

Benefits Cliffs and Career Choice: Understanding the Financial Incentives for Career Advancement

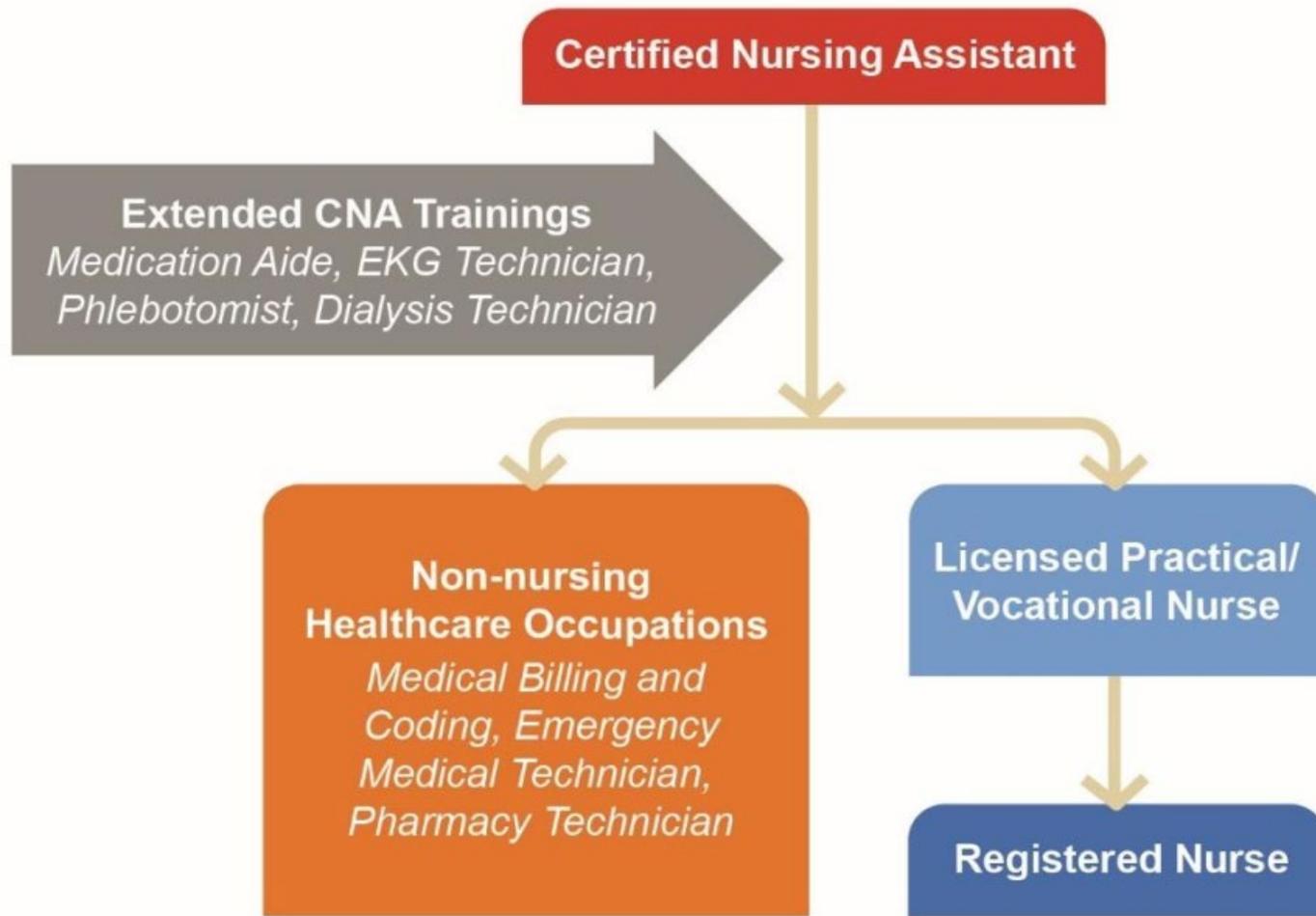
Alex Ruder

AASD/NASTA 2019 Annual
Educational Conference

August 26, 2019

The views expressed are those of the presenter(s) and do not necessarily reflect the views of the Federal Reserve Bank of Atlanta or the Federal Reserve System.

