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Mechanisms are Available in Percentage of Income Plans to Address Geographic Areas with High Housing Costs or a High Cost of Living.

NOTE TO READERS

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Energy Assistance and Percentage of Income Plans can Consider High Cost Areas through Income Disregards.

Utility rate affordability programs adopted across the nation have increasingly been designed to account for varying ability-to-pay at different income levels. These programs recognize that as incomes decline for a household, not only does the household have a declining ability to pay bills in terms of absolute dollars, but the household has a declining ability to pay bills as a percentage of income as well. Five percent of income, quite simply, is "more important" to a household with an income of $5,000 than it is to a household with an income of $25,000.

Despite this progress in recognizing the nuances in ability-to-pay, these programs have *not* generally accounted for non-income-based attributes of a household. Four important attributes facing households might include: (1) the cost of living in a particular geographic area; (2) the cost of housing in particular; (3) the variation of income needs based not merely on household size, but on household composition; and (4) particular expenses associated with different demographics.

For example, these demographics might include increased medical and/or pharmaceutical expenses for older households or increased childcare expenses for younger households.

Pennsylvania: An Example of Differences by Family Composition

Pennsylvania presents a good example of how financial needs can differ based on the composition of a family. The Table below shows the "self-sufficiency standard" for the same county for four different families, each of which has three persons, but each of which has a different composition than the other. Family One has one adult, one pre-school child, and one school-age child. Family Two has one adult, one infant, and one pre-school child. Family Three has one adult, one school-age child, and one teen-ager. Finally, Family Four has two adults and one school-age child. These four families are used simply for illustrative purposes. Data is presented for Luzerne County.[1]

2021 Self-Sufficiency Income (Luzerne County, PA) (3-person household of different compositions)

1 adult 1 pre-school 1 school-age	1 adult 1 infant 1 pre-school	1 adult 1 school-age 1 teen-ager	2 adults 1 school-age
$54,816	$51,202	$38,353	$48,487

The Table shows that, despite being in the same location with the same household size, the "self-sufficiency income" for these four families differ by more than $16,000, ranging from a high of $54,816 to a low of $38,353.

In addition to varying by family composition, the self-sufficiency income for families with identical composition will vary based on geographic location as well. For example, with the examples considered above, while the self-sufficiency income (Luzerne County, PA) for a family with one adult, one pre-school child, and one school-age child is $54,816, a household with an identical size and composition in Bedford County (PA) has a self-sufficiency income of $47,186; in Lehigh County (PA) of $67,597; and in Bucks County (PA) of $77,992.

It is, quite simply, more expensive to live in some counties in Pennsylvania than it is to live in other counties. In addition, it is more expensive to live with very young children than it is to live with older children.

Pennsylvania: An Example of Differences by Housing Costs.

Aside from differences in the relative overall cost-of-living, as determined by a self-sufficiency income, housing costs will vary widely between the geographic areas of a state as well. Perhaps the best source of data on housing costs is the National Low-Income Housing Coalition's (NLIHC) Out-of-Reach data base, updated on an annual basis.[2]

In Pennsylvania, on average, the "state housing wage" (that wage needed to afford a 2-bedroom apartment) is $23.61. NLIHC reports that it would require 130 work hours per week at minimum wage to afford a 2-bedroom rental home (at Fair Market Rent), or roughly 3.3 full-time jobs at minimum wage.

[1] Available at https://selfsufficiencystandard.org/pennsylvania/

[2] Available at https://nlihc.org/oor

Using the same counties considered above, however, NLIHC reports that in Bedford County (PA), the FY23 housing wage is $15.79, while in Bucks County, the housing wage is $28.27. In Luzerne County, the FY23 housing wage is $19.38, while in Lehigh County, it is $26.85. In both Bucks County (3.9 fulltime jobs at minimum wage needed to afford 2-bedroom home) and Lehigh County (3.7 fulltime jobs needed), housing costs are high. In contrast, housing costs in Bedford County (2.2 fulltime jobs needed at minimum wage) are much lower, while housing costs in Luzerne Conty (2.7 fulltime jobs needed at minimum) are somewhat in the middle.

The conclusion is not that efforts to tie energy affordability to an affordable percentage of income are flawed. The conclusion is that perhaps additional factors should also be considered. The discussion below examines how this might be done.

