Addressing the Cliff-Effect Problem in Massachusetts Legislation to Expand Affordable Quality Child Care and Early Education

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UMass Boston

UMass Boston Early Education Cost and Usage Simulator Project (CUSP)

The UMass Boston Early Education CUSP is led by a multidisciplinary team that designed a simulator to produce current, relevant, accurate, and responsive estimates about the key impacts of proposed legislation to expand access to affordable, quality child care and early education. One of the simulator's valuable features is that it can generate estimates for a range of policy parameters and provisions. The team's publications aim to provide essential information to guide policymaking on child care and early education affordability, quality, and access in Massachusetts.

Updates, future briefs, and additional information about this project may be found at **umb.edu/earlyedinstitute/research-policy**.

About the Authors

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INTRODUCTION

The goal of this brief is to explain the cliff effects that currently exist in Massachusetts Senate Bill 2707 and a method for mitigating the abrupt cliffs. Senate Bill 2707 is a slightly amended version of Senate Bill 301 filed in early 2023 and expanding access to childcare financial assistance is a core aim of the legislation. The key eligibility and financial assistance parameters remain the same. It is referred to here and accompanying tables and figures by its original number—Senate Bill 301—for easy tracking. The effects analyzed in this brief are based on the Early Education Cost and Usage Simulator Project (CUSP), a simulator developed by a multi-disciplinary UMass Boston team of researchers to better understand some of the impacts of expanding financial assistance to families for early education and child care.

Senate Bill 301 is designed to provide substantial financial assistance to families with children under age 14, or under 17 with special needs who use licensed care. The bill provides financial assistance in stages and with priorities that depend on sufficient funding. The first target income eligibility threshold is 85% of State Family Median Income (SMI). This is currently the income eligibility threshold for maintaining a childcare subsidy. According to the proposed legislation, families with incomes up to the threshold (in this case 85% of state median income) incur an out-of-pocket cost of up to 7% of their income above the poverty line for licensed childcare costs. SMI and the poverty line both vary by family size.

Estimates from an earlier CUSP brief[1] indicate that Senate Bill 301 would go a long way toward increasing licensed usage and reducing the high-cost burden of early education and child care for a substantial number of families. The bill would increase the number of children in licensed care by 92,000 (a 34% increase). Financial assistance would be provided to 128,500 families, with an average amount of $13,260 at a cost of $1.7 billion (in 2022 prices, not including administration or other non-assistance costs). For income-eligible families that use financial assistance under the legislative proposal [S. 301], the percentage of income that goes to early education and child care is reduced from 17.2% to 4.3%.

This brief describes the cliff-effect problem currently in Senate Bill 301 and identifies how many families are affected by these cliff effects. It also offers one solution to mitigating these cliff effects and the cost of this solution in terms of additional benefit payments incurred by the state, the number of children and families that would be affected, and the change in employment.

THE CLIFF “PROBLEM” IN SENATE BILL 301

“Cliff effects” is the term given to a problem that arises with means-tested (income-based) public supports, when recipients lose those supports as income increases. Some programs, such as housing or food assistance, and childcare financial assistance, reduce the level of benefits as income increases and then support ends at the eligibility threshold. Other supports like the health insurance Medicaid program (MassHealth in Massachusetts) are either completely available or not available once income rises above eligibility levels[2] [See Albelda and Carr[3] for how cliff effects work for low-income families in Massachusetts]. Cliff effects can discourage employment because the more you earn, the more you lose in the form of public supports. Why take a raise or work more hours if you lose valuable support as a result? When a family receives more than one form of support, they may experience several “cliffs” as their income rises, with cumulative declines in benefits. In the case of the programs listed above, this often occurs at income levels between 100% and 250% of the poverty line.

An abrupt cliff effect occurs under Senate Bill 301 for families whose income exceeds .85 SMI. Early education and childcare assistance falls by seven cents per dollar of income greater than the poverty line but completely stops at 85% of SMI.

