Over the Edge: An Analysis of the Implications of Benefit Cliffs Within Wisconsin Public Benefit Programs

Prepared for the Wisconsin Department of Children and Families

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Foreword

This report is the result of collaboration between the La Follette School of Public Affairs at the University of Wisconsin–Madison, and Carrie Hass-Leal, Senior Research Analyst at the Department of Children and Families (DCF) for the State of Wisconsin. The objective of our program is to provide graduate students at the La Follette School the opportunity to improve their policy analysis skills while providing this client with an analysis of “benefit cliffs” in public programs where a few extra dollars of earnings leads to a loss in benefits that exceeds the earnings gain.

The La Follette School offers a two-year graduate program leading to a Master of domestic Public Affairs (MPA) or International Public Affairs (MIPA) degree. Students study policy analysis and public management, and they spend the first year and a half of the program taking courses in which they develop the expertise needed to analyze public policies. The authors of this report all are in their final semester of their degree program and are enrolled in Public Affairs 860/869, the Workshop in Public Affairs. Although acquiring a set of policy analysis skills is important, there is no substitute for actually doing policy analysis as a means of experiential learning. Public Affairs 860/869 gives graduate students that opportunity.

The DCF project seeks to address the consequences associated with the effects of increased earnings on net income and self-sufficiency when it is difficult for low-income families and the caseworkers assisting them to pinpoint the precise location or intensity of a potential benefit cliff and other benefit phase-outs as earned income rises. The challenge becomes even greater for households participating in multiple public benefit programs that impede financial progress as low-income households struggle to raise themselves out of poverty and reach true self-sufficiency.

The report investigates the presence and implications of cliffs and other benefit structures within seven Wisconsin public benefit programs spanning several departments, the extent to which benefit levels reach objective standards of self-sufficiency, and the successes and challenges encountered by other states to mitigate similar cliff effects. Several diagrammatic analyses show how net benefits and net incomes change as earned incomes change for different family sizes and structures and different combinations of programs.

Recommendations are based on practicality, perceived barriers to adoption, and overall potential impact. These are presented in three tiers: those that can be adopted most easily by DCF; those that require cross-department collaboration; and those that require legislative changes.

Timothy M. Smeeding
Lee Rainwater Distinguished Professor of Public Affairs and Economics
May 2020
Madison, Wisconsin
## Abbreviations and Acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ACA</td>
<td>Affordable Care Act</td>
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<td>ACTC</td>
<td>Additional Child Tax Credit</td>
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<td>AFDC</td>
<td>Aid to Families with Dependent Children</td>
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<td>AG</td>
<td>Assistance Group</td>
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<td>AMI</td>
<td>Area Median Income</td>
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<td>CCCAP</td>
<td>Colorado Child Care Assistance Program</td>
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<td>CEPP</td>
<td>Cliff Effect Pilot Program (Colorado)</td>
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<td>CHIP</td>
<td>Children’s Health Insurance Program</td>
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<td>CSJ</td>
<td>Community Service Jobs (W-2 placement)</td>
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<td>CTC</td>
<td>Child Tax Credit</td>
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<td>DCF</td>
<td>Wisconsin Department of Children and Families</td>
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<td>DHS</td>
<td>Wisconsin Department of Health Services</td>
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<td>DHHS</td>
<td>United States Department of Health and Human Services</td>
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<td>EITC</td>
<td>Earned Income Tax Credit</td>
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<td>FMR</td>
<td>Fair Market Rent</td>
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<td>FPL</td>
<td>Federal Poverty Level</td>
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<td>HCV</td>
<td>Housing Choice Voucher</td>
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<td>HUD</td>
<td>United States Department of Housing and Urban Development</td>
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<td>IRP</td>
<td>Institute for Research on Poverty</td>
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<td>IRS</td>
<td>Internal Revenue Service</td>
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<td>MSPF</td>
<td>Multi-System Person File</td>
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<td>MTR</td>
<td>Marginal Tax Rate</td>
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<td>NCSL</td>
<td>National Conference of State Legislatures</td>
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<td>OPM</td>
<td>Official Poverty Measure</td>
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<td>PRWORA</td>
<td>Personal Responsibility and Work Opportunity Reconciliation Act</td>
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<td>SMI</td>
<td>State Median Income</td>
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<td>SNAP</td>
<td>Supplemental Nutrition Assistance Program</td>
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<td>SPM</td>
<td>Supplemental Poverty Measure</td>
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<td>SSDI</td>
<td>Social Security Disability Insurance</td>
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<tr>
<td>SSI</td>
<td>Supplemental Security Income</td>
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<tr>
<td>TANF</td>
<td>Temporary Assistance for Needy Families</td>
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<td>VLI</td>
<td>Very Low Income</td>
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<td>W-2</td>
<td>Wisconsin Works</td>
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<td>W-2T</td>
<td>W-2 Transitions (W-2 placement)</td>
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Executive Summary

Issues Addressed

A benefit cliff occurs when a public benefit program is designed in such a way that, at a certain level of income, a small increase in earnings can result in significant loss of benefits valued at more than the income gain from earnings. Relatedly, the marginal tax rate (MTR) is one tool for valuing the total change in an individual’s or household’s available resources. When an increase in income is comparatively less than the resulting decrease in benefits, a household is said to be facing a MTR exceeding 100 percent and a major benefit cliff where each extra $1 of income leads to a loss in benefits of more than $1. The consequences associated with these impacts are made worse by the fact that it is difficult for low-income families and the caseworkers assisting them to pinpoint the precise location or intensity of a potential benefit cliff, a challenge that becomes even greater for households participating in multiple public benefits programs. That said, most public benefit programs do not include cliffs. Some programs are instead designed with tipping points and/or benefit phase-outs during which benefits gradually diminish as a household’s earned income level increases. While this design prevents the sudden decrease in benefits and net income associated with cliffs, some recipients may still face benefit changes that impede financial progress depending on the steepness of the phase-out. The overall outcome of steep phase-outs and cliffs are systemic setbacks as low-income households struggle to raise themselves out of poverty and reach true self-sufficiency.

This benefit cliff issue is further exacerbated by the flawed ways in which poverty is defined on a national level as well as the fact that many benefit calculations are based on these unrepresentative metrics. For example, public programs tend to calculate benefit allotments based on one’s income as a function of the Federal Poverty Level (FPL). In reality, though, many programs have eligibility cutoffs well beyond 100 percent of the FPL, highlighting the overall inadequacy of the FPL in representing what families truly require to meet their basic needs. Similar issues also arise from the United States Census Bureau’s reliance on the Official Poverty Measure (OPM) to determine whether a family is impoverished. This OPM compares a household’s pre-tax income to a threshold set at three times the cost of a minimum food diet in 1963 (nearly 60 years ago). Together, these unrepresentative or outdated metrics help to determine who lives in poverty and how much public benefit support they are eligible to receive.

Analysis

This report investigates the presence and implications of cliffs and other benefit structures within seven Wisconsin public benefit programs. These programs include Wisconsin Works (W-2) and Wisconsin Shares which are administered by the Wisconsin Department of Children and Families (DCF). The other five programs are BadgerCare, FoodShare, Housing Assistance, the Earned Income Tax Credit (EITC), and the Child Tax Credit (CTC), all administered by other state or federal government entities. To understand how rising incomes may impact household benefit levels, we begin by sharing an overview of each of the seven programs, why we chose to include the programs, known cliffs/challenges associated with the programs, and relevant analytical limitations.

Next, we present a series of graphs to illustrate aggregate benefit value for select program combinations as well as the instances at which households experience prohibitive MTRs (benefit reductions) as their earned income rises. We relied upon a number of necessary simplifications,
including but not limited to a focus on three representative Wisconsin counties (Chippewa, Dane, and Milwaukee), five household compositions, and 50 percent income intervals of the FPL. While some cliff effects may be obscured by these simplifications and not all families are represented, we believe these selections capture the most important benefit impacts and provide an informative foundation for future analysis. Our graphs demonstrate that the existing program designs incorporate multiple significant cliffs including instances where a household’s MTR becomes prohibitive and net benefits are reduced with increases in earned income. While the exact location depends on a household’s composition and its unique program participation, these prohibitive MTRs are most frequently found between 100 percent and 150 percent and between 200 percent and 250 percent of the FPL.

The analysis ends with a literature review of the successes and challenges encountered by states in New England as well as Colorado, Minnesota, and Oregon, all of whom have undertaken efforts to develop policies intended to mitigate similar cliff effects in their statewide programs. These experiences are subsequently drawn upon to inform this report’s final recommendations to DCF.

Recommendations

Recommendations presented in this report are shared in three tiers based on practicality, perceived barriers to adoption, and overall potential impact. The recommendations that can be adopted most easily by DCF are found in the Low-Level while more complicated recommendations that require either cross-department collaboration or legislative changes are categorized as Mid-Level or High-Level.

Low-Level recommendations include methods for improved cliff identification and common benefit clusters, the analysis of cliffs affecting Wisconsin’s Indigenous populations, the framing of programs as being supportive of family well-being to improve stakeholder engagement, and the strengthening of partnerships with diverse stakeholders such as community leaders, local non-profit or philanthropic organizations, and employers who, together, more holistically represent the needs of low-income households.

Mid-Level recommendations suggest that DCF strengthen partnerships with other state government departments and create a cliff taskforce, expand public benefit program data collection, develop a Wisconsin-specific benefit calculator, and investigate other methods of reducing administrative burden and allowing for increased enrollment by and support of low-income families.

Finally, High-Level recommendations include suggestions that DCF advocate for statewide minimum wage increases and increased income and asset limits for Wisconsin public benefit programs as well as the alignment of program eligibility determinations with the state’s Self-Sufficiency Standard. Further High-Level recommendations center around DCF-managed programs. Among other adjustments, these suggestions include implementing a more gradual phase-out of W-2 benefits and implementing a Wisconsin Shares transition year during which households could remain eligible for benefits and exempt from co-pay increases for the full 12-month eligibility period.
Introduction

The launch of the Great Society programs by President Lyndon B. Johnson instituted forerunners to many of the public benefit programs discussed in this analysis. While several of these programs (such as the Supplemental Nutrition Assistance Program (SNAP), previously called the Food Stamp Act) have undergone various reforms over the years, their legacies are long-lasting and remain critical for societal prosperity. While President Johnson’s efforts against the War on Poverty were laudable, we have yet to reach their lofty goals. Unfortunately, current regulations within many of these public benefit programs prevent its recipients from finding a “bridge out of poverty” (Perez, 2018).

Administration of each of these Great Society programs presents complex policy questions. Programs such as Medicaid, SNAP, and Temporary Assistance for Needy Families (TANF) strive to serve as vital family income and work supports for eligible populations. However, the existence and persistence of benefit cliffs may ultimately do more harm to recipients than good. A benefit cliff occurs when participants of these programs lose more money in benefits than they gain from increased income. This project sought to take a deeper dive into the problems benefit cliffs are creating within Wisconsin as well as to design and develop evidence-based recommendations. As it currently stands, the impact of benefit cliffs in Wisconsin remains a relatively novel subject of research. Accordingly, this project draws upon the lessons learned from other states in their attempts to address benefit cliffs while also exploring the impacts of benefit cliffs for Wisconsin-specific programs.

As will become clear throughout this report, the issue of benefit cliffs is a complex problem with far-reaching consequences, particularly if one ventures to consider questions surrounding impacts on family stability, outdated eligibility measures, and what it truly means for a family to reach self-sufficiency. This project was undertaken with the goal of providing a baseline for future policy research aimed at lifting more families in Wisconsin from poverty to self-sufficiency. It is our hope that the following public benefit program overviews, data analysis, comparative state literature reviews, and policy recommendations can provide a framework for improving the support offered through the Wisconsin Department of Children and Families (DCF) and other state government departments. While this report is by no means exhaustive, it is meant to provide an initial roadmap for other interested stakeholders and policymakers to take on the benefit cliff issue in a prepared and evidence-based manner.

Methodology

Our objectives for this project are fourfold. First, we aim to define self-sufficiency as it relates to Wisconsin residents. While federal poverty levels give a general basis for determining self-sufficiency on a national level, participating in public benefit programs can have significant and hard-to-predict impact on one’s ability to achieve self-sufficiency, a status marker that, in reality, varies from state to state. Second, we aim to analyze the ways in which Wisconsin benefit programs interact and concurrently impact households. This allows us to more accurately visualize
and understand the lived experiences of households participating in multiple public benefit programs. Third, we aim to examine how benefit cliffs have been analyzed and/or combatted in other states. This review will provide a lens through which Wisconsin can examine and implement possible solutions. Finally, we aim to propose recommendations for changes to government protocols and policies that will minimize the impact felt by families facing benefit cliffs and minimize the number of families negatively affected by benefit cliffs. These recommendations will take the form of Low-Level recommendations (that the client can enact within its own department and primarily independent of other departments or larger-scale legislative adjustments), Mid-Level recommendations (that the client can enact through collaboration with other state government departments), and High-Level recommendations (that the client can pursue primarily through issue advocacy and lobbying for state and federal policy changes).

In our initial examination of benefit programs in Wisconsin, it became clear that the scope of our analysis would need to be intentionally limited to feasibly provide an assessment representative of as many family compositions, income situations, and locations as possible. While we recognize that many recipients of public benefits in Wisconsin live alone or receive benefits as individuals, it was the priority of our client – the Wisconsin Department of Children and Families – that we focus our assessment on recipient households with children. To fulfill this priority and provide sufficient breadth, we decided to include five family compositions within our analysis: (1) households with one parent and one child, (2) households with one parent and two children, (3) households with two parents and one child, (4) households with two parents and two children, and (5) households with two parents and three children.