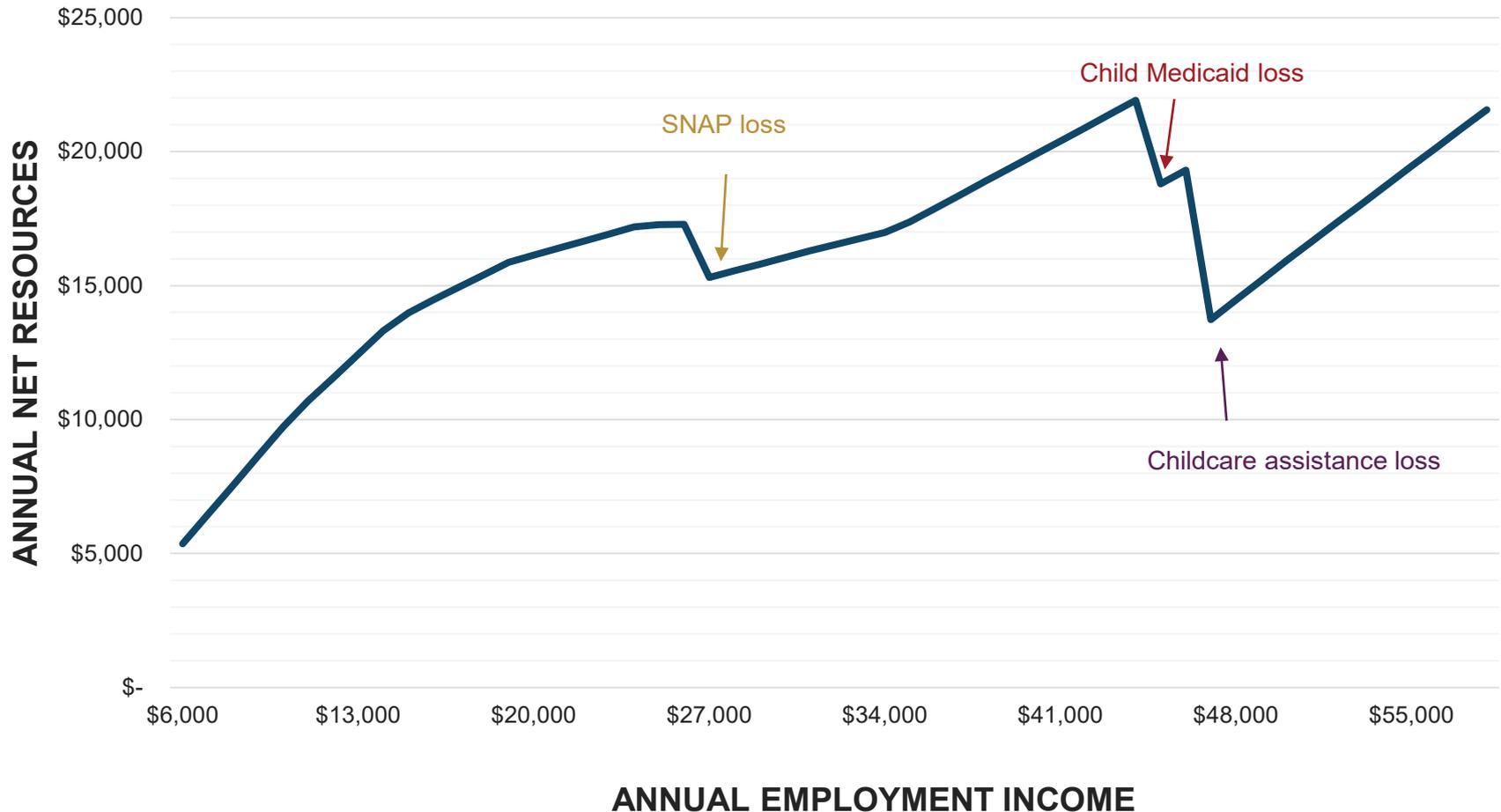
The Healthcare Services Career Pathway



Source: Loprest and Sick (2018), "Career Prospects for Certified Nursing Assistants: Insights for Training Programs and Policymakers from the Health Profession Opportunity Grants (HPOG) Program", report to Office of Planning, Research, and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services.

Benefits Cliffs: A Basic Introduction

$$\text{Net Financial Resources} = (\text{Income} + \text{Benefits}) - (\text{Taxes} + \text{Expenses})$$



A Specific Case: Meet Leia

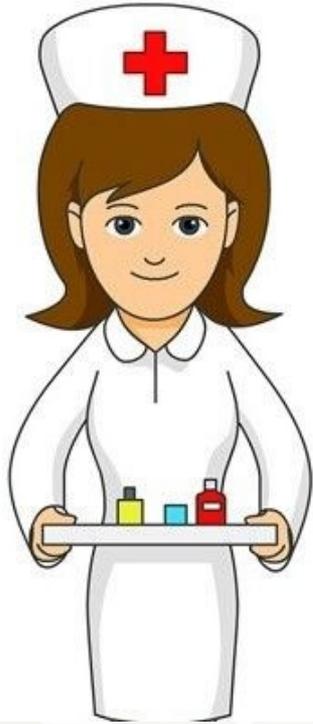


Leia is a 25 year old single mother of two children, ages 4 and 6, living in Meridian, MS

She works full-time earning about \$8 an hour

As a low-income working mother, Leia receives public benefits and tax credits that are necessary to support herself and her family: **food stamps, Medicaid for her children, Affordable Care Act subsidies, housing vouchers, childcare subsidies, the Child Tax Credit, and the Earned Income Tax Credit.**

A Specific Case: Meet Leia



Leia has decided to become a Certified Nursing Assistant (CNA).

Her question: should she continue up the pathway to the Licensed Practical Nurse (LPN) or the Registered Nurse (RN)?

The Healthcare Services Career Pathway

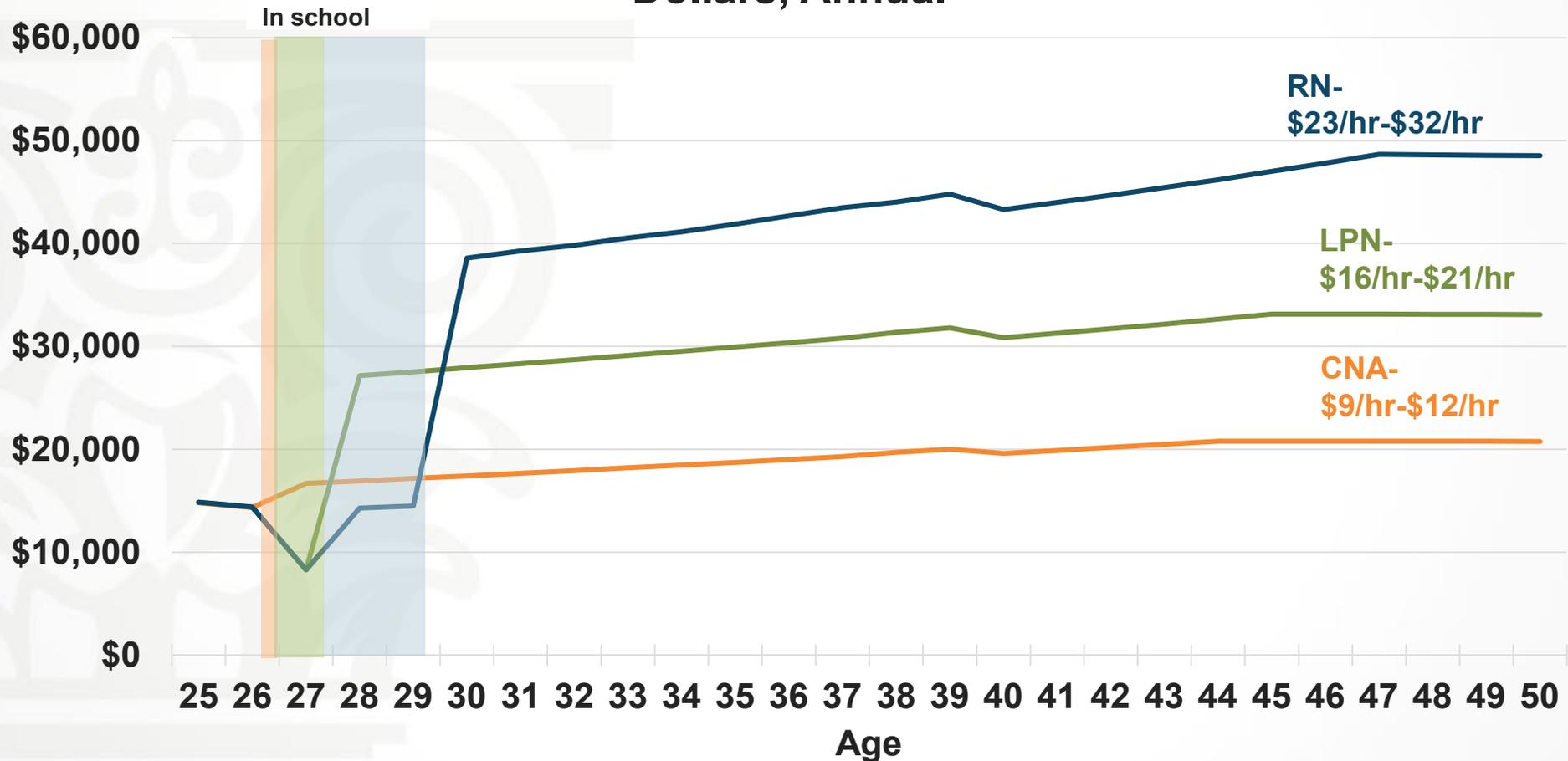
A typical career guide shows a clear financial benefit to career advancement:

Example Career Pathway for Certified Nursing Assistant



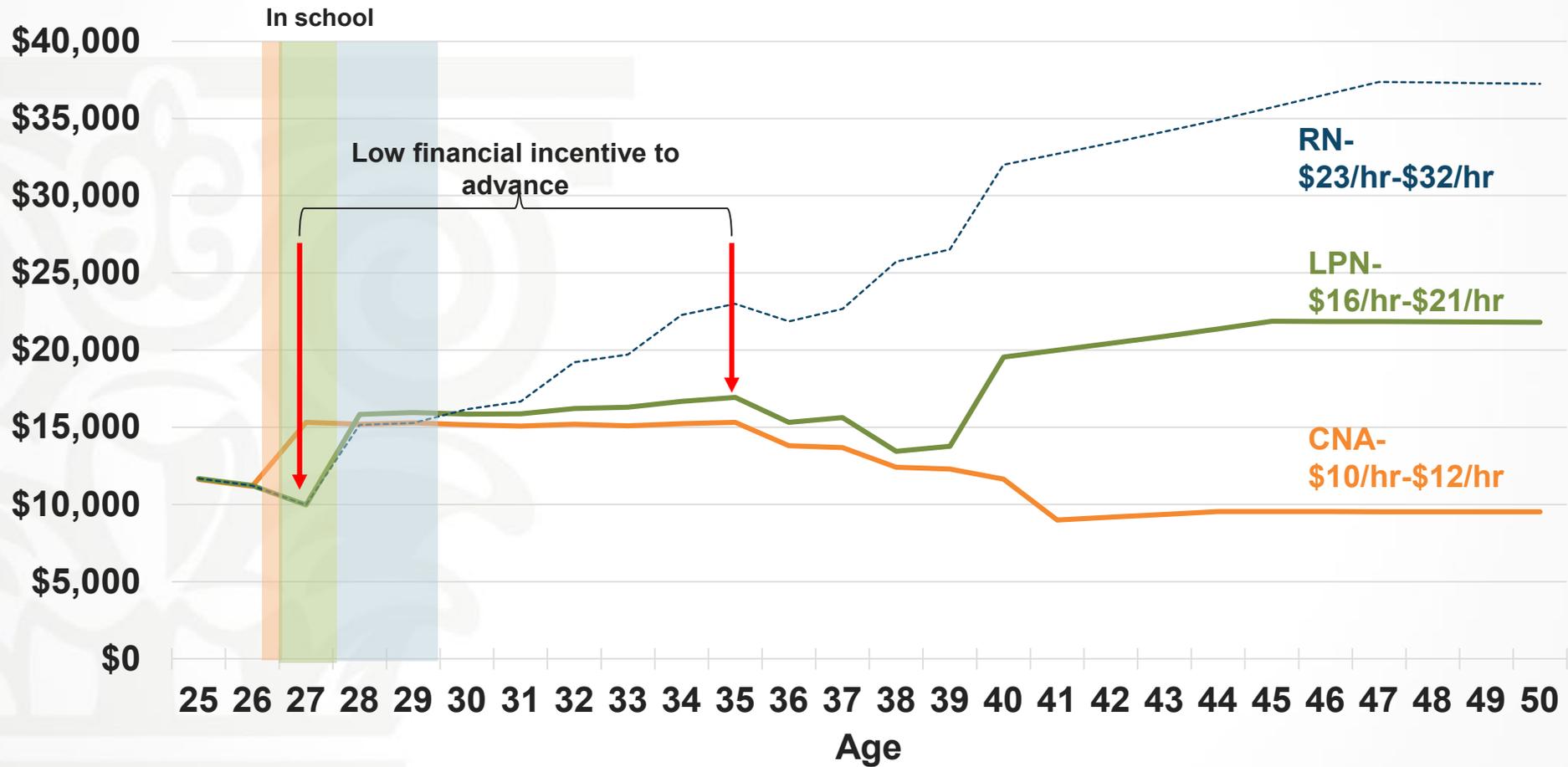
Income from Employment

Income After Taxes, Age 25-50 Dollars, Annual



Net Financial Resources

Net Financial Resources, Age 25-50
Dollars, Annual



Note: Net financial resources = (Income + Benefits) – (Taxes + Expenses)

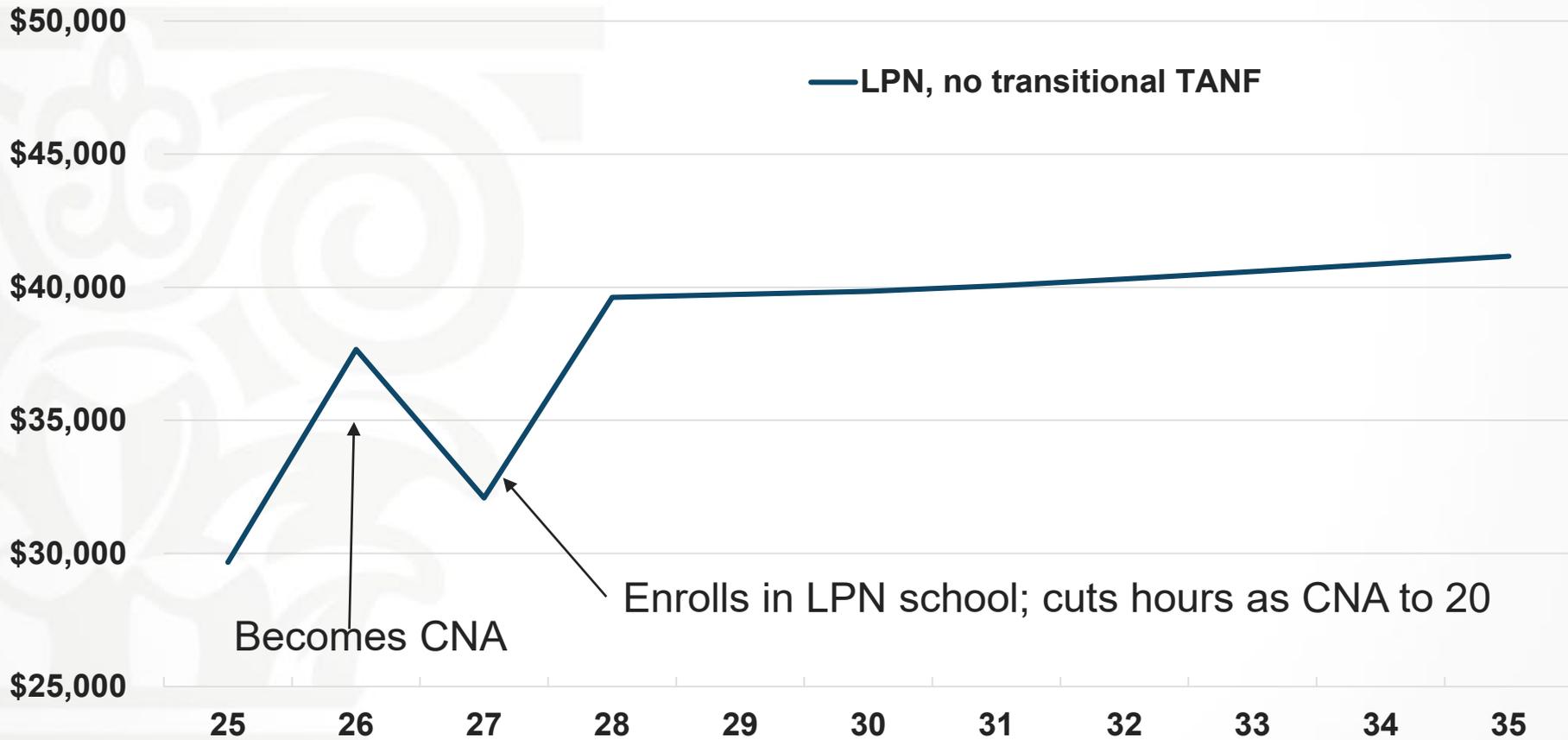
Source: The Fiscal Analyzer: see kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf

Applying the Continuum of Services Model

1. How can alignment of TANF, SNAP E&T, and WIOA increase career advancement incentives and mitigate benefit cliffs?
2. “Asset Mapping” of Programs:
 - Transitional TANF supports (childcare and transportation)
 - SNAP E&T (transportation)
 - WIOA supports while in training

Applying the Continuum of Services Model

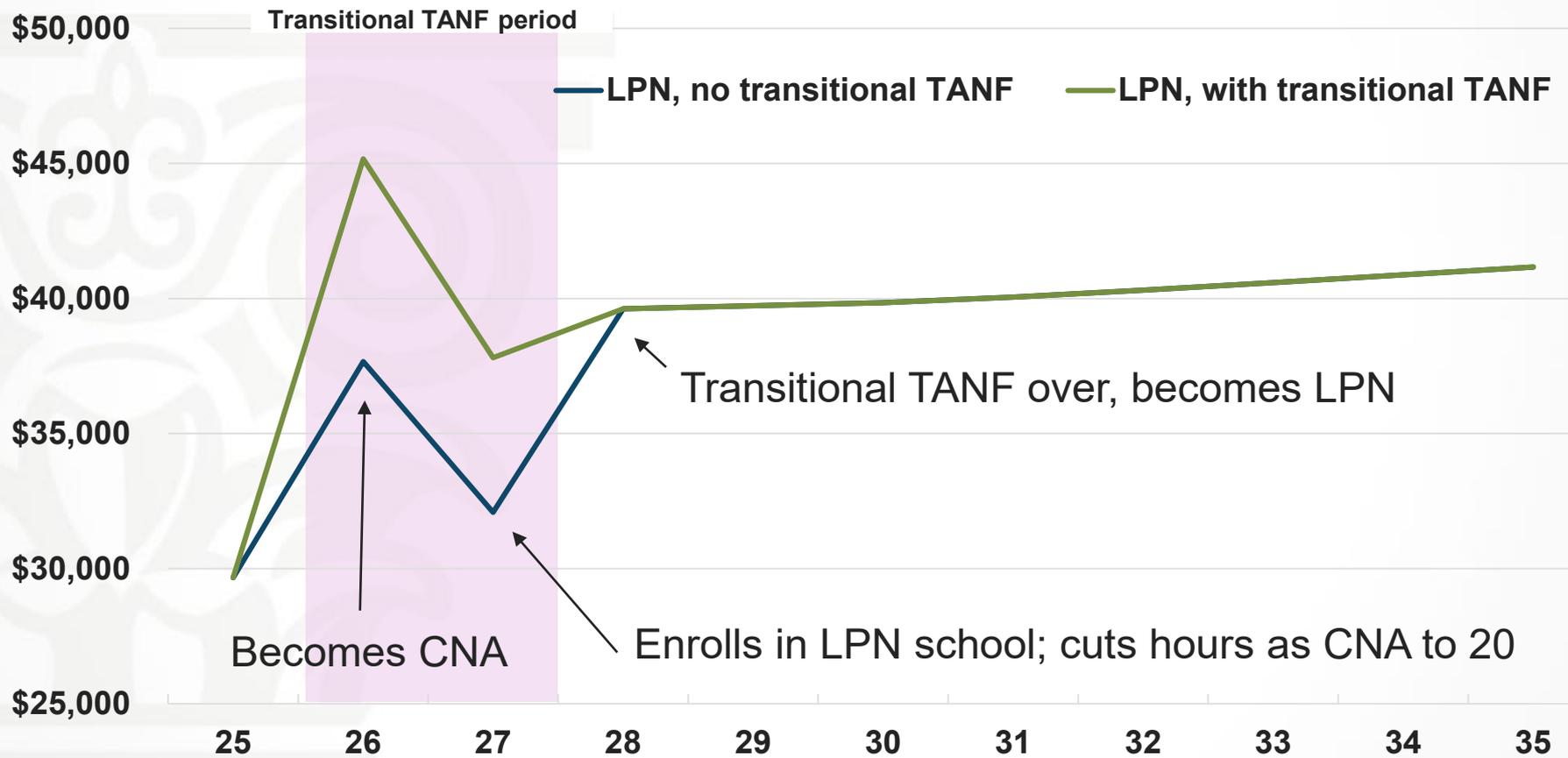
After Tax Income + Benefits, without Transitional TANF Supports
Dollars, Annual



Applying the Continuum of Services Model

The impact of transitional TANF supports

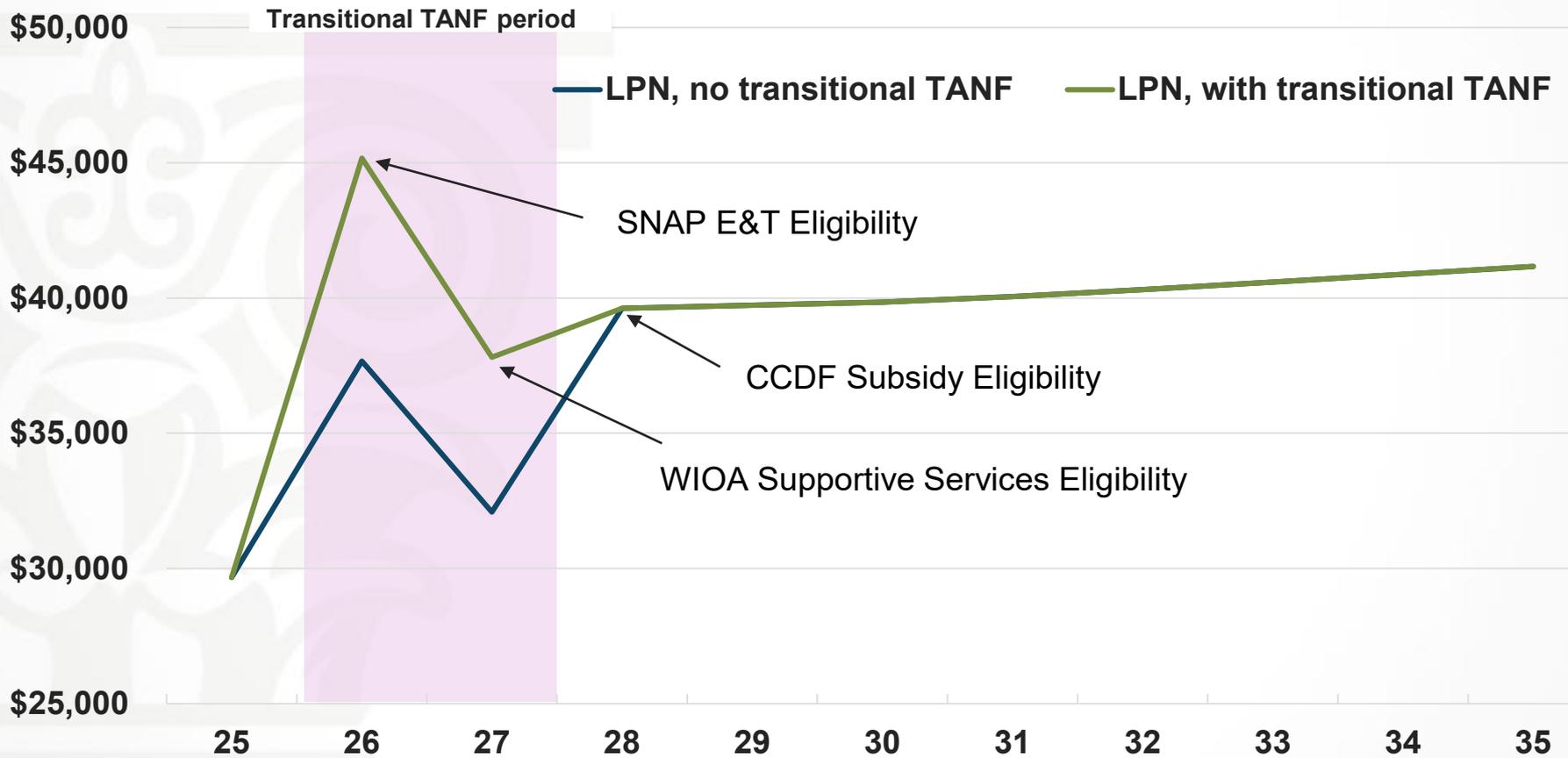
After Tax Income + Benefits, with and without Transitional TANF Supports
Dollars, Annual



Applying the Continuum of Services Model

Asset mapping with transitional TANF supports, SNAP E&T, CCDF, and WIOA supportive services

After Tax Income + Benefits, with and without Transitional TANF Supports
Dollars, Annual



Note: arrows indicate points at which additional funding from SNAP E&T, CCDF childcare subsidies, and WIOA supportive services could provide additional financial support.

Applications of Research

- Help policymakers and caseworkers align programs to support career advancement
- Simulate different policy responses to “benefits cliffs”
 - Example: different uses of TANF supports and SNAP E&T funds
- Calculate quantities of interest:
 - Financial incentives for career advancement
 - Net public savings to government for career advancement

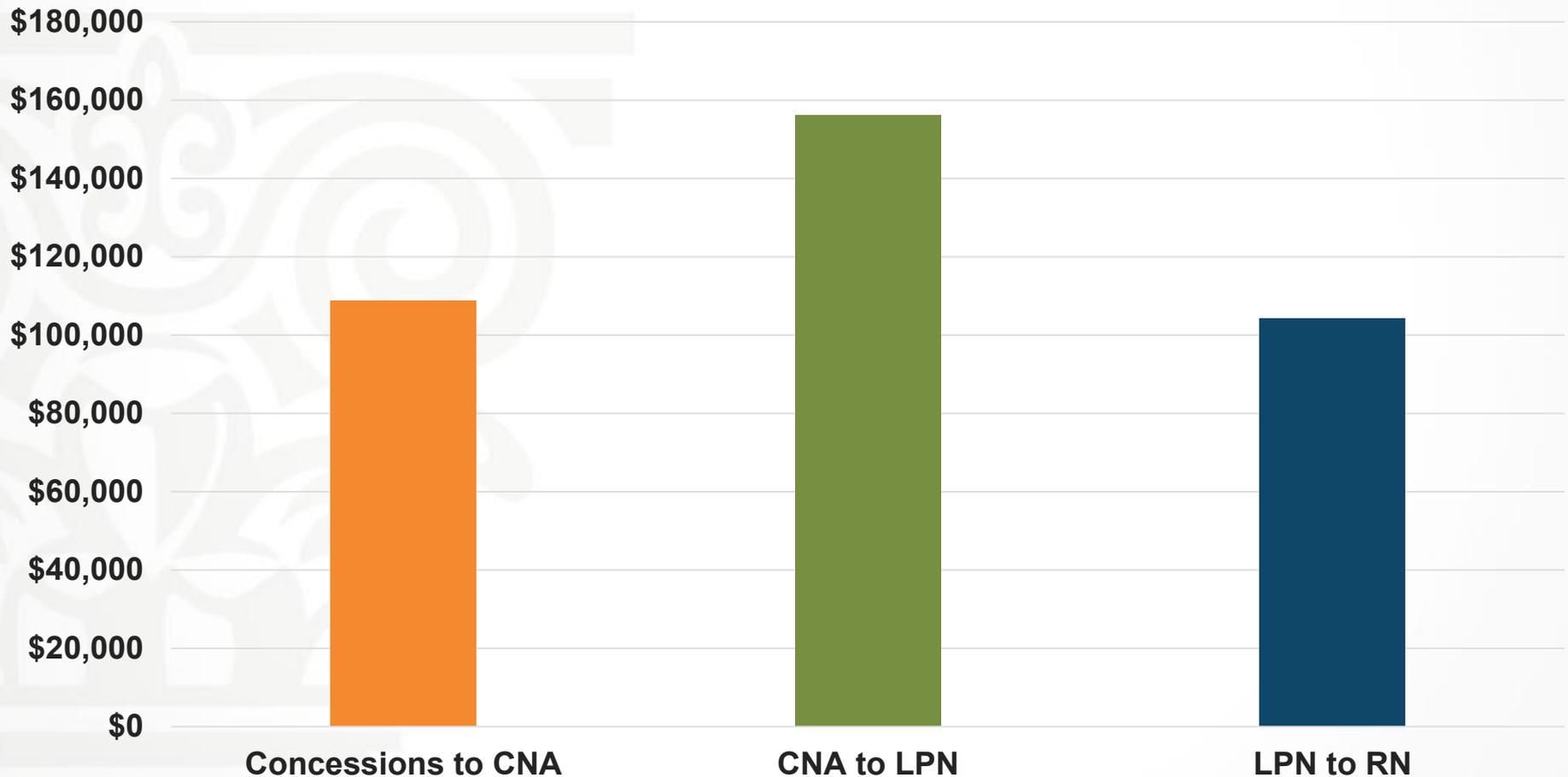
Thank you!

