go to someone [who listens to and cares about them].” Another parent in Colorado discussed how a recent job was satisfying because it aligned with her goals and strengths:

I love to be challenged. I love to learn new things. That was one of my favorite things about my most recent job...It was certainly more fulfilling doing coding work. That was really exciting for me. I have a knack for it. I’m a very detail-oriented person.

## **Parents Often Start Receiving TANF and Other Benefits Because of a Major Life Event**

Parents we spoke with often described how they started receiving TANF and other benefits because a major life event disrupted their ability to work, such as the birth of a child, the loss of a job, experiencing domestic violence, or ending a relationship.

**The most frequent life event that motivated a person to turn to benefits was giving birth and lacking support from family or a partner.** One Colorado parent in this situation told us that she applied for TANF because she had worked for her native tribe but been laid off and had to wait six months to get her job back. To make matters more complicated, her child’s father refused to accept the child as his own, which prevented the mother from enrolling the child in the tribe. This left the mother without support from the father or the tribe and without work income. She saw applying for benefits as her only option. A mother in Minnesota told us about how she had to leave a job that required travel when she was put on bed rest because of pregnancy complications. This mother resisted signing up for benefits, but she finally enrolled after several months because her baby had health problems, which limited her ability to work.

In other cases, **people lost work income and turned to TANF and other public assistance because they did not have sufficient income to support their kids.** A mother in Colorado said that she would

cycle on and off of TANF because her job as a home health nurse was unstable: “I didn’t have clients and stuff, and so I would get laid off. Then I would go back on TANF.” In a few cases, parents described experiencing pandemic-related business disruptions that led to their job separation.

**Domestic violence was another factor that led several people to apply for benefits.** We spoke with a mother in New York City who sought assistance after she left her abusive partner because applying for benefits was a requirement at the domestic violence shelter where she was living. A woman in Colorado was financially devastated when she left a domestic violence situation, leading her to apply for benefits:

I was in a domestic violence situation with my daughter’s father. We were together, and he ended up—I found out that he was using alcohol and drugs, and he increasingly got more aggressive. I left when our daughter was two months, and at the time, I was staying home—I had been home with her. I had zero income, and he shut off my phone and ruined my car to where it’s not drivable, and I needed some source of income in order to get diapers and the basic necessities.

In a few cases, **other relationship challenges contributed to financial difficulties** that led people to apply for TANF and other benefits. For example, a mother in the Twin Cities in Minnesota said she applied “because I was separated from my boyfriend, and he was our main support.”

## **Parents Face Challenges Finding Jobs That Meet Their Needs**

Even though many respondents valued work, **most were unable to work consistently, for a variety of reasons.** Often, these reasons were related to the nature of the jobs they were qualified for. People often noted that labor market challenges made it more difficult for them to support their families stably with work income. Among the most common changes people mentioned was that jobs would need to pay enough so they could support their families with employment income without struggling. For example, a parent in Colorado described needing a salary substantially above minimum wage to be able to afford basic things for her family: “Ideally, probably, I don’t even know, \$20 an hour to live very comfortably. Car, house or apartment, food, insurance, all of that.” However, obtaining a job that paid this much was difficult given her limited educational credentials.

Indeed, parents found that some employers required educational credentials, which are difficult for single parents with low incomes to attain, that were not necessary for the work. **They believed many employers did not give enough consideration for experience and skills outside of educational degrees, which limited their access to good jobs.** A mother in Colorado explained,

I finished high school. I even have some college...It’s not like I don’t have any education. They want you to have a degree, basically. Then the money to get there is—it’s hard to find the funding.

Do you want student loans?...You're going to have that bill hanging over you. If I'm a single mom, that's almost impossible on top of everything else. In Colorado, the cost of living is very high...What I'm qualified, really qualified, to do right now would not support us.

Some parents also stressed that **it was difficult to keep jobs that provided limited scheduling flexibility and did not accommodate parents' caregiving responsibilities**. For instance, a mother in Minnesota mentioned that it was hard to schedule work around child care arrangements:

I'd like more opportunities that would be flexible with time because, especially being a single parent, it's hard to get up and leave your kid and then come back and then have to be there to pick her up [and then try to go back to work].

## Trade-Offs around Work and Benefits Are Complicated

The traditional model of economics views people as having rational decisionmaking power. We heard from the parents in this study that the reality is much more complicated. There is not always a specific “decision point,” but instead numerous considerations involving work, benefits, family needs, and other factors that are all in flux. **The considerations families weigh are bound up with fear, anxiety, and confusion rather than presented as a clear set of choices**. It can also be hard to accurately determine the weight of the trade-offs, because losing a benefit—especially child care, health insurance, or housing—could mean losing a sense of stability and increasing future risk. These conditions can make it feel like people have little decisionmaking power. A mother in New York described how it feels like small income changes result in new challenges that inhibit mobility:

Now my rent went up. Now I'm paying for child care. Now I'm paying for insurance. I can't get any help. Even though I'm paying, I can't get any help. What's your option? Get a better paying job. How do you do that without that education you need? That's where people get stuck in this loophole. You've got to deal, you've got to be stuck and say, “Okay. We're going to be struggling. We're just going to be struggling.”

## Most Parents Understand That Their Benefits Will Change with New Income but Do Not Know by How Much

We found that, overwhelmingly, people understood that there would be some sort of change to their benefits with new income. People often had a basic understanding of how work and additional income would affect at least some of their benefits or were not surprised that changes in their income affected benefits. **However, people often did not have a firm grasp of how all their benefits would be affected by work, exactly how much their benefits would change with additional earnings, or how much they**

**could earn and still qualify for benefits.** One mother in Minnesota explained her understanding, which was similar to what we heard from many others:

I don't know how it's going to work when I start to make money. You know what I mean?...That's a new area that I'm going to be navigating because I don't know how much money I'm actually going to be eligible for or how much benefits once I start to work.

A mother in New York expressed a similar sentiment:

I know that the minute you start working, it probably all goes away. I don't know exactly how it works technically, but I know that once work starts...they don't give you a long buffer period between when you get benefits and when you lose them, or when you get a job and lose your benefits, so that's an issue.

Our modeling work and discussions with state and county program administrators confirmed the complexity. Professionals in public benefit administration were often surprised by how benefits interacted with new earnings in practice when we presented the findings in our Data Walk. The modeling introduced earlier in this report demonstrates that **the effects of earnings changes on benefits, child care costs, and taxes can vary widely depending on a family's specific situation, making it very hard to predict total income after an earnings increase.**

## **Losing Benefits Is Difficult, Even with New Income**

Even though most parents we spoke with said **they would prefer to earn money from employment instead of receiving benefits, they also feared losing critical supports.** Some explained what it would be like to lose those benefits, while others discussed their experiences of losing them in the past.

When we asked a mother in New York if she would go back to work when her daughter's in-person school resumed, she explained her thought process around the decision:

[In] New York, everything is a lot of money, so the food [assistance] is nice. The cash we get is \$145...twice a month, so \$145 doesn't go far at all for shampoo, all your toiletries, mailing stamps, living, if your kids need shoes. It doesn't go far at all. I feel like I need more money anyway, so I'll probably just—I think getting a job would be better, but it would be tough because then they take away the food [assistance] and the—yeah, it's scary because you don't know what they're going to take.

Another mother from Minnesota told us about the experience of her benefits changing when she started her job, and the difficulty that caused:

[The decrease in my benefits] took about a month, but it still hit me hard because I was depending on that money, and then it's not there, and I'm like, "Well, what happened to it?" They said

because I started working that they cut me down to that, and then they cut me down on food stamps too, so I was only receiving so much.

That same mother told us more about the major decrease in her benefits that came after she reported that she was working, and how that left her with a hole to fill:

As soon as I told them I was working, the food stamps, they'll leave everything. They'll leave everything straight for six months. That's fine. February of last year was when everything started to change. My food stamps changed. I was getting \$495. It went from \$495 to then I was getting \$69 in food stamp. Okay. I've got to make up this difference with the money.

