



EXAMINING THE COMPLEX SOCIAL SAFETY NET FOR LOW-INCOME WORKING FAMILIES:

How Benefits and Resources Respond to Increases in Wages

Authors: Soledad De Gregorio, Rebecca Smith, Gary Painter, Molly Creighton

USCPrice

Sol Price School of Public Policy
Sol Price Center for Social Innovation



FOREWORD

In November 2019, Imagine LA launched a comprehensive Financial Wellness Pathways Initiative (FWPI), designed to create financial independence among very low-income families headed by single parents — Imagine LA’s primary service population. This initiative, undertaken with financial support from the Carl and Roberta Deutsch Foundation, provides families emerging from or at risk of experiencing homelessness with access to living wage career pathways paired with reliable childcare and financial wellness coaching — an effective, three-pronged approach to build lasting financial wellness among families.

One of the primary challenges FWPI identified for families seeking economic mobility was the lack of information and strategies available to families and case managers for navigating the complex and intersecting social safety net benefits as members of a family secured higher wages. The benefits, primarily general welfare, food assistance, healthcare, childcare and housing subsidies, flow from different non-coordinating Federal, State, County and City sources — navigating them “is a nightmare.” Beyond navigation, there is a general fear of losing benefits as a result of increased income, fueled by a lack of information and by personal stories of accepting pay raises and then losing benefits equal to or greater than the value of the raise (called “benefits cliffs”). This fear can act as a disincentive to work and prolong poverty and reliance on benefits. These scenarios suggest that the social benefits structure acts well as a “safety net,” but does not actively encourage work and financial independence.

Diving deeper, the FWPI searched for a comprehensive resource summarizing how the social safety net benefits available to families intersect, both with one another and with rising income — we found it simply did not exist. This finding was extremely concerning. As an organization committed to ending family poverty and homelessness, Imagine LA knows how critical social safety net benefits



Imagine LA is a nonprofit organization that works with low-income families and families emerging from homelessness to end the cycle of family poverty and homelessness, equip families to maintain housing stability, and ensure that families thrive long-term. Our **Family Partnership Model** transforms lives through a unique combination of clinical case management, economic mobility programming, and whole-family mentorship. We served 165 families in 2020 and aim to serve 238 families in 2021. Unpartnered women lead 86% of our families, and 86% of families identify as Black, Indigenous, and People of Color. More than half of our families live in South LA.

are to helping families exit poverty. We shared this challenge with the USC Sol Price Center for Social Innovation, and together, we launched a research project examining the intersecting social safety net benefit streams and how they respond to rising earned income.



Examining the Complex Social Safety Net System for Low-Income Working Families: How Benefits and Resources Respond to Increasing Wages is a summary of their findings. USC’s great work under the leadership of Dr. Gary Painter and Dr. Soledad De Gregorio shows how our complex social benefits system responds to a low-income family earning more income. The research identifies when a rise in earned income can trigger a sudden loss in benefits greater than the income earned, a “benefits cliff,” or when a rise in income triggers a sudden loss in benefits equal to the income earned, a “resource plateau” (or “poverty trap”), where the family is no better off despite earning more money. It also shows that sometimes what initially appears as a benefits cliff can be offset by another benefit (for example an Earned Income Tax Credit), if the family knows to apply for the other “replacement” benefit. We acknowledge this tangled web of benefits was not the intent of the social safety net, but rather the effects of the interaction of non-coordinated benefit systems. It is our hope that this information will be used to:

- 1. Create Transparency** to empower families and case managers with the information they need to better navigate the social safety net, achieve economic independence, and ultimately exit poverty. To this end, Imagine LA and Brit Moore Gilmore (Social Impact Consultant & Former President of The Giving Keys and USC MSSE), is working (including an initial collaboration with Code the Change) to develop a social benefits calculator for case managers and families that uses algorithms developed by the research team to quickly identify and avoid benefits cliffs.
- 2. Inspire policy / systems change to restructure the social benefit structure for families to act both as a safety net and as spring board to financial independence.** We hope this report shines a light on the complicated and conflicting structures of public benefit streams and paves the way for collaborative approaches to create more streamlined benefit policies and systems that meet our shared goal of supporting families through tough times and to achieve financial independence.
- 3. Address the extreme need for more affordable housing and housing subsidies to prevent first-time and repeat homelessness.** Given the high cost and lack of affordable housing in Los Angeles, the current safety net, except for the small percentage of Section 8 Housing Vouchers recipients, does not provide enough funding for people to be able to pay their rent. This in turn fuels an increase in family homelessness.

The report’s findings and recommendations are clear. Acting upon them would promote economic mobility and financial independence for low-income families, drive down costs for nonprofits and at the federal, state, and local levels, and reduce the frustration and stress experienced by millions of families every day.

Finally, I would like to acknowledge that Imagine LA owes a debt of gratitude to our diverse and knowledgeable Financial Wellness Taskforce for their support in identifying and lifting up this issue and making it possible for us to partner with USC on this research effort.

TASKFORCE MEMBERS INCLUDE:

Jill Govan Bauman, President & CEO, *Imagine LA*;
Taskforce Chair

Elizabeth Ben-Ishai, Ph.D., Principal Analyst,
The Homeless Initiative, County of Los Angeles

Sylvia Castillo, Director, External Affairs Manager –
Southern California, *Corporate Social Responsibility for
the Americas, MUFG Union Bank, N.A.*

Ellen Cervantes, Vice President & COO, *Child Care
Resource Center*; *Taskforce Lead for Childcare*

Jacqueline Chun, Chief Programs & Operations Officer,
The Carl & Robert Deutsch Foundation

Leticia Colchado, Principal Analyst,
The Homeless Initiative, County of Los Angeles

David Crippens, Board Chair, *LA Trade Tech*; *Workforce
Development Board*; *Child 360*

Hayley Firestone, Entrepreneur and Philanthropist

Evelyn Garcia, Senior Program Officer, *Economic
Stability, United Way of Greater Los Angeles*

Brit Moore Gilmore, Social Impact Consultant; Former
President, *The Giving Keys*; recent recipient of USC
Masters of Science in Social Entrepreneurship, MSSE;
Taskforce Lead for Workforce Development

Yvette Gonzalez, Vice President, Community & Employee
Engagement, *City National Bank*

Que’Ron Hildreth, Consultant, *Imagine LA*

Teddy M. Kapur, Board Chair & Alumni Financial
Wellness Mentor, *Imagine LA*

Katy Mazzara, Alumni Financial Wellness Mentor,
Imagine LA

Sasha Morozov, Associate Executive Director, *Imagine
LA*; *Taskforce Manager*

Jessie Mosqueda, Executive Director, *Miguel Contreras
Foundation*

Lorie Nguyen, Lead Family Team Manager, *Imagine LA*;
Taskforce Lead for Financial Wellness

George Phillips, Board Member & Alumni Financial
Wellness Mentor, *Imagine LA*

Michelle Roberts, Program Director, *Imagine LA*

Brian Rosenbaum, Community Engagement Director,
Imagine LA

Lisa Salazar, Director, Workforce Development &
Economic Opportunity, Office of Mayor Garcetti;
Workforce Development Board

Jon Vein, Entrepreneur; Chair, *YPO Homeless Summit*

Imagine LA is thrilled to share this valuable information with the community. It is a thorough look at what it takes for a family to navigate out of poverty. We must now work together and leverage this information to advocate for working families, to strengthen their economic mobility, and create more effective systems and policies that prevent homelessness, promote financial independence, and enable families to thrive.

Sincerely,



Jill Govan Bauman
President & CEO
August 20, 2021

EXECUTIVE SUMMARY

The United States social safety net aims to improve the lives of the lowest-income families and individuals. As the term “net” implies, the goal is to provide a support system that “catches” families as they may fall into poverty. The assortment of non-contributory assistance programs — in-kind and cash transfer programs — has grown and become more complex over the years, and families and case managers often face challenges in navigating through them.

The research and findings outlined in the report aim to:

- Document the benefits available to families in the City of Los Angeles at different income levels.
- Identify the places where the safety net may become a barrier towards economic independence, when an increase in earnings leaves a family worse off (*benefits cliff*) or no better off (*a resource plateau*) than before the increase in earnings because of a decrease in benefits.
- Highlight the critical role of benefits that support work (e.g., childcare) and reveal insights into ways current benefit programs can be better utilized, as well as areas for potential innovation.

The research team first reviewed past research, then identified all sources of income and benefits for families (from federal, state, and local sources), studied the eligibility requirements of each in consultation with experts and policymakers, and combined them to estimate the total resources families have available at different earned income levels.

A family’s total resources (the sum of their net earned income and benefits) are compared to the estimated basic living costs for Los Angeles (via the MIT living wage calculator estimates). Because the benefits change depending on specific family characteristics and the other benefits the family receives, the analysis was conducted separately for different families and earned income scenarios.



PHOTO CREDIT: IMAGINE LA

FINDINGS

The findings outlined below focus on a single-parent family composed of a mother and two young children (3 and 6 years old) in the City of Los Angeles. The insights are true for other family types examined as well: a mother with older children (8 and 15) and an undocumented mother with two US-born children (3 and 6).

1. Overall, the research finds that for most families, as earned income increases, there are long resource plateaus. Public benefits tend to phase out gradually as earned income rises, and often, the loss of one benefit is met with the gain of another, such as the case for health care and child care, which smoothes the transition as earned income rises. In some cases the gain in benefit is through the tax code, which means families must file for taxes and may not receive the benefit until after filing.

2. Only families whose incomes fall extremely low and receive both childcare and housing assistance are caught by the safety net and can cover necessary living expenses. Housing and childcare are the most significant living expenses for families. Programs that support these expenses — the CalWORKS childcare component and Section 8 Housing Vouchers — provide the largest benefits for eligible families. Unfortunately, the Housing Choice Voucher (Section 8) is currently rationed with very long waiting lists — only one in four eligible households receive a voucher nationally. Therefore, most families do not receive enough resources from the safety net to cover their expenses.

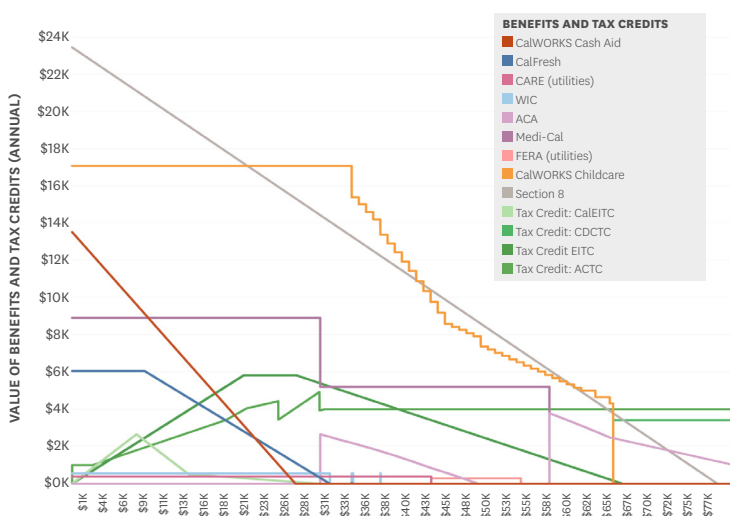
3. Navigating the safety net is complicated. Although the social safety net is available to support families, families and case managers are confronted with a disjointed set of federal, state, and local programs. Understanding the eligibility and estimated benefits of each, especially as income changes, is very difficult. Box 1 presents the estimated benefits of each of the programs available for the mother with two young children at different levels of earned income. Figure 1 shows what families and case managers must try to untangle as the safety net has become more intricate.

