Exploring Benefits Cliffs in Illinois: CCAP as a Case Study

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Executive Summary

In mid-2020, the Illinois General Assembly passed the Intergenerational Poverty Act[1], a bold proposal to end intergenerational poverty by 2036. The legislation created a Commission on Poverty Elimination and Economic Security tasked with carrying out rigorous research on poverty and developing a portfolio of policies to stimulate intergenerational mobility in the state.

The University of Chicago Inclusive Economy Lab partnered with the Illinois Department of Human Services (IDHS), a lead agency within the Commission, to identify who is experiencing poverty in Illinois and to better understand the structural barriers that preclude economic mobility. Notable among these barriers are *benefits cliffs*, which occur when increases in income trigger a loss of public assistance that can leave families worse off financially. Benefits cliffs exist in the majority of public assistance programs and continue to be a deterrent to wage growth and wealth creation for many families across the United States.

In this brief, we analyze the benefits cliff produced by the phaseout of the Child Care and Development Fund (CCDF) subsidy, one of the largest benefits cliffs in Illinois and across the country (to see a comparison of cliffs by safety net program, see Appendix B).

The CCDF cliff may not present a substantial financial barrier if it occurs at an income level commensurate with the amount needed to afford child care and all other expenses. **However, we find that only 15.7 percent of Illinoisans live in counties where a family of three (one adult and two young children) can afford the full cost of child care at the income level where the CCDF cliff occurs without forgoing other basic needs.**

In addition to exacerbating issues of child care affordability, cliffs may create significant financial barriers for CCDF program participants pursuing gains in income and career advancement. To illustrate the effects of this policy problem, this brief models the size of the CCDF cliff for the Smith family, a hypothetical family of one adult and two children, ages 2 and 3. Once statewide program enrollment data is made available to researchers, future analyses can explore the impact of the CCDF cliff on real Illinois families. In addition to clarifying how many families are affected by the CCDF cliff, analysis of program enrollment data can explore how enrollment in multiple safety net programs may exacerbate benefits cliffs. Insight into cross-program enrollment can also help policymakers identify opportunities to align program design – including eligibility thresholds and phaseout structures – across programs to mitigate cliff effects.

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[1] The full text of this legislation is available here.

Introduction

If the American Dream ever existed, it has been on the decline for some time. The share of Illinois children earning more than their parents has declined by almost 50 percent since 1950 (Chetty et. al, 2017). Research has confirmed that legacy social safety net programs, including the Supplemental Nutrition Assistance Program (SNAP) and Temporary Assistance for Needy Families (TANF), can effectively uplift Americans from deep poverty. However, as vehicles for upward mobility, these programs are dramatically less effective[2].

Narrow eligibility restrictions, including income and asset limits, are designed to target means-tested benefits to families with the lowest incomes. Such restrictions are also thought to deter long-term benefits use. **In reality, these restrictions often have the opposite effect, making it more difficult for program participants to increase earnings or save enough money to make meaningful investments in upward mobility. Stringent income limits for enrolled families can result in a "benefits cliff": families must demonstrate enough poverty to qualify but risk complete loss of benefits due to a marginal increase in income** (Albelda & Carr, 2017; Wood et. al, 2018; Camardelle, 2019; Aspen Institute, 2020).

Child care is an essential intergenerational support for families, as it enables parents to work toward economic self-sufficiency while their children are cared for in safe learning environments (Dinan et. al, 2007; Casau & Hyde, 2018; Morrissey, 2017). The costs of such care, however, can be burdensome for many families, particularly for those with lower household incomes and/or younger children (Smith & Gozjolko, 2010; Workman & Jessen-Howard, 2018; Child Care Aware of America, 2019; Malik, 2019).

The high cost of child care may constrain financial decision-making for some families; **in the absence of affordable child care, parents may struggle to enter or reenter the workforce, pursue higher education or training, sustain a living wage, or accept higher paying jobs** (Florida Children's Council, 2015; Albelda & Carr, 2017). Because women are disproportionately responsible for caregiving, the consequences of these decisions are often most pronounced for mothers – particularly single mothers – with the lowest incomes (Schochet, 2019; Hartley et. al, 2021).

The Child Care and Development Fund (CCDF) is the largest child care subsidy program in the United States. While CCDF is jointly financed by the federal and state governments, the subsidy is disbursed to families through state-administered programs.[3] As a result, states have discretion over some elements of program design. States have authority to set income thresholds for initial eligibility (upon entry into the program) and continued eligibility (at redetermination[4]) for their respective programs. These thresholds cannot exceed the federally allowed CCDF income threshold of 85 percent of the state's median income (SMI). States must also determine how families nearing the maximum income threshold for the subsidy will phase out of eligibility. Illinois disburses federal CCDF subsidies through its Child Care Assistance Program (CCAP). In fiscal year 2020, nearly 194,000 children from 108,000 Illinois families were enrolled in CCAP.

