



**FAMILIES IN CRISIS:**

# **The Cliff Effects and Churning**

**Convener:** Thornburg Foundation

**Researchers and Co-authors:** Brent Eastwood, PhD and Lilly Irvin-Vitela, MCRP

**New Mexico First**

P. O. Box 56549

Albuquerque, New Mexico 87187

Phone: 505-225-2140

Website: [www.nmfirst.org](http://www.nmfirst.org)

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# Executive Summary

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## Purpose of this Report

The staff and board of New Mexico First believe that sound public policy and a healthy democracy are strengthened by civic engagement, public deliberation, and principled non-partisan research. This report expands on concerns raised at the May 2016 New Mexico First Town Hall on Economic Security and Vitality for New Mexico. A bipartisan consensus recommendation was advanced and adopted related to cliff effects. Recommendation #9 from the final report is to “Advance Family-Friendly Policies.” A specific strategy identified related to this recommendation is to “eliminate disincentives to earning more income for people in poverty, such as cliff effects in work support programs.”<sup>1</sup>

In 2018, SJM18 was passed by both houses of the New Mexico State Legislature with unanimous support. New Mexico First developed [SJM18: Family Support Services Info](#). The memorial addresses how families transition from poverty. The memorial was the first step in researching how New Mexico can smooth out the benefits “cliffs” that families face as their earned incomes increase.

This report aims to describe and analyze what are called “cliff effects.” While the cliff is one threat to economic well-being for individuals and families participating in public benefits, another related threat is churn. The Center on Budget and Policy Priorities defines churn as “unnecessary or unproductive cycling of families off and back on public benefits.” In a 2014 report that was a partnership between the Urban Institute and the USDA, evaluators concluded that a change in employment status was associated with a 50 percent increase in the odds of churn.<sup>2</sup> This report will also describe churn and its consequences. From the perspective of families, if needed resources are unavailable due to a cliff in eligibility or administrative, procedural, or policy issues that result in temporary churn, the policy cause for lost services is not nearly as important as the resulting barriers in meeting family needs and family crisis. This report will make a comparative analysis of different policies across the country to better inform New Mexico law makers to lessen cliff effects and churn. By making stronger policies and administering programs more effectively, working families are better situated to transition successfully off of public assistance toward self-sufficiency.

## Understanding the Impacts of Cliff Effects and Churn on Poverty

This report defines cliff effects which are also referred to as the “poverty trap” or “low-wage trap” as similarly to the Financial Health Institute. “The cliff effect as we define it at FHI is when a client increases their financial resources and as a result loses more in their whole economic picture than what they gained financially.”<sup>3</sup> Churn is defined as “unnecessary or unproductive cycling of families and individuals off and back on benefit coverage.”<sup>4</sup> These are different but related phenomenon that create barriers to economic well-being for individuals and families and barriers to economic vitality for communities and our state. The report also provides a snapshot of poverty in New Mexico as well as public benefits available in New Mexico.

Note: There are many effective policy tools to address cliff effects and churn in public benefits. As a result, no brief explanation, including this report, can cover all information and perspectives available. Communities and policymakers will lend their knowledge and expertise to ongoing efforts related to identifying, bolstering, and implementing solutions to address the cliff effect and churn.

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<sup>1</sup> New Mexico First. 2016 Statewide Town Hall Economic Security and Vitality New Mexico Final Report. <http://nmfirst.org/LiteratureRetrieve.aspx?ID=234317> retrieved September 2019.

<sup>2</sup> Mills, Gregory, Tracy Vericker, Heather Koball, Kye Lippold, Laura Wheaton, Sam Elkin. *Understanding the Rates, Causes, and Costs of Churning in the Supplemental Nutrition Assistance Program (SNAP) Final Report*. Prepared by Urban Institute for the US Department of Agriculture, Food and Nutrition Service, September 2014.

<sup>3</sup> Young, Shawn. *What Can We Do about the Cliff Effect?* <http://www.financialhealthinstitute.com/author/syoung/> retrieved August 2019.

<sup>4</sup> Rosenbaum, Dottie. *Lessons Churned: Measuring the Impact of Churn in Health and Human Services Programs on Participants and State and Local Agencies*. Prepared by the Center on Budget and Policy Priorities. March 2015.

## Approaches to Cliff Effects in Other States

This report compares best practices and lessons learned from Massachusetts, Vermont, Michigan, Ohio, and Colorado related to mitigating cliff effects. It also explores promising practices that emerged in a USDA study conducted in partnership with the Urban Institute about churning in public benefits. Some common themes emerged: coordination of public benefits across state agencies; rigorous reporting of data to identify trends in outcomes for people participating in public benefits; expand eligibility using state investments; increase income for families in poverty through tax credits; strengthen automatic qualifications for benefits and tax credits for people who have documented their economic status as part of the eligibility process; address administrative hurdles that families must navigate by extending the length of time between recertification for benefits; invest more in job support programs that are linked to higher wage jobs; expand eligibility for child care assistance; expand access to affordable housing;

## Case Studies and the Need for Decision-Making Tools

Administration and eligibility requirements can entrench cliff effects and churn. New Mexico First partnered with Circles USA to demonstrate how an increase in hours or raise can lead to greater economic insecurity for New Mexico families. Circles USA also developed a cliff effects benefits calculator that is designed to compute when benefits are lost due to additional earnings or income. New Mexico First recommends the creation of a more user-friendly calculator that participants in public benefits, administrators, case workers, the media, and New Mexico residents in general can use to avoid cliff effects. Developing the calculator into an open source mobile app could support clarity in decision-making.

## Policy Options to Mitigate Cliff Effects and Churn

- Build on Governor Lujan Grisham and the New Mexico State Legislature's call for an expansion to the Working Families Tax Credit.
- Increase Medicaid reimbursement rates.
- Expand access to the Child Care Assistance Program.
- Reduce renewal risk points by extending renewal periods to the maximum allowed by federal policy.
- Prioritize measuring, testing, and monitoring progress to reduce churn.
- Increase funding for call centers, renewal units, and documentation processing and pay staff in these positions competitive wages to reduce staff turnover.
- Increase options for families to meet compliance such as in-person, phone, and through other electronic communication. Some states are using text messages and e-mails rather than USPS.
- Limit paperwork verification processes.
- Develop a fast track for re-establishing eligibility.
- Develop an employment and training program that meets the new federal requirements for a waiver for Able-bodied Adults Without Dependents.
- Create a statutory requirement for New Mexico to participate in all federal waivers for public assistance programs.

# Contents

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<b>Executive Summary</b> .....	iii
Purpose of this Report.....	3
Understanding the Impacts of Cliff Effects and Churn on Poverty.....	3
Approaches to Cliff Effects in Other States .....	4
Case Studies and the Need for Decision-Making Tools .....	4
Policy Options to Mitigate Cliff Effects and Churn .....	4
<b>Contents</b> .....	5
<b>Introduction</b> .....	6
<b>What is the Cliff Effect?</b> .....	6
<b>Working Families Must Also Deal with “Churning.”</b> .....	7
SNAP, an Example of Churn .....	7
<b>Poverty in New Mexico</b> .....	10
A Pressing Example: The Need for Subsidized Child Care .....	10
<b>Why is it Important to Mitigate Cliff Effects?</b> .....	11
<b>History of Cliff Effects</b> .....	11
<b>How Are Other States Mitigating the Cliff Effect?</b> .....	11
Massachusetts .....	12
Vermont.....	12
Ohio .....	12
Michigan .....	13
Colorado .....	13
Voices for Children: Comparing New Mexico to national trends .....	14
<b>Overview of New Mexico Public Assistance Programs</b> .....	14
TANF .....	14
SNAP .....	15
Medicaid .....	16
NM Medicaid Coverage by County of Residence as of 8/31/19 .....	17
Childcare Assistance .....	18
Housing.....	19
<b>Benefits May Not Resolve Economic Insecurity &amp;</b> .....	19
<b>Improve Individual and Family Well-being</b> .....	19
Case Family 1 .....	19
Case Family 2 .....	20
Case Family 3 .....	20
<b>New Mexico Policy Options to Mitigate Cliff Effects and Churn</b> .....	22
<b>Policy Options to Mitigate Churn</b> .....	23
<b>Summary Policy Options from Other States to Mitigate Cliff Effects</b> .....	24
<b>Conclusion</b> .....	26
Rationale .....	26
About New Mexico First .....	26

# Introduction

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Imagine you are on various public assistance programs that you need to support your family. You work hard at your job, but you are barely making ends meet, even with these benefits. Then good news finally comes. You have not only been promoted at work; you also get a substantial pay raise. However, this hopeful time is interrupted by a stunning revelation. The extra pay makes you and your family ineligible for the food, rent, health care, childcare, and other assistance you receive from the state and federal governments. If you accept the promotion and the raise, you'll be earning more money, but it won't be nearly enough to cover the value of the benefits you will lose. What's worse, you'll have even less disposable income to pay your bills. A promotion, raise, or better paying job should give you a sense of pride, accomplishment, and a pathway to self-sufficiency. But with more pay, you fall off the social benefits "cliff," making your economic situation and your family's well-being worse. This conundrum is common in New Mexico and across the country.

New Mexico First has partnered with other nonprofits in New Mexico, such as the Thornburg Foundation and Circles USA, to provide all stakeholders who must deal with cliff effects in their daily lives with information as they seek the goals of economic upward mobility and family well-being. New Mexico First also wishes to thank New Mexico State Senator Jerry Ortiz y Pino, the sponsor of enabling legislation that made this report possible. In 2017, he sponsored a joint memorial (SJM 18) called "Family Support Services Information to the Legislative Finance Committee (LFC)."

As Senator Ortiz y Pino noted, "I was one of the participants in the New Mexico First Town Hall that made the recommendation for trying to find a way to reduce the disincentives with which the 'cliff effect' saddles some recipients when they get a promotion or raise at work...only to find out that the loss of child care subsidies, SNAP benefits, TANF or even housing subsidies will leave them worse off financially than before the raise."