4. The safety net is particularly supportive for families with young children, who need childcare, especially when parents work or participate in welfare-to-work programs. Nonetheless, a single-parent family receiving all benefits except for Section 8 is not able to achieve a living wage income working any number of hours from part-time to full-time at a low-wage job.

BOX 1 — The Complicated Web of the Social Safety Net for Families

Each line represents the estimated value of one benefit program for a mother and two young children receiving all programs they are eligible for.

FIGURE 1: ESTIMATED VALUE OF EACH BENEFIT AND TAX CREDIT (ANNUAL)



Note: Eligibility rules for some benefits differ for new enrollees and continuous enrollees. The graph presents continuous eligibility rules. Enrollment in some programs affects the benefits of other programs. The value of benefits estimated in each line assumes the family is enrolled in all other programs presented in the graph.

POLICY RECOMMENDATIONS

The findings have led to the following policy recommendations:

- 1. Create transparency of information about benefits via a digital tool that can simplify the complexity of navigating the safety net** and allow individuals, non-profit and government case managers, and human resource staff to understand eligibility and how benefits vary with earned income for specific families. The research findings support the short-term solution that with sufficient information, families could estimate the points where they lose benefits and plan ahead to navigate through the bumps and bypass situations in which the additional earned income is less than the benefits lost.
- 2. Take actions at the federal, state and local policy levels to coordinate, align, and streamline major benefit streams** to help ease access and use of benefits, re-structure benefits to eliminate dilemmas between increasing income and benefit loss, and encourage earned income growth and support work. Examine best practices from experiences of different localities on elements like universal benefits intake, auto-filling forms, benefits counseling, and bringing agencies together.

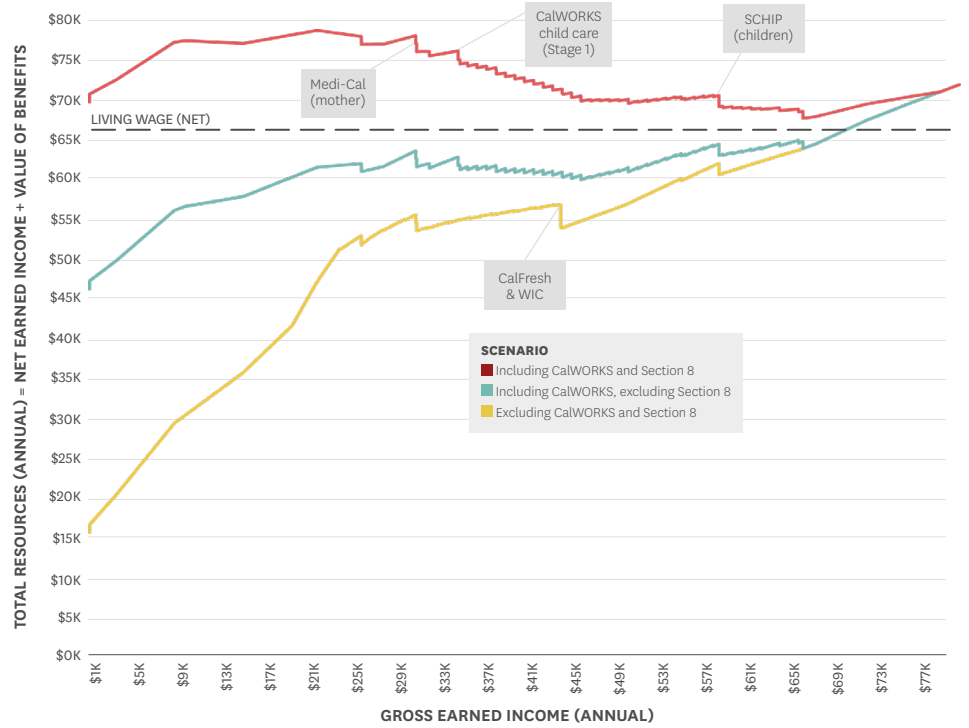
- 3. Increase access to housing benefits.** Because the cost of housing in Los Angeles is so high and the availability of housing subsidies so scarce, housing assistance is critical to providing sufficient support for families to pay living expenses. Households who do not receive housing choice vouchers (Section 8) need some kind of housing support. Policies can include expanding the housing choice voucher program to reach all eligible families, or providing alternative models of housing subsidies such as shallow subsidies or rapid rehousing programs.
- 4. Promote increased participation in benefit programs.** Encourage and support families to enroll in the safety net programs for which they are eligible, particularly CalWORKs cash aid, since other benefits such as child care only become available after receiving CalWORKs cash aid.



BOX 2: Shows the impact on total resources (earned income plus benefits) when earned income increases

Each line represents the total resources available for a mother with two young children (3 and 6 years old) at different earned income levels. The red line considers the family enrolled and receiving all eligible programs including Section 8 and CalWORKs; the blue excludes Section 8; the yellow line excludes both Section 8 and CalWORKs. Overall, total resources usually increase or remain flat as earned income increases, even though benefits decrease. The section between approximately \$34,000 and \$45,000 has a small downwards slope. There are also sections where the family experiences benefits cliffs — points at which the loss in benefits exceeds the increase in income. The cliffs are when the mother loses Medi-Cal, when child care goes from CalWORKs Stage 1 to Stage 2, when they lose CalFresh/WIC, and when the children lose healthcare.

FIGURE 2: BENEFITS TRAJECTORIES — ESTIMATED VALUE OF TOTAL RESOURCES BY EARNED INCOME (ANNUAL)



Note: The programs and taxes included here are CalWORKs cash aid and child care (Stages 1, 2, and 3), Earned Income Tax Credit, California EITC, Section 8, utilities subsidies CARE and FERA, Medi-Cal, SCHIP, Covered California, Child and Dependent Care Tax Credit, CalFresh, WIC, Federal Income tax, State income tax, Federal Insurance Contributions Act tax (which includes Social Security and Medicare), CA State Disability Insurance (SDI) tax, Child tax credit, Young Child tax credit, Additional Child tax credit.

Eligibility rules for some benefits differ for new enrollees and continuous enrollees. The graph presents continuous eligibility rules. Enrollment in some programs affects the benefits of other programs. The value of benefits estimated in each line assumes the family is enrolled in all programs noted.

INTRODUCTION

The United States social safety net aims to improve the lives of the lowest-income families and individuals. As the term net implies, the goal is to provide a support system that “catches” families as they fall into poverty. The assortment of assistance programs — non-cash goods or services and cash transfer programs — at federal, state, and local levels, has grown over the years. Each program has its own application procedures, and although several programs assign families a caseworker, oftentimes caseworkers are specific to their agency or program and cannot advise families concerning other programs. Families are challenged with the complexity of the safety net and struggle to fully understand what benefits they are eligible for and how to obtain them.

Understanding the eligibility rules of each program and estimating the value of benefits each family can receive is a daunting task. By design, as individuals or families increase their earnings, benefits decrease within the social safety net. Also, social safety net benefits fall as children age and enter school. Schools may provide benefits not included in the analysis. However, at some income levels, benefits decline sharply or are eliminated entirely, leaving families with fewer overall resources after a slight increase in earnings, a situation referred to as a *benefits cliff*. In other instances, families are left no better off than before with an increase in earnings, referred to as a *resource plateau*. Benefits cliffs and resource plateaus can be considered to cause disincentives to work because the incentive to pursue higher wages or adding work hours declines at these specific points, since families lose more in benefits than they gain in earned income. Unfortunately, most families generally do not have access to sufficient information to anticipate how public benefits shift as earnings increase or how eligibility shifts as their children

age.

This work aims to thoroughly document the benefits available to families in the City of Los Angeles at different income levels, identifying the places where the safety net may become a barrier towards economic independence,



and highlight the critical role of benefits that support work (e.g., childcare and housing).

Research Process

1. ASSESSMENT OF PREVIOUS RESEARCH

Previous research has focused on how the generosity of various public assistance programs impacts the work effort of recipients. Prior research findings suggest that work disincentives caused by public assistance programs are small.¹ Painter (2001) combined the four primary federal programs (Cash welfare, SNAP, Medicaid, and HUD), finding that the elimination of those programs would only increase work by 3 to 12 hours weekly and that the corresponding loss in public assistance is much larger than the increase in labor income.² However, research

¹ e.g., Moffitt, 1992; Ong, 1998. Moffitt, R. (1992). Incentive effects of the US welfare system: A review. *Journal of Economic Literature*, 30(1), 1-61. Ong, P. (1998). Subsidized housing and work among welfare recipients. *Housing Policy Debate*, 9(4), 775-794.

² Painter, G. (2001). Low-income housing assistance: Its impact on labor force and housing program participation. *Journal of housing Research*, 1-26.

has examined average effects, rarely focusing specifically on how individuals are impacted and how they change behavior when facing a benefits cliff. In part, this is because the direct effects on employment preferences are difficult to estimate, as there are several points at which benefits may fall by more than the increase in earnings, and the size of the fall varies.³ In addition, because of the complicated nature of program eligibility and the difficulty in determining where benefits cliffs exist, families may be unaware when they are facing a cliff and therefore not basing work decisions on its existence.

2. BENEFIT STREAM ANALYSIS

After reviewing the available research, the team identified over thirty sources of income and benefit programs at the Federal, State (CA), and local levels (Los Angeles), studied the eligibility requirements of each, consulted with experts and policymakers, and decided which were most important to consider. Once the programs and income streams were identified, the team calculated the value of the benefits for each, and finally combined them to estimate the total resources families have available at different income levels. The total resources are compared to the estimated basic living costs for Los Angeles (via the MIT living wage calculator). Because the benefits change depending on specific family characteristics and the other benefits the family receives, the analysis was conducted several times for different scenarios and families. The report focuses on a single-parent family comprised of a mother and two young children (3 and 6 years old). Other families examined include a single mother with older children (8 and 15 years old) and an undocumented mother with two young US-born children (3 and 6 years old).

SOCIAL SAFETY NET PROGRAMS

For this analysis, thirty benefit programs and tax credits at the Federal, State (CA), and local (LA County) levels were identified for consideration and fourteen were selected for analysis. In order to be selected, the programs must have fulfilled two conditions: 1) be means-tested, indicating that eligibility is determined by specific income limits, and 2) provide monthly or annual benefits that are sustained for at least one year. Short-term transitory programs such as emergency housing subsidies were excluded. The selection of childcare programs was slightly different, as there is a multitude of programs available for childcare depending on the family's income and the age of the child. Programs that are not available to all children (either not available in all areas or have long waitlists) and overlap in a way that a child could attend one of several options are excluded from the analysis. These programs include Head Start and Early Head Start, California Alternative Payment Program (CAPP), California State Preschool Program (CSPP), Child Care Centers (CTTR), and Family Child Care Home Education Network (FCCHEN), Transitional Kindergarten, and Extended Transitional Kindergarten. It is important to note that these are all important programs, and many low-income families rely on them for childcare as part of their social safety net.