Though most parents emphasized that they would rather earn income through employment, **a few parents opted to not earn extra work income because of the expected changes to their benefits.** A mother in the Twin Cities described the mental trade-off when making this decision:

I want to work because I need more money than what the grants and the [TANF] are. At the same time, I would hate to be going to work to make just the same by the time taxes and everything else—it's just go to work to come out making what, \$10, \$11, \$12, \$13 an hour?

A mother in New York City described to us how she worked only 28 hours a week because she determined that was how she could keep SNAP benefits, Medicaid, TANF, and a housing voucher. She also discussed how she opted not to take a 75-cent raise: "Yeah. I took the position, but I wouldn't take the extra money because I knew that it would mess up my benefits, and I needed food stamps or those things more than the 75 cents."

## Many Parents Have Limited Understanding of Taxes and the Tax System

A significant share of income redistribution for working parents comes through the tax code, especially with the expanded child tax credit in 2021, as described above in the modeling section. Nonetheless, **almost none of the parents receiving TANF whom we spoke with had a basic understanding of how tax programs worked, which tax programs they qualified for, or how much they would receive back after filing taxes.** A mother in Minnesota described her limited knowledge:

Yeah. Honestly, I have absolutely no idea. I see the [EITC] or whatever that tax credit—I always see it. I've heard of it, but I have no idea. Last year, I didn't really think anything of it again because I was working. I filed taxes because I knew I made enough, and so I really just don't know much of anything about it, honestly.

Many respondents expressed a similar sentiment—that they “understand nothing when it comes to taxes” or that they “don't really know too much about tax credits at all.” Most got refunds, as do most working families with low incomes, as our modeling showed. But because of the difficulty of understanding or predicting the size of the refund, **many people did not take tax refunds into account**

**when considering their income for the year.** A general theme that emerged in relation to taxes was how hard it is to rely on and plan around a system that is confusing and difficult to understand, especially when many parents are looking for an immediate solution to current financial hardships.

Additionally, **the parents we interviewed overwhelmingly did not take their tax returns into account when making decisions about employment.** When asked whether she did so, a mother in Minnesota responded, “Not at all...It’s always a nice surprise because I never know. Because I don’t understand much about the system, I don’t count on it.”

**When they received a refund, most respondents regarded it as a surprise bonus** that they used to pay for one-time expenses or larger, continual expenses such as student loans or car payments. A mother in Minnesota explained how the extra lump sum every year allowed her to make sure all her bills were paid and that her family had all the household items they needed, and it also helped her prepare for the arrival of her son. She described how that money was put aside in case of an emergency, like losing her benefits or her job. Another mother in New York discussed how the tax credit could be used for things like taking small trips or other enjoyable activities for her family. A mother in Minnesota described using her tax refund as a “catch-up,” or to pay for significant one-time expenses like new car registration tags. She explained how the tax refund is good to spend on things like that because you do not always factor in these large one-time payments “when you’re living paycheck to paycheck.” She explained her thinking about spending her tax credits: “If I get a big chunk, I’m automatically thinking about what can I pay off or what do we need?...Sometimes you need that bigger amount of money to do those things that you normally wouldn’t be able to do.”

## **People See Advantages Both to Receiving Tax Credits Monthly and Receiving Them as a Lump Sum**

A unique aspect of tax credits, compared with other benefits, is that people typically receive them only once a year instead of monthly.<sup>5</sup> When we asked parents about their preferences, **many said they would prefer to receive their tax credits monthly rather than once a year, but some still preferred the lump sum.**

The main reason some parents preferred the monthly payment was that they could regularly count on it. A mother in Minnesota explained that it would be more helpful to receive it monthly for “people who are paycheck to paycheck, like [myself].” A mother in Colorado said,



I would say spread out, because it would help, so I wouldn't have to struggle so much throughout the year. You struggle until you know you're going to get the lump sum, and then you're so behind and you pay those things and then it's all gone.

Other respondents explained that the lump sum is helpful because it allows them to cover one-time payments and larger expenses. It also can give families a little extra money to do activities they might not always be able to afford. In a way, it acts as a mechanism for “forced savings.” A mother from New York explained her thinking around tax credits and why she prefers the lump sum payment:

To me, it's a bonus. I don't rely on it...You can have a lot of problems with tax returns, so I try not to think about it like, “Oh, with my tax return, I can go on a trip.” No, but it does feel good to know that you have that possible money comin'. It does. Because you say, “Okay, I can finally do things that I was working to save for”...It helps in my frame of mind because I'm really scared of spendin'.

Another mother in Minnesota agreed that the lump sum tax payment is most helpful:

We had payments. We had car payments. We had furniture payments and all that, and, if the money comes in bulk, we can pay more than what we're supposed to pay one time, and that's, you know, reducing our payments more. Just the day-to-day life help with a one-time big check.

## **Working Parents Receiving Benefits Still Struggle to Meet Housing Needs**

One of the most significant challenges that emerged from the interviews involved housing. Housing assistance is an especially important benefit, not only for its monetary value—which can be very high in expensive rental markets—but for the overall stability it can provide. **The people we interviewed expressed a pronounced concern over whether the combination of work and benefits would cover the cost of housing or whether their housing benefits would be changed or lost.**

We heard that **housing is among the biggest challenges to making ends meet with available resources from work and benefits.** Many families who had to pay market rent described this as among their greatest struggles. A mother in Minnesota described the difficulty of affording rent and basic necessities for herself and her family:

It is difficult definitely...On my previous job before this one, I was only making...\$15 an hour. Even doing the 40 hours, that's not enough because it barely covered rent. Even receiving benefits while working, like the food support...Sometimes that's what gets us by because just with my salary itself, being a single parent, I can barely make enough for rent and essentials.

Another Minnesota mother who had lost her job in the past month worried about how she would make rent that was coming due, telling us,

Everything that I had [from a TANF payment], I used for other necessities that, now, I'm back to where I'm stuck because I'm like, "I'm not working. I don't have income coming in." I'm literally in the same predicament where rent is already here...I don't know how I'm going to pay my rent.

A few families we spoke with were able to secure housing through a shelter or housing subsidy. We did not include housing subsidies in our modeling work because they are often hard to obtain, especially in high-rent metro areas. Only about 1 in 5 eligible households receive a housing subsidy, and families wait about 2.5 years on average for housing vouchers (Kingsley 2017; Scally et al. 2018; Watson et al. 2017). For the relatively few parents receiving housing subsidies, maintaining eligibility for the subsidies created challenging trade-offs with work. A mother from New York explained the experiences she and some coworkers had trying to control their housing subsidy with changing income from work:

A lot of my coworkers, we're single mothers. They also were on assistance, and they also were watching their hours and making sure [they didn't lose benefits]. Some of them live in...public housing...[if] they get a raise of a quarter, their rent will go up. They have to watch their hours. It's just crazy.

In a few cases, people said they were able to get by only because they were living with a family member; this was despite having income from some—generally unstable—combination of work and benefits. A mother in Minnesota who was living with her mother told us, "I had a lot of security in [living with my mother]. I think if I didn't have my family to really provide that support for me, the amount of money would not have been enough for factoring in rent and all of that."

Other people we talked with had experienced their rent going up or losing their rent assistance because of a wage increase, and they recounted the difficulty and fear that come with that sudden and immense change. One mother in Minnesota explained her situation:

Now, just because, one day, I pass the amount that they set, they take off all my [TANF] for paying the rent. Actually, tomorrow, I have to pay my rent, and I don't know how I'm going to do that because I don't have the money.

Another mother discussed how her rent increased dramatically once she got a job:

My rent went up, too. My rent...was maybe two [hundred dollars] and some change. Now my rent [is] eight [hundred dollars] and some change. I'm only making minimum wage. That's why I was working so many hours. Now I've got to fill in this—I got a big gap to fill. I've got to pay this rent.

Though the trade-offs between work and housing costs led some people to cover the increased housing costs with new income, other people talked about feeling forced by the subsidy system not to work because they would lose their housing, such as this mother from Minnesota:

There's a lot of people who choose to stay living within subsidized housing and decide, "My housing is more important than putting food on the table. I'll figure [food] out later. I can't afford to work because I can't afford to lose this roof over my head." People are pushed into positions to

have to figure out the best means of self-sufficiency for their family. If there was better negotiation that could take place, I don't think people would be pushed into those survival mentalities and have to do that. I don't think there would be as much exploitation of the system that is occurring.