### Table 1: Family Compositions Included in this Analysis

<table>
<thead>
<tr>
<th>Family Composition Scenario</th>
<th>Number of Adults</th>
<th>Number of Children</th>
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<td>4</td>
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<td>5</td>
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We then chose to conduct our impact analysis at varying income levels to further amplify the representativeness of our findings and to highlight the fact that household income level is a moving target with the potential for changes throughout the year. To account for this, we conducted an analysis of each of the family compositions as if they were earning at incremental percentages of the Federal Poverty Level (FPL) (also known as Federal Poverty Line) ranging from 0 percent of the FPL through 400 percent of the FPL, increasing by increments of 50 percent. Finally, we placed these hypothetical families into three counties across the state: Chippewa County, Dane County, and Milwaukee County. Milwaukee County and Dane County are the two most populated counties in the state (the first and the second most populated, respectively). Chippewa County is far less populated, ranking 24th of 72 Wisconsin counties (United States Census Bureau, 2019a). Further, according to the 2017 findings using the Wisconsin Poverty Measure, Chippewa County and Milwaukee County each exhibit higher poverty rates than the statewide average. Conversely, Dane County is considered statistically similar to the statewide average in terms of poverty level.
Institute for Research on Poverty, 2017). We felt it important to include areas with greater proportions of impoverished residents – those more likely to rely on public benefit programs – as well as one county that contains an average proportion of impoverished residents as a baseline. Together, these three layers of methodological considerations allow us to put forth an analysis that we feel can appropriately inform recommendations for families of varying compositions, income levels, and locations across Wisconsin.

Our included graphs provide visual representations of the net financial impacts on households participating in various combinations of statewide benefits programs as their earned incomes rise. Program-specific assumptions are described in detail within each of the designated program sections. Of note, each combination’s effective marginal tax rate (MTR) will be calculated and shown graphically based on Equation 1 (Leguizamon, 2012) below. Throughout this report, MTR is described using three levels. First, a household’s MTR is negative when it is less than or equal to 0 percent. For example, an MTR of -15 percent means that the beneficiary, after all is said and done, keeps every dollar earned plus an additional 15 cents in benefits per dollar earned. In such a scenario, members of a household are incentivized to continue increasing their earned income. Second, a household’s MTR is stable when it is between 0 percent and 100 percent. An MTR in this range means that the beneficiary retains every dollar earned but slowly loses program benefits as MTR increases toward 100 percent. It is reasonable that public benefit programs would aim to facilitate a stable MTR for their recipients, as this means that their increases in earnings are balanced out by smaller losses in benefits (creating a net income and benefit gain). Third, a household’s MTR is considered prohibitive when it is greater than or equal to 100 percent. For example, an MTR of 115 percent means that the beneficiary, after all is said and done, loses $1.15 in benefits for every $1 earned. In such a scenario, members of a household are disincentivized to continue increasing their income. Because they are indicative of the most dramatic benefit cliffs, this report pays specific attention to prohibitive MTRs that exceed 100 percent resulting from Wisconsin public benefit programs.

Table 2: Summary of MTR Levels

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<th>MTR Level</th>
<th>Range</th>
<th>Basic Outcome</th>
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<tr>
<td>Negative</td>
<td>0% or less</td>
<td>Increases in income &gt; Losses in benefits</td>
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<tr>
<td>Stable</td>
<td>Between 0% and 100%</td>
<td>Increases in income ≈ Losses in benefits</td>
</tr>
<tr>
<td>Prohibitive</td>
<td>100% or more</td>
<td>Increases in income &lt; Losses in benefits</td>
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Equation 1: Marginal Tax Rate

\[ \text{MTR} = \left[ 1 - \left( \frac{\Delta \text{Income} + \Delta \text{Benefits}}{\Delta \text{Income}} \right) \right] * 100 \]
Definitions

Benefit Cliffs

A benefit cliff occurs when a public support program is designed in such a way that, at a certain level of income, a small increase in earnings can result in a significant loss in eligibility for benefits. When a household passes over this cliff, increases in earnings no longer sufficiently make up for the corresponding loss in public benefit dollars, leaving a household farther from achieving self-sufficiency compared to before the income increase (Kaz, 2015). In this analysis, we identify benefit cliffs in terms of MTR, or the net amount of resources effectively taken away from a household compared to its income increases (Maag, Steuerle, Chakravarti, & Quakenbush, 2012). We consider a prohibitive MTR (where the increase in income is comparatively less than the decrease in benefits) to be indicative of a major benefit cliff. Such a cliff effect is considered “an anchor into, rather than a ladder out of, poverty” (National Conference of State Legislatures, 2019a).

Phase-Outs

Unlike programs with a cliff structure as previously described, public benefit programs that boast phase-outs are structured so that benefits gradually diminish as a household’s income level increases beyond a designated point. These phase-out programs can provide ongoing support to households as they continue to work toward achieving self-sufficiency. For example, the Supplemental Nutrition Assistance Program (SNAP) is a well-known phase-out program. Typically, when a household receiving SNAP benefits experiences an increase in monthly income, they will see a corresponding decrease in their benefit allotment, though not a decrease to the point at which their new net income (earnings plus benefits) will be less than their net income prior to the earnings increase. For most households, an income increase of $1 will result in a SNAP benefit decrease of only 24 to 36 cents (Wolkomir & Cai, 2019).

Tipping Points

Tipping points are most easily understood by exploring the benefit schedule of the Earned Income Tax Credit (EITC) program. The EITC program boasts a more multifaceted payout structure as compared to a simple benefit cliff/cut-off or phase-out. The EITC program, for example, adopts a three-part benefit structure with multiple tipping points across the income spectrum. To briefly explain, for any household seeking assistance in the form of the EITC, the income level will determine which of three possible benefit ranges for which the household will qualify. At the lowest level of income up until a point designated the ‘earned income amount,’ there is a phase-in structure across which the MTR is negative and each additional dollar of earned income leads to additional benefit. As a household’s income increases, it approaches this ‘earned income amount’ point at which it will transition from the phase-in portion of the EITC payout schedule to the plateau portion. For any household with income between this ‘earned income amount’ and a higher amount known as the ‘phase-out threshold,’ the household will be eligible for the maximum EITC benefit amount. Finally, for households with income exceeding the ‘phase-
out threshold,’ the EITC benefit amount gradually decreases with increasing income (as with a more typical phase-out structure described in the previous section) (Crandall-Hollick & Hughes, 2018). Each of these junctures – the earned income amount and the phase-out threshold – represent tipping points across which an applicant’s benefit rate and calculation will shift.

Poverty versus Self-Sufficiency

Currently, the United States Census Bureau defines households earning above 100 percent of the FPL to be living above the poverty level and those earning between 100 percent and 125 percent of the FPL to be near poverty. Households below 100 percent are considered to be in poverty, and those below 50 percent FPL are considered to be in severe or deep poverty (University of California Davis Center for Poverty, 2017). Thresholds used to calculate family poverty status are updated annually using the Consumer Price Index. Additionally, the United States Census Bureau includes benefits such as Social Security, unemployment, or pension income when determining poverty status but does not include non-cash benefits such as food stamps or housing subsidies. Nationally, there is no variation in FPL based on geography, only by family size (United States Census Bureau, 2019b).

While the programs discussed in this report (with the exception of housing assistance) rely on this Official Poverty Measure (OPM) as a general guideline for poverty determination, families are not truly out of poverty after they have cleared the threshold of earning more than 100 percent of the FPL. To account for this, many public programs continue to offer benefit eligibility beyond this official 100 percent threshold, an unofficial recognition of the inadequacies behind the current measure of poverty. In addition to the OPM, poverty in the United States can also be approximated using the Supplemental Poverty Measure (SPM). The SPM accounts for all sources of income including those excluded by the OPM. Despite slight differences in the rates of poverty between these two measures, only the OPM is used for the determination of eligibility for benefits programs. In 2010, for example, the SPM showed that 16 percent of United States residents were living in poverty, compared to 15.1 percent according to the OPM.

Also of interest, researchers at the Institute for Research on Poverty (IRP) at the University of Wisconsin–Madison developed the Wisconsin Poverty Measure (WPM) which identifies whether families have the ability to meet their basic needs. Like the SPM, the WPM includes non-cash benefits (Smeeding & Thornton, 2019). The WPM rates differ from the SPM for various reasons, including the fact that the WPM records all spending on SNAP and public housing while the SPM reports only 60 percent of SNAP and public housing spending. Overall, the statewide poverty rate in Wisconsin fails to depict the true variation in poverty that exists between Wisconsin counties (Institute for Research on Poverty, 2017).

The OPM was created in the 1950s and was made to equal approximately three times the food budget for a family. Today, this OPM metric is still based on food budgets determined by the United States Department of Agriculture (USDA) even though food no longer represents one-third of a family’s spending. To address this discrepancy, researchers at the University of Washington have since created an alternative measure, the Self-Sufficiency Standard, which determines the amount of income necessary to meet a family’s basic needs without public benefit programs or any other informal assistance such as food pantries. By accounting for these other forms of support, this measure aims to more accurately demonstrate whether a family is self-sufficient. In direct contrast to the OPM, the Self-Sufficiency Standard varies by region, includes all budget items, and includes employment-related costs (University of Washington, n.d. b). In fact, the University of
Washington project offers state-specific measures of self-sufficiency to account for geographic differences. There also are state self-sufficiency calculators in California, Indiana, New York, Ohio, Oregon, Washington, and Wyoming (University of Washington, n.d. a). While some states utilize more generic measures to define self-sufficiency, such as 200 percent of the FPL, many others use more targeted approaches (National Conference of State Legislatures, 2019a).

Even within the state of Wisconsin, the self-sufficiency hourly wage and annual salary have significant regional variation. Table 3 below includes the annual salaries and equivalent hourly wages necessary to achieve self-sufficiency in the three Wisconsin counties included in this analysis. The numbers in this table make apparent these dramatic county-to-county differences. Further, there are discrepancies between the earnings needed to achieve financial independence under the self-sufficiency standard and the OPM. For example, in Brown County, an adult with a preschool-aged child and school-aged child would need to make $55,815 per year under the self-sufficiency standard but would need to make only $21,330 using the OPM to be considered self-sufficient. Regardless of family composition or county of residence, it becomes clear that the income necessary to achieve self-sufficiency far exceeds the minimum wage or the OPM (Pearce, 2019).

Table 3: Self-Sufficiency Standard Annual Salary and Hourly Wage by Wisconsin County

<table>
<thead>
<tr>
<th>County</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
<th>Scenario 4</th>
<th>Scenario 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chippewa County</td>
<td>$39,630.14/year</td>
<td>$52,665.24/year</td>
<td>$47,248.54/year</td>
<td>$59,329.91/year</td>
<td>$78,860.96/year</td>
</tr>
<tr>
<td></td>
<td>$18.76/hour</td>
<td>$24.94/hour</td>
<td>$11.19/hour</td>
<td>$14.05/hour</td>
<td>$18.20/hour</td>
</tr>
<tr>
<td>Dane County</td>
<td>$50,962.37/year</td>
<td>$67,384.85/year</td>
<td>$58,519.51/year</td>
<td>$74,637.75/year</td>
<td>$99,367.09/year</td>
</tr>
<tr>
<td></td>
<td>$24.13/hour</td>
<td>$31.91/hour</td>
<td>$13.85/hour</td>
<td>$17.67/hour</td>
<td>$23.52/hour</td>
</tr>
<tr>
<td>Milwaukee County</td>
<td>$45,471.95/year</td>
<td>$61,295.82/year</td>
<td>$52,803.66/year</td>
<td>$68,369.14/year</td>
<td>$88,887.72/year</td>
</tr>
<tr>
<td></td>
<td>$21.53/hour</td>
<td>$29.02/hour</td>
<td>$12.50/hour</td>
<td>$16.19/hour</td>
<td>$21.04/hour</td>
</tr>
</tbody>
</table>

Source: University of Washington, 2020

While the goal of most involved stakeholders is to find a way for benefit programs to serve as a bridge between poverty and self-sufficiency, each program’s eligibility is based on poverty measures that do not accurately reflect the financial realities of families in Wisconsin or throughout the United States. While most benefit cliff literature is focused on the vital importance of self-sufficiency, the cliffs often occur at income levels far below the actual self-sufficiency standard. While remaining cognizant of the status quo poverty measurements, incorporating these alternative measures will be imperative for policymakers designing work support programs that truly support and encourage families and communities.
**Figure Tutorial**

In this report, each public benefit program or combination of programs is analyzed using Figures that contain two related sets of graphs. The first set of graphs demonstrates the value of benefits at varying income levels. The second set of graphs demonstrates the corresponding marginal tax rates (MTR) that result from increases in income. In this second set of graphs, it is most important for the reader to note when a MTR is less than 0 percent (indicating a negative MTR), when a MTR is between 0 percent and 100 percent (indicating a stable MTR), and when a MTR is at or above 100 percent (indicating a prohibitive MTR). The gray horizontal line at 0 percent and the red dotted line at 100 percent are included to visually emphasize these transition points. Each set contains five graphs to represent the five family compositions considered in this analysis (see Table 1). Therefore, each Figure contains a total of ten unique graphs.

In this tutorial, we offer two sample graphs and interpretations. These two sample graphs represent the value of Wisconsin Shares benefits and corresponding MTR for a family in Dane County with two parents and three children. In the first value of benefits graph (top), we see that the family would receive zero benefits when their earned income is at 0 percent of the FPL. When this family’s income equates to 50 percent of the FPL, the value of Wisconsin Shares benefits increases to around $40,000. This sharp increase in benefits is also reflected within the corresponding MTR graph (bottom). When the family’s earned income increases from 0 percent of the FPL to 50 percent of the FPL, they experience a negative MTR of approximately -200 percent. This indicates that they are, in essence, gaining around 200 cents in benefits for every additional dollar of earned income. At income levels between 50 percent of the FPL and 200 percent of the FPL, we see a plateau in the value of benefits. This corresponds to the 0 percent stable MTR experienced by the family throughout this income range. In this range of earned income, each additional $1 of earned income is kept by the family rather than being counteracted by a loss in benefits. Finally, the value of benefits graph shows a sharp decrease in benefits when the family’s earned income is between 200 percent of the FPL and 250 percent of the FPL. This corresponds to a sharp peak in the MTR graph. When the MTR rises above the 100 percent level (indicated by the red dotted line) to approximately 250 percent, this family will experience a loss in benefits (or increase in income taxes) of approximately $2.50 per additional dollar of earned income. At MTRs above 100 percent, families are said to be losing more in benefits than they are gaining in income or, in other words, have found themselves on the wrong side of a benefit cliff.
**Wisconsin Public Benefits Programs**

BadgerCare Plus

*Program Overview*

In Wisconsin, Medicaid comprises multiple programs that range from broad insurance coverage, such as BadgerCare Plus for low-income people between 0 and 64 years old, to more targeted coverage, such as the Children’s Health Insurance Program (CHIP). In total, the Wisconsin Department of Health Services (DHS) manages 28 unique Medicaid programs that provide health coverage and services to Wisconsin residents (Wisconsin Department of Health Services, n.d.). In this report, we largely focus on BadgerCare Plus because it is the largest of Wisconsin’s Medicaid programs. Going forward, BadgerCare Plus and Medicaid are used interchangeably because BadgerCare Plus represents most Medicaid-related activity within the state of Wisconsin.

