Benefits Cliffs and Career Choice:
Understanding the Financial Incentives for Career Advancement

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The views expressed are those of the presenter(s) and do not necessarily reflect the views of the Federal Reserve Bank of Atlanta or the Federal Reserve System.
The Healthcare Services Career Pathway

Benefits Cliffs: A Basic Introduction

Net Financial Resources = (Income + Benefits) – (Taxes + Expenses)
Benefits Cliffs: A Basic Introduction

Net Financial Resources = \((\text{Income} + \text{Benefits}) - (\text{Taxes} + \text{Expenses})\)

ANNUAL NET RESOURCES

\(\frac{-25,000}{20,000}\)

\(\frac{15,000}{10,000}\)

\(\frac{5,000}{0}\)

ANNUAL EMPLOYMENT INCOME

Source: The Fiscal Analyzer: see kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf
Leia is a 25 year old single mother of two children, ages 4 and 6, living in Meridian, MS

She works full-time earning about $8 an hour

As a low-income working mother, Leia receives public benefits and tax credits that are necessary to support herself and her family: **food stamps, Medicaid for her children, Affordable Care Act subsidies, housing vouchers, childcare subsidies, the Child Tax Credit, and the Earned Income Tax Credit.**
Leia has decided to become a Certified Nursing Assistant (CNA).

Her question: should she continue up the pathway to the Licensed Practical Nurse (LPN) or the Registered Nurse (RN)?
A typical career guide shows a clear financial benefit to career advancement:

Example Career Pathway for Certified Nursing Assistant

<table>
<thead>
<tr>
<th>Role</th>
<th>Median Hourly Wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>CNA</td>
<td>$11</td>
</tr>
<tr>
<td>LPN</td>
<td>$18</td>
</tr>
<tr>
<td>RN</td>
<td>$28</td>
</tr>
</tbody>
</table>

Income from Employment

Income After Taxes, Age 25-50
Dollars, Annual

- **RN** - $23/hr-$32/hr
- **LPN** - $16/hr-$21/hr
- **CNA** - $9/hr-$12/hr

Source: The Fiscal Analyzer: see kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf
Net Financial Resources

Net Financial Resources, Age 25-50
Dollars, Annual

$40,000
$35,000
$30,000
$25,000
$20,000
$15,000
$10,000
$5,000
$0

25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50
Age

In school
Low financial incentive to advance

RN- $23/hr-$32/hr
LPN- $16/hr-$21/hr
CNA- $10/hr-$12/hr

Note: Net financial resources = (Income + Benefits) – (Taxes + Expenses)

Source: The Fiscal Analyzer: see kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf
Applications of Research

1. Help policymakers and caseworkers align programs to support career advancement
2. Simulate different policy responses to “benefits cliffs”
   - Example: different uses of TANF supports and SNAP E&T funds
3. Calculate quantities of interest:
   - Financial incentives for career advancement
   - Net public savings to government for career advancement
Gains to the Taxpayer from Career Advancement

Net Public Savings from Skill Acquisition
Net present value

Concessions to CNA: $180,000
CNA to LPN: $140,000
LPN to RN: $120,000

Note: Net public savings is the difference in net taxes (lifetime taxes received minus lifetime benefits paid) with each career.

Source: The Fiscal Analyzer: see kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf
Supplemental Slides
1. How can alignment of TANF, SNAP E&T, and WIOA increase career advancement incentives and mitigate benefit cliffs?

2. “Asset Mapping” of Programs:
   - Transitional TANF supports (childcare and transportation)
   - SNAP E&T (transportation)
   - WIOA supports while in training
Applying the Continuum of Services Model

After Tax Income + Benefits, without Transitional TANF Supports
Dollars, Annual

- LPN, no transitional TANF

Source: The Fiscal Analyzer: see kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf
Applying the Continuum of Services Model
The impact of transitional TANF supports

After Tax Income + Benefits, with and without Transitional TANF Supports
Dollars, Annual

- LPN, no transitional TANF
- LPN, with transitional TANF

Transitional TANF period

25,000
26,000
27,000
28,000
29,000
30,000
31,000
32,000
33,000
34,000
35,000

Source: The Fiscal Analyzer: see kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf
Applying the Continuum of Services Model
Asset mapping with transitional TANF supports, SNAP E&T, CCDF, and WIOA supportive services

After Tax Income + Benefits, with and without Transitional TANF Supports
Dollars, Annual

Transitional TANF period

$50,000
$45,000
$40,000
$35,000
$30,000
$25,000

25 26 27 28 29 30 31 32 33 34 35

- LPN, no transitional TANF
- LPN, with transitional TANF

 SNAP E&T Eligibility
 CCDF Subsidy Eligibility
 WIOA Supportive Services Eligibility

Note: arrows indicate points at which additional funding from SNAP E&T, CCDF childcare subsidies, and WIOA supportive services could provide additional financial support.

Source: The Fiscal Analyzer: see kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf
Summarizing the Incentives for Career Advancement

Net Benefit of Skill Acquisition to Leia: Short-Term Versus Long-Term
Net present value

<table>
<thead>
<tr>
<th></th>
<th>ST</th>
<th>LT</th>
<th>ST</th>
<th>LT</th>
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<th>LT</th>
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<tr>
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</table>

Note: “Net benefit to skill acquisition” is difference in net with each career transition. ST= ages 25-33 and LT= lifetime.

Source: The Fiscal Analyzer: see kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf
Net Financial Resources, If not Receiving Childcare or Housing Supports

Income After Taxes and Expenses, without Housing or Childcare Support, Dollars, Annual

Note: Net financial resources = (Income + Benefits) – (Taxes + Expenses)

Source: The Fiscal Analyzer: see kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf
Unemployed To CNA, With and Without Childcare Support Under Transitional TANF

After Tax Income+Benefits, with and without Transitional TANF Supports
Dollars, Annual

Source: The Fiscal Analyzer: see kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf