From Rhetoric to Reality: What it takes for Public Benefits to Work Better for Workers

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Millions of people in the United States struggle to make ends meet due to lack of work, low wages, or insufficient hours. However, a set of public programs supplement earnings to significantly improve the lives of low-income families, both poor and near-poor, through increased access to health care, nutrition, and other services that promote economic self-sufficiency.[1]

Many programs aimed at basic needs (such as the Supplemental Nutritional Assistance Program—SNAP—and Medicaid) are *means-tested*, meaning that they are only available to those with low incomes. Because means-tested programs target resources to the people who need the most assistance, they are far less costly than universal programs that are available without regard to income, such as public education or Social Security. By definition, people lose eligibility for means-tested programs as their incomes rise. The specific design of a program is important because it significantly affects whether low-wage workers will transition off programs gradually as their earnings increase or experience a sharp reduction in benefits. When a small increase in earnings pushes someone just over a benefit eligibility limit, leading to an abrupt loss of benefits, they experience what is called a "cliff effect." Benefit cliffs can leave families no better—and in some cases much worse—than before a wage increase.

Policy changes in recent decades that have expanded the availability of key benefits such as SNAP and Medicaid for working families and the creation of the Earned Income Tax Credit (EITC) have significantly reduced the extent of cliff effects. Research studies of these programs confirm that a gradual transition off of benefits as earnings increase serves to better support work and stabilize families.[2] Though these programs are well targeted to serve those with the greatest need, some important cliff effects persist.

Child care subsidies remain one of the largest cliffs, although recent policy changes have made improvements. As a result of the bipartisan 2014 reauthorization of the federal Child Care and Development Block Grant (CCDBG), states have the option to ensure working parents do not lose their subsidy from a small increase in income. This is critical because child care subsidies have a demonstrated pro-work effect that allows large numbers of mothers to attain steady work.[3] This policy change is a step forward in the fight to reduce cliff effects yet many low-income mothers still face a large cliff due to eligibility criteria that limit subsidies to those with very low incomes. States set income eligibility limits below—in many states, well below—the federal income ceiling due to insufficient resources to fund the subsidies. Consequently, mothers experience a steep cliff when they no longer qualify for child care assistance well before they are able to afford the high cost of child care on their own.

Cliff effects in benefit programs are problematic because they violate our basic notions about fairness and the common-sense belief that programs designed to promote economic self-sufficiency should not leave someone worse off as the result of an earnings gain. While policymakers across the political spectrum agree on the perils of cliff effects, they differ significantly on the magnitude and scope of the problem. Some politicians use the existence of cliff effects—and the subjective application of non-representative studies examining their occurrence—to suggest that safety net programs trap families in poverty and discourage work.

For example, House Speaker Paul Ryan's *Better Way* plan says "…as people start to make more money, they lose benefits. But since people are rarely on one program, that loss can be sudden and substantial. That's why this is often referred to as the 'poverty trap.' So, you may get a raise and actually lose money. In other words, you are punished for working hard and doing the right thing."[4] These claims are fueled by misleading data on the magnitude of this problem and selective and insubstantial evidence that it discourages work.[5] In fact, the preponderance of the evidence is that the safety net as a whole supports work—particularly for low-income parents—by helping workers stabilize their lives, raise their children, and move up in their jobs.[6]

One of the major success stories of the past decades is that the safety net has made work pay and lifted millions of families out of poverty.[7] This evidence is ignored by the same politicians who express concern about the work disincentives in benefit programs. In fact, many of these same policymakers have been promoting SNAP and Medicaid policies that would reverse progress and exacerbate cliffs, worsening poverty and increasing hardship.

Medicaid

Medicaid is a joint program between the federal government and states that provides health care to low-income people. In general, children have higher eligibility limits than adults, and therefore cliff effects mainly affect adults without children. Prior to the Affordable Care Act (ACA), Medicaid eligibility for adults was primarily limited to those with dependent children who earned very little income. The ACA has greatly diminished the Medicaid cliff effect by allowing states to expand Medicaid to all adults earning less than 138 percent of the federal poverty level (FPL) ($16,643 a year for a single person and $28,180 for a family of three), regardless of whether they have dependent children. However, because not every state adopted the Medicaid expansion, eligibility varies greatly among states, and many people still experience a significant cliff effect.