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[2] See Aspen Institute (2020) for a robust review of the literature on the historical efficacy of social safety net programs.

[3] To learn more about CCDF funding, see this resource from the Administration for Children and Families (ACF)'s Child Care Technical Assistance Network.

[4] Enrolled families must renew eligibility for the program every 12 months, a process referred to as "redetermination".

Structure of Illinois CCAP

Entrance and Exit Thresholds

The *entrance threshold* describes the maximum allowable income an eligible family can earn in order to enroll in CCAP. As of July 2021, Illinois set the entrance threshold for new CCAP recipients at 200 percent of the federal poverty level (FPL) for their respective household size. To maintain access to the subsidy, an enrolled family's income must remain below the state and federal *exit thresholds*, (250 percent FPL and 85 percent SMI, respectively). Table 1 below outlines entrance and exit income thresholds for a family of three (one adult and two children).

Table 1: CCAP Entrance and Exit Thresholds for One Adult, Two Children

	Entrance threshold	**Exit Threshold** *with grace period*	**Exit Threshold** *immediate loss of subsidy*
Threshold	200% FPL	250% FPL	85% SMI
Monthly (Annual) Income	$3,660 ($43,920)	$4,575 ($54,900)	$5,809 ($69,708)
		If the family's income is **greater than 250% FPL but less than 85% SMI**, the family is given a **three-month grace period** before the subsidy is lost. If income still exceeds 250% FPL at the end of the grace period, the subsidy will be lost.	If the family's income is **greater than 85% SMI**, the subsidy will be lost with no grace period.

The FY22 expansion of CCAP extended the program's exit threshold from 225 percent to 250 percent FPL, the federally mandated maximum for CCDF subsidy programs. Under current eligibility guidelines, a single-parent family of three will remain eligible for the program until their household income surpasses $54,900. Under previous eligibility guidelines, the same family would have phased out of the program once their annual income surpassed $49,410.

Copays

States are also responsible for determining the way in which out-of-pocket costs, or copays, are assigned to participants receiving CCDF subsidies. Illinois uses a fixed monthly copay schedule: enrolled participants pay a fixed dollar amount based on their placement in one of 15 income brackets, with copays becoming more expensive as income increases.[5]

Effective Fiscal Year 2022 (July 2021), the IDHS Office of Early Childhood modified CCAP copay brackets in order to further reduce child care costs for enrolled households with the lowest incomes. As a result of these changes, families earning up to 100 percent of the federal poverty level pay just $1 in monthly copay.

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[5] In accordance with a 2016 benchmark for CCDF subsidy programs issued by the federal Office of Child Care, a division of the Administration for Children and Families (ACF), copays for Illinois CCAP are capped at 7 percent of income.

As income surpasses FPL, copays increase sharply at first and then gradually rise with income. For instance, once the family's annual earnings exceed $21,960 (FPL for a family of three), their monthly copay increases from $1 to $19. After this point, the family's copay will steadily rise as their household income increases. As the family approaches the exit threshold, earning the maximum allowable income to remain eligible for the program, the family will pay up to $304 in monthly copay.[6]

Modeling the Cliff

Value of the CCDF Subsidy

By participating in CCAP, enrolled families are able to offset the cost of local child care by paying only a share of the total cost. Thus, we can represent the dollar value of the CCDF subsidy by subtracting the family's out-of-pocket cost, or copay, from the overall cost of local child care.[7]

Figure 1 illustrates the value of the CCDF subsidy for the Smith family, a hypothetical single-parent household with two young children living in Cook County, Illinois.[8] Throughout the rest of the brief, we use the Smith family as a case study to demonstrate the impact of the CCDF benefits cliff on families phasing out of the program. Because the Smith family will pay higher copays as their income increases, the value of their CCDF subsidy declines as their income approaches the exit threshold. Still, despite this decline, the CCDF subsidy remains of significant value to the Smiths: though valued at nearly $29,000 at initial enrollment, the subsidy represents a financial support valued at approximately $25,000 by the time the Smiths approach the CCAP exit threshold.