Alex Ruder

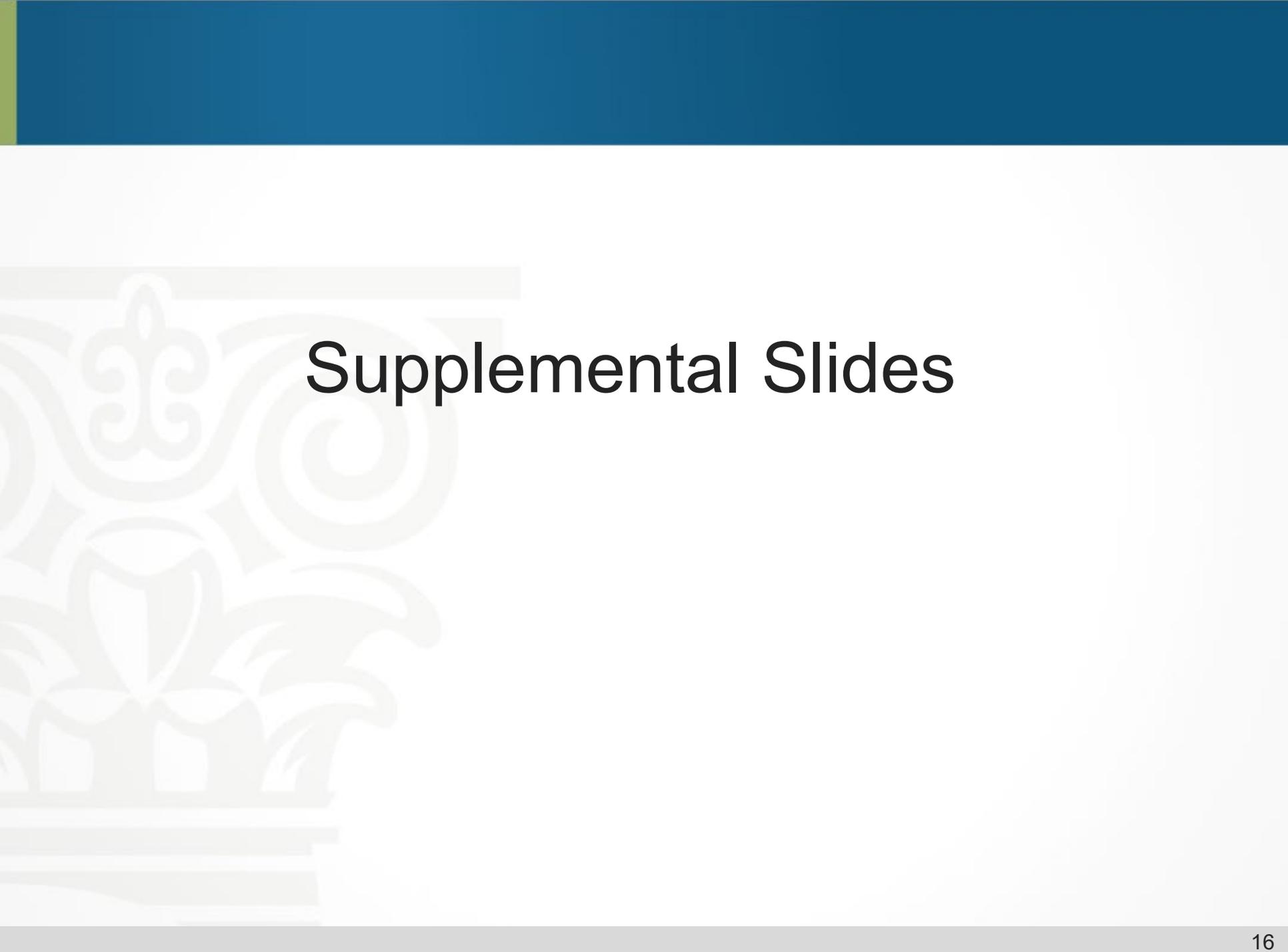
Alexander.Ruder@atl.frb.org

Gains to the Taxpayer from Career Advancement

Net Public Savings from Skill Acquisition
Net present value



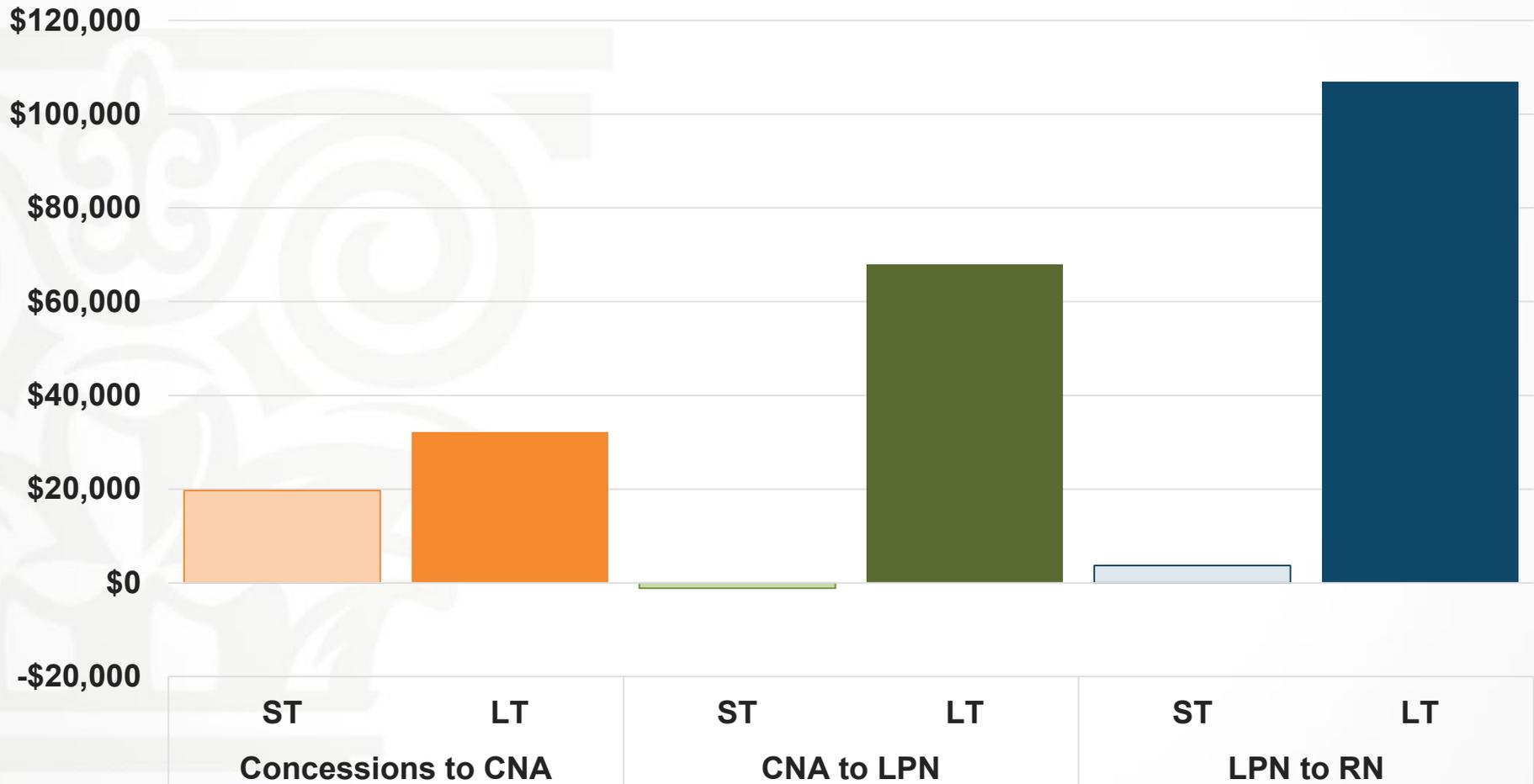
Note: Net public savings is the difference in net taxes (lifetime taxes received minus lifetime benefits paid) with each career



