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**Benefits Cliffs and Career
Choice:
Informing Low-Income Families &
Policymakers about Impediments to
Career Advancement**

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MAX Leadership Network

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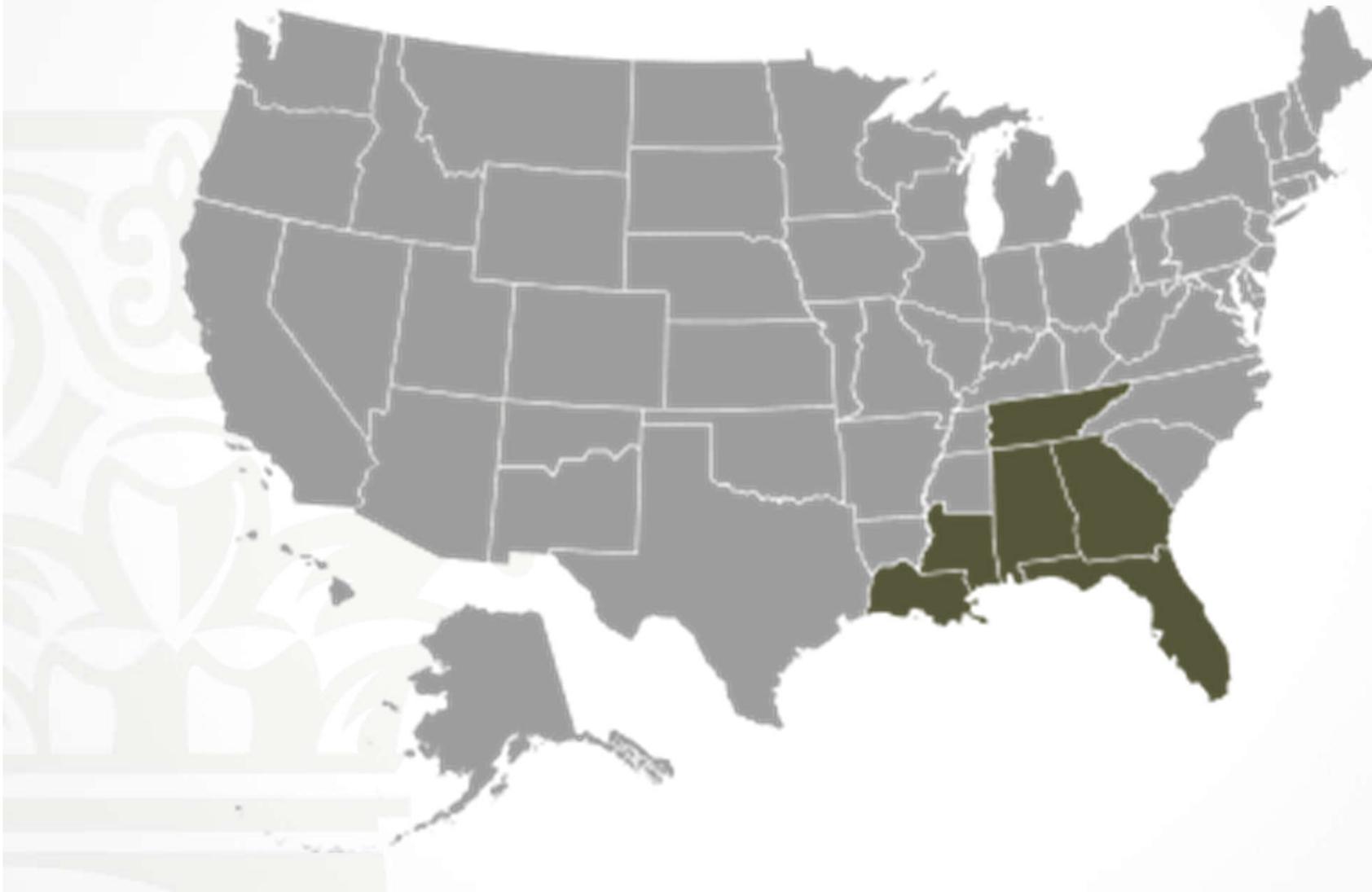
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The Federal Reserve Bank of Atlanta

Strategic Priorities

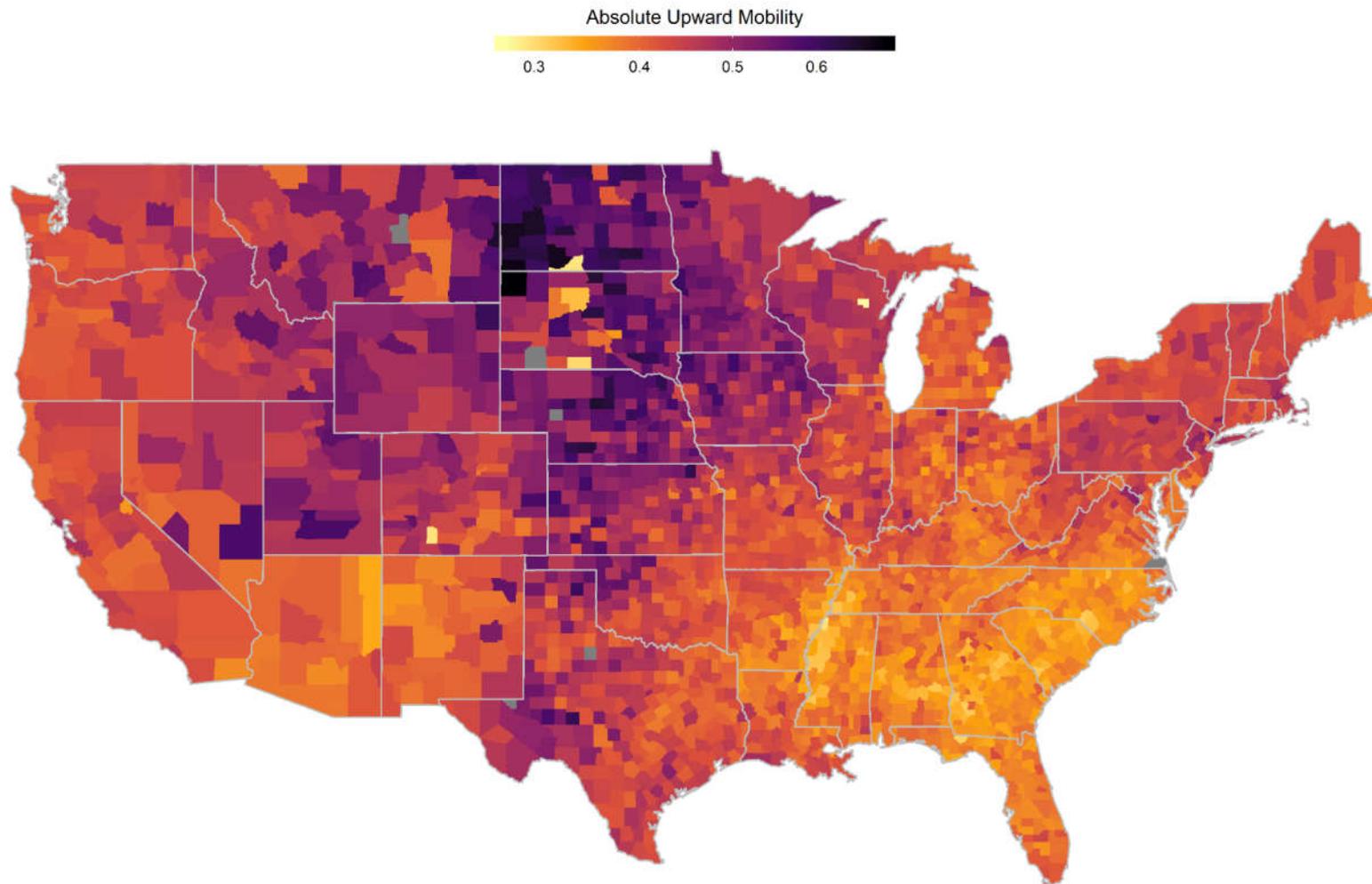
1. Foster payments innovation
2. Drive organizational agility
3. Advance economic mobility and resilience by cultivating an environment with fewer barriers and more opportunities for all