Within the Wisconsin state budget, Medicaid programming is the single largest recipient of incoming federal funds. Medicaid spending accounted for 17 percent of total state spending in state fiscal year 2013, including 15 percent of state general fund spending and 41 percent of all federal funds spent by the state (Kaiser Family Foundation, 2015). For every dollar that Wisconsin spends on Medicaid, the federal government spends $1.41 in matching funds to the state (Wisconsin Department of Health Services, n.d.).

BadgerCare Plus eligibility is different for adults versus children. In Wisconsin, children under the age of 19 are covered under Medicaid up until the point at which their household income is equivalent to 306 percent of the FPL. Conversely, adults are eligible for BadgerCare Plus coverage up until the point at which their income is equivalent to 200 percent of the FPL, whether or not they have children covered under the BadgerCare Plus program (Wisconsin Department of Health Services, 2020a). As such, this report largely identifies the benefit cliffs for Medicaid to be 200 percent FPL for adults and 306 percent for children.

Since the passage of the Affordable Care Act (ACA) and opening of its healthcare marketplace in October 2013, Medicaid enrollment nationwide has seen a net increase of 4.87 percent (Medicaid.gov, 2019). One of the largest public benefit programs in the state, BadgerCare Plus provided assistance to approximately 774,000 individuals in 2019 (Wisconsin Department of Health Services, n.d.). Further, Figure 1 aims to highlight just how prevalent this program is across Wisconsin.
While the passage of the ACA offered states the option to expand their Medicaid programs through the award of additional federal dollars, Wisconsin rejected the opportunity under former Governor Scott Walker, opting instead to enact state-led expansion solutions that would draw on less federal funding (Sommerhauser, 2019). BadgerCare Plus is a prime example of such a state-driven initiative. However, current Governor Tony Evers is now pushing to secure this previously forgone expansion opportunity amidst opposition from the legislature (Sommerhauser, 2019). If secured, these additional federal dollars directed toward Medicaid would undoubtedly lead to an increase in statewide participation because it would increase the minimum income levels needed to qualify. For example, if BadgerCare were expanded, adults with an FPL between 100 percent and 138 percent would now be covered under the expanded program (Medicaid.gov, 2019).

**Why We Choose to Include this Program**

We chose to include this program in our analysis because Medicaid serves as a vital federal program for those under financial constraints and unable to purchase their own health insurance. Whether accessed alone or in combination with other public benefit programs, medical assistance is the most commonly accessed form of public benefits in Wisconsin. In 2018 alone, 652,383 households in Wisconsin received medical assistance (Drazen, 2020). Moreover, as mentioned, a significant amount of federal funding to the state goes directly toward supporting this program. Because such major funding is tied to this program, it is important to fully understand the impacts of its implementation, particularly if there are benefit cliffs or phase-outs that are negatively affecting the true financial support felt by constituents. It is also important to acknowledge that BadgerCare Plus is not managed by DCF but exists instead under DHS. Because BadgerCare Plus is housed within DHS, there may be silo issues associated with the program. In part, this report aims to explore how a lack of inter-department alignment or coordination is creating or exacerbating the effects of benefit cliffs on Wisconsin families. As such, it was necessary to include public benefit programs managed by different government departments in our analysis, not just those overseen by the client (DCF).
Known Cliffs/Challenges

Because the cost of healthcare depends on numerous factors and, thus, can vary greatly between individuals, we opted to exclusively examine the benefit cliffs as they relate to individual or household premium costs. Additionally, due to the limitations considered in the following subsection, we were unable to examine the transitional Medicaid population. This population consists of adults earning between an FPL of 100 percent and 200 percent of the FPL or children in households earning between an FPL of 204 percent and 306 percent of the FPL. This transitional cliff could not be considered because of rapidly changing eligibility rules regarding this population in Wisconsin. For example, in February 2020, a new administrative rule went into effect that changed the income requirements for adults in this category (Wisconsin Department of Health Services, 2020a). Because of the difficulty in properly accounting for the transitional population, we consider the benefit to continue through 200 percent of the FPL even though full BadgerCare Plus coverage ends at the 100 percent FPL for adults.

To continue, most of the benefit cliffs that exist in healthcare emerge when an individual loses full coverage under BadgerCare Plus and must enter the individual ACA marketplace. Such a cliff tends to occur due to an increase in income that pushes an individual above the allowable income level under BadgerCare Plus. Figure 4 demonstrates such a cliff at 200 percent of the FPL while Figures 2 and 3 demonstrate such a cliff at 300 percent of the FPL. When an individual surpasses the income boundaries of the transitional BadgerCare Plus population, the person’s level of benefits begins to decline.

Also of note, the Figures below implicitly illustrate the difference in the cost of healthcare between rural and urban areas. When healthcare premiums are more expensive in an area, the potential for benefit coverage under BadgerCare is greater. As the following Figures show, for example, the maximum value of BadgerCare benefits for families with two parents and three children in more rural Chippewa County is nearly twice the value of BadgerCare benefits for a similar family in more urban Dane County or Milwaukee County. The MTR graphs within Figures 2 through 4 also reveal this rural-urban discrepancy. The MTR faced by families in Dane County and Milwaukee County stays below 100 percent for all family compositions, yet families in Chippewa County experience an MTR of 100 percent for every family composition with income between 300 percent and 350 percent of the FPL. As a result, small increases in income for families in Chippewa County are likely to result in a benefit cliff as their MTR is pushed from stable to prohibitive.
Figure 2: Value of Benefits and MTR for BadgerCare in Chippewa County
Figure 3: Value of Benefits and MTR for BadgerCare in Dane County
Figure 4: Value of Benefits and MTR for BadgerCare in Milwaukee County
Limitations

Assigning accurate and representative values to both healthcare eligibility inputs and ultimate household benefits is extremely difficult, rendering the following assumptions necessary. First, if an individual is eligible for full coverage, we assume that he or she will utilize this comprehensive care. Partial or limited Medicaid coverage is not considered because we cannot access this type of data. Next, we consider benefit value for healthcare to be determined solely by premium costs, co-pays, and deductibles with other relevant elements being excluded from analysis due to inherent variability between participants and the lack of time and resources to properly calculate. Because adults and children have differing eligibility for Medicaid, they are calculated separately in this analysis. BadgerCare subgroups, such as pregnant women and the “medically needy,” are not considered in this analysis due to a lack of data.

To continue, a benchmark plan is used when determining the average cost of healthcare within a region. In this report, our benchmark plan – the second lowest silver plan in Dane County – was designated as the baseline to determine a health plan’s benefit value. Specifically, the Kaiser Health Insurance Marketplace Calculator was used in determining the average cost of health plans within Dane County (Kaiser Family Foundation, 2019). Next, these costs were compared with current FPL levels as cited within a recent DHS report titled BadgerCare Plus Federal Poverty Levels (Wisconsin Department of Health Services, n.d.). These FPL levels determined by DHS may differ from federal FPL levels. To diminish the uncertainty that comes with individual behavior within the healthcare marketplace, this report assumes that those who lose coverage from BadgerCare go directly to the individual ACA market within one year. Also, because of the recently adjusted rules and lack of data, we group the transitional Medicaid populations with the BadgerCare Plus full coverage population (Wisconsin Department of Health Services, n.d.). Furthermore, this report assumes that all eligible individuals will receive all relevant subsidies. Finally, because of the low premium prices under BadgerCare Plus and the relatively few participants who are required to pay them, we consider all additional costs for healthcare under BadgerCare Plus to be negligible (Wisconsin Department of Health Services, 2020a). This assumption will ensure that our data represents the majority of BadgerCare participants, because most do not pay anything for premiums after receiving BadgerCare benefit dollars. In summary, these limitations, while cumbersome, allowed for this project to include reasonable values despite the healthcare system’s many ongoing uncertainties.

FoodShare

Program Overview

Also housed under DHS, FoodShare is Wisconsin’s iteration of the federal Supplemental Nutrition Assistance Program (SNAP). This program aims to assist Wisconsin residents with purchasing both the quantity and quality of food needed to lead a healthy lifestyle. This assistance comes in many forms, including financial benefits, employment-related assistance, and education regarding nutrition and efficient usage of benefits (known as either SNAP-Ed or FoodWIse in Wisconsin). While SNAP is overseen by the USDA on a federal level, each state takes ownership of the program’s day-to-day management and implementation for its constituents. States can choose to administer SNAP at either a state level (using a centralized model) or at a county level.
(using a decentralized model). As of 2018, Wisconsin is 1 of 10 states that has opted to administer its SNAP activities (known as FoodShare) at a county level (United States Department of Agriculture, Food and Nutrition Service, 2018).

Any Wisconsin resident who is also a United States citizen or qualifying immigrant and whose family income is at or below the monthly program limit can apply to FoodShare and be considered for potential benefits (Wisconsin Department of Health Services, 2020e). These current monthly income limits are based on household size FPL. All FoodShare applicants are subject to federally stipulated work requirements, though several exemptions are offered including but not limited to an exemption for those experiencing homelessness, those who are pregnant, and those who are enrolled in a higher education institution at least half-time (Wisconsin Department of Health Services, 2020e). If the aforementioned residency, household income, work, and other application requirements are met, a multi-step process of calculating monthly FoodShare benefits will follow. Beginning with a household’s gross monthly income, various credits are methodically subtracted from that amount until a net monthly income is determined (examples include credits based on employment status, dependent care costs, or shelter and utility costs). In combination with the federally set maximum allowable monthly benefits per household size, this net monthly income is used to calculate the final number of FoodShare dollars per month provided to the applicant. In January 2020, the average monthly allotment per household was $201 (Wisconsin Department of Health Services, 2020c). Figure 5 illustrates the January 2020 frequency distribution of benefits per household (households are often referred to as Assistance Groups (AGs) under FoodShare).

Figure 5: Frequency Distribution of AG Monthly Benefit Amounts, January 2020

![Frequency Distribution of AG Monthly Benefit Amounts, January 2020](image)

Source: Wisconsin Department of Health Services, 2020c

As seen in Figure 6, between 2000 and 2007, Wisconsin saw gradual yet steady increases in individual and AG FoodShare recipients. Spurred by the major economic recession of 2008, participation then grew at a faster rate before leveling off between 2011 and 2014. Since 2014,
individual and household FoodShare participation has slowly declined. This Wisconsin-specific trajectory mirrors the national SNAP participation trend, as seen in Figure 7.

**Figure 6: Wisconsin FoodShare Participation, 2000-2018**

![FoodShare Recipient Data 2000-2018](image)

Source: Wisconsin Department of Health Services, 2020d

**Figure 7: National SNAP Participation, 2000-2018**

![SNAP average monthly participation and annual program expenditures, FY 2000-18](image)

Source: Oliveira, 2019

DHS tracks and publishes monthly program participation metrics. During January 2020, DHS reported that just over 600,000 individuals participated in FoodShare which encompasses nearly 313,000 AGs and over 4,000 first-time benefit recipients (Wisconsin Department of Health Services, 2020c). These individual, AG, and first-time recipient numbers represent slight increases
from the available December 2019 counts (Wisconsin Department of Health Services, 2020b). Of note, 36.5 percent of all AGs receiving FoodShare benefits in January 2020 included minors and, of those, 71 percent were single-parent households, 19 percent were two-parent households, and 10 percent included no parents.

Why We Chose to Include this Program

We felt it necessary to include FoodShare in this analysis due to its high frequency of usage and, thus, high impact. FoodShare supports hundreds of thousands of households in Wisconsin each year and is one of the most frequently utilized public benefit programs across the state. During 2018 alone, 433,341 unduplicated SNAP individuals or AGs received at least $1 in FoodShare benefits (Drazen, 2020). FoodShare was also included in this analysis due to its high level of integration with other state public benefit programs. This integration is evidenced by the shared application process between FoodShare and other programs such as healthcare assistance and TANF (United States Department of Agriculture, Food and Nutrition Service, 2018). Further, 2018 program participation data shows that enrollment in FoodShare is often coupled with enrollment in other public benefit programs, most commonly with healthcare assistance (Drazen, 2020).

Known Cliffs/Challenges

As demonstrated in Figures 8 through 10, the value of FoodShare benefits generally holds steady between 0 and 50 percent of the FPL. At such low levels of gross monthly income, it is likely that all families would be eligible to receive the same benefit allotment (the maximum benefit allotment) after subtracting any applicable credits. When families begin to earn more than 50 percent of the FPL, there are steep drop-offs in the value of the FoodShare benefits for which they are eligible. Benefit level declines sharply until families hit earnings around 150 percent of the FPL before leveling off to some degree. Finally, for most family compositions considered, monthly benefits will reach zero at or before earnings equivalent to 200 percent of the FPL. These trends are apparent within all three Wisconsin counties analyzed (Chippewa, Dane, Milwaukee).

Of additional note, these Figures reveal that the decline in FoodShare benefits for households earning between 50 percent of the FPL and 150 percent of the FPL is most extreme for larger families (families with four or five members). While these larger families are likely to receive the maximum monthly FoodShare benefits when they earn the lowest levels of income, they experience distinct decreases in their benefit allotments as income rises. In fact, at higher levels of income, the allotment for larger families does not noticeably exceed the allotment of much smaller families.