## **Parents Fear Losing their Child Care Benefit, Which Is Crucial to Work**

Like housing, child care has a high monetary value but is also valuable for the stability it can provide for families. Many people we talked with **feared that they would lose their child care benefits if they earned more, and they did not know how they would fill the immense gap that would result.**

Families receiving TANF often have priority access to limited child care subsidies, though the qualifications for these subsidies vary by state, and families who are eligible for subsidies may not always be able to find child care providers who accept subsidies and are available at the times or locations that meet the families' needs (Adams and Pratt 2021).<sup>6</sup>

**Interviewees who received these subsidies across the three states noted that they were critical to allowing them to work and their children to thrive.** A mother in Colorado who was briefly on TANF after losing a job and received free child care during that time explained,

Affording safe, trustworthy, high-quality child care is a huge barrier...in our current earning range...I think it was four months that we received...child care free of charge. That was incredible. I can't overstate how much of a difference that made for us, and how much of a difference it made for our kid as well.

However, she lost the child care when she returned to work, at which point, she said, "I was essentially working to afford to have preschool." When she lost her job again, this mother could no longer afford preschool, so she took her child out of school entirely.

We heard from many parents regarding the trade-offs that they were forced to make around earning income and securing child care. A mother in Colorado said that child care expenses were a key reason she decided to stop working after having a second child. She explained that when she worked, "I made too much for [child care subsidies]. When I had one kid, it was like, okay." She felt that she could pay out of pocket for child care while she was working. "And then when I had two kids, it was like, yeah, no."

Another mother in Colorado explained her experience with her child care assistance changing and how it affected her employment decisions:

The biggest barrier for us seems to be affording quality child care and still making the ends meet. When I was receiving Colorado benefits, initially we were receiving a child care stipend or

subsidy. That made it free for us to send our child to a very high-quality child care where we felt safe and confident and very pleased with the quality of care. After I got my job...I all of a sudden was making too much to qualify for that stipend. Suddenly, my take-home pay was a pittance after paying for child care...and that's the biggest reason why I am not actively searching for a job right now because the cost of child care has remained steady, and wages are not going up, and we're expecting another child in April.

## Parents' Suggestions for Addressing Benefit Cliffs and Trade-Offs

Although some parents said that benefits seemed fine as is, many suggested improvements that would enhance their ability to support themselves and their families. The suggestions in this section relate to policies as the parents perceived them, which vary by state and whose official rules might differ from these people's understanding or experiences. The Welfare Rules Database,<sup>7</sup> the Child Care and Development Fund Policies Database,<sup>8</sup> and other resources provide more detail about the formal policies of these public benefit programs.

### Benefits Could Not Drop as Quickly with New Earnings

**Many parents suggested that benefits not drop as quickly with an earnings increase.** Or, alternatively, there should be a grace period between obtaining new income and a benefit change. Some respondents said that when they experienced nearly immediate drops in benefits, they were not able to pay for necessities. A mother in Colorado explained,

I wish that they would give an opportunity, like a grace period, so if I make better money or work more hours, then I lose the benefits...Right now, I receive \$400 and I think if I make above maybe \$1,300 a month, that I lose all the benefits...I wish they would give maybe a six-month grace period where you could work more hours and make more money, but still receive the same amount of TANF, just enough to get on your feet. Because if I work more right now and lose the TANF, I won't be able to pay basic bills like rent.

Some respondents explained how this quick drop made it difficult to feel like earning new income was a step forward. They said it felt impossible for them to save or invest in their own mobility. One mother in Colorado explained her thinking:

If the benefits had lasted based on a time frame, like 9 or 12 or 18 months or something like that, instead of being cut off immediately or in 2 months due to income level, it would've given us a chance to get our feet back under us in terms of the debt that we had incurred after we had been jobless. It would've allowed us to build up our savings. We would've been in a much better position after the cessation of benefits. When we lost them so soon after starting working, it was like we were making less than before.

At the same time, people accepted that they should not continue to receive large amounts of benefits in addition to new work income. They understood the need for limits, but perhaps accompanied by a little more flexibility.

## **Benefit Workers or Other Public Resources Could Do More to Help Parents Navigate Work, Benefits, and Taxes**

Many parents believed that benefit workers could play an important role in helping program participants make effective use of programs. Benefit workers are caseworkers or other frontline staff who administer public assistance programs. A few people gave examples of how benefit workers had helped them plan their finances and connect with multiple supports to stabilize their families, including through community-based organizations. A small number of parents also said they had received guidance from caseworkers about how benefits and work interact to help them make informed decisions. **More attention from benefit workers who were knowledgeable about the interactions between earnings, benefits, and taxes would have been helpful to many interviewees.**

Having benefit workers take a more active role in navigating these systems **may require a higher level of training.** To support workers and parents trying to understand their options, **the government could develop public-facing resources to help understand program interactions, such as an online calculator.** Or federal and state governments could **simplify the rules and interactions among public assistance programs and the tax system.**

## **Benefits Could Be Higher and Some Basic Supports Could Be Universal**

Many parents mentioned that more generous benefits when earnings change would better support stability and mobility for their families. In fact, **offering higher benefit amounts was the most common recommendation from parents interviewed.** As discussed previously, many families were still not making enough money to make ends meet even when combining work and benefits. A mother in Minnesota explained her recommendation: “I would say raise the amount to make it affordable for people to pay rent because that right there is setting people up for failure.” The need for extra benefits in the context of rent was brought up many times. Parents explained that because rent has been very expensive and is constantly increasing, it often takes up a very large share of their monthly economic resources. A mother in Minnesota discussed how the benefits she received did not allow her to pay her bills when she was on maternity leave:

The only thing that I would change is maybe a little bit more in cash assistance because...nowadays...your rent—I think it's very expensive now. I just feel like for the family that doesn't work and they live off of government assistance, it's not going to be enough to pay for everything because at one point when I was on maternity leave and that was the one thing that I was relying on, it was really, really hard. I mean, it was enough to pay the bills. It would be enough to pay the bills without thinking about rent, but if I use it to pay rent, now I have to think about...about all the other bills.

When benefits change, they affect each other, and changes to noncash benefits are potentially expensive for families. A mother in Minnesota explained how it can feel like the cuts across programs prevent families from getting ahead economically:

I mean, like with cash, I mean, I understand that part because you're making cash, but with other things, like making the child care copay higher, sometimes that's not manageable because it's like, okay, yeah, you're making a little bit more, but yet you're paying more for other things. Like if they reduce your food portion, you have to pay for more food out of pocket, or like for day care, it kind of brings you back to...to the same thing as you were making a lower amount.

The benefits from the tax system in the form of tax credits and refunds may not be as salient for many when they come on an annual basis. Making refunds from the tax system more regular—on a monthly or quarterly basis—would likely help families incorporate these benefits in their monthly budgets.

Pressures around housing and child care are especially heavy for parents of young children with low incomes. **More universal programs, such as universal child care or rent stabilization and affordability initiatives, would provide certainty and stability that may help parents feel more confident fully transitioning off of public assistance.**

## **Jobs Could Be More Accessible and Better Paid**

Some parents suggested that **employers should be more flexible in what they consider necessary qualifications for well-paying jobs.** A mother in New York City suggested that it would be nice “to see jobs maybe hire people more with experience versus maybe a bachelor's degree. You have the experience to do the job, but they won't hire you maybe because you don't have the credits or the credentials.” And a few people said that it would be important for jobs to stop excluding people with a criminal background because it makes it hard for those people to move forward in their lives and support their families. A mother in Colorado was looking to getting back into the job market for the first time after a felony conviction and was worried that employers offering well-paying jobs would be unwilling to hire her. She said, “People do deserve a second chance, and...we all deserve to eat and have

housing...and maybe go to a movie sometimes. I feel like we all deserve that.” She did not know if that would be possible for her family.