## What is the Cliff Effect?

The cliff effect occurs when an individual or family that uses public benefits to meet their concrete needs experiences a sudden loss of material supports such as access to food, health care, housing, childcare, and other benefits. For working families that receive public benefits, when the working member or head of household is offered a new job or promotion in which the family could make more money, it is not necessarily good for the family. If the increase in compensation would make the family ineligible for benefits without replacing that income support with a sufficient raise, a family may be worse off after earning a raise. Usually, this means that making more money would cause them to rise above the income threshold of the program. The extra pay makes the family ineligible for certain types of assistance and they often have less money to spend even though they have success in their job. This ineligibility forces a family to fall off the "benefits cliff." The cliff effect is also known as the "poverty trap" or "low-wage trap."

Working families are ensnared in this unenviable situation when taking the better job or accepting the pay raise which may not replace loss of access to income or concrete supports. These workers are trying to become self-sufficient, but the gradual rate of job advancement increases the likelihood that someone would need to turn down advancement opportunities to maintain financial stability for themselves and or their families. Working families find it difficult to move off assistance because they lose more in benefits than the pay raise can cover. Hard work that could lead to more overtime or a promotion goes unrewarded since losing benefits leaves the employee with less, not more money to provide for themselves and their families. They are stuck in a financial reality that limits chances for economic independence.

The problem can become even more complicated. Families often do not know the income threshold of the various assistance programs and may suddenly find they are removed from a welfare program and not know the reason why. This means attaining and sustaining the necessary levels of food security, childcare, housing, and health care can be threatened. Eligibility thresholds are different by state and benefits program. Programs are administered by different agencies, which may or may not communicate or share information between them. People often do not know who to contact in the state or federal government to get advice and help navigating resources. The entire system can be confusing, daunting, and demoralizing.

Failure to navigate successfully results in a loss of supports that are critical to an individual's and or family's ability to meet basic needs. In addition, employers often do not know the rules, do not appreciate the circumstances, and are confused as to why their employee would turn down promotions or raises.

## Working Families Must Also Deal with “Churning.”

“Public benefit programs for low-income individuals and families typically require households to apply, establish eligibility, and then, at subsequent regular intervals, to re-establish eligibility. While periodically reviewing eligibility is important for ensuring that benefits are properly targeted to individuals and families that remain eligible for assistance, the redetermination process can result in *eligible* households temporarily losing eligibility, experiencing a short period without benefits, and then reapplying — a phenomenon sometimes called **churn**.”<sup>5</sup> Churn is an experience that is difficult for families to anticipate and avoid. While churn is prevalent across social programs, the way it plays out varies. Program rules, eligibility requirements, non-income eligibility requirements, and how programs are administered and implemented can all contribute to churn.

### SNAP, AN EXAMPLE OF CHURN

In the United States Department of Agriculture 2014 Report entitled, “Understanding the Rates, Causes, and Costs of Churning in the Supplemental Nutrition Assistance Program (SNAP),”<sup>6</sup> evaluators conducted focus groups with people utilizing SNAP benefits, SNAP administrators, SNAP case workers, and representatives from community-based organizations. They identified the following consequences of churn for clients:

- Anxiety, stress, and uncertainty: loss of benefits while living with very modest resources can result in loss of food and loss of other material goods as families try to juggle competing financial demands. Efforts to secure food may be at the cost of utilities, transportation money, and housing expenses.
- Food insecurity: individuals and families reported missed meals or consuming incomplete meals as a strategy for managing loss of access to food; concern about child hunger was raised across stakeholder groups; immediate food needs overwhelmed other important life activities.
- Reliance on food pantries and local churches: community-based organizations acknowledged the frequency with which pantry users disclosed loss of SNAP benefits and their inability to fully respond to the loss of food due to limited supplies; many pantries limit the number of times people may access a given pantry each month.

The USDA and Urban Institute report also identified the key causes of churn:

- Fluctuations in income and assets, changes in jobs or raises and subsequent loss of these new jobs or positions when child care assistance was lost were mentioned as barriers.
- Seasonal employment and overtime pay are contributing factors to income fluctuation in which there may be a temporary financial gain but not a stable improvement in financial well-being.
- Child support payments may make a family ineligible but not be a consistent source of income.
- Changes in family structure with adult children moving in and out of the home or parent separation can also impact family income and while temporary in nature may lead to determination of ineligibility.

<sup>5</sup> Dottie Rosenbaum. “Lessons Churned: Measuring the Impact of Churn in Health and Human Services Programs on Participants and State and Local Agencies” Center on Budget and Policy Priorities. March 2015: page 1

<sup>6</sup> Mills, Gregory, Tracy Vericker, Heather Koball, Kye Lippold. Laura Wheaton, Sam Elkin. *Understanding the Rates, Causes, and Costs of Churning in the Supplemental Nutrition Assistance Program (SNAP) Final Report*. Prepared by Urban Institute for the US Department of Agriculture, Food and Nutrition Service, September 2014.



Churning and the fiscal cliff run hand in hand. When someone experiences a change in employment status, their odds of experiencing churn increase with other benefits as well. It stands to reason that many families can feel trapped with little recourse. Churning around benefits eligibility and confronting the edge of the fiscal cliff can be scary, bewildering and frustrating. It is also destabilizing to children and families. The Center for the Study of Social Policy identifies promotive and protective factors for children and families. The Strengthening Families™ and Youth Thrives™ frameworks can help service providers, advocates, administrators, policy makers, and the families themselves better understand and co-create public policy that yield positive outcomes. Concrete supports in times of need, a protective factor, is linked to stronger child and family outcomes. Helping families know their rights, identify needed resources, navigate systems and programs, access, and receive supports that address necessities, are vital supports that enhance resilience when families are facing the stressors of poverty. In order for families to realize the full benefits of receiving concrete supports in times of need, it must be delivered in a strength-based way. “Services should be coordinated, respectful, caring, and strength-based.”<sup>7</sup> Well-designed and administered public benefits that are delivered by well-trained staff to alleviate the stressors of poverty and provide stability while families are working to improve their situation, are foundational to healthy communities.

“CHURN IS UNNECESSARY OR UNPRODUCTIVE CYCLING OF FAMILIES AND INDIVIDUALS OFF AND BACK ON BENEFIT COVERAGE.”

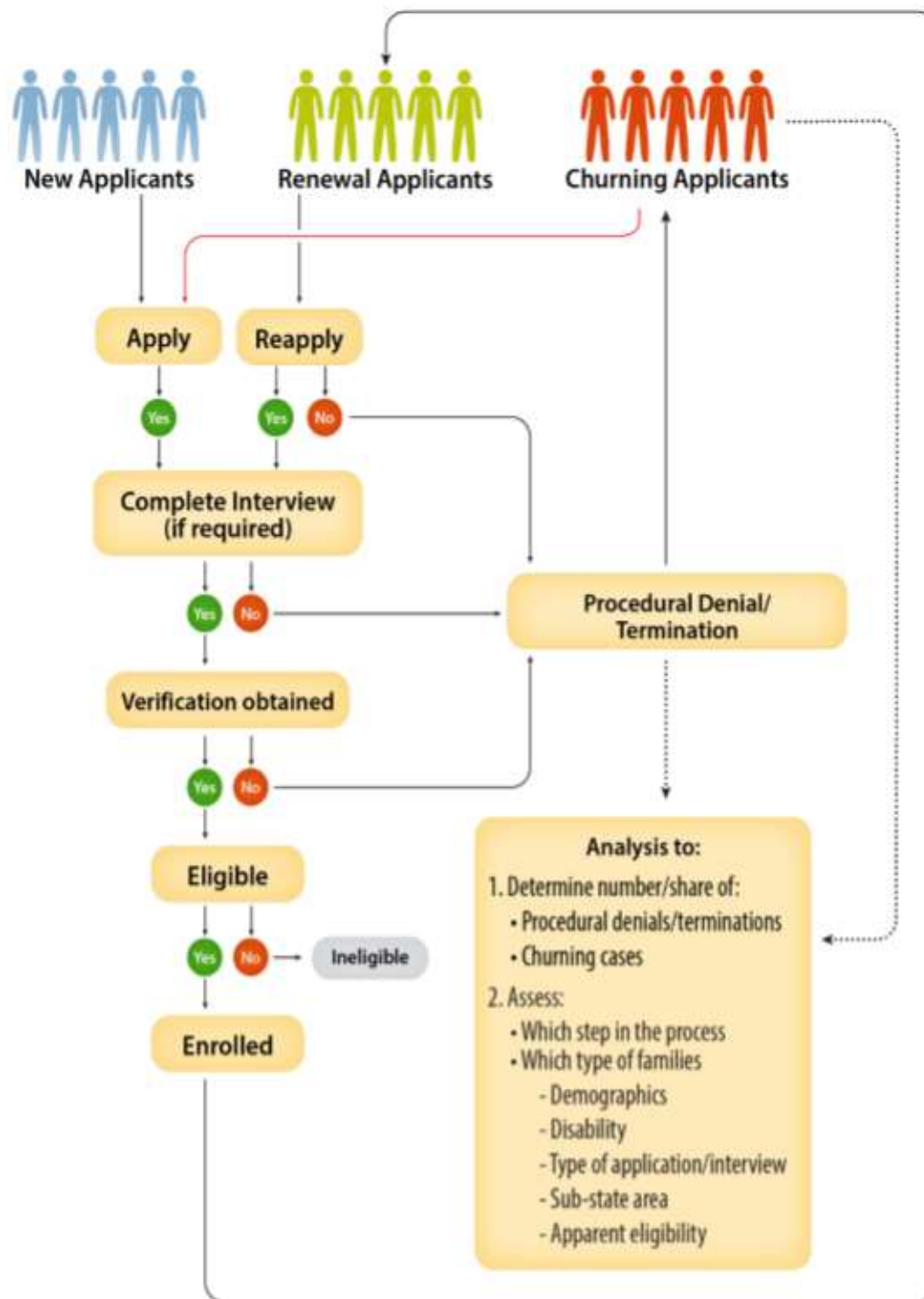
~CENTER ON BUDGET AND POLICY PRIORITIES, 2015

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<sup>7</sup> Concrete Support in Times of Need, Center for the Study of Social Policy, <https://cssp.org>



## Can Families Navigate the System?



Participant knowledge of processes, accessible and accurate information, adequate staffing levels to support the new application and application renewal process, as well as changes in family circumstances impact the churn.