Supplemental Slides

Summarizing the Incentives for Career Advancement

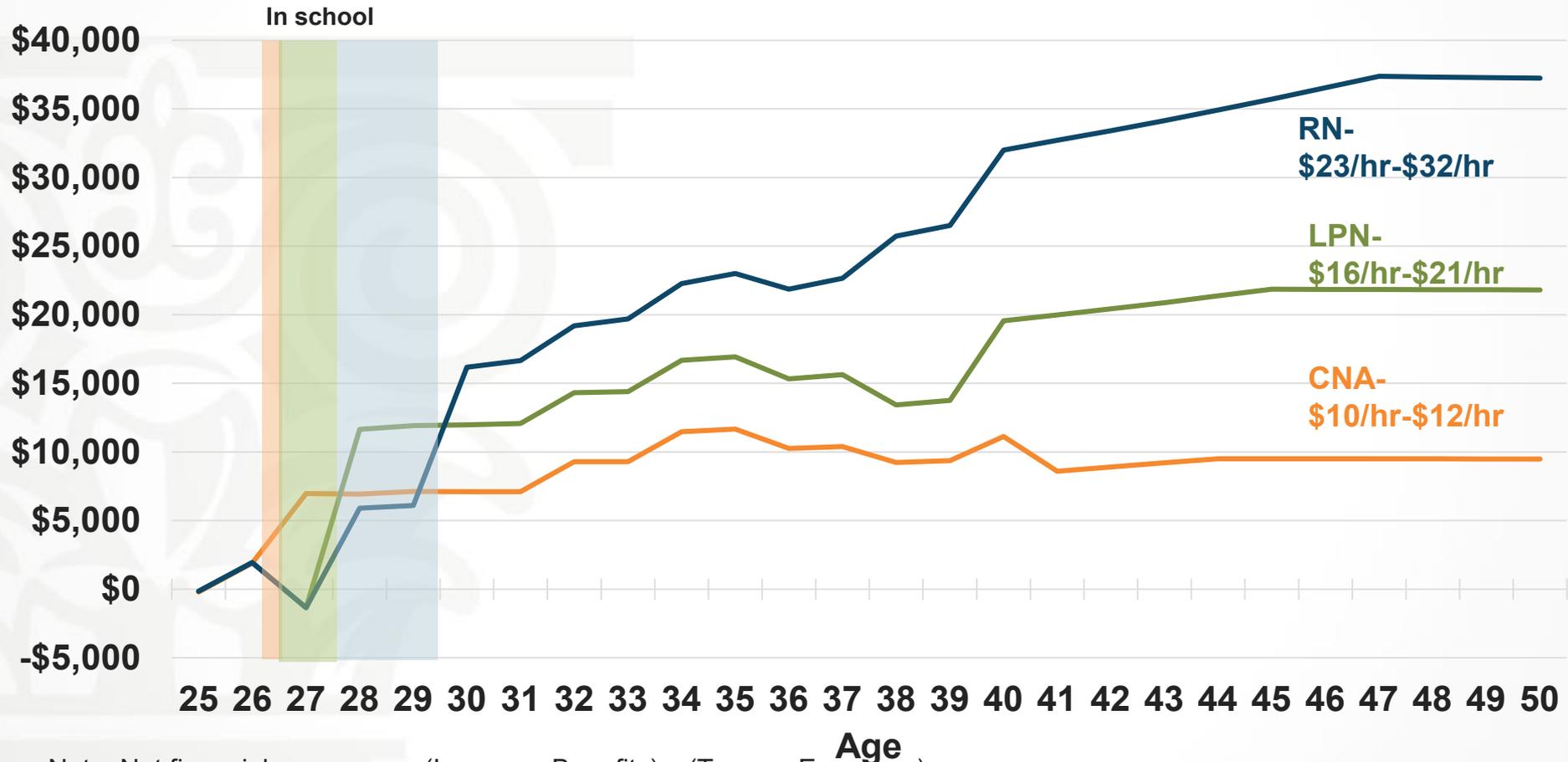
Net Benefit of Skill Acquisition to Leia: Short-Term Versus Long-Term
Net present value



Note: "Net benefit to skill acquisition" is difference in net with each career transition. ST= ages 25-33 and LT= lifetime.

