Benefit Cliffs: An Exploration with the Atlanta Fed

Removing Barriers to Prosperity: Early Learning Coalition of Orange County and Orlando Economic Partnership

Orlando, FL
August 14, 2019
An Atlanta Fed key priority: Promoting Economic Mobility and Resilience.

The **CAPACITY** to assist lower-income individuals striving to move up the economic ladder.

**ACCESS** to the tools, programs, and opportunities that promote economic well-being.

The **RESOURCES** and **LIFELINES** required to weather shocks to households’ economic circumstances.
The cause of economic mobility and resilience touches all of the Federal Reserve’s responsibilities.
In the Atlanta Fed’s zone, we have an (unfortunate) comparative advantage in thinking about impediments to economic mobility.

Blue: Good.

Red: Bad.

Source of map: https://www.opportunityatlas.org
Opportunity occupations: Pay better than median wage, require less than a bachelor’s degree

Top 10 Opportunity Occupations in 2017

1. Registered Nurses
   - Annual Median Wage: $67,000
   - Opportunity Employment: 12,900

2. Heavy and Tractor-Trailer Truck Drivers
   - Annual Median Wage: $40,100
   - Opportunity Employment: 10,700

3. Supervisors of Retail Sales Workers
   - Annual Median Wage: $40,800
   - Opportunity Employment: 9,800

4. Supervisors of Office and Administrative Support Workers
   - Annual Median Wage: $49,900
   - Opportunity Employment: 6,900

5. Sales Representatives, Wholesale and Manufacturing
   - Annual Median Wage: $47,800
   - Opportunity Employment: 5,400

6. Carpenters
   - Annual Median Wage: $40,100
   - Opportunity Employment: 5,700

7. Sales Representatives, Services
   - Annual Median Wage: $46,600
   - Opportunity Employment: 5,200

8. Electricians
   - Annual Median Wage: $41,000
   - Opportunity Employment: 5,200

9. Supervisors of Construction Trades and Extraction Workers
   - Annual Median Wage: $50,000
   - Opportunity Employment: 5,200

10. Licensed Practical and Licensed Vocational Nurses

The CNA: An entry point to a health care career pathway

Enhanced CNA Training

Certified Nursing Assistant (CNA)

Licensed Practical Nurse (LPN)

Registered Nurse (RN)

Non-nursing Health Care Occupations
In an evaluation of the Health Profession Opportunity Grant Program 2.0, just over 4 1/2% who completed entry-level health care training continued on to mid- or higher-level training.*

Meet Leia, our hypothetical single parent.

Leia is a 25-year-old single mother of two children, ages 4 and 6, living and working (at a movie theater concession stand) in Orlando, Florida.

Leia is just entering a two-month program to become a certified nursing assistant (CNA).
Though the CNA generates an improvement in lifetime earnings, it is not a big advance over minimum wage.

After taxes paid, discounted lifetime earnings are 17% higher on the CNA path.
Leia’s question.

Should she continue down the pathway to become a licensed practical nurse?
Looking at straight after-tax income, the answer is “yes”; the LPN looks like a good choice.

After taxes paid, discounted lifetime earnings are 33% higher on the LPN path.

Source: The Fiscal Analyzer (see https://kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf)
Leia is assisted by a variety of public support programs:

- Food Stamps
- Medicaid for her children
- Section 8 housing vouchers
- Child care assistance
- Earned Income Tax Credit
After transfer payments, the picture looks very different.

After transfer payments, discounted lifetime income is just 11% higher for the LPN versus CNA path — and it takes some time to break even.

Source: The Fiscal Analyzer (see https://kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf)
Even for advanced training, the short-run value proposition is poor even though the long-run proposition is significant.

Source: The Fiscal Analyzer (see https://kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf)
What’s going on? The benefit cliffs.

Net Resources
(Income+benefits)-(Taxes+transfers)
Single Mother of Two Children in Orlando, Florida

Net Resources

- Annual Net Resources
- Annual Employment Income

- $13,000
- $20,000
- $27,000
- $34,000
- $41,000
- $48,000
- $55,000
- $62,000
- $69,000

- $5,000
- $10,000
- $15,000
- $20,000
- $25,000

- TANF loss
- Adult medicaid loss
- Child medicaid loss
- SNAP loss
- Housing voucher loss
- CCDF loss
- Housing loss

CCDF
SNAP
Child medicaid
Adult medicaid
TANF
Housing
Housing voucher
CCDF
loss
loss
loss
loss
loss
loss
loss
loss
What’s going on? The benefit cliffs.

Net Resources
(Income+benefits)-(Taxes+transfers)
Single Mother of Two Children in Orlando, Florida

Annual Net Resources

Annual Employment Income

- $6,000
- $13,000
- $20,000
- $27,000
- $34,000
- $41,000
- $48,000
- $55,000
- $62,000
- $69,000

CNA
LPN
RN
Is their an incentive for Leia to move up the career ladder? Long-term, yes. Short-term, less so.

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

<table>
<thead>
<tr>
<th></th>
<th>Net Present Value, Thousands $</th>
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<tbody>
<tr>
<td><strong>ST</strong></td>
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<tr>
<td>Concessions to CNA</td>
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<tr>
<td><strong>LT</strong></td>
<td></td>
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<tr>
<td>CNA to LPN</td>
<td>$41</td>
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<tr>
<td><strong>ST</strong></td>
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<tr>
<td>LPN to RN</td>
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<tr>
<td><strong>LT</strong></td>
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</tbody>
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**Note:** Short-term includes ages 25-33 (while her kids need daycare). Long-term is over the lifetime.

The benefits to the government if Leah progresses along the career pathway are substantial.

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