Several parents indicated that **the wages offered in available jobs are not sufficient to support a family**, even with more \$15/hour jobs available. Some indicated that jobs would have to pay at least \$20/hour for them to be able to start getting over the edge of the benefits cliff.

## Conclusion

Benefits and tax credits provide a vital lifeline for parents with low incomes and can boost household resources and provide other supports to help families meet their needs and move forward with their lives. Nonetheless, the way these programs respond to earnings changes is often confusing and opaque, which makes it difficult for families to understand the resources available to help them meet their basic needs, gain stability, and experience economic mobility. The modeling work demonstrates how a family’s starting income level, state of residence, and other circumstances affect how benefits, child care costs, and taxes respond to increased employment earnings.

Many parents we spoke with felt that the system penalized them as they tried to earn more income through employment. They found themselves facing difficult trade-offs between necessary resources as they tried to move up the income ladder, leaving many people feeling that they were taking two steps forward with new earnings and two steps back with benefit cuts. Our modeling findings support these perceptions, showing that earnings gains result in benefit losses and child care cost increases that might be partially or fully offset by tax credits many months later. However, families either did not understand the tax benefits or felt they could not count on them to help them meet their immediate needs.

The parents we talked with emphasized the need for a system that is more flexible to allow families to experience true economic mobility. And they needed to see the payoff on their labor right away, rather than having to wait until tax time. They suggested that tax benefits could be paid out throughout the year, a step that the 2021 child tax credit expansion piloted. They suggested that the benefit programs could give them a little more time to build up resources when starting a new job, which could also help them afford clothes, reliable transportation, or other professional necessities. Additional benefits could also help them invest in their labor market advancement through training and education. These investments are even more necessary in a difficult low-wage labor market that requires educational credentials beyond what many parents have currently. The people we interviewed wanted knowledgeable and engaged program workers to help them navigate benefits and work. At a minimum,

better information would help families understand how their additional employment earnings will affect their income and allow them to give their children necessities, and also, if possible, provide meaningful childhood experiences and resources, like quality shoes and holiday celebrations.

In line with other research findings, we heard from parents with low incomes that benefits play a crucial stabilizing role in keeping families afloat following domestic violence; job loss; or important life events such as births, deaths, and divorce. And most people reported turning to benefit programs grudgingly. The people we interviewed emphasized that they wanted to earn money through employment and not depend on public benefits, but these benefits provided a needed and appreciated support in critical times. The vast majority of parents want to work and set a strong, positive example for their children. They just need the government not to pull the rug out from under them as they get on their feet.



# Appendix. Increasing Incomes by \$7,000 and \$10,000

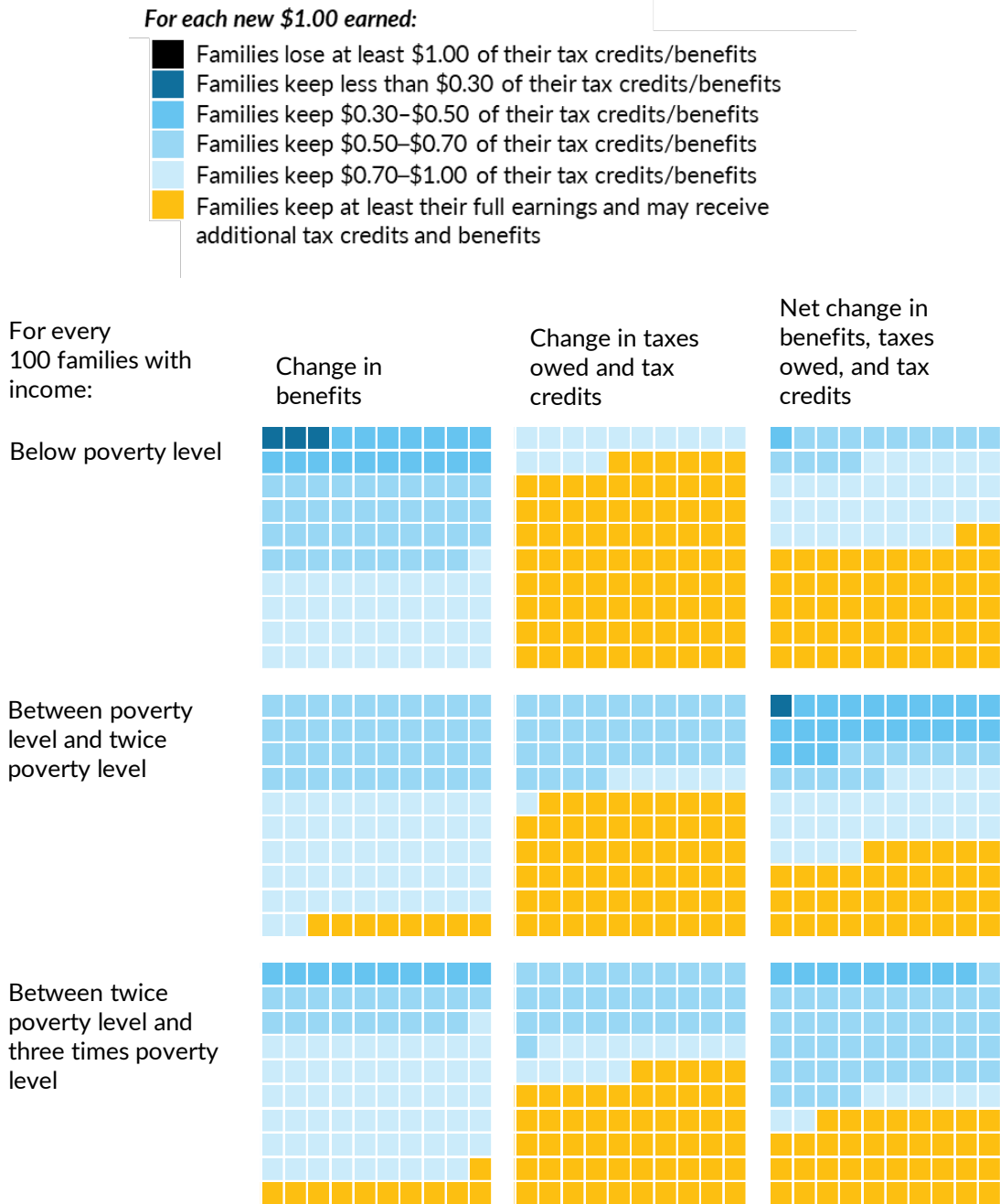
Building on the discussion in the main body of the report on the modeling results showing the effects of a \$2,300 earnings increase, in this appendix we discuss the effects of increasing incomes by \$7,000 and \$10,000.

## What Happens to Benefits and Taxes with \$7,000 of Additional Earnings?

We first look at what happens to families receiving Temporary Assistance for Needy Families (TANF) when their earnings increase by \$7,000. We chose this dollar amount because it is approximately equivalent to the amount someone would earn from working full time for three months at the minimum wage in the states included in our study. In general, the patterns for a \$7,000 earnings increase follow the patterns discussed above for a \$2,300 earnings increase but with families tending to keep more of their new earnings (figures A.1–A.3).