Cliff effects in health care remain steep and grim for low-income residents of states that did not adopt the Medicaid expansion. In 18 out of 19 non-expansion states, low-income adults without children are completely shut out from access to affordable health care.[8] Because of harmful income eligibility limits that are set far too low, the situation is only marginally better for adults with children. For example, a single parent with two children will lose Medicaid coverage in 18 of the 19 non-expansion states when the family's income reaches just $8,984 a year (44 percent of poverty). This parent will be ineligible for tax credits and cost-sharing reductions under the ACA until earning about $20,100 a year (100 percent of poverty). In the states that did not adopt the Medicaid expansion, over 2.6 million people (more than a quarter of whom reside in just four states; Texas, Florida, Georgia, and North Carolina) fall into the coverage gap and have no access to affordable health care coverage.[9]

Conversely, adults who live in states that have expanded Medicaid experience little or no cliff effect. Adults in these states are eligible for Medicaid while earning low-wages, and then become eligible for tax credits to purchase private insurance and assistance with out-of-pocket costs as their income increases without a gap or cliff. Expanding Medicaid reduced or eliminated the cliff effect by providing affordable health insurance for low-income people—regardless of their family composition—who are often working in low-wage or part-time work without access to employer-sponsored health care. Although many in Congress claim they want to reduce cliff effects, the recent health care proposals to repeal and replace the ACA, if enacted, would bring back the steep cliff effects that existed prior to ACA, (and still exist in non-expansion states). Should repeal efforts succeed in the future adults in the 32 states (including D.C.) that have expanded Medicaid will once again face a cliff that was eliminated by the ACA.

Similarly, under the repeal proposals, purchasing private health insurance would be more expensive for low-income people. Under the congressional proposals, tax credits for purchasing insurance would be less generous than ACA tax credits because they are based only on a person's age, rather than on income and need. Under the Senate bill, one independent health policy firm calculated that a family of two with an income of 133 percent of FPL would have to pay 60 percent of its total income for health care premiums and out-of-pocket costs.[10] This would create a sharp cliff effect among those who earn too much to qualify for Medicaid and are unable to afford private insurance.

Expanding Medicaid is a demonstrated policy solution to reduce cliffs in health care. Therefore, maintaining and further expanding Medicaid will further reduce cliffs in the states where they persist. Sustaining the federal government's commitment to Medicaid expansion, including allowing and encouraging additional states to adopt this policy, is the best option for solving cliff effects in health care.

SNAP

The Supplemental Nutrition Assistance Program (SNAP) provides nutritional assistance to low-income Americans and has been shown to reduce food insecurity, improve child outcomes, and support work.[11] SNAP bases benefits on a household's net income after such expenses as child care and encourages work by phasing out slowly with increased earnings. However, a modest but significant cliff exists in SNAP due to a federal rule that cuts off benefits at a gross (total) income of 130 percent of FPL (about $26,000 annual for a family of three). A family close to this level, who also has large deductions for housing and child care expenses, could experience a loss in benefits that is greater than their earnings increase.

To address the SNAP cliff effect and simplify administration of the program, many states have opted to use a policy called "categorical eligibility" that allows them to increase the gross income limit. In states that have taken this option, recipients are less likely to experience a cliff because their benefits will phase down to nearly zero before they reach the gross income limit. This approach can help cushion the transition for SNAP households as their employment earnings slowly increase, which strengthens SNAP's work incentive effect.[12] As of August 2016, more than 42 states and territories use this approach to raise the gross income limit.[13] In addition to reducing the cliff effect, states understand that categorical eligibility can help ease the burden for low-income families trying to navigate a complex system of safety net programs and simplify eligibility processes.

Nonetheless, the Trump Administration's FY 2018 budget proposes to eliminate the state option that allows this approach.[14] This would re-instate a benefit cliff and be detrimental to the low-income households with children that benefit most from this crucial food assistance program.[15] Rolling back categorical eligibility would reintroduce burdensome eligibility processes by increasing requirements on states and harm millions of households with children in which one or more adults are working.

Conclusion

While there is widespread agreement that people should be better off when they get a raise or increase their hours of work, there is less agreement about how to address benefit cliffs. Experts and researchers have identified a variety of solutions that reduce cliffs without harming low-income Americans. These include increasing income eligibility limits, making programs universal regardless of need, phasing out benefits more slowly as earnings increase, and allowing people to keep benefits at the previous level for a transitional period after they start a new job. These proposals have not been broadly adopted because they are costly. Conversely, others who claim to be concerned by cliff effects have proposed to reduce or eliminate eligibility, slash program funding, or change the entitlement structure of safety net programs. None of these would actually reduce cliff effects—many of them would make them worse. Even in the best case scenario, these proposals would simply pass tough decisions to states about how to design tradeoffs in program design.

Talking about cliff effects is powerful because it reveals the lived experiences and challenges of people striving to achieve economic self-sufficiency through low-wage work. Unfortunately, these experiences have been distorted into rhetoric that has been used to justify harmful attempts to cut or undermine these critical programs. To minimize or eliminate cliff effects in earnest, policymakers must commit to investments and policies that have been demonstrated to make it easier for hard-working families to achieve long-term economic security.

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