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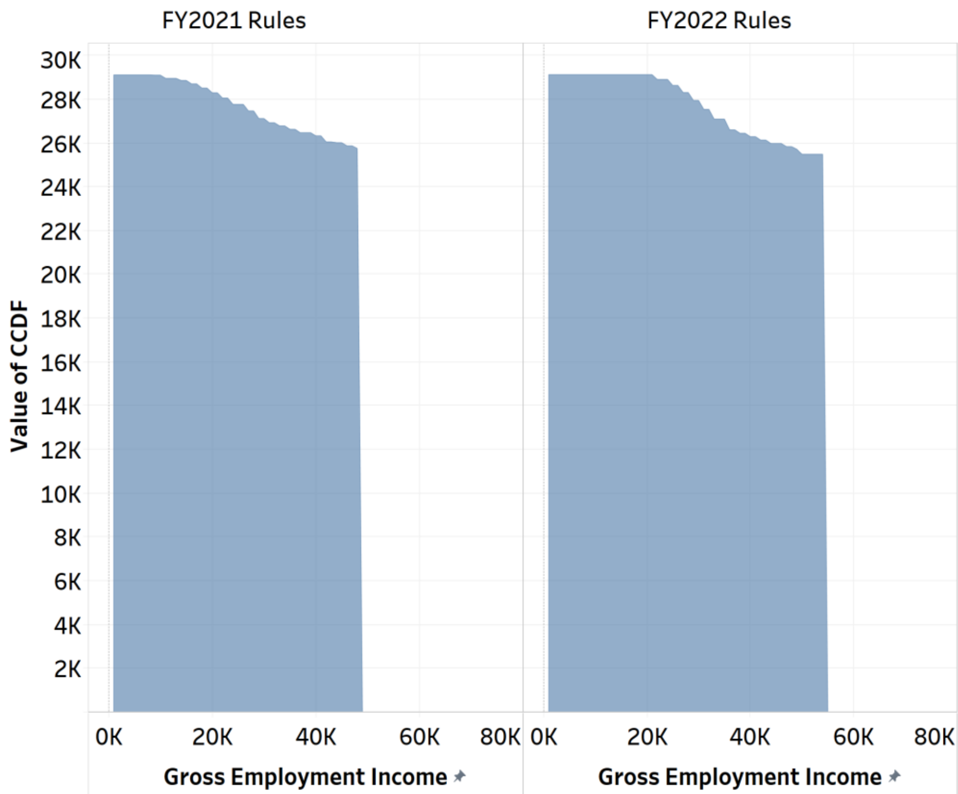
[6] See here for the current CCAP copay structure by family size.

[7] Our analyses estimate local child care costs using the 75th percentile of reported costs in the area. Costs of child care services can vary widely across local providers. Cost of services may vary based on number and ages of children enrolled, quality of care, whether the provider is qualified to care for priority populations (e.g., children with disabilities), and other factors. The Child Care and Development Block Grant (CCDBG), the federal legislation which funds CCDF, requires that state agencies administering CCDF regularly conduct a survey to determine the market rate(s) of child care within their state. In order to estimate local costs, ACF advises that researchers estimate based on the 75th percentile of local costs reported in this survey.

[8] The models in this brief focus on single-parent households. According to a recent ACF report, a family headed by a single adult is the most common family type among families receiving CCDF subsidies.

Figure 1: Value of Illinois CCDF Subsidy by Employment Income



Notes: Figure assumes a family of one adult and two young children, ages two and three, living in Cook County, Illinois. The value of the subsidy is represented by the difference between unsubsidized costs of local child care (the 75th percentile of Market Rate costs) and the family's copay.
Sources: Policy Rules Database (Ilin and Terry, 2021). Authors' calculations.

Consequences at the cliff

In Figure 1, we see that the Smith family stands to lose their CCDF subsidy—valued at over $25,000—once household income reaches $54,900. Figure 1 also highlights the precariousness of the cliff: a mere $1,000 wage increase from $54,000 to $55,000 in annual earnings would result in the loss of the subsidy and a net financial loss of $25,481.[9] This financial loss is known as the CCDF benefits cliff. For the Smiths and other families nearing the exit threshold, the CCDF cliff may create disincentives to increase work hours and pursue higher wages.

At $54,000 in annual earnings, while still enrolled in CCAP, the Smiths would have allocated 6.75 percent of their annual employment income to child care expenses. At $55,000, the Smiths are now responsible for the full cost of unsubsidized child care in Cook County (estimated below in Figure 2), **nearly 53 percent of their annual employment income**.[10]

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[9] This model only assumes the loss of the CCDF subsidy. Families receiving CCDF subsidies may face concurrent benefits cliffs for other safety net programs in which they are enrolled.

[10] Similar to the limitation above, this example assumes the Smiths are only receiving a CCDF subsidy. In theory, the Smiths may receive other child care subsidies, such as Head Start or the Child and Dependent Care Tax Credit (CDCTC), which offset the total cost of services.