Overall, the MTR faced by Wisconsin families participating in only FoodShare (and not receiving benefits from other programs) remains generally stable at all levels of income for which they are eligible for benefits. This seems to suggest that the FoodShare program does not include any extreme cliffs as defined by the authors. That said, the FoodShare program does boast some significant drop-offs in benefits that, when combined with the effects of other public benefit programs, may cause a family’s Effective MTR to rise above zero at various levels of income.
Figure 8: Value of Benefits and MTR for FoodShare in Chippewa County
Figure 9: Value of Benefits and MTR for FoodShare in Dane County
Figure 10: Value of Benefits and MTR for FoodShare in Milwaukee County
Limitations

To most accurately estimate the appropriate income credits and monthly benefit allotments for different household sizes, family compositions, and counties in Wisconsin, several assumptions needed to be made throughout the calculation process. To begin, we relied on the assumption that all parents within a given household were able-bodied and employed (both single- and two-parent households were analyzed). Given that all five of our family compositions considered included at least one child, we determined an average monthly childcare cost to include based on location, subsidy/co-pay information, and type of childcare facility. All children in a family were assumed to be in childcare. We also assumed that all families rented two-bedroom apartments within their designated counties (Chippewa, Dane, and Milwaukee). To calculate appropriate average county-based rental costs, we utilized data from the National Low Income Housing Coalition. Already broken down by county, this database offers credible values for the rent affordable at minimum wage as well as the rent affordable at 30 percent of the area’s median income (National Low Income Housing Coalition, n.d.). In assuming that FoodShare recipients frequently fall between these two income levels (minimum wage and 30 percent of the area’s median income level), we took an average of these two rent levels to arrive at a final rent calculation for the purposes of determining FoodShare benefit allotment. To continue, we made the assumption that each family was eligible for a Limited Utility Credit, meaning they currently pay for two or more of the following utility services: electricity, phone, water, sewer, trash, cooking fuel, or air conditioning surcharge (Wisconsin Department of Health Services, 2020c). Finally, we assumed that neither medical expenses nor child support payments were applicable for any of our five included family compositions. While we recognize that these FoodShare-specific assumptions are numerous, we felt they were necessary for us to achieve comprehensive and realistic estimations of monthly FoodShare benefits for the family compositions included in this analysis.

Wisconsin Shares

Program Overview

Wisconsin Shares is a public benefit program administered by DCF that subsidizes childcare for working and student parents (Wisconsin Department of Children and Families, 2020e). Each county in the state has a local Wisconsin Shares agency to assist with implementing this program. Parents applying for childcare assistance may do so by applying through the state’s online portal or by calling or visiting their local agency. As part of the application process, parents need: (1) information regarding the child to be enrolled (including age, disability status, and relationship – foster parents have different income qualifications), (2) proof of work, education, or training activity (including any schedule overlaps in spousal work schedules), (3) proof of income (including work, Social Security, unemployment insurance, workers’ compensation, or any income earned by a teenager that is above $1,250), and (4) family size (Wisconsin Department of Children and Families, 2020b; Wisconsin Department of Children and Families, n.d.).

The childcare covered by Wisconsin Shares aims to improve the social well-being and early education of low-income children. These goals are accomplished through two DCF initiatives. First, Wisconsin Shares administers a childcare oversight program, YoungStar, that certifies qualified providers, ensuring the quality care and high standard of early childhood education for participants (Wisconsin Department of Children and Families, 2020f). This program
also encompasses a database of all providers in the state and gives parents comprehensive information on the ages served, any information on care violations, and a rating for each provider location. Second, Wisconsin Shares provides childcare subsidies to low-income families with children under the age of 13 (or disabled children under the age of 19). The subsidy covers care through certified providers, licensed providers, or providers operated by a Wisconsin school board; all subsidized providers must maintain a minimum rating of two stars from the YoungStar program. Additionally, the subsidy covers three main categories of care: family care, group care, and day camps. Family childcare providers work with children under the age of 7 in groups of eight or less at a time. Group care is defined as childcare that serves children under the age of 7 in groups of nine or more children at a time. Day camps are providers that support four or more children aged three and older (Wisconsin Department of Children and Families, 2020a; Wisconsin Department of Children and Families, 2020e). Of the three counties we assessed, the maximum childcare subsidy available to a family of two parents and one child earning 50 percent of the FPL in Wisconsin was at approximately $15,125 in Dane County. Alternatively, Chippewa County had the lowest subsidy available to the same family composition of two parents and one child with $11,254 at 50 percent of the FPL (Wisconsin Department of Children and Families, 2019b).

To qualify for Wisconsin Shares benefits, a family must live in Wisconsin and have an income below 185 percent of the FPL (Wisconsin Department of Children and Families, 2020b; Wisconsin Department of Children and Families, n.d.). Parents need to be engaged in the workforce or other qualifying activities such as Wisconsin Works, FoodShare Employment and Training, high school, or up to two years of basic education or college (Wisconsin Department of Children and Families, 2020b; Wisconsin Department of Children and Families, n.d.). Children also must be under the age of 13 (19 if the child has special needs) and be citizens of the United States. Eligibility is renewed every 12 months either online through Wisconsin’s ACCESS portal or by calling or visiting a local agency. When parents begin to earn more than 85 percent of the state median income (SMI), they become ineligible for Wisconsin Shares childcare subsidies.

To continue, Milwaukee County has additional eligibility guidelines for parents applying for childcare assistance. These parents must first consult with a Milwaukee Enrollment Services Center agent (abbreviated MilES and housed under DHS) to confirm eligibility of their work or training activity and income for the subsidy. After eligibility information is received, DCF completes authorization of the family into the Wisconsin Shares program.

The Institute for Research on Poverty found that there were 34,948 households receiving childcare benefits in Wisconsin in 2018 (Drazen, 2020). This count translates to more than 60,000 children impacted by childcare assistance subsidies in Wisconsin in that year. Most families (over 92 percent) received subsidies on the regular co-payment schedule. DCF reports that these subsidies allowed Wisconsin parents to work an average of 34.5 hours a week for $12.99 per hour (Wisconsin Department of Children and Families, 2019a).

Why We Chose to Include this Program

Access to affordable childcare is imperative for working and/or student parents. It is nearly impossible for both parents to maintain full-time jobs without childcare. Single parents are at an even greater disadvantage if childcare is not available to them. Thus, childcare expenses present a significant barrier to work (The National Academies of Sciences, Engineering, and Medicine, 2019). As benefit cliffs from other public programs deter upward mobility for working parents.
(National Conference of State Legislatures, 2019a), any cliffs associated with childcare assistance further hinder parent career progression and may inhibit child development.

**Known Cliffs/Challenges**

Figures 11 through 13 reveal dramatic reductions in the effective value of Wisconsin Shares benefits as indicated by the prohibitive MTRs at certain income levels for families in Chippewa, Dane, and Milwaukee Counties. This suggests that Wisconsin families in these counties with incomes above 200 percent of the FPL face a major benefit cliff. Specifically, these families face a dramatic increase in the childcare co-pay schedule whereas every $3 increase in income over 200 percent of the FPL will result in a co-pay increase of $1 (Wisconsin Department of Children and Families, 2020b; Wisconsin Department of Children and Families, n.d.).

Another Wisconsin Shares challenge exists in that families are technically eligible for benefits until their income reaches 85 percent of the SMI, yet the effective value of their benefits starts to decline well before this point due to co-pay increases. At incomes above 200 percent of the FPL ($42,660 annually for a family of three), Wisconsin Shares co-pays dramatically increase, creating a cliff until benefits cut off altogether at earnings of around 300 percent of the FPL ($63,990 for a family of three, approximately equal to 85 percent of the SMI) (Wisconsin Department of Children and Families, n.d. and Wisconsin Department of Children and Families, 2018b). The sudden loss of effective childcare assistance at incomes above 200 percent of the FPL serves to push parents further from financial independence because wages at this income level are typically still below what is needed to achieve self-sufficiency (Wisconsin Department of Children and Families, 2020c; Wisconsin Department of Children and Families, n.d.; Pearce, 2019). Of additional note, the MTR graphs associated with Wisconsin Shares display a unique feature. Across all counties and family compositions, the MTR when moving from incomes of 0 percent of the FPL to 50 percent of the FPL is extremely negative (nearing -200 percent in some instances). While many of the public benefit programs considered offer a significant amount of support to families without any income (0 percent of the FPL), Wisconsin Shares does not. Wisconsin Shares does not provide childcare assistance to parents who are not employed (and, therefore, are less likely to require childcare). As soon as the parent or parents become employed and earn up to 50 percent of the FPL, the benefit amount available to them quickly soars to the maximum level. This rapid change from no support to maximum support causes the highly negative MTR we see in Figures 11 through 13 when moving between these lowest levels of income, incentivizing unemployed parents to seek and retain even low-paying employment.
Figure 11: Value of Benefits and MTR for Wisconsin Shares in Chippewa County
Figure 12: Value of Benefits and MTR for Wisconsin Shares in Dane County
Figure 13: Value of Benefits and MTR for Wisconsin Shares in Milwaukee County
Limitations

Our report examines the cost of enrolling children in certified group care for parents working 40 hours per week with a one-hour commute each day in Chippewa, Dane, and Milwaukee Counties. For the calculations, we used each county’s group subsidy because this has the largest stipend (compared to what is provided for certified family care) and assumed all children in the household were eligible for the program. This choice to use the group subsidy in our analysis is also based on the fact that other income analyses make this same assumption, such as the net income change calculator by the Urban Institute (Urban Institute, 2019).

An additional caveat to our findings is that we did not account for the fact that Wisconsin Shares has a “Parent Share” component. Briefly, Wisconsin Shares determines its maximum subsidy amount based on input from childcare providers in each county regarding their prices. As stated, any amount charged by providers that exceeds this maximum subsidy becomes the financial responsibility of the parents (Wisconsin Department of Children and Families, 2020b; Wisconsin Department of Children and Families, n.d.). For simplicity, we assumed that the Wisconsin Shares subsidies covered all childcare-related costs incurred by families with the exception of the monthly co-pay. Therefore, our assessments do not include a situation in which parents are sharing the costs of their childcare. This means that the true cost of childcare in Wisconsin is likely greater than what is presented in our analysis. Although these decisions limit the scope and representativeness of our findings, we felt they were necessary steps given our time restraints.

Wisconsin Works (W-2)

Program Overview

Wisconsin Works (W-2) is the name given to Wisconsin’s primary Temporary Assistance for Needy Families (TANF) program. TANF is a federally funded block grant that states can use to provide limited term financial assistance to especially low-income families with dependent children. W-2 is administered by DCF and, according to DCF’s current W-2 Manual, operates on the assumption that “work is the best way for parents to support their family” (Wisconsin Department of Children and Families, 2020d). Therefore, W-2 programs are intended to support parents with preparing for, finding, and keeping stable employment. Often referred to as simply ‘welfare,’ W-2 began in 1997 in response to the 1996 federal Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) legislation commonly known as “welfare reform” that replaced Aid to Families with Dependent Children (AFDC) funding with TANF (Corbett, 1996). W-2 encompasses multiple programs (referred to as placements), only some of which include cash benefits. This analysis focuses on two of these placements, Community Service Jobs (CSJ) and W-2 Transitions (W-2T). These two boast the most significant cliff effects for enrollees. Other W-2 programs with cash benefits (such as At-Risk Pregnancy and Custodial Parent/Caretaker of an Infant) are not included due to their short duration. Similarly, the Case Management for the Underemployed program is not included because it does not pay cash benefits (Wisconsin Department of Children and Families, 2020d).

As described in DCF’s TANF 2018-2020 State Plan, CSJ serves individuals who, for reasons including limited education or job experience, medical problems, and/or mental health issues, lack the basic skills necessary to succeed in a standard work environment. In addition to monthly cash assistance of $653, CSJ provides on-the-job employment training along with extra
supervision and support. When participants transition to paid employment, a benefit cliff occurs because they immediately lose this lump sum of monthly cash assistance. They do remain eligible for case management support (Wisconsin Department of Children and Families, 2018a). According to the TANF State Plan, W-2T serves those who are considered not currently ready for a standard work environment. It provides $608 dollars in monthly cash assistance while participants engage in education, volunteering, or other training to prepare them for the workplace or, if they have a long-term disability, while applying for federal Supplemental Security Income (SSI) or Social Security Disability Insurance (SSDI). When they begin receiving federal cash assistance, they lose W-2 benefits. W-2T may also be used to provide a temporary source of income to support individuals while they provide care to another W-2 eligible person who is unable to participate in the workforce due to disability (Wisconsin Department of Children and Families, 2018a).

It is important to note that while Wisconsin has significant flexibility in how it uses its TANF funding, W-2-related basic assistance accounted for just 14 percent of total TANF related expenditures in 2018. This compares to a national average of 21 percent. In addition, this federal funding has been fixed since 1997 with its inflation-adjusted value decreasing by 40 percent over this period (Center on Budget and Policy Priorities, 2020). Wisconsin spends much of the remaining 86 percent of its TANF resources on work-related supports (7 percent), childcare assistance (35 percent), tax credits (12 percent), and a variety of other programs (Center of Budget and Policy Priorities, 2020). As Figure 14 indicates, Wisconsin is among the states with a higher maximum TANF benefit; it nonetheless falls significantly short of the FPL for a family of three.

Figure 14: Maximum TANF Benefits Leave Families Well Below Federal Poverty Line

Source: Center on Budget and Policy Priorities, 2020

Eligibility for specific W-2 placements is determined during a screening and assessment process that includes the creation of an Employability Plan. DCF’s State Plan provides detailed
descriptions of CSJ and W-2T eligibility requirements and services (Wisconsin Department of Children and Families, 2018a). Most essential to understanding W-2’s cliff effect are the financial eligibility requirements, determined at the combined household level (referred to as a W-2 group). The group income limit, which does not include tax refunds, educational aid, federally funded benefits, or income earned by a dependent child, is 115 percent of the FPL. A second category of income limits pertain to household assets. At the time of enrollment, a W-2 group’s assets cannot exceed $2,500 in equity excluding the value of a vehicle (up to $10,000) or the value of a primary residence. If a group’s assets exceed these limits for two consecutive months, the group loses eligibility. Non-financial requirements include factors related to disability status, family structure, age, citizenship, residency status, and criminal history. Furthermore, W-2 groups are limited to 24 consecutive months of support and a lifetime total of 60 months of support (Wisconsin Department of Children and Families, 2018a).

DCF’s W-2 Take-Up Study in 2008 identified a gap between potentially eligible families and those who actually receive benefits (Wisconsin Department of Children and Families, 2008). Potential causes of this gap included administrative burden, lack of information, inaccurate information, and an unwillingness to comply with program requirements. The 1996 PRWORA reforms sought to address perceived work disincentives associated with AFDC (Corbett, 1996) by, among other changes, altering TANF eligibility requirements. These new requirements have been associated with a decreased percentage of impoverished Wisconsin families who receive government assistance, including a reported drop from 81 percent in the final year of AFDC to 23 percent after the institution of TANF (Center on Budget and Policy Priorities, 2019b). According to DCF’s 2019 W-2 Annual Report, CSJ and W-2T had a combined average monthly enrollment of 4,473 W-2 groups at an annual total cost of $23,963,200 (Wisconsin Department of Children and Families, 2019c). These enrollment and government expenditure levels are illustrative of W-2’s relatively small scope of impact as compared to larger public benefit programs such as BadgerCare or FoodShare. For example, in 2018, the annual total number of unduplicated W-2 recipients (both cash and non-cash) was only about 4 percent of the total number of people benefiting from the much more far-reaching FoodShare program (Drazen, 2020).