**Center on Budget and Policy Priorities, 2015**

## Poverty in New Mexico



In New Mexico, the cliff effect and churning take place in a context of poverty that exceeds the national average. The nonprofit research group, New Mexico Voices for Children, describes broader economic and fiscal challenges impacting families. In New Mexico, about one in five, or around 401,000 people live in poverty.<sup>8</sup> The state has one of the largest numbers of poor children in the country – about 27 percent. New Mexico has 1.6 million families, 16 percent of which are considered poor.<sup>9</sup> According to the public policy nonprofit Circles USA, “A disproportionate share of single-parent households (39 percent) in New Mexico are currently living in poverty, **exceeding the national average of 31 percent.**”<sup>10</sup> **Median income in New Mexico in**

\$46,644, which is 77 percent of the U.S. median of \$60,336.

### A PRESSING EXAMPLE: THE NEED FOR SUBSIDIZED CHILD CARE

Many families facing cliff effects and churn desperately need child care assistance. The Child Care Assistance Program subsidizes the cost of child care for families of low-income. Families at or below 200% of the FPL who are working and or are in school and need child care and are determined eligible, will receive assistance. They may live in a single-parent household with no one else to watch their children at home. They may be supporting an older person or a person with disabilities. These family members cannot watch the children while the earner is at work. All children need access to high-quality and affordable early learning experiences. According to the Institute for Research on Poverty, for children in poverty, quality early care and education is essential to both their development and the peace of mind of their parents who must entrust the education and care of their children to others while they work. Addressing these child care needs are good for children, families, and society as a whole.<sup>11</sup>

New Mexico Voices for Children focused its cliff effect research on childcare because of the important role early care and education plays as part of a public benefits program and in ameliorating poverty. “...[M]ore than 90 percent of the heads of households receiving childcare assistance in New Mexico identify as single parents and the state’s childcare assistance program serves, on average, 1.7 children for every family served...”<sup>12</sup>

This report looks at the cliff effect for a prototypical family of three – a single parent, one infant, and one 40-year-old. Once this family makes \$1 more than \$42,660 in 2019, they lose childcare assistance from the state’s Children, Youth, and Families Department (CYFD). There are also co-pays associated with this childcare assistance that can run as high as 18 percent of their income for those nearing this \$42,660 cut off. So, when this family falls off the childcare assistance cliff, they need a 20 percent pay raise, or more than \$8,000 a year to replace the childcare assistance.<sup>13</sup> Pay raises of 20 percent are indeed rare in almost all states.

What if the family loses its childcare assistance and must rely on center-based care outside the home? The costs are prohibitive. “...[T]he annual average cost for center-based childcare in New Mexico is \$7,906 for an infant and \$7,663 for a four-year-old receiving fulltime care, or \$4,004 for a school-aged child receiving after-school care.”<sup>14</sup> New Mexico Voices for Children estimated that more than 18,000 children were served under CYFD child assistance in fiscal year 2018. This is thousands fewer than were served in previous years.<sup>15</sup>

<sup>8</sup> Circles USA. “Circles USA’s Cliff Effect Report for New Mexico First.” February 12, 2019.

<sup>9</sup> Ibid, pg. 1.

<sup>10</sup> Ibid.

<sup>11</sup> Jane Waldfogel, Terri Sabol, and Christina Weiland. “Poverty and early Care and Education.” University of Wisconsin Madison, Institute for Research on Poverty. Spring/Summer 2017

<sup>12</sup> Armelle, Casau and Sarah Hyde. “The Cliff Effect: One Step Forward, Two Steps Back.” New Mexico Voices for Children. Nov. 2018, pg. 2

<sup>13</sup> New Mexico Voices for Children Fact Sheet. “Helping New Mexico Families Get Ahead by Fixing the Childcare Cliff Effect.”

<sup>14</sup> Armelle, Casau and Sarah Hyde. “The Cliff Effect: One Step Forward, Two Steps Back.” New Mexico Voices for Children. Nov. 2018: pg. 2.

<sup>15</sup> Ibid pg. 3.

## Why is it Important to Mitigate Cliff Effects?

The reasons to mitigate cliff effects are numerous. First, they must be reduced to eliminate the poverty trap. “Families can find a bridge to economic self-sufficiency. Employees experience economic security for their children even when accepting raises, working overtime, and accepting promotions, and this makes them more likely to stay employed. This strategy will also help employers reduce the high cost of employee turnover.”<sup>16</sup>

Cliff effects are frustrating because they are not widely understood by employees and employers – until one or both experience the results. It is difficult for a boss to understand why his or her worker would turn down a promotion or a raise. The employer is often not understanding. Typically employees don’t want to share their specific financial situation with their employer, especially when it comes to the details of any social welfare program they use due to stigma.

The knowledge gap is extensive. How do families know when they qualify or why they qualify? Thresholds can be mysterious. Single parents work so hard to make ends meet, they may not know what the specific federal poverty level is, they just know that money is scarce. The cliff effect is thus one of the most difficult barriers in getting out of poverty.

## History of Cliff Effects

President Lyndon B. Johnson’s War on Poverty through his Great Society programs is where the cliff effect likely began. “Those domestic programs range from the Food Stamp Act of 1964, the Social Security Amendments of 1965 (which created Medicare and Medicaid), and the Elementary and Secondary Education Act of 1965 and Head Start, to the Civil Rights Act of 1964 and the Voting Rights Act of 1965.”<sup>17</sup>

Every president has had different views about the war on poverty. These vary by party, philosophy towards welfare in general, and the changing of time, culture, and social norms. Some presidents, such as Ronald Reagan, believed in weaning people off social assistance or cutting program funding to encourage reliance on the private sector for employment incentives. Others, such as Bill Clinton, believed in reforming the system.

Then the states had to get involved to administer these programs. Numerous governors and state legislators have come and gone since the Great Society of the 1960s. Like presidents, they have changed their views on social assistance programs. But all policy makers have dealt with cliff effects in one form or another. Resources are limited and program criteria, especially poverty levels and thresholds, vary over time. Over the decades, families on assistance must face choices about when, where and how to work, how long they work and whether they accept raises, promotions or new jobs, and whether they resist better pay to stay on social programs.

Policy makers still wrestle with these questions. What are the standards for qualifications? What is the best way to communicate with working families about their welfare assistance? How do administrators train their case workers? What is the optimum level of enrollment caps? How does an administrator figure out who to cut from assistance rolls? How do state employees maintain the amount of paperwork and clear bureaucratic hurdles to administer welfare programs? How do policy makers plug gaps in funding in states where tax revenues and tax bases are declining?

## How Are Other States Mitigating the Cliff Effect?

Numerous families in other states must contend with the cliff effect. The report seeks to compare best practices and lessons learned from Massachusetts, Vermont, Michigan, Ohio, and Colorado. It is hoped that by comparing and contrasting policies from a geographically diverse sample of states from the Northeast, the Mountain West, and the Midwest, various policy options will emerge allowing policy makers in the Land of Enchantment to better mitigate the effects of cliff effects.

<sup>16</sup> Perez, Pedro. “Examining, Understanding, and Mitigating the Benefits Cliff Effect.” Aha Process Inc. May 21, 2018.

<sup>17</sup> Ibid.

## MASSACHUSETTS

Working single parents in Massachusetts often struggle due to the high cost of living. A working parent making \$11 an hour (\$22,000 a year) might believe they are bettering their situation by completing a medical assistant training program and getting a job that pays \$16 an hour (\$32,000 a year). Benefit cuts would leave this person with less money than before they got the new position.<sup>18</sup> The better job would unfortunately have resulted in lower levels for her childcare subsidy, housing voucher, and loss of her earned income tax credit. She would also lose eligibility for Supplementary Nutritional Assistance Program (SNAP) and the Women Infants and Children (WIC) Nutrition Program.<sup>19</sup>

The Citizens' Housing and Planning Association, an affordable housing nonprofit in Boston, held focus groups to examine the effects of the poverty trap. Two quotes from the focus groups were compelling. One worker interviewed in the group said, "I did have a job. But if you clock too many hours...most recently I was told that if I'm over the (income) guidelines they will take my (childcare) voucher so I must make below means to survive. I'm afraid to take a \$15 an hour job."<sup>20</sup>

The Citizen's Planning and Housing Association had the following recommendations for Massachusetts lawmakers.<sup>21</sup> The first would be to appoint a special secretary to coordinate and calibrate assistance policies across state agencies. Second, increase the number of affordable housing units, especially in larger cities such as Boston. This could be accomplished by allowing for greater numbers of rental assistance vouchers. Third, higher incomes are needed to support the working poor. The key is focusing on economic upward mobility. Fourth, evaluate various social programs by tracing progress and insisting accurate and in-depth data is reported to the state government.<sup>22</sup>

## VERMONT

Another, albeit smaller northeastern state, Vermont, disregards certain income in calculating eligibility for its TANF (Vermont Reach Up) program. Reach Up's eligibility is "calculated using their household income, which is adjusted to include several income disregards. Following suit with other states, Vermont raised its income disregard in 2014 to broaden qualifications and ease transitions off TANF assistance. Act 198 increased the income disregard from the first \$200 earned per month to the first \$250; after that the remaining 50 percent of income is disregarded."<sup>23</sup>

Its implementation of SNAP (3 Squares Vermont) had an average monthly benefit of \$228 in 2016 reaching around 79,000 people in about 43,000 households. The state believes 3 Squares Vermont also has greater inclusion and feeds more people because households receiving the earned income tax credit are automatically qualified for the program.<sup>24</sup> This coordination of services helps to prevent missed opportunities from receiving benefits.

## OHIO

Ohio has three large metropolitan areas, Cleveland, Columbus and Cincinnati, plus an impoverished rural area in the southeastern part of the state. These geographical areas bear the brunt of cliff effects in Ohio. Academic researchers at Ohio State University have examined the benefits cliff in the state by focusing on the "bridge between poverty and self-sufficiency."<sup>25</sup> The authors looked at the period between 2009 and 2013 and found that while the number of people on TANF and SNAP had shrunk after the great recession, working families were still having difficulty bridging the gap between relying on public assistance and economic self-sufficiency.<sup>26</sup> In the early part of this decade 1.8 million people in Ohio, comprising over 349,000 families, were living in poverty. The 2019 federal poverty level is \$12,940 for one person and \$25,750 for a four-person family. So, a family of four cannot earn over \$26,000 without losing quite a few benefit programs for needy families in Ohio. The researchers at Ohio State University recommended four policy options.<sup>27</sup>

<sup>18</sup> Citizens' Housing and Planning Association. Chapa.org. "On Solid Ground: Building Opportunity, Preventing Homelessness." February 11, 2015.

<sup>19</sup> Ibid, pg. 24.

<sup>20</sup> Ibid, pg. 25.

<sup>21</sup> Ibid, pg. 27.

<sup>22</sup> Ibid, pg. 27.

<sup>23</sup> Vermont Legislative Research Service. "The Benefits Cliff." May 12, 2017: pg. 3.

<sup>24</sup> Ibid, pg. 19.

<sup>25</sup> Hawley, Joshua D. and Julie A. Maurer. "Falling Off the Cliff? Increasing Economic Security for Low Income Adults as the Safety Net Shrinks." August 18, 2014. John Glenn School of Public Affairs. The Ohio State University.

<sup>26</sup> Ibid.

<sup>27</sup> Ibid, pg. 12.

First, raise the amount of income earned before households lose their TANF cash benefits. This would allow parents to work more hours and make more income without losing benefits. The reform could eventually raise more tax revenue for the state. Second, since Ohio looks at income eligibility each year, extend the length of time between each recertification. This should reduce churn and could also diminish interruptions in childcare. Third, add more benefits for job support programs such as individual training accounts that better match skills to employer needs. The idea is to create more jobs and higher labor participation rates. Fourth, since benefit eligibility and amount paid is determined by net income, disallow certain amounts of earned income that go to the total net income in benefit calculations. This reform is similar to Vermont's policy and is designed to increase the number of families striving for self-sufficiency.

## MICHIGAN

Ohio's neighbor Michigan also has a high rate of poverty at 16.3 percent, with many of these families headed by a single parent.<sup>28</sup> Their child poverty rate is 23 percent.<sup>29</sup> One-quarter (25 percent) of Michigan families are considered working poor or what social scientists call "Asset Limited, Income Constrained, Employed,"<sup>30</sup> Cliff effects in Michigan are mainly problematic in the state's Family Independence Program, Food Assistance Program, and Child Development and Care Program.

Policy options for Michigan include: raising the threshold to extend the Child Development and Care Program to families up to 275 percent of the federal poverty level; make exiting the childcare program gradual depending on how much the family's earned income rises; and raise reimbursements rates for childcare so that they are linked to market prices for highly rated daycare providers.<sup>31</sup>

Authors commissioned by the Michigan Department of Education Office held interviews and focus groups with various stakeholders during their research process. Several quotes emerged that explained some problems with the childcare cliff effect in the state:<sup>32</sup>

- "One parent said, 'I spend almost \$10,000 on childcare expenses in a year, and I am at the cheapest center that I could find in (my area).'"
- "Another parent said, 'Quality programs are expensive. While there are scholarships available for low-income people, there is nothing for middle-income families.'"
- "An administrator said, 'Most of our parents make too much to qualify (for state assistance) yet daycare cost is a real struggle for them.'"<sup>33</sup>

Other policy options, according to the Michigan Department of Education Office, focus on more financial assistance to families for childcare.<sup>34</sup> An example would be to raise reimbursement rates. Next, increasing access to quality providers by providing for childcare slots to "expand service to low-income children. In addition, the state should remove application and redetermination barriers that families face."<sup>35</sup> Michigan should also make it easier for providers to improve their programs. An example would be to provide more funding to support improvements to childcare. The state could also allow current and future members of the childcare program to have better access to information about their benefits and be informed as to when they are facing a benefits cliff. An example is to establish a phone hotline so all stakeholders, including parents, daycare centers, and caseworkers could be provided with detailed information.<sup>36</sup> Finally, Michigan should better support workers who provide childcare across the state. An example is to find out how best to improve pay and benefits for childcare providers.<sup>37</sup>

## COLORADO

Shifting over to the Mountain West region, Colorado has grappled with cliff effects in its various social assistance programs for years. Poverty challenges are acute because Colorado, especially in urban areas such as Denver and Colorado Springs, has a relatively high cost of living. The following statistics are evidence that many Coloradans are

<sup>28</sup> Circles USA. "The Cliff Effect: Policy Recommendations for Advocates, Leaders and Stakeholders – What Can Key Supporters Do Next to Support the Current and Future Needs of Michigan's People." March 2019.

<sup>29</sup> Ibid.

<sup>30</sup> Ibid.

<sup>31</sup> Ibid.

<sup>32</sup> Prepared for Michigan Department of Education Office of Head Start by Private Sector Consultant. "Building a Better Childcare System: What Michigan Can Do to Help More Parents and Children Access Quality Care." Pg. 13.

<sup>33</sup> Ibid.

<sup>34</sup> Ibid.

<sup>35</sup> Ibid, pg. 25.

<sup>36</sup> Ibid, pg. 40.

<sup>37</sup> Ibid, pg. 51.

struggling to make ends meet, maintaining net income while working, striving for economic self-sufficiency and remaining on public assistance while avoiding the cliff effect:<sup>38</sup>

- To afford a two-bedroom apartment, minimum wage workers in Colorado would have to work 97 hours a week.
- 43 percent of working, single moms have no college degree or any education past high school. Low levels of education and poverty have been found to be linked.<sup>39</sup>
- “Colorado has the fifth fastest growing child poverty rate in the country.”<sup>40</sup> 30 percent of kids in Denver County live below the federal poverty level.

Policy options from Colorado to mitigate cliff effects include expanding the childcare cliff effect pilot program; raising the number of slots for high-priced and high-quality childcare providers; providing college tuition assistance to homeless teenagers; building more affordable housing; and improving employment skills by fully-funding state workforce investment programs.<sup>41</sup>

### VOICES FOR CHILDREN: COMPARING NEW MEXICO TO NATIONAL TRENDS

In general, for a wrap-up of policy options to mitigate cliff effects in other states, New Mexico Voices for Children Executive Director James Jimenez said in an interview with New Mexico First that many states have already made their child care assistance programs work better for their families who attend school or work but earn low incomes. Jimenez said, “There are 14 states with eligibility thresholds that go above 200 percent of federal poverty line (at an average of 245 percent of federal poverty level), with Colorado and Vermont near or slightly above 300 percent of federal poverty level. There are 28 states with lower co-pays than New Mexico for a family of three at 100 percent of federal poverty level with one child in childcare and 19 states have lower co-pays for a family of three at 150 percent of federal poverty level with one child in childcare. Many states also align various federal and state programs – like SNAP, Medicaid, and childcare assistance – so that when families lose access or eligibility for one, they are still connected to all the other programs they qualify for that could help ease the cliff and the loss of an important support.”<sup>42</sup>

## Overview of New Mexico Public Assistance Programs

The New Mexico Human Services Department (HSD) is one of the largest departments in state government and arguably has some of the biggest exposure to potential cliff effects and churn. HSD administers Medicaid, TANF and SNAP, among other related programs. HSD serves an estimated 800,000 New Mexicans, close to half of the entire population.<sup>43</sup> HSD is also responsible for at least \$7 billion in state and federal funds as of October 2017.<sup>44</sup>

### TANF

One of the main cash assistance programs from HSD is TANF or Temporary Assistance to Needy Families. TANF is overseen by the U.S. Department of Health and Human Services. Eligibility is time-limited and contingent upon work. It allows working, needy families to have monthly cash assistance and employment opportunities. The money can be spent on housing, utilities, and clothing. In New Mexico, TANF is referred to as the New Mexico Works program and recipients must live in the state.<sup>45</sup> Cash payments are available through Electronic Benefits Cards that are like bank debit cards.

TANF aims to promote marriage, job training and employment opportunities. TANF attempts to reduce the number of single-child households and encourage two-parent families.<sup>46</sup> TANF recipients must have at least one child.

According to the HSD August 2019 Monthly Statistical Report FY2020 Federal Poverty Guidelines in August 2019, 26, 976 people participated in TANF and \$8,047,797 had already been expended by August 2019 for

<sup>38</sup> Sharon A. Knight and Anne Mosle. “A Roadmap from Poverty to Self-Sufficiency.” Warren Village. July 2018.

<sup>39</sup> Ibid, pg. 3.

<sup>40</sup> Ibid.

<sup>41</sup> Ibid, pg. 3.

<sup>42</sup> Answers to interview questions (email) to Sharon Kayne and James Jimenez of New Mexico Voices for Children. October 1, 2019.

<sup>43</sup> New Mexico Human Services official web site. Hsd.state.nm.us. Information updated October 2017. Accessed October 1, 2019.

<sup>44</sup> Ibid.

<sup>45</sup> New Mexico Human Services Department. “TANF and New Mexico Works Fact Sheet.” Updated January 20, 2017.

<sup>46</sup> Ibid.



