To: Kim McCoy Wade, Director of the CA Department of Aging
From: Teri Olle, Economic Security Project Action and Emily Rusch, CALPIRG
Date: October 31, 2019
Re: Policy proposal to support caregivers of aging and disabled family members through the CalEITC

Background

The Earned Income Tax Credit (EITC) is celebrated as one of the most effective tools for addressing the needs of people who are working but struggling to make ends meet. Designed as a wage-booster, the EITC was originally created to support people in finding and maintaining work by supplementing earnings. California created a state EITC in 2015 and has expanded it each year, most dramatically in 2019 with a near-tripling of dedicated investment (to $1 billion). With the recent expansion, the CalEITC is now a robust state-funded program that is expected to provide refundable tax credits to over three million California households making under $30,000 a year.

However, a substantial amount of work done every day by Californians -- those who provide caregiving for loved ones -- goes unrecognized because it happens outside of the formal economy. This critical work is not eligible for the same benefits as other remunerative work, such as income-based credits like the EITC. And caregivers in low-income households face a no-win situation: reduce hours in the formal economy to provide necessary care for a loved one, thereby putting themselves in economic peril now and in the future, or maximize work in the formal economy and struggle to afford quality care -- assuming they can even find it.

The Problem

The caregiving numbers are staggering: 4.4 million Californians currently provide unpaid care for loved ones, which includes dependent children, aging parents or family members with disabilities. Considering caregiving of older adults alone, family caregivers in California provided over *4.1 billion hours* of care in 2013 — worth an estimated $57 billion — to their parents, spouses, partners, and other adult loved ones.[1] And the numbers of older adults in California just keep growing: the total number of adults 65 and older is projected to grow from 5.5 million in 2017 to 9.1 million in 2030.[2] Most aging or disabled Californians in need of care prefer to stay

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[1] AARP Public Policy Institute. "Valuing the Invaluable: 2015 Update." 2015

[2] Public Policy Institute of California. "California's Future." 2019

in their own homes, and it is both far better as well as much less expensive to keep people out of nursing homes.

Of course, responsibility for caregiving does not fall evenly across the population -- women and people of color are far more likely to be caregivers. And unsurprisingly, caregivers who scale back remunerative work put themselves at tremendous risk of financial insecurity, both now and into the future, creating a cycle of need that is hard to exit.

According to AARP and National Alliances for Caregiving's 2015 report "Caregiving in the U.S":

- Caregivers are primarily women: women make up two-thirds of today's caregivers.
- The time they devote to caregiving is equivalent to a part-time job: the average caregiver for an older adult provides nearly 25 hours of care a week for an average of four years.
- Caregivers are often in the later stages of prime working age: a quarter of unpaid caregivers were millennials and two-thirds were between 40 and 50. Sacrificing years of prime working performance could have a long-term impact on later earnings and financial stability in retirement.
- Caregivers often sacrifice other work to take care of responsibilities at home: 61 percent of caregivers report making changes such as cutting back on their paid working hours, changing jobs, stopping work entirely, taking a leave of absence, or other related changes as a result of their caregiving role.[3]

Caregivers face higher rates of financial risk: wages of caregivers are, on average 5 to 7 percent lower than non-caregivers and caregivers are 30 percent more likely to face financial instability as a member of the contingent workforce.[4]

Proposal: Expanding CalEITC's Definition of Work to Include Caregiving

One simple and straightforward policy proposal for supporting caregivers is to expand the definition of "work" in the CalEITC to include caregiving of qualifying dependents that is done outside of the formal economy.

Specifically, this credit would:

- Provide a minimum refundable tax credit of $1200 a year to caregivers caring for qualifying dependents (see below for definitions)
- To target those households living in deep poverty, make the credit available to caregivers earning $0 in the formal economy
- Provide the credit on top of any other earnings-based CalEITC with a phase-out in the upper reaches of CalEITC eligibility (like the Young Child Tax Credit does) OR

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[3] AARP and National Alliances for Caregiving. "Caregiving in the U.S." 2015
[4] OECD. "Help Wanted? Providing and Paying for Long-Term Care. Chapter 3: The Impact of Caring on Family Carers." 2011.
2011.

- Structure the credit to apply only at the phase-in of eligibility, with the credit phasing out if/when the household earns enough in the formal economy to receive at least $1200 in income-based CalEITC (recognizing that many households without children might not reach that mark, and therefore the $1200 caregiver credit might function as a floor)
- Be administered through the tax system rather than another program administration

Qualifying dependents could be defined as follows:

- "Dependents" as defined by the CA Dependent Care Tax Credit: Requires that the dependent receive at least half of his/her support from the caregiver, but does not require the dependent to meet a means test (though the household would have to be CalEITC-eligible, making under $30K/year)
- "Dependents" as defined by the IRS: Requires both that the dependent receives at least half of his/her support from the caregiver, and that the dependent does not have more than $4150 in gross income
- We could set an age such as 65, for older adults, and waive any age requirement for family members with disabilities

Why a caregiver credit? A caregiver credit would:

- Put much-needed cash into the pockets of people who are at financial risk because of the important but unrecognized caregiving work they do.
- Build on the existing CalEITC structure, rather than setting up a new program. (This credit could be structured much like the Young Child Tax Credit, but for caregivers of aging adults and family members with disabilities).
- Recognize the importance of caregiving work, and by valuing it, lift up the entire care economy.

<u>Scope and scale</u>

We are currently investigating how many households would qualify for a credit like this. We would welcome the opportunity to discuss this proposal further, and to work with you and your colleagues to further refine it.