POLICY BRIEF

Three Policy Reforms to Help Low-Income Children in Ohio

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THREE POLICY REFORMS TO HELP LOW-INCOME CHILDREN IN OHIO

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Introduction

Ohio advocates and policymakers have recently proposed important new policy initiatives to help the state's struggling working families. This policy brief models three reforms that promise to significantly improve the economic security of low-income Ohio families with children.

First, we examine the effect of introducing a free and universal prekindergarten program for four-year-olds on families' out-of-pocket child care costs. Child care costs are a major expense for working parents.

Second, we investigate the problem of the "canyon effect" in child care subsidy policy and identify solutions. As described by Policy Matters Ohio, the canyon effect occurs when a working parent who loses a child care subsidy—because she loses her job, for example—must take a job at a lower wage to qualify again for the subsidy.[1] Because child care is so costly, a subsidy can make the difference between being able to work or not, so the parent has a strong incentive to recover child care assistance, even if it means moving down a career ladder.

Finally, we model the effect of improving the state Earned Income Tax Credit (EITC) on the economic well-being of Ohio working families. The Ohio EITC is currently set at 10 percent of the federal credit and is not refundable, meaning that a family that has no income tax liability does not receive the credit. The improved EITC would be refundable and equal to 30 percent of the federal credit; it would also remove an existing cap on the credit for earnings above a very low level.

The impact of each of these reforms on the economic security of representative low-income families in the state is estimated with the National Center for Children in Poverty's 2015 Ohio Family Resource Simulator (FRS) policy modeling tool, updated with the assistance of Policy Matters Ohio.

A Slow Economic Recovery Leaves Many Families Behind

Like the nation, Ohio's recovery from the 2007-2009 Great Recession has been slow and uneven. Among positive signs, the state's unemployment rate has steadily fallen since peaking at 11 percent in December 2009, and it is currently slightly below the national rate at 5.0 percent.[2] Ohio's real, gross economic output rose 2.1 percent from 2013 to 2014, about the same as the national growth rate.[3] State median family income in 2014 was $62,300, about $3,600 less than the national median.[4]

Despite this modest economic recovery, poverty and inequality remain very significant problems in Ohio, especially in some of the state's large cities. Ohio's overall poverty rate of 15.8 percent and child poverty rate of 22.9 percent in 2014 are higher than the corresponding rates for the United States as a whole, which are 14.8 percent and 21.1 percent.[5] And poverty is unevenly distributed. The poverty rate for the white alone (not Latino) racial group is 12.2 percent compared to rates of 13.5 percent for Asians, 28 percent for Latinos, and 34.7 percent for African Americans.[6] More than 45 percent of families with children that are headed by a woman with no husband present are poor. In Cleveland, more than 58 percent of children are poor, according to the most recent data, as are 55 percent of children in Dayton, and 44 percent of children in Cincinnati.[7] Many more children live in families that are above the poverty level but are struggling economically. Statewide, 44 percent of Ohio children live in low-income families, with incomes less than twice the federal poverty threshold of $23,624 for a family of four with two children in 2013.[8]

Findings are based on results from NCCP's Family Resource Simulator

The Family Resource Simulator is an innovative web-based analysis tool that shows the impact of federal and state work supports on the budgets of low- to moderate-income families. Simulators are currently available for 26 states, including more than 100 localities. The Ohio Simulator includes seven counties—Cuyahoga, Franklin, Hamilton, Logan, Lucas, Mahoning, and Meigs—and reflects policy rules in effect as of summer 2015.

See www.nccp.org/tools/frs.

High-Quality Prekindergarten Programs Yield Important Benefits for Children in Low-Income Households

A large body of research demonstrates that high-quality prekindergarten programs for four-year-olds substantially improve children's social skills and early learning in language, reading, and math skills, and help them arrive better prepared for kindergarten. While all children benefit, children from low-income backgrounds benefit more.[9] Science increasingly recognizes the importance of nurturing cognitive and social skills in early childhood, when children's brains are rapidly developing and are very sensitive to environmental influences. These early skills provide a critical foundation for later learning, and the benefits of investing in high-quality preschool have been shown to exceed the costs many times over when outcomes are tracked into adulthood.[10] This evidence has captured the attention of policymakers, and state funding for prekindergarten has grown substantially in recent years.[11]

As of fall 2014, 42,861 children were enrolled in public preschool in Ohio, according to the Ohio Department of Education.[12] This figure includes 8,150 children funded through state early childhood education program grants and about 34,711 preschoolers receiving high-quality, publicly funded services in child care settings.[13] Eligibility for state-funded prekindergarten for four-year-olds is presently limited to children with family income no greater than 200 percent of the Federal Poverty Guideline (FPG). But many of the 74,000 4-year-olds who live in low-income families in Ohio are not enrolled in publicly funded preschool programs.[14]