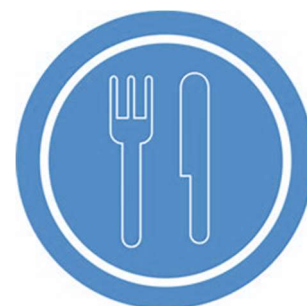
SFY 2020. 58% of participants were females and 42% were males. 67% of participants were Hispanic and 33% were Non-Hispanic. 83% were white; 8% were Native American or Alaska Native; 4% were African American or Black; 2 % were more than one race. Asians, Native Hawaiian or Pacific Islanders, Unknown or Not declared made up less than 1% of the participants each. \$4,604,841 were expended over 10,340 cases for 6,963 adults and 19,625 children in August 2019 in New Mexico.

“The original goal of TANF was to increase states’ flexibility to reduce needy parents’ reliance on public benefits, encourage work and marriage, and increase economic self-sufficiency. The good news is 20 years since the passage of welfare reform, the rolls have dwindled, more single mothers are working (but not married), and (disadvantaged) children overall are better off on a host of health outcomes.”<sup>47</sup> While people were off the rolls, their economic status did not necessarily improve.

As the Congressional Research Service wrote, “States determine the financial eligibility criteria and cash assistance benefit amounts. There is a large amount of variation among the states in the income thresholds that determine whether a family is eligible for cash assistance and in the benefits paid.”<sup>48</sup>

### SNAP

HSD also administers SNAP food security benefits. In fiscal year 2017, SNAP was distributed to 461,000 New Mexico citizens or about 22 percent of the state’s population. More than 73 percent of SNAP users are in families with kids.<sup>49</sup> More than 48 percent of SNAP benefits go to working families. It is estimated that at least 17 percent of New Mexico households are food insecure or have problems giving their families nutritional meals.<sup>50</sup> In 2016, the average monthly SNAP benefit per person per meal was only \$1.33.<sup>51</sup> The highest monthly SNAP benefit in New Mexico goes to families with children.



As of August 2019, \$105,522,396 had been expended for SNAP for FY2020. In August 2019, \$52,778,694 was expended to serve 223,668 cases. The average expenditure was \$236 per case. There were 450,602 recipients. 58% of recipients were adults and 32% were children. 17,370 cases were processed and 13,922 were approved for benefits.<sup>52</sup>

The Income Support Division has 36 field offices and 7 call centers. Currently, HSD provides benefits to approximately 1 million New Mexicans. According to the HSD August 2019 Monthly Statistical Report FY2020 Federal Poverty Guidelines, the following chart specifies service levels.

Programs	# of Individuals Served	Age 0-5	Age 6-14	Age 15-18	Adults
<b>Cash</b>	29,973	6,040	10,039	3,269	19,625
<b>SNAP</b>	452,504	58,173	97,412	34,647	262,272
<b>SNAP and Cash Combined</b>	27,297	NA	NA	NA	NA

For August 2019, the demographic profile includes 203,641 men and 246,961 women. In terms of ethnicity, 55% of participants are Hispanic and 45% are Non-Hispanic. Regarding the racial make-up of participants, 77% of participants identified as White, 17% as Native American or Alaska Native, 2.6% as African American or Black, and

<sup>47</sup> “TANF Turns 20” University of Wisconsin Madison, Institute for Research on Poverty. March 2017.

<sup>48</sup> Falk, Gene. “TANF: Eligibility Amounts in State Cash Assistance Programs.” Congressional Research Service. July 22, 2014.

<sup>49</sup> Center of Budget and Policy Priorities. “New Mexico Supplemental Nutrition Assistance Program Fact Sheet. March 14, 2018.

<sup>50</sup> Ibid.

<sup>51</sup> Ibid.

<sup>52</sup> According to the HSD August 2019 Monthly Statistical Report FY2020 Federal Poverty Guidelines



1.4% as more than one race. Asians, Native Hawaiian or Pacific Islanders, Unknown or Not declared made up less than 1% of the participants each.

### Federal Renewal Rules for SNAP

“Under SNAP rules, states initiate the recertification process by notifying the household of the recertification requirement and providing an application and list of required verifications. SNAP certifications are for a fixed number of months and then expire unless there is a new approved application. States must interview by phone or in person at least one per year. All applications must include a signature which may be electronic or by telephone. In addition, families must tell the state if their income exceeds 130% of the FPL.”<sup>53</sup> If an applicant is categorically eligible for benefits, the Federal Poverty Guideline is 165%.

### MEDICAID

This program was established federally in 1965 to provide health care to people earning low incomes. All Medicaid programs are unique across the country. The federal government sets the basic requirements, but states have latitude with the benefits they provide. States can also expand coverage for children and other groups. They can opt for different benefit packages, choose their type of delivery and payment for medical services. States can also use long-term care options or target extreme health problems like opioid addiction or HIV/AIDS.<sup>54</sup>

In New Mexico, Medicaid and related programs such as the Children’s Health Insurance Program (CHIP) are used by 787,000 people.<sup>55</sup> 27 percent of citizens in the state were covered by Medicaid/CHIP in 2015.<sup>56</sup> 76 percent of adult and child Medicaid recipients in the state are a part of working families.<sup>57</sup> In 2016, New Mexico spent \$5.4 billion on Medicaid. Approximately 15 percent of the general fund is spent on the program(s) per year.<sup>58</sup>

### Increased access to Medicaid improves health outcomes and reduces health disparities by income levels

According to Rourke O’Brien, Assistant Professor of Public Affairs at the University of Wisconsin, Institute for the Study of Poverty, “In the 1980s and 1990s, federal and state changes to Medicaid greatly expanded the number of low-income infants and pregnant women eligible to receive this coverage. This expansion was associated with a number of positive changes, including sizable reductions in infant mortality and the incidence of low birth weight. Among school-aged children, health disparities by income level were reduced, and there is evidence that these improved health outcomes continue as children become adults.” (2017)

<sup>53</sup> Ibid

<sup>54</sup> The Henry J. Kaiser Family Foundation. “Medicaid in New Mexico Fact Sheet.” June 2017.

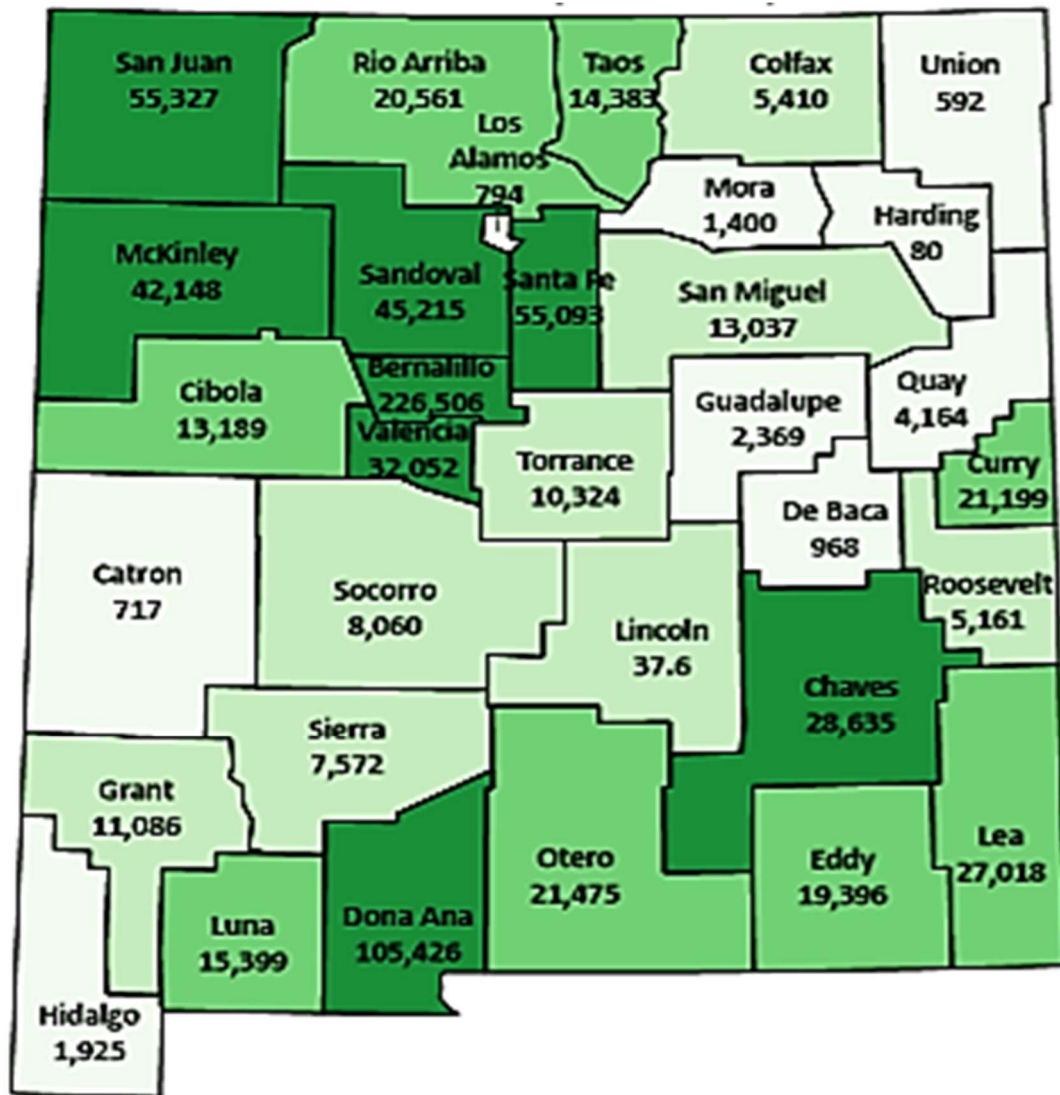
<sup>55</sup> Ibid.

<sup>56</sup> Ibid.

<sup>57</sup> Ibid.

<sup>58</sup> Ibid.

## NM MEDICAID COVERAGE BY COUNTY OF RESIDENCE AS OF 8/31/19



County Type	Sector Population	Medicaid Enrollment	% Population Enrolled
Metropolitan	1,064,239	387,819	36.44%
Rural	874,869	359,055	41.04%
Frontier	162,619	77,156	47.45%
Total	2,101,727	824,030	

### Federal Renewal Rules for Medicaid

"States first evaluate information available in casefiles and through electronic data matches. If such information is sufficient to determine Medicaid eligibility, the agency extends eligibility and sends a notice informing the family of continued eligibility and the basis for the decision. (The individual does not need to take any action...) If available electronic data or information in casefiles is not sufficient, the agency must give families the opportunity to renew eligibility in person, online, by telephone, or by mail. The agency must send forms that are prepopulated with available information and provide the individual with reasonable time to correct any inaccuracies and provide any additional required information. Medicaid renewals are required annually, but eligibility periods are not fixed. If an individual contacts the state within 90 days of losing coverage and is still eligible, the state must re-establish coverage without requiring a full application. Consumers are required to report changes in their circumstances and states are required to act on changes that may impact eligibility. A signature is not required with each Medicaid renewal."<sup>59</sup>

### CHILDCARE ASSISTANCE

As we described in our opening section, along with food security, cash assistance for necessary household items and medical insurance, childcare assistance may be one of the most important risk areas for the cliff effect and can contribute to a sometimes-insurmountable poverty trap when it is not available. Lack of



access to quality, affordable childcare prevents full participation in work or job training programs. Lack of access to high quality early care and education during critical developmental windows contributes to socio-economic disparity and a developmental achievement gap.<sup>60</sup> CYFD administers the NM Child Care Assistance Program. As of April 2019, 18,433 children had families who were receiving childcare assistance in New Mexico allowing them to participate in the workforce or prepare for workforce participation.

In New Mexico, "the Child Care Assistance Program subsidizes the cost of childcare for low-income families (at or below 200 percent of the federal poverty level) that are working and/or in school and have a need for childcare. Once determined eligible for Child Care Assistance, families can

remain eligible up to 200 percent of the federal poverty level. The subsidy amount varies depending upon the age of the child, the type of childcare, the location of the program, and the rating of the childcare program (as determined by the Look for the STARS Quality Rating System). Regional offices are located throughout the state and are staffed by Eligibility Interviewers who work with families to determine the amount of subsidy they qualify for."<sup>61</sup> Eligibility income thresholds for childcare assistance in New Mexico at 200 percent of the federal poverty level is \$33,820 for a family of two, \$42,660 for a family of three and \$51,500 for a family of four. It is not difficult to see how a new job, promotion, or pay raise could put a family over the cliff and force them to lose access to childcare assistance. Not only does this create challenges with a parent's ability to participate in the workforce, it interrupts the continuity of early care and education for the child/children.

## Committee for Economic Development

"SUBSIDIZED CHILD CARE CAN ENCOURAGE LOW-SKILLED PARENTS TO MAINTAIN THEIR CONNECTION TO THE LABOR FORCE OR TO UPGRADE THEIR SKILLS THROUGH EDUCATION, THEREBY CONTRIBUTING TO ECONOMIC GROWTH AND PRODUCTIVITY OVER THE LONGER TERM."

CHILDCARE IN STATE ECONOMIES, 2019 UPDATE

<sup>59</sup> Ibid

<sup>60</sup> ABtassoicates.com "Closing the Achievement Gap, 40 Years of Expertise, evaluating the impact of early care and education." Retrieved October 10, 2019.

<sup>61</sup> CYFD.org. Accessed October 1, 2019.

## Federal Renewal Rules for Childcare Assistance

“Under the Child Care development Block Grant (CCDBG), states have significant flexibility in structuring eligibility redeterminations and what they require from families procedurally. ....CCDBG requires children to be eligible for subsidies for a minimum of 12 months, regardless of income changes and temporary changes in employment, as long as family income remains under the federal income standard. It also requires states to ensure that their redetermination procedures do not require parents to unduly disrupt employment in order to comply.”<sup>62</sup>

## HOUSING

Lack of affordable housing makes it sometimes impossible to escape the poverty trap. That is where U.S. Department of Housing and Urban Development (HUD) and the U.S. Department of Agriculture (USDA) come in. HUD, and to a lesser extent, USDA, provides rental assistance to needy families. According to the Center of Budget and Policy Priorities, “Over 26,000 low-income households in New Mexico use federal rental assistance to rent modest housing at an affordable cost; at least 60 percent have extremely low incomes.”<sup>63</sup> 93 percent of New Mexico households getting rental assistance include children or people who are elderly or disabled and 29 percent are adults with children.<sup>64</sup> 71 percent of these families were working and at least 8,300 of these households lived in rural areas as of 2017.<sup>65</sup>

Housing choice vouchers, assistance that pays direct monies to landlords for apartments or single-family houses through public housing agencies, is by far the most popular form of housing subsidies in New Mexico. At least 12,000 households are helped by the benefits.<sup>66</sup> This assistance is sometimes difficult to get because of the lack of affordable housing in many areas around the country. In New Mexico, affordable housing is scarce in rural areas.



## Benefits May Not Resolve Economic Insecurity & Improve Individual and Family Well-being

In order to better understand how administration and eligibility requirements of these various benefits sustain economic insecurity, New Mexico First partnered with Circles USA. This nonprofit wrote a research report that did an excellent job outlining three case studies in which families fall victim to the poverty trap by losing public assistance when they get offered a pay raise, promotion or new job. The following case studies are excerpted from Circles USA research, which was commissioned by New Mexico First.<sup>67</sup>

### CASE FAMILY 1

Mia is a single mother (age 28) with a daughter Ava (3 years old) and son Luis (7 years old). Mia will soon complete a program to become a Licensed Practical Nurse (LPN) and is looking forward to finding a new job once she graduates. Mia has been working as a personal care aid while in school for 35 hours/week, earning \$13.00/hour. Her annual income is \$23,205 (111% of the federal poverty level). Mia and her children receive public assistance from several programs, including food stamps (\$511), childcare assistance (\$467), and medical assistance (\$469).

Mia recently received a licensed practical nurse job offer and is excited to start her new career. The starting salary would be \$3,600/month and includes health insurance. Her out-of-pocket cost for individual

<sup>62</sup> ibid

<sup>63</sup> Center of Budget and Policy Priorities. “New Mexico Fact Sheet: Federal Rental Assistance.” March 30, 2017.

<sup>64</sup> ibid, pg. 1.

<sup>65</sup> ibid, pg. 1.

<sup>66</sup> ibid, pg. 1.

<sup>67</sup> Circles USA. “Circle’s USA Cliff Effect Report for New Mexico First. February 12, 2019.

coverage would be \$100/month. The new salary will place Mia and her family at 208 percent of the federal poverty levels. Although the increase in salary is significant, Mia starts to question how much better off she will be if she accepts the new position.

With the increase in income, Mia will lose all assistance from public programs (\$978) and she estimates that childcare will cost about \$1,000 per month. Mia is not concerned about losing food stamps as she considers herself quite resourceful in managing her food budget, but the childcare assistance she receives is critical to the well-being of her children. She does not know how she will be able to keep her daughter in the quality-rated childcare center she has been in since birth and still feed the family. With the new job, she would be responsible for the full amount of both. Mia quickly realizes that although she will be making \$1,600 more per month, her family may not be much better off. Mia wonders why she even enrolled in the LPN program if she cannot afford to take an LPN job.

## CASE FAMILY 2

Sofia (age 33) and Alejandro (age 35) have been married for 12 years and have two children: Daniel (age 3) and Lucas (age 6). Alejandro works in a local machine shop for \$15 per hour full-time, while Sofia works at a local hotel at the front desk several days a week in the afternoon and evening (\$10 per hour for 24 hours each week). Based on their work schedules, the family's daycare requirements are limited to approximately eight hours per week. A neighbor watches Daniel and Lucas (after school) for \$150 per month.

Alejandro's employer does not provide health care since it is a small shop with only four employees. The family purchases health care on the Affordable Care Act (ACA) marketplace for \$180 per month after federal subsidies. The family does not receive any other public benefits. The household has a monthly income of \$3,570, which is 171 percent of the federal poverty level. Monthly expenses average \$3,400, so the family lives paycheck to paycheck and they are often short at the end of the month.

Sofia has been offered a full-time position at the hotel, making \$12 per hour as a front desk manager. With the promotion, the family's combined income would increase to \$4,590 each month, placing them at 219 percent of the federal poverty level. With the new job, however, the family will need full-time daycare for Daniel and daily after-school care for Lucas. Their neighbor is unwilling to provide the increased level of childcare, so Sofia investigated a local daycare center for Daniel and looked at the after-school program at Lucas' elementary school.

Sofia estimates that full-time childcare costs for the family will run \$1,000 per month instead of the \$150/month they used to pay. The family would not be eligible for any assistance from New Mexico's Children, Youth and Family Department since all assistance ends at 200 percent of the federal poverty level. The increase in the family's income would be fully offset by increased childcare costs. Even though the promotion at the hotel could lead to further salary increases and career advancement in the future, Sofia decides to pass on the current front desk manager position.

## CASE FAMILY 3

David and Karen (now both 66 years of age), along with their two daughters (Nicole and Sarah), settled in New Mexico in the late 1980s. David was a truck driver and Karen was a stay-at-home mom while their children were at home. Sarah (now age 38) is divorced and has sole custody of her three children: John (age 13), Ryan (age 8), and Jessica (age 5). Sarah's husband is estranged from the family and, despite court orders, does not provide any spousal or child support. David, Karen, Sarah, and her three children live together in the family's original home. Sarah works full time as an administrative assistant with a monthly salary of \$2,500 (116% of the FPL), but receives no health care coverage from her employer since the office has only three employees. Karen works part-time at a retail store approximately 15 hours per week for \$10 an hour. David is retired and receives a small pension along with social security benefits.