Of the fourteen programs included in the analysis, all except one (My Health LA) are Federal and State programs. All the selected programs are listed below grouped by category. Several programs such as CalWORKs cash assistance, the Earned Income Tax credit, the California Earned Income Tax Credit, and the Dependent Care Tax Credit require parents or caregivers to be working, in school, or participating in workforce development programs.

³ *The most comprehensive analysis of the how public assistance interacts with someone's earnings was produced by Barbara Wolfe in 2002. In her analysis, she focused on both federal and state public assistance programs. Her analysis provides two important conclusions. First, the implicit tax rate on earnings as someone's earning go up from 0-31,000 varies widely from 39%-132%. In fact, her analysis in Wisconsin noted that there were 9 different implicit tax rates on earnings that individuals face. The second critical insight in the analysis is that from the time someone's income hit \$20,000, a person would lose \$1.32 in public assistance for every \$1 earned.*

Wolfe, B. L. (2002). *Incentives, challenges, and dilemmas of TANF: A case study. Journal of Policy Analysis and Management: The Journal of the Association for Public Policy Analysis and Management*, 21(4), 577-586.

Income Assistance

■ CalWORKs (TANF), California Opportunity and

Responsibility to Kids: Provides monthly cash benefit for up to 48 months for families with children.

CalWORKs has a family and a child-only component, which means that cases can consist of households where both the adult caretaker and children are receiving aid, and cases where only the children are eligible (if parents have reached the time limit or are ineligible due to other reasons such as being undocumented or fleeing felon status). The aim is to support struggling families with young children, specifically those where the principal earner is unemployed, or one or both parents are absent. CalWORKs offers exemptions from participation in Welfare To Work requirements, for example for parents who are responsible for personally providing care for two or more children under the age of six. Undocumented mothers can apply on behalf of citizen children to the child-only component. A family of three living in Los Angeles qualifies if their gross monthly income is less than \$1,597. Eligible families may receive CalWORKs for a maximum of 48 months in their lifetime, regardless of the number of children.⁴ Time limits do not apply to children.

■ Earned Income Tax Credits and Refundable Tax

Credits: are received once a year after taxes are filed. The tax credit earnings start on the first dollar earned. Both tax credits are refundable, meaning that the refund an individual receives is not dependent on how much they were liable for.

- Federal EITC (EITC) for working families and individuals with low to moderate incomes. For a single parent with two children, their annual earned income in 2019 must be below \$46,703 to claim the EITC.

- California EITC (CalEITC), for working families and individuals with annual earned incomes below \$30,000. Established in 2015 as a state-level complement to the federal EITC.
- A family with annual earnings under \$30,000 could receive up to \$7,000 between both tax credits annually. For the 2015 tax year, 3 million tax filers claimed an average of \$2,400 in federal EITC, and 400,000 tax filers claimed an average of \$520 from the CalEITC.⁵
- Note: To receive these credits, the family is required to file a tax return.

Housing Assistance

- **Housing Choice Voucher (Section 8):** provides subsidies in the form of tenant-based housing assistance payments. Recipients find the housing and pay a portion of the rent, equivalent to no more than 30% of their gross monthly income. To be eligible, a family's income must qualify as extremely low income or very low income as set by HUD area limits (annual income of \$30,450 or \$50,700 respectively for a family of 3 in Los Angeles). Currently, Housing Choice Voucher lotteries have very long waiting lists, and most eligible families are not subsidy recipients. If a voucher-holding family's earnings reach the point at which housing costs are less than 30% of their income, the voucher ceases to pay part of their housing, they lose the benefit, and it is unlikely they would ever get it back. Households with at least one U.S. citizen or noncitizen with eligible status are eligible.

⁴ The time limit for CalWORKs adults was reduced from 60 to 48 months effective July 1, 2011, with the passage of SB 72. AB 79, will increase the CalWORKs time limit for adults back to 60 months effective May 1, 2022. The federal (TANF) time limit is 60 months. There are instances in which a timed-out adult may be eligible to a time limit extender, which would allow them to receive CalWORKs cash aid beyond the 48-month time limit when they meet certain conditions (e.g. disability, domestic violence victim, etc.).

⁵ Just the Facts: Earned Income Tax Credits in California. Tess Thorman and Caroline Danielson. Public Policy Institute of California, March 2018. <https://www.ppic.org/publication/earned-income-tax-credits-in-california/>.



Utilities

- **California Alternative Rates for Energy (CARE):** provides a 30 to 35% discount on electrical bills and 20% discount on natural gas bills for eligible families who enroll. Families qualify for CARE if earned income is less than or equal to 200% of the Federal Poverty Line, which is \$42,660 in 2020.
- **Family Electric Rate Assistance Program (FERA):** provides an 18% discount on electricity bills for families who exceed qualifications for CARE and have income between 200 and 250% of the Federal Poverty Line (between \$42,660 and \$53,325 in 2020).

Healthcare Assistance

- **Medi-Cal:** Provides free or low-cost healthcare coverage for CA residents who are eligible. To be eligible, a household must have an earned income that is less than or equal to 138% of the Federal Poverty Line. Children (0-18 years) can receive Medi-Cal up to 266% of the Federal Poverty Line. There are two general types of Medi-Cal: MAGI (Modified Adjusted Gross Income) and Non-MAGI Medi-Cal. This study focuses on the MAGI type because Non-MAGI has a portion of shared costs and Non-MAGI Medi-Cal does not meet the Minimum Essential Coverage (MEC) requirement of the Affordable Care Act (Federal Requirement).

- **SCHIP, State Children's Health Insurance Program:** Expanded Medi-Cal insurance for children who do not qualify for Medi-Cal under adult eligibility rules.
- **My Health LA:** A no-cost healthcare program for low-income residents in Los Angeles County. Participants must not be eligible for Medi-Cal or any other form of full-scope health coverage. Undocumented adults are eligible.
- **Affordable Care Act / Covered California:** Offers subsidized healthcare plans for families through the Health Insurance Marketplace. Families must have annual incomes between 138% and 400% of the federal poverty level (\$85,320), in compliance with the Affordable Care Act (ACA). Families or individuals must pay a premium to enroll and obtain the benefit.
- **Other programs:** California also has the California State Subsidy program for eligible families with incomes between 400 and 600% of the Federal Poverty Level (between \$85,320 and \$127,980). This program is not included in the analysis because the income eligibility is beyond the population of focus for this report.

Childcare Assistance

- **CalWORKs Childcare Stage 1:** Provides childcare subsidy vouchers that help families access childcare upon approval of cash assistance. Families are eligible if they are currently receiving cash aid, or if they have been cash aid recipients in the past. Care is provided for children from birth through 12 years old (21 if a child has exceptional needs or a severe disability) until the family exceeds the income eligibility. For a family of three, Stage 1 childcare ends once the family makes more than \$33,900 annually.
- **CalWORKs Childcare Stages 2-3:** Provides childcare subsidy vouchers similar to Stage 1, with higher income eligibilities. Families in Stages 2 and 3 pay a premium as their income increases. For a family of three, they begin to pay the premium for childcare once annual earnings exceed \$33,900 and will be eligible for childcare assistance up to annual earnings of \$65,604. CalWORKs childcare stages 1 and 2 are considered entitlements, while stage 3 is dependent on fund availability.

■ **Child and Dependent Care Tax Credit:** Provides credit worth between 20 and 35% of childcare costs for children under 13 years old, as long as parents are working or in school. Eligible childcare expenses are limited to \$3,000 for the first dependent and \$6,000 for two or more dependents. Families of any income level are eligible, and the amount of benefits received depends on the income (families with adjusted annual gross incomes of \$0 to \$15,000 receive the maximum credit of 35% of expenses which is \$1,040 for one child and \$2,100 for two or more children). Families must make full payments of childcare during the year and obtain the tax credit at the end of the year of payments. The credit is non-refundable and therefore can only serve to reduce income tax owed.

Food Assistance

■ **CalFresh (Supplemental Nutrition Assistance Program, SNAP, formerly called Food Stamps):**

Eligible households receive a card for purchasing food from grocery stores and farmer’s markets. Eligibility is based on a net income that considers certain credits and deductions (such as medical costs and child care costs) and generally, families must have gross monthly incomes below 200% of the federal poverty level (monthly gross eligible income of \$3,556 for a family of three in 2020, approximately \$1,778 in net eligible income). The program does not have employment requirements for families with dependents under 18 years of age. Immigrant families may be eligible for CalFresh depending on their specific immigration status. For example, undocumented parents or caregivers can apply for children who have citizenship. The maximum benefit a family of three could receive is valued at \$509 monthly.

■ **The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC):** Provides vouchers for food to eligible mothers and children up to 5 years old. Eligibility is based on income but also categorical so that a household may qualify if it also

qualifies for CalFresh and/or CalWORKs. This program is separate from CalFresh and families may be eligible for both.

■ **Other Taxes and tax credits included:** Federal Income tax, State income tax, Federal Insurance Contributions Act (FICA) tax (which includes Social Security and Medicare), CA State Disability Insurance (SDI) tax, Child tax credit, Young Child tax credit (for families with children under the age of 6), Additional Child tax credit.

Of all the programs, only CalWORKs provides monthly supplementary income, which recipients are free to use as they wish, although they are intended to pay for housing, food, utilities, clothing, and other necessary expenses. The EITC and CalEITC also provide discretionary funds but are received once a year because they are tax credits. The health care and childcare programs included, provide benefits in the form of goods or services, recipients do not receive direct cash or funds. The childcare tax and food assistance programs are considered non-cash benefits for this analysis. Although recipients can choose which products to purchase, the childcare tax is restricted for licensed childcare centers, and the food assistance programs are restricted to certain stores and items.

For illustration purposes, when presenting monthly benefit estimates, this report divides taxes and tax credits into 12 months, although some programs are only received once a year.



PHOTO CREDIT: IMAGINE LA

SCENARIOS

Monica's Family

To more realistically display the situations families encounter, the report turns to Monica, David, and Lili, a fictitious family based on real Imagine LA families. Monica's family is introduced below, and the following sections include discussions of the costs of basic needs for living in Los Angeles, the estimated benefits they can access at different income levels, and the different scenarios they face depending on what programs they enroll in. As a note, families do not navigate the safety net alone. Many programs require families to work with caseworkers that assist them with the application of their program and agency, but oftentimes cannot advise them about other programs and agencies.

Monica is a single mother with two children, 6-year-old David, and 3-year-old Lili, living in Los Angeles, California. Monica is examining the different options she has to increase her family's income. All three family members are US citizens, and the family has \$0 in assets. No family member has a diagnosed disability, and Monica is not currently pregnant. Lili, who is three years old, is not enrolled in school and is assumed to need full-time childcare. David, who is six years old, is enrolled in 1st grade at his local public school and is assumed to require part-

time childcare during the 9 months of school and full-time care during the 3 months of spring, winter, and summer breaks. Throughout all income levels, the analysis assumes that the family is not receiving healthcare through Monica's work. Note: the analysis would remain unchanged if the family was headed by a male parent instead of a female parent.

