The Cliff Effect: One Step Forward, Two Steps Back – Policy Design as a Disincentive for Economic Mobility

Derek Thomas[75]

Abstract: *The purpose of this report is to illustrate the "cliff effect" —the benefit "cliff" that occurs when even a $0.50 increase in hourly wages among heads of households leads to the complete termination of a benefit, and a dramatic net loss of resources. The unintended consequences of this design acts as a poverty trap – resulting in a disincentive towards economic mobility, or creating a situation in which the parent or guardian is working harder, but is financially worse off. The report is modeled after NCCP's "Making Work Pay" reports (Columbia University) —also sponsored by the Annie E. Casey Foundation. This report will be the first of its kind to use the Indiana specific Self-Sufficiency Standard.[76,77] According to the Standard: "Self Sufficiency is a measure used to determine how much income a family of a particular composition in a given place requires to adequately meet their basic needs, such as housing, food, transportation, health insurance, child care and other necessities—without relying on public or private assistance."*

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[76] The Self Sufficiency Standard is an updated, more accurate reflection of the real income needed to pay for a family's expenses in today's economy and makes it possible to determine if families' incomes are enough to meet basic needs. The online Self-Sufficiency Standard Calculator can quickly calculate the Standard for any county and 70 family types in all 92 counties in Indiana

[77]. Pearce, D. M. (2009, October). *The Self-Sufficiency Standard for Indiana 2009*. Retrieved from http://www.incap.org/documents/FINAL 2009 Indiana SSS Report 10-26-09.pdf

INTRODUCTION

The story in Indiana is no different from that in many states in the U.S, especially those in the Rust Belt – generally defined as Midwestern states affected by industrial decline. With the advent of job losses, beginning in the 1980s and further punctuated by the Great Recession, a growing number of Hoosiers were left without quality jobs and adequate incomes to afford their most basic necessities. These struggles that put Hoosier families in the red are not unique to a small population of the state.

The reality is that poverty continues to rise in Indiana – now affecting more than one-million Hoosiers. In all, a staggering 2.24 million Indianans live at or below 200 percent of the Federal Poverty Guidelines (FPG).[78,79] Contributing to the declining economic health, low wage jobs are on the rise. As of 2011, 71 percent of Hoosiers worked in occupations that pay less than what is required for economic self-sufficiency (200 percent of FPG, or, double the outdated poverty level), 24 percent worked in occupations that pay poverty level wages, and 6 percent of Hoosiers are making minimum wage.[80,81]

To help bring families closer to self-sufficiency by bridging the gap between low wage work and the increasing costs of basic necessities, work supports programs are designed to provide adequate resources for working families and simultaneously encourage progress in the workforce. This report will highlight the impact of work supports for low-income families, illustrate the

[78] The current poverty measure was established in the 1960s and is now widely acknowledged to be flawed. It was based on research indicating that families spent about one-third of their incomes on food – the official poverty level was set by multiplying food costs by three." As such, many public programs eligibility guidelines are set well above the FPG. NCCP, Measuring Poverty in the United States: **www.nccp.org/publications/pub_876.html**

[79] According to the U.S. Department of Health and Human Services, the FPG is equal to $11,490 for a family of one, $15,510 for a family of two, $19,530 for a family of three and $23,550 for a family of four.

[80] Bureau of Labor Statistics (May, 2011). *Occupational Employment Statistics.* Retrieved from Website: http://www.bls.gov/oes/current/oes353021.htm

[81] Indiana has a higher share of occupations that pay poverty level wages and a higher share of minimum wagw workers than all neighboring states, including Kentucky.

economic phenomenon known as the cliff effect and offer recommendations to help bring the budgets of Hoosier families back in the black.

HOW MUCH DOES IT TAKE TO BE SELF-SUFFICIENT IN INDIANA?

While self-sufficiency is generally defined as 200 percent FPG, according to the Self-Sufficiency Standard (which measures self-sufficiency in all 92 counties based on local variances), the average income for one adult, one preschooler and one school age child (across all 92 counties) required to be economically self-sufficient is more than 175 percent of the FPG, or $16.06 per hour ($33,408 annually). The range for self-sufficiency is anywhere from 270 percent of FPG in Hamilton County to 144 percent of FPG in Vermillion County.

The hourly wage required for self-sufficiency in Marion County ($19.95 per hour) is nearly triple the hourly minimum wage of $7.25 per hour and just under one and a half times that of the median hourly wage in Indiana of $15.24 in 2012.[82]

Figure 1 and **Figure 2** illustrate these specific budget constraints for a family of three in Marion County. Nearly 2.24 million Hoosiers face the same struggles and are not self-sufficient.