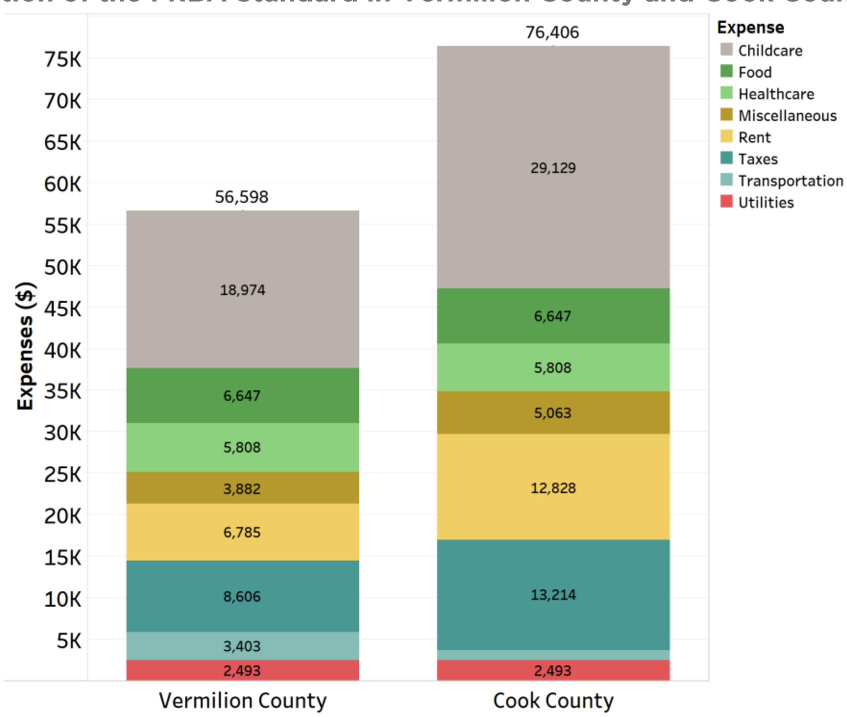
For some families approaching the exit threshold, the loss of the CCDF subsidy may not pose a significant financial challenge if, at the threshold, the family is able to meet both out-of-pocket child care costs and all other basic expenses.

However, we find that few eligible Illinois families would be in a position to cover unsubsidized child care costs without sacrificing other expenses following the loss of the subsidy. This problem is most pronounced in high-cost areas. To illustrate this variation, we model local basic expenses—including out-of-pocket child care costs—in Cook County and Vermilion County[11] (an eastern county bordering Indiana) for this family of three. We then compare these expenses to the family's earnings at the exit threshold, demonstrating the discrepancy between household income and the actual amount needed to cover basic expenses.

Estimating cost of living

We use the Federal Reserve Bank of Atlanta's Cost of Living Database to determine the cost of a basic set of expenses that includes housing, utilities, child care, health insurance, food, and transportation. We call this value the FRBA Standard. Figure 2 outlines the expenses that comprise the