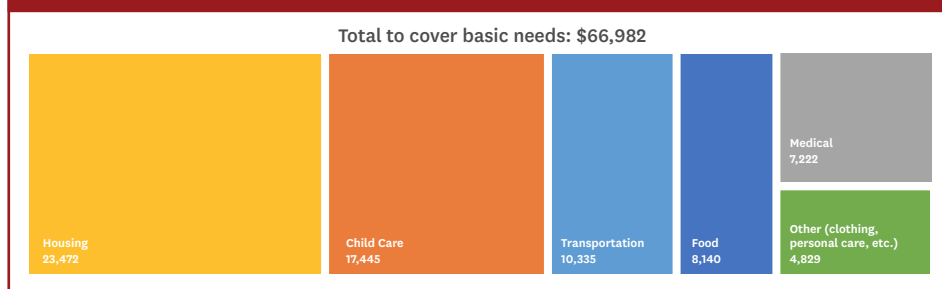
How many resources does Monica's family need to live?

As a reference point, the analysis uses an estimate of the *living wage*, an assessment of the minimum amount of resources a family needs to make ends meet in Los Angeles. The estimates are based on the MIT living wage calculator, which conducts estimates for Los Angeles County by adding the costs of all basic expense categories (housing, childcare, transportation, food, medical, and other which includes clothing and personal care items).⁶ For the present analysis, childcare and housing costs are slightly modified,⁷ and all expenses are adjusted to 2020 dollars by taking into account inflation.

A family of 3 like Monica's, comprised of a mother with a toddler and a young school-aged child, require a total annual income (after taxes) of at least \$66,982 to cover all basic living expenses (\$5,582 month monthly) in 2020. Not

considering available benefits, this requires an annual gross income of \$79,976 (\$6,665 monthly). The estimate includes expenses for housing (two-bedroom rental with utilities), child care (licensed family child care home), transportation, food (assumes all meals prepared at home), medical, and other expenses such as clothing and personal care items.

FIGURE 3: A MOTHER WITH TWO YOUNG CHILDREN NEEDS \$66,982 TO COVER BASIC LIVING EXPENSES IN LOS ANGELES COUNTY IN 2020 (ANNUALLY)

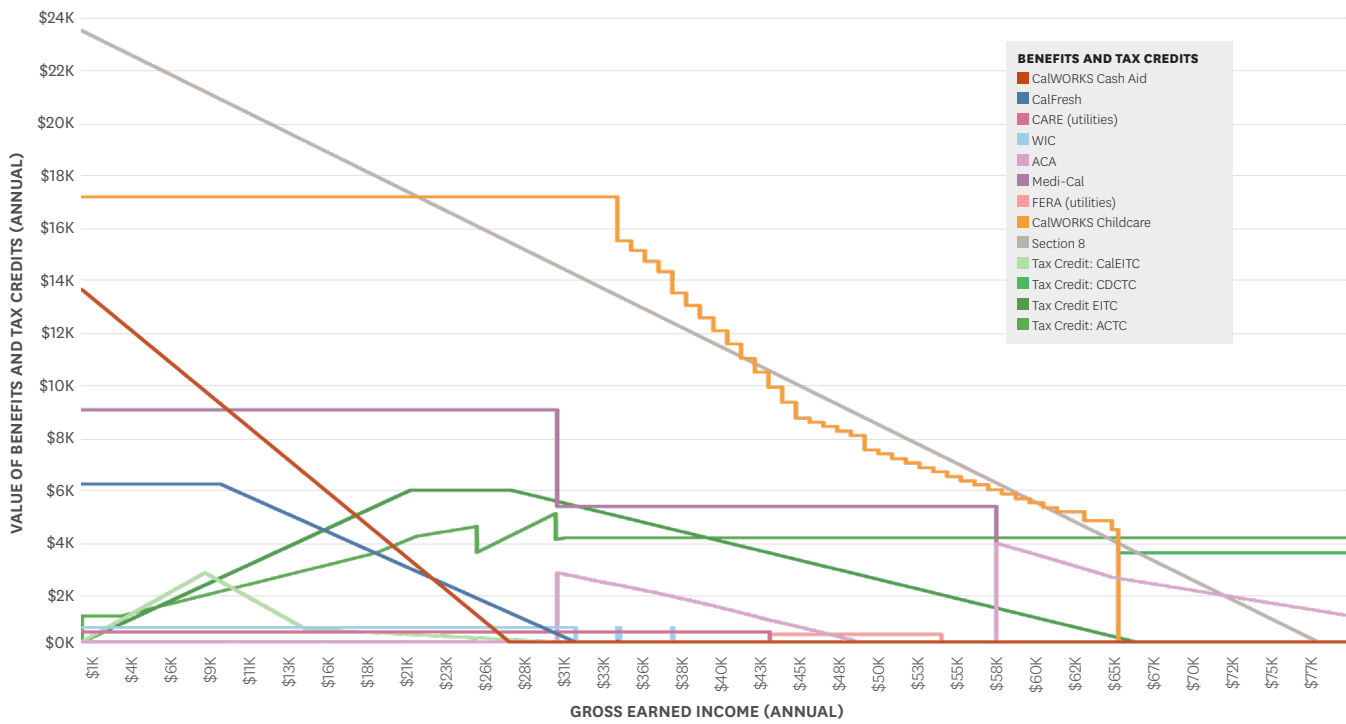


⁶ MIT living wage calculator estimates can be found at <https://livingwage.mit.edu/counties/o6037> and the technical documentation for the calculations can be found at <https://livingwage.mit.edu/resources/Living-Wage-Users-Guide-Technical-Documentation-2020.pdf>.

⁷ For child care, the preschool aged child is assumed to require full-time child care, and the school age child is assumed to require a combination of part-time child care during the 9 months of the school year, and full-time child care during the 3 months off school. The costs for child care are taken from the maximum reimbursements table from the CDE for Family Child Care Homes <http://www3.cde.ca.gov/rcsc/index.aspx>. Housing costs are from HUD's Fair Market Rents for a 2-bedroom apartment for LA County in 2020, found at https://www.huduser.gov/portal/datasets/fmr/fmrs/FY2020_code/2020summary.odn.

BOX 3 — Benefit trajectories

FIGURE 4: THE SOCIAL SAFETY NET’S COMPLICATED WEB



Note: Eligibility rules for some benefits differ for new enrollees versus continuous enrollees. The graph presents continuous eligibility rules. Enrollment in some programs affects the benefits of other programs. The value of benefits estimated in each line assumes the family is enrolled in all other programs presented in the graph.

Figure 4 displays the estimated value of the benefits (cash or goods/services) from each program presented at different income levels for Monica’s family — a single-parent with two young children. Some of the most important programs for low-income families include:

Housing Choice Voucher Program (Section 8): Provides the largest amount of benefits. The benefit is highest and covers the full cost of rent at a fair market price of \$1,956 monthly when the family has zero income. As the family’s income increases, the voucher decreases gradually and covers a lower proportion of rent until the family earns \$78,240 where the voucher disappears.

CalWORKS Cash Aid: Highest when the parent enrolls in welfare to work activities with zero income up to the income disregard of \$500 for a family of 3. It gradually fades out until an annual income of \$27,075 when it ends completely.

CalWORKS Child Care Stage 1: The second-highest benefit the family has access to, and it covers the full cost of child care for both children from zero income to an income of \$33,900 when they switch to Stage 2 and Stage 3 which require a copayment. The benefit decreases in a stepwise manner up to an income of \$65,600 when the family no longer has access to child care subsidized through CalWORKS.

CalFresh: Benefits are highest for incomes up to around \$8,900 and then they start decreasing gradually until around \$31,000 when the family is no longer eligible.

EITC and CalEITC: Begin with the first dollar earned and gradually increase as income increases. CalEITC has a triangle shape, reaching its highest level around \$7,900 and decreases gradually until \$14,200 where it decreases even more gradually until \$30,000 where it ends. The federal EITC reaches its highest at \$21,000 where it stays until an income of \$27,200 where it decreases gradually until disappearing at \$67,000.

Medi-Cal: Covers the full cost of health insurance for all three family members up to an income of \$29,974 where the parent loses coverage and can start accessing healthcare through Covered California (not pictured) while paying a copayment. Children lose coverage at an annual earned income of \$57,776.

Note: Programs interact with each other (for example CalFresh, WIC, and CalWORKS child care), and the estimated benefits may appear lower than if one considers the eligibility of only one program as described in the programs list.

Navigating Benefits

As Monica explores the different benefit programs available, she encounters an intricate web of agencies and tax credits aimed to support low-income families. The majority of programs have their own enrollment processes and their own set of requirements, which she finds difficult to understand and untangle.

The estimated value of each of the benefit programs Monica and her family are eligible for is presented in Figure 4 on the previous page. In the graph, each line represents the estimated value of one benefit program at different levels of earned income, assuming the family enrolls and receives all programs they are eligible to receive. It is clear from the graph that there are a multitude of programs and that their benefit trajectories vary widely, some being highest at the lowest income levels, some depending on individuals working, some decreasing gradually and others abruptly. It is important to mention that although the eligibility rules differ for new and continuous enrollees in some programs, the graph presents continuous eligibility. Also, the benefits for some programs are tied to the receipt of other programs; for example, receiving child care benefits decreases the amount of CalFresh benefits a family is eligible to receive. If Monica's children were not enrolled in CalWORKS child care when her income is under \$31,000, the CalFresh benefits would be higher.



Different Scenarios

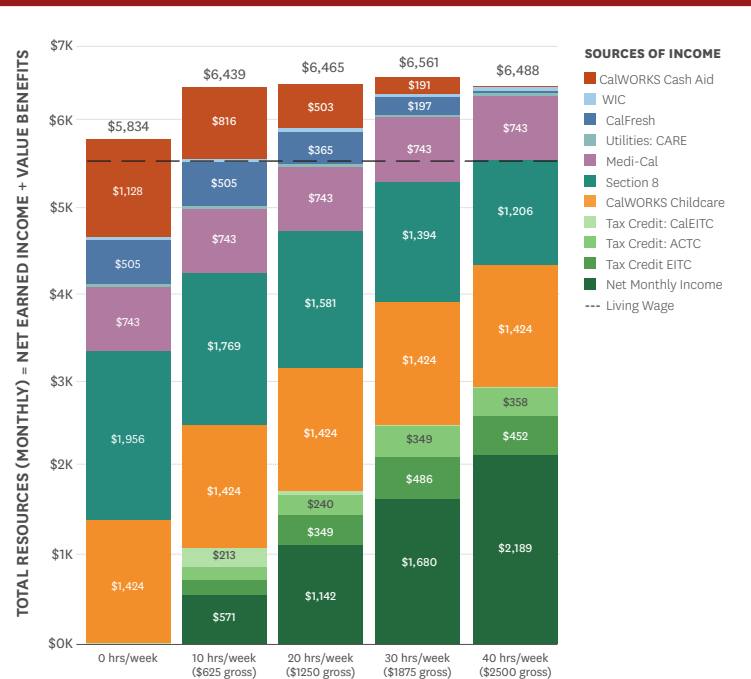
To better understand how the programs come together and what they mean for Monica's family, this section discusses the options the family faces depending on the specific benefits they receive. The first scenario presents the unlikely scenario that the family receives all programs they are eligible for, including the Housing Choice Voucher (Section 8). The second scenario is a more likely scenario in which the family receives all programs including the CalWORKs cash aid and childcare subsidies, but no Housing Choice Voucher. The third scenario depicts the family as receiving all programs except the two largest ones — the Housing Choice Voucher and CalWORKs.