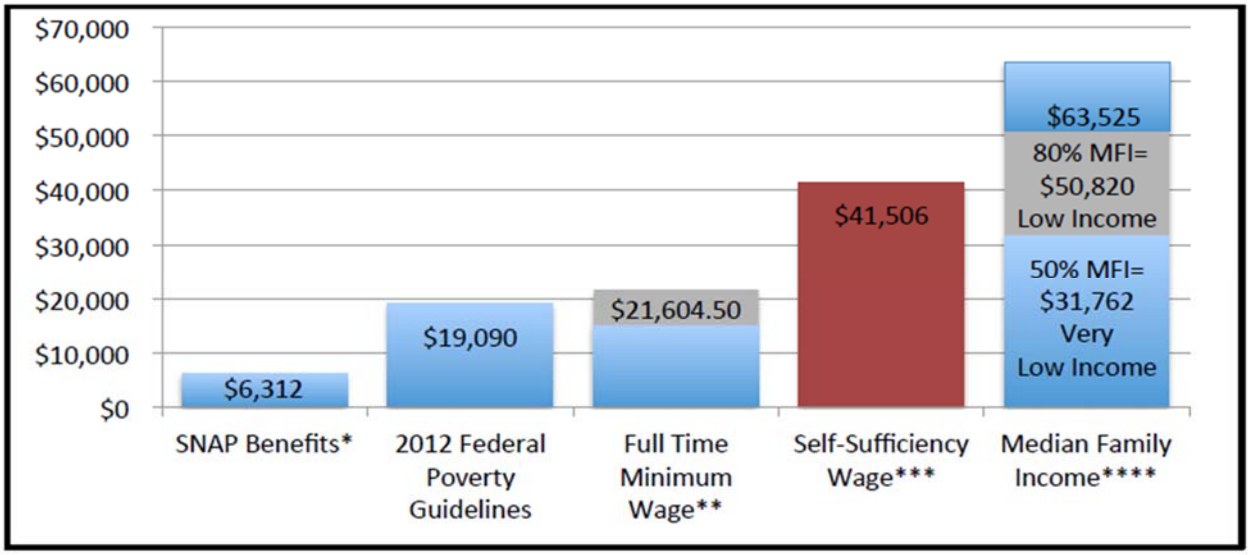
Figure 1: *Cost for One Adult, One Preschooler, and One School Age Child, Marion County, IN*

The Cost of Living for Families in Marion County

Housing:	$8,892
Food:	$5,977
Childcare:	$12,864
Healthcare:	$3,821
Transportation:	$3,821
Other Necessitates:	$3,569
Net Taxes (incl. credits):	$2,562
Total Expenses:	**$41,506**
Hourly Wage Needed =	**$19.95**

[82] Thomas, D. (2013). Status of Working Families, 2012 Report, (17), Retrieved from: http://www.incap.org/documents/iiwf/2013/Status%202012%20Final.pdf

Figure 2: *Self Sufficiency Wage Compared to Other Benchmarks, 2009-2011 One Adult, One Preschooler, and One School age Child, Marion County, IN*[83]



WHY WORK SUPPORTS?

Given the new economic reality facing families across the U.S. and Indiana, work supports are the counterweight to the gap between the increasing costs of basic necessities and the falling incomes of working families. Work support programs are means-tested public benefits such as earned income tax credits, child care subsidies, health insurance and food stamps – see **Table 1** for a description of various work support programs. Evidence shows that work supports are good fiscal policy because they put money into the hands of consumers. They also encourage work. Most importantly, they have been proven to effectively lift millions of Americans out of poverty

[83]***Supplemental Nutrition Assistance Program (SNAP) Benefits:** The maximum benefit for a family of 3 is $6,312--the maximums haven't changed since 2009.
[83]****Full Time Minimum Wage:** 2080 hours for full-time work by federal minimum wage of $7.25 per hour = $15,080. After payroll taxes and tax credits (totaling $6,524.50), the grand total = $21,604.50.
[83]*****Self Sufficiency Wage:** This number is based on a combination of expenses from the Institute's 2009 Self-Sufficiency Standard and NCCP's Basic Needs Budget. See appendix for methodology.
[83]****** Median Family Income:** The U.S. Department of Housing and Urban Development (HUD) uses area median family income as a standard to assess families' needs for housing assistance.

and put them on a path to economic self-sufficiency—nearly cutting poverty in half in 2010.[84,85] At the same time, the 2011 U.S. Census data suggest that, from 2010 to 2011, a large majority of Hoosiers who moved out of the 100 to 200 percent FPG levels fell deeper into poverty—below 100 percent.

Table 1: Work Support Policies in Indiana

Work Support Program/ Limits Set at the National or State Level	Benefit	Income Eligibility Limits
Federal Earned Income Tax Credit (EITC)/Federal	Tax refund Up to $3,094/year for 1 child; up to $5,112/year for 2 children; up to $5,751/year for 3 or more children	$36,052-$43,998 a year depending on family structure and number of children (income limits higher if married and filing jointly)
State Earned Income Tax Credit /State	Tax refund Set at 9% of the value of the federal EITC	Same as the federal EITC income eligibility as it existed before being amended by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312)
Federal Child Tax Credit/Federal	Tax refund Up to $1,000/year per child	Value of credit is phased out as adjusted gross income rises over thresholds ($110,000, married/filing jointly; $55,000, married/filing separately; $75,000, all others)
Federal Child and Dependent Tax Credit/Federal	Tax refund Up to 35% of a limited amount of employment-related child care expenses	No income limit; share of expenses covered declines to 20% as income rises
Supplemental Nutrition Assistance Program (food stamps)/ Federal with State Option	Food subsidies (in the form of EBT card) Up to $526/month for family of 3; up to $668/month for family of 4	130% FPL before subtracting deductions from income 100% FPL after subtracting deductions from income
Medicaid/State with National Parameters	Subsidized health insurance for parents and children	$3,456/year for family of 3 $4,158 for family of 4
Hoosier Healthwise (CHIP)/State	Subsidized health insurance for parents and children	250% FPL
Healthy Indiana Plan (HIP)/State	Subsidized health insurance for childless adults	200% FPL
Child Care Development Fund/State	Child care subsidy	Program entry 127% FPL; program exit 171% FPL
Section 8/Federal	Rental assistance	50% of area median family income (with exceptions)
Low-Income Home Energy Assistance Program (LIHEAP)/Federal	Credit applied to energy bill	150% FPL
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)*/Federal	Food subsidies (and other benefits, including nutrition education and health screenings) for pregnant women, new mothers, infants, and children up to age 5	185% FPL
National School Lunch Program and School Breakfast Program*/ Federal	Food subsidies (meals provided at school)	130% FPL for free meals; 185% FPL for reduced-price meals

*See Appendix for eligibility for various government programs

OFTEN TIMES, WORK ISN'T ENOUGH

The fact that work itself is not enough to be economically self-sufficient does not apply only to those making the paltry federal minimum wage of $7.25 per hour. As **Table 2** illustrates,

[84] Greenstone, M., & Looney, A. (2012, April 06). *The truth about taxes: Just about everyone pays them*. Retrieved from http://www.brookings.edu/blogs/jobs/posts/2012/04/06-jobs-greenstone-looney
[85] Greenstein, R. (2012, April 07). *Testimony: Robert Greenstein before the house budget committee hearing on strengthening the safety net*. Retrieved from http://www.cbpp.org/cms/index.cfm?fa=view&id=3745

a single parent earning $10 per hour while raising one preschool age child and one school age child does not begin to approach economic self-sufficiency without work supports[86]. Without the child care subsidies, in addition to the federal and state tax credits, Supplemental Nutrition Assistance Program (SNAP - formally known as food stamps) and the Public Health Insurance, the single parent would be in the red. In the table below, the expenses included are the most basic of necessities needed to support families. Not included are durable goods (such as furniture or appliances), payments on debt, savings, or asset accumulation, such as a home, an education or retirement. Activities to improve the overall quality of life are also not included.

Table 2: Impact of Work Supports on Hoosier Families[d] Single parent with two children ages 3 and 6 (assumes full-time, year-round employment at $10/ hour), Marion County	**Employment Alone**	**Employment PLUS** *Tax credits *State tax credits	**Employment PLUS** *Tax credits *State tax credits *SNAP *Public Health Insurance *Childcare Subsidy
Annual Resources (cash and near-cash)			
Earnings	$20,800	$20,800	$20,800
Federal EITC	0	4,247	4,247
Federal Child Tax Credit	0	2,000	2,000
State EITC	0	382	382
SNAP	0	0	3,942
Total Resources	**$20,800**	**$27,429**	**$31,371**
Annual Expenses			
Housing	8,892	8,892	8,892
Food	5,977	5,977	5,977
Childcare	**12,864**	**12,864**	**1,498**
Healthcare	3,821	3,821	1,634
Transportation	3,821	3,821	3,821
Other Necessitates	3,569	3,569	3,569
Payroll Taxes	1,175	1,175	1,175
Income Taxes (excluding credits)	120	120	120
Total Expenses	**$40,239**	**$40,239**	**$26,686**
Net Resources (resources – expenses)	**$-19,439**	**$-12,810**	**$4,685**

[86] Child care subsidies are reflected in the reduction of child care expenses and utilities are reflected in housing expenses.

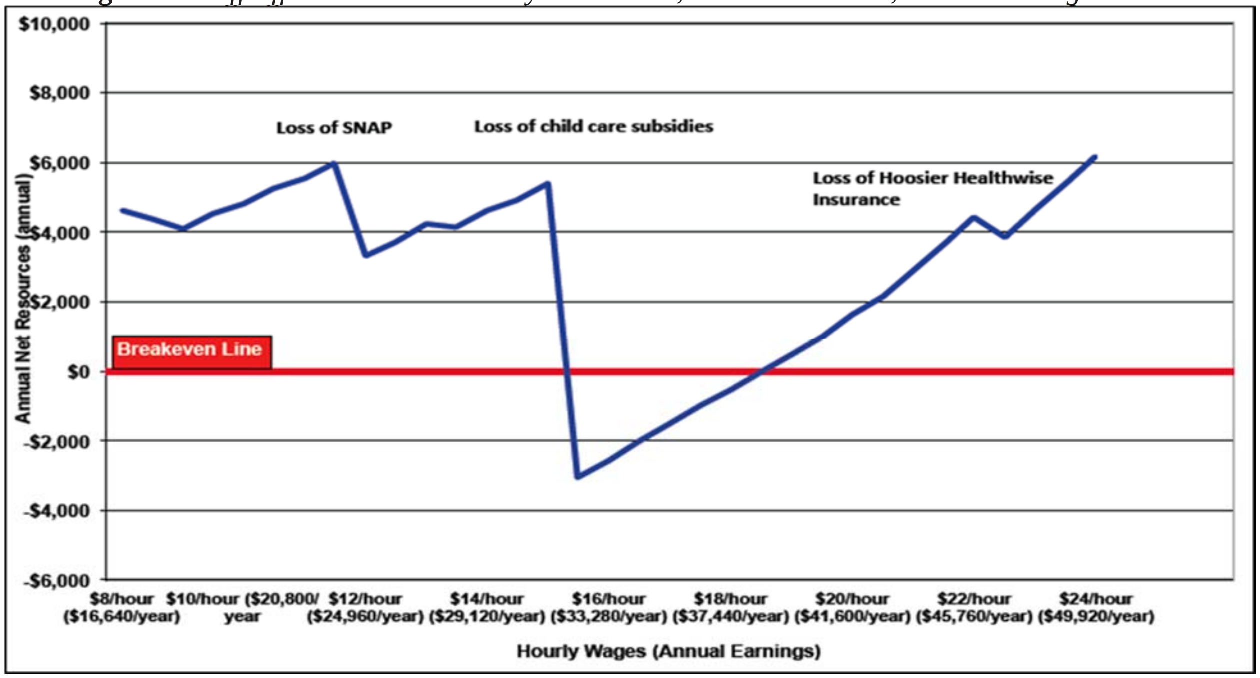
UNINTENDED CONSEQUENCES: THE "CLIFF EFFECT"

Most often the single greatest barrier to self-sufficiency for low-income individuals is the "cliff effect." Eligibility for work support programs SNAP, and Child Care Development Fund (CCDF) are based on income. Generally, eligibility for these programs requires that a family's income falls below 200% of the Federal Poverty Guidelines, with benefits phasing out as earnings increase. The unintended consequences of this design mean that an increase in a family's income can significantly set back a family's goal towards economic self-sufficiency.

In **Figure 3**, the "cliff effect" is illustrated. The red breakeven line is the point at which income is equal to expenses related to the costs of basic necessities. At a wage of $8 per hour, a single parent with one preschool age child and one school age child, with the support of federal and state tax credits, SNAP, public health insurance, and a child care subsidy is self-sufficient. The first significant loss in net resources occurs when the participant loses SNAP benefits between the wages of $11.50 and $12.00 per hour—a total annual net resource loss of $2,651—nearly 11 percent of annual income.

Most dramatic, though, is the "cliff" that occurs as child care subsidies are lost between the wages of $15.00 and $15.50 per hour—a total net resource loss of $8,454 ,or a painful 25 percent loss in annual resources as a result of a $0.50 raise. Finally, between the wages of $22.00 per hour and $22.50 per hour, when Hoosier Healthwise is lost, the total annual net resource loss is $574. While the latter is much smaller, punishment for hard work at levels near self-sufficiency is significant to Indiana's families. It is, therefore, no surprise that low-income workers would consider the economic impact of this "cliff" for their families before accepting a raise, effectively acting as a barrier to employment. The lack of an "EITC cliff" in the chart below is evidence (and an example) of a program well designed to phase out gradually.

Figure 3: *Cliff Effect in Marion County: One Adult, One Preschooler, One School Age Child*[87]



Source: National Center for Children in Poverty's Family Resource Simulator, Indiana 2011 www.nccp.org/tools/frs
When eligible, the family receives the following work supports: federal and state tax credits, SNAP/food stamps, public health insurance, and a child care subsidy. Budget numbers are from NCCP Basic Needs Budget Calculator and the Self Sufficiency Standard for Indiana.

CONCLUSION: REVERSING COURSE

The Institute's position is that work is a key component to achieving economic self-sufficiency, and that Indiana's state government, in collaboration with private and non-profit sectors, has an important role to play in improving the conditions and opportunities of low-wage workers and their families. In order for Indiana to prepare for a more prosperous future, policymakers must choose to invest in Indiana's workers and their families by strengthening state policies that lead to opportunities for Hoosiers to achieve and maintain economic self-sufficiency.

[87] See the Institute's video for a graphic illustration of the "cliff effect" www.incap.org/cliffeffectreport.html

As we slowly recover from the latest recession, and the past few decades of wage stagnation, we should move away from these policy choices that continue to harm working families in Indiana. These families work hard, play by the rules, and yet, the aforementioned public policy designs act as a deterrent to economic mobility. The role of state government in Indiana should not be to punish working families by cutting or eliminating programs entirely, but to design public policy that rewards hard work and promotes economic mobility by providing adequate resources for working families and simultaneously encouraging progress in the workforce.

In the following section, the Institute has provided policy recommendations to give Hoosier families a fair shake at achieving and maintaining economic self-sufficiency.

POLICY RECOMMENDATIONS: ENCOURAGE ECONOMIC MOBILITY

As a whole, the Institute recommends the following for each of these programs listed below:

- *Smooth Out Benefit Phase-Outs:* A gradual phase-out, as opposed to the "cliff," provides the most basic incentive to work hard; a raise that increases net resources.
- *Implement Broad Based Categorical Eligibility (BBCE):* BBCE is a state option that allows the alignment of SNAP eligibility with other low-income programs. Indiana adopted BBCE during the 2011 legislative session, but has yet to implement the rule.[88]
- *Change Monthly Income Eligibility Limits:* Use average of six months or one year to more accurately reflect fluctuating incomes due to irregular hours or seasonal employment.
- *Raise Income Tax Threshold:* Indiana is among only a handful of states that tax residents below the Federal Poverty Level - $19,530 for a family of three.

[88] United States Department of Agriculture. *Broad Based Categorical Eligibility (July, 2013).* Retrieved from website: http://www.fns.usda.gov/snap/rules/Memo/BBCE.pdf

THE SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP)

SNAP is a core component of America's nutrition assistance safety net that increases purchasing power (acting as a supplement) to provide sufficient food for families. From 2001 through 2008, the national number of SNAP participants grew unprecedentedly. The percentage increases in SNAP participation from 2007 through 2011 also grew at an unrivaled rate. In both instances, SNAP grew according to need, by design. Indiana's increase between 2007 and 2011 (51%) was not proportionate to the average national increase in participation (69%). This mismatch is also by design. Given its effectiveness in fighting poverty, the Institute recommends the following to strengthen one of the most successful anti-poverty initiatives.

• **Raise the SNAP Gross Income Limit:** Increase from 130% of FPG to 200% of FPG. This increase would reduce the first major SNAP "cliff" and;

• **Remove Asset Test of $2000:** These asset limits discourage families from establishing and accumulating sufficient assets which could not only be used to transition them off of public assistance but also lift the family out of asset poverty. Indiana should eliminate or increase asset limits to where they would not affect most recipients. Indiana has extremely low ($2,000) asset limits for SNAP and Temporary Assistance to Needy Families (TANF) - which are punitive and can discourage savings and asset accumulation. Indiana should also remove asset limit of $3,250 households with an elderly or disabled member. [89]

[89] New America Foundation, (2013). *Modernizing Asset Limits, Indiana Fact Sheet. Retrieved from website:* http://assetlimits.newamerica.net/states/indiana

CHILD CARE AND DEVELOPMENT FUND (CCDF)

The CCDF is a federal program specifically devoted to child care services and quality, but the program eligibility limits are set at the state level. Because the CCDF benefit "cliff" is the single greatest barrier to self-sufficiency, and child care costs in Indiana are soaring (10th highest in U.S., or 46 percent of State Median Income for a single parent), the state must ensure not only that work pays for low-income parents, but that high quality early child care services are provided.[90] Unfortunately, poverty rates among children in Indiana continue to increase—from 21.7 percent in 2010 to 23 percent in 2011.[91] In addition to phasing out benefits and adopting BBCE, the Institute recommends the following:

• **Invest More Money Into the CCDF Program:** Indiana is currently using all of its CCDF allocation, resulting in a wait-list;

• **Raise the CCDF Gross Income Limit:** Increase from 171% of FPG to 250% of FPG. This increase would reduce the greatest benefit cliff, encourage employment and support economic mobility and self-sufficiency and;

• **Increase Co-Payments:** If Indiana would increase co-payments for families at the higher end of the income eligibility range, the gained revenue could go towards serving more in the CCDF program.

