

# Family Perspectives on Marginal Tax Rates, Safety Net Benefits, and Employment

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# Panel Overview

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- ▶ Marginal tax rates (MTRs) review
- ▶ Quantitative research on MTRs
- ▶ Family perceptions and labor force decisions
- ▶ Discussion

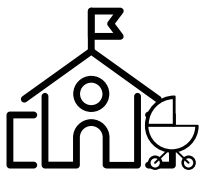
# Background on MTRs: Overview

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- ▶ What are MTRs?
- ▶ Why do they matter?
- ▶ What does the research show?

# Consider the Smith Family...

- ▶ Single mother with two children
- ▶ \$10,000 earnings
- ▶ \$8,000 in benefits
- ▶ What happens if she takes a new job or a raise and earns an additional \$10,000?
- ▶ +\$10,000 earnings
- ▶ -\$4,000 in tax and program benefits
- ▶ + \$6,000 net gain
- ▶ **40% marginal tax rate**



# What Are MTRs?

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- ▶ MTRs = portion of new earnings not retained because of increased taxes and reductions in program benefits
- ▶ May face benefit “cliff” if MTR is  $\geq 100$  percent



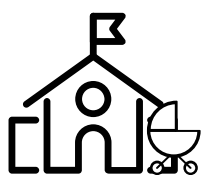
# Benefit cliffs occur when increase in income entirely offset by loss in benefits

## Smith Family

- ▶ Single mother with two children
- ▶ Full time, \$12.50/hour wages
- ▶ \$161/month in SNAP

What happens if she takes a raise of \$0.50/hour (\$86/month)?

- ▶ Lift her income above the 130 percent FPL threshold for SNAP eligibility
- ▶ Loss of \$161 in benefits more than offsets the \$86 earnings increase
- ▶ Net loss of \$75/month



# Why Do MTRs Matter?

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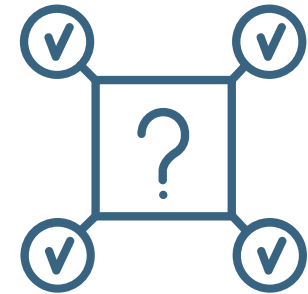
- ▶ High MTR may affect decisions about work by changing incentives
  - Implications for policies aimed at encouraging work
- ▶ Limited research shows disincentives from MTRs affect labor participation decisions
  - Research on earned income tax credit (EITC): Individuals respond to negative MTR by beginning to work
  - Perceptions of costs and benefits of decisions matter



# Determining MTR is Complex

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MTR for low- and moderate-income families vary by—



- ▶ Earnings
- ▶ Number of children
- ▶ Household size
- ▶ Marital status
- ▶ State of residence
- ▶ Number of months working
- ▶ Program participation: Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), childcare assistance, WIC, housing assistance...



# What's Next?

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- ▶ What do the numbers say?
  - Quantitative estimates of MTR
  
- ▶ What do families perceive about MTR? How do they affect family decisionmaking?
  - Preliminary qualitative results

# An Analysis of Marginal Tax Rates and Benefit Cliffs Faced by Low-Income Families

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National Association for Welfare Research and Statistics

July 31, 2019

Nina Chien, Suzanne Macartney, and Pamela Winston

Department of Health and Human Services

Office of the Assistant Secretary for Planning and Evaluation (ASPE)



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Office of the Assistant Secretary for Planning and Evaluation

# Research Questions

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- What is the distribution of marginal tax rates for various household types?
  - By income
  - By presence of children
  - By program participation
- Which households are likely to face high marginal tax rates?

# Data

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- Current Population Survey (calendar year 2014), Annual Social and Economic Supplement
- TRIM3 microsimulation model
  - Determines program eligibility using state rules
  - Adjusts for under-reporting of program participation
- Analytic sample includes able-bodied householders and their spouses, ages 18-64 (n = 63,493 households)
- Analysis conducted at household level, using household weights

# What's included in net resources?

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- earned income
- SSI
- TANF income
- value of LIHEAP
- unemployment insurance
- child support payments (made and received)
- value of SNAP
- value of WIC
- value of housing assistance
- value of Medicaid and CHIP
- Social Security\*
- federal and state income taxes (including refundable tax credits)
- *minus* out-of-pocket child care expenses
- *minus* the employee's portion of payroll taxes

# Computation of marginal tax rates

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For each household:

1. Sum all resources
2. Assign earnings increase (\$2,000, \$5,000, or \$10,000)
3. Eligibility and benefit amounts for each program are recalculated
4. Re-sum total resources
5. Compute marginal tax rates