A PROPOSED SOLUTION TO MITIGATE THE CLIFF EFFECT

Unless the early education and childcare financial assistance program is universal, there will be cliff effects. Short of that, there are ways to mitigate the problem by phasing out the amount of support as income rises above the current eligibility threshold. The solution offered here phases out benefits between .85 SMI and 1.25 SMI so that families with incomes above 1.25 SMI are not eligible for any benefits while benefits for families with incomes between .85 and 1.25 SMI are reduced by 50 cents per dollar of income for every dollar earned greater than the .85 SMI threshold.

About 32,000 families with incomes between .85 SMI and 1.25 SMI have early education and childcare expenses for licensed care that exceed 7% of income over the poverty line at the .85 SMI income threshold. These are the families that are subject to a cliff; that is, their benefits would fall abruptly to zero with incomes of .85 SMI plus one dollar. The median benefit reduction at the cliff for these families is $10,584. The suggested benefit reduction rate of 50% would allow 80% of families with incomes between .85 SMI and 1.25 SMI to phase out their benefits to zero rather than lose all their benefit at .85 SMI.

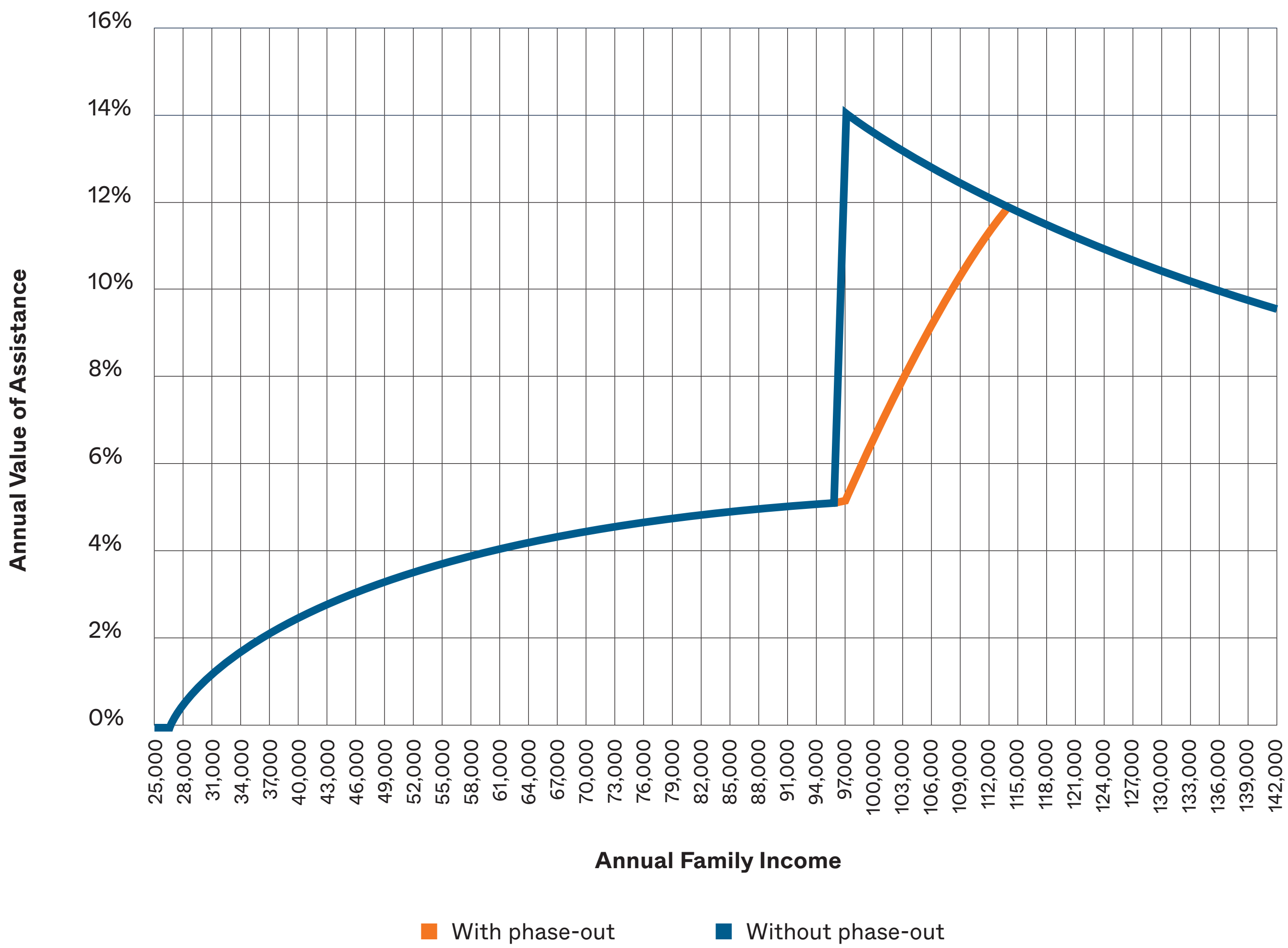
Figure 1. **Value of Assistance for Family of Four with Childcare Cost of $13,612**