Free and Universal Prekindergarten Can Help the Family Bottom Line and Help Keep Parents Working

Besides promoting healthy child development, a high-quality prekindergarten program that is free and universal can save low-income, working families with small children thousands of dollars per year in out-of-pocket child care expenses. In Ohio, 79 percent of children living in low-income families have parents who are employed, and 45 percent of these children have parents who work full time, year round.[15] For these families, having access to reliable child care is critical for sustaining parental employment.[16] But high-quality child care is expensive, often a family's single greatest expense after housing, and sometimes exceeding the cost of housing. The statewide, median annual price for providing center-based care for a preschooler was $8,039 in 2014,[17] the equivalent of about nine percent of median income for married-couple families with children, but almost 38 percent of median income for single-mother families with children.[18]

Child care subsidies can significantly reduce child care costs for low-income families. However, barriers to subsidy receipt such as income eligibility limits and waiting lists preclude many families from accessing the program, despite their inability to afford high-quality care on their earnings alone.[19] In 2013, 591,000 children lived in poverty in Ohio[20] but only 27,600 families (with 48,500 children) in the state received child care subsidies.[21] It is clear that only a small fraction of low-income, working Ohio families that might benefit from child care subsidies receive them, and given federal and state spending plans and priorities, this will not change.

A free and universal state prekindergarten program would go a long way toward reducing the burden of paying for high-quality child care for Ohio families with small children who do not receive a child care subsidy. The Ohio Family Resource Simulator can quantify this impact for families of different sizes and compositions in different parts of the state.

How Universal Pre-K Would Benefit a Representative Ohio Family

Figure 1 shows the evolution of *net resources* as earnings change for a representative, single-parent family of three, with 4- and 9-year-old children in Hamilton County under two scenarios: when the 4-year-old is enrolled in full-day pre-k and when the child does not attend pre-k. In each scenario, the parent works full time and the family receives important work supports —including federal and state tax credits, a housing subsidy, public health insurance, and Supplemental Nutrition Assistance Program benefits (SNAP, formerly known as food stamps)—when eligible for these resources. The value of these work supports is added to earnings to estimate the family's *total resources*. Family *expenses* that are required to meet basic needs (e.g., child care, housing, utilities, food, transportation, taxes, out-of-pocket medical expenses, and other necessities such as clothing and school supplies) are then subtracted from total resources to estimate the family's *net resources* shown in the line graph.

