

UNDERSTANDING CLIFF EFFECTS: IMPLICATIONS AND SOLUTIONS

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INTRODUCTION

Many families depend on benefits such as cash assistance, child care assistance, and housing assistance to sustain their households. Perversely, these systems can trap families in poverty and prevent their economic mobility. As family incomes increase, they lose benefits – sometimes greater than the value of their increased income. In other words, families can work harder, earn more, and have less money to spend.

The term “cliff effects” refers to abrupt and significant changes in an individual's benefits or financial status that occur when they reach income thresholds. However, the situation is more complex than the term implies. Each of the benefits that families might use have different eligibility criteria, meaning that any change in income can change their available funds in unpredictable ways. It is crucial for policymakers, social workers, and individuals themselves to understand cliff effects, mitigate their adverse consequences, and promote upward social mobility. This report provides an overview of cliff effects, their implications, and potential solutions.

IMPLICATIONS OF CLIFF EFFECTS

Cliff effects have three main effects: financial insecurity, workforce disincentives, and creating poverty traps.

FINANCIAL INSECURITY

Cliff effects can trap individuals in a precarious financial situation, where any increase in income leads to a reduction in benefits, leaving them worse off than before the change in earned income. Common benefits accessed by low-income families include:

- Health insurance: Federal and state programs increase access to health insurance through programs like Medicaid.
- The Supplemental Nutritional Assistance Program (SNAP), commonly referred to as Food Stamps, helps families afford healthy food.
- The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) provides additional nutritional support for women who are pregnant, and parents who care for infants and young children.
- Heat Subsidies or Fuel Assistance assists families to pay their winter heating bills and, in some states, summer cooling bills.
- Temporary Assistance to Needy Families (TANF) provides cash support to pregnant and parenting women and their children.
- Supplemental Security Income (SSI) provides cash assistance to low income individuals with disabilities.
- Child Care Vouchers help low-income families pay for child care. In CT, the childcare public subsidy program run by the Office of Early Childhood is called Care 4 Kids.
- Federal Earned Income Tax Credit (EITC) is a refundable tax credit for low-income workers with children.

WORKFORCE DISINCENTIVES

When individuals realize that earning more income may result in a net loss due to cliff effects, they may be discouraged from seeking better job opportunities or pursuing career advancement. This leads to stagnant economic growth. Furthermore, the systems are so complex that workers often cannot anticipate how a change in income will affect their take-home pay, leaving them to avoid raises or promotions out of fear (Leap Foundation, n.d.). Benefits vary by family size, family composition, age of children, and city, county, and state of residence.

Managing a workforce that participates in benefits programs can be a challenge to managers who will struggle with recruitment, promotion, and retention when presented with so much uncertainty about take-home pay (Leap Fund, n.d.). This is crippling in some industries. For example, more than half of fast-food workers participate in public benefits programs (Leap Fund, n.d.).

Loss of child care subsidies can be devastating to employment. When a family's income increases above the level of eligibility for child care, they can lose the entire benefit, making it financially untenable to work (Birken et al., 2018).

The Center for Social Policy at University of Massachusetts Boston has published a set of benefits cliff calculations that demonstrate that for many families, there is no net benefit to increasing their income above \$10 per hour. In many cases, there is no net benefit until families are earning over \$25 per hour (Agarwal et al., 2018). For some individuals, the threat of loss of benefits such as health care or disability benefits keeps them out of the workforce altogether (Blanco, 2023).

POVERTY TRAPS

Cliff effects can contribute to the perpetuation of intergenerational poverty, as individuals may struggle to escape poverty despite efforts to improve their circumstances.

POTENTIAL SHORT-TERM SOLUTIONS

MAKING FAMILIES WHOLE

A pilot program in Massachusetts puts \$1 million towards helping families overcome cliff effects. Using American Rescue Plan Act (ARPA) funds, the program reimburses families for the loss in benefits that they incur when their income increases. The pilot program will send families Earned Income Tax Credits that reimburse them for the value of benefits that they have lost due to increased earned income during the year (Conway, 2023). At the time of this writing, it has not been determined how families will apply to the program.

EARNED INCOME DISREGARDS

Some states are creating legislation to exclude additional income from benefits calculations. For example, in 2018 Massachusetts implemented an earned income disregard for TANF for the first six months of employment as long as the family's income was less than 200% of the federal poverty level. 11 states¹ have earned income disregards for determining continuing eligibility for TANF (McCann, 2019).

ENHANCE EDUCATION AND COUNSELING

Providing comprehensive information about cliff effects to individuals, including financial planning and career counseling, can empower them to make informed decisions and navigate the complexities of benefit programs. Programs such as the Leap Fund (Leap Fund, n.d.) have created benefits calculators to help workers and employers understand the implications of income increases in their specific municipalities so that workers can make informed decisions about their labor force participation and employment.

CONCLUSION

Cliff effects pose significant challenges to individuals striving for economic mobility and self-sufficiency. They also contribute to the labor shortage by reducing the hours that workers are willing to take on, preventing promotion and retention strategies, and keeping workers out of the labor force altogether. By recognizing the implications of these effects and implementing targeted solutions,

¹ Alaska, , Arizona, Arkansas, California, Colorado, Delaware, Hawaii, Indiana Massachusetts, Montana, Utah, and Texas

municipalities, policymakers, social workers, employers, and individuals can collectively work towards a system that supports upward mobility, encourages work incentives, and breaks the cycle of poverty. Addressing cliff effects requires a comprehensive and coordinated approach that balances the need for targeted assistance with the promotion of long-term financial independence.

REFERENCES

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