The Federal Reserve Bank of Atlanta Sixth District



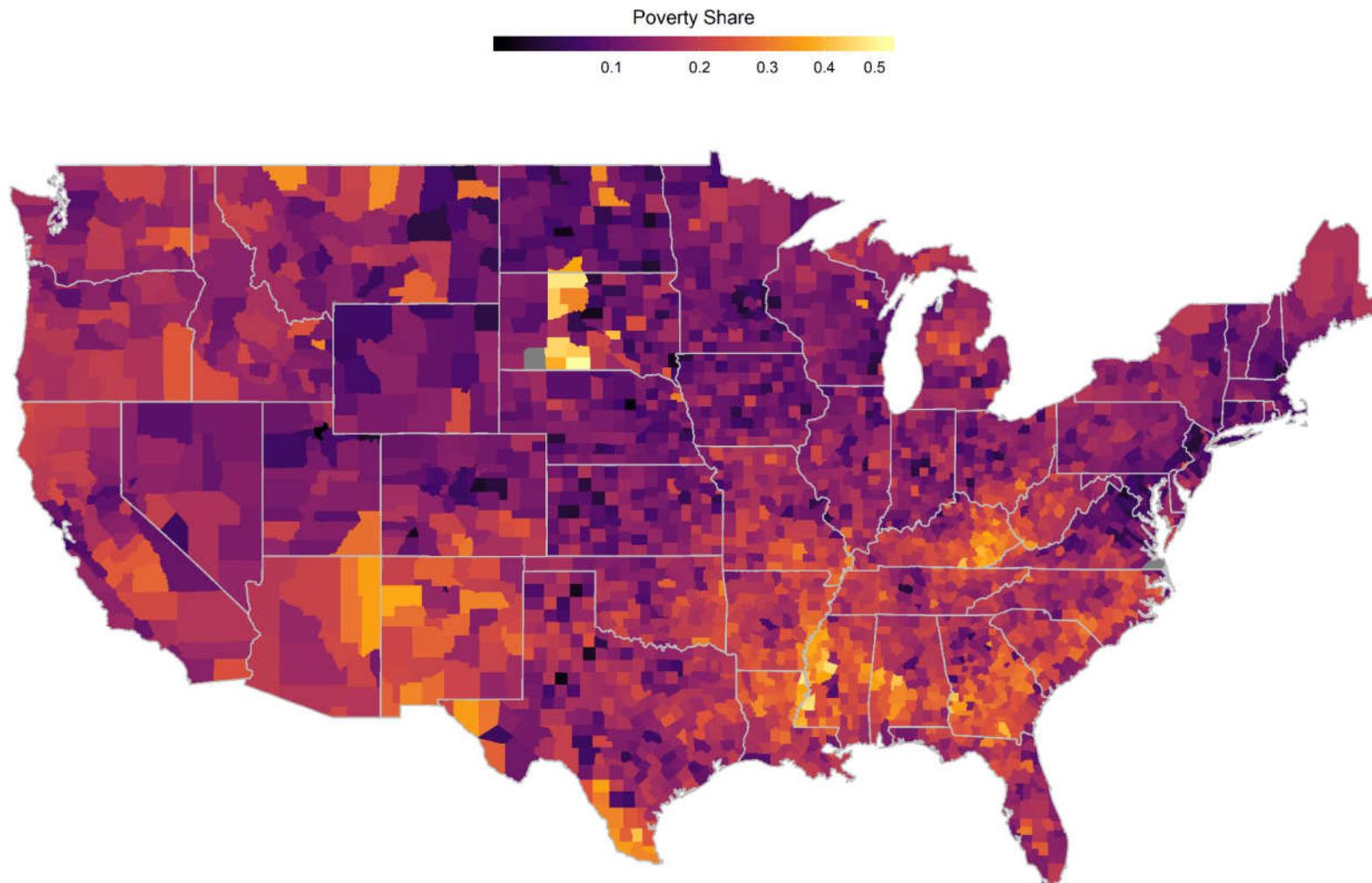
Economic Mobility by U.S. County

Adult outcomes for children of low-income parents



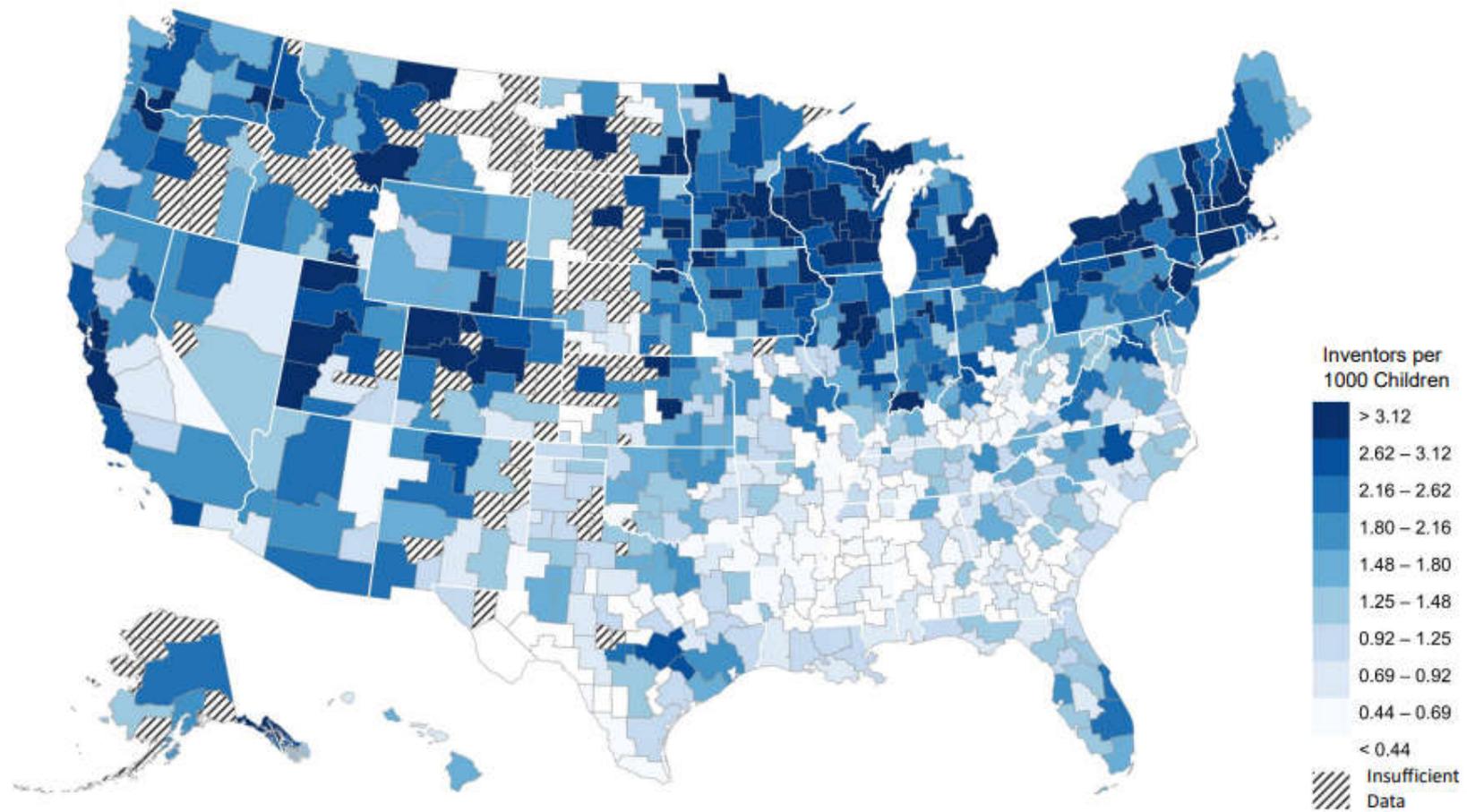
Source: Opportunity Atlas, www.opportunityatlas.org

Poverty Share by U.S. County



Source: ACS 5-Year Estimates (2013-2017)

Innovation Rates by Childhood Residence



Source: Bell et al. (2017)

Workforce Development and Economic Mobility

Workforce development programs are specifically designed to

- enhance the job skills of individuals in order to increase their employability
- identify job opportunities
- help job seekers obtain employment (GAO 2011)

By increasing earnings and employment opportunity, **workforce development programs promote economic mobility.**

Workforce Development: Strategies to Help Businesses and Workers

Two broad goals of workforce development:

1. Meet business demand for a skilled workforce
2. Help low-income individuals obtain in-demand occupations and advance to higher-paying occupations over time

The Career Pathways Framework

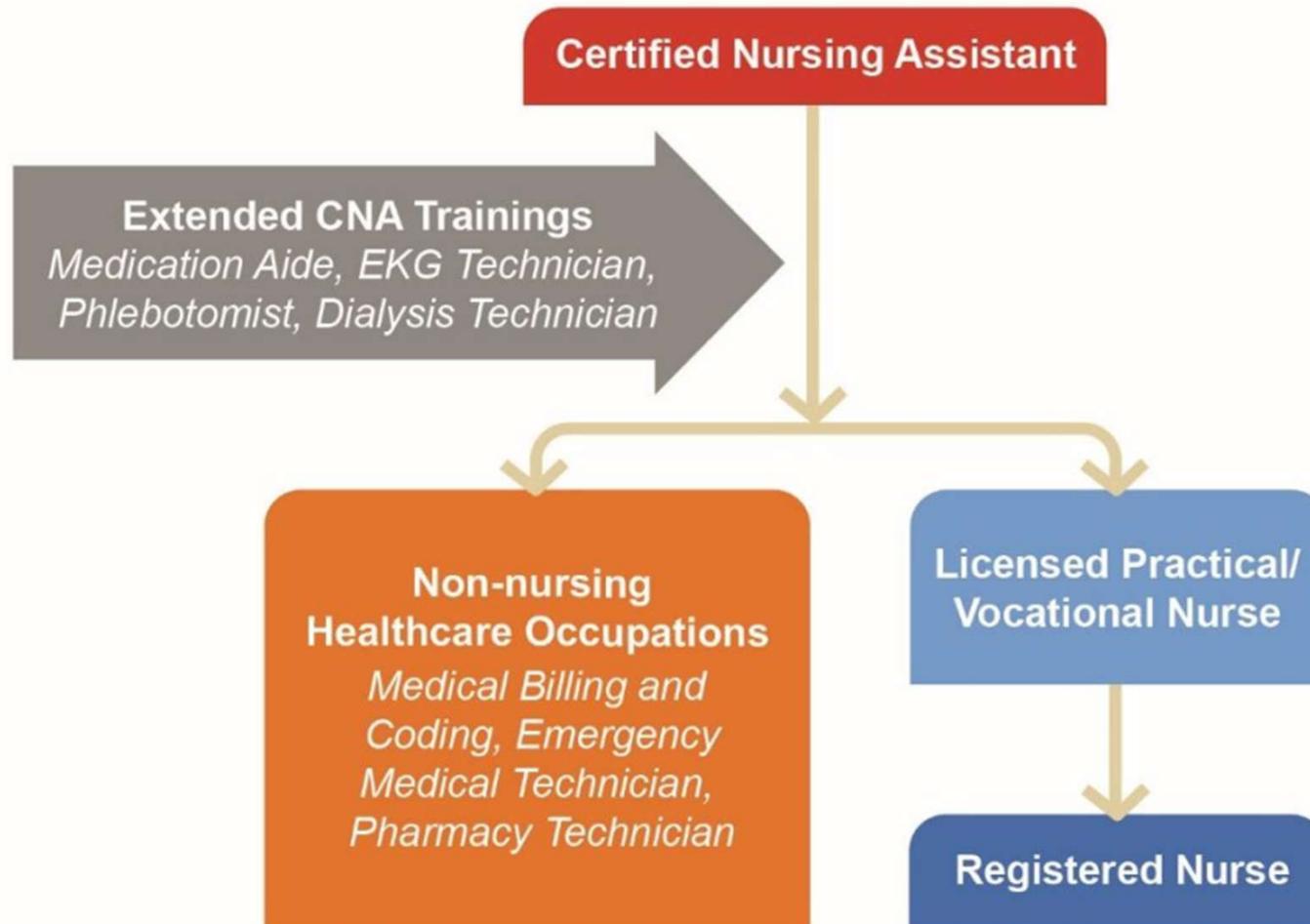
Training activities that follow the career pathways framework:

- Offer clearly defined and industry recognized credentials that are “stackable” – additional training builds on credentials to add higher competencies on a defined career pathway
- Accompanied by strong supports and connections to employment
- Combined with work-based learning opportunities, such as internships

Adapted from Loprest and Sick (2019)

The Healthcare Services Career Pathway

Example career pathways



Source: Loprest and Sick (2018), "Career Prospects for Certified Nursing Assistants: Insights for Training Programs and Policymakers from the Health Profession Opportunity Grants (HPOG) Program", report to Office of Planning, Research, and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services.

Career Pathways in Workforce Development

Is it working?

- Concerns about career advancement
 - Career pathways are succeeding at the “first step” of employment
 - Individuals remain stuck in entry-level low-wage jobs with few benefits
- Do Certified Nursing Assistants (CNAs) advance to Licensed Practical Nurse (LPN) or Registered Nurse (RN) credentials?
- In a recent evaluation, **only 3% of new CNAs advanced to LPN or RN training** (Loprest and Sick 2018)
 - Barriers to progress include “additional time and financial investments, needing to combine work and school, and potential child care needs.”

Career Pathways in Workforce Development

New results released for redesigned program model:

- 14,293 low-income adults enrolled in healthcare training
- About 3% completed training at a higher career pathway level
- About 7% completed multiple trainings at the same career pathways level

Source: Loprest and Sick (2019)

Barriers to Advancement

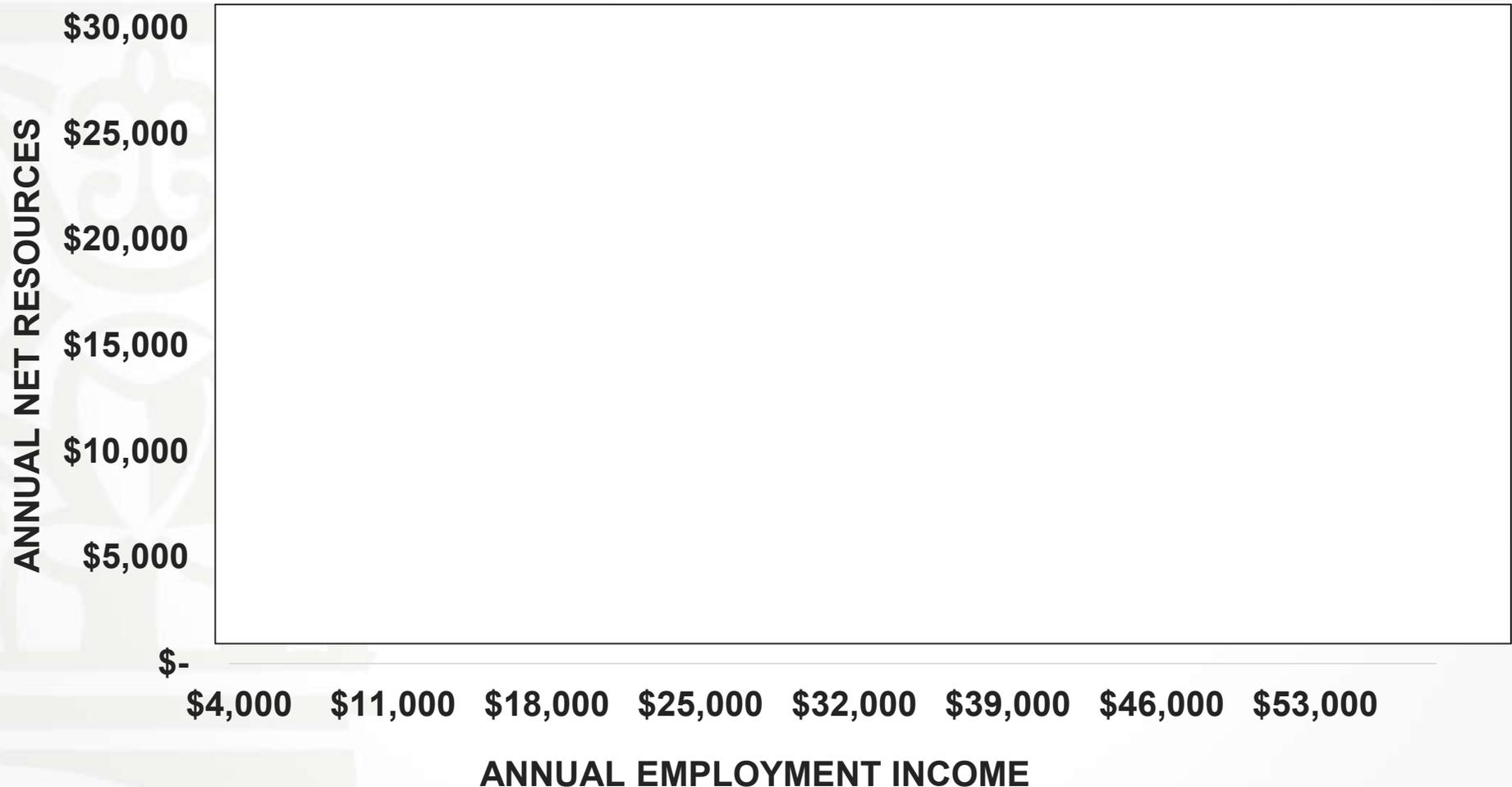
How do we help low-income individuals advance along career pathways to higher-paying jobs?

We consider two barriers:

1. Individuals lack information about the financial gains of different career choices
2. Individuals may lose public benefits when their income increases above an eligibility threshold (benefits cliffs)

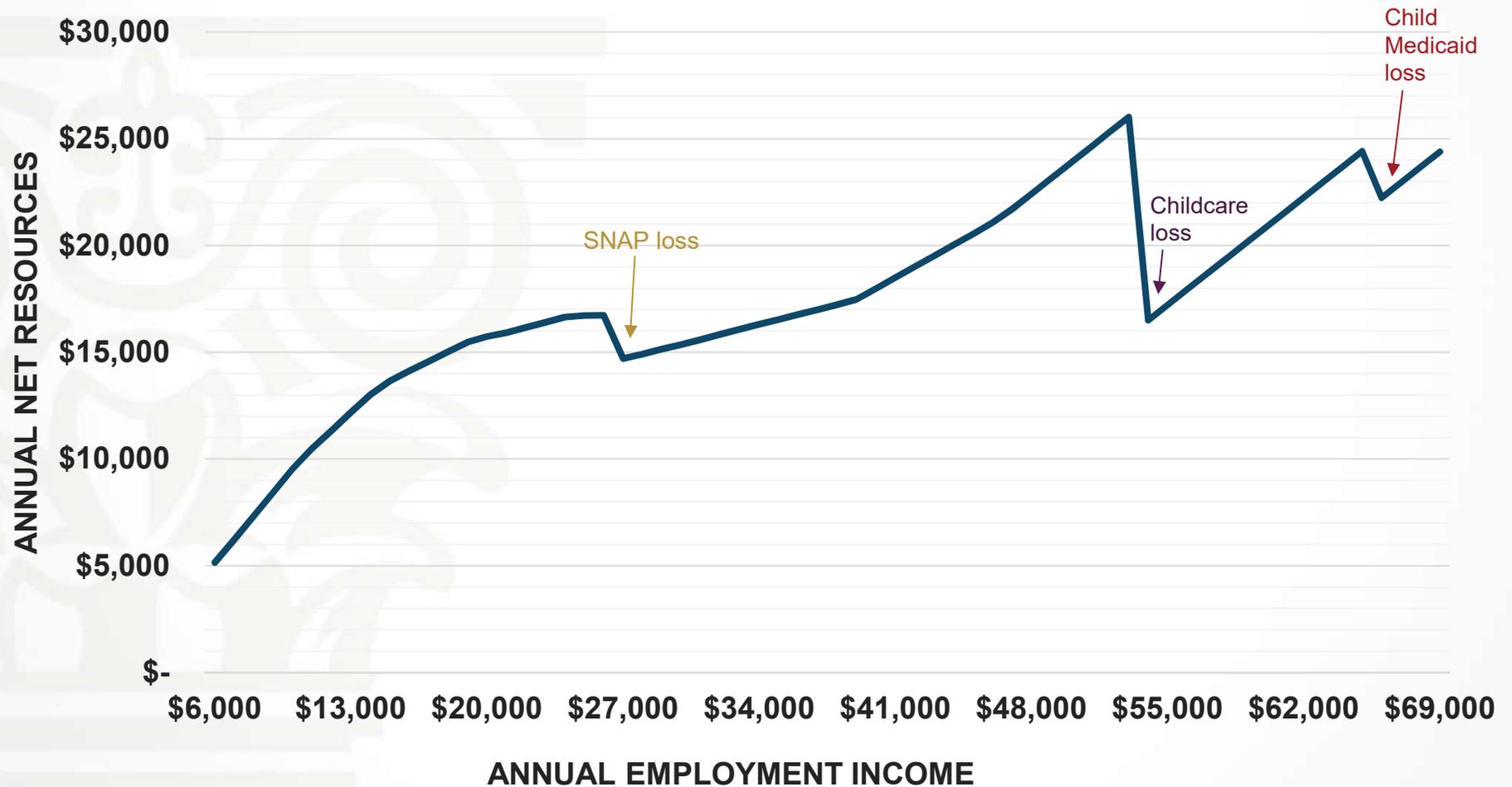
Benefits Cliffs: A Basic Introduction

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



Benefits Cliffs: A Basic Introduction

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A Specific Case: Meet Leia

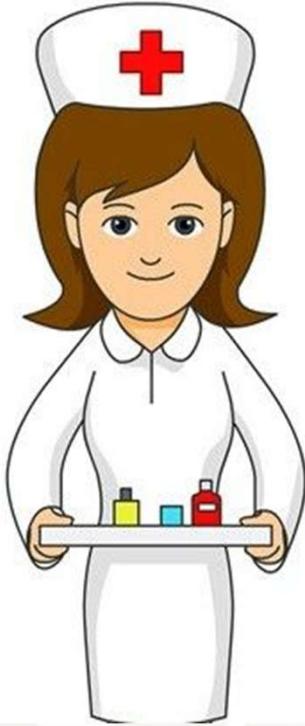


Leia is a 25 year old single mother of two children, ages 4 and 6, living in Birmingham, AL

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.**

A Specific Case: Meet Leia



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)?

The Healthcare Services Career Pathway

A typical career guide shows a clear financial benefit to career advancement:

Example Career Pathway for Certified Nursing Assistant



The Healthcare Services Career Pathway

A typical career guide shows a clear financial benefit to career advancement:

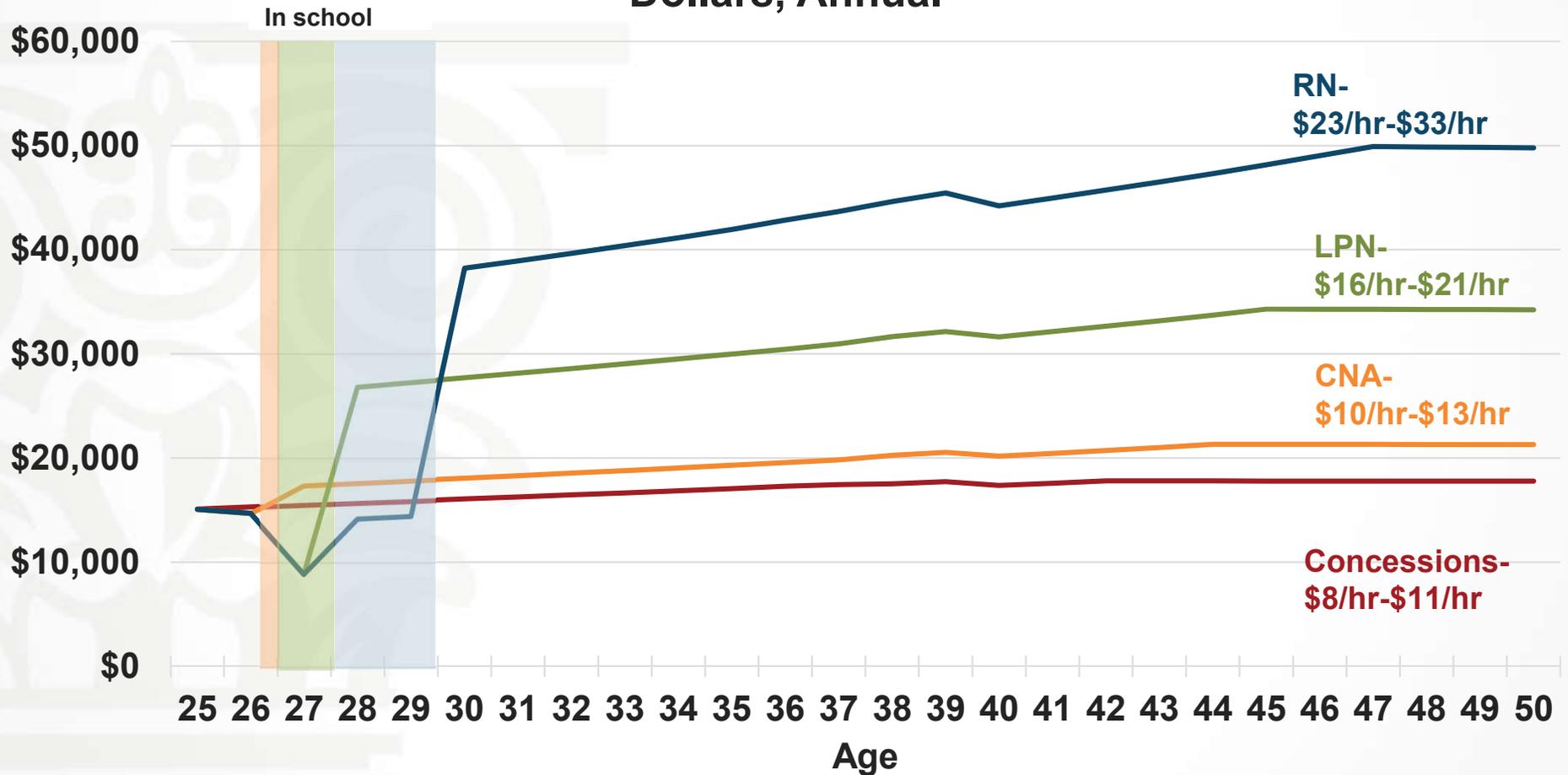
Example Career Pathway for Certified Nursing Assistant



But what information is missing?

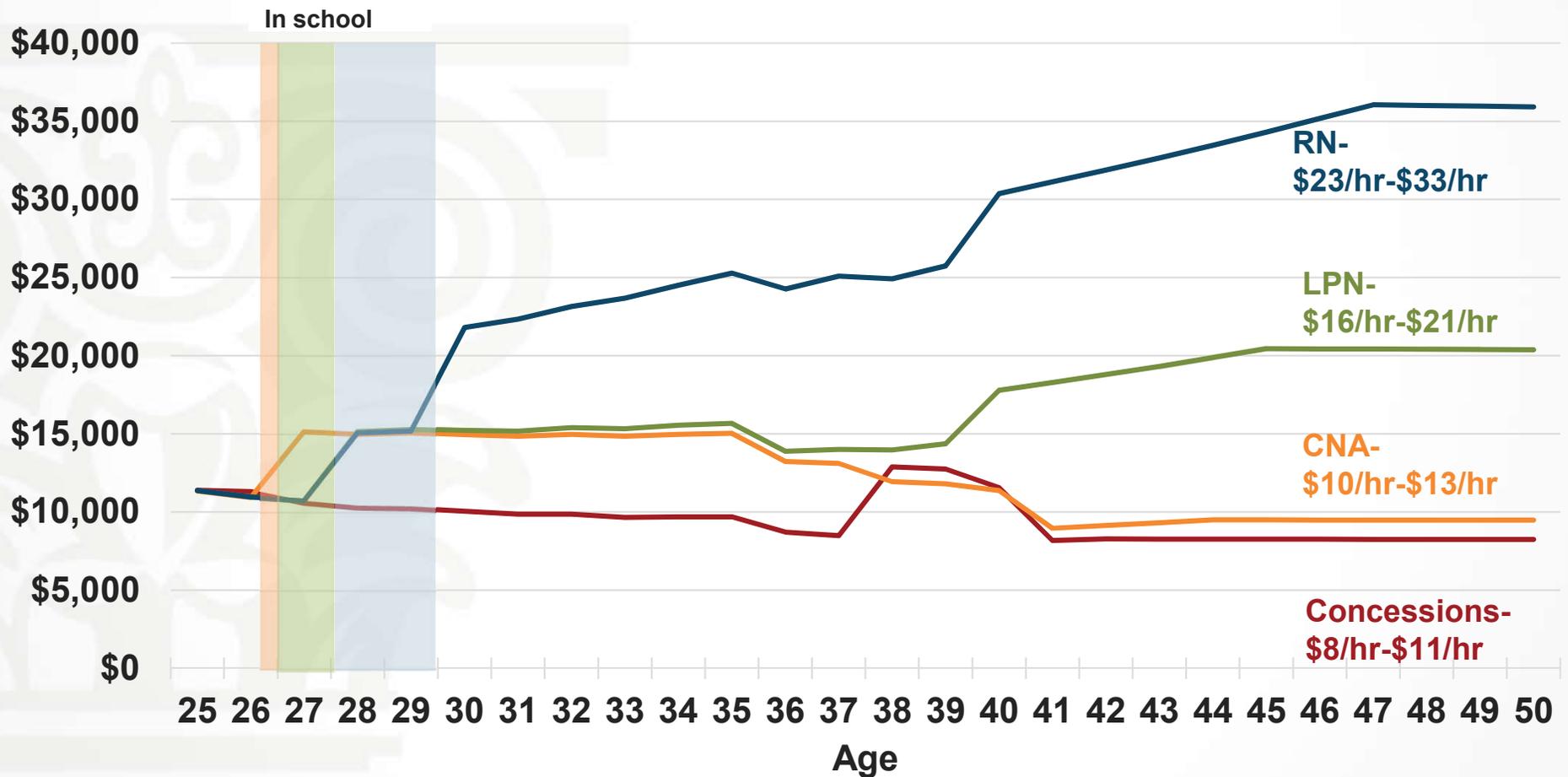
Income from Employment

Income After Taxes, Age 25-50 Dollars, Annual



Net Financial Resources

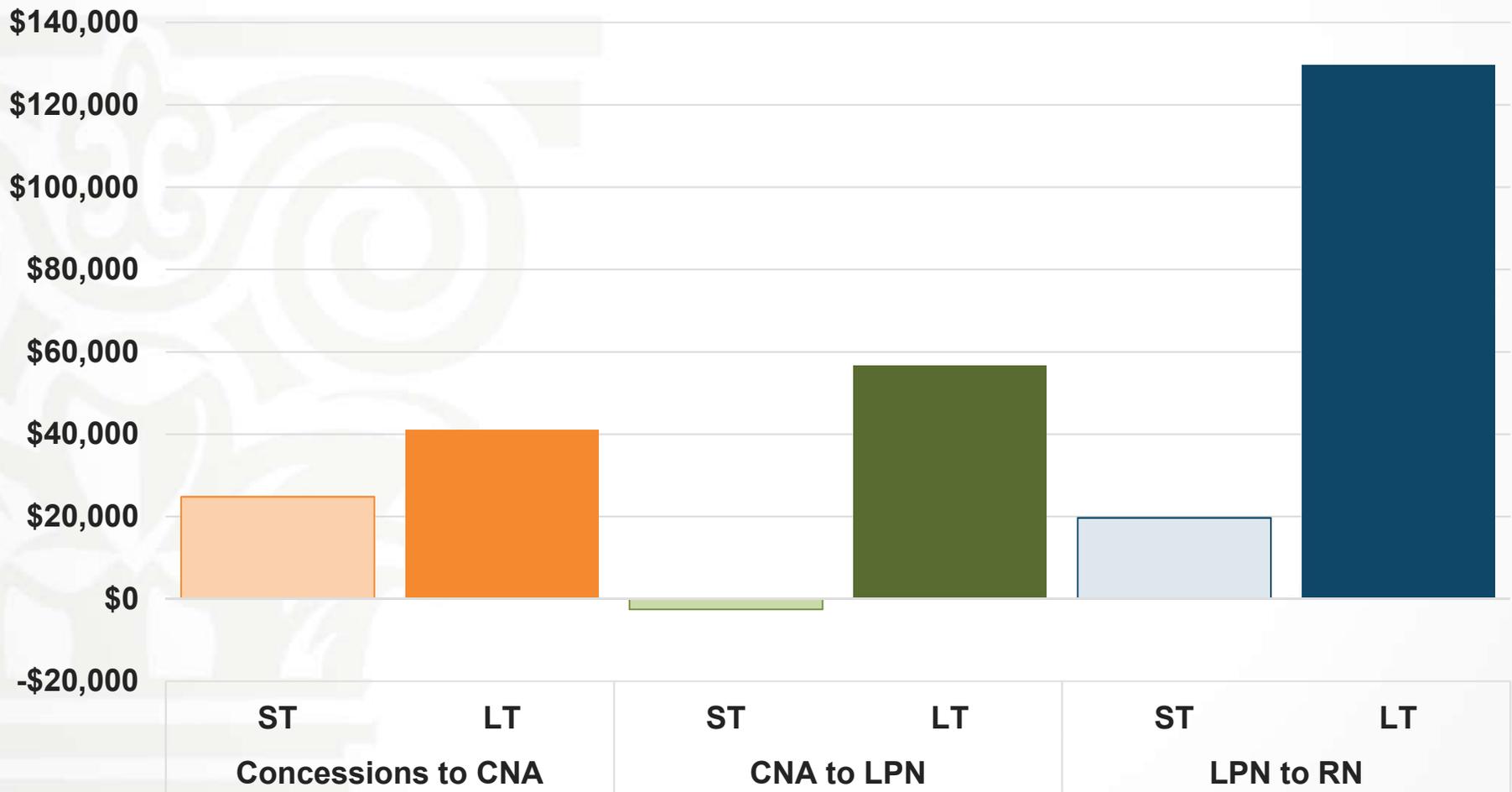
Net Financial Resources, Age 25-50
Dollars, Annual



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

Summarizing the Incentives for Career Advancement

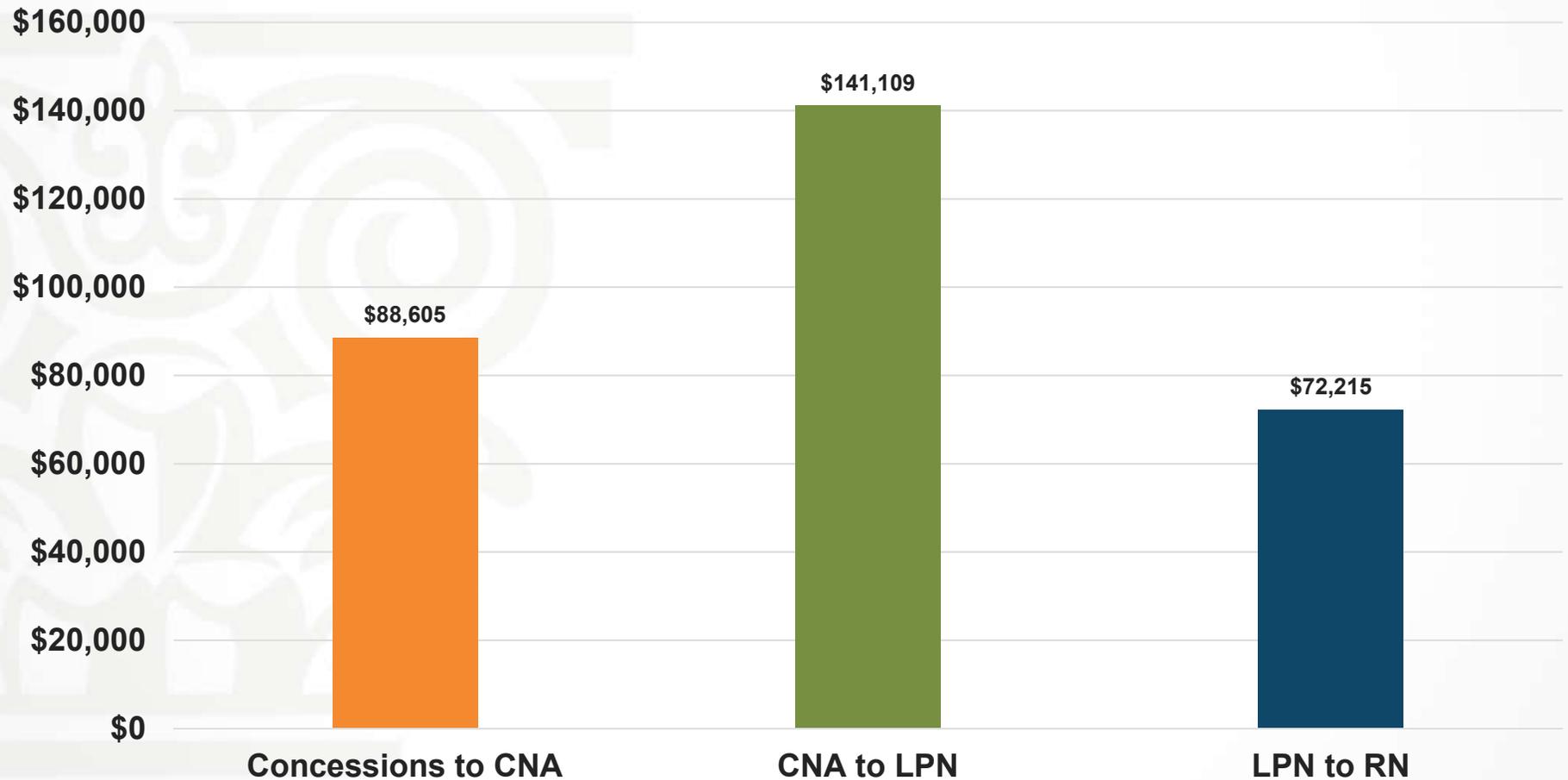
Net Benefit of Skill Acquisition to Leia: Short-Term Versus Long-Term
Net present value



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

Gains to the Taxpayer from Career Advancement

Net Public Savings from Skill Acquisition
Net present value



Note: Net public savings = Difference in Net taxes (lifetime taxes received minus lifetime benefits paid) with each career transition

Discussion Questions

How do we support transitions into entry-level employment and beyond?

- Document clear career pathways to support decision-making
- Replicate programs with demonstrated success moving students quickly up a career pathway
- Make supportive services available to increase short-term incentives
- Reinforce the importance of business leadership

How do we incorporate more complex financial information into an already complex career counseling process?

- Financial incentives for career advancement can vary by individual
- Lowest wealth quintile faces higher marginal tax rates (44%) than highest wealth quintile (35%) (Altig and Kotlikoff 2019)
- Students need to consider both short- and long-term employment outcomes

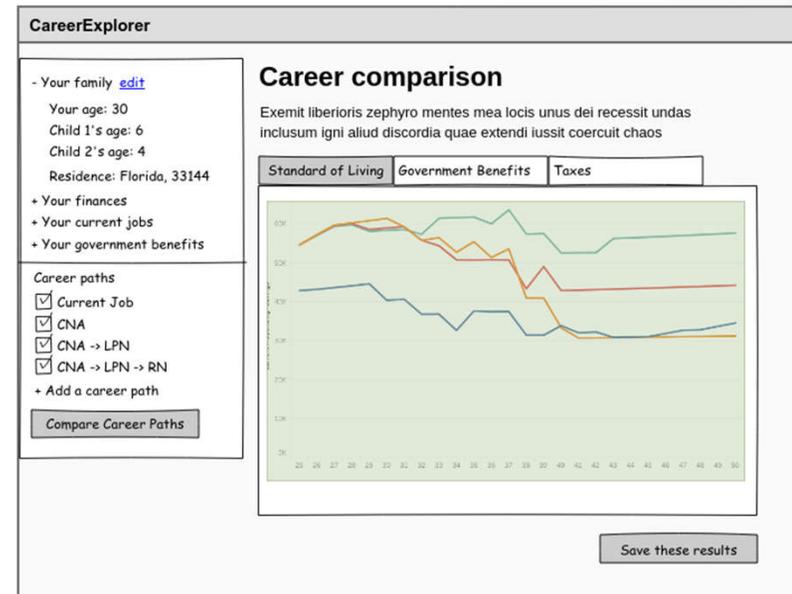
Supplemental Material

Applications to Policy and Practice

Application 1: Career Pathway Explorer

Develop data tool that allows counselors to **individually tailor career pathways to a client's situation:**

- Create career pathways (occupations, education, timing)
- Calculate net financial resources, based on current benefits receipt
- Identify potential benefits eligibility