Why We Chose to Include this Program

W-2 is an essential part of the safety net for low-income families who rely on its temporary assistance. For example, there is evidence that it is used by many new mothers in the absence of paid family leave (Ybarra, Stanczyk, & Ha, 2019). While overall enrollment is low compared to other public benefit programs analyzed in this report, W-2’s role in providing cash assistance to families experiencing temporary hardship and the complete benefit drop-off at 115 percent FPL makes it an important component of a cross-program cliff analysis.

Known Cliffs/Challenges

For both CSJ and W-2T, a benefit cliff exists when a W-2 group’s income passes 115 percent of the FPL, leaving them ineligible for further income support. Figure 15 illustrates this graphically for representative households with a CSJ placement. It should be noted that the use of 50 percent FPL intervals obscures the intensity of the cliff which would be more accurately displayed as a vertical line at the cliff point rather than the existing downwards sloping line.
between 100 percent and 150 percent of the FPL. Even so, as shown, the MTR approaches 100 percent during this interval which indicates the possibility that an increase in earned income may push a household past the threshold and may not offset the resulting loss of W-2 income. Furthermore, it can be assumed that a more granular analysis would reveal an MTR greater than 100 percent (a prohibitive MTR) in the period at and just beyond the cliff itself.
Figure 15: Value of Benefits and MTR for W-2 in Wisconsin
Limitations

The total impact of benefit cliffs associated with W-2 is limited by the extensive eligibility requirements that keep enrollment in paid W-2 placements low and of short duration. For example, while not necessarily tied to rising income a cliff also occurs if a W-2 group’s assets surpass the $2,500 value limit. The same is true if a participant reaches the consecutive or lifetime limits in which case the W-2 group is no longer eligible regardless of income. For these reasons, it is not clear how many W-2 groups actually experience an income-related cliff and the authors were unable to access data revealing the average length of time a W-2 group receives benefits, the reason for stopping, or how termination may have interacted with other benefit programs. Inclusion of this information in future analysis would provide important insight into the more nuanced effects associated with the W-2 benefit cliffs.

Housing Assistance

Program Overview

There are a wide variety of funding sources and strategies originating from the local, state, and federal level to subsidize housing costs across all income brackets. These include mortgage deductions for homeowners, subsidized loans for developers, and rental assistance for low-income families (Schwartz, 2015). Many low-income housing programs benefit from a combination of funding sources, making it difficult to assess the total number of unduplicated households receiving some form of housing assistance. As such, this report is limited to analysis of the income effects facing households currently receiving assistance from the six major United States Department of Housing and Urban Development (HUD) programs included in the Department’s Picture of Subsidized Housing Database. Including programs such as Public Housing and Section 8, these provide income-based rental assistance such that participants contribute 30 percent of their ‘countable income’ toward rent while the housing authority covers the remainder. The complexity of determining this annual ‘countable income’ is demonstrated by the 80 pages dedicated to the topic in HUD’s Handbook on Occupancy Requirements of Subsidized Multifamily Housing Programs (United States Department of Housing and Urban Development, 2020). In general, wages and cash transfers are included while non-cash transfers and tax credits are not. Furthermore, some expenses (such as medical expenses and childcare costs) can be deducted from the net income. While federally funded, most housing assistance programs are administered by local housing authorities, of which there are 124 in Wisconsin. Housing authorities vary significantly in the size of the population they serve and the number of units they support. The City of Milwaukee’s housing authority is Wisconsin’s largest and encompasses 9,355 units. The Luck Housing Authority is the state’s smallest and encompasses only 16 units (HUD User, 2019b).

Unlike the other programs in this analysis, housing assistance is not an entitlement program, and receiving services depends on both meeting eligibility requirements and the availability of a unit. As long as they stay within HUD parameters in their administration of federal funding, housing authorities have significant flexibility in determining eligibility and specific subsidy levels within their jurisdictions. This flexibility leads to significant variation across housing authorities and even between households. Also, unlike other benefit programs included in this report, housing assistance eligibility does not rely on the FPL. Instead, it is determined geographically based on a percentage of area median income (AMI). The upper level for eligibility
is typically set at 50 percent AMI which is what HUD considers to be Very Low Income (VLI). Most often, when a household enters a subsidized unit, there is no income cap and eligibility remains regardless of how high the income ultimately climbs. In addition to financial eligibility, housing authorities can also consider numerous non-financial factors, including citizenship status, criminal history, substance abuse history, and eviction records (City of Madison, n.d.). That said, some programs have removed many of these non-financial barriers to housing in accordance with the Housing First Approach for which the United States Interagency Council on Homelessness advocated (United States Interagency Council on Homelessness, 2015).

In 2019, Wisconsin had 77,230 HUD subsidized housing units with 119,596 individual residents. Specifically, 30 percent of these residents were considered disabled, a number that includes dependent minors, and 45 percent were over the age of 62. The primary programs in Wisconsin are Public Housing (supporting 17,688 people in 2019), Section 8 Housing Choice Vouchers (HCV) (supporting 55,833 people in 2019), and Project Based Section 8 vouchers (supporting 43,513 people in 2019). Together, these account for 98 percent of those receiving support from any of the six HUD programs considered. It is estimated that 30 percent of low-income Wisconsin families are either homeless or devote over half of their income to rent, an amount that HUD classifies as ‘extremely rent burdened’ (Center on Budget and Policy Priorities, 2019a). These families are technically eligible for housing but due to a shortage of units many communities have long and/or closed waitlists. For example, the City of Madison Housing Authority’s Section 8 waitlist has been closed to new applications since 2014 (City of Madison, n.d.). In any subsidized project with a waitlist, another benefit cliff theoretically exists when a household loses their place because they no longer meet eligibility requirements. This is further exacerbated by the challenge many families experience in finding an apartment that will accept their voucher within the required timeframe (HUD User, 2019a).

Why We Chose to Include this Program

Stable housing is connected to numerous positive health and employment outcomes (Wisconsin Interagency Council on Homelessness, 2018). Additionally, as demonstrated by findings connected to the Moving to Opportunity demonstration project, housing assistance can be an important policy tool for ending intergenerational poverty (Chetty, Hendren, & Katz, 2016). For these reasons, we deemed housing assistance to be an important component of our cross-program benefit cliff analysis despite the fact that only 1 percent of Wisconsin residents who received other forms of public benefit assistance also self-reported that they received some type of housing assistance according to 2018 Multi-System Person File (MSPF) data (Drazen, 2020).

Known Cliffs/Challenges

As mentioned, households receiving housing assistance typically contribute 30 percent of their total countable income toward rent. This means that, as incomes rise, households face what is essentially a 30 percent MTR as their rent rises in tandem with their rising income. Furthermore, as Figures 16 to 18 show, the value of a household’s housing assistance decreases as income increases, with a household’s portion of the total rent gradually rising until benefits are zero. It should be noted that the use of 50 percent intervals of the FPL gives the impression of a kink in what a more granular analysis would reveal to be a linear relationship. All in all, this does not impact the general takeaway. While this phase-out design precludes a dramatic housing-specific
benefit cliff, a family’s household rent calculation is likely to be impacted by other received benefits in ways explored in later sections of this report. For example, according to the HUD Occupancy Handbook, cash benefits such as those from W-2 are considered countable income for determining rental obligations. In practice, this means that a loss of W-2 benefits would reduce a household’s rent, thereby mitigating some of the impact of their loss in W-2 benefits (United States Department of Housing and Urban Development, 2020). However, the opposite would occur if a family were to gain W-2 benefits such that 30 percent of the W-2 benefits would be diverted toward paying increased rental obligations. Because some childcare and medical expenses can be deducted from total annual income, changes to Wisconsin Shares co-pays or out-of-pocket medical costs may also impact a household’s rental obligations in similar ways. In contrast, FoodShare, EITC, and CTC benefits are not considered countable income; changes in these benefit allocations do not impact rental obligations.
Figure 16: Value of Benefits and MTR for HUD Subsidies in Chippewa County
Figure 17: Value of Benefits and MTR for HUD Subsidies in Dane County
Figure 18: Value of Benefits and MTR for HUD Subsidies in Milwaukee County
**Limitations**

The exact values of housing subsidies are difficult to calculate, and numerous simplifying assumptions were needed to arrive at our estimates. We first assumed that all units are valued at HUD’s Fair Market Rent (FMR). FMR is most closely associated with HCVs, and, although this value also varies across housing authorities (HUD User, 2020), it is the maximum rental price for which a unit can be eligible for HCV subsidies. In the HCV program, a participant locates and rents a unit on the standard market. The participant pays their 30 percent directly to the property owner, and the voucher covers the remaining 70 percent. However, FMRs are based on the local housing market, and the annual rates published by HUD vary by region and unit size. As of 2020, the two-bedroom FMR in Madison is $1,186 compared to $922 in Milwaukee (HUD User, 2020). To calculate the subsidy value at each 50 percent increment of the FPL, we determined the value for 30 percent of income at that increment of the FPL and subtracted it from the FMR. We did not account for the fact that some voucher holders may occupy a unit that rents below FMR or that some housing authorities allow vouchers in units slightly above FMR. Generally, Project Based Section 8 units are contractually required to rent at the FMR; therefore, we relied on this assumption to determine the value of these subsidies. For Public Housing (which is government-owned), there is not necessarily a total housing unit value from which to calculate the value of the subsidy. As such, we employed the same calculation process based on FMR. Finally, it also assumed that the minimum monthly rental obligation is $50 although this, again, may vary across individual housing authorities.

To continue, this report focuses exclusively on programs included in HUD’s Picture of Subsidized Housing Database. While there may be overlap in some programs, the report does not include households receiving housing assistance through the Veterans Administration or the resources available to current or formerly homeless households through McKinney-Vento block grants. While these programs are managed by or in collaboration with HUD, they are separate funding streams with distinct eligibility requirements and program characteristics catered to their target populations. That said, these programs do typically use 30 percent of monthly income as a determinant of rent and thus present similar implications for households as their income changes. This report also excludes families living in buildings whose construction and rents are subsidized through Section 42 (the Low-Income Housing Tax Credit) unless these households also participate in a program included in the Picture of Subsidized Housing Database.

As a final limitation, by looking at 50 percent FPL increments, this report potentially obscures more granular impacts that may occur across housing programs as income rises. For example, as a household passes 115 percent of the FPL and loses W-2 benefits, 30 percent of this loss is mitigated through a decrease in the rent the household would have owed on a subsidized unit had W-2 support been retained.

**Earned Income Tax Credit (EITC)**

**Program Overview**

Introduced in 1975, the Earned Income Tax Credit (EITC) was established to reduce payroll taxes for low-income earners and further assist working people with either a low or moderate income. This federal program is administered by the Internal Revenue Service (IRS),
and qualification is assessed using the same form for all tax filers in the United States (Internal Revenue Service, 2020b; Hoynes, 2019). The tax credit is directed toward all low-income earners; however, the exact amount of the payout received depends upon filing status, income, and number of children (up to three). Earners who did not have money withheld on their paychecks due to low earnings may still qualify for EITC (University of Wisconsin–Madison, 2019). Overall, the more an individual earns, the greater the EITC payout for which the individual is eligible (up to earnings of $50,162). In Wisconsin specifically, the Wisconsin Department of Revenue also provides an earned income tax credit. This credit is calculated as a percentage of the federal EITC payout and is provided in addition to the federal EITC (Wisconsin Department of Workforce Development, 2020).

With some stipulations, the federal EITC is available to all earners earning less than $50,162 annually. Earners without children in 2019 qualify only if they are between the ages of 25 and 64, and they can receive a maximum payout of $538. Earners with children have the following maximum payouts: $3,526 for one child, $5,828 for two children, and $6,557 for three or more children (Internal Revenue Service, 2020c). Applicants also need a valid Social Security number and must have maintained legal citizenship status for the previous calendar year. Also, to be eligible, individuals cannot utilize a filing status of ‘married filing separately’ and cannot qualify if they have foreign-based earned income. Lastly, income from investments must be less than $3,600 (University of Wisconsin–Madison, 2019).

If an individual receives the federal EITC, it is likely that the individual will also qualify for the Wisconsin EITC, with the caveat that they must have at least one qualifying child. Qualifying children need to meet four requirements: (1) relationship consists of biological children, grandchildren, siblings or their descendants, or an adopted or foster child, (2) they must be either under the age of 19 and younger than the filer by the end of the tax year, under 24 and younger than the filer if they are a student, or any age if they are permanently disabled, (3) the child must have lived in the United States for more than half of the tax year, and (4) the child cannot have filed a joint return with a spouse. Additionally, Wisconsin EITC recipients must be full-year Wisconsin residents and, if married, must file their tax returns jointly. Table 3 illustrates the Wisconsin EITC amounts as based on the number of qualifying children according to the Wisconsin Department of Workforce Development.

Table 4: Maximum Wisconsin State EITC Amounts Available to Families with Children

<table>
<thead>
<tr>
<th>Qualifying Children</th>
<th>Percentage of Federal EITC (%)</th>
<th>Maximum Wisconsin EITC ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1</td>
<td>4</td>
<td>110</td>
</tr>
<tr>
<td>2</td>
<td>11</td>
<td>635</td>
</tr>
<tr>
<td>3+</td>
<td>34</td>
<td>1,950</td>
</tr>
</tbody>
</table>

Source: Wisconsin Department of Revenue, 2019; Wisconsin Department of Workforce Development, 2020

According to the IRS, in 2018, there were 351,000 claims from Wisconsin residents for the federal EITC, totaling $795 million (Internal Revenue Service, 2019b). In comparison, IRP data
(Drazen, 2020) indicated the most utilized benefit program was Medicaid with 652,383 households participating. On average, families with children in the United States received a payout of $3,200 that same year from federal EITC (Hoynes, 2019). Further, families with children made up 75 percent of the federal EITC recipients in Wisconsin in 2018, receiving 97 percent of those credits (Internal Revenue Service, 2019b).