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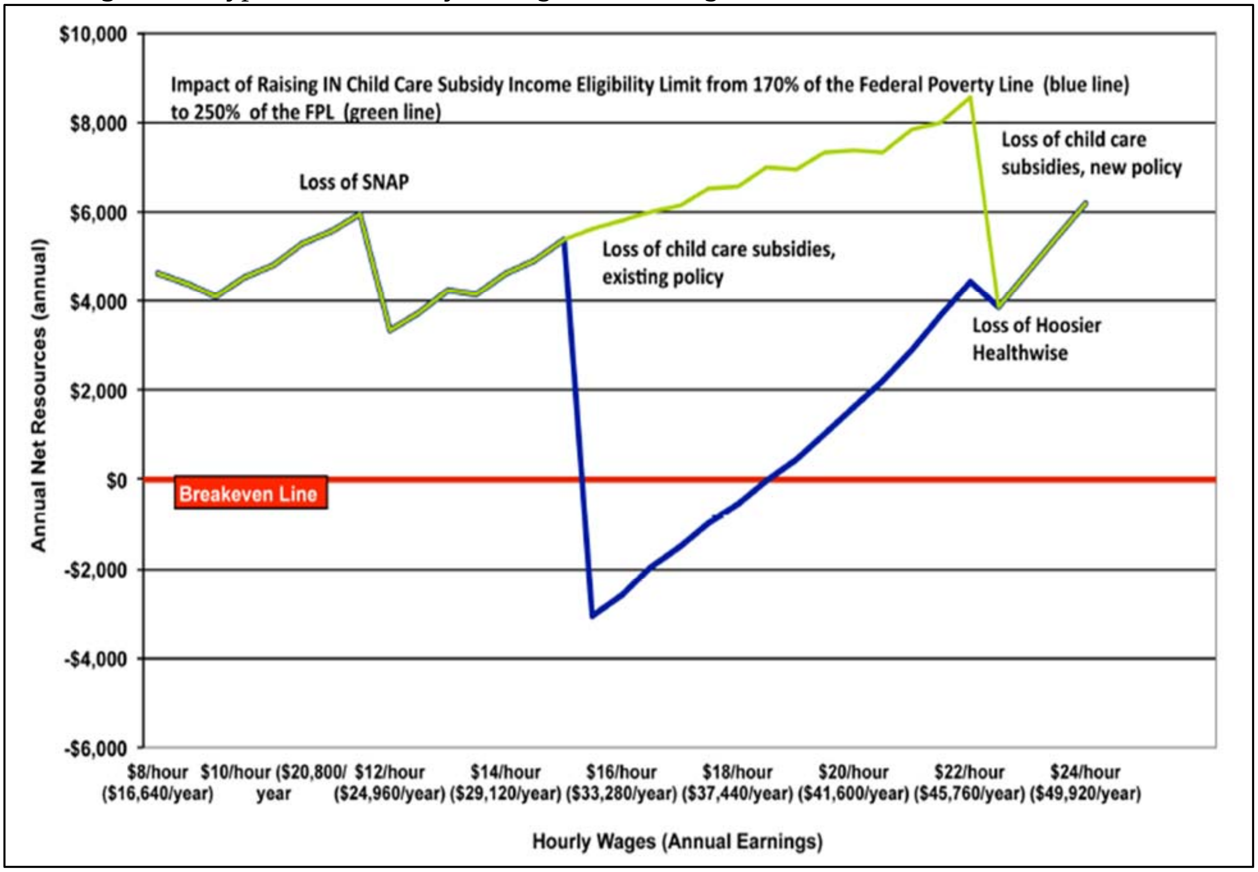
[90] Child Care Aware of America. (2012). *Parents and the high cost of child care*. Retrieved from website: http://www.naccrra.org/sites/default/files/default_site_pages/2012/cost_report_2012_final_081012_0.pdf

[91] Kids Count Data Center: A Project of the Annie E. Casey Foundation. *Children In Poverty.Retrieved from Website:* http://datacenter.kidscount.org/data/tables/43-children-in-poverty?loc=1&loct=2#detailed/2/10-19,2,20-29,3,30-39,4,40-49,5,50-52,6-9/false/867,133,38,35,18/any/321,322

Figure 4: *Hypothetical Policy Change, Increasing CCDF Income Limit to 250% FPG*



Source: National Center for Children in Poverty's Family Resource Simulator, Indiana 2011 www.nccp.org/tools/frs. When eligible, the family receives the following work supports: federal and state tax credits, SNAP/food stamps, public health insurance, and a child care subsidy. Budget numbers are from NCCP Basic Needs Budget Calculator and the Self Sufficiency Standard for Indiana.