SCENARIO 1: HOUSING CHOICE VOUCHER (SECTION 8) AND CALWORKS

One of the largest benefit programs is the Housing Choice Voucher Program (Section 8). The program provides rental assistance to low-income families based on their income and HUD's Fair Market Rates. The tenant pays no more than 30% of their income and the voucher pays for the rest. At the lowest income level, the voucher could pay for the full cost of renting a unit. Because the program funding is limited and the waitlist is years-long — across the country, only one in four eligible households are receiving a voucher⁸ — low-income families who currently have the voucher are the exception rather than the norm. If Monica's family were one of the lucky families to have obtained a Housing Choice Voucher and a landlord that is open to accepting it, her family would have the two largest spending categories covered — childcare through CalWORKs and housing through the Housing Choice Voucher Program.

⁸Ellen, I. G. (2020). *What do we know about housing choice vouchers?*. *Regional Science and Urban Economics*, 80, 103380.

FIGURE 5: TOTAL MONTHLY RESOURCES AVAILABLE AT DIFFERENT INCOME LEVELS, \$15 PER HOUR WAGE, ALL BENEFITS



Notes: In scenarios where the mother is not working full time, the family may not be taking full advantage of the child care available to them, although full-time child care could be covered. The graph illustrates the full benefit available and avoids making assumptions regarding how many hours of care are being used.

CalWORKs cash assistance has a maximum timing of 48 months for adults.^{iv} After 48 months, families cannot receive more cash assistance even if eligible, but they can continue to receive child care services.

Figure 5 presents some of Monica’s options at a wage of \$15 per hour in the scenario in which her family receives all benefits they are eligible for, including the Housing Choice Voucher (Section 8). Each column represents a different number of weekly hours Monica may work and the height of the column represents the total amount of resources (earned income and benefits) the family has available. Within each column, the colored sections represent one source of resources, which can be an income stream or a benefit program (specified in the legend).

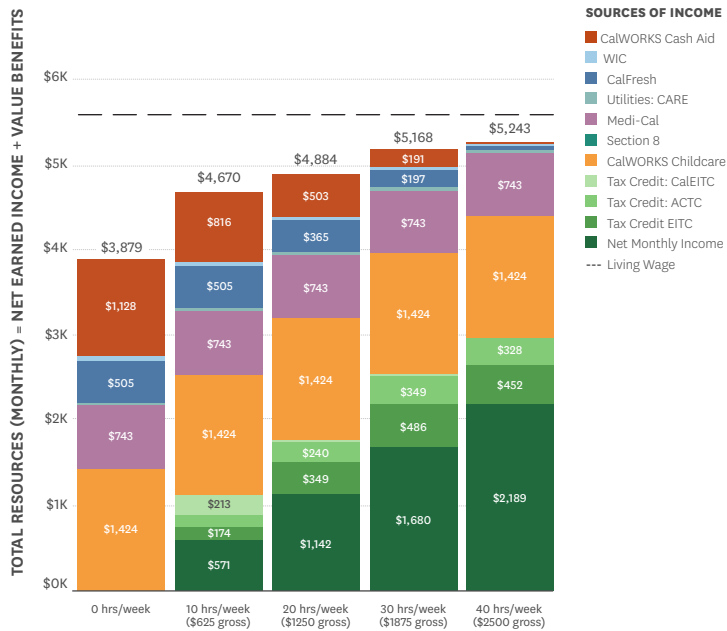
Even when Monica has no income, having access to all these programs allows her family to cover all basic needs. As Monica engages in work, moving from the far-left column (zero hours of work) to the second column (10 hours of work), the family’s overall resources increase substantially, and the family further surpasses

the minimum living wage. The increase is larger than Monica’s net income because of the refundable tax credits. After Monica begins working 10 hours, if she continues moving right on the graph by adding hours of work, her resources remain largely flat, representing a benefits plateau. The only incentive she could have to increase her hours of work is the added flexibility of funds she obtains. As the amount of resources that are tied to non-cash benefits (goods and services) decreases, she can choose how to spend a larger portion of resources. The sections in green (net income and tax credits) and the red (CalWORKs cash aid) represent discretionary income, which she can allocate freely. Even if the family ceases to receive the cash aid portion of CalWORKs, the incentives to work remain low in this scenario with the Housing Choice Voucher (Section 8).

To understand these numbers, it is essential to look at what benefits are covering and what they are not. Housing is one of the largest monthly expenditures for most families. According to the 2020 Fair Market Rent calculation published by HUD, a family of three living in Los Angeles can expect to spend \$1956 a month on rent and utilities for a two-bedroom apartment. With the Housing Choice Voucher and CalWORKs, if Monica were to work a \$15/hour wage job at 20 hours a week, she would once have a monthly discretionary income (funds she can use freely, from cash benefits and her income) of \$2273. Monica would have to pay \$375 towards rent, assuming that the unit is priced at the Fair Market Rent (Housing Choice Voucher recipients pay



FIGURE 6: TOTAL MONTHLY RESOURCES AVAILABLE AT DIFFERENT INCOME LEVELS, \$15 PER HOUR WAGE, ALL BENEFITS EXCEPT HOUSING



Notes: In scenarios where the mother is not working full time, the family may not be taking full advantage of the child care available to them, although full-time child care could be covered. The graph illustrates the full benefit available and avoids making assumptions regarding how many hours of care are being used.

CalWORKs cash assistance has a maximum timing of 48 months for adults.^{iv} After 48 months, families cannot receive more cash assistance even if eligible, but they can continue to receive child care services.

a maximum of 30% of gross monthly income towards rent), leaving her with \$1898 for the rest of her family’s expenses. She would be able to cover MIT’s estimated transportation cost of \$861 per month as well as estimated miscellaneous expenses of \$402 and still be left with \$635. As Monica’s working hours increase, her total resources do not increase. However, at 40 hours per week, she receives a discretionary income of \$2,969 and has to pay \$750 in rent. While Monica is left with more discretionary income, it remains likely that some of this discretionary income will be needed to cover the loss of benefits from CalFresh.

SCENARIO 2: CALWORKS, NO HOUSING ASSISTANCE

In the more likely scenario that Monica’s family does not receive housing support, but receives all other benefit programs including CalWORKs, the overall resources Monica receives are significantly lower. No matter how many hours of work Monica works (up to 40 hours per week), she is no longer able to cover her family’s basic living expenses at minimum wage (\$15/hour). Unlike the previous scenario, where Monica received the Housing Choice Voucher (Section 8), her total resources do increase as she moves from not working to working full-time. However, the increase in earned income is partially offset by the decrease in CalWORKs and other benefits.⁹

Assuming Monica is currently working 20 hours per week at a minimum wage of \$15 per hour and is receiving all benefits excluding housing assistance, at this income level, her sources of income and benefits are:

- Supplementary sources of income: CalWORKs cash aid.
- Tax credits: Earned Income Tax Credit (EITC), California EITC, Additional Child Tax Credit (the refundable portion of the Child Tax Credit, includes the Young Child Tax Credit).
- Non-cash benefits or discounts: utilities discount (CARE), Medi-Cal, CalWORKs child care, WIC, CalFresh.
- Income: net earned income.

The total annual resources and benefits Monica’s family has available when she works 20 hours per week at \$15 per hour is \$58,608 (Figure 6, center column). Over half (53%) of these resources are non-cash benefits or transfers tied directly to one type of expense, such as food and healthcare.

Although the total resources increase slowly, Monica’s discretionary income, increase more dramatically giving her more power over how to spend her resources. If Monica adds 10 or 20 hours to her work week, her total annual resources go from \$58,607 to \$62,016 or \$62,906,

⁹ See Table A.1 in appendix for annual dollar amounts.

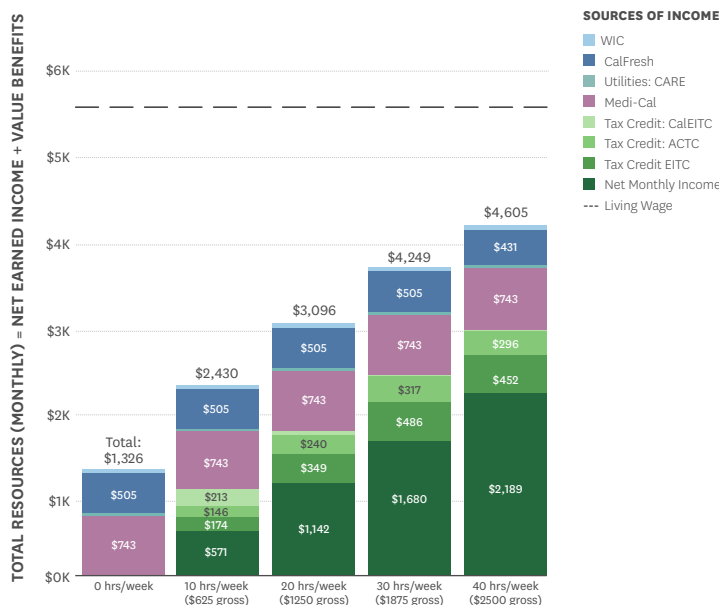
respectively (see Appendix Table A.1). By doubling her hours of work, her family's total resources increase only by 7%; however, her discretionary spending increases by about 31%. Working a minimum wage (\$15/hour) job for 20 hours per week gives Monica's family about \$2273 of discretionary income per month. After paying rent (again assuming a two-bedroom unit within Fair Market Rent of \$1956), this family would have about \$317 remaining for all transportation costs (estimated by the MIT living wage calculator to be \$861/month) and miscellaneous expenses (estimated by the MIT living wage calculator to be \$402/month).

Working a minimum wage job for 40 hours per week, the family's discretionary income increases, but CalFresh drops off between part-time and full-time employment, which assists a family in food expenditures. Even subtracting the \$365 that the family loses in CalFresh benefits — assuming the family must spend an equal

amount on groceries — still leaves them with \$658 of discretionary income per month. While this still does not allow the family to cover transportation costs and miscellaneous expenses fully, it does put them in a slightly better off position than they were at 20 hours of work. In fact, working 40 hours per week compared to 20 hours allows the family to double their discretionary income after necessary expenses such as rent and food.

With regard to incentives to work, it is difficult to assess how Monica would value the additional \$341 in discretionary income (post rent and the food that CalFresh previously covered at 20 hours) per month, but it is important to note that CalWORKs cash aid is a time-limited program. This means that if Monica is unable to secure a full-time position before her time on cash aid expires, she will automatically have her portion of CalWORKs cash aid reduce resources each month by approximately 180 dollars. This situation leaves her family with an income of \$2,091, and they have only \$135 after paying rent. Although Monica still does not obtain a living wage working full time, she is able to cover housing expenses and is not immediately facing homelessness.