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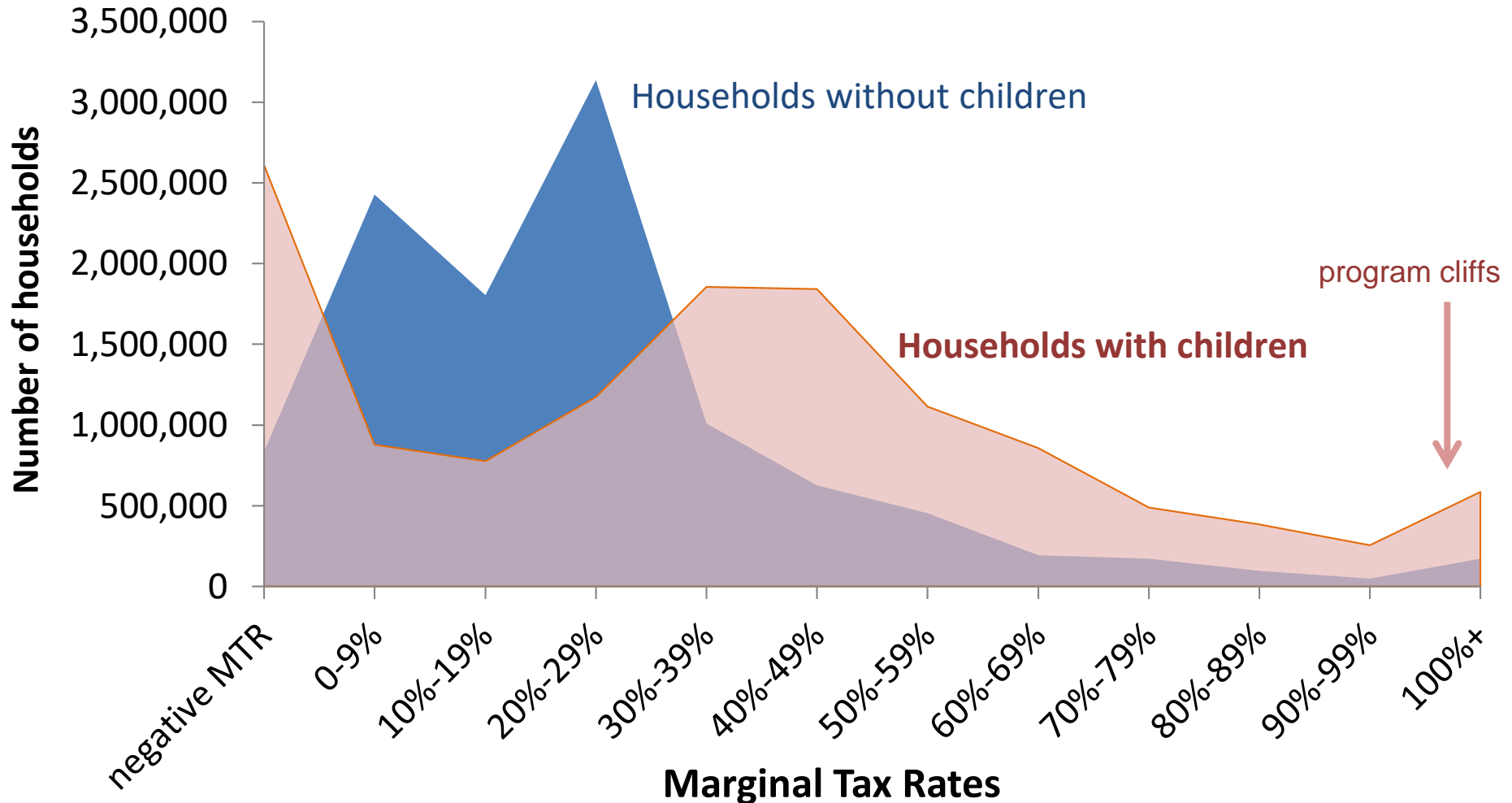
What happens when household  
earnings increase?

Focus on households with  
children



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# Distribution of MTRs after a \$2,000 earnings increase, for households below 200% poverty

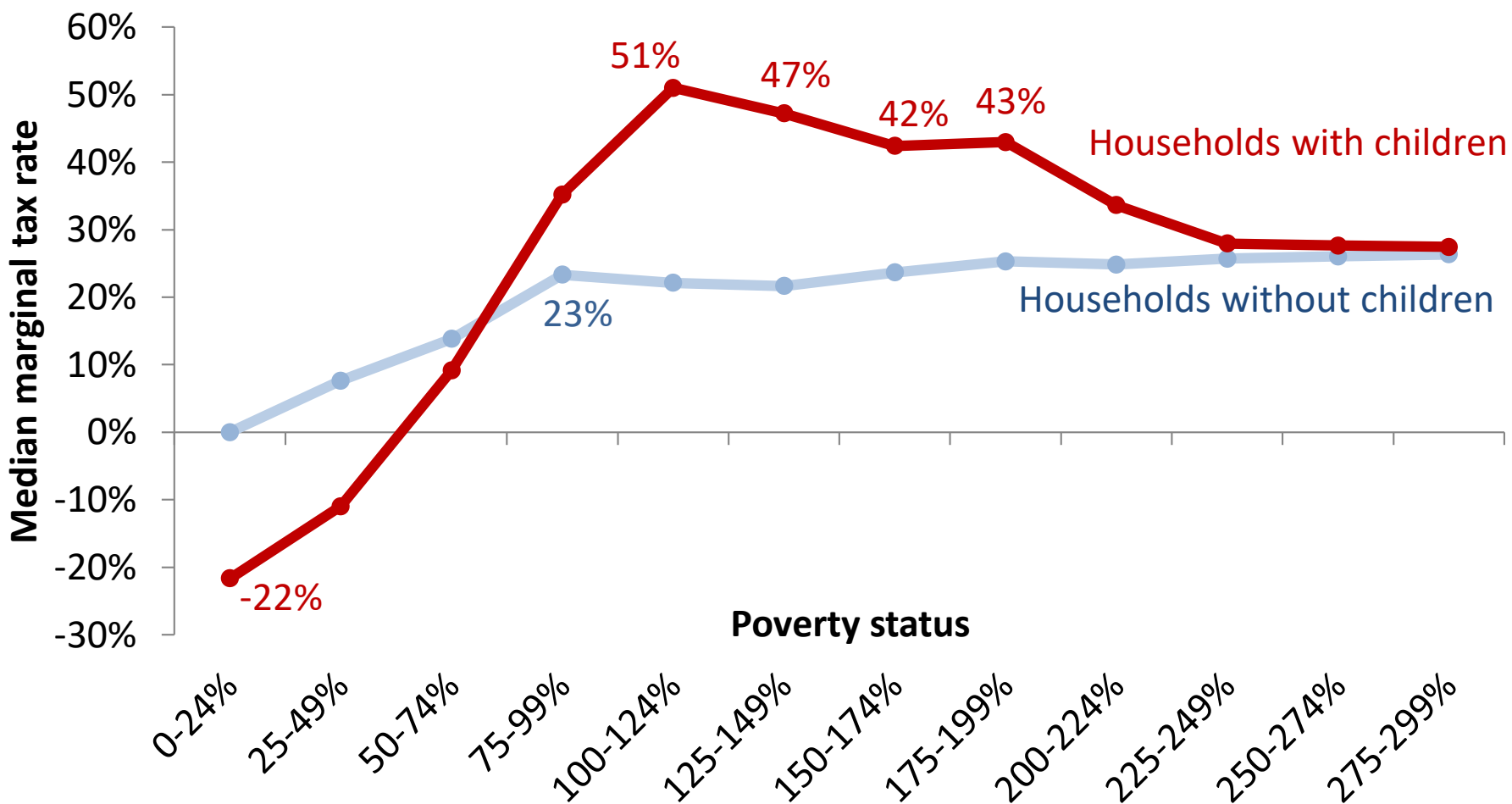


Source: Calculations by ASPE. Data is TRIM3 Microsimulation model, Current Population Survey, ASEC 2015.