The Use of Income Disregards

The use of income disregards is not uncommon in government-funded public assistance programs. The use of income disregards (or income deductions) is particularly common when applied to earned income. The purpose is two-fold: (1) one objective is to cushion the "cliff" which exists when one exceeds the maximum income eligibility and thus loses access to public assistance benefits; and (2) one objective is to provide an incentive for households to enter the workforce and thus generate "earned" income. When using income disregards (or income deductions), the term that is used when referring to income is "countable income" rather than "gross income."

SNAP (formerly known as Food Stamps), for example, is one of the programs that routinely uses income disregards (or income deductions) both to establish eligibility and to establish the level of benefits. Under SNAP, the following disregards and deductions are used:[3]

- *standard deduction* to account for basic unavoidable costs;
- *earnings deduction* equal to 20 percent of earnings (this accounts for work-related expenses and payroll taxes, while also acting as a work incentive);
- *dependent care deduction* for the out-of-pocket child care or other dependent care expenses that are necessary for a household member to work or participate in education or training;
- *child support deduction* for any legally obligated child support that a household member pays;
- *medical expense deduction* for out-of-pocket medical expenses greater than $35 a month that a household member who is an older adult or has a disability incurs; and

[3] Center on Budget and Policy Priorities (October 2023). "A Quick Guide to SNAP Eligibility and Benefits," available at https://www.cbpp.org/research/food-assistance/a-quick-guide-to-snap-eligibility-and-benefits

- *excess shelter deduction,* set at the amount by which the household's housing costs (including utilities) exceed half of its net income after all other deductions.

(internal notes omitted). The excess shelter deduction, however, has its limits. For example, the excess shelter deduction in 48 states and D.C. is limited to $672 in 2024 unless at least one household member is an older adult or has a disability.

The "medical expense" deduction has been identified by Mass Legal Services as being of particular importance. According to MLS:

> The medical expense deduction is an income deduction that eligible households can claim to boost their monthly SNAP benefits. Out-of-pocket health care expenses can be claimed by older adults age 60+ and individuals with disabilities. Adults and children qualify as disabled if they receive SSI or Social Security as disabled, EAEDC cash assistance or MassHealth as disabled or another disability-based benefit.* *
> *The lower the "countable net income" DTA uses to calculate SNAP benefits, the higher the SNAP, up to the maximum SNAP allotment. As a general rule of thumb, every $3 less in countable net income increases SNAP by $1.[4]

The "earnings deduction" identified above is intended to create an incentive for households to replace unearned income with earned income. As income increases through work, not all of that income is used in the "countable income" to establish SNAP eligibility and benefits. CBPP states:

> SNAP's rules give preferential treatment to earned income over unearned income (like Social Security or cash assistance). First, the program disregards 20 percent of earned income when calculating benefits. This disregard is meant to reflect income spent on work-related expenses like transportation and clothing that is therefore not available for food purchases. As a result of the earnings deduction, a household with earnings will receive a larger SNAP benefit than a household of the same size and gross income in which income comes from unearned sources.[5]

SNAP, however, is not the only program to use income disregards. Another major federal program to use such disregards is the federal Medicaid program.[6] This program

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[4] Mass Legal Services (February 2023). "SNAP and the Medical Expense Deduction," available at https://www.masslegalservices.org/content/snap-and-medical-expense-deduction

[5] Center on Budget and Policy Priorities (June 2019). "The Supplemental Nutrition Assistance Program Includes Earnings Incentives," available at **https://www.cbpp.org/research/the-supplemental-nutrition-assistance-program-includes-earnings-incentives#:~:text=SNAP's%20benefit%20structure%20is%20designed,higher%20wages%20or%20more%20hours.**

[6] American Council on Aging (last updated February 2024). "Income Disregards: When One's Income Does Not Count Against Medicaid's Income Limit," available at

provides medical assistance to low-income households. The Kaiser Family Foundation's report on establishing income eligibility for Medicaid (and for State Children's Health Insurance Program, SCHIP) provides one of the best explanations of how income disregards work.[7] In particular, the Kaiser Family Foundation explains how work disregards operate. KFF states:

> Disregards have been used to provide families a work incentive; to make health coverage more widely available and affordable; and to ensure that a family's work-related expenses are taken into account when determining eligibility for public health coverage programs.

