

Anti-poverty programs discourage work and moving to higher income levels (Example)

Assume we have a hypothetical family of 4 at 138% of poverty in Montana (\$35,500 in annual family income). Two married adults, two children (pre-school age) family would be eligible in Montana for the following programs in addition to Medicaid Expansion:

- a. **LIEHAP:** energy assistance programs if under 150% of poverty (\$38,625 for a family of 4). The benefit available is \$107.00 to \$3,345 per year. [LIEAP benefits](#)
- b. **Childcare:** Childcare assistance for under 150% of poverty or \$38,625 for a family of 4. Assistance at 138% of poverty would be about \$6,300 per year for a 2-child family assuming childcare costs were a Billings average of \$14,880 year for 2 children or \$620/month per child. [Childcare Scholarships](#)
- c. **WIC:** Women, Infants and Children, food assistance for under 185% of poverty (\$47,637 for a family of four) [WIC benefits](#)
- d. **SNAP:** (food stamps) for under 200% of poverty or \$51,500 for a family of 4. The average cost in MT is \$5,600 for a family of 4 per year) [HMK benefits](#)
- e. **CHIP:** Average cost per child in MT is \$3,500.00. CHIP is available for families under 250% of poverty or \$64,375 for a family of 4. [CHIP benefits](#)

Therefore, this hypothetical family would be eligible to receive either directly or indirectly approximately \$34,560 in benefits from the state. Because of the way these benefits “cliff” out, there is a clear disincentive to move up in family income. A family who increases their income just \$1,000.00 moving them above 138% would become ineligible for Medicaid Expansion. Consider the lost benefits at the following income increases:

- f. Increase household income \$1,000: Lost benefit is Medicaid Expansion or \$15,600 for the two adults.
- g. Increase household income by another \$2,100: Lost benefit is Child care assistance or \$6,360 per year and LIEHAP or another potential \$2,000 per year.

Our family by increasing income by \$3,100 per year has now lost approximately \$23,960 in benefits. They would need a raise in income of nearly \$24,000 to \$59,500 to make up for lost state benefits. However, if they did receive this raise this would make them ineligible for SNAP

- h. The average per person SNAP benefit in Montana is \$1,400 per person. Assuming they are receiving the average, this would be \$5,600 in household benefits. By increasing income by \$24,000, they have now lost SNAP costing a total of \$29,560 in lost benefits.

However, if they made up the loss of \$29,560 in benefits with a salary increase to \$65,060 (\$35,500 + \$29,560) they will now lose \$7,000 in CHIP benefits (\$3,500 per child). This \$29,560 raise has cost them \$34,560 in benefits. However, this does not count the cost of the taxes on the \$29,560 increase in income. Let’s just say they pay ZERO in federal income taxes and pay 7% state income taxes on the increased income. The payroll taxes would be about 7.5% (double

that if there was a state or teachers defined benefit plan). Therefore, they would pay a minimum of \$4,286 in taxes on the increased income, making the net increase in salary \$25,274 (\$29,560-\$4,286) and a loss of \$34,560 in total benefits.

However, this is not the entire story. The family increased \$25,274 in net income, but now needs to buy health insurance on the exchange. Using the gross new household income of \$65,060 what is the cost of health insurance on the exchange?

- i. The cost is \$19,490 per year with a \$13,869 tax credit. Net family cost is \$5,621 per year. However, there is a potential of \$7,900 of out of pocket costs for the family if they purchased a silver plan. [exchange calculator](#)

Assuming the family has a medical event that maxes their out of pocket costs, their cost including premiums is \$13,521.00. Here are the costs the family must incur to replace their lost state benefits with their increase of \$25,274 in income:

- j. \$13,521 health insurance and potential medical costs (due to deductibles and co-pays). Their Medicaid Expansion coverage was better and nearly free.
- k. \$5,600 in SNAP Payments
- l. CHIP Costs (under J health insurance costs)
- m. \$6,360 in childcare subsidy.
- n. \$2,000 in energy assistance
- o. WIC benefits are unknowns as well as potential section 8 housing subsidy.
- p. Marriage penalties are not taken into consideration, benefits could be increased if the couple was not married.
- q. Total costs: \$27,481.

What has happened? The effective tax rate on the increase in income for this family to replace their benefits is over 108%. Did this family have incentive to move up in income? It is hard to see it. In addition, they are likely to forgo medical coverage even with the strong federal tax credit. This creates a situation for the non-working medical insurance costs are paid by the taxes of the working who are unable to afford health insurance for themselves.