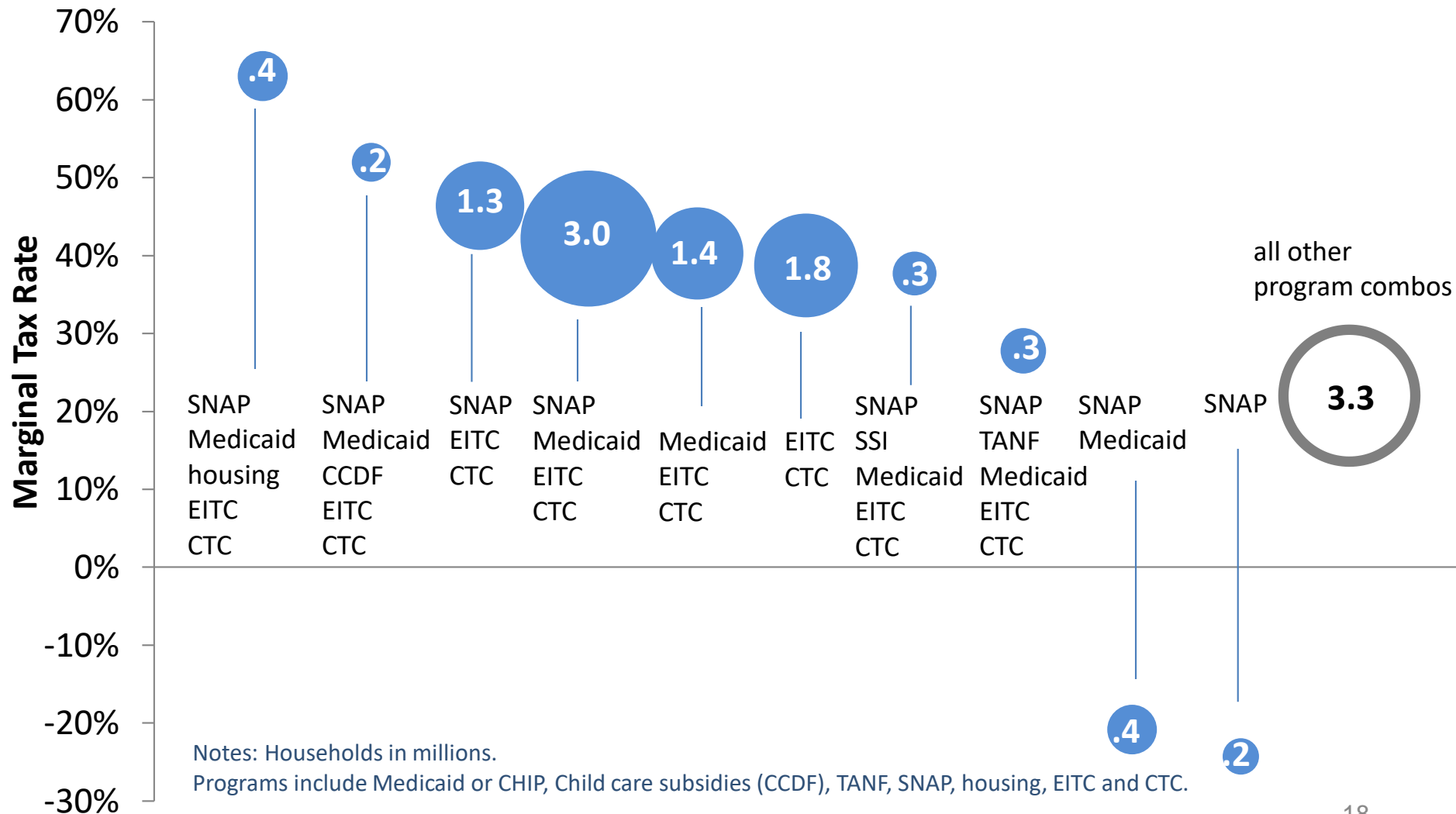


# Median marginal tax rates for households with and without children, by poverty status

(after a \$2,000 earnings increase)



# Households with children below 200% poverty: Median marginal tax rate with \$2000 earnings increase, by 10 most common program combinations