FIGURE A.1

Colorado: How Benefits and Taxes Change When Families Earn \$7,000 More

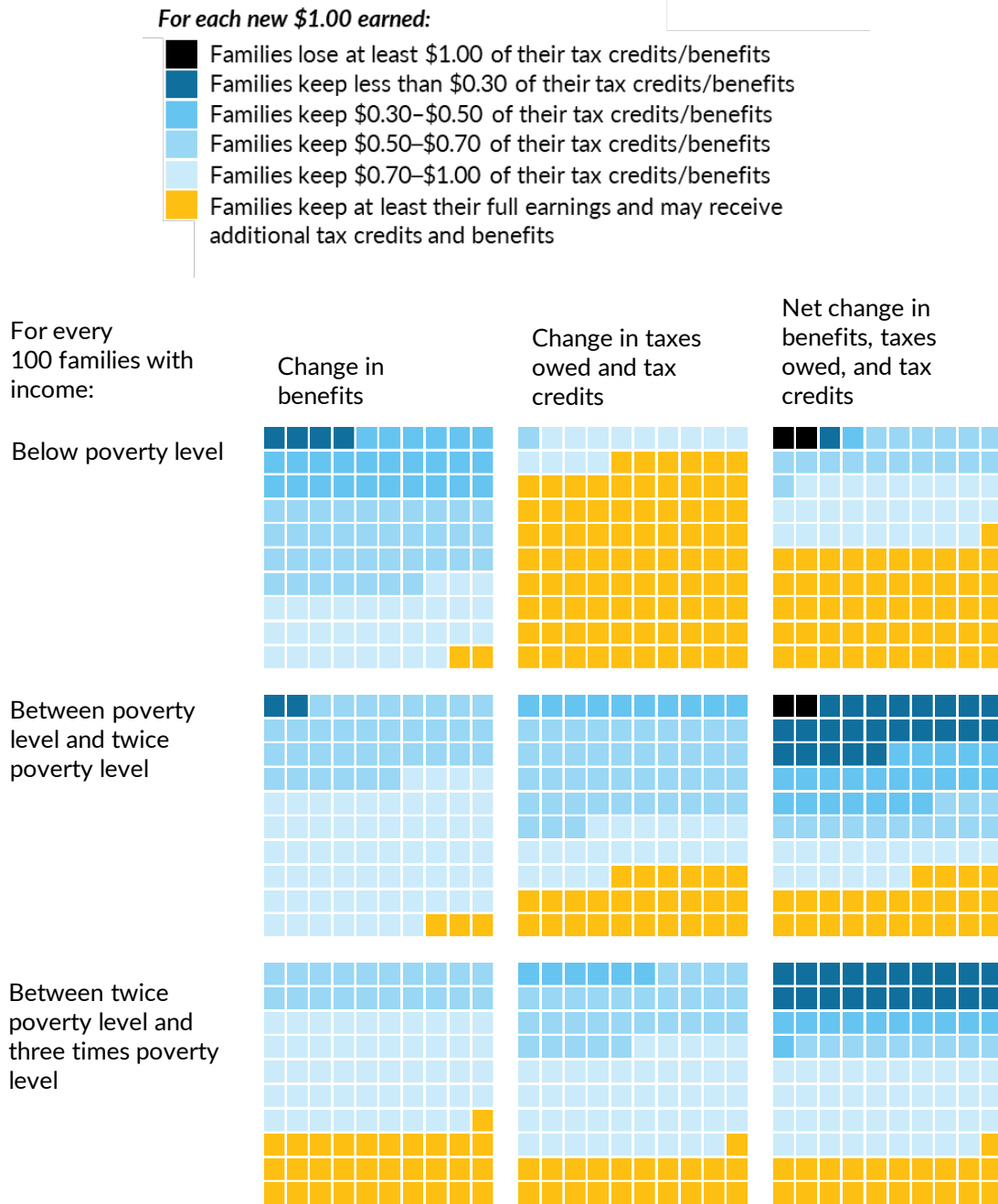


Source: Urban Institute’s Analysis of Transfers, Taxes, and Income Security model, using data from the 2019 American Community Survey.

Notes: The changes in benefits refer to child care expenses, child support, the Low Income Home Energy Assistance Program, public and subsidized housing, the Special Supplemental Nutrition Program for Women, Infants, and Children, the Supplemental Nutrition Assistance Program, Supplemental Security Income, Temporary Assistance for Needy Families, and unemployment compensation. The changes in taxes owed and tax credits refer to payroll taxes, state income taxes, and federal income taxes.

FIGURE A.2

Minnesota: How Benefits and Taxes Change When Families Earn \$7,000 More

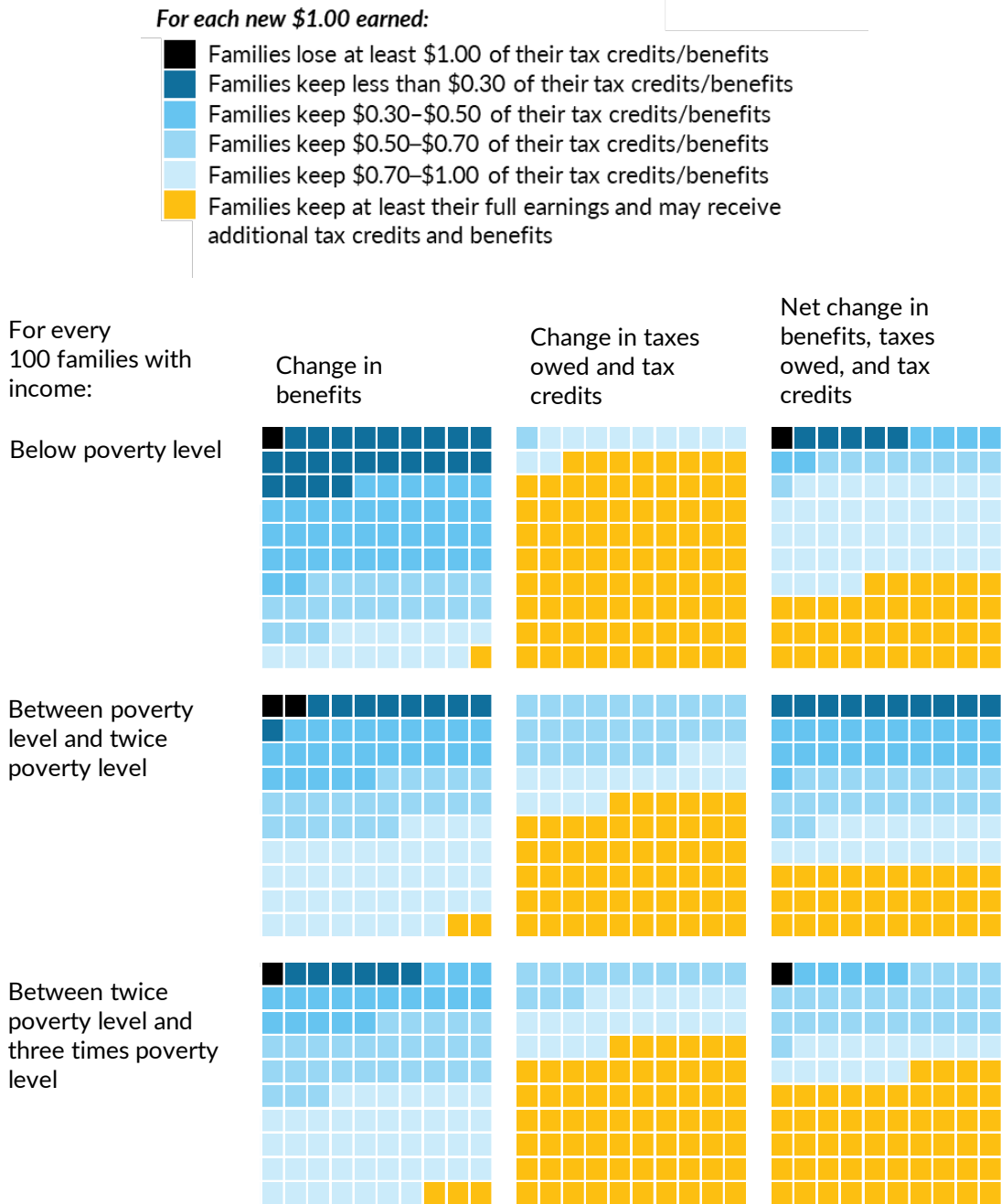


Source: Urban Institute’s Analysis of Transfers, Taxes, and Income Security model, using data from the 2019 American Community Survey.

Notes: The changes in benefits refer to child care expenses, child support, the Low Income Home Energy Assistance Program, public and subsidized housing, the Special Supplemental Nutrition Program for Women, Infants, and Children, the Supplemental Nutrition Assistance Program, Supplemental Security Income, Temporary Assistance for Needy Families, and unemployment compensation. The changes in taxes owed and tax credits refer to payroll taxes, state income taxes, and federal income taxes.

FIGURE A.3

New York: How Benefits and Taxes Change When Families Earn \$7,000 More



Source: Urban Institute’s Analysis of Transfers, Taxes, and Income Security model, using data from the 2019 American Community Survey.