Standard for a family of three in each of these two counties. The Standard does not take into account the reduction in expenses due to the CCDF subsidy or other benefits but is rather an estimate of the most basic expenses incurred by the average family of this size in a specific geography. From this figure, we see that the total earnings necessary to cover basic expenses is significantly higher in Cook County than in Vermilion County.

Figure 2: Composition of the FRBA Standard in Vermilion County and Cook County



Notes: Assumes a family of one adult and two children, ages two and three.
Sources: Cost-of-Living Database; FRBA calculations

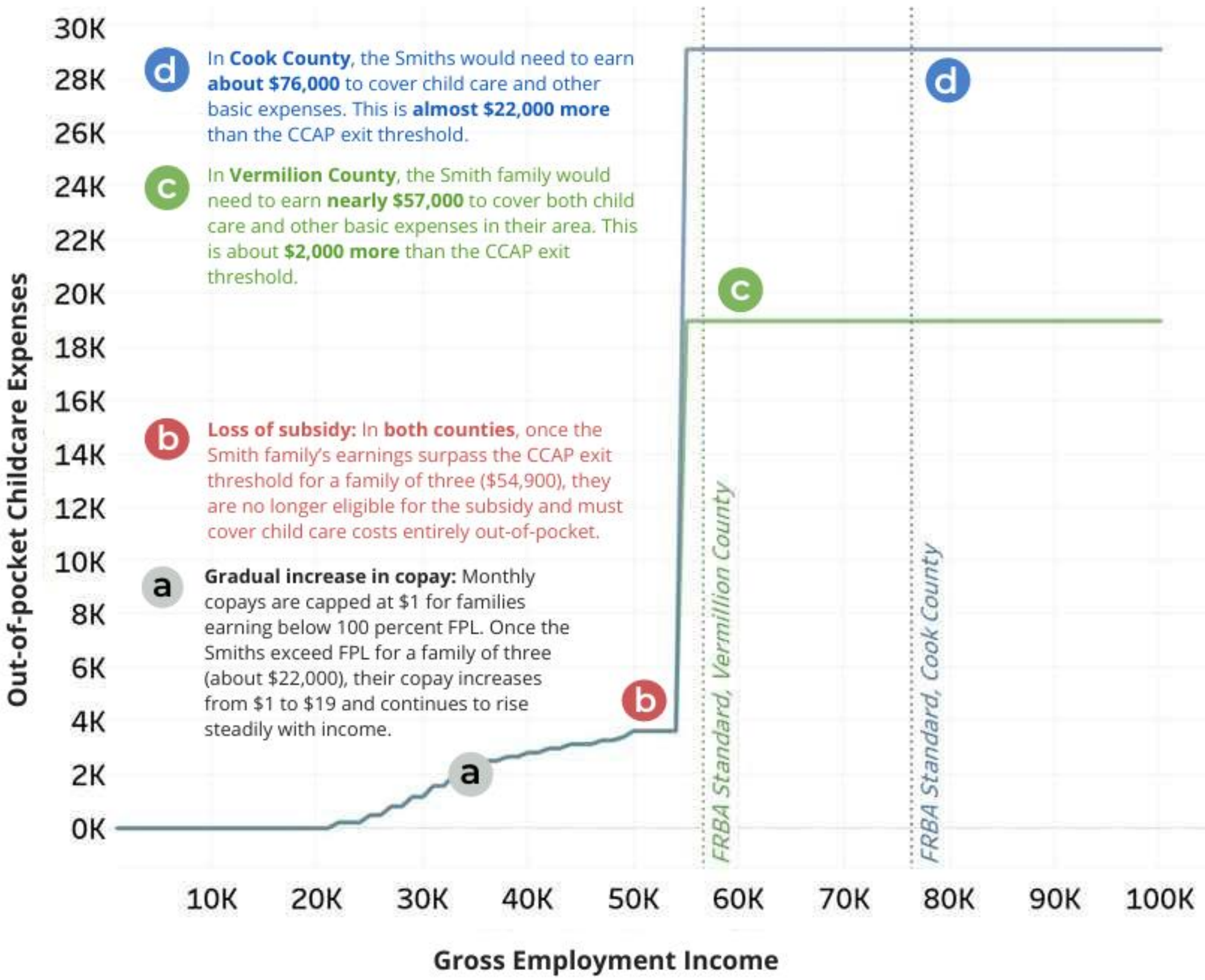
[11] As the most populous county in Illinois and consequently the county with the most eligible CCAP participants, Cook County was the most intuitive geography to model the CCDF cliff. To illustrate regional variation in cliff effects, we identified counties with lower median income and cost of living (see 'Estimating household expenses') as compared to Cook. We then narrowed this list of counties to those with the highest populations, ultimately selecting Vermilion County (population 75,758, per ACS 1-year estimates via Census Reporter).