Figure 1 illustrates the cliff effect for a family of four with childcare costs of $13,612, which is the median annual cost of care for a family of that size with income between .85 and 1.25 SMI. The blue line in Figure 1 provides an illustration of the value of assistance as well as the cliff under Senate 301. For families of four the poverty line is $25,750, .85 SMI is $96,743, and 1.25 SMI is $142,269. Under current legislation, at .85 SMI, out-of-pocket costs would be $4,969, and the subsidy would be $8,643 ($13,612 - $4,969). The next dollar of income would result in out-of-pocket costs rising to the full childcare cost of $13,612. The size of the cliff is $8,643. All figures are in 2019 dollars.

The orange line in Figure 1 depicts the level of assistance this family of four would receive if there were a 50% phase-out. In this case, at .85 SMI assistance would be reduced by 50 cents for each additional dollar of income, until the subsidy is phased out completely at an income of $114,028. At that income level the family would be paying the full childcare cost of $13,612.

Figure 2 is an illustration for the same example family depicting the family's out-of-pocket costs as a percent of income. As income rises from the poverty line to .85 SMI, out-of-pocket costs rise from 0% of income to 5.2% of income. Under the proposed legislation, the next dollar of income would raise out-of-pocket costs to 14.1% of income, as indicated by the blue line. As income rises beyond .85 SMI, out-of-pocket costs as a percent of income fall because the full childcare cost of $13,612 as a percent of income falls as income rises.

Figure 2. Out-of-Pocket Childcare Expenses as a Percent of Income for a Family of Four with Gross Childcare Cost of $13,612



Under the solution offered here, illustrated by the orange line, out-of-pocket costs as a percent of income rise gradually from 5.2% at .85 SMI to 11.9% at an income of $114,028. At this income, the family is paying the full cost of child care, and childcare costs as a percent of income start falling as income rises.

THE COST AND EFFECTS OF THE PROPOSED SOLUTION

Of the 624,000 families in Massachusetts with age-eligible children, there are about 105,000 families with incomes greater than .85 SMI but less than or equal to 1.25 SMI. Of those families, just under 40,000 pay for licensed care (the median amount is $12,300 in 2019 dollars annually). There are 32,000 families that without the phase-out suggested here would face a cliff because they are paying more than 7% of their income above the poverty line toward licensed child care.

If the suggested phase-out of 50 cents per dollar were implemented, it would increase the aggregate cost to the state, the number of families and children using childcare financial assistance, and the total number of working parents and hours worked. Table 1 depicts the costs and other outcomes associated with the current proposed legislation[4] and the increases to these with the phase-out that mitigates the cliff effect.

Table 1. **Estimates of Key Outcomes of the Current Legislative Proposal Without Phase-Out and With Phase-Out**

	Current Legislative Proposal (Without Phase-Out)	**Additional Amount under Proposed Solution** (With Phase-Out)	**Percent Change**
Aggregate Subsidy Payment in Millions of 2022$	$1,700	$230	13.6%
# of Families Receiving a Subsidy	128,500	18,300	14.2%
# of Children in Licensed Care (exc. Head Start, Public Pre-K)	360,700	4,000	1.1%
# of Newly Working Parents	11,000	830	7.6%
Aggregate Increase in Hours Worked (thousands)	29,900	5,400	17.9%

Note: Numbers have been rounded.