FIGURE 7: TOTAL MONTHLY RESOURCES AVAILABLE AT DIFFERENT INCOME LEVELS, \$15 PER HOUR WAGE, ALL BENEFITS EXCEPT HOUSING AND CALWORKS



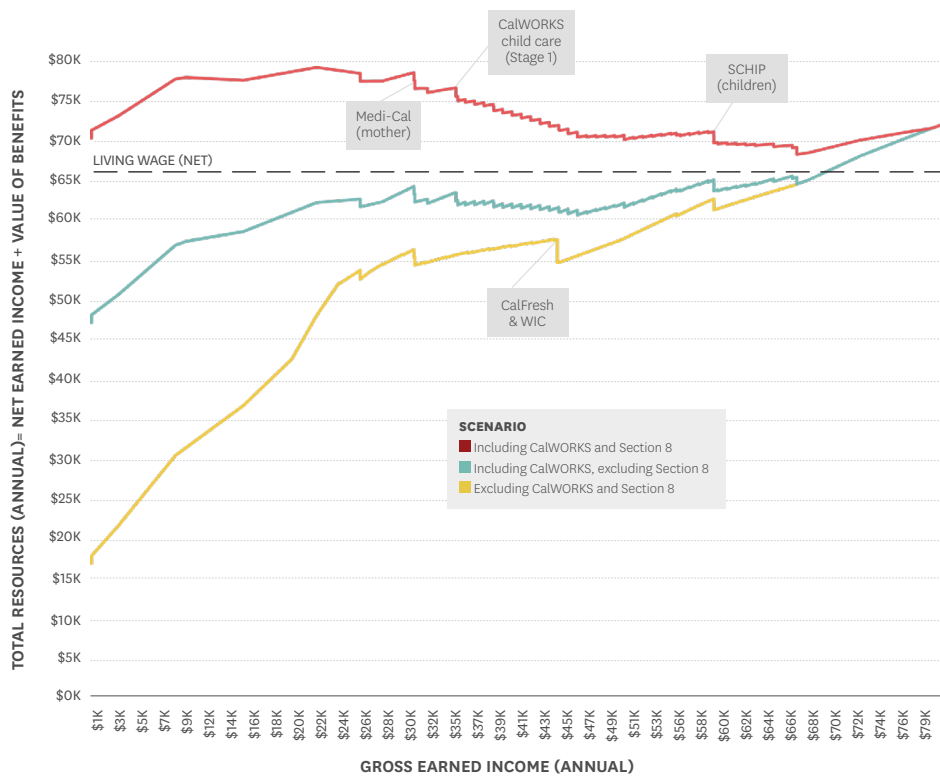
Notes: The difference between this graph and Figure 4 is that here the family is not receiving CalWORKs cash aid nor CalWORKs child care. This involves not only subtracting those benefits but also accounting for the interactions with other programs such as CalFresh.

SCENARIO 3: NO CALWORKS, NO HOUSING ASSISTANCE

If Monica were not enrolled in CalWORKs (due to lack of awareness, or fear of stigma, for example), her situation changes abruptly. Not only would she no longer receive cash aid at the lowest income levels, but she would not receive childcare subsidies. Without affordable childcare for her two young children, Monica most likely is not able to work. While CalWORKs is not the sole means by which a low-income family can receive affordable childcare, it is one of the most flexible and comprehensive options. Without CalWORKs, Monica's family would be in a significantly more disadvantaged position. Figure 7 illustrates her new possible scenarios.

Without CalWORKs, if Monica is working 20 hours per week at minimum wage, she has a discretionary income of \$1,770 per month (net income plus tax credits) and

FIGURE 8: BENEFITS TRAJECTORIES — ESTIMATED VALUE OF TOTAL RESOURCES BY EARNED INCOME (ANNUAL)



Notes: The programs and taxes included here are CalWORKS cash aid and child care (Stages 1, 2, and 3), Earned Income Tax Credit, California EITC, Section 8, utilities subsidies CARE and FERA, Medi-Cal, SCHIP, Covered California, Child and Dependent Care Tax Credit, CalFresh, WIC, Federal Income tax, State income tax, Federal Insurance Contributions Act tax (which includes Social Security and Medicare), CA State Disability Insurance (SDI) tax, Child tax credit, Young Child tax credit, Additional Child tax credit.

Eligibility rules for some benefits differ for new enrollees and continuous enrollees. The graph presents continuous eligibility rules. Enrollment in some programs affects the benefits of other programs. The value of benefits estimated in each line assumes the family is enrolled in all programs noted.

Estimates include Affordable Care Act / Covered California and the Child Care tax credit, which require that the family pay premiums in order to obtain the benefits. The bumpiness of the blue and red lines between the incomes of \$33,900 and \$65,600 is because CalWORKS child care Stages 2 and 3 premiums are set up in a stepwise fashion.

can no longer afford a rent payment of \$1956. At 40 hours per week, her discretionary income is \$2969, the same as working 40 hours while receiving CalWORKS and the Housing Choice Voucher. However, it is important to remember that now, not only is she expected to pay a rent of \$1956, but she would also need to pay for childcare costs out of pocket, which are estimated to be \$1424. In total, estimated rent plus childcare is \$3,380. Given that she would only be able to make one of these payments, she would either have to make critical cutbacks, like finding a significantly cheaper childcare option or a cheaper housing arrangement, or risk homelessness.

Benefits Trajectories

To examine more closely how the resources available to Monica and her family change as earned income increases, Figure 8 plots the scenarios discussed above. Each line represents one of the three scenarios examined above: receiving all programs (red line), all programs

excluding the Housing Choice Voucher (blue line), all programs excluding CalWORKS and the Housing Choice Voucher (yellow line).

Surprisingly, the benefits cliffs identified tend to be quite small. We discuss the overall changes in resources and the points that present the largest decreases.

SCENARIO 1: CALWORKS, NO HOUSING ASSISTANCE

In Figure 8, the blue line (middle line) represents the most likely scenario for Monica’s family, in which they are receiving all benefits they are eligible for except housing assistance. In this scenario, between gross annual incomes of \$0 and \$8,000 (working 10.6 hours per week at \$15 per hour), the incentives to work are positive (total resources increasing by more than her income) because of benefits like the EITC and childcare that support work. Between gross annual incomes of \$8,000 and \$14,000 (working 19 hours per week at \$15 per hour), the combination of benefits falls as work increases.



At annual earned incomes of \$25,000 and \$30,000, the child tax credits have an abrupt decrease and later increase. At \$30,085, Monica loses Medi-Cal coverage for herself, although her children can continue to be enrolled through SCHIP and she is now eligible for coverage through Covered California (the Affordable Care Act). After Monica loses Medi-Cal, overall resources remain relatively constant until her earned income reaches \$33,000 where there is a decrease in the child tax credits. She experiences another decrease at an annual income of \$33,900 where the family's childcare coverage is no longer through CalWORKs Stage 1, but now through Stage 2. The decrease is softened because the family becomes eligible for CalFresh and WIC. For CalWORKs childcare Stages 2 and 3, families must pay a premium to access the benefits, which increases as income increases. Total resources increase again with earned income until the next decrease at \$57,885 where her children lose their Medi-Cal healthcare coverage (through SCHIP).

Again, this decrease in total resources by the loss of this benefit is softened because they are now eligible for health insurance through Covered California. The final decrease is observed at \$65,605 where the family loses access to CalWORKs childcare, which was subsidizing part of the childcare costs. This final reduction in benefits is softened by the Child and Dependent Care Tax Credit. The loss of the CalWORKs childcare benefit is estimated to be \$4,315 at this income level, which is 6.3% of total resources. If the family continues with the same childcare setting and hours, the tax credit provides an estimated \$3,419 credit at the end of the year, which lowers the total loss to only \$892 or 1.4% of resources.

In sum, the main decreases observed in the scenario with CalWORKs but no Housing Choice Voucher (Section 8) (blue line) as earned income increases are:

- Child tax credit decrease (at \$25,005), loss of 1.3% of total resources.
- Child tax credit decrease (at \$30,000), loss of 1.3% of total resources.
- Mother loses Medi-Cal (at \$30,085), loss of 1.4% of total resources. The loss in health care benefits is larger (4.8% of total resources), but it is partially offset because she is now eligible for insurance through Covered California.
- CalWORKs childcare Stage 1 ends (at \$33,900), loss of 1.4% of total resources. The loss in childcare benefits is larger (2.2% of total resources), but it is partially offset because the family becomes eligible for CalFresh and WIC.
- Cliff 4 — Children Lose Medi-Cal (SCHIP) (at \$57,885), loss of 2% of total resources. The loss in health care benefits is larger (7.4% of total resources), but it is partially offset because the children are now eligible for insurance through Covered California.
- Cliff 5 — CalWORKs childcare Stage 3 (at \$65,605), loss of 1.3% of total resources. The loss in child care benefits is larger (6.3% of total resources), but it is partially offset because the family is now eligible for the Child & Dependent Care Tax Credit.

SCENARIO 2: HOUSING CHOICE VOUCHER (SECTION 8) AND CALWORKS

The scenario with the Housing Choice Voucher (red line in Figure 8) overall has the same decreases as the scenario with CalWORKs but without section 8. The main difference is that this scenario with Section 8 has a different shape, with overall resources rising at first until around an annual earned income of \$8,000, then plateaus with some small rises and dips until an income of almost \$34,000 where it consistently decreases until an annual income of \$45,000 is reached. Interestingly, this scenario has the lowest incentives to increase earnings beyond a gross annual income of \$8,000.

SCENARIO 3: NO CALWORKS, NO HOUSING ASSISTANCE

The scenario without Housing Choice Voucher (Section 8) and CalWORKs (yellow line in Figure 8) has a significantly steeper trajectory than the other two scenarios, indicating stronger incentives to work throughout different levels of income. The incentive seems particularly strong up to an income of \$29,974 where the mother loses Medi-Cal and there is a plateau where the line becomes flatter until the family reaches an income of 200% of the Federal poverty line (\$43,335 for Monica's family of 3).

When income reaches \$43,335, the family becomes ineligible for CalFresh and loses 5.1% of their total resources. This point is worth considering a benefits cliff since the drop is so sharp. The cliff is unique to this scenario. It does not appear in the other scenarios because of how CalFresh interacts with childcare benefits. It is important to note that some programs interact with each other, so adding or removing a program from the family's total benefits is not straightforward. For example, removing CalWORKs benefits cash aid and childcare — the difference between the yellow and the blue line in Figure 8 — changes not only the total benefits but also CalFresh benefits, which are lower and phase out earlier if the family is receiving CalWORKs.

Discretionary Spending

An interesting exercise is to consider a situation in which Monica's wage is doubled from \$15 per hour to \$30 per hour. Comparing the resources available to Monica's family if she works full time under both wage circumstances, \$15 and \$30 per hour, doubling her wage increases the family's annual resources only by 1.3%, going from \$62,906 at \$15 per hour to \$63,749 at \$30 per hour. Although the increase is quite small, at \$30 per hour the vast majority of the resources (78%) are cash benefits and earnings she can use freely, while at \$15 per hour only 42% of resources are cash benefits and earnings, the rest are tied to non-cash benefits. The main advantage of such a large wage increase is that Monica's family obtains the freedom to administer the majority of their resources.