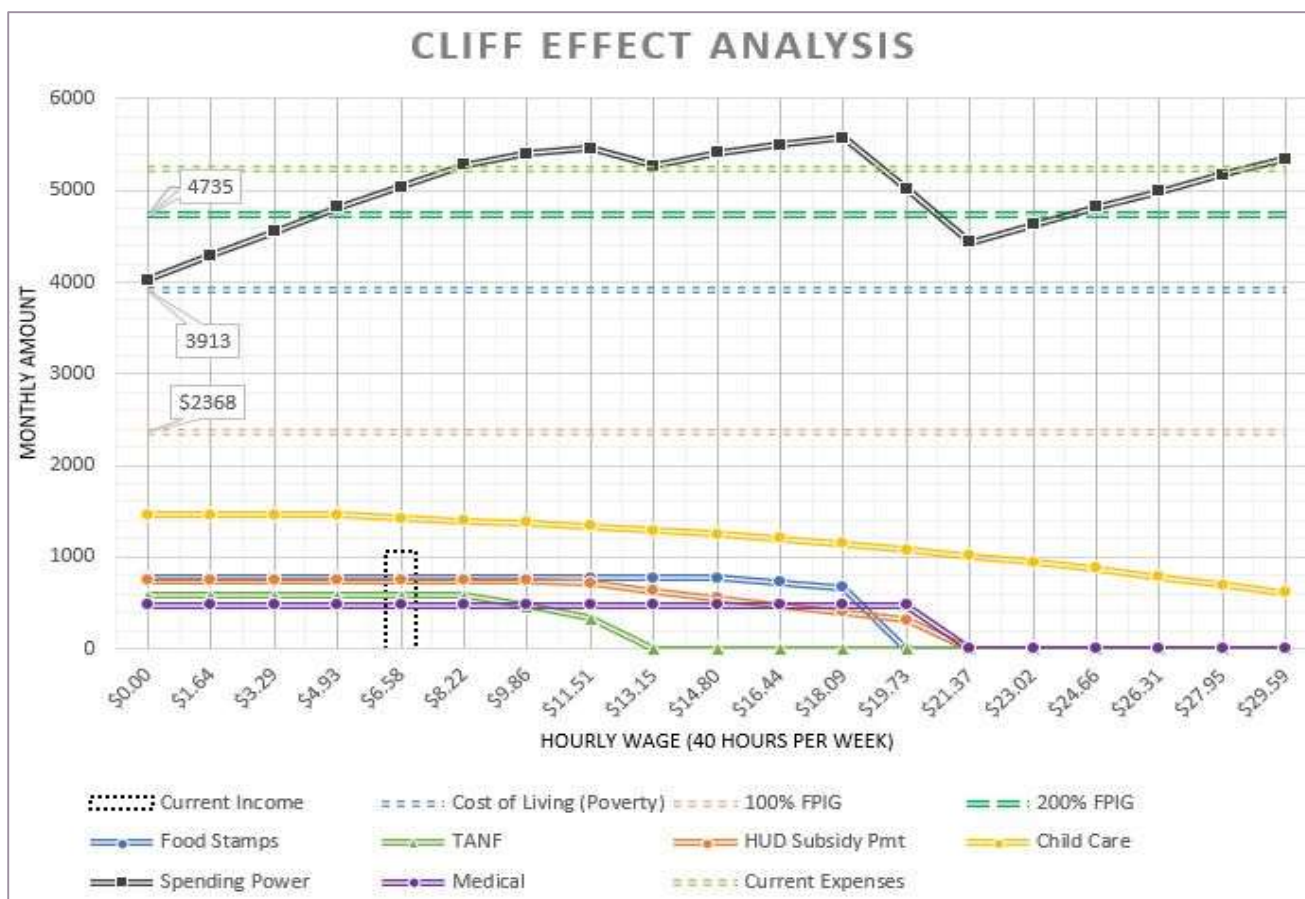
Both Karen and David have Medicare coverage. Sarah receives \$925 worth of SNAP assistance per month and is eligible for Medicaid. Her children are also covered through Medicaid (New MexiKids). Although all six individuals live together, the size of the household is based upon tax returns. In this case, the family files two returns: one for Sarah and her three children and one for David and Karen. As a result, household income and percentage of the FPL is based on Sarah's tax return.



Sarah could move to a new job with a monthly salary of \$3,000. The new position, like her current position, will not include healthcare benefits. Sarah is concerned that the increase in income will cause her to lose her SNAP benefits and/or her Medicaid and New MexiKids coverage. Sarah does some research and discovers that with the increased salary her SNAP benefits will drop to \$715/month, leaving her a net gain of \$290/month. The Medicaid and MexiKids benefits would remain unchanged. Sarah is disappointed that she will only keep 58 cents for every dollar of increase in salary but decides to take the new job.

Shortly after accepting the new job, Sarah realizes that if her income was to increase further, say to \$3,750, she would lose Medicaid coverage and would be forced to buy health insurance through the ACA marketplace. Sarah decides she will not agree to take on overtime work, even if this causes conflict with her new employer. If she worked overtime and exceeded the Medicaid threshold, the cost of buying health care coverage through the ACA marketplace would wipe out a large portion of her new income. More importantly, she does not want to go through the hurdles associated with going on and off Medicaid and possibly face gaps in her health care coverage.<sup>68</sup>

As part of its commissioned research for New Mexico First, Circles USA created a cliff effects benefits calculator that is designed to compute when benefits are lost due to extra income. The idea is to inform benefit recipients, citizens, administrators, case workers, and the media when recipients approach the benefits cliff.



This calculator works well and provides all the necessary analysis to save people from the poverty trap when they are at danger of losing eligibility for a public assistance program. New Mexico First recommends the creation of a slightly more user-friendly interactive dashboard, rather than relying on a proprietary Excel spreadsheet. This interactive dashboard could be made available on the Circles USA website as an open source tool that all stakeholders could use transparently. Eventually, the dashboard could be developed into a mobile app for wider distribution around New Mexico.

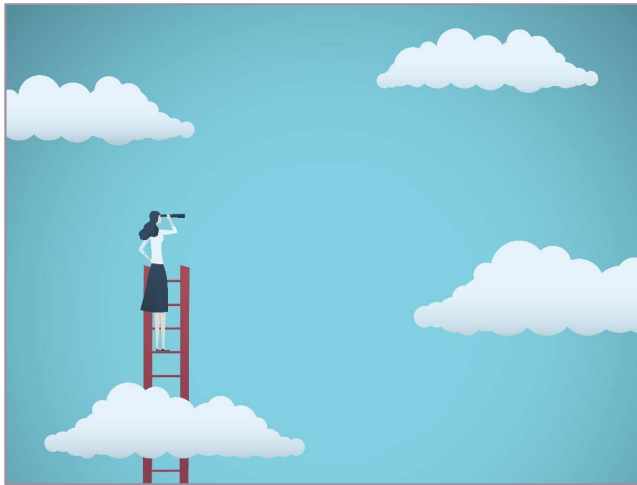
<sup>68</sup> Ibid, pp. 2-5.

## New Mexico Policy Options to Mitigate Cliff Effects and Churn

New Mexico Governor Michelle Lujan Grisham and the New Mexico State Legislature have made several budget proposals, reforms, and new legislation signed into law to mitigate cliff effects. Her first budget proposal in 2019's State of the State address was to call for an expansion of the Working Families Tax Credit, the state version of the federal earned income tax credit. As Lujan Grisham explained, "I have also proposed an expansion of the Working Families Tax Credit, which we know creates a ladder out of poverty, providing childcare programs so parents can continue to get meaningful support even as they do the hard work to transform themselves and their family's fortunes for the better. These are the New Mexicans we most need to invest in: The New Mexicans who want something better for their children. We can and will help them on their way."<sup>69</sup>

In May of 2019, Governor Lujan Grisham discussed "increasing Medicaid reimbursement rates with \$60 million for targeted provider rate increases." And this year, CYFD announced that families earning a gross income of up to 200 percent of the federal poverty level will continue to be eligible for the Child Care Assistance Program."<sup>70</sup>

The state of New Mexico also increased the threshold for continued childcare eligibility from CYFD to 250 percent of the federal poverty level.<sup>71</sup> The rule went into effect October 1, 2019.



Many cliff effect mitigation policy recommendations involve lifting program thresholds. One consideration could be to begin a pilot program on one benefit entitlement category. This would involve targeting a smaller representative population involving different geographical areas and rural and urban locations. The sample could be achieved by selecting random zip codes. Other targets would be groups depending on demographics by age, race and ethnicity, or married or single-led households.

New Mexico Voices for Children Executive Director James Jimenez believes there are several options for New Mexico to ponder.

"First, he said, "Childcare assistance eligibility should be broadened to encompass all working families up to 300 percent of the federal poverty level. Co-pays should be eliminated completely for families living under 100 percent of the federal poverty level. They should then gradually increase while not exceeding 7 percent of a family's gross income for families between 100 and 200 percent of the federal poverty level and not exceeding 14 percent of a family's gross income for families up to 300 percent of federal poverty level. While such a co-pay structure would not entirely eliminate the cliff at 300 percent of the federal poverty level, it would delay and reduce the intensity of the cliff while ensuring that families have less onerous co-pays to deal with on their path to economic security."<sup>72</sup>

Senator Ortiz y Pino recommends that New Mexico increase the Working Families Tax Credit, as do New Mexico Voices for Children and the New Mexico Center on Law and Poverty. The Working Families Tax Credit is similar to the federal government's Earned Income Tax Credit, it is just implemented and administered at the state level. This state tax credit is aimed at working families and the idea is to improve economic outcomes for lower income working adults. In 2019, state legislators raised the level of the Working Families Tax Credit, but the New Mexico Center for Law and Poverty has called for the state tax credit to be increased to 20 percent of the federal tax credit. This raise, according to the center, would help

<sup>69</sup> Governor Michelle Lujan Grisham. Speech to the New Mexico Legislature. January 15, 2019.

<sup>70</sup> Nathanson, Rick. "CYFD Drops Plan to Tighten Eligibility Rule." Albuquerque Journal. July 8, 2019.

<sup>71</sup> Amendment to 8.15.2 NMAC Sections 7, 9, 12, 13, 15, and 17, effective October 1, 2019. New Mexico Register, Volume XXX, Issue 18, September 24, 2019.