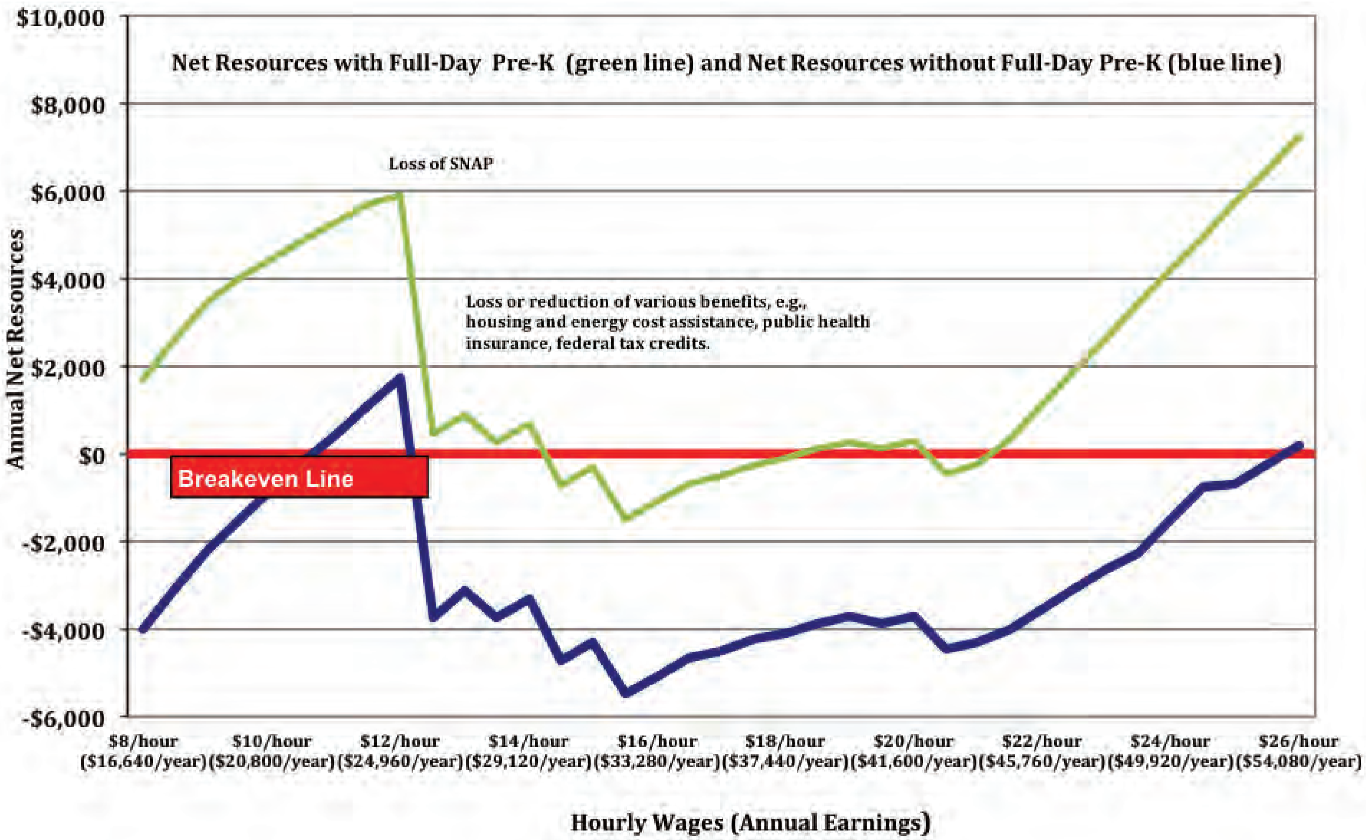
In the first scenario, shown by the green net resource line, the family's 4-year-old is enrolled in a free, full-day prekindergarten program, and the family pays for after-school care for both children at a Cincinnati child care center. The second scenario, shown by the blue line, shows the family's net resources without pre-k for the 4-year-old; in this case, the family pays for full-day, center-based care for the 4-year-old and after-school care for the 9-year-old.

As is evident from the graph, full-day pre-k saves the family thousands of dollars in out-of-pocket child care expenses and substantially improves the family's net resource position at every level of earnings. With pre-k, the family is substantially above the breakeven line—where family resources just equal expenses—at most levels of earnings. The family falls below breakeven when the parent is working full time at a wage between slightly over $14 an hour to about $18 an hour, and again when working full time at a wage of $21 an hour. In contrast, without pre-k, the family rises above the breakeven line only briefly with full-time earnings at a wage of $11-$12 per hour, and then plunges back into the red, where it remains until annual earnings rise to around $54,000.

In both scenarios, as earnings increase, income eligibility limits cause the family to lose different benefits. This is shown as various "cliffs" in the line graph of Figure 1, notably the cliff at around $25,000 in earnings, when the family loses its SNAP benefit. With full-day pre-k, the family stays above the breakeven line even after losing this important benefit, and only falls into the red when increasing annual earnings in the range of $29,000 to $37,000 trigger the loss or reduction of various work supports, including housing assistance, parental public health coverage, and energy assistance. When the parent works full

Figure 1: Effect of Universal, Full-Day Prekindergarten on Net Family Resources

Single-parent family with one 4-year-old and one 9-year-old child in Hamilton County



Source: NCCP's Family Resource Simulator, Ohio 2015 <www.nccp.org/tools/frs>. When eligible, the family receives the following work supports: federal tax credits, Ohio EITC and child care tax credit, SNAP/food stamps, a housing voucher, public health insurance, and energy and telephone cost assistance.

time at $14/hour ($29,120 in annual earnings), the family has $674 in net resources with the child in free pre-k; without that support, it is more than $3,300 in the hole.