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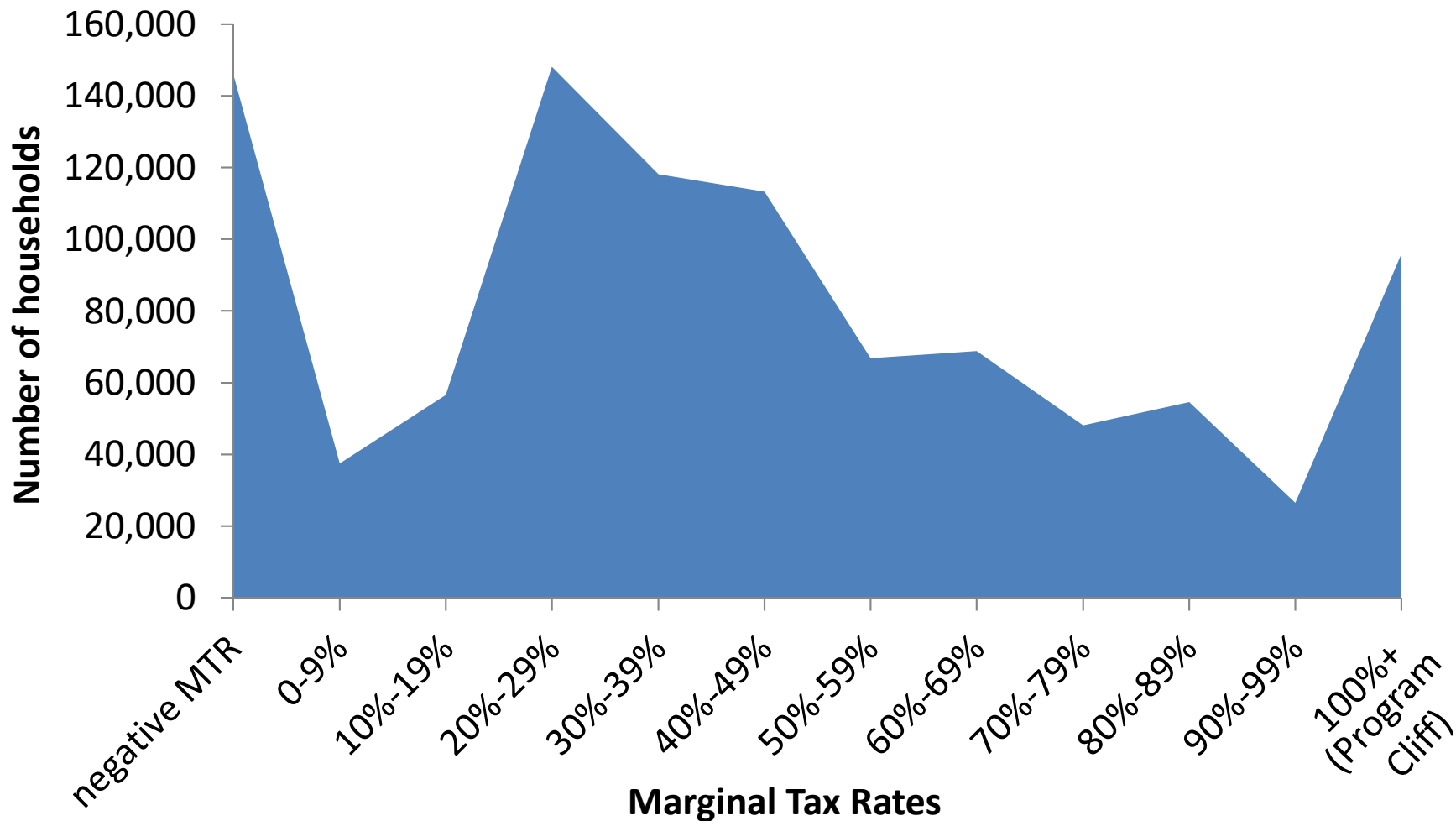
What happens when household  
earnings increase?

Focus on households receiving  
CCDF child care subsidies



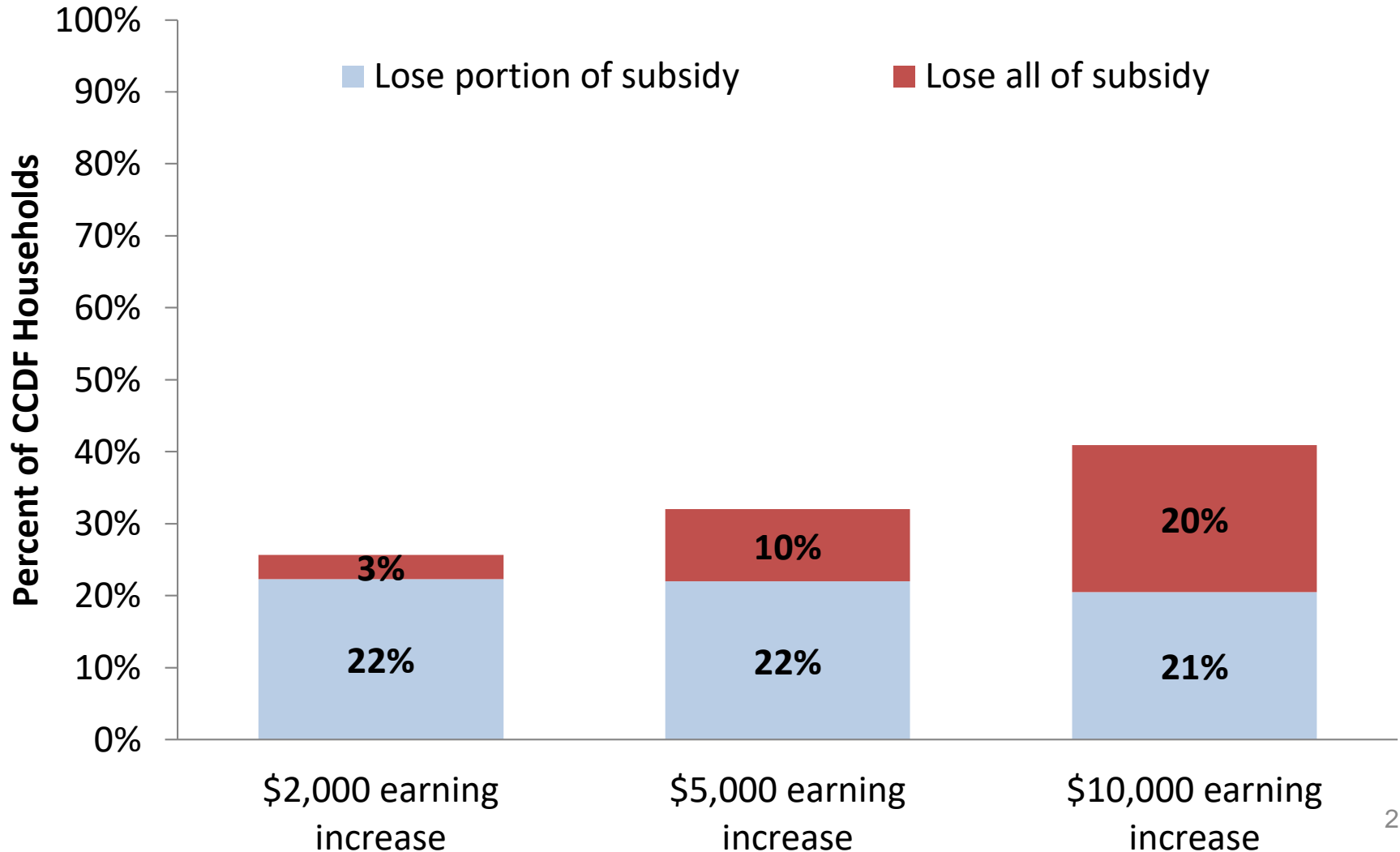
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# Distribution of marginal tax rates among CCDF households, after a \$2,000 earnings increase