Earned Income Tax Credit (EITC)

The EITC is a federal tax credit for low-to-moderate-income working individuals and families. The credit reduces the tax burden placed on workers by offsetting payroll and income taxes. The credit is also refundable—meaning that if the credit exceeds the amount of taxes owed, the difference is given back to the worker. Thus, earned income is put into the pockets of working individuals and families. Indeed, it has been proven to encourage work, especially among single mothers to reduce poverty. New research also shows that "adding $3,000 a year in EITC income to children in working-poor families before age 6 increases working hours by 135 hours a year between the ages of 25 and 37, and increases their annual earnings by 17% over the same period."[92] However, it is estimated that approximately 25 percent of taxpayers who are eligible do not claim the credit.[93] In addition to phasing out benefits and adopting BBCE, the Institute recommends the following:

•**Raise the state Earned Income Tax Credit from 9% to 25% of the federal EITC:** Indiana is to be commended for adopting a state EITC, but at 9% of the federal benefit the state benefit is now modest compared to most other state EITC's.[94]

Figure 4.1 illustrates the result of the increased credit. Before the credit expires at a wage of $20.00 per hour, the average increase in net resources is $417 during the life of the credit. Additionally at a wage of $8.00 per hour, the increase in annual net resources is $818. At a wage of $12.00 per hour, the increase in annual net resources is $539.00. At $14.00 per hour, the increase in annual net resources is $400. While appearing insignificant, these increases can make or break a family that is working towards economic self-sufficiency, many of whom are already struggling in a low wage economy.

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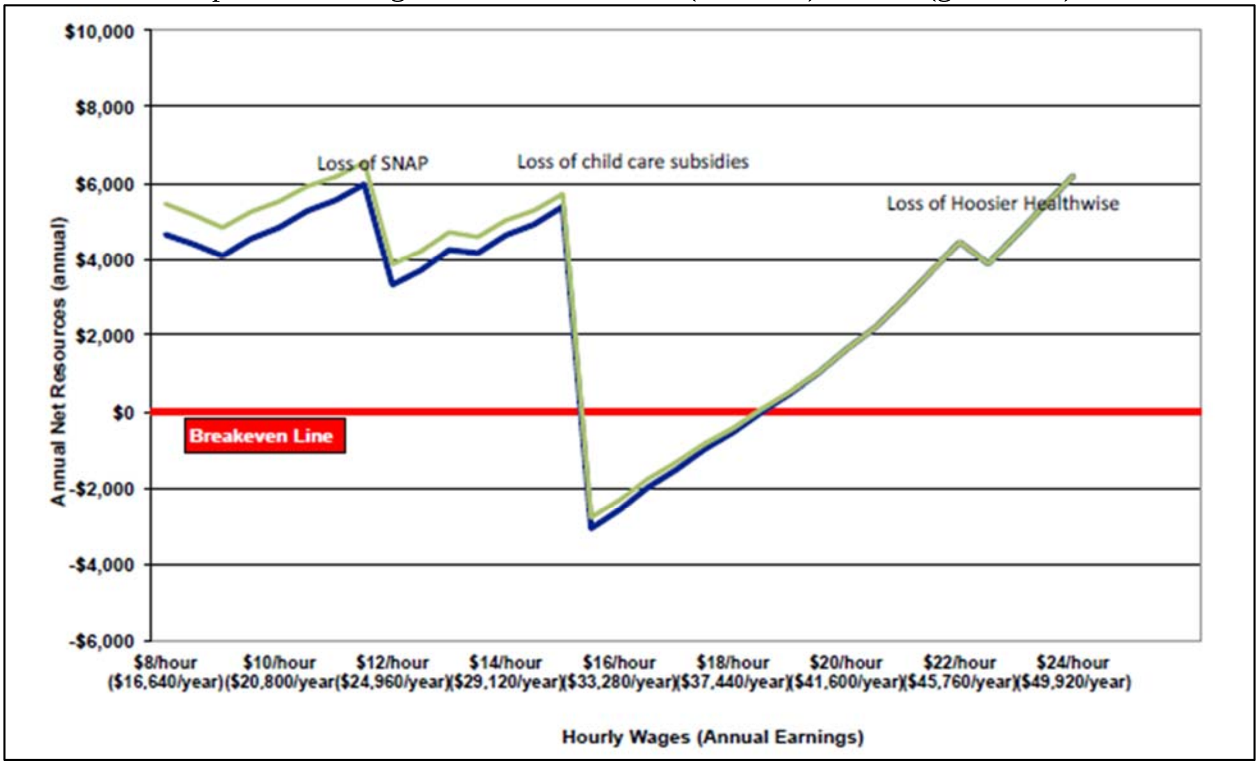
[92] **Oliff, Phil. Singham, Ashali. Center on Budget and Policy Priorities. The Impact of State Income Taxes on Low-Income Families in 2008. Retrieved from Website:http://www.cbpp.org/cms/index.cfm?fa=view&id=2976**