The additional cost to the state of phasing out financial assistance to parents with incomes between .85 and 1.25 SMI is $230 million, a 13.6% increase. The additional number of families receiving financial assistance is 18,300, a 14.2% increase. There is a very slight increase in the number of children who would now use licensed care. The number is small because families at these income levels are already using the care they prefer and the financial assistance helps subsidize and possibly expand the licensed care they are already using.

There are clear employment effects with the current cliff that exists. The suggested phase-out increases the number of newly working parents by 830, a 7.6% increase from the current legislative proposal. The largest percent change with the proposed phase-out is in the total number of hours worked by parents. That increases by 5.4 million hours, a 17.9% increase over the current legislative proposal. This includes an increase in hours of work by parents already employed, as well as the hours of newly employed parents.

CONCLUSION

Cliff effects can create disincentives to work for persons whose income is near eligibility limits. They are also perceived as unfair by the families affected. The proposed legislation to expand early education and child care goes a long way in providing licensed care for a large number of children, especially those whose families can least afford it. Without universal eligibility it is nearly impossible to get rid of cliffs for all families. However, there are various ways to ameliorate the effects. This brief has proposed one approach to mitigating cliff effects and provided estimates of the increase in aggregate costs to the state, licensed care utilization, and parental employment. The solution presented here is only *one* way to mitigate cliff effects. There are many variations in benefit reduction rates and phase-out income ranges that could be considered in trading off increased costs to the state with the benefits of increased employment and reductions to families' out-of-pocket early education and childcare costs.

NOTES

1. Albelda, R., Clayton-Matthews, A., Douglass, A., Kelleher, C., Zeng, S. & Nsiah-Jefferson, L. (2023). Estimating the impacts of legislation to expand affordable quality child care and early education in Massachusetts: Initial findings on utilization, employment, and financial assistance. Research Brief #1. *Center for Women in Politics and Public Policy, University of Massachusetts Boston*. 66. https://scholarworks.umb.edu/cwppp_pubs/66
2. However, with Massachusetts Health Connector programs, people can purchase health insurance at lower costs when they cross that threshold.
3. Albelda, R. & M. Carr. (2017). Combining earnings with public supports: Cliff effects in Massachusetts. *Federal Reserve Bank of New England*. Winter. www.umb.edu/media/umassboston/content-assets/csp/pdf/Combining_Earnings_with_Public_Supports_Cliff_Effects_in_Massachusetts.pdf
4. Detailed in an earlier CUSP research brief; please see note #1.

About the Early Education Leaders Institute

The Early Education Leaders Institute at the University of Massachusetts Boston provides the leadership development opportunities and infrastructure that early educators need to support thriving children and families. Founded in 2016, we drive systems change by cultivating effective leaders who reflect and represent their communities—through workforce and leadership development, research, and partnerships that strengthen the larger early education ecosystem. We are nationally recognized as a model of excellence, and we make high-quality early care and education a reality for more children and families while supporting the professional growth of a diverse workforce of early educators. Get involved or learn more by visiting **umb.edu/earlyedinstitute**.

About the Center for Women in Politics and Public Policy

The Center for Women in Politics and Public Policy, established in 1994, aims to promote diverse women's leadership to achieve more just, equitable, and responsive public and institutional policies and meaningful inclusion. Through its innovative educational programs, policy-relevant research, and public forums, it works to ensure that the voices, expertise, and experiences of all women are valued and included in civic discourse and the policymaking process. The center collaborates across sectors to build a prosperous economy that increases access and opportunity for all, particularly low-wage workers and women of color. All center initiatives and research utilize an anti-racist approach and explore the intersection of gender, race/ethnicity, class, and other identities on policymaking and politics. The center is part of the McCormack Graduate School of Policy and Global Studies in the College of Liberal Arts at the University of Massachusetts Boston. Visit **umb.edu/cwppp** for more information.

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