# How many families would lose some or all of their CCDF subsidy?

After a \$2,000, \$5,000 and \$10,000 earnings increase



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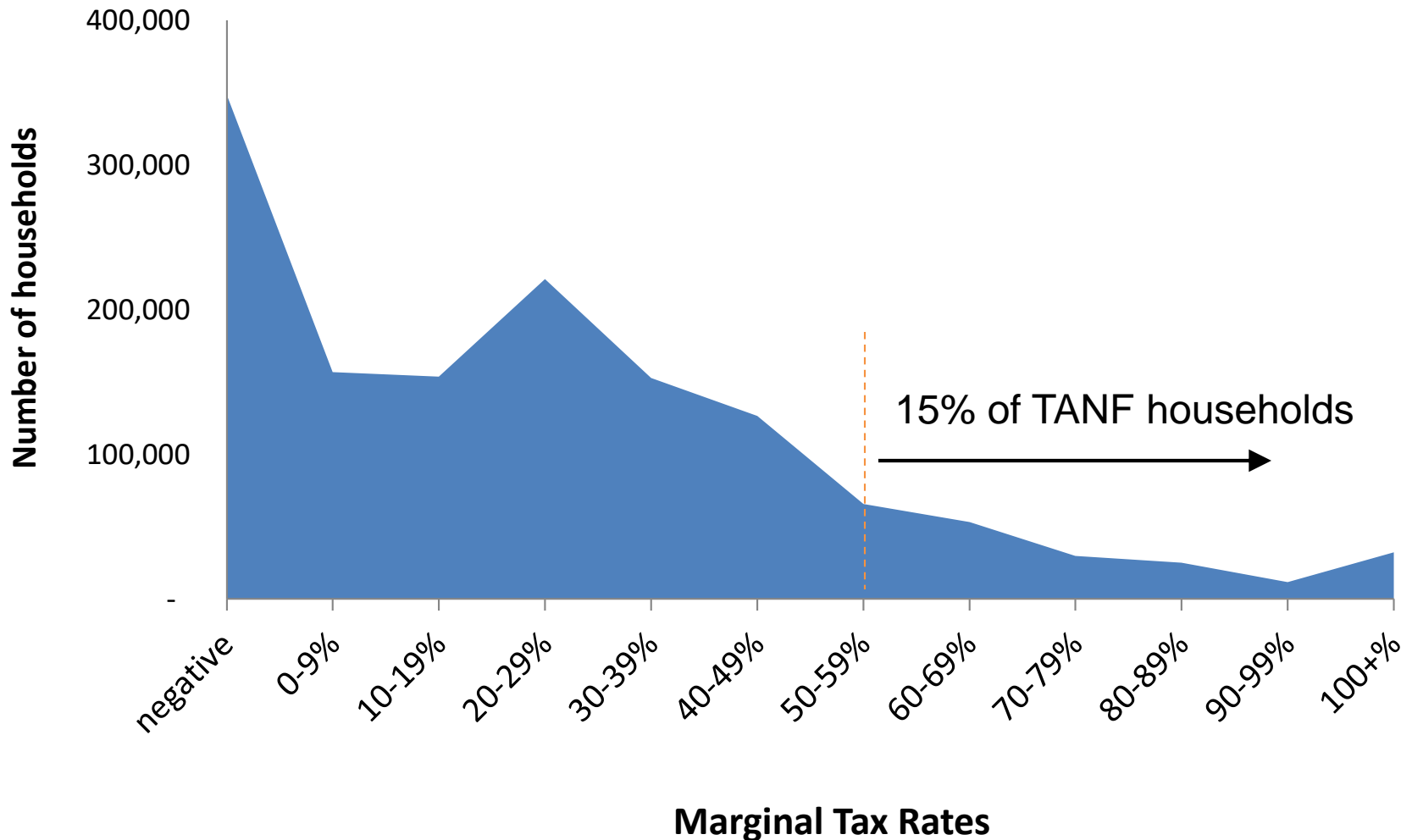
What happens when household  
earnings increase?

Focus on households receiving  
TANF



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# Distribution of MTRs for households with TANF income, after a \$2,000 earnings increase



Source: Calculations by ASPE. Data is TRIM3 Microsimulation model, Current Population Survey, ASEC 2015.

# Study Limitations

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- Findings cannot be generalized to older adults or persons with disabilities
- ACA Premium Tax Credits are not modeled
  - These subsidies may temper the Medicaid cliff effect – not captured in our model
- Medicaid and CHIP are underreported (rely only on CPS survey responses with no adjustments)





# The ASPE marginal tax rate brief series

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Please visit:

<https://aspe.hhs.gov/marginal-tax-rate-series>

- *Brief #1* Marginal Tax Rates: A Quick Overview
- *Brief #2* What Happens When People Increase Their Earnings? Effective Marginal Tax Rates for Low-Income Households
- *Brief #3* Effective Marginal Tax Rates for Households with Child Care Subsidies: What Happens Following an Earnings Increase?
- *Brief #4* What Happens When TANF Recipients Increase Their Earnings? Effective Marginal Tax Rates for Households with TANF Income
- *Brief #5* Estimating Marginal Tax Rates Using a Microsimulation Model: Technical Appendix

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For more information: [nina.chien@hhs.gov](mailto:nina.chien@hhs.gov)

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# Thank you!