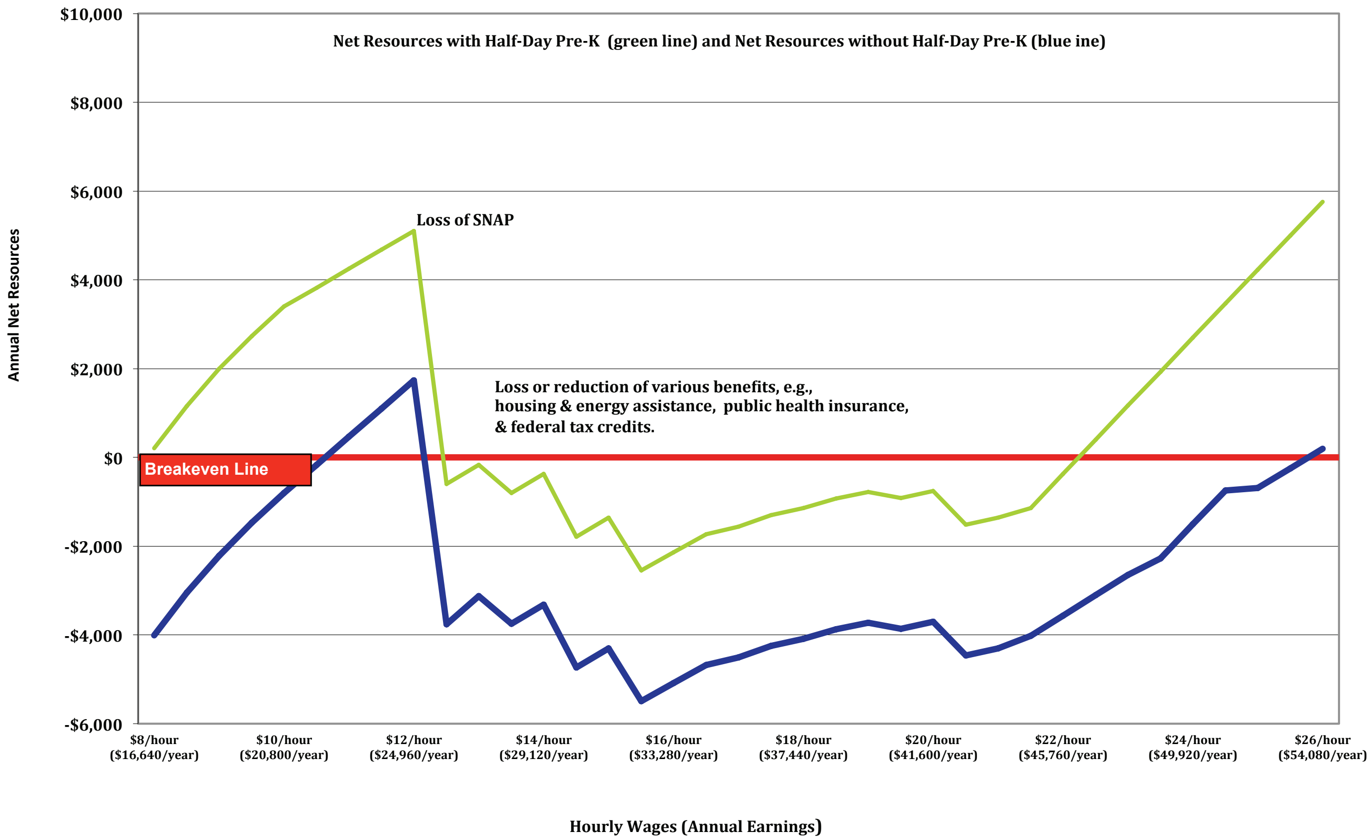
Both Full-Day and Half-Day Pre-K Give Families Big Savings

An alternative scenario of half-day pre-k also benefits the family's bottom line substantially, though not as much as a full-day program, of course. The half-day scenario is shown in Figure 2, with all other assumptions the same as those for the full-day model. Although the family stays well above the breakeven line when working full time at a wage between $8 and $12 per hour, the loss of SNAP and Medicaid benefits drops the family into the red when the wage rises above $12, and the family remains below the breakeven line until working full time at a wage of about $22. Still, at every level of earnings, the family is much better off with free pre-k. When the parent works full time at $13/hour ($27,040 in annual earnings), the family has a small deficit of $172 with a child in pre-k, compared to a $3,121 deficit without pre-k.

Of course, center-based child care is the most expensive form of care, and the prekindergarten effect will be smaller when another form of care, such as licensed family care, is modeled as the alternative to pre-k. Even comparing these alternatives, however, low-income families in Ohio still stand to save thousands of dollars in child care expenses per year if

Figure 2: Effect of Universal, Half-Day Prekindergarten on Net Family Resources

Single-parent family with one 4-year-old and one 9-year-old child in Hamilton County



Source: NCCP's Family Resource Simulator, Ohio 2015 <www.nccp.org/tools/frs>. When eligible, the family receives the following work supports: federal tax credits, Ohio EITC and child care tax credit, SNAP/food stamps, a housing voucher, public health insurance, and energy and telephone cost assistance.

given the option of free, universal pre-k, whether full day or half day.