Why We Chose to Include this Program

For families barely getting by on the income they earn, withheld income taxes from each paycheck further exacerbate the family’s precarious financial situation. Programs that ultimately return some of these taxes to earners, such as the EITC, prevent market-based income poverty by encouraging workforce participation. Additionally, the EITC is the largest federal income tax expenditure benefiting families with children and accounts for at least $63 billion annually. On an individual level, EITC compensation can be significant; for instance, a single parent of two who makes between $14,040 and $18,340 will receive an EITC payout of $5,616 (The National Academy of Sciences, Engineering, and Medicine, 2019). As such, the EITC is an important income component to consider when studying the ability of households to achieve self-sufficiency as in this analysis.

Known Cliffs/Challenges

There are no benefit cliffs associated with the federal or Wisconsin EITC. Instead, beginning at an income level of $20,000 for single filers, the federal EITC program has a phase-out of 12.98 percent for families with one child and 21.06 percent for families with two, three, or more children (Hoynes, 2019). The EITC payouts end for a single parent after earnings above $40,320 for one child, $45,802 for two children, and $49,195 for three or more children. In addition, the federal EITC has a maximum payout of $3,461 for families with one child, $5,716 for families with two children, and $6,431 for families with three or more children (Internal Revenue Service, 2020c). Further, because Wisconsin’s EITC determines its payout schedule based on the federal EITC, it comprises similar phase-outs (proportionately as outlined in Table 4). Overall, the MTR appears to be generally stable across all income levels.
Figure 19: Value of Benefits and MTR for Federal EITC + State EITC in Wisconsin
Limitations

The EITC payouts used in our analysis were based on the IRS’ EITC schedule in IRS 2020 Publication 596, a form that every person – regardless of state or county – uses when filing taxes (Internal Revenue Service, 2020b). As mentioned, because this analysis focuses explicitly on households with children, we limited our assessment of the EITC to such households that met the stipulations for having qualifying children. An additional limitation of the EITC program consists of the fact that filing taxes under the ‘married filing jointly’ category typically results in a lower credit amount and is, therefore, considered a deterrent for marriage (University of Wisconsin–Madison Division of Extension, 2020). As such, our data points are calculated based on the single filing status of only one of the parents in each of our hypothetical family compositions. Lastly, as low-income individuals tend to have limited assets, we assumed that they did not qualify for additional tax credits (such as the electric vehicle credit) or have other sources of income (such as earnings on investments). We recognize that these limitations somewhat temper the representativeness of our analysis on the impact of this EITC phase-out.

Child Tax Credit (CTC)

Program Overview

The Child Tax Credit (CTC) is available to income-earning parents with dependent children (Internal Revenue Service, 2019c). The CTC was established in 1997 to redistribute money to earning parents and reduce child poverty (Hoynes, 2019). In 2018, the payout was increased from $1,000 per qualifying child to $2,000 by the Tax Cuts and Jobs Act (Tax Policy Center, 2020). Today, the maximum payout a parent can claim per child is $2,000; however, an additional component of the CTC called the Additional Child Tax Credit (ACTC) increases the potential payout by $1,400 (Hoynes, 2019). This credit and the EITC are important sources of income early in the year when taxes are typically filed. When combined, the EITC and CTC allow most low-income parents to recoup some of their earnings that were withheld through the income tax (West, 2019). As this analysis assesses the impact of benefit cliffs on families with children, the CTC becomes an important factor to consider because it serves as an additional source of monetary support and boost toward self-sufficiency.

The Child Tax Credit is determined using IRS Publication 972, the Child Tax Credit and Credit for Other Dependents Form (Internal Revenue Service, 2020a). People with incomes at or above $2,500 start to receive a payout through the CTC, and the benefit phase-out begins at incomes of $200,000 for parents filing as single (Internal Revenue Service, 2019c). To claim the CTC, the filing parent must have a child whom he or she claims as a dependent (with similar requirements as the EITC). Additionally, qualifying children cannot have covered more than half of their own expenses, must be under the age of 17 during the entire year for which the credit is claimed, must have lived with the parent making the claim for at least half the year, and must be a United States citizen. Additionally, the IRS stipulates that any claimed child must be either “your son, daughter, stepchild, eligible foster child, brother, sister, stepbrother, stepsister, half-brother, half-sister, or a descendant of any of them” (Internal Revenue Service, 2019a).

On a national level, in 2018, the number of claims and the amount of money claimed for the CTC increased due to the introduction of the Tax Cuts and Jobs Act (Kaeding & Tyger, 2019). Because the phase-out for CTC does not begin until single filers reach an income of $200,000,
more families are now eligible to receive this credit (Hoynes, 2019). At this time, we were unable to access more specific state-level participation data from the IRS.

*Why We Chose to Include this Program*

The CTC has been identified as a key component in the alleviation of child poverty (West, 2019; The National Academies of Sciences, Engineering, and Medicine, 2019). As such, benefit cliffs associated with this program undermine its directive to redistribute money to needy families with children (Hoynes, 2019). Thus, including the CTC in this analysis serves to strengthen our conclusions surrounding the systemic financial barriers faced by parents in Wisconsin and beyond.

*Known Cliffs/Challenges*

The CTC does not boast a benefit cliff for the income levels considered in this report (up to 200 percent of the FPL or, for example, $42,660 annually for two parents with one child) as the phase-out does not begin until income is above $200,000 (Internal Revenue Service, 2019c). However, many argue that the current maximum credit available ($2,000 per child with a maximum additional payout of $1,400 per child through the ACTC) falls far short of the CTC’s intended purpose of mitigating child poverty (West, 2019; The National Academies of Sciences, Engineering, and Medicine, 2019). As with the EITC, the CTC MTR appears to be generally stable across all income levels.
Figure 20: Value of Benefits and MTR for CTC in Wisconsin
Limitations

As stated, in this analysis, the CTC payouts were calculated using the child tax credit form in IRS Publication 972, the Child Tax Credit and Credit for Other Dependents Form. We determined the benefit amount earned by one parent in the family and assumed each parent filed taxes as a single individual (like the EITC). Finally, as with our EITC assumptions, we assumed that parents claiming the CTC did not qualify for additional tax credits (such as the electric vehicle credit) or have other sources of income (such as earnings on investments).

Multi-Program Data Simulations and Analysis

While there are many means-tested programs in Wisconsin in which participants can be enrolled, there are not many analyses of how these programs interact with one another to create or reduce benefit cliffs. For this analysis, we chose to emphasize simulations that include combinations of programs most common among Wisconsin residents (in other words, many people are enrolled in that combination of programs) or that specifically reflect the programs overseen by DCF. Appendix A provides graphical representations for additional program combinations (in particular, combinations that include EITC and CTC). Although not exhaustive, these graphs can give DCF and other departments inspiration for potential methods of mitigating benefit cliffs.

To continue, each combination has two types of graphs. The first offers an illustration for each family composition of the combined value of the benefits of each program on the x-axis and the corresponding percentage of the FPL on the y-axis. Corresponding phase-ins, phase-outs, or cliffs are noticeable. To further quantify these findings, the second graph illustrates how much value families are losing relative to an income gain (in other words, their MTR). We define a major benefit cliff to be present when MTR exceeds 100 percent (above the red dotted line).

BadgerCare and FoodShare

This is one of the most common combinations for families in Wisconsin with 295,857 people in 2018 participating in this exact combination of public benefit programs (Drazen, 2020). As seen, there is no cliff for Dane County or Milwaukee County, but a prohibitive MTR emerges for families in Chippewa County earning between 300 percent and 350 percent of the FPL.
Figure 21: Value of Benefits and MTR for BadgerCare and FoodShare in Chippewa County
Figure 22: Value of Benefits and MTR for BadgerCare and FoodShare in Dane County
Figure 23: Value of Benefits and MTR for BadgerCare and FoodShare in Milwaukee County
BadgerCare, FoodShare, and Wisconsin Shares

This combination is also very common in Wisconsin; approximately 21,000 unduplicated individuals participated in this combination of programs in 2018 (Drazen, 2020). This combination spans two departments, DCF and DHS. Every family composition we considered experiences a prohibitive MTR when income increases from 200 percent to 250 percent of the FPL in Dane County and Milwaukee County. This prohibitive MTR is more significant for larger families. Chippewa County families inch close to a prohibitive MTR but do not seem to be as severely impacted as families in the other two counties.
Figure 24: Value of Benefits and MTR for BadgerCare, FoodShare, and Wisconsin Shares in Chippewa County
Figure 25: Value of Benefits and MTR for BadgerCare, FoodShare, and Wisconsin Shares in Dane County
Figure 26: Value of Benefits and MTR for BadgerCare, FoodShare, and Wisconsin Shares in Milwaukee County
BadgerCare, FoodShare, and W-2

This combination of public benefit programs was utilized by just under 10,000 people in Wisconsin in 2018 and, again, spans two departments, DHS and DCF (Drazen, 2020). While there is no explicit benefit cliff, the MTR gets close to 100 percent at incomes of 100 percent to 150 percent of the FPL and 300 percent to 350 percent of the FPL, regardless of family composition or county.

Figure 27: Value of Benefits and MTR for BadgerCare, FoodShare, and W-2 in Chippewa County
Figure 28: Value of Benefits and MTR for BadgerCare, FoodShare, and W-2 in Dane County
Figure 29: Value of Benefits and MTR for BadgerCare, FoodShare, and W-2 in Milwaukee County
BadgerCare, FoodShare, W-2, and Wisconsin Shares

Although this combination boasts fewer users in Wisconsin (5,816 in 2018), it is still important for DCF to consider (Drazen, 2020). There is a substantial cliff for all counties and for all family compositions between 200 percent and 250 percent of the FPL. This cliff is dramatic for larger families but seems to be less pronounced for families in Chippewa County.

Figure 30: Value of Benefits and MTR for BadgerCare, FoodShare, W-2, and Wisconsin Shares in Chippewa County
Figure 31: Value of Benefits and MTR for BadgerCare, FoodShare, W-2, and Wisconsin Shares in Dane County
Figure 32: Value of Benefits and MTR for BadgerCare, FoodShare, W-2, and Wisconsin Shares in Milwaukee County
Regional and State Case Studies

The literature review conducted as part of this project serves as the basis for our policy recommendations. Drawing upon the idea of states being laboratories of democracy, we analyzed and assembled a list of policy options for the client (DCF) based on important work already being done across the country to understand and address benefit cliffs and phase-outs. The legislation and policy reforms being employed by the states reviewed here is by no means an exhaustive list of every type of benefit cliff reform nationwide, but we believe it to be representative of the type of work and family support such reforms can create. The order in which we offer these case studies is intentional, beginning with the most robust reforms across the country and concluding with areas in earlier and more exploratory phases in their research. Further, it is important to note that the legislative and demographic makeup of the states reviewed below does not perfectly reflect the situation in Wisconsin; however, we believe these state profiles can provide valuable insight for policymakers and legislative stakeholders interested in Wisconsin-specific reform.

New England

Overview

For Wisconsin policymakers and stakeholders interested in tackling the benefit cliff issue, they can look to New England as one region which has, as a collective of states, pursued policy options aimed at supporting working families. To begin, Governor Chris Sununu of New Hampshire recently proposed a “Whole Family Approach to Jobs,” which focuses on better supporting families through state department partnerships and removes policies that may unintentionally derail job seekers on their journey toward self-sufficiency (Sununu, 2019). This approach boasts an intergenerational focus and a comprehensive integration of family supports and work supports. Thriving families allow for the disruption of the cycle of intergenerational poverty and create an overall stronger workforce by improving family well-being through increased employment (Sununu, 2019). To promote these goals, the National Council of State Legislatures (NCSL) and the federal Department of Health and Human Services (DHHS) created a unique partnership with six states. Funded by the W.C. Kelly Foundation and other regional and community foundations, this partnership included parents, business leaders, community-based organizations, and other non-traditional members (National Conference of State Legislatures, 2019a).

As a result, a report was commissioned with a specific focus on understanding and addressing benefit cliffs across the New England region. These states convened a workgroup that employed strategies such as a two-generation approach and guiding principles such as centering policymaking around families. The group identified three short-term policy targets: benefit phase-outs, changes to eligibility standards, and incentives for continued employment. The group’s more ambitious, long-term policy targets included education and work supports (such as job training), increased education funding, employer investment in the workforce, and benefit administration reform (such as coordinated enrollment or universal intakes) (National Conference of State Legislatures, 2019b).

While each of the six states involved has pursued different avenues for reform as a result of the workgroup, the policy options laid out represent the main areas as well as evidence-based
Policy options that encompass the “Whole Family Approach to Jobs” (National Conference of State Legislatures, 2019b).

- Mapping Benefit Cliffs: For many stakeholders, the first step toward addressing benefit cliffs is to understand and fully map the problem. Some examples of mapping include creating a state-specific self-sufficiency standard and/or creating a benefits calculator. While a state-specific self-sufficiency standard is useful to policymakers, benefit calculators are targeted at recipients and caseworkers trying to understand the impact of income changes on benefits.

- Aligning Eligibility Levels: For many people impacted by cliffs, a lack of understanding regarding program eligibility is often to blame for a sudden reduction in benefits. Policies focused on aligning eligibility levels fall into three categories: asset limits, income disregards, and rule alignment. Most states exercise some asset limits for programs like TANF, SNAP, and Medicaid. These limits may, unfortunately, limit savings or discourage vehicle ownership. Increasing asset limits can allow for asset acquisition and development while avoiding loss of necessary benefits. In a similar fashion, income disregards (such as the exclusion of vehicles owned) can impact eligibility requirements by allowing certain types of incomes or assets to be excluded when determining eligibility. The final category would attempt to align eligibility requirements across public benefit programs to reduce cliffs and to reduce complexity for staff and beneficiaries.

- Making Work Pay: One of the policy problems identified by the New England partnership report was the heavy reliance on work supports for families to be successful and inch closer to self-sufficiency. These programs include tax credits and childcare. States can offset a decline in public benefits through a refundable or non-refundable tax credit. The most common refundable tax credits are the EITC and the CTC. Maine’s benefit cliff study found that increases to the state EITC (in combination with the existing federal EITC) would smooth out cliffs across programs.

- Increasing Family Economic Security Through Asset Development: States have started to explore ways in which they can help families gain financial footing despite strict asset limits. Two types of strategies are Escrow Accounts and Individual Development Accounts. Escrow accounts enable families to build assets by accumulating funds as the beneficiary’s income increases. Individual development accounts allow people to set aside money for education, small business development, etc. while enrolled in benefit programs.

- Fostering Culture and Systemic Changes in the Public and Private Sectors: Some employers across New England have started to recognize that employees may be avoiding career advancement due to a benefit cliff. Engaging employees in these policy discussions is an important part of the overall policy change and could help employers better calibrate wages. Another approach would be to have case managers focus on goal setting, career planning, and coaching when working with beneficiaries. All in all, creating lasting policy change that achieves its intended outcomes requires engagement and conversation across many often-overlooked levels of stakeholders.

To continue, how the benefit cliffs problem is framed can have major impacts on the successful implementation of its solutions. Throughout the New England report and in individual initiatives by states like New Hampshire, benefit cliffs are framed not only as economic impediments but as barriers to personal success and full-time employment. In a New Hampshire
report titled *Helping Businesses Thrive and Families Prosper*, the cliff effect is framed in a family-supportive way. It says, “Families fear falling hard, as if off a cliff, while on the path to a job/career and upward mobility” (New Hampshire Department of Health and Human Services, 2019). By positioning family well-being as vital to economic success and by focusing on employer and workforce development, the benefit cliff problem can be framed in such a way that accurately conveys its broad impacts on workers, families, and the state as a whole.

In conclusion, while Wisconsin may not be able to as easily adopt a regional approach and may not have as robust external funding sources, the work done by individual states like New Hampshire and Maine can lay out a menu of benefit cliff policy options for Wisconsin to consider.

*Lessons for Wisconsin*

- **Issue Framing:** How the issue is framed represents a key component behind successful benefit cliff reforms. In recognizing that public benefits are family supports (not just work supports) and in framing reforms in this family-centered way, Wisconsin can engage otherwise uninvested stakeholders. Similarly, employers can become engaged by emphasizing the ways in which benefits programs impact the workforce and long-term business success.

- **Diverse and Non-Traditional Stakeholders:** It is clear when looking at New England’s regional approach that its work went far beyond other efforts. By bringing together a broader coalition of stakeholders (including beneficiaries, employers, and case managers, for example), the New England group was able to better identify policy proposals and goals for reform that would be both successful and beneficial to families.

- **Menu of Policy Options:** Overall, the extensive work done by this New England coalition has delineated a variety of relevant policy options for Wisconsin to consider, some of which are relatively narrow (such as mapping benefit cliffs) and some of which would require more broad, system-level reform (such as the policy options mentioned in the fostering culture change section above).

*Minnesota*

*Overview*

The benefit cliff issue is also top of mind for many in Minnesota. Non-profit organizations have led the effort to educate policymakers on how to mitigate the benefit cliffs that are adversely affecting Minnesota families (Callaghan, 2018). For example, Citizen’s League of Minnesota created a report on benefit cliffs for the St. Paul City Council amid proposals for an increased minimum wage. For many, such an increase in wages brings income above existing thresholds for public benefit programs, pushing constituents over the benefit cliff.

To continue, some Minnesota programs (such as the childcare assistance program) have implemented phase-outs that eliminate cliff-like effects. These programs emphasize lowered family contribution expectations (for example, co-pays) which are based on how much of an income increase the family experiences. Specifically, parents in Minnesota contribute only 1.1 percent to 1.5 percent of their income increase to childcare (Callaghan, 2018). Another cliff-mitigating aspect to Minnesota’s childcare assistance program (managed by the Minnesota Department of Human Services) is the transition year extension. This allows parents to maintain
the childcare benefits for up to one year after their case is closed (Minnesota Department of Human Services, 2018) and means that a family’s co-payment will not increase, regardless of income increases during that 12-month period of extended eligibility (Minnesota Department of Human Services, 2019). In contrast, other programs like Minnesota’s Housing Assistance and TANF programs have steep cliffs, with 30 percent and 50 percent of individual income increases being directed toward these resources for housing assistance and for TANF, respectively (Callaghan, 2018).

To further analyze benefit cliff issues in Minnesota, the Children’s Defense Fund of Minnesota created the Economic Stability Indicator, a tool which simulates how various wage increases would impact benefit eligibility (Children’s Defense Fund Minnesota, 2020). This comprehensive tool informs policymakers and advocates on the cliffs families face and the resulting difficult decisions surrounding employment advancement. Additionally, this tool provides valuable information to families and the agencies working with them regarding their eligibility status and the amount of income increase that may put them over the edge for specific benefit programs.

**Lessons for Wisconsin**

- **Minimum Wage Increases:** Wisconsin policymakers should be cognizant of how increases in minimum wages will affect families using state public benefit programs. Such increases can push those near the benefit cliff over the threshold and into further financial trouble.
- **Phase-Outs:** Compared to state programs with definitive cliffs (whereas 30 percent to 50 percent of income increases are surrendered, reducing overall benefits), childcare assistance in Minnesota has a phase-out through which the co-pay increases only in proportion with an income increase (the co-pay increases by 1.1 percent to 1.5 percent of any additional income earned). Wisconsin should consider implementing similar benefit phase-outs for all programs rather than maintaining the existing benefit cliff structure.
- **Transition Year Childcare Assistance:** The Minnesota Department of Human Services upholds a program that ensures childcare assistance and no co-pay increases for the entire 12-month eligibility period, regardless of income increases during that time. To further mitigate the existing cliff at 200 percent of the FPL, Wisconsin should consider adding a transition year to Wisconsin Shares.
- **Self-Sufficiency Calculators:** Wisconsin should invest into research and development of a state-specific self-sufficiency calculator like Minnesota’s Economic Stability Calculator. This tool will help caseworkers better advise families and help policymakers better identify programs needing improvement in how they assist vulnerable constituents.

**Colorado**

**Overview**

Colorado’s Cliff Effect Pilot Program (CEPP) represents another noteworthy effort to mitigate some of the potential negative consequences and disincentives associated with benefit cliffs. CEPP targets a cliff in the Colorado Child Care Assistance Program (CCCAP) by extending eligibility farther up the earning ladder and phasing out assistance. CCCAP is a state-funded program that is administered on the county level. While there is no official upper eligibility limit
for CCCAP, state statutes mandating income limits of 165 percent of the FPL and limited funding had historically prevented most counties from offering benefits to applicants who earned much beyond that. Following initial authorization in 2012, counties choosing to participate in CEPP could apply for additional funding to “experiment with different approaches to gradually withdraw childcare benefits as incomes increase” (Wood, Prendergast, Vigoda, & Jones, 2018). Since then, 15 of 64 Colorado counties have participated, and the extra funding has typically been used to extend upper income limits (some to as high as 225 percent of the FPL) and adjust the way childcare co-pays increase. For example, some counties now gradually increase co-pays over a two-year period. The 2018 Bell Policy Institute evaluation of CEPP, A Look Past the Cliff, found that some CEPP benefit recipients reported being more likely to accept raises and promotions than if they had participated in the traditional CCCAP. This evaluation also found that CCCAP participants were concerned that childcare co-pays would gradually increase over the two-year period regardless of whether their household income increased. This design leaves some households without additional resources to meet increasing childcare costs. As such, the evaluators recommend that the co-pay increases be tied to household income changes rather than simply participant duration in the program. A final recommendation surrounded concerns around potential benefit cliffs, though the evaluation was unclear regarding the specifics of how CEPP could make relevant alterations. Importantly, the authors acknowledged that their findings were limited by a small, non-random sample.

Lessons for Wisconsin

- County/Regional Variation: The Colorado approach offers an example of how to successfully allow for county- and regional-level flexibility in experimenting with novel approaches to addressing benefit cliffs. In Wisconsin, this is particularly relevant for FoodShare and Wisconsin Shares, both administered at the county-level, and would present an opportunity for regions to adapt to local conditions and learn from the successes and challenges experienced by neighbors who adopted a different approach.
- Specific Tools: CEPP highlights specific approaches that aim to reduce cliff effects such as the gradual phase-in of increased co-pays and income limit increases. Wisconsin may benefit from adopting similar tools within some or all public programs in this analysis.
- Implementation Challenges: Colorado’s CEPP experience identifies some predictable challenges for which Wisconsin should prepare. This includes developing an effective informational campaign and incorporating robust evaluation processes to assess impacts and inform future reforms.

Oregon

Overview

The benefit cliff discussion in Oregon has largely revolved around TANF and housing assistance. These programs were selected because of the considerably larger benefit cliffs which they boast as compared to other benefit programs within the state. Regarding TANF, Oregon initially hoped to replace benefit cliffs with phase-outs. The state achieved this with the TANF Reinvestment Project which included three provisions. First, the state increased the income limit for a TANF exit. This allowed people with slightly higher incomes to stay in the program, thus
decreasing the impact of its benefit cliff. Second, the state implemented phased-out monthly cash assistance for families exiting TANF. This monthly cash assistance significantly reduced the cliff associated with leaving TANF. Finally, for a family leaving TANF due to employment changes, the TANF Reinvestment Project ensured that the family could continue to pay the minimum co-payment over the course of a three-month transition (Hopkins, n.d.). The intention behind this transition model was to provide families with more time to adjust to their impending changes in benefits. Each provision intended to lessen the impact of Oregon’s TANF-associated benefit cliff. Because TANF is a federal program, a similar approach could also be employed within Wisconsin.

Oregon also worked to address its existing housing assistance benefit cliff through HB 3082 which passed into law in 2015. This law increased the state’s eviction income threshold—the highest income a family or individual can earn to remain eligible for government-subsidized housing within Oregon—from 60 percent to 80 percent to protect families from eviction while they sought market-rate housing and higher-paying employment (Theriault, 2015). In essence, this law made it easier for Oregon residents to find and remain in affordable housing, an increasingly important task as housing prices in Oregon have continued to rise (Cohn, 2019). The bill also lessened the benefit cliff related to housing. In all, both actions taken by Oregon to address the benefit cliffs associated with TANF and housing assistance could be attempted within Wisconsin.

**Lessons for Wisconsin**

- **Incremental Change:** In Oregon, drastic changes to the TANF program were not preferred. The state instituted three relatively small changes aimed at lessening the program’s benefit cliff. A similar, more gradual change approach could be used in Wisconsin. The issues identified in this report could be improved through incremental changes that diminish cliffs without major shifts in program administration or structure. Such an approach is likely to benefit from greater political feasibility as well.

- **Responsiveness:** Arguably the most notable aspect of Oregon’s HB 3082 (the housing assistance benefit cliff bill) was that it was designed and implemented in response to another statewide problem, rising rent costs. Because of rising rent costs in Oregon, state policymakers became more acutely aware of the housing benefit cliff. A similar strategy could be utilized in Wisconsin to bring attention to existing benefit cliffs. As rent prices in Wisconsin continue to rise, policymakers and state government leaders could posit efforts to reduce benefit cliffs as a targeted response to other state needs. Such an approach would likely engage and bring additional stakeholders into the fold.
General/Overarching Limitations

It is important to acknowledge that this analysis is intended to serve as an initial investigation into the issues related to benefit cliffs in Wisconsin, and its ultimate scope and recommendations are limited by numerous constraints. One significant limitation is the reliance on 50 percent FPL intervals. While this was a necessary simplifying strategy to facilitate analysis across seven programs, we are aware that it obscures changes happening between these intervals (for example, at the 115 percent FPL income limit for W-2) and may give the impression that some benefits have phase-outs when, in fact, they pose a cliff.

A second limitation is the focus on only three counties: Chippewa, Dane, and Milwaukee. The Methodology section of this report explains the rationale for selecting these three counties, but we acknowledge the potential for important regional variation that may be missed with this approach. No rural counties that are less than 25 percent urban are included in this analysis. Both Milwaukee and Dane Counties are categorized as 75 percent to 100 percent urban. Chippewa County is smaller and categorized as 25 percent to 49 percent urban (Wisconsin Department of Children and Families, 2020).

A third necessary simplification strategy was the limitation of household size and structure to the five included; further explanation is offered in the Methodology section. While we expect that these five examples will provide meaningful insights into cross-program benefit cliffs, we acknowledge that the exact placement of cliffs will vary by household structure and program participation. Specific impacts on omitted household structures may differ in important ways.

It also is important to note that multiple relevant public benefit programs were not included in this analysis. For example, SSI and SSDI were not included, meaning that neither the stand-alone impacts of these programs nor the impacts of their interaction with other included programs are addressed in this analysis. Further, income and payroll taxes were not included in the analysis due to scope of the project and the number of programs included. Because taxes also play a role in many of these programs and in net income levels, they should be included in future analyses.

Similarly, none of the counties is home to Indigenous tribes. This choice was made, in part, because Indian Health Services coordinates healthcare rather than DHS (Indian Health Service, 2020). We recognize the importance and value of including benefit information for Indigenous populations and discuss the need to include this data in future analyses in our Recommendations section.

Time, bandwidth, and data availability constraints also impeded our ability to provide more comprehensive background research and analysis. Specifically, some desired data was either not available or, due to our partners’ capacity constraints, not possible to obtain within the timeframe.
Recommendations

This section follows a three-tiered structure whereas recommendations are categorized based on the capability and feasibility with which DCF can bring about the change. In the first tier are our Low-Level Recommendations. These recommendations consist of changes that we believe are within DCF’s purview to enact, independent of oversight or approval from other government departments. In the second tier are our Mid-Level Recommendations. These recommendations can be brought about through the sharing of expertise and resources between DCF and other government departments. Without such collaboration, we believe it is unlikely that DCF could implement these Mid-Level recommendations. In the third tier are our High-Level Recommendations. These recommendations are beyond the scope of DCF when working independently and often extend beyond the state of Wisconsin. As such, DCF may consider progressing toward these larger-scale changes through issue advocacy and legislative lobbying. This section includes broad, non-program-specific recommendations as well as those that pertain to the two public benefit programs overseen by DCF: Wisconsin Shares and W-2. Supplemental recommendations for the other programs included in this analysis are in Appendix B. In sum, these recommendations offer DCF a host of viable policy and programmatic strategies to better understand and address benefit cliffs for Wisconsin residents.

Low-Level Recommendations

- Improve Cliff Identification
  - In our analysis, we examined the implications of benefit cliffs on families who earn income at exactly 50 percent increments both above and below the federal poverty line. While this provides useful insight into the general location of these cliffs, performing a similar analysis using smaller income increments (such as 10 percent or 5 percent) would provide much more precise information about where benefit cliffs fall. We would also suggest incorporating taxes into the model, which was out of the scope of this project and would likely increase MTR outcomes.