KFF explains:

> In determining a child's eligibility for Medicaid, states are required, at a minimum, to apply the disregards established under the former Aid to Families with Dependent Children (AFDC) program, but they can choose to apply larger, more generous disregards, if they wish. The minimum disregards include a $90-per-month earnings disregard for each worker, a deduction for child care expenses up to $200 per month for children up to age 2, and up to $175 per month for children age 2 and older; and a $50 disregard for child support received.. . .
>
> Research has shown this strategy to be an effective work incentive. The minimum AFDC disregards were carried over into Medicaid for children. In addition to supporting low-income families' efforts to work their way out of poverty, disregards can help them avoid the choice between declining a higher paying job (or forgoing overtime hours) and losing their health coverage, which would compromise their children's health and the family's security.[8]

KFF continued to explain:

> disregard policies remain instrumental in the eligibility determination process, since they account for the fact that workers must incur certain expenses, such as transportation to and from the job, and that money spent on such necessities is not available to purchase health insurance. By not counting a portion of family income that must be used for such expenses, states obtain a more accurate picture of a family's disposable income in evaluating whether the family should qualify for public health coverage.

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https://www.medicaidplanningassistance.org/income-disregards-exclusions-deductions/#:~:text=Regardless%20of%20which%20term%20is,amount%2C%20any%20disregards%20are%20subtracted.https://www.medicaidplanningassistance.org/income-disregards-exclusions-deductions/

[7] Kaiser Family Foundation (May 2008). **"**Determining Income Eligibility in Children's Health Coverage Programs: How States Use Disregards in Children's Medicaid and SCHIP," available at https://www.kff.org/medicaid/issue-brief/determining-income-eligibility-in-childrens-health-coverage/

[8] Id., at 3 (internal notes omitted).

The lesson from this health care policy for energy assistance is that, as KFF explains, “Some types of disregards are applied to all families applying for coverage; others are used to help only families that incur specific expenses.” The disregards, in other words, are used to target assistance to families with particular needs. These “particular needs” are precisely the type of need identified above: responding to high cost-of-living, high housing costs, or particular household expenses associated with particular demographics but not with everyone.

Finally, at the state level, Massachusetts uses an “earnings disregard” in calculating unemployment benefits. According to the Commonwealth’s website, “If you work during weeks in which you request Unemployment Insurance (UI) benefits, you may still be paid benefits if your gross wages (total wages before taxes are deducted) are less than your weekly benefit amount. Any earnings greater than 1/3 of your weekly benefit amount (known as your earnings disregard) will be deducted dollar-for-dollar from your weekly benefit payment.”[9]

Applicability to an assessment of home energy affordability

The use of income disregards and/or expense deductions in the structure of a home energy affordability program could be done in any number of ways. How to apply these principles, however, is obviously a local decision requiring input from local stakeholders. Some of the ways that might be considered, however, include:

- Using an earned income deduction to cushion the “cliff” after which households lose all of their assistance.

- Applying a “high cost of living” deduction, with the “cost of living” determined by reference to Area Median Income (AMI). If someone lives in a geographic area with a high AMI, they would be able to claim an income disregard of x% (perhaps 20% of the excess of the AMI over the State Median Income).

- Applying a high housing cost deduction. Akin to the SNAP “excess shelter deduction,” to the extent that a customer’s shelter costs (determined in the same way that SNAP determines shelter costs for its Excess Shelter Deduction) exceeds 50% of income, the excess over 50% (up to some maximum, again akin to SNAP) could be a deduction from income.

- A “medical cost” deduction, which may be of particular importance to particularly vulnerable households (e.g., those with young children, those with aging household members, those with disabled household members).

[9] Massachusetts Department of Unemployment Assistance (undated). “Working While Receiving Unemployment Benefits,” available at https://www.mass.gov/info-details/working-while-receiving-unemployment-benefits

Summary and Conclusions

Applying income disregards to utility-funded rate assistance programs is a new concept. It should not be implemented without considerable input from all relevant stakeholders. Nonetheless, the concept of (or principle of) using "countable income" (which implies the use of income disregards and expense deductions) is a concept that merit additional consideration.

Persons interested in more information about the use of income disregards in determining both income eligibility for public assistance programs, and determining the level of benefits from public assistance programs, can write for more information at:

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Fisher, Sheehan and Colton, Public Finance and General Economics (FSC) provides economic, financial and regulatory consulting. The areas in which *FSC* has worked include energy law and economics, fair housing, local planning and zoning, energy efficiency planning, community economic development, poverty, regulatory economics, and public welfare policy.