<sup>72</sup> Answers to interview questions (email) to Sharon Kayne and James Jimenez of New Mexico Voices for Children. October 1, 2019.



child health and education. The center has reported that the increase to 20 percent would cost \$15 million per year.<sup>73</sup>

New Mexico Voices for Children noted that the Working Families Tax Credit helps 225,000 New Mexico children. The nonprofit also supports raising the credit to at least 15 percent of the Earned Income Tax Credit. Voices for Children recommended that 20 percent would be optimal because New Mexico's working credit is lower than the national average. "In addition, the state should: expand outreach efforts and low-cost tax preparation assistance; restrict the use of refund anticipation loans; support federal efforts to increase the Earned Income Tax Credit for childless workers; and consider disbursing the refund through periodic payments over the course of the year."<sup>74</sup>

Senator Ortiz y Pino is hopeful that mitigating cliff effects could also be accomplished by increasing the state share of social assistance benefits and disregarding certain income requirements. These issues could be addressed in the annual legislative budget (General Appropriation Act) in House Bill 2 during the next legislative session.

## Policy Options to Mitigate Churn

According to the Center on Budget and Policy Priorities, three promising approaches to reducing churn include:

- 1) Reducing renewal risk points;
- 2) Addressing the specific churn risk points when there is a need for renewal; and
- 3) Prioritizing, measuring, and testing progress to reduce churn.

While renewals are important to verify eligibility and make sure that people are receiving benefits at the appropriate level of support, families often encounter procedural barriers in this process. If paperwork or action on the part of families is reduced by using the longest eligibility periods possible under federal law, this is one way to reduce churn. In addition, aligning renewals and coordinating Medicaid and Childcare Assistance eligibility based on SNAP information, also lessens the possibility of churn while still meeting federal requirements. Administrative renewals of Medicaid by using trusted information from data sources rather than requiring families to complete additional paperwork makes the process less burdensome for families as well as staff.

While it is important to address renewal risks with streamlined policies and practices, there are other specific risk points for churn to unnecessarily discontinue services to families, increasing their vulnerability and disrupting their quality of life and well-being at significant expense to the state agencies administering these programs. Improving communication with people participating in services and making processes more user-friendly are important elements of addressing the procedural causes of churn. Some families using public benefits have low literacy levels and more can be done to make forms and notices easier to navigate. In addition, making information available on-line can help participants and advocates and state employees across programs more readily access, interpret, and respond. Furthermore, ongoing internal training so that all staff across public benefits have accurate and up-to-date information with the most current information at their fingertips is also important. Many states are also looking at staffing patterns, to reduce caseloads and revise business processes to better address the challenges associated with high caseloads. Greater funding levels for personnel, allow for more competitive salaries for greater recruitment and retention of front-line staff. Nationally, direct-line staff and their immediate supervisors describe the stressors associated with serving people who are participating in services/benefits and are very stressed.

Secondary and vicarious trauma are worth considering, preempting, and addressing. Lower-caseloads, a family supporting wage, attractive benefits packages, and access to high-quality professional development can buffer the impacts of exposure to trauma and toxic stress. Some specific approaches identified in a survey of states conducted by the Center on Budget and Policy Priorities included:

<sup>73</sup> New Mexico Center on Law and Poverty. November 8, 2019. "Budgetary and Legislative Solutions to Increase Monthly Food Budget for Low Income Families."

<sup>74</sup> Wallin, Amber and Cirila Estela Vasquez Guzman. New Mexico Voices for Children. February 2019. "New Mexico's Working Families Tax Credit and the Federal Earned Income Tax Credit: Improving Tax Credits for a Stronger and Healthier New Mexico."

1. **The New Mexico State Legislature Can Allocate Greater Resources for Call Centers, Renewal Units, and Documentation Processing-** this may include a larger number of FTEs to respond to calls in a timely manner, a greater number of bilingual/bi-cultural staff, ongoing training and professional development to work with families in effective and strengths-based ways, quality monitoring and quality improvement with transparent measures to prevent internal knowledge and administrative issues from becoming barriers for participants in services.
2. **The Human Services Department can increase options for families to meet compliance-** states who give families more options about how they can be successful in complying with requirements are having success in reducing churn. Allowing families to call in for an interview rather than show up in person or to electronically upload documents are a few examples.
3. **The Human Services Department can address frequent moves or returned mail, common reasons for missed deadlines-** some states are using text messages or e-mails rather than USPS to maintain timely communication.
4. **The Human Services Department can limit paperwork for verification as can other Departments administering public benefits-** under the Affordable Care Act, states have moved toward a greater use of electronic verification in Medicaid. Lessons learned from Medicaid can be extended to other public benefits.
5. **All state departments administering benefits can quickly re-establish eligibility-** States are required to reinstate coverage in Medicaid when families return within a 90-day window from termination to reapplication. State should consider the flexibility offered in childcare to also re-open cases rather than do an entire reapplication. This will be a win-win for staff with high caseloads and families.
6. **The Human Services Department, Income Support Division and NM Department of Workforce Solutions and the NM State Legislature can prepare for the Federal Rule Change related to ABAWD, able bodied adults without dependents that is anticipated to go into effect in December of 2019-** The NM State Legislature should require SNAP to work with the Department of Workforce Solutions to develop and fully fund an ENT Program that is time-limited and ABAWD compliant. The NM State Legislature should direct HSD to conduct a Rule change in SNAP which would designate enrollment in NM Universities, Career and Technical Colleges as ENT compliant activities allowing more people who are food insecure to utilize federal benefits while they aim to accomplish goals that will improve their financial well-being and ability to contribute to New Mexico's economy in more significant ways.
7. **The New Mexico State Legislature should statutorily require NM to always take advantage of federal waivers-** by utilizing available waivers in public assistance programs, New Mexico can expand access to public benefits and utilize our fair share of federal appropriations.

## Summary Policy Options from Other States to Mitigate Cliff Effects

Policy options from other states have been discussed in a previous section, but some ideas have emerged as more salient and compelling:

- Administrative improvements to reduce the burdens for participants and government contractor staff
  - Use a common application for all state public assistance
  - Align renewal timeframes from participants to re-verify enrollment
  - Increase staffing levels to respond to participant needs in navigating public benefits
  - Improve training and technical assistance to case managers with an emphasis on understanding eligibility for all public benefits, so that unintended negative consequences do not emerge and undermine food, housing, and childcare stability
  - Require better accountability and auditing of participants who suddenly lose benefits to understand if there are eligibility drivers or administrative burdens leading to loss of benefits
- Require in-depth programmatic evaluation data to be reported back to HSD benefits offices from the field and track churn to support quality improvement efforts to reduce this phenomenon
- Allow households qualifying for the earned income tax credit to automatically qualify for programs
- Disregard certain net income and do not apply it to thresholds
- Raise net earned income thresholds

- Increase more time between recertification for program eligibility
- Create individual training accounts for job skill improvements
- Remove families from public assistance gradually instead of abruptly
- Create more childcare slots for low-income parents
- Increase the number of affordable housing locations
- Establish a phone hotline or email address so stakeholders can provide input or even criticism of programs. Also, this type of transparency (phone and email) would become a clearinghouse for information so benefit users and case workers could have their questions and concerns about cliff effects and churn answered
- Improve pay and training of case workers and service providers

# Conclusion

Solving cliff effects is an extremely difficult public policy problem. We hope that all stakeholders, from working families on public assistance, to policy makers and program administrators, have found some value in this report. We have succeeded in defining the problem, who it affects, and why it is important to solve. We have provided a historical overview and a state comparison in order to glean lessons learned and best practices. We have given an overview of relevant social welfare programs that are endangered by the cliff effect. We have made policy recommendations that could potentially be the subject matter of bills during future legislative sessions in New Mexico.

We would like to thank the Thornburg Foundation, Circles USA, New Mexico Voices for Children, State Senator Jerry Ortiz y Pino, the New Mexico Department of Human Services and the New Mexico Children Youth and Families Department.

## Rationale

In May 2016, New Mexico First hosted its town hall called “Economic Security and Vitality for New Mexico.” One of the subjects was cliff effects. The subject matter inspired New Mexico State Senator Jerry Ortiz y Pino. In 2017, to reflect a sense of the legislature, Senator Ortiz y Pino sponsored a joint memorial (SJM 18) called “Family Support Services Information to the Legislative Finance Committee (LFC).” The memorial was focused on cliff effects. It was later approved by the full legislature. The legislation recommended:

- The LFC collect data about how workers were eligible for programs from CYFD, the state Department of Health and the Department of Human Services
- The LFC would allow New Mexico First to see the data
- New Mexico First would devise policy solutions
- New Mexico First would make its ideas available to the LFC and the interim Health and Human Services Committee

Due to the legislation and its importance to the social fabric of the state, New Mexico First has determined that following the letter and spirit of the joint memorial was imperative. The organization, along with the sponsor of this report, also believes that poverty alleviation in the state is part of both nonprofits’ core missions.

So, the overarching goal is to identify potential policy levers (legislative, administrative, or regulatory) that could strengthen people’s ability to successfully transition from – or reduce their reliance on – public assistance when the time is right for their family.

## About New Mexico First

A statewide, public policy, organization, New Mexico First engages people in critical issues facing their state and communities. The nonpartisan, nonprofit group produces comprehensive policy reports – primarily on education, natural resources, ethics in government, health, and the economy. These analyses inform policy discussions, legislative options, and student learning. The backgrounders also provide the foundation for New Mexico First’s unique town halls that convene people to develop proposals to improve the state. The reports are available at [nmfirst.org](http://nmfirst.org). The organization was co-founded in 1986 by retired U.S. Senator Jeff Bingaman (D) and the late Senator Pete Domenici (R).

### CONTACT US

[nmfirst.org](http://nmfirst.org)  
[info@nmfirst.org](mailto:info@nmfirst.org)  
505.225.2140

**How can you get involved?** Stay tuned in to New Mexico First’s research by subscribing to our blog, supporting our work, or advancing positive dialogue in your community. More information at [nmfirst.org](http://nmfirst.org).