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# MTRs and Work Disincentives: Family Perceptions and Labor Force Decisions

Study Approach and Preliminary Results

# Overview

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- ▶ Study goals and objectives
- ▶ Programs, populations, and States of interest
- ▶ Step-by-step project approach
- ▶ Data collection instruments

# Study Goals

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- ▶ Conduct focus groups with safety net beneficiaries to—
  - Better understand how MTRs affect families' decisions about work
  - Complement ASPE's quantitative modeling work on MTRs
- ▶ Collaboration between Insight (data collection) and ASPE (analysis and reporting)



# Research Questions

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1. Among families receiving federal means-tested programs, what are family perceptions or understanding of how their total resources would change with an increase in earnings? Or a decrease in earnings?
2. How do these perceptions of potential changes in program benefits appear to influence labor force decisions?



# Programs of Interest

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## ▶ Primary Focus



Temporary Assistance for  
Needy Families (TANF)



Child Care and  
Development Fund  
(CCDF)



Federal Rental Assistance  
administered by  
Department of Housing  
and Urban Development

## ▶ Secondary Focus



SNAP



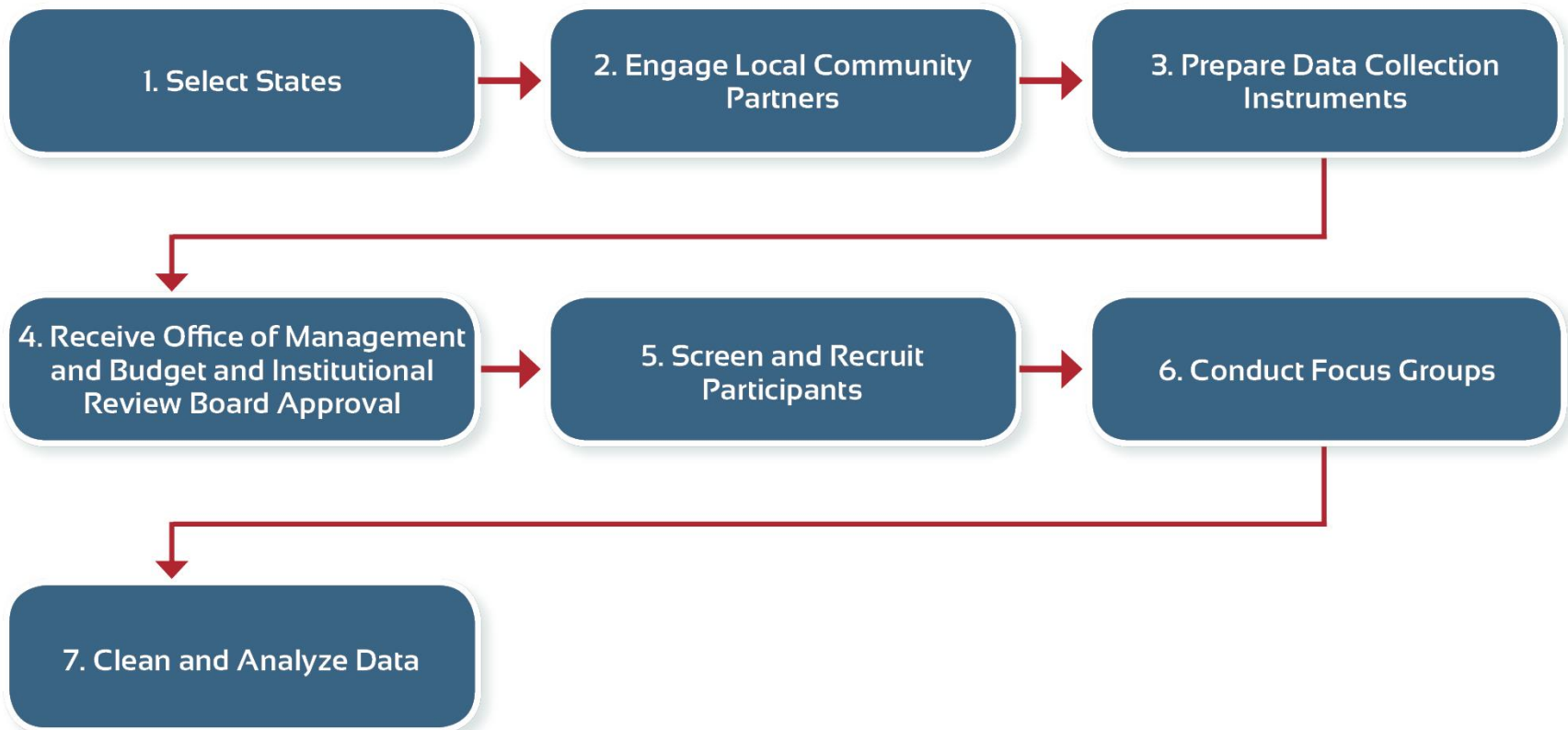
EITC



Medicaid and Children's  
Health Insurance Program  
(CHIP)

# Study Approach

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# 1. Select States

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State	Approximate Number of TANF Recipients	Approximate Number of CCDF Recipients	Approximate Number of Rental Assistance Recipients	Focus Group Locations
California	770K recipients	71K families	429K families	San Diego and adjacent farming community
Ohio	85K recipients	26K families	202K families	Cleveland
Virginia	33K recipients	12K families	91K families	Northern Virginia and Richmond

# 1. Select States (continued)

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## State-by-State Focus Group Breakdown

State	Primary Focus: TANF	Primary Focus: CCDF	Primary Focus: Rental Assistance
Virginia	Group 1	Group 2	Group 3
Ohio	Group 4	Group 5	Group 6
California	Group 7	Group 8	Group 9

# 2. Engage Local Community Partners

- ▶ Identify and recruit local sites and community-based organizations to help—
  - Promote focus groups
  - Identify potential participants
  - Provide a room on site to hold group discussions



# 3. Prepare Data Collection Instruments and Recruitment Materials

## ▶ Recruitment Materials

- Posters, handouts, social media posts, telephone outreach script, reminder text message script

## ▶ Data Collection Instruments

- Eligibility screener
- Demographic questionnaire
- Focus group discussion guide
- Consent form
- Local resource handout



The poster features a blue header with the text "Earn money for sharing your opinion!". Below this, there are three checklist items, each with a red checkmark. The first item asks about current employment and receipt of federal assistance. The second asks if the respondent would like to earn \$50 by sharing work-related decisions. The third asks if they can join in-person discussions, with three specific events listed: Publicly Funded Child Care on Wednesday, July 10th; Ohio Works First on July 10th; and Rental Assistance on July 11th. The poster includes the "insight POLICY RESEARCH" logo and a red footer with contact information. On the right side, there are three small photographs: a woman and a child, a group of people, and a man and a child.