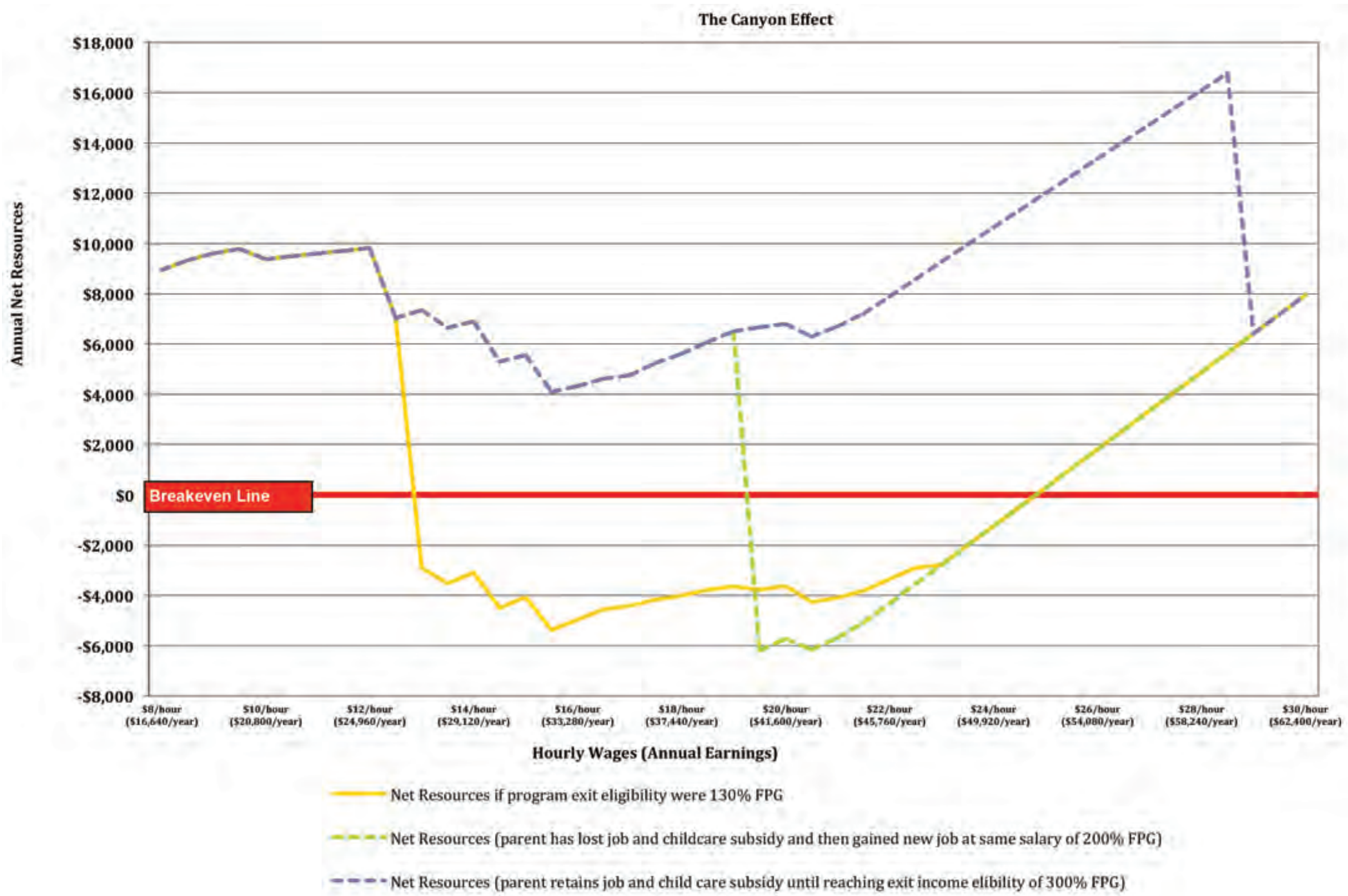
Job Loss and Child Care Assistance: Addressing the Canyon Effect

As noted above, child care subsidies, funded by the federal government and the state, can significantly reduce child care costs for low-income families. To enroll in Ohio's child care assistance program, a family must have income below 130 percent of the Federal Poverty Guideline (FPG), an amount equal to $26,117 for a family of three. Once enrolled, however, the family may continue to receive subsidies (and make higher family co-payments) until income exceeds 300 percent of the FPG, or $60,270 for a family of three. By setting a higher income threshold for program exit relative to program entry, policymakers seek not to discourage participants from earning modestly more, since doing so will not put this important benefit at risk.