Net Financial Resources, if Not Receiving Childcare or Housing Supports

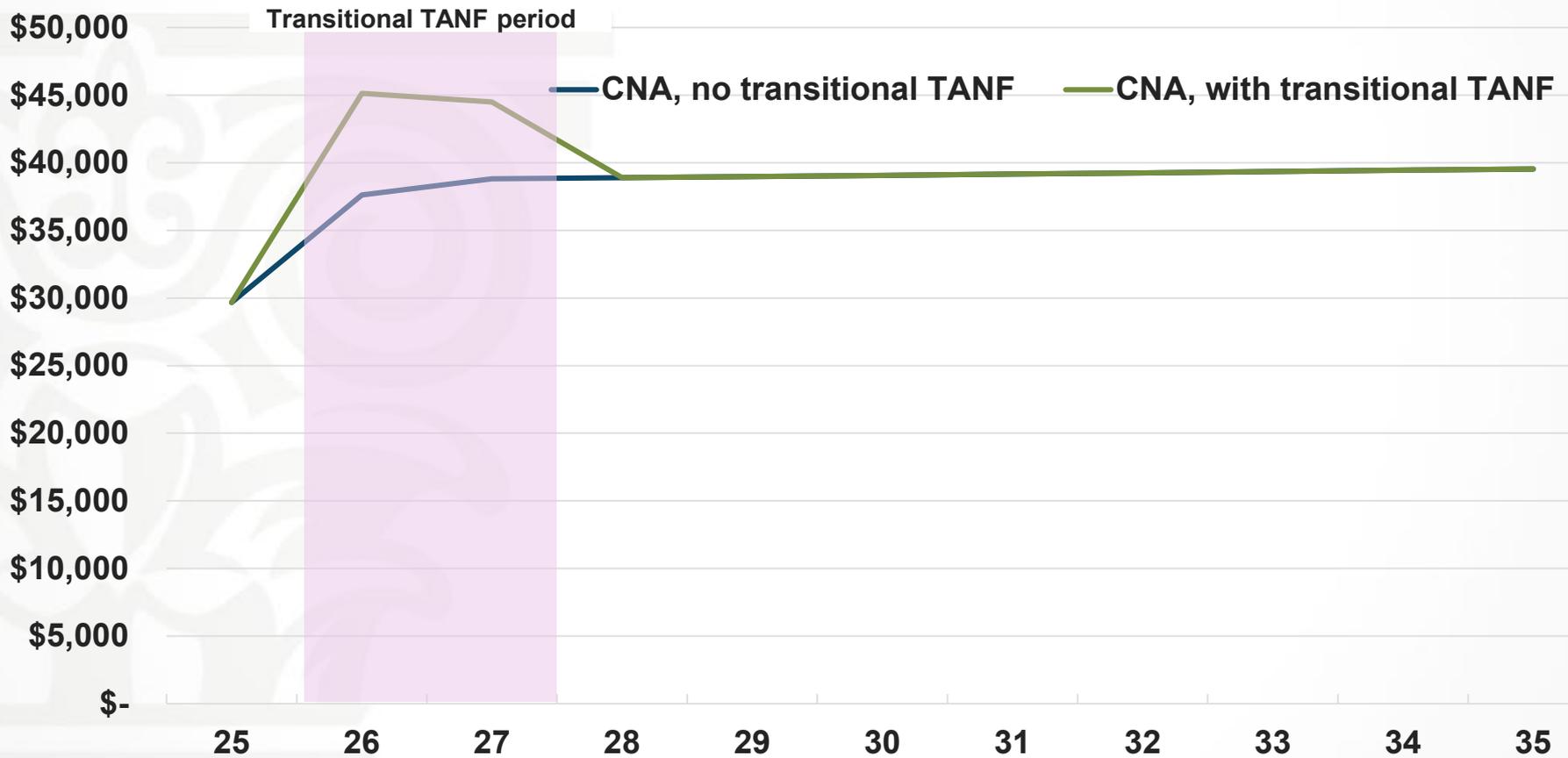
Income After Taxes and Expenses, without Housing or Childcare Support, Dollars, Annual

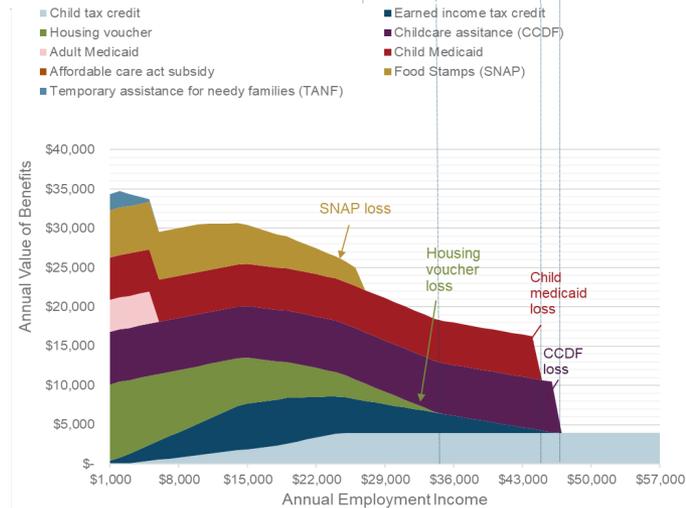
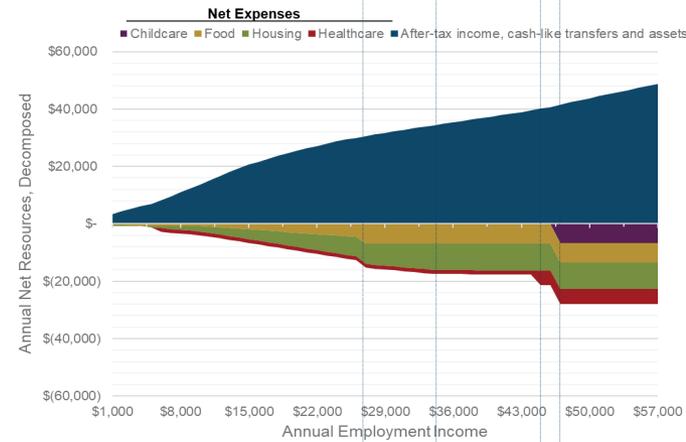
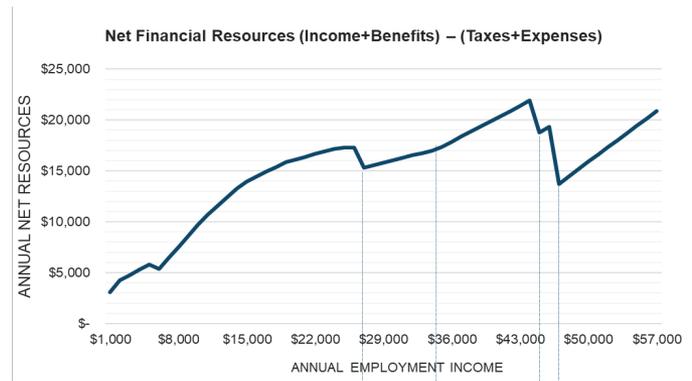


Note: Net financial resources = (Income + Benefits) – (Taxes + Expenses)

Unemployed to CNA, with and without Childcare Support Under Transitional TANF

After Tax Income+Benefits, with and without Transitional TANF Supports
Dollars, Annual





Note: TANF and Adult Medicaid loss occurs before \$6,000 in MS