[93] Finzel, Rochelle and Torres Flores, Qiana (January, 2013) National Conference of State Legislators. Tax Credits for Working Families: Earned Income Tax Credit. Retrieved from Website: http://www.ncsl.org/issues-research/labor/earned-income-tax-credits-for-working-families.aspx

[94] Ibid.

Figure 4.1: Hypothetical Policy Change, Increasing State EITC to 25%
Impact of Raising State EITC from 9% (blue line) to 25% (green line)



Source: National Center for Children in Poverty's Family Resource Simulator, Indiana 2011 www.nccp.org/tools/frs. When eligible, the family receives the following work supports: federal and state tax credits, SNAP/food stamps, public health insurance, and a child care subsidy. Budget numbers are from NCCP Basic Needs Budget Calculator and the Self Sufficiency Standard for Indiana.

METHODOLOGY

This report features results from NCCP's Family Resource Simulator and Basic Needs Budget Calculator, which are web-based policy analysis tools designed for policymakers, administrators, advocates, and researchers. The Family Resource Simulator calculates the impact of federal and state work supports on the budgets of low-to moderate-income families. The Simulator concretely illustrates the effectiveness of current policies in encouraging and supporting work. NCCP also uses this tool to model potential policy reform. Family Resource Simulators are available or under development for 26 states. The Basic Needs Budget Calculator is a related tool that shows how much a family needs to make ends meet without the help of work supports. Users select the number of parents and ages of children and may adapt the estimates developed by NCCP or replace them with their own estimates. The Budget Calculator estimates the family's tax liability and overall budget according to these entries. For this report, the Indiana Institute for Working Families asked NCCP to incorporate expense estimates from the Self Sufficiency Standard for Indiana (Center for Women's Welfare, University of Washington) into the Budget Calculator. Self Sufficiency Standard values are used for the two major family expenses: housing and child care.

Rent and utilities: The cost of rent and utilities is based on the Fair Market Rent determined by the U.S. Department of Housing & Urban Development. This value varies by county and number of children; Basic Needs Budgets assume a 2-bedroom unit for families with 1 or 2 children and a 3-bedroom unit for families with 3 children.

Food: The cost of food is based on the Low-Cost Food Plan developed by the U.S. Department of Agriculture, which varies according to family size and the ages of family members.

Child care: The cost of child care is based on data from Indiana's child care market rate survey, using 75th percentile rates for licensed family care facilities and child care centers. Values vary by the child's age and the county. For two-parent families, cost also varies depending on the second parent's employment status. When both parents work full-time, Basic Needs Budgets assume that the family needs full-time child care. When the second parent works part-time, Basic Needs Budgets assume that the family needs part-time child care. When the second parent is not employed, Basic Needs Budgets assume that the family does not need child care.

Health insurance premiums: The cost of health insurance premiums is based on the average employee contribution for employer-based family coverage in Indiana's private sector, according to the Medical Expenditure Panel Survey (MEPS) conducted by the federal Agency for Healthcare Research and Quality.

Out-of-pocket medical expenses: The cost of out-of-pocket medical expenses is based on data from the Medical Expenditure Panel Survey (MEPS) conducted by the federal Agency for Healthcare Research and Quality. These estimates vary by the number of parents and children covered.

Transportation: For all Indiana counties, the cost of transportation reflects the assumption that parents commute to work by car and is estimated using the Economic Policy Institute's Basic Family Budget methodology. This methodology relies on data from the U.S. Department of Transportation's National Household Transportation Survey and cost-per-mile calculated by the Internal Revenue Service. The cost of transportation varies by county. For two-parent families, cost also varies depending on the second parent's employment status.

Other necessities: The cost of other necessities is estimated using the Economic Policy Institute's Basic Family Budget methodology, which relies on data from the Consumer Expenditure Survey. It equals 27 percent of the sum of the family's (unsubsidized) housing and food costs.

Debt: Basic Needs Budgets do not include any debt payment; however, users can choose to add this expense.

Payroll taxes: The cost of payroll taxes is calculated following federal tax regulations.

Income taxes: The cost of income taxes is calculated following federal, state and local tax regulations. Income tax calculations take into account the Federal Earned Income Tax Credit, the Federal Child Tax Credit, and the Federal Child and Dependent Care Tax Credit. The Indiana Earned Income Tax Credit is also included.

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