Application 2: A Guide for Job Seekers

Goal: Inform job seekers about career pathways

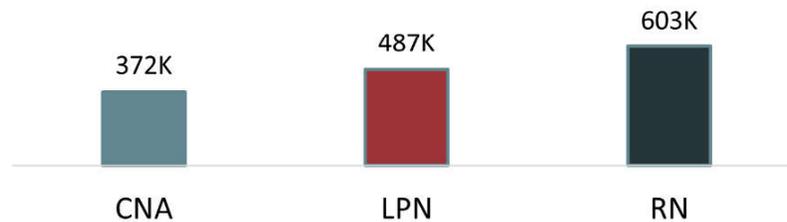
Healthcare Services Career Pathway



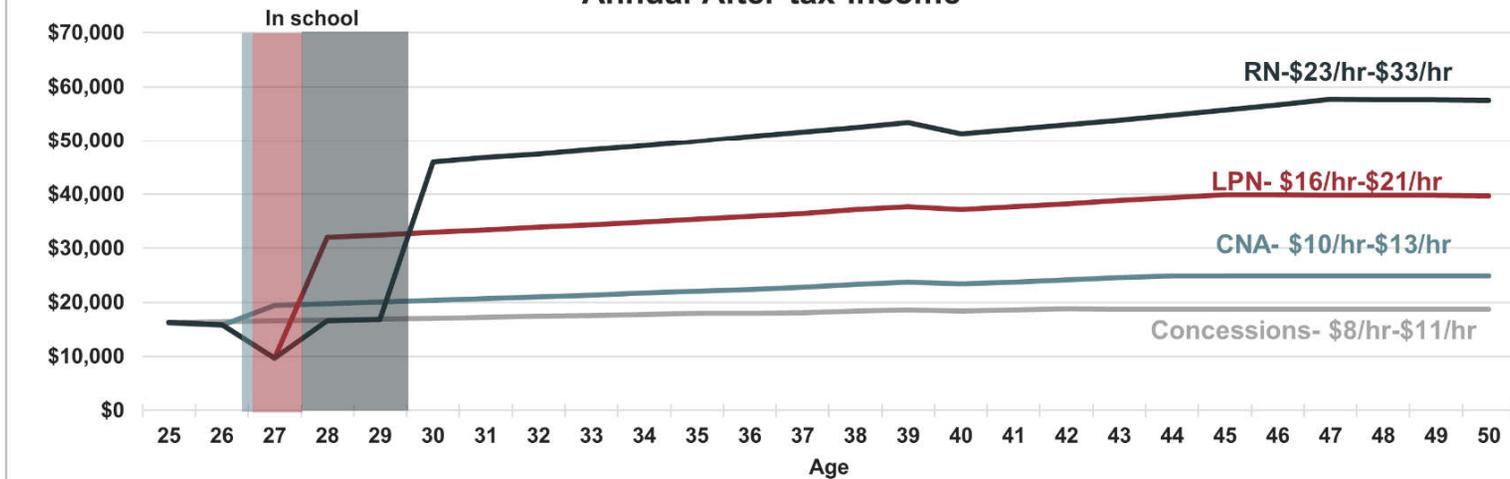
Median Wages



Lifetime After-tax Income



Annual After-tax Income

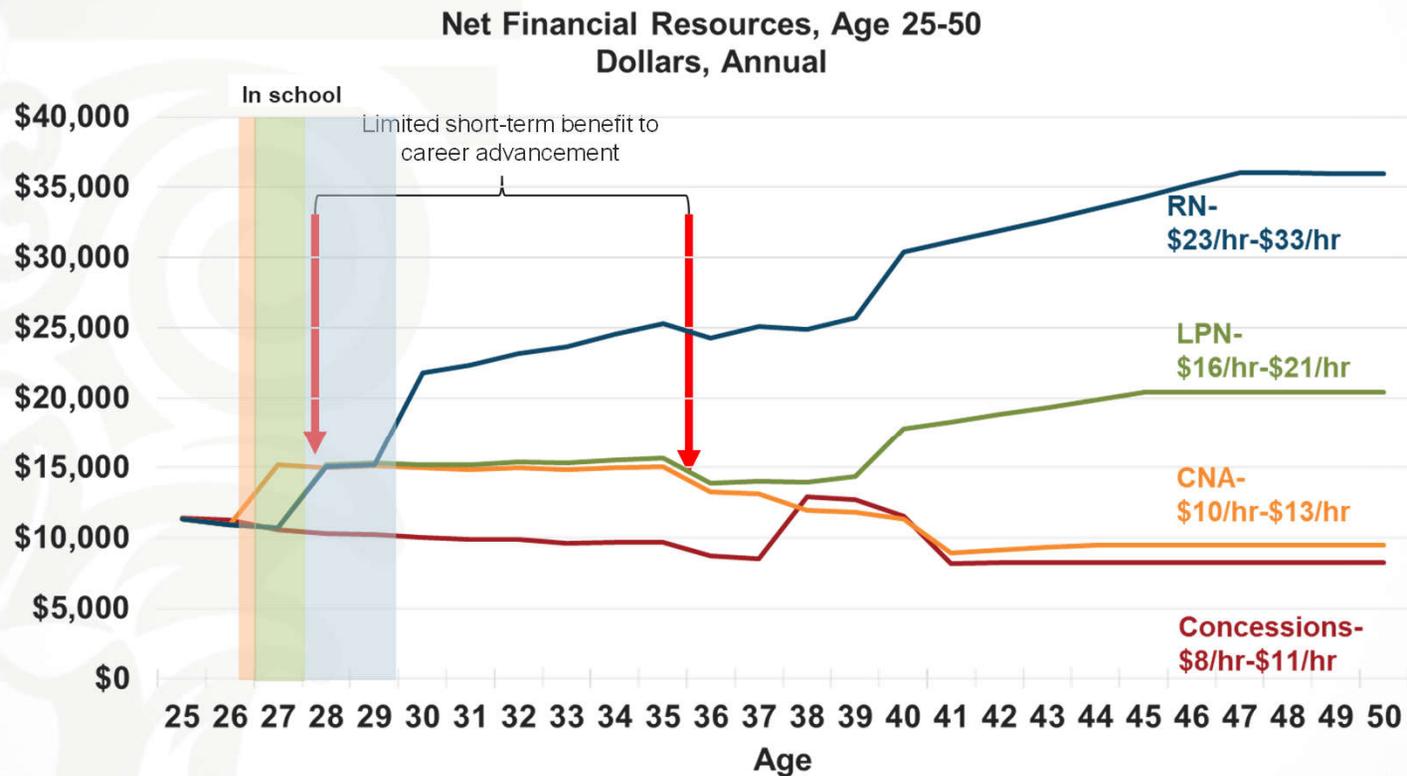


Source: Occupation Employment Statistics, Bureau of Labor Statistics and The Fiscal Analyzer. Notes: Taxes include tax credits. Alabama averages.

Application 3: A Guide for Public Policy

Goal: Inform philanthropy and policymakers about benefits cliffs as a barrier to economic mobility

Benefits cliffs reduce the gains to career advancement



Source: The Fiscal Analyzer: see http://www.ncpa.org/pdfs/U.S.%20inequality,%20Fiscal%20Progressivity,%20and%20Marginal%20Taxation%203-14-16_NBER%20version.pdf

Application 3: A Guide for Public Policy

Example handouts

Benefits Cliffs as a Barrier to Career Advancement and Economic Mobility

Leia's Dilemma

Leia is a 25-year-old single mother of two children, ages four and six, and lives in Birmingham, AL

She works full-time in a low-wage job as a movie theater concessions worker.

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.¹



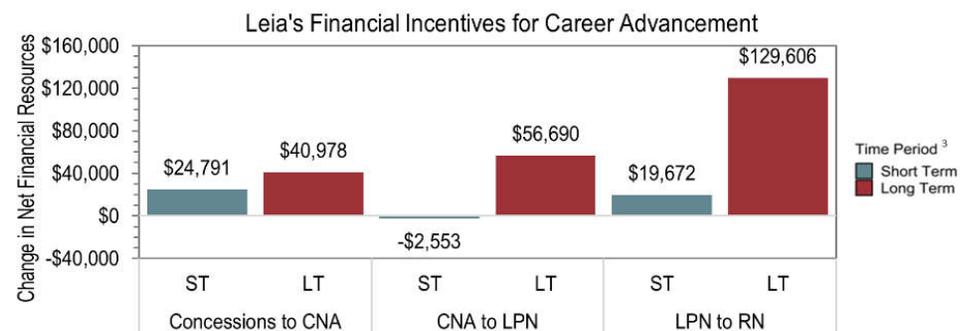
Leia has decided to become a certified nursing assistant (CNA), an entry-level job in the health care field. She wants to return to school eventually, earn a more advanced credential, and get a higher-paying job.

Does she have a financial incentive to continue up the health care services career pathway to become a licensed practical nurse (LPN) or a registered nurse (RN)?



Leia looks at her projected net financial resources and sees a discouraging picture.² A benefits cliff, or a loss in public benefits due to income exceeding eligibility thresholds, reduces her financial incentive for career advancement.

Over her lifetime, the gains to career advancement are large and significant. She would earn **\$41,000** more as a CNA and **\$57,000** more if she then advances to an LPN compared to the concessions job. In addition, the long-term incentive to become an RN is significant—she would earn about **\$130,000** more as an RN. Workforce development policies that support this career advancement have the potential to provide significant value to Leia. As the next page shows, the taxpayer benefits as well.



1. We assume Leia receives all listed public benefits and tax credits. In practice, due to waiting lists, difficulties in applying and determining eligibility, and other reasons, few Americans qualify for and receive all these benefits.

2. Net financial resources are calculated as the sum of income and public benefits minus basic living expenses and taxes. Basic living expenses include estimates of food, housing, childcare, and health insurance based on location, household size, age of family members, and type of health insurance.

3. Short-term includes ages 25 to 33, while her children are in daycare. Long-term includes ages 25 to the end of life.

Application 3: A Guide for Public Policy

Example handouts

Career-Advancing Policies Can be a Good Investment for the Taxpayer

A Policy View of Leia

Helping Leia ascend up the health care services career pathway affects government finances in two ways.

First, higher earnings allow her to support her family with less taxpayer-funded benefits.

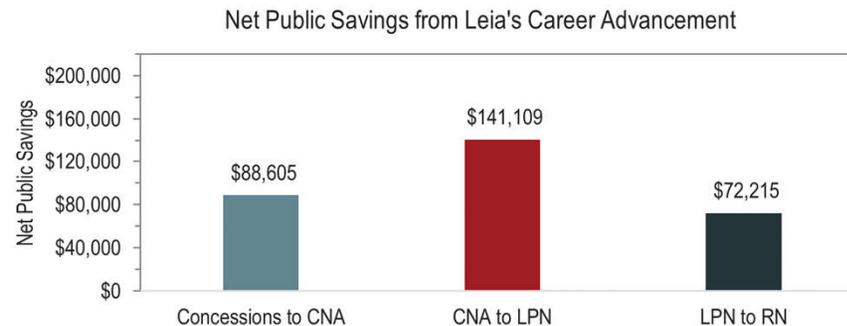
Second, having higher earnings means Leia pays more taxes to the government.