Notes: The changes in benefits refer to child care expenses, child support, the Low Income Home Energy Assistance Program, public and subsidized housing, the Special Supplemental Nutrition Program for Women, Infants, and Children, the Supplemental Nutrition Assistance Program, Supplemental Security Income, Temporary Assistance for Needy Families, and unemployment compensation. The changes in taxes owed and tax credits refer to payroll taxes, state income taxes, and federal income taxes.

Focusing only on benefits and child care costs first, in Colorado and Minnesota no families in any of the three income brackets would experience combined child care and benefit changes that exceed their \$7,000 increase in earnings. In New York, about 1 percent of families with incomes below the poverty level would see cost increases and benefit losses that exceed their earnings increases. About 1 percent of New York families with higher incomes would also experience this.

About 18 percent of families with incomes below the poverty level in Colorado would keep only about 30 to 50 cents of each new dollar in their \$7,000 earnings increase because of child care costs and benefit losses. A further 3 percent would keep less than 30 cents of each new dollar earned. In Minnesota, 26 percent of families in poverty would keep 30 to 50 cents of every new dollar earned, and 4 percent would keep less than 30 cents of each new dollar earned because of combined child care costs and benefit losses. In New York, these percentages would be 38 percent and 24 percent, respectively.

In Colorado, around 80 percent of families with incomes below the poverty level would keep more than half of their \$7,000 earnings increase after benefit and child care cost changes. In Minnesota, 70 percent of these families would keep more than half of their new earnings. In New York, about 38 percent of families experiencing poverty would keep at least half of their \$7,000 earnings increase.

With the \$7,000 increase, a smaller number of families with incomes between the poverty level and twice the poverty level would keep less than half of their new earnings after benefit losses and child care cost increases. No families in Colorado would experience this, and only 2 percent of Minnesota families would. In New York, about 35 percent of families between the poverty level and twice the poverty level would keep less than half of their new earnings from benefit losses and child care cost increases.

Around 90 percent of families with incomes between two and three times the poverty level in Colorado would keep at least half of their additional \$7,000 in earnings after accounting for benefit losses and increased child care costs. In Minnesota, all families in this income range would keep at least half of their new earnings. In New York, 75 percent of families with incomes between two and three times the poverty level would keep at least half of their new earnings.

Looking only at taxes and excluding transfers changes the story once again. With a \$7,000 increase in earnings, 86 percent of families with incomes below the poverty level in Colorado would either see none of their new earnings offset by higher taxes or see additional income beyond their earnings because of refundable tax credits. For slightly less than 60 percent of Colorado families with incomes between the poverty level and twice the poverty level, tax credits would result in an income boost. The same would hold true for about 55 percent of families with incomes between two and three times the poverty level. In Minnesota, 87 percent of families in poverty would receive additional income from tax credits after their

earnings increase by \$7,000, as do around 26 percent of families with incomes between the poverty level and twice the poverty level and 21 percent of families with incomes between two and three times the poverty level. In New York, tax credits would bring additional income to 88 percent of families below the poverty level, 56 percent of families with incomes between the poverty level and twice the poverty level, and 66 percent of families with incomes between two and three times the poverty level.

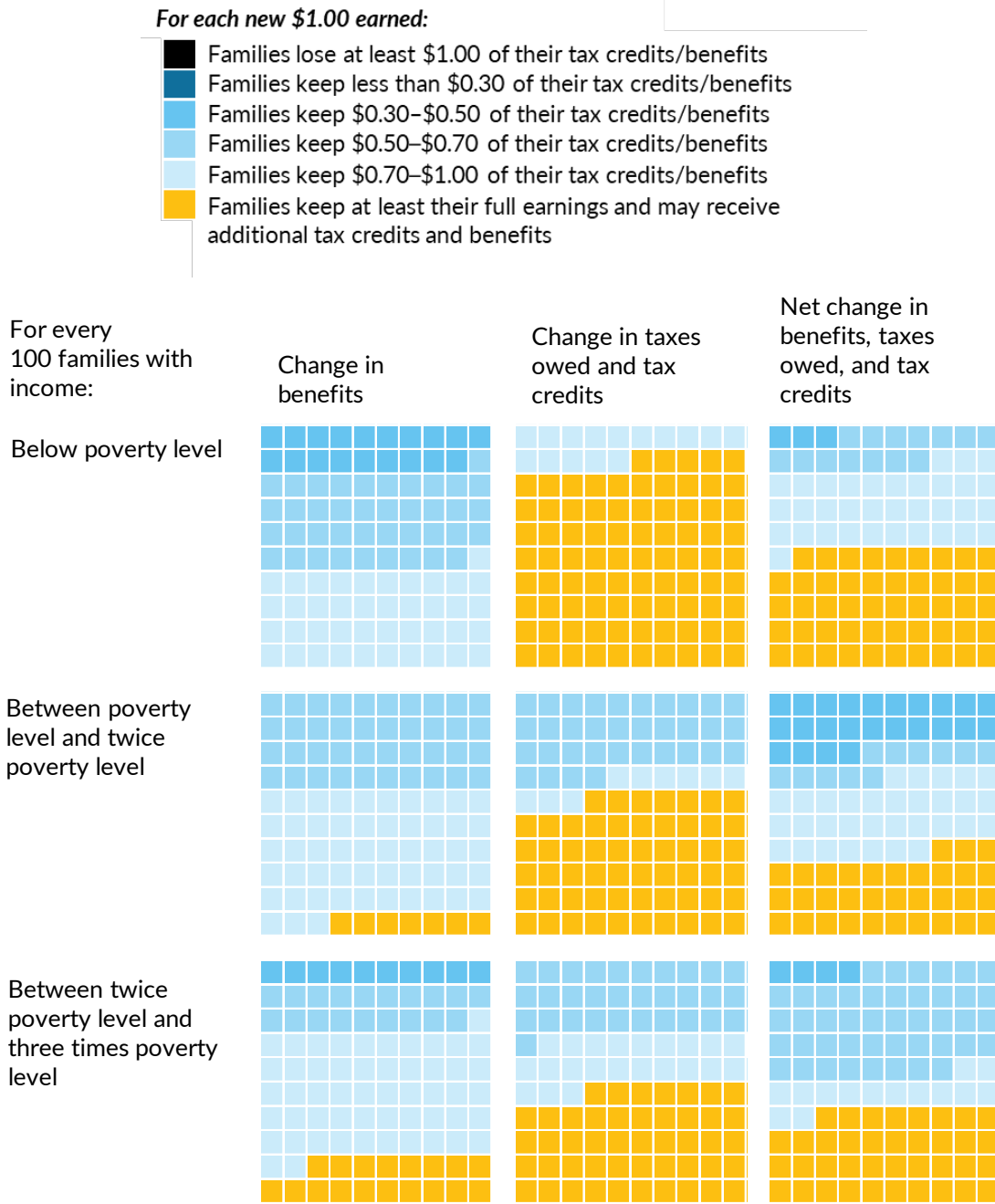
Finally, we can combine the changes to benefits and taxes to see the total effect of a \$7,000 earnings increase. In Colorado, more than half of families with incomes below the poverty level would keep at least the full \$7,000 in new income after applying tax and benefit changes to their earnings, if not gain a little more. Almost all of the remainder would, on net, keep more than half of their new earnings, as benefit losses and child care cost increases would be greater than the net income gain from tax credits. For Colorado families with incomes between the poverty level and twice the poverty level, more than 36 percent would see their incomes boosted because of the combined effects of tax and benefit changes by more than the \$7,000 in new earnings. About 40 percent would keep more than half of their new earnings after changes in benefits and taxes, and the remaining 23 percent would keep less than 50 cents of every new dollar earned, after changes in benefits and taxes. About 38 percent of Colorado families with incomes between two and three times the poverty level would gain more in net tax and benefit changes than the additional \$7,000 in earnings. More than 50 percent would keep more than half of their new earnings after changes in taxes and benefits, and around 10 percent would keep less than half of their earnings after changes in taxes and benefits. The patterns would be similar in Minnesota and New York, although a higher share of families with incomes between the poverty level and twice the poverty level would keep less than half of their new earnings after changes in taxes and benefits than in Colorado.