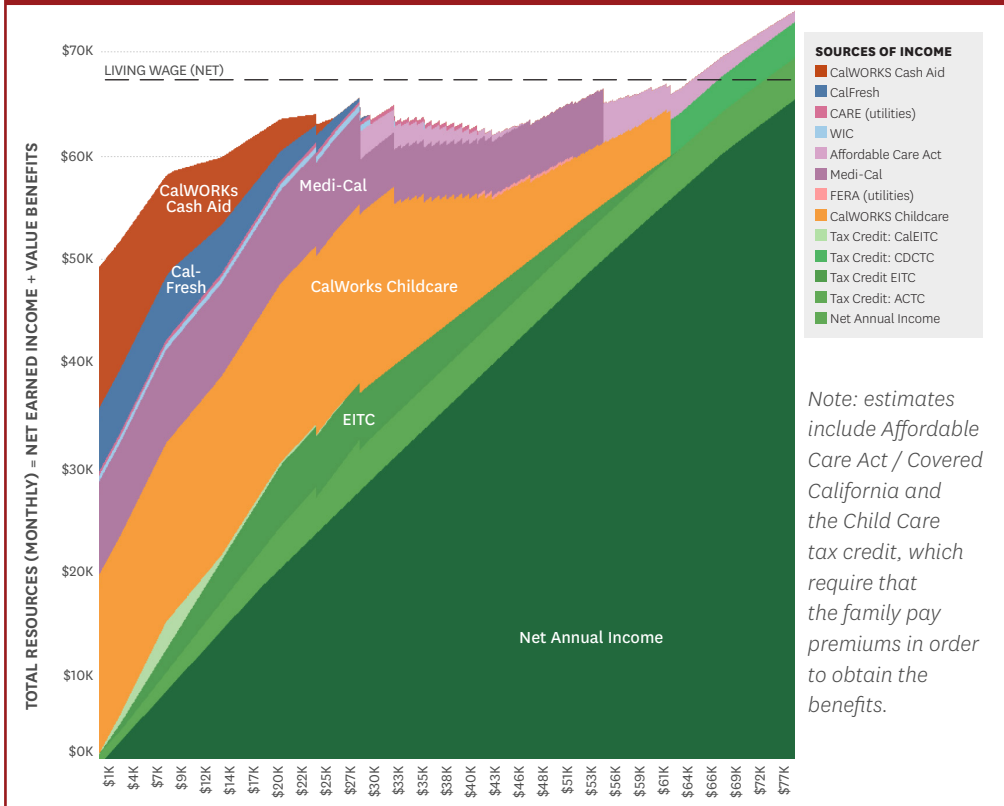
Closer Look

To uncover the contribution of each program when Monica's family is receiving all benefits except housing assistance, Figure 9 breaks down the blue line in Figure 8 into the different income streams. The graph presents a detailed display of all the programs that make up the scenario with CalWORKs but without a Housing Choice Voucher (the blue line in Figure 8). In the graph, the colored areas represent the source of the resources.

As mentioned earlier, the two decreases associated with the loss of Medi-Cal — for Monica and later SCHIP for her children — can be softened if the family enrolls in insurance through the Affordable Care Act/Covered California marketplace, but they must pay a premium to obtain the benefit. In conversations with experts, they reported that it is likely that the family would choose to forgo the benefit not to pay the premium, especially when the mother loses Medi-Cal.¹⁰ When estimating the size of the bar charts in the previous section, Covered California was not considered, although the Covered California benefit estimates are presented in Figures 8 and 9.

¹⁰ It is important to point out that if the mother does not have health care that meets the individual mandate, she may have to pay a penalty to the Franchise Tax Board (California) due to California's Individual Mandate.

FIGURE 9: ESTIMATED VALUE OF TOTAL RESOURCES BY EARNED INCOME (ANNUAL) BY SOURCE WITH CALWORKS, NO HOUSING CHOICE VOUCHER (SECTION 8)



credits because the elderly parent is not counted as part of the family or unit of assistance for the programs and credits. Thus, having an elderly parent with SSI income simply increases the overall resources available to the family and the basic living costs, but does not affect the benefits cliffs or suggest changes in the incentives to work.

Main Findings

In sum, the findings of this research highlight benefit trajectories for a single-parent family comprised of a mother and two young children (3 and 6 years old) in the City of Los Angeles. The insights are true for other family types examined as well: a mother with older children (8 and 15) and an undocumented mother with two US-born children (3 and 6).

Other Families Considered

Additional families were examined, including a single mother with two older children (8 and 15 years old) and an undocumented immigrant single mother with two young US-born children (3 and 6 years old). The graphs for these additional families can be found in Appendix B. For US citizen families, we observe similar trends, with families reaching living wage at gross annual incomes under \$69,000 only if they receive both a Housing Choice Voucher and CalWORKs assistance. Such families face a long benefit plateau from just over \$10,000 of earnings to near \$70,000. Families with undocumented mothers (which we assume are filing taxes but not obtaining any tax credits) have access to a much smaller social security net and do not reach living wage until they earn the gross annual income of \$80,000. The social safety net is much less generous in supporting immigrant and undocumented families. The analysis also considered including an elderly parent receiving Social Security Income. Including this additional family member does not alter the family’s eligibility for programs or tax

- Overall, the research finds that for most families, as earned income increases, there are long resource plateaus.** Public benefits tend to phase out gradually as earned income rises, and often, the loss of one benefit is met with the gain of another, such as the case for health care and child care, which smoothes the transition as earned income rises. In some cases the gain in benefit is through the tax code, which means families must file for taxes and may not receive the benefit until after filing.
- Only families whose incomes fall extremely low and receive both childcare and housing assistance are caught by the safety net and can cover necessary living expenses.** Housing and childcare are the most significant living expenses for families. Programs that support these expenses — the CalWORKs childcare component and Section 8 Housing Vouchers — provide the largest benefits for eligible families. Unfortunately, the Housing Choice Voucher (Section 8) is currently rationed with very long waiting lists, only one in four

eligible households receive a voucher nationally. Therefore, most families do not receive enough resources from the safety net to cover their expenses.

3. Navigating the safety net is complicated. Although the social safety net is available to support families, families and case managers are confronted with a disjointed set of federal, state, and local programs. Understanding the eligibility and estimated benefits of each, especially as income changes, is very difficult. Box 1, presented on page 5, presents the estimated benefits of each of the programs available for the mother with two young children at different levels of earned income. The graph shows what families and case managers must try to untangle as the safety net has become more intricate.

4. The safety net is particularly supportive for families with young children, who need childcare, especially when parents work or participate in welfare-to-work programs. Nonetheless, a single-parent family receiving all benefits except for Section 8 is not able to achieve a living wage income working any number of hours from part-time to full-time at a low-wage job.

Policy Recommendations

The findings have led to the following policy recommendations:

1. Create transparency of information about benefits via a digital tool that can simplify the complexity of navigating the safety net and allow individuals, non-profit and government case managers, and human resource staff to understand eligibility and how benefits vary with earned income for specific families. The research findings support the short-term solution that with sufficient information, families could estimate the points where they lose benefits and plan ahead to navigate through the bumps and bypass situations in which the additional earned income is less than the benefits lost.

2. Take actions at the federal, state and local policy levels to coordinate, align, and streamline major benefit streams to help ease access and use of benefits, and re-structure benefits to eliminate dilemmas between increasing income and benefit loss, and overall earned income growth and support work. Examine best practices from experiences of different localities on elements like universal benefits intake, auto-filling forms, benefits counseling and bringing agencies together.

3. Increase access to housing benefits. Because the cost of housing in Los Angeles is so high and the availability of housing subsidies so scarce, housing assistance is critical to providing sufficient support for families to pay living expenses. Households who do not receive housing choice vouchers (Section 8) need some kind of housing support. Policies can include expanding the housing choice voucher program to reach all eligible families, or providing alternative models of housing subsidies such as shallow subsidies or rapid rehousing programs.

4. Promote increased participation in benefit programs. Encourage and support families to enroll in the safety net programs for which they are eligible, particularly CalWORKs cash aid, since other benefits such as child care only become available after receiving CalWORKs cash aid.



APPENDIX A — MONICA'S FAMILY

TABLE A.1: ESTIMATED RESOURCES BY GROSS INCOME (DOLLARS, ANNUAL)

Scenarios	Gross Income	Net Resources	Discretionary Resources (cash)	Total Benefits (cash and non-cash)	Benefits (cash)	Benefits (non-cash)
10 hrs of work per week	7,500	56,043	23,036	49,192	16,571	32,621
20 hrs of work per week	15,000	58,607	27,280	44,904	13,963	30,941
30 hrs of work per week	22,500	62,016	32,705	41,850	12,925	28,925
40 hrs of work per week	30,000	62,906	35,623	36,639	9,742	26,897
30% Area Median Income	30,450	62,034	35,96	35,401	9,714	25,687
50% Area Median Income	50,700	61,823	49,107	19,081	6,653	12,427

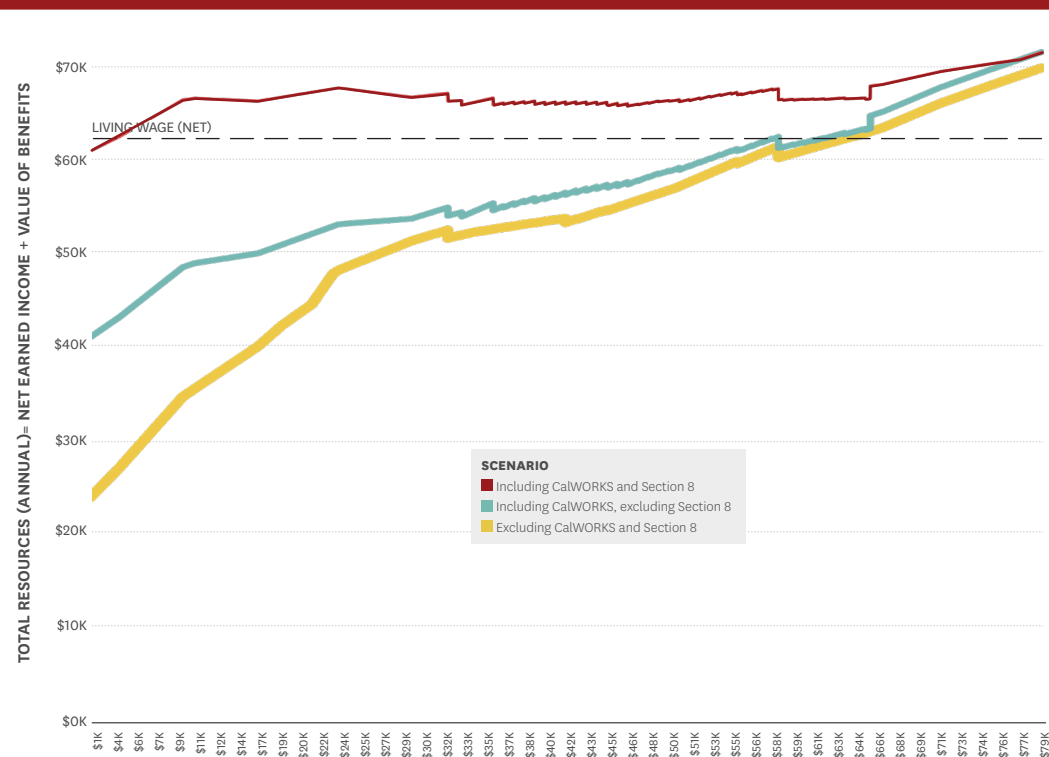
Notes: Assumes an hourly wage of \$15 and 50 weeks of work per year. 30% AMI is annual earnings of \$30,450 for a 3-person family with one working adult and 2 young kids ages 3 and 6 in 2020 in Los Angeles County (\$2,537.5 monthly), 50% AMI is \$50,700 (\$4,225 monthly). <https://www.huduser.gov/portal/datasets/il/il2020/2020summary.odn>

Discretionary resources include net income and cash benefits. Cash benefits include tax credits and utilities subsidies. Non-cash benefits include CalFresh, WIC, CalWORKs cash aid and child care, Medi-Cal, and ACA.