Earn money for sharing your opinion!

- ✓ Are you currently employed and receiving Federal assistance for childcare (CCDF), rent (Section 8, public housing, etc.), or cash (TANF)?
- ✓ Would you like to earn \$50 by sharing how you make decisions about work, such as whether to take a new job, pursue a promotion, or work different hours?
- ✓ Can you join us for one of the following in-person discussions?
  - Publicly Funded Child Care on Wednesday, July 10th from 12:30pm to 2:00pm at Providence House (2050 W 32nd St, Cleveland, OH 44113)
  - Ohio Works First on July 10th from 5:00pm to 6:30pm at Providence House (2050 W 32nd St, Cleveland, OH 44113)
  - Rental Assistance on July 11th from 4:00pm to 5:30pm at Providence House (2050 W 32nd St, Cleveland, OH 44113)

**insight**  
POLICY RESEARCH

If you answered yes to the questions above, please call 1-800-871-6856 for a chance to participate!

# 4. Receive Approval

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- ▶ Office of Management and Budget
  - “To avoid overburdening the public with federally sponsored data collections, the Paperwork Reduction Act (PRA) of 1995 requires that U.S. federal government agencies obtain Office of Management and Budget (OMB) approval before requesting or collecting most types of information from the public.”
- ▶ Institutional Review Board



# 5. Screen and Recruit Participants

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- ▶ Potential participants call toll-free number to be screened for eligibility
- ▶ Research team conducts screening, entering data into online screening tool
- ▶ Text message reminders for eligible participants



\*TANF, CCDF, or Rental Assistance

# 6. Conduct Focus Groups

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- ▶ Ninety-minute semi-structured conversations include—
  - Introductions, ground rules, and warm-up questions to put participants at ease, build rapport, and initiate discussion
  - Questions to assess factors that affect participant decisions about work
  - Questions to assess participant knowledge of primary and secondary safety net programs...



# 6. Conduct Focus Groups (continued)

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- ▶ Ninety-minute semi-structured conversations include—
  - Hypothetical scenarios to gauge participant understanding and perceptions of how additional earnings affect primary and secondary safety net program benefits
  - Wrap-up and closing of discussion





# 7. Clean and Analyze Data

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Clean qualitative and quantitative data



Analyze data



Prepare products for dissemination

# Data Collection Progress

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- ▶ Focus groups currently underway
  - Groups completed in Virginia, Ohio
  - Remaining groups in Virginia, California to be completed by mid-August
- ▶ Results are preliminary



# Very Preliminary Findings

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# Demographic Characteristics

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- ▶ Number of participants
- ▶ Gender
- ▶ Age
- ▶ Race
- ▶ Household details
- ▶ Work and benefit details



# Factors Affecting Participant Decisions About Work

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- ▶ Current job and “dream” job
- ▶ Decisionmaking around new job
- ▶ Factors affecting ability to work
- ▶ Perceived control over work
- ▶ How government benefits affect work decisions

# Participant Knowledge of and Experience with Safety Net Programs

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- ▶ Personal experience with primary programs (TANF, CCDF, and/or Rental Assistance) and secondary programs (SNAP, EITC, Medicaid, or CHIP)
- ▶ Understanding of eligibility criteria, including maximum allowable income

# Participant Knowledge of and Experience with Safety Net Programs (continued)

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- ▶ Understanding of reporting requirements
- ▶ Personal experience with changes in benefits as a result of changes in income

# Participant understanding and perceptions of how additional earnings affect primary and secondary safety net program benefits

## Your friend Claudia

is a 26-year old single mother of two children, ages 6 and 4. She wants your advice.



**Scenario 1**

I'm trying to make up my mind about something and I want your advice. My family and I get **[PRIMARY PROGRAM]** benefits, and as you know I've been working part time at the grocery store for the past 2 years making \$15,000 per year. I don't have to pay much for childcare. During the school year, my kids are usually in school or at Head Start, and my parents help too - so we have been getting by.

Here's my question: My supervisor just said I could be shift manager at the store, which would give me more hours every week. She says I could make almost \$2,500 more every year. I'm nervous that this will affect my benefits, though. Do you think I should do it?

**Should Claudia take the promotion?**

- YES**  
 **NO**

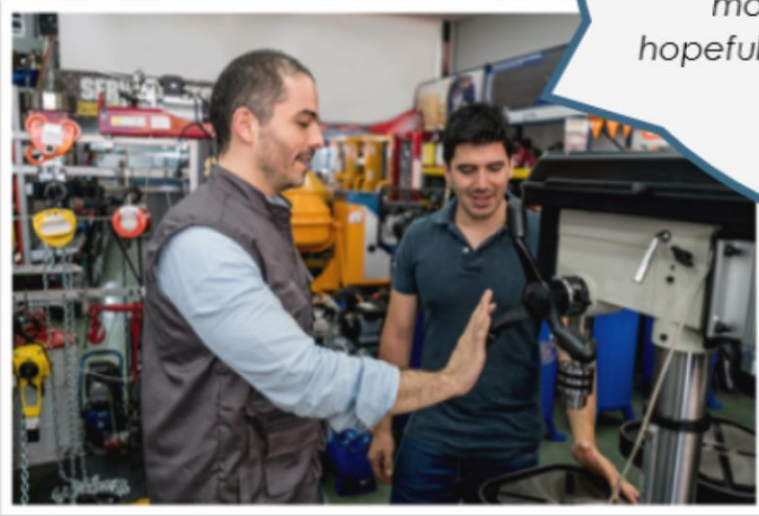
**Name** \_\_\_\_\_



# Participant understanding and perceptions of how additional earnings affect primary and secondary safety net program benefits

## Your supervisor

sits down with you to discuss your performance at work.