## What Happens to Benefits and Taxes with \$10,000 of Additional Earnings?

Our final analysis considers an earnings increase of \$10,000. This would, in most cases, represent a substantial earnings gain—likely representing a sustained monthly earnings gain for several months. This provides an example of a “long-term” income gain, which has been previously studied (Giannarelli et al. 2019). In general, families would lose similar amounts of benefits as with smaller income increases, but because there is a larger gain to help families get over benefit cliffs, a larger share of new earnings would be kept. Taxes continue to play a significant role in boosting incomes, but the amounts tend to be smaller as people phase out of state and federal earned income tax credits. On net, more people tend to have at least some of their new earnings offset by changes in benefits, child care costs, and taxes (figures A.4–A.6).

FIGURE A.4

Colorado: How Benefits and Taxes Change When Families Earn \$10,000 More

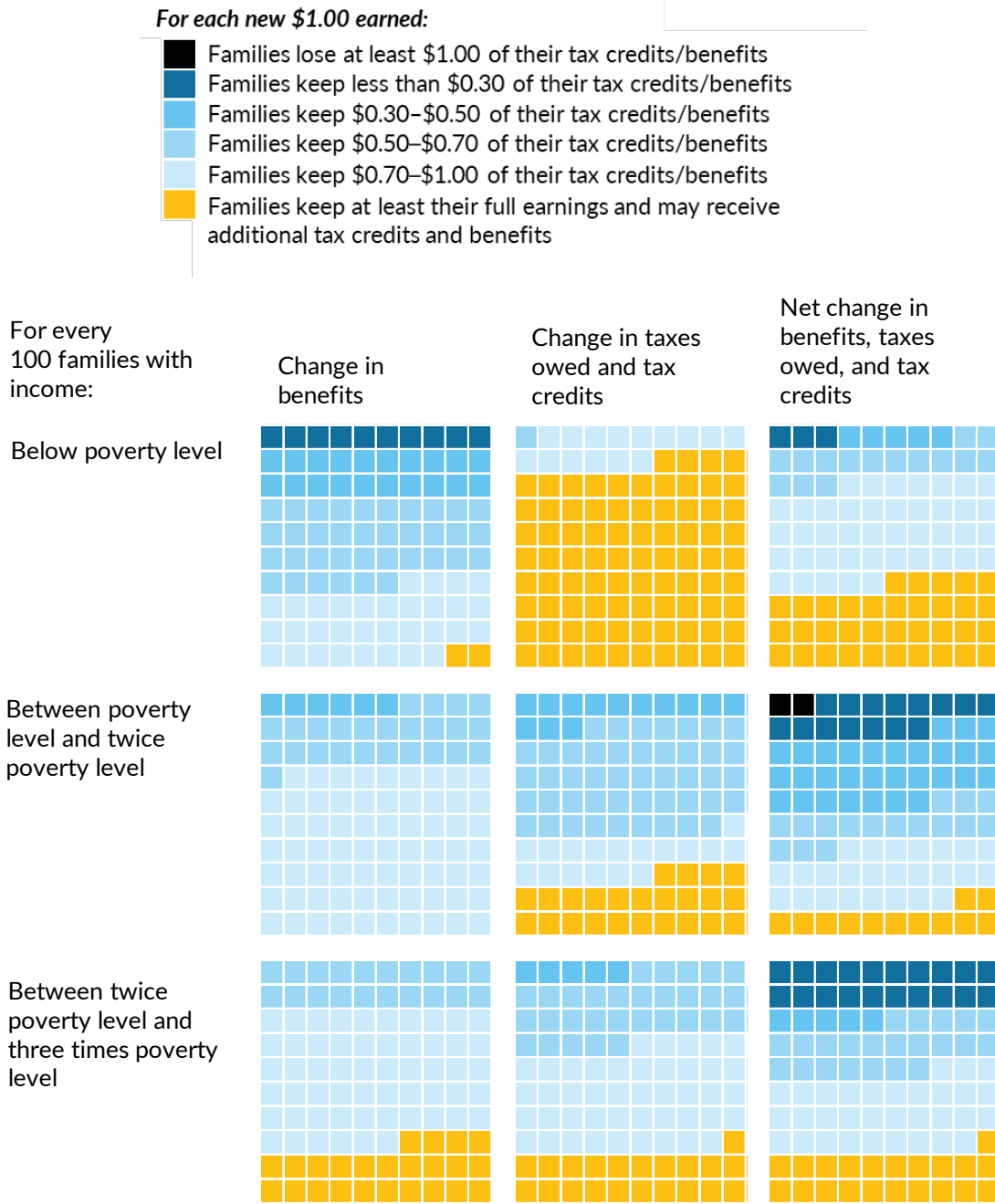


Source: Urban Institute’s Analysis of Transfers, Taxes, and Income Security model, using data from the 2019 American Community Survey.

Notes: The changes in benefits refer to child care expenses, child support, the Low Income Home Energy Assistance Program, public and subsidized housing, the Special Supplemental Nutrition Program for Women, Infants, and Children, the Supplemental Nutrition Assistance Program, Supplemental Security Income, Temporary Assistance for Needy Families, and unemployment compensation. The changes in taxes owed and tax credits refer to payroll taxes, state income taxes, and federal income taxes.

FIGURE A.5

Minnesota: How Benefits and Taxes Change When Families Earn \$10,000 More



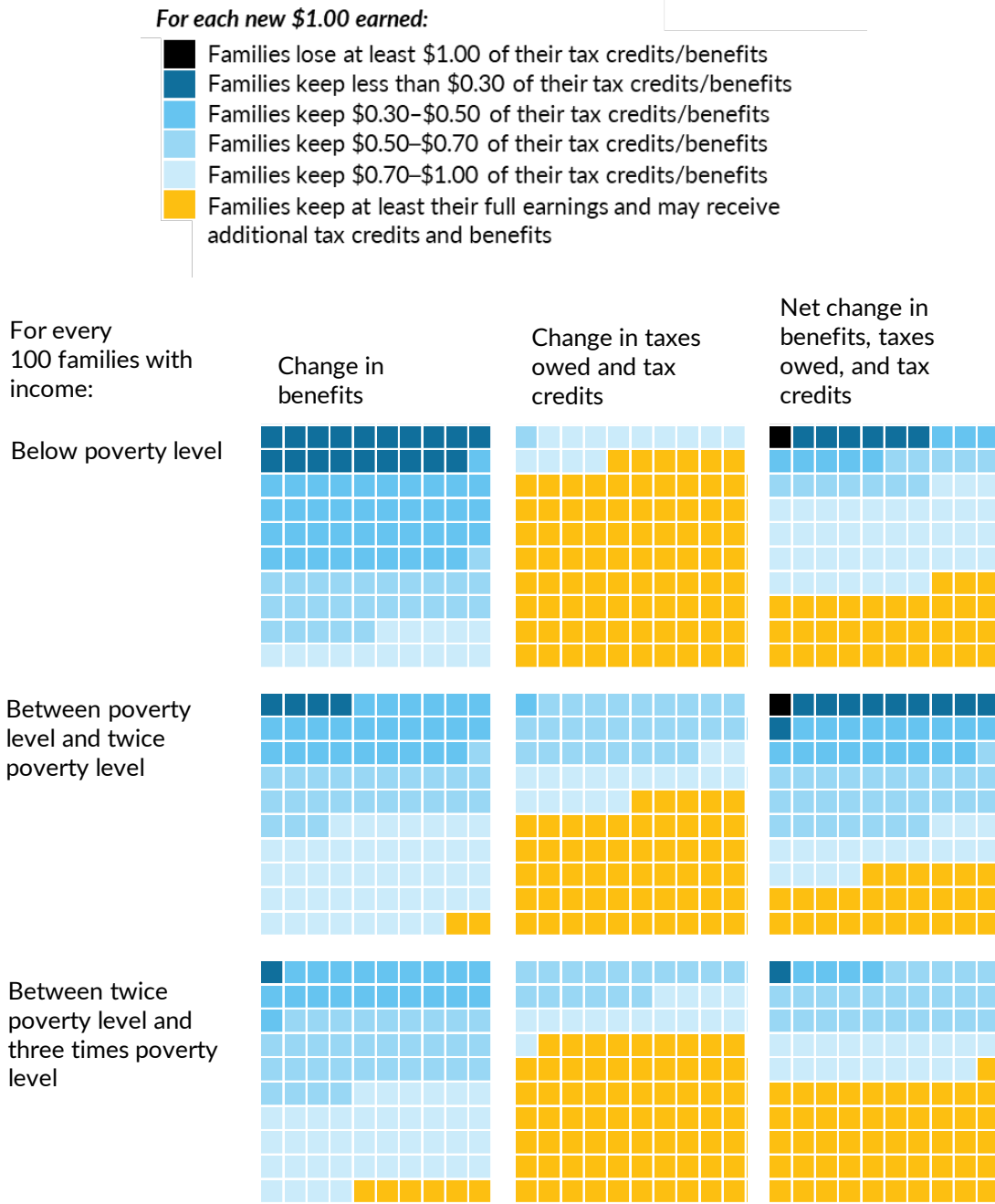
Source: Urban Institute’s Analysis of Transfers, Taxes, and Income Security model, using data from the 2019 American Community Survey.

