PIONEER OPPORTUNITY

# Benefit Cliffs:

## A Literature Review on Welfare Structures as a Disincentive to Work

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## Introduction

The role of welfare and work is once again the subject of vigorous debate at both the state and federal levels. With the recent passage of the Fiscal Responsibility Act of 2023, which included significant changes to the Supplemental Nutrition Assistance Program (SNAP), entrenched philosophical differences between competing political factions were on display.

While the bill ultimately included new work requirements for recipients aged 50–54 and reduced hardship exemption limits for workers subject to those requirements, it also included new exemptions for veterans, people experiencing homelessness, and those aged 18–24 who were previously in foster care.

In total, the Congressional Budget Office[1] found that these reforms are likely to increase SNAP rolls by as many as 78,000 recipients despite the new work requirements. The reforms are emblematic of a compromise between competing philosophies, one that seeks to ensure economic support for as many people as possible — especially the most vulnerable — and the other that seeks to make welfare a means to an end, a temporary support for healthy working-age adults until they can find sufficient work to meet their basic needs.

While the philosophies are not mutually exclusive and often overlap, these conversations fit into a larger dialogue about the rightful role of welfare in our society — its goals, ideal outcomes, and to what extent its current structures achieve those outcomes.

This paper seeks to explore the complicated structures of welfare systems in the United States and Massachusetts, and to what extent their designs provide a disincentive for employment or additional hours of work. More specifically, it examines the existing literature on whether a loss in benefits resulting from increased income and a high marginal tax rate impacts behavior.

### Our Current Federal Welfare System

It is a common refrain in American public life that the goal of welfare is to provide support for those in need until they can support themselves, with the exception of those who are unable due to a disability, debilitating health issue, or other reason. An ideal welfare system can and should help the disabled, elderly, children, and other vulnerable groups that are unable to work, but should also encourage healthy working-age adults to reenter the workforce and become self-reliant over time. When healthy working-age adults gain employment, society benefits from the ensuing economic growth and added resources to spend on vulnerable populations,[2] and the individual benefits from the higher income and independence that work provides.

Current federal and state welfare programs fall short of this ideal, however, and bind people to welfare program benefits more permanently than intended. The welfare system in the United States has become increasingly complex over the last several decades, as new programs have proliferated and changed. Low-income families and individuals must navigate this complex web of programs, each with different eligibility and income requirements, often enrolling in multiple programs to meet their basic needs or maximize the benefits for which they are deemed eligible.

Many welfare programs are intended to supplement income earned by eligible individuals rather than serve as the sole source of financial support. The scope of benefits has grown over time, however, and provides financial relief for many living expenses. Programs available to qualifying workers include public housing and Section 8 vouchers; school lunch and breakfast programs; health insurance; the Special Supplemental Food Program for Women, Infants, and Children (WIC); energy assistance programs; Temporary Assistance for Needy Families (TANF); Transitional Aid to Families with Dependent Children (TAFDC); Supplemental Nutrition Assistance Program (SNAP/food stamps), and many others.[3]

While not typically considered welfare, programs like the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) serve a similar purpose and are increasingly structured like traditional welfare programs.

This entanglement of welfare and other assistance programs can lead to unintended consequences for enrollees over time, as the scope and amount of benefits can outweigh the benefits of personal income increases gained from work.

## Benefit Cliffs

Some programs are designed to slowly decrease benefits as income rises, while others are more abrupt, reducing or eliminating benefits when a certain level of income is achieved. In combination, the eligibility limits and benefit structures for these different programs can create a situation in which an individual is losing benefits that are equal to or exceed the gains of work. This is known as a benefit cliff. The worker may fall off this metaphorical cliff, whereby pay increases reduce their public benefits to an extent that leaves them financially worse off than before. Even smaller reductions in benefits can lead to plateaus in net income, creating a disincentive to work and earn income.

