Addressing the benefits cliff for child-care subsidies in North Carolina

What is a benefits cliff?

People experience a benefits cliff when they receive means-tested public benefits — like child-care assistance, SNAP, housing support, or Medicaid — and are suddenly no longer eligible for these benefits after getting a raise or a higher paying job. Benefits cliffs can mean that total household resources decline after a pay increase or increase only by very little. They harm people and families who struggle to make ends meet as well as employers looking to hire and promote workers.

Losing child-care assistance can result in a drastic benefits cliff.

In North Carolina, children under 6 years old are eligible for child-care assistance if their parents are working and their family's income is under 200% of the federal poverty level. That's an annual income of $53,000 for a family of four. (Children ages 6-12 are eligible with family incomes under 133% of the poverty level.) Families receiving child-care assistance in N.C. are required to pay 10% of their incomes for child care, higher than the maximum of 7% recommended by federal guidance.

Once a family is enrolled, they can continue to receive assistance until their income reaches 85% of state median income, or about $68,630 for a family of four. This is the maximum income threshold for federal Child Care Development Funds, which North Carolina uses in combination with state funds to pay for child-care assistance. When a family's income rises above this threshold, they are no longer eligible. The average annual cost for an infant in a licensed child-care center in North Carolina is $9,650. This means that a parent at or near the income threshold who receives a raise of $1,000 per year — about $.50 per hour — would lose child-care assistance and see increased costs of $8,650 each year.

North Carolina can address the benefits cliff by phasing out assistance as families' incomes rise.

To avoid harmful benefits cliffs and support working families, North Carolina can invest state resources in child-care benefits that taper off as family income rises. The state should eliminate high copayments for families with the lowest incomes, and then gradually increase copayments as incomes rise, ensuring families don't suddenly lose assistance that leads to financial instability. Table 1 shows a simple model for adjusting copayments and maintaining assistance:

Table 1: Copayment model for child-care subsidies

Income as percentage of federal poverty level	Copayment as a percentage of income
0-200%	0%
201-250%	2.5%
251-300%	5%

Pandemic child-care assistance program showed that more families will use assistance if it's available.

During the beginning of the COVID-19 pandemic, North Carolina used federal relief funding to provide 2 months of child-care assistance to essential workers with incomes up to 300% of the federal poverty level. This program served over 16,000 children in April 2020 and over 19,000 in May 2020. This shows that working families in North Carolina are ready to participate in an expanded child-care assistance program.

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Benefit cliffs lead to financial instability as families try to meet their basic needs.

Figure 1 shows research conducted by the United Way for Cumberland County in 2017. “Wage adequacy” refers to whether a household’s earnings are enough to meet their basic needs. Figure 1 shows wage adequacy for a household with one adult, a preschooler, and a school-age child, both with and without and variety of supportive public programs. *This graph does not include changes to child-care assistance eligibility passed in 2019, which allow families to continue receiving assistance for until their income surpasses 85 percent of the state median income, but the overall analysis of how benefit cliffs lead to financial instability holds.* As wages go up, families can suddenly find themselves further from wage adequacy if an increase in pay comes along with a sharp reduction in supportive benefits.

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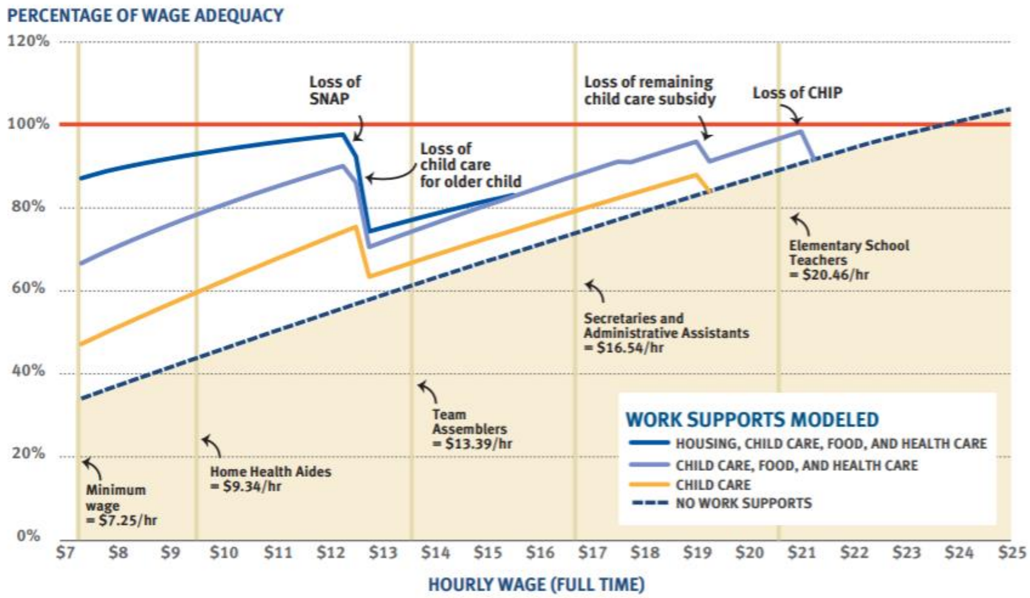
FIGURE I. Impact of Work Supports on Wage Adequacy

One Adult, One Preschooler, and One School-Age Child: Cumberland County, NC 2017



Source: U.S. Department of Labor, “May 2015 State Occupational Employment and Wage Estimates,” Databases and Tables, Occupational Employment Statistics, http://www.bls.gov/oes/data.htm (accessed August 17, 2016). Wages adjusted for inflation using the Employer Cost Index from the Bureau of Labor Statistics.

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