However, families most often lose their eligibility to participate in the Ohio child care subsidy program not because they exceed the income eligibility but for other reasons, notably, when a parent loses a job. Under current regulations, a participant who loses a job (or ends another qualifying activity, such as job training or job-related education) can remain in the program if she or he starts another job within a 13-week period.[22] In this case, the parent can accept a new job paying up to the exit income threshold of 300 percent of the FPG, or $60,270. If the parent doesn't succeed in getting a new job within this period,

Figure 3: The Canyon Effect in Ohio Child Care Subsidy Policy

Single-parent family with one 4-year-old and one 6-year-old child in Cuyahoga County



Source: NCCP's Family Resource Simulator, Ohio 2015 <www.nccp.org/tools/frs>. When eligible, the family receives the following work supports: a child care subsidy, federal tax credits, Ohio EITC and child care tax credit, SNAP/food stamps, a housing voucher, public health insurance, and energy and telephone cost assistance.

though, she or he is dropped from the program. To requalify, the family's income must now fall below the enrollment threshold of 130 percent of the FPG. In other words, the parent falls into a net resource "canyon," and can only begin to climb out by: (1) managing to find a job paying a much higher salary to replace the thousands of dollars in child care assistance lost—an unlikely proposition—or (2) finding a job that pays less than $26,117 and being able to recover child care assistance. Because child care subsidies are so valuable, taking a job that pays less can make economic sense in the short term, but a parent runs the risk of derailing a career and, ultimately, the ability to achieve economic self-sufficiency.

The Canyon Effect for a Representative Ohio Family

Figure 3 illustrates the canyon effect for a single-parent family of three with a 4-year-old and a 6-year-old in Cuyahoga County. The blue dotted line shows the family's net resources if there is no break in continuing eligibility for child care subsidies. Because the income threshold for program exit is set at 300 percent of the FPG, the family remains well above the breakeven line for net resources as earnings rise, even after reaching the exit income limit and losing subsidies. The solid yellow line shows what the family's net resources would be if the program did not allow a higher income threshold for exit—that is, if continuing eligibility remained at 130 percent of the FPG. In this case, the family loses subsidies when annual earnings reach above $26,117 (the equivalent of full-time earnings at $12.55 an hour) and plunges far below the breakeven line, where it remains until earnings rise to about $52,000 (the equivalent of full-time earnings at $26 an hour).

The canyon effect is illustrated by the green dashed line in the graph, showing what happens to the family's net resource position when the parent loses a job with earnings at 200 percent of the FPG (the equivalent of full-time earnings at $19 an hour) and does not find another job within the 13-week window. The family plunges almost $6,000 below the breakeven line. To return to breakeven, the parent will need to find a new job at $25 an hour. But because child care assistance is so valuable, the family's net resources (without child care subsidies) at $25 an hour remain more than $6,000 below its net resources (with child care subsidies and other work supports) at $12.55 an hour. Hence, it actually makes economic sense—at least in the short term—for the parent to reverse course and take a new job at a wage of $12.55 or lower and regain eligibility for child care assistance instead of continuing his or her successful career trajectory.

Ameliorating the Canyon Effect

Possible policy solutions to the canyon effect can be readily identified, but require tradeoffs. One approach would be to give families a longer window of continuing program eligibility—considerably beyond the current 13 weeks—to cope with unexpected shocks, such as losing a job.[23] For example, after reporting a job loss, a family might be granted six months of continuing eligibility before losing child care assistance, often a more realistic time frame for finding the right job. Another solution would be to raise the income threshold for program enrollment to a level closer to self-sufficiency, such as 200 percent of the FPG. Given that Ohio's child care subsidy program reaches only a fraction of potentially eligible families, however, and that the prospects for substantially increasing program funding in the near term are unlikely, child care assistance is a scarce resource, and policymakers must weigh the benefits of the reforms against the costs. A longer period of continuing eligibility means that a family with lower need—at least temporarily—may receive a subsidy for an extended period of time, money that might otherwise be available for a family with higher need not in the program. Similarly, raising the income eligibility limit for program enrollment increases the pool of eligible families, making it harder for a lower-income family to get a subsidy, all else equal.

That said, there are good reasons beyond the direct economic benefit to families for helping them maintain their program eligibility. Continuity of care is important for early childhood development, but Ohio child care providers report much churning in and out of care centers among children receiving subsidies as families lose and gain eligibility.[24] Besides disrupting learning for children who lose their subsidy, this churning is disruptive to the whole classroom and, along with low state program reimbursement rates, is a disincentive for providers to serve publicly funded children.[25]

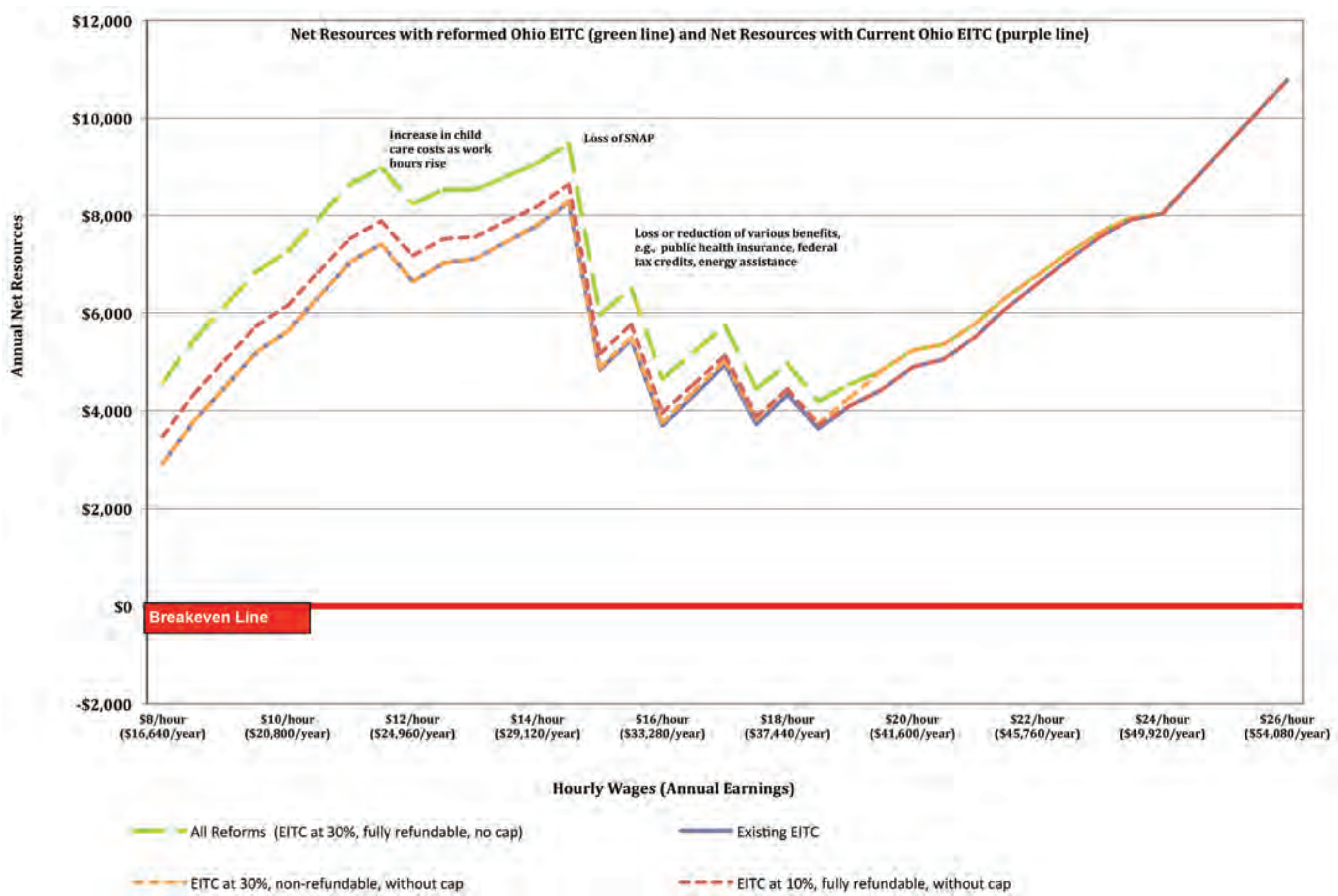
Making Ohio's EITC Work Better for Working Families

Ohio is one of 25 states and the District of Columbia to offer a state Earned Income Tax Credit, a work support for low-income families with earnings from work. However, Ohio's EITC is among the least generous of state programs, primarily because it is non-refundable, meaning that it simply reduces or eliminates any state income tax liability that a family has incurred.[26] Unlike the federal EITC and EITCs offered by 19 states and the District of Columbia, the Ohio credit does not give taxpayers an income supplement if the value of the credit exceeds tax liability.[27] Hence working parents with the lowest earnings—and no income tax liability—do not benefit from the Ohio EITC. Ohio is one of only three states to offer a non-refundable credit.