Combining both, how much does the taxpayer save when she advances to higher-paying occupations?

The net public savings to the taxpayer (tax revenue minus public benefits expenditures) from career advancement are significant.

The chart below shows the incremental gain to the taxpayer for each occupational transition. At every stage, the taxpayer gains. In total, when Leia advances from a concession worker to an RN, the savings to the taxpayer is approximately \$302,000.⁴

In summary, policies that support the advancement of low-wage workers like Leia can be a net gain for the worker and for the taxpayer.



4. These net public savings calculations are specific to the assumptions of Leia's situation.

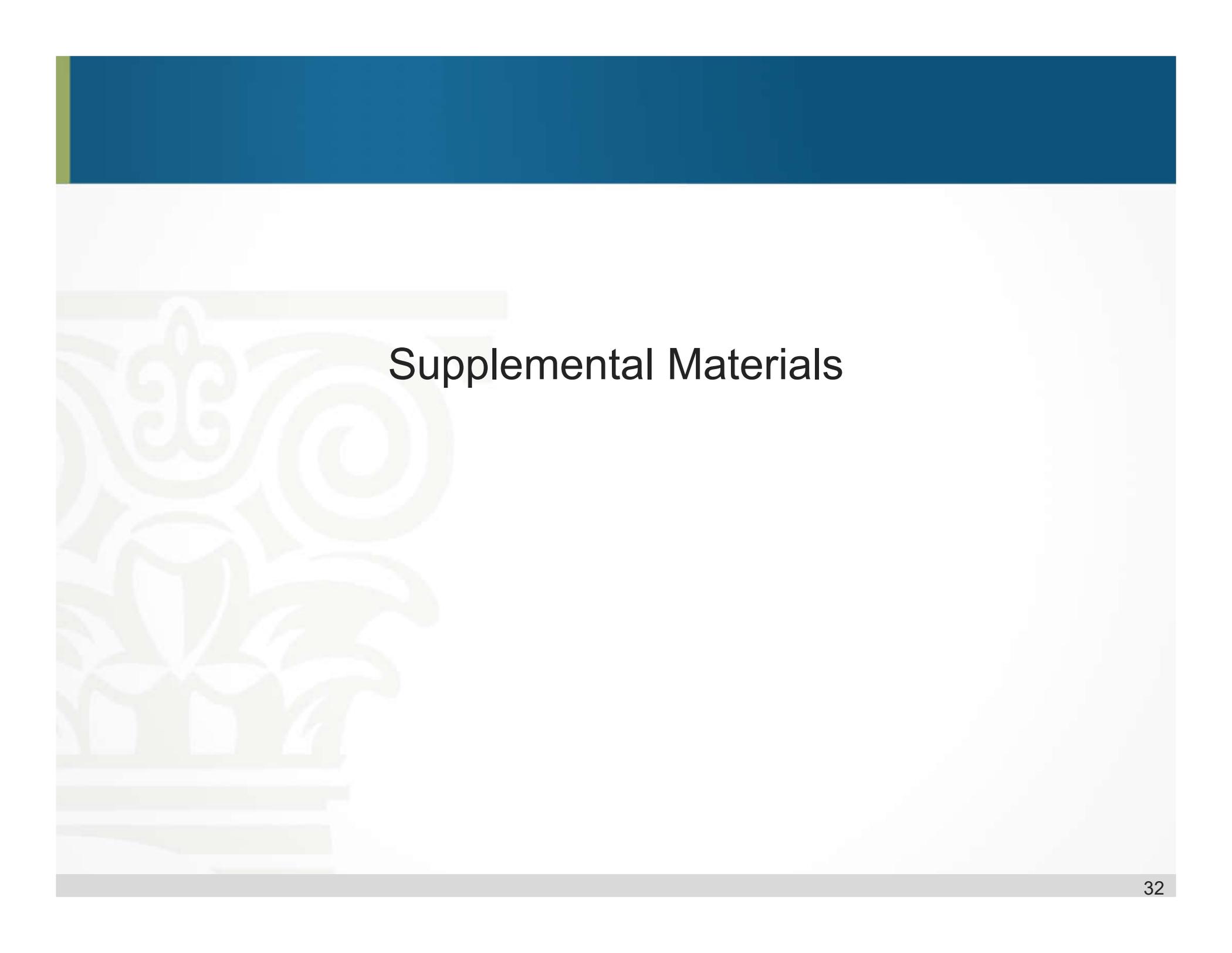
Thank you!

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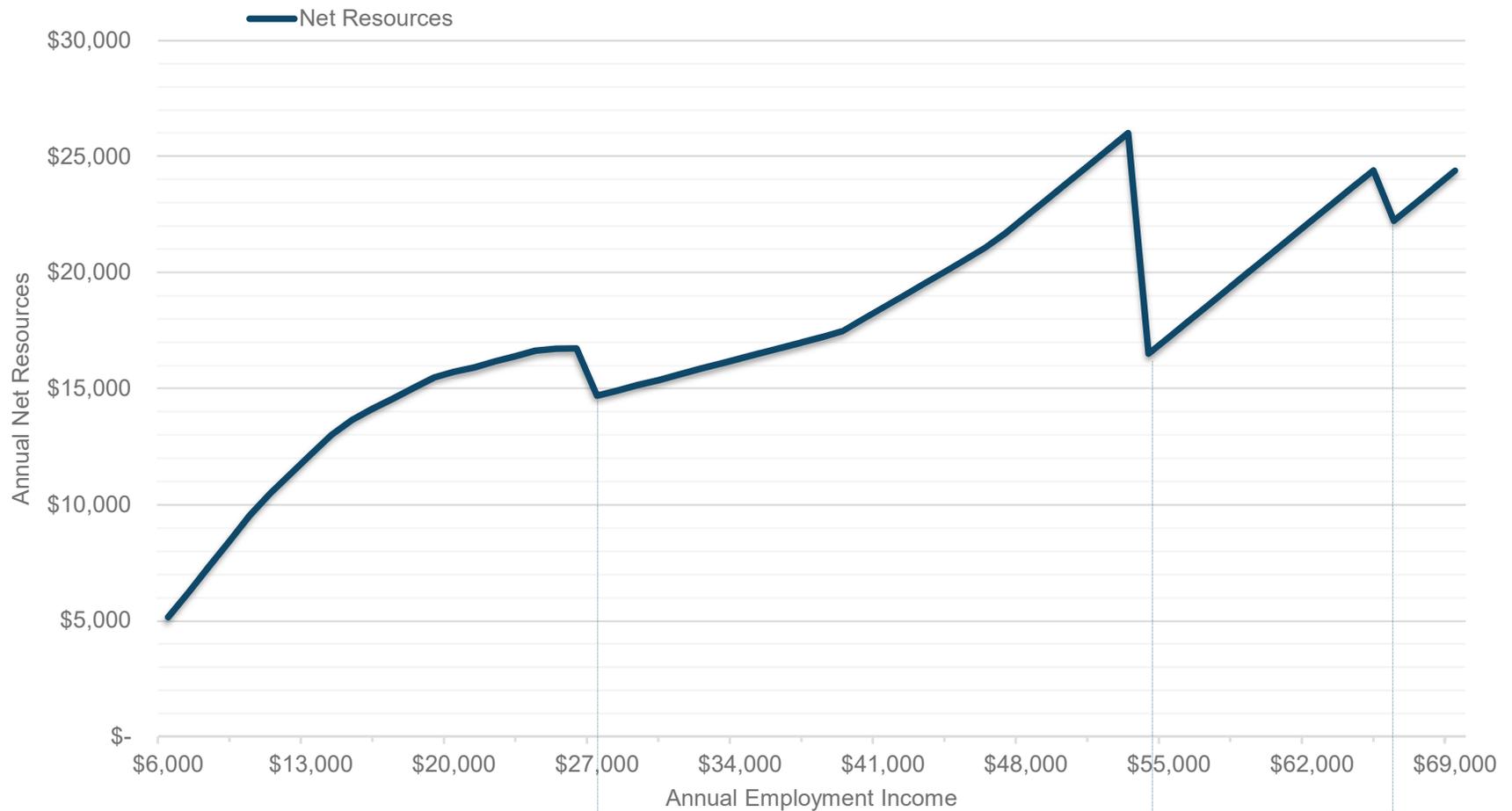
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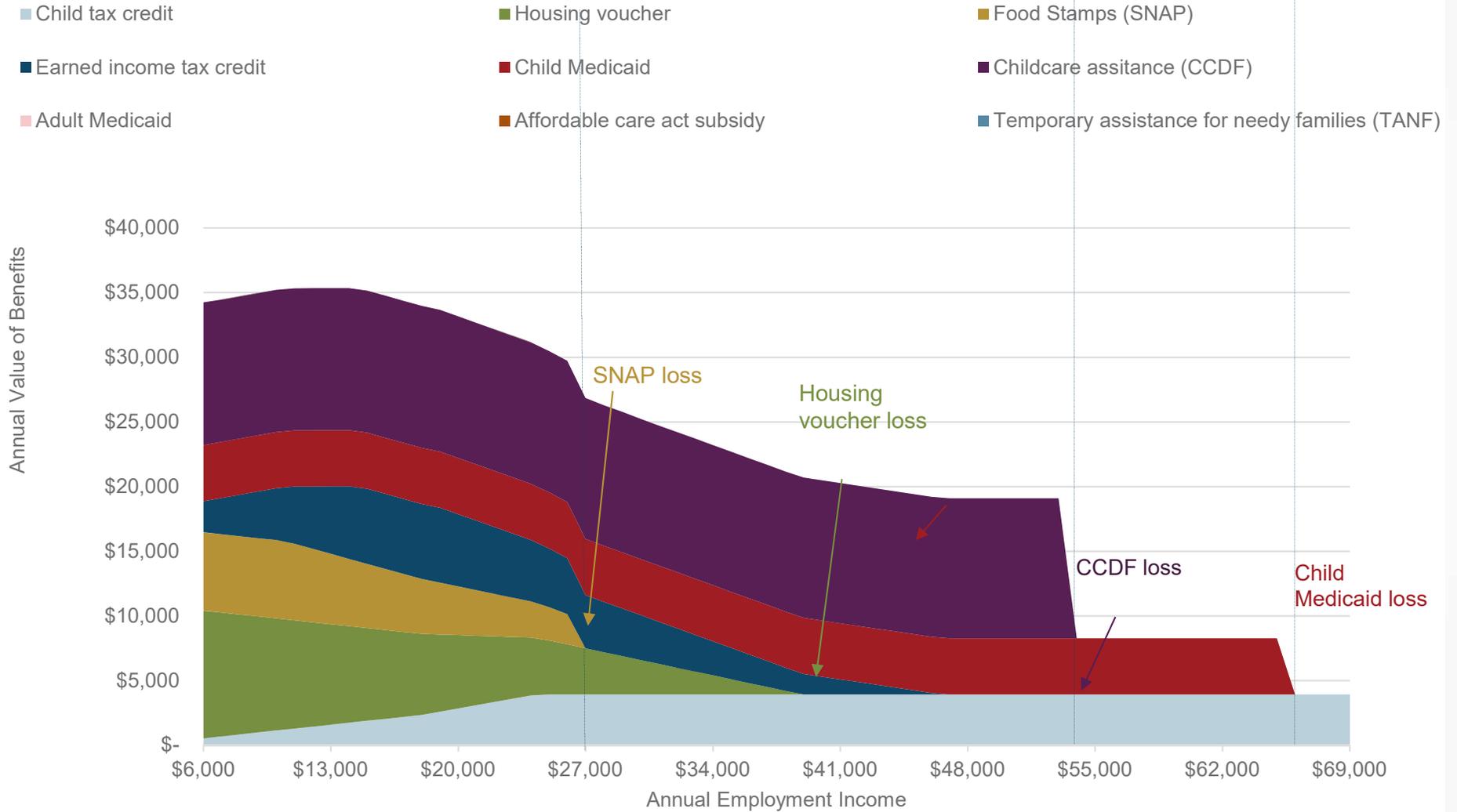