- Improve Clustering Identification Using MSPF
  - The Multi-System Person File (MSPF) dataset could be further examined to understand whether benefit recipients in Wisconsin are evenly/randomly distributed across income levels or whether they seem to cluster on the precipice of identified cliffs. If such clustering is occurring, this would indicate to DCF that benefit recipients (1) are aware of the implications of income increases (pushing them over the cliff) and (2) are acting in such a way that they maintain eligibility for the same level of benefits. This knowledge could be used to inform DCF’s policy choices.

- Analyze Benefit Cliffs Affecting Indigenous Populations
  - Members of Indigenous tribes receive fewer benefits than those in the ethnic majority (United Nations, 2018). In the spirit of equity, it follows that these groups and the benefit cliffs they may face are analyzed. Some data is currently available to complete this analysis. Wisconsin Shares serves nine Indigenous tribes (Wisconsin Department of Children and Families, 2019b) while Indian Health Service, an agency within DHHS, supports the health of Indigenous people across
the country. However, due to the predatory nature of research performed on Indigenous tribes in the past (Kelley, Belcourt-Dittloff, Belcourt, & Belcourt, 2013), care must be taken to ensure fair and inclusive representation in such an undertaking.

- **Focus on Issue Framing and Corresponding Awareness Campaigns**
  - As one of the first entities in Wisconsin to deeply examine this issue, DCF can steer the narrative surrounding benefit cliffs. Framing public benefit programs as family supports (rather than merely work or economic supports) and framing the benefit cliff issue as impacting family well-being can go a long way toward broadening the list of invested stakeholders and gaining public support. This type of issue framing was an intentional technique that enabled the success of the New England coalition case study. Further, DCF can employ this new issue frame within awareness campaigns across the state. As was lacking within the CEPP initiative in Colorado, educating low-income families about public benefit eligibility and the implications of existing cliffs is a vital step in moving the needle on this issue.

- **Strengthen Partnerships with Diverse Stakeholders**
  - As seen in the New England case study, building ties with diverse stakeholders can bring new and critical perspectives to the table. These perspectives can enlighten and inform policy decisions to better meet the needs of low-income individuals as well as better account for on-the-ground implementation challenges. As such, DCF could consider strengthening partnerships with community leaders, local non-profit or philanthropic organizations, and employers across the state. Engaging such stakeholders in policy conversations allows for the voices (including the questions and concerns) of low-income families to be represented.

**Mid-Level Recommendations**

- **Strengthen Partnerships with Other State Government Departments**
  - As is the case with our Low-Level Recommendation, we believe DCF can improve its ability to tackle the benefit cliff issue through intentional collaboration with other state government departments. Building bridges between departments that oversee the implementation of public benefit programs allows for more open communication, information/data sharing, and problem-solving. It may serve DCF to suggest and/or initiate a taskforce (as was done in New England) to bring together public benefit program experts from various state departments. This taskforce would create a less siloed atmosphere within which benefit cliffs can be better understood and addressed.

- **Expand Data Collection and Analysis with UW-Madison’s Institute for Research on Poverty**
  - We recommend that DCF advocate for a state government expansion of the data collected from applicants and recipients of public benefits. If a taskforce is initiated as proposed, this would represent a viable forum within which DCF and other departments could come together to identify areas where data collection practices could be standardized or bolstered.
  - In tandem with the above recommendation, DCF can tap IRP to examine and incorporate this newly collected program data into their datasets. For the purposes of our analysis, for example, IRP was unable to provide relevant participation and
cross-participation data for housing assistance, EITC, CTC, SSI, or SSDI. Having such data collected and made accessible by other government departments (such as EITC and CTC data from the Wisconsin Department of Revenue) for future analyses will allow for a more comprehensive look at where benefit cliffs lie for individuals and families who concurrently receive benefits from multiple programs.

- **Create a Wisconsin-Specific Benefit Calculator**
  - If more comprehensive data can be collected through state government departments and compiled/synthesized by IRP, it can be utilized to create a Wisconsin-specific benefit calculator for individuals, service providers, and caseworkers. Such a benefit calculator has been designed for 25 states and the District of Columbia with the help of the National Center for Children in Poverty (National Center for Children in Poverty, 2019). This proposal is categorized as a Mid-Level Recommendation because the usefulness of such a calculator is negated without the incorporation of benefit information for families participating concurrently in multiple programs (as is the reality for hundreds of thousands of Wisconsin families each year).

- **Reduce Administrative Burden**
  - To the extent possible through taskforce collaboration, we recommend that DCF investigate ways to streamline eligibility determination and application processes for various public benefit programs. For any state-managed public benefit program, it seems reasonable that Wisconsin residents should be able to apply using a single application. This is already the case with BadgerCare and FoodShare, which likely explains why this was the most common combination in 2018 for Wisconsin families receiving benefits from more than one program (Drazen, 2020). Conversely, the current lack of shared application processes for other public benefit programs in the state (and resulting high administrative burden placed on low-income applicants) may be contributing to lower enrollment levels for programs like W-2.

**High-Level Recommendations**

- **Advocacy Stances Related to Changes to the Wisconsin Minimum Wage**
  - We recommend that DCF adopt a two-phased strategy for future changes to the statewide minimum wage. Until there appears a policy window through which an increase to the minimum wage becomes feasible, DCF can continue to direct its advocacy efforts toward other program-specific changes. (These changes are proposed in the following recommendations for W-2 and Wisconsin Shares – both overseen by DCF. Recommendations specific to the other public benefit programs are in Appendix B). If/when the statewide minimum wage is set to increase, DCF must be cognizant of any unintended impacts of this change on people receiving benefits. As acknowledged in the Minnesota case study, many benefit recipients would inherently be pushed over the cliff by a minimum wage increase, likely leaving them further from self-sufficiency than before the wage increase. As a result, we would recommend that DCF writes letters to state legislators advocating for income and asset limit adjustments to all public benefit programs, adjustments that would allow low-income earners to retain support. In essence, if the minimum
wage increases, we recommend that DCF be prepared to promote further legislative changes aimed at moving the existing cliffs.

- Advocacy Stance Related to the Alignment of Programs to Self-Sufficiency Standards
  - As analysis of the OPM versus Self-Sufficiency makes clear, the standards for determining benefit eligibility are not currently in line with what working families require to satisfy their basic needs. Advocating for program eligibility determinations to become aligned with state-level or county-level self-sufficiency standards would mean that people would become ineligible for benefits only when they earn income sufficient to meet their basic needs (as opposed to the OPM and FPL standards that leave gaps between poverty and true self sufficiency).

- Advocacy Stances Related to W-2 Changes
  - As a tool for ensuring that Wisconsin families with children have sufficient resources to meet their basic needs, W-2 faces three major challenges: its cliff, its low benefit amount, and its low enrollment. First and most important to reducing cliff effects, we recommend advocating for implementation of a more gradual phase-out of W-2 benefits rather than the current, abrupt loss in benefits that occurs at 115 percent of the FPL. This phase-out could apply to all W-2 recipients except for recipients whose increased income is due to receipt of SSI or SSDI payments. Secondly, we recommend that DCF advocate for increasing the W-2 benefit rate to bring it in line with the self-sufficiency standard required to ensure children and families can meet their basic needs. One strategy for accomplishing this is to advocate that federal TANF grants be restored to their initial, inflation-adjusted amount and that they are indexed to inflation moving forward. A second approach would be to devote a larger percentage of the existing TANF grant toward providing basic assistance. A final recommendation is for DCF to embrace efforts aimed at ensuring that a greater proportion of low-income Wisconsin families can access W-2 support. One option would be to extend the period of eligibility from two months to one year for single mothers in a W-2 Custodial Parent of an Infant placement. A second option would be to increase asset limits to levels that better support households through temporary losses of income. A third option would be to simplify the overall W-2 eligibility requirements.

- Advocacy Stances Related to Wisconsin Shares Changes
  - We recommend that DCF push for the reconsideration of the phase-out of benefits that begins at 200 percent of the FPL because this mark is below the self-sufficiency standard for Wisconsin. In Minnesota, for example, the childcare program phase-out requires families to pay 1.1 percent to 1.5 percent of additional income beyond a certain earnings level (Callaghan, 2018) as opposed to the Wisconsin Shares phase-out model requiring an additional $1 of co-pay per every $3 in additional income for families earning more than 200 percent of the FPL. By making the phase-out of benefits more gradual as in Minnesota, DCF can help Wisconsin families with income near 200 percent of the FPL avoid experiencing a prohibitive MTR. We also recommend that DCF advocate for implementation of a transition year childcare subsidy program as was done successfully in Minnesota. This program helped parents in Minnesota cover the cost of childcare for the entirety of a family’s 12-month eligibility period. In Wisconsin, this extended grace period would ease the financial burden felt by parents who experience an income increase,
become ineligible for Wisconsin Shares benefits, yet still face considerable, ongoing childcare expenses.

**Conclusion**

In analyzing the implications of benefit cliffs, we found that cliffs are not only difficult to identify within public programs but they appear to be negatively correlated with a household’s ability to achieve self-sufficiency. Through this examination of seven public benefit programs available to Wisconsin households, we specifically found that concurrent participation in multiple programs can lead to compounded cliff effects, exacerbated financial struggles, and disincentives to increase incomes. These findings illustrated the necessity of sharing and jointly analyzing enrollment and eligibility data across multiple programs to develop a more holistic and accurate picture of each family’s financial trajectory. In response to these findings, we provided recommendations aimed at softening or eliminating identified benefit cliffs within Wisconsin programs. We also offered recommendations regarding how the Wisconsin Department of Children and Families can better collaborate with various key stakeholders to gain a more precise picture of how public benefit programs interact to help or (more likely) hinder the financial status of Wisconsin families. Finally, our research shined a light on the problematic ways in which Wisconsin and, more broadly, the United States define poverty. Because program eligibility and benefit calculations are based on these often outdated and unrepresentative metrics, it stands to reason that there are families in Wisconsin who have not been able to achieve self-sufficiency yet are deemed ineligible for any support or for sufficient support from these programs. This inconsistency allows families to fall through the cracks and creates an impetus for future, system-level policy changes.
Appendix A: Supplemental Multi-Program Data Simulations

CTC, Federal EITC, Wisconsin EITC, and W-2

Figure 33: Value of Benefits and MTR for CTC, Federal EITC, Wisconsin EITC, and W-2 in Wisconsin
Federal EITC, Wisconsin EITC, and Wisconsin Shares

Figure 34: Value of Benefits and MTR for Federal EITC, Wisconsin EITC, and Wisconsin Shares in Chippewa County
Figure 35: Value of Benefits and MTR for Federal EITC, Wisconsin EITC, and Wisconsin Shares in Dane County
Figure 36: Value of Benefits and MTR for Federal EITC, Wisconsin EITC, and Wisconsin Shares in Milwaukee County
BadgerCare, CTC, HUD Subsidies, and W-2

Figure 37: Value of Benefits and MTR for BadgerCare, CTC, HUD Subsidies, and W-2 in Chippewa County
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Appendix B: Supplemental Program Recommendations

- Advocacy Stances Related to BadgerCare Changes
  - We recommend employing this and future demonstrations of benefit cliffs to promote the need for expanded healthcare coverage in Wisconsin. While the Affordable Care Act offered states the option to adopt Medicaid expansion through the award of additional federal funding, Wisconsin rejected the opportunity under former Governor Scott Walker, opting instead for state-led expansion solutions that required less federal funding. Despite opposition, Governor Tony Evers is now pushing to secure this expansion. We believe that healthcare stakeholders and policymakers in Wisconsin can utilize our findings as direct evidence to support this proposed expansion of BadgerCare Plus coverage in Wisconsin.

- Advocacy Stances Related to Foodshare Changes
  - DCF could propose and advocate for simplifications to the FoodShare benefit calculation process. As it stands, FoodShare bases its benefit calculations on external, non-food-related inputs such as housing obligations, medical expenses, and childcare costs. This multitude of inputs means that there is no way for an interested or needy person to find an estimated benefit value given their circumstances. Being able to easily find an estimate would allow low-income individuals and families to better anticipate the level of support available to them as well as potential cliffs when combined with other benefit programs.
  - DCF could also expand upon our preliminary research and create a FoodShare-specific, user-friendly guide that offers representative examples of how much a family with a given household size, income within a certain range, and standard expenses (housing/utility, childcare, medical) can expect. This guide could go one step further and offer calculation estimates based on families in different regions of the state. This guide could inform Wisconsin families about the amount of benefits they can expect as well as expected changes in benefits if their family size, income level, or location were to change.

- Advocacy Stances Related to Housing Assistance Changes
  - While the general structure of housing assistance focuses more on phase-outs than benefit cliffs, an existing cliff results from the scarcity of subsidized housing and the potential to be removed from a waitlist due to passing the income limit. Of pressing concern, therefore, are the many eligible households who remain chronically rent-burdened due to the affordable housing shortage. One way that DCF can help address this is by advocating for the adoption of the proposals put forth in the Wisconsin Interagency Council on Homelessness’ 2019 report titled *A Hand and a Home* (Wisconsin Interagency Council on Homelessness, 2018). Among other important policy initiatives, these proposals include expanding the number of HCVs and encouraging all landlords to accept the vouchers.

- Advocacy Stances Related to EITC and CTC Changes
  - We recommend that DCF advocate for alterations to the EITC and CTC, tax credits on which working families heavily rely to move closer to achieving self-sufficiency. Specifically, a Maine-based study on benefit cliffs found that cliff effects can be reduced with improvements to federal and state EITC programs. Such
refinements for the EITC included increasing the total credit amount per child, expanding the phase-out period, and increasing the EITC amount available for single adults. To continue, the refundable portion of the CTC, the Additional Child Tax Credit (ACTC), and the EITC have been shown to be effective at reducing child poverty (The National Academies of Sciences, Engineering, and Medicine, 2019). Currently, the ACTC is capped at $1,400 of the $2,000 CTC available (Hoynes, 2019). Advocating for the ACTC to be universally refundable is one way to improve the CTC, thereby alleviating some of the cliff effects felt by families. Additionally, DCF and partners can advocate for a Wisconsin state-level child tax credit. As of 2019, California, Colorado, Idaho, New York, North Carolina, and Oklahoma offer state-level child tax credits at varying percentages of the federal CTC. Only New York and Colorado have designed their state-level CTC to be refundable (Tax Credits for Workers and Their Families, 2019). In advocating for these types of changes to the EITC and CTC at the federal and state level, DCF can help Wisconsin families to be better positioned to avoid cliff effects as well as achieve and maintain self-sufficiency.
References


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