*You have been doing a really great job here! I want to offer you a promotion and a raise of \$1.50 per hour more. This promotion will not change your job duties much and the number of hours you work will stay the same. This is mostly just to reward all your hard work and hopefully encourage you to keep working here for a while!*

**Should you accept the promotion and raise?**

**YES**

**NO**

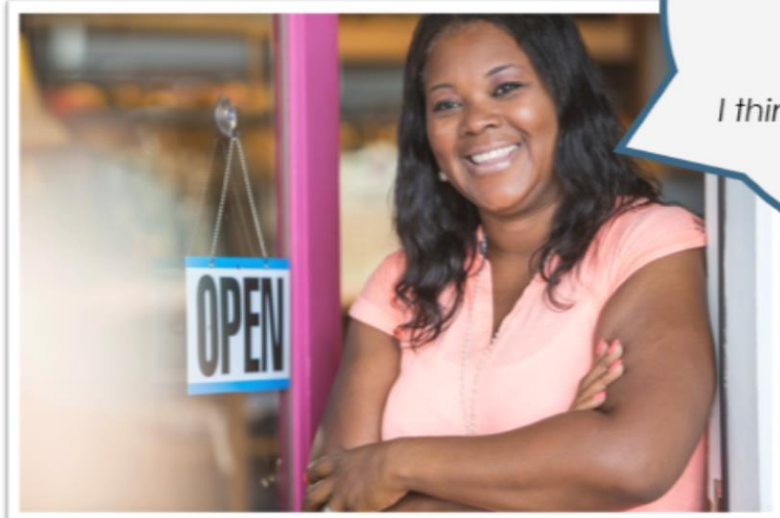
**Scenario 2**

**Name** \_\_\_\_\_

# Participant understanding and perceptions of how additional earnings affect primary and secondary safety net program benefits

## Your supervisor

comes to you at work with a question.



**Scenario 3**

*I wanted to let you know that one of your coworkers just quit. Instead of hiring someone new to take her spot, I was wondering if you would like to pick up some of her hours. You can pick any hours that fit with your schedule.*

*I think that, over the next year, you will make about \$4,000 more with the extra hours.*

**Should you accept the extra hours?**

**YES**  
 **NO**

**Name** \_\_\_\_\_

# Discussion

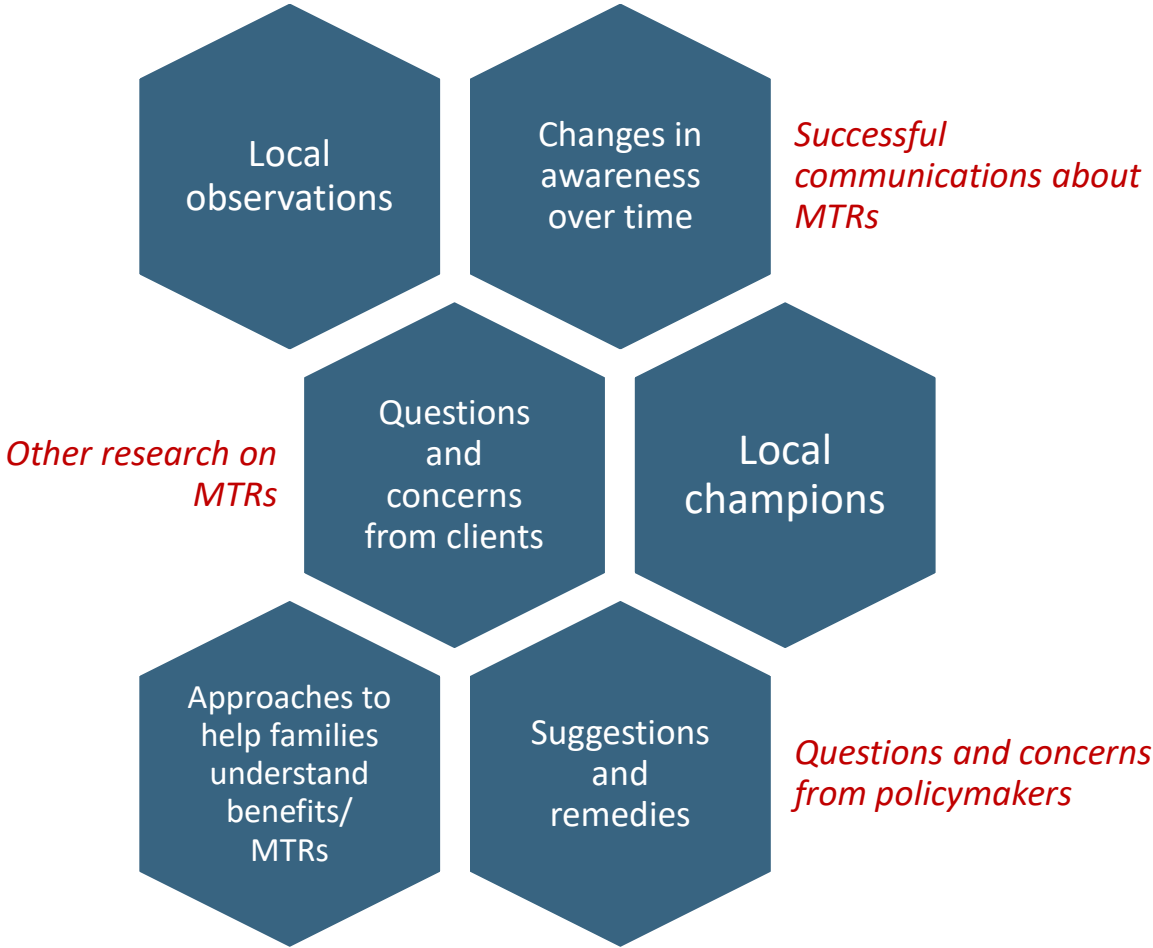
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- ▶ We want to hear your perspectives and questions!



# Discussion Topics

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# Thank you!

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- ▶ Rachel Gaddes ([rgaddes@insightpolicyresearch.com](mailto:rgaddes@insightpolicyresearch.com))
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