Notes: The changes in benefits refer to child care expenses, child support, the Low Income Home Energy Assistance Program, public and subsidized housing, the Special Supplemental Nutrition Program for Women, Infants, and Children, the Supplemental Nutrition Assistance Program, Supplemental Security Income, Temporary Assistance for Needy Families, and unemployment compensation. The changes in taxes owed and tax credits refer to payroll taxes, state income taxes, and federal income taxes.



FIGURE A.6

New York: How Benefits and Taxes Change When Families Earn \$10,000 More



Source: Urban Institute’s Analysis of Transfers, Taxes, and Income Security model, using data from the 2019 American Community Survey.

Notes: The changes in benefits refer to child care expenses, child support, the Low Income Home Energy Assistance Program, public and subsidized housing, the Special Supplemental Nutrition Program for Women, Infants, and Children, the Supplemental Nutrition Assistance Program, Supplemental Security Income, Temporary Assistance for Needy Families, and unemployment compensation. The changes in taxes owed and tax credits refer to payroll taxes, state income taxes, and federal income taxes.

Focusing only on changes to benefits and child care costs, no families in Colorado or Minnesota would lose all their new earnings because of benefit losses and care cost increases. In New York, less than 1 percent of families with incomes below the poverty level or between the poverty level and twice the poverty level would lose more in changes in benefits and child care costs than they would receive in new earnings.

In Colorado, 19 percent of families with incomes below the poverty level would keep less than half of their new earnings after changes in benefits and child care costs. About 10 percent of Colorado families with incomes between two and three times the poverty level would see this same result, but no families with incomes between the poverty level and twice the poverty level would. In Minnesota, about 30 percent of families with incomes below the poverty level would experience losses and cost increases that would leave them with less than half of their new earnings, as would 6 percent of families with incomes between the poverty level and twice the poverty level. In New York, nearly 60 percent of families with incomes below the poverty level, 29 percent of families with incomes between the poverty level and twice the poverty level, and 21 percent of families with incomes between two and three times the poverty level would keep less than half of their earnings increase after benefit losses and increased child care costs.

When considering only taxes, the patterns seen with the \$10,000 earnings increase would be very similar to those of the \$7,000 increase. A large majority (more than 80 percent) of families with incomes below the poverty level in all three states would experience either no loss or a net gain in income. Those who would lose some income would keep more than half of their new earnings. For those families with incomes between the poverty level and twice the poverty level, about 57 percent in Colorado, 24 percent in Minnesota, and 55 percent New York would either see no change or would experience a net increase in income. In Colorado and New York, almost all other families in this income bracket would keep more than half of their new earnings, with less than 1 percent keeping less than half. In Minnesota, about 13 percent would keep less than half of their new earnings. Families with incomes of between two and three times the poverty level would follow the same pattern, with families in Colorado and New York generally keeping more of their earnings than families in Minnesota.

Finally, combining changes to benefits and taxes, we can see the total effect of a \$10,000 earnings increase. In Colorado, nearly 50 percent of families with incomes below the poverty level would see their incomes either unchanged or increased by the net effect of taxes and transfers, as would about 35 percent of Minnesota families and 33 percent of New York families in poverty. Slightly less than 3 percent of Colorado families with incomes below the poverty level would keep less than half of their

new income, which would be the case for almost 8 percent of families in Minnesota and almost 14 percent of families in New York with this starting income level.

About 33 percent of Colorado families with incomes between the poverty level and twice the poverty level would see either no change in income or experience an income boost because of taxes and transfers; the same would hold true for about 12 percent of Minnesota families and 26 percent of New York families in this income range. In Colorado, a further 43 percent of families in this same income range would keep more than half of their new earnings, and slightly less than 25 percent would keep less than half. The numbers for Minnesota would be 41 percent and 47 percent, respectively, and for New York the numbers would be 45 percent and 29 percent, respectively. In both Minnesota and New York, a small share of families would see a net income decline after the earnings increase—1 to 2 percent in these states. Families with incomes between two and three times the poverty level would generally keep more of their income than families with incomes between the poverty level and twice the poverty level. In Colorado, 38 percent of these families would see no change or would experience an income increase from their new earnings, as would 21 percent of Minnesota families and 51 percent of New York families. In all three states, more families would keep between 50 and 100 percent of their new earnings than would keep less than 50 percent.

# Notes

- <sup>1</sup> In an effort not to suggest gender identity in racial and ethnic descriptors and to use the most inclusive current term, this report uses the term Latinx to describe people of Latin American descent. The authors acknowledge this may not be the preferred identifier, and we remain committed to employing inclusive language whenever possible.
- <sup>2</sup> Our analysis uses 2018 tax law to understand changes in tax credits. At that time, families needed to earn at least \$2,500 in the year to be eligible for the child tax credit (CTC). At that point, families began receiving the credit, which grew larger as earnings increased. In 2021, the earnings requirement for the CTC was removed. As of now, it is unclear whether an earnings requirement will be in place after 2021.
- <sup>3</sup> “Characteristics and Financial Circumstances of TANF Recipients, Fiscal Year 2020” (tables 10, 11, 21), US Department of Health and Human Services, November 1, 2021, <https://www.acf.hhs.gov/ofa/data/characteristics-and-financial-circumstances-tanf-recipients-fiscal-year-2020>.
- <sup>4</sup> “Marginal Tax Rate Series,” US Department of Health and Human Services, accessed November 9, 2021, <https://aspe.hhs.gov/topics/poverty-economic-mobility/marginal-tax-rate-series>.
- <sup>5</sup> The American Rescue Plan Act of 2021 expanded the child tax credit and provided up to half of the credit in monthly advance payments from July 2021 to December 2021. See Chuck Marr, Kris Cox, Stephanie Hingtgen, Katie Windham, and Arloc Sherman, “American Rescue Plan Act Includes Critical Expansions of Child Tax Credit and EITC,” Center on Budget and Policy Priorities, March 12, 2021, <https://www.cbpp.org/research/federal-tax/american-rescue-plan-act-includes-critical-expansions-of-child-tax-credit-and>.
- <sup>6</sup> For details on state child care subsidy policies, see “The Child Care and Development Fund (CCDF) Policies Database,” Urban Institute, accessed November 9, 2021, <https://ccdf.urban.org/>.
- <sup>7</sup> “Welfare Rules Database,” Urban Institute, accessed November 9, 2021, <https://wrd.urban.org/wrd/WRDWelcome.cfm>.
- <sup>8</sup> “The Child Care and Development Fund (CCDF) Policies Database,” Urban Institute, accessed November 9, 2021, <https://ccdf.urban.org/>.

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between tax and transfer benefits and changes in earnings or marital status. Maag holds an MS in public policy analysis from the University of Rochester.

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## STATEMENT OF INDEPENDENCE

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