Comparing total expenses to the CCDF threshold

In Figure 3, using the FRBA Standard to estimate a set of basic expenses in each county, we compare the cost of the Smith family's basic expenses to their earnings at the exit threshold. **In other words, we consider the family's ability to afford basic expenses (both unsubsidized child care and other expenses given local prices) at the level of income where the CCDF subsidy is lost ($54,900).**

In both counties, there is a discrepancy between the Smith family's total expenses and earnings. However, this discrepancy is considerably more severe in Cook County (approximate $22,000 deficit) than in Vermilion County (approximate $2,000 deficit). In Cook County, facing such a large discrepancy between earnings and expenses, the Smith family is far from the ability to pay for out-of-pocket child care expenses without sacrificing other essential budget items.[12] In less expensive Vermilion County, although cliff effects are still significant, the CCDF cliff may be more manageable for the family to absorb.

Figure 3: CCDF Threshold and the FRBA Standard in Cook County and Vermilion County

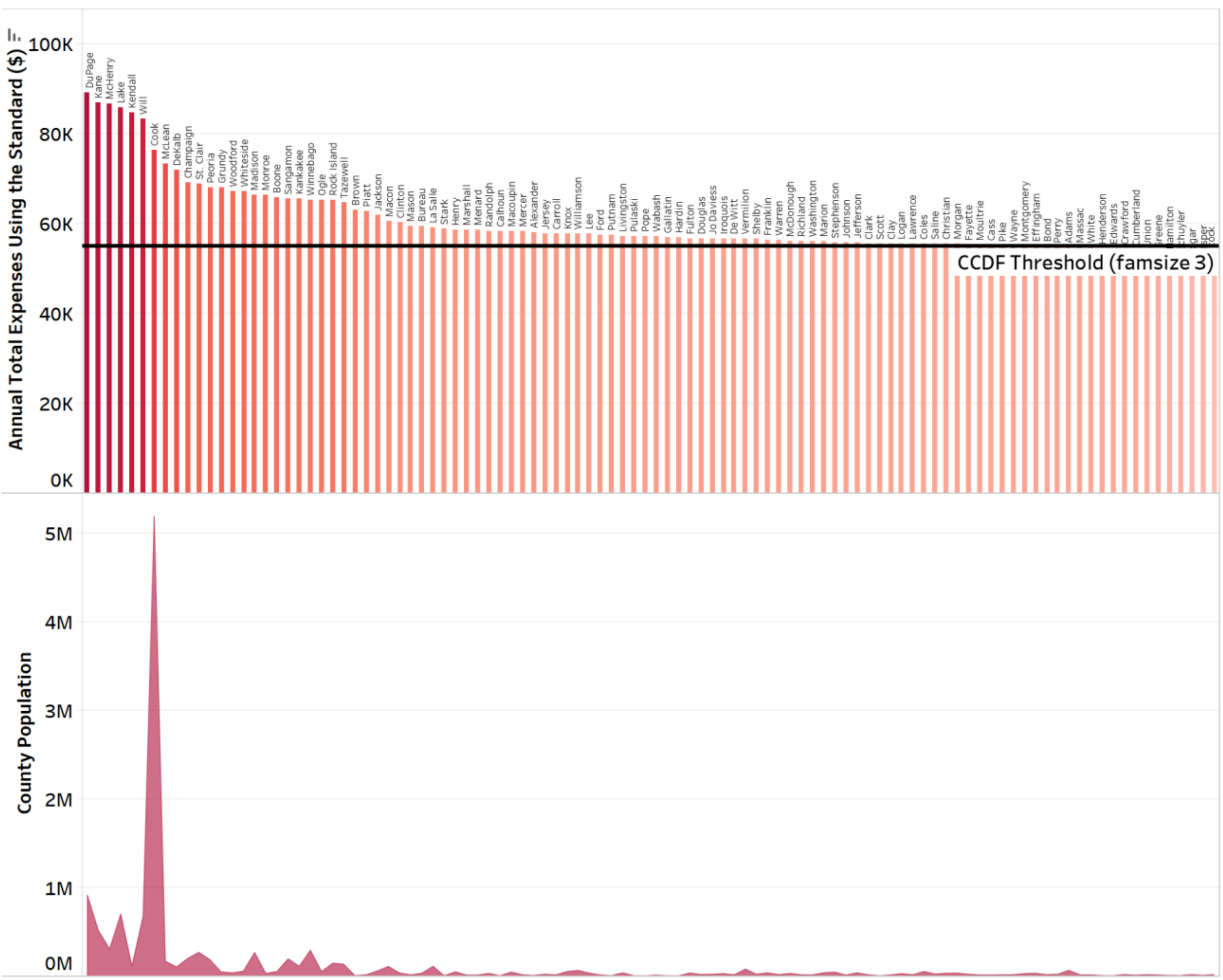


Notes: Assumes a family of one adult and two children, ages two and three.
Sources: Cost-of-Living Database, Policy Rules Database, FRBA calculations

[12] For example, the family may be forced to relocate to housing that is less expensive but does not suit their preferences or needs, or to forego a transportation expense that is necessary to access job opportunities.

The significant size of the CCDF cliff is not unique to Cook County; families living in counties with the highest costs-of-living face similarly burdensome cliff effects. As Figure 4 demonstrates, these counties are typically the most populous counties in the state. **Overall, our analysis finds the vast majority (nearly 85%) of Illinois residents live in areas where at the CCDF threshold, a single adult with two children cannot afford to pay the full cost of unsubsidized child care without sacrificing other basic needs.**

Figure 4: Comparing the CCDF Threshold to the FRBA Standard across Illinois



Discussion and Next Steps

"Running in place"

Currently, lack of affordable child care and the effects of the CCDF cliff converge to create unsustainable tradeoffs for low-income families. Families may be forced to compromise on child care quality in favor of affordability, sacrifice basic expenses, and/or postpone career advancement until children have aged out of child care needs. The disincentives posed by cliffs can create a sensation of financial uncertainty that Albelda and Carr (2016) liken to "running in place".

Hesitant to lose critical financial supports due to cliff effects, parents may postpone investment in resources typically associated with upward mobility, such as job training and higher education. Instead, parents may determine that "parking" their earnings below the maximum income threshold is the best course to maximize the family's available net resources (Florida Children's Council, 2015).

Looking ahead

Though it is not yet clear how the COVID-19 pandemic has specifically affected families enrolled in CCAP, the lived experience of many parents across the state and country has highlighted a worrying child care gap for working families. In response to the pandemic, IDHS implemented a series of temporary administrative changes to CCAP in order to react to the rapidly changing crisis situation.

Between March and June 2020, families phasing out of eligibility were granted automatic six-month extensions. IDHS also expanded the program's eligibility criteria to offer emergency child care for some priority essential workers, including those working in health care, human services, law enforcement, and essential infrastructure.

In addition to straining available resources for child care and other household expenses, the COVID-19 pandemic may exacerbate the overall cost of child care services for families. In a July 2020 review of the state of child care during the COVID-19 pandemic, Child Care Aware of America predicted that the increased expenses that providers have incurred to implement safety measures, including cleaning supplies and personal protective equipment (PPE), would likely translate to increased cost of services for parents.

Next Steps

The recent expansion of the Illinois Child Care Assistance Program was an important step toward expanding the affordability of child care services for families enrolled in the program. Under these changes, copays for most participating families were lowered, with copays for families with the lowest incomes reduced to just $1 a month. Building upon these advancements, the State might consider additional policy interventions to address both affordability and the child care cliff, particularly as part of its efforts to eradicate intergenerational poverty.