Moreover, Ohio's credit is set at only 10 percent of the federal credit. While this amount is equal to, or

Figure 4: Effect of an Improved Ohio EITC on Net Family Resources

Two-parent family with one 3-year-old and one 5-year-old child in Franklin County



Source: NCCP's Family Resource Simulator, Ohio 2015 <www.nccp.org/tools/frs>. When eligible, the family receives the following work supports: a child care subsidy, federal tax credits, Ohio EITC and child care tax credit, SNAP/food stamps, public health insurance, and energy and telephone cost assistance.

higher than, those of 11 states offering the credit (and double the value of the Ohio credit when it was first introduced for the 2013 tax year), it is less generous than the credits in 13 states and the District of Columbia, which offer fully refundable credits at up to 40 percent of the federal EITC. Finally, the Ohio credit is capped at half of tax liability for workers earning more than $20,000 a year. Because of these limitations, only 7 percent of Ohio's lowest-paid workers—those earning $19,000 a year or less—are estimated to benefit from the credit, with an average savings of just $60.[28]

Ohio policy researchers and advocates have proposed three reforms to make the state EITC work better for Ohio's families. These reforms would (1) raise the value of the credit to 30 percent of the federal EITC; (2) make the credit refundable; and (3) remove the cap on the credit for earnings above $20,000 a year.

How Changes to the Ohio EITC Would Benefit a Representative Ohio Family

Figure 4 shows the effect of the proposed reforms separately and together on the net resources of a two-parent family of four with a 3-year-old and a 5-year-old in Franklin County. In this scenario, the family receives federal tax credits, the current

Ohio EITC, the Ohio child care tax credit, child care subsidies, public health insurance, SNAP, and energy and telephone cost assistance when eligible for these resources.

The full package of proposed reforms, shown by the green dashed line, provides a big boost to family net resources at lower levels of earnings. With annual earnings of $20,800 (equivalent to one parent working full time at $10 an hour), the family gains $1,635 in additional net resources. With earnings of $33,280 (approximately equivalent to both parents working full time at the Ohio minimum wage of $8.10), the family is better off by $965.

Looking at the proposed reforms separately, it is clear that making the credit refundable is indispensable if the EITC is to help parents with annual earnings below about $30,000. As shown by the orange dashed line (overlapping with the purple line), these families (with low state tax liability at this level of earnings) do not benefit at all from raising the credit to 30 percent of the federal if the credit remains non-refundable. With annual earnings of $24,960 (the equivalent of one parent working full time at $12 an hour), the family gains an additional $527 if the existing credit of 10 percent is uncapped and made refundable. The family gains substantially more—$1,581—if all three EITC reforms are implemented.

Conclusion

This policy brief presents the results of modeling three proposed state policy reforms on the economic security of Ohio working families. These reforms are: (1) introducing a free and universal state prekindergarten program; (2) reducing the "canyon effect" that occurs when a working parent who loses a child care subsidy must take a job at a lower wage to qualify again for the subsidy; and (3) improving the state Earned Income Tax Credit.

Using the National Center for Children in Poverty's online policy modeling tool, the Family Resource Simulator, the authors conclude that all three reforms would help Ohio's low- and moderate-income families significantly. One of the simplest reforms, which would bolster low-income families' bottom line by hundreds of dollars, would be to make the state EITC refundable, so that families without state income tax liability could still benefit. According to an estimate by Policy Matters Ohio, a refundable, uncapped credit would benefit almost one-third of Ohio's lowest-earning workers.[29]

With respect to the Ohio child care subsidy program, allowing working parents who lose a job more time to find another one without losing child care assistance would improve their chances of finding a suitable new job and maintaining their career trajectories. Continuity of child care is also important for child development and learning.

Full-day prekindergarten would benefit families the most in monetary terms. Although this brief does not estimate the cost to the state of the proposed reforms, full-day pre-k would undoubtedly be the most costly of the three. To fully assess benefits, researchers would need to sum the immediate savings for family budgets, the economic impact of new family spending stimulated by this addition to net family resources, and the long-term gains to children, families, and society from high-quality pre-k programs. The value of these comprehensive benefits will almost certainly exceed costs, according to the research evidence.

Endnotes

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14. NCCP estimates of the number of 4-year-olds in low-income families in Ohio estimated from 2011-2013 American Community Survey Public Use Microdata Sample.

15. Low income is defined as twice the federal poverty level or $39,060 for a family of three in 2013. Full-time work is defined as working at least 50 weeks in the previous year and for at least 35 hours during the majority of those weeks. Source: NCCP Fifty-State Demographic Wizard. (2015). Retrieved Oct. 2015 from http://nccp.org/tools/demographics/. Estimated from 2011-2013 American Community Survey Public Use Microdata file.

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24. Patton, op. cit.

25. Ibid.

26. NCCP Fifty-State Policy Tracker. (2015). Retrieved Oct. 2015 from http://nccp.org/tools/policy/

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