APPENDIX B — ADDITIONAL SCENARIOS

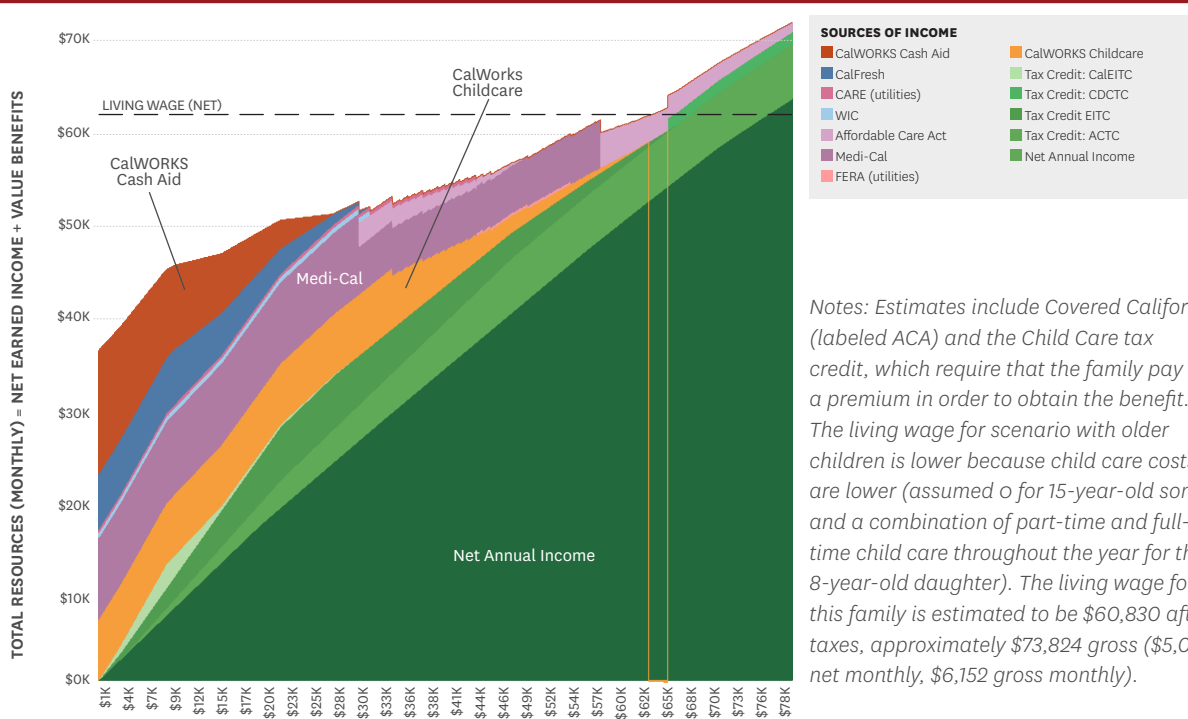
Single mother with two older children (8 and 15 years old)

FIGURE B.1: TOTAL ANNUAL RESOURCES BY GROSS ANNUAL INCOME



Note: estimates include Covered California (labeled ACA) and the Child Care tax credit, which require that the family pay a premium in order to obtain the benefit.

FIGURE B.2: ESTIMATED VALUE OF TOTAL RESOURCES BY EARNED INCOME (ANNUAL) BY SOURCE, WITH CALWORKS, NO HOUSING CHOICE VOUCHER (SECTION 8)



Notes: Estimates include Covered California (labeled ACA) and the Child Care tax credit, which require that the family pay a premium in order to obtain the benefit. The living wage for scenario with older children is lower because child care costs are lower (assumed 0 for 15-year-old son, and a combination of part-time and full-time child care throughout the year for the 8-year-old daughter). The living wage for this family is estimated to be \$60,830 after taxes, approximately \$73,824 gross (\$5,070 net monthly, \$6,152 gross monthly).

Undocumented Single mother with two young children (3 and 6 years old)

FIGURE B.3: TOTAL ANNUAL RESOURCES BY GROSS ANNUAL INCOME

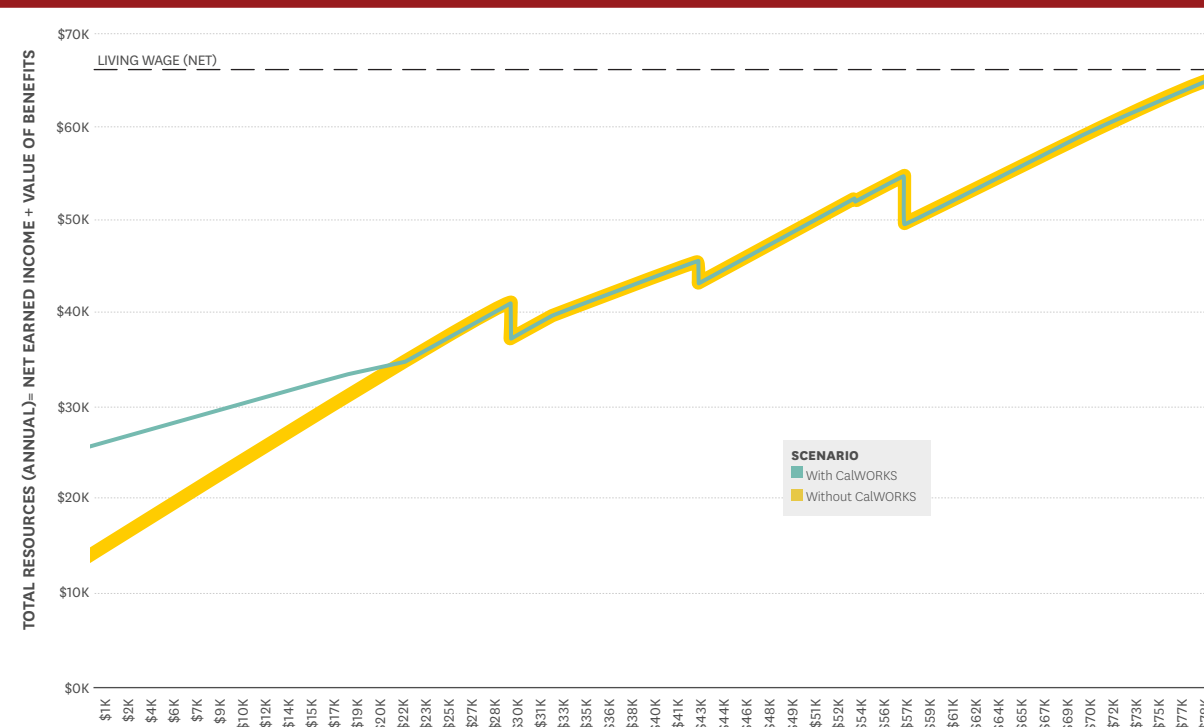
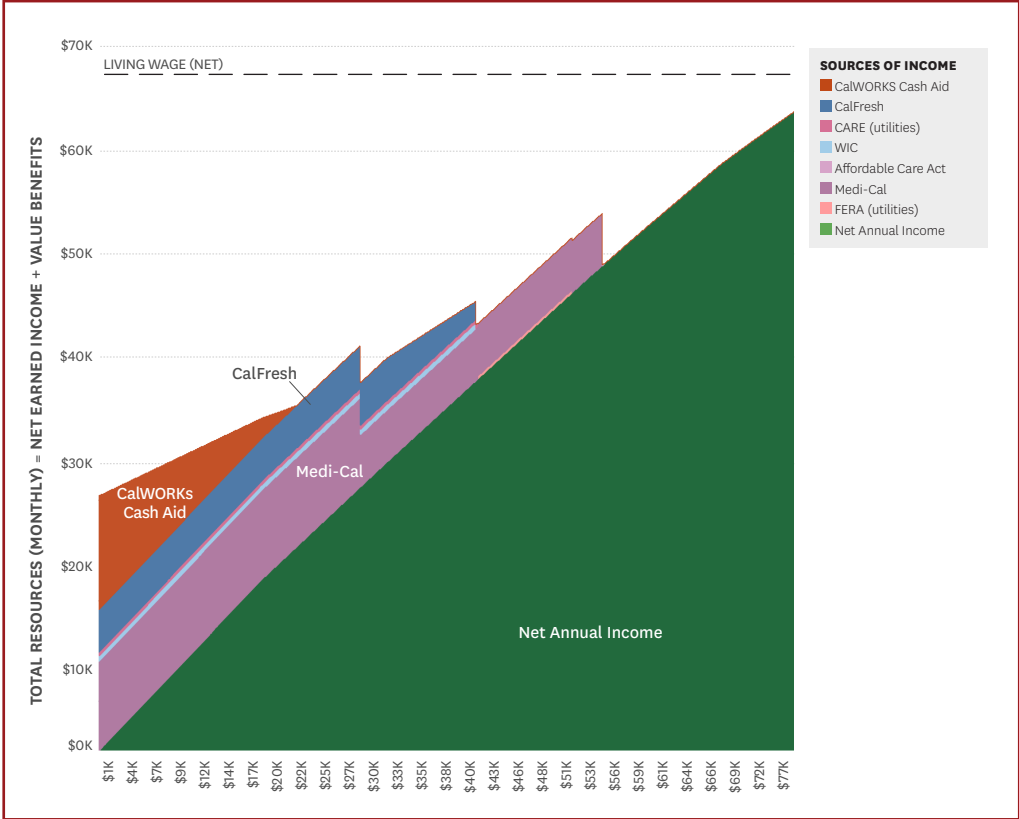


FIGURE 9: ESTIMATED VALUE OF TOTAL RESOURCES BY EARNED INCOME (ANNUAL) BY SOURCE WITH CALWORKS, NO HOUSING CHOICE VOUCHER (SECTION 8)



USC Price

Sol Price School of Public Policy
Sol Price Center for Social Innovation

635 Downey Way
Verna & Peter Dauterive Hall (VPD), Suite 207
Los Angeles, CA 90089-3331



socialinnovation.usc.edu



[@USCPriceCSI](https://twitter.com/USCPriceCSI)



www.facebook.com/PriceSocialInnovation