Supplemental Materials

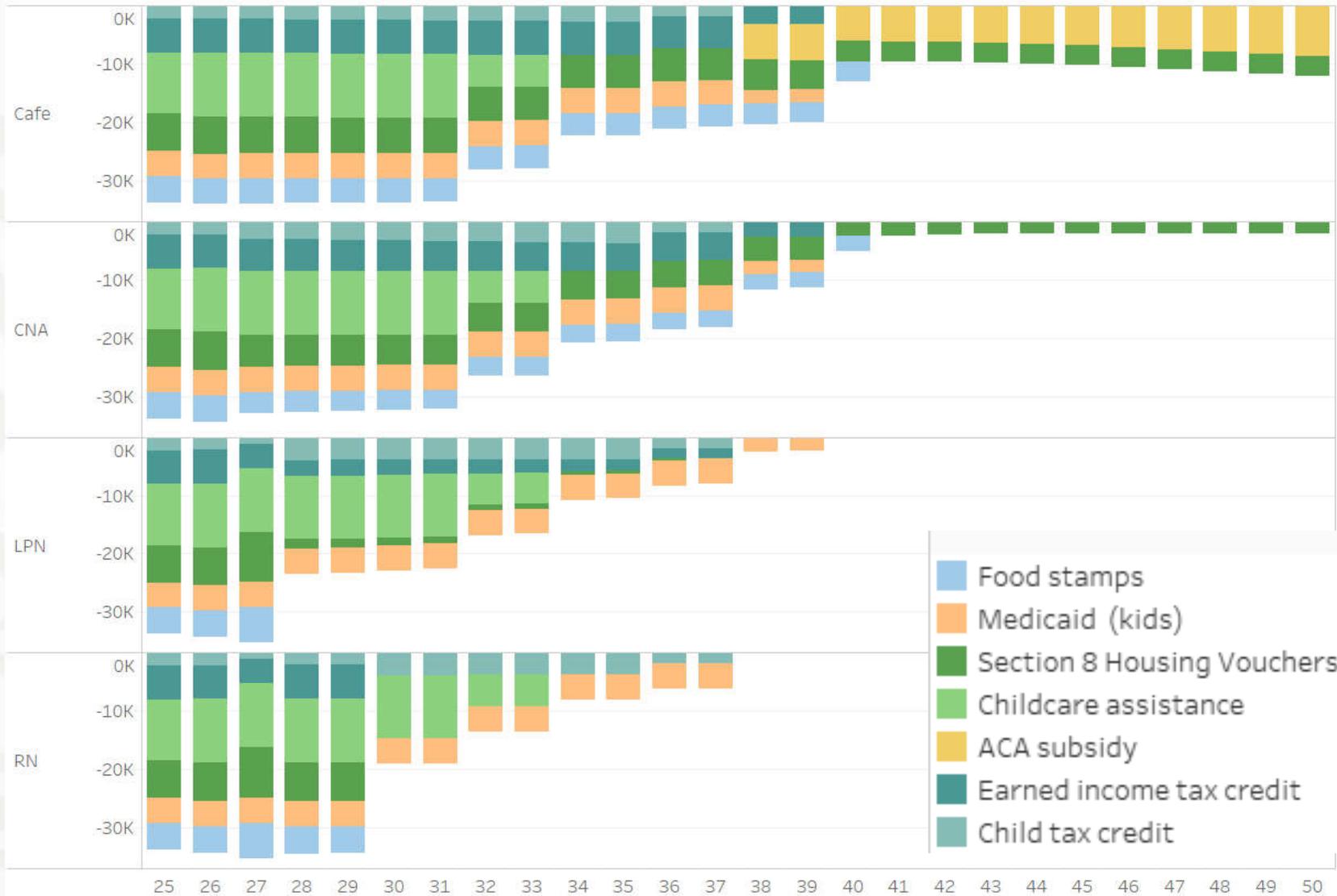
Explaining the Cliffs



Explaining the Cliffs

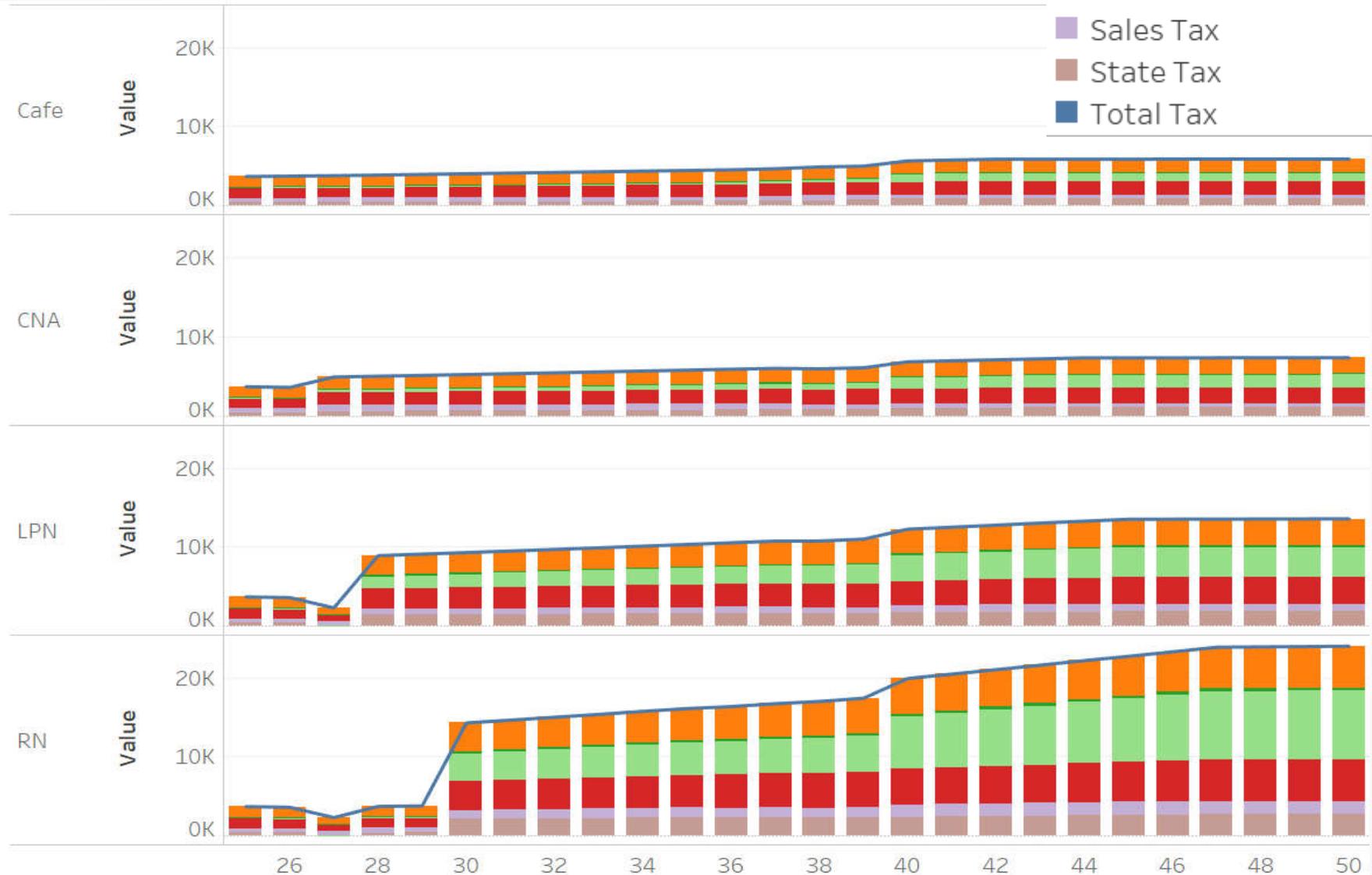


Value of Government Benefits by Year and Career Path



Taxes by Year and Career Path

- Employer Paid Tax
- Federal Excise Tax
- Other Federal Tax
- FICA Tax
- Sales Tax
- State Tax
- Total Tax



Net Financial Resources – no voucher

Net Financial Resources, if no Housing Voucher, Age 25-50
Dollars, Annual