Access to program enrollment data could inform closer analysis into the prevalence and consequences of benefits cliffs among families participating in social safety net programs. Illinois households receiving CCDF subsidies are likely to be enrolled in other programs targeted to families. Chien and Macartney (2019) found that nationally, the most common bundle of benefits among CCDF households was CCDF, EITC, SNAP, and Medicaid and/or CHIP. Per this analysis, approximately 259,000 families participating in CCDF receive this bundle of benefits. In order to effectively address benefits cliffs for low-income families, states must acknowledge the effect of program overlap on families' benefits portfolio (Adams, et. al, 2008; Albelda & Carr, 2016;

Bingulac et. al, 2017). Families experiencing simultaneous phaseouts from multiple programs may stand to lose a total subsidy or in-kind payment of even greater value (Albelda & Carr, 2016).

To address this overlap, state agencies would benefit from analysis of cross-program enrollment data to better understand the number of Illinois families experiencing simultaneous benefits cliffs. In their review of initiatives taken in several Midwestern states, Adams et. al (2008) found that states had implemented or explored a range of strategies to better connect the administration of social safety net programs. The authors identified four strategic areas involved in these processes: taking a comprehensive approach to aligning systems (e.g., convening interdepartmental task forces or convening senior staff to review policy changes across programs); linking computer systems to better identify cross-program enrollment; training caseworkers to advise families on a range of benefits; and linking stages of program enrollment, including application and redetermination.

Of course, the most impactful reform must come from the federal level. Illinois now sets the CCAP exit threshold at 250 percent FPL, the maximum allowable threshold as federally mandated for all CCDF subsidy programs. As the analyses in this brief demonstrate, families approaching the maximum allowable income threshold may not earn enough to cover the cost of unsubsidized child care and other expenses. Without federal intervention, Illinois families nearing the cliff may be at risk of losing critical financial supports.

More data is needed to understand how these and other policy proposals could effectively address both benefits cliffs and the affordability of child care in Illinois. With additional data from the State, future policy briefs by the Inclusive Economy Lab can examine these proposals and their projected effects on Illinois families.

Learn More

This policy brief was produced in collaboration with the Federal Reserve Bank of Atlanta as part of its Advancing Careers initiative. The mission of the Advancing Careers initiative is to support community and state efforts to improve economic security for families and meet the talent needs of businesses for a healthy economy. As part of this initiative, the Atlanta Fed partners with stakeholders across the country to conduct research on benefits cliffs and other disincentives in the U.S. social safety net, develop informational tools that assist state agencies and policymakers, and to leverage analysis toward program and policy change.

To learn more about the Advancing Careers Initiative, visit atlantafed.org/economic-mobility-and-resilience/advancing-careers-for-low-income-families.

To find more information about this project, or to learn more about the work of the University of Chicago Inclusive Economy Lab, please contact Carmelo Barbaro at cbarbaro@uchicago.edu or visit inclusiveeconomy.uchicago.edu.

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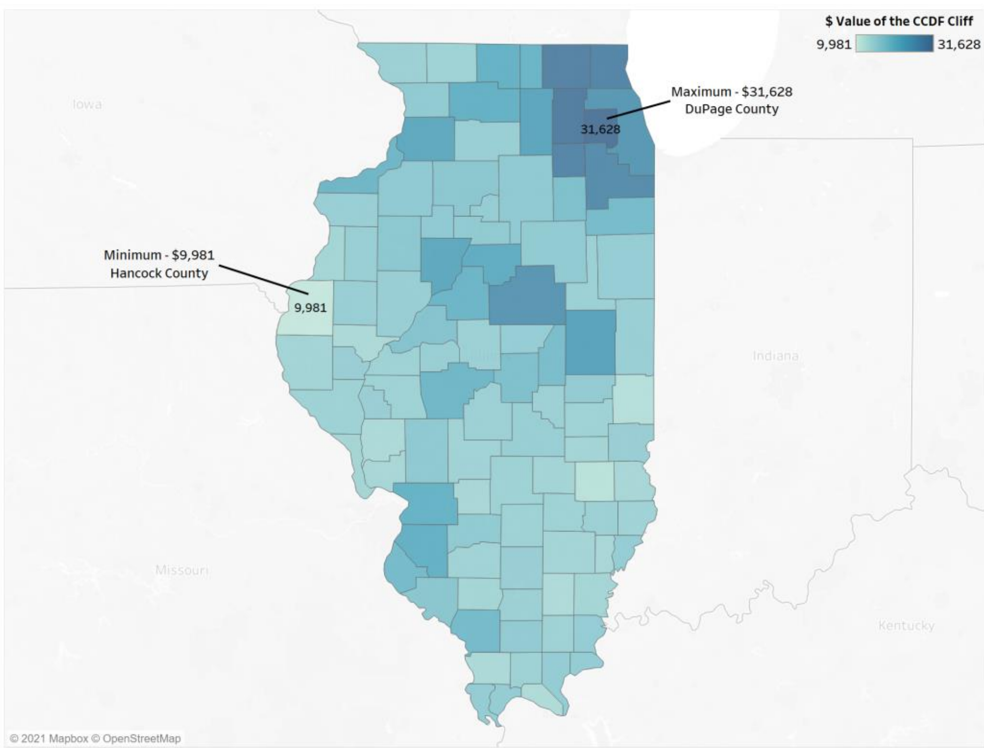
APPENDIX A: GEOGRAPHIC DISTRIBUTION OF BENEFITS CLIFFS IN ILLINOIS

Figure A1 represents the variation in the size of the CCDF cliff across Illinois counties. The size of the CCDF cliff depends on the value of the subsidy for families nearing the exit threshold. We can estimate the value of the subsidy by subtracting the family's out-of-pocket child care expenses from the unsubsidized cost of local child care.

These costs vary by family size, with families with more children experiencing larger cliffs, as well as by geography, with families living in less expensive counties experiencing smaller cliffs. We find that within Illinois counties, the CCDF cliff is most severe in DuPage County, where the Smith family would lose a CCDF subsidy valued at $31,628 once their income exceeds the threshold ($54,900). If the Smiths lived in Hancock County, the value of the cliff would be three times smaller—$9,981—but could still be disruptive to the family.

Appendix Figure A1: Dollar Value of the CCDF Cliff Across Illinois, One Adult with Two Children, ages 3 and 4



Appendix B: Eligibility for Major Public Assistance Programs and Tax Credits

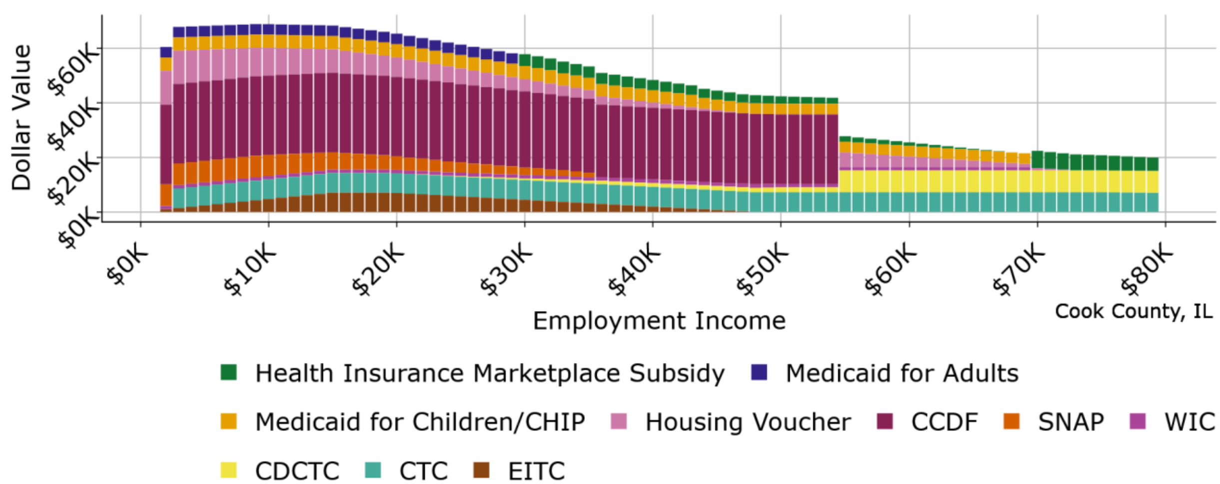
In this appendix, we discuss the range of public assistance programs and tax credits for which the Smith family—a hypothetical family of three living in Cook County—would be eligible.

Appendix Figure B1 illustrates the income thresholds at which the Smiths phase in and out of each program, as well as the cumulative dollar value of all assistance at each level of income. When the Smiths are earning about $30,000 or less per year, the family is eligible for subsidized health insurance through Medicaid, housing assistance through the Housing Choice Voucher (Section 8), food assistance through SNAP, and child care assistance through the CCDF subsidy.

In 2014, Illinois expanded Medicaid eligibility under the Affordable Care Act. Under Medicaid expansion, the Smiths will retain access to Medicaid until their income exceeds $30,304 (138% of the federal poverty level for a family of three) and then immediately gain access to subsidized health insurance through the Marketplace (ACA subsidies).

A number of federal tax credits are also available to the family. Among these is the Earned Income Tax Credit (EITC). The EITC is refundable, meaning families can claim the credit even if they do not owe federal income tax. Another available credit is the Child Tax Credit (CTC), a small portion of which is refundable. However, in order to fully claim the CTC, families must have a federal tax liability that exceeds the size of the credit. Lastly, the Child and Dependent Care Tax Credit (CDCTC) allows families to deduct certain child care expenses while calculating their tax liabilities. Importantly, however, the federal CDCTC is a nonrefundable credit, and is therefore unavailable to families with the lowest incomes, who do not owe federal income tax.

Appendix Figure B1: Public Assistance Programs and Tax Credits by Employment Income



Notes: Assumes family of one adult and two children, ages two and three.
Sources: Policy Rules Database (Ilin & Terry, 2021) and the [Policy Rules Database Dashboard]