The worker may fall off this metaphorical cliff, whereby pay increases reduce their public benefits to an extent that leaves them financially worse off than before.

Benefit cliffs and plateaus may threaten the ideal functionality for the welfare system. Rather than providing transitional benefits that enable people to achieve self-sufficiency over time, benefit cliffs can discourage work, thereby denying people the opportunity to acquire the skills they need to be gainfully employed. Healthy adults who would otherwise take on more work or earn more income face a terrible choice: make more money but have less net financial resources due to the value of forfeited welfare benefits, or maintain the status quo and continue in reliance on welfare. To some individuals, welfare dependency is the most rational choice, even if they would prefer to be self-reliant, when family responsibilities or other factors are considered.[4]

### Quantifying the Loss of Benefits

Academics often discuss benefit cliffs through the lens of effective marginal tax rates, or "the percentage of an additional dollar of earnings that is unavailable to a worker because it is paid in taxes, or offset by reductions in benefits from government programs."[5] By operationalizing lost benefits as a "tax" and combining it with the additional income and payroll taxes an individual will pay, researchers get a better idea of the share of an individual's income gains that are actually being realized, as opposed to simply replacing lost welfare.

For example, a study by Craig Richardson and Zachary Blizard found that for low-income individuals across a wide range of pay, there is often an effective tax rate of 90–100 percent,[6] creating what they call a "disincentive desert." The name is apt, as working more becomes unfruitful for workers over a wide range of wages, effectively negating any benefit from earning more money.

The effective marginal tax rates for benefit cliffs can vary widely across states depending on how state programs interact with federal programs. For example, the rate for recipients of Temporary Assistance for Needy Families (TANF) and the Supplemental Nutrition Assistance Program (SNAP) whose income rises from 100 percent to 150 percent of the poverty line is 27 percent in Nevada versus 104.7 percent in Colorado.[7]

Effective tax rates can exceed 100 percent at points, creating steep benefit cliffs as opposed to plateaus. For example, according to a Federal Reserve Bank of Atlanta forecasting tool, in Massachusetts a 25-year-old single adult with a seven-year-old child who receives SNAP, the EITC, Medicaid/MassHealth, and CHIP would see a loss of $500 in net income a year if their hourly wage grew from $15 to $18. This result, whereby the individual increased their yearly gross income by $4,700 but saw their net income drop by $500, means that each individual additional dollar they earned was taxed at a rate greater than 100 percent.[8]

In Massachusetts a 25-year-old single adult with a seven-year-old child who receives SNAP, the EITC, Medicaid/MassHealth, and CHIP would see a loss of $500 in net income a year if their hourly wage grew from $15 to $18.

This stagnation in net income over a broad range of wages leads to an effect whereby a low-income worker is essentially running in place as they try to become more self-sufficient and increase their earned income.

It's important to note that while much of the research points in the direction of these high marginal tax rates resulting from welfare eligibility structures, difficulty in actually modeling the effect has led to many researchers making different assumptions and pursuing different methodological approaches. While these studies typically confirm the existence of cliffs and high marginal tax rates for low-income workers, different methodologies lead to differences in degree.

For example, a study by the Urban Institute modeled the effective marginal tax rate for families below the poverty line receiving TANF cash assistance in Colorado, Minnesota, and New York and found that after these families earned $2,300 more in income (equivalent to four weeks of full time work at minimum wage) between a third and two-thirds of them kept less than half their increase in earnings.[9]

While not as substantial as a marginal tax rate of 100 percent, only realizing 50 cents for every dollar earned is still a significant disincentive.

A common methodological shortcoming is that certain studies model the effects of benefit eligibility structures assuming that individuals enroll in all programs for which they are eligible, but that rarely occurs in the real world for a number of reasons.[10] Other studies create common benefit bundles or focus exclusively on certain states.

## Affected Parties

So, who is primarily impacted by these high effective tax rates? This pressure is felt most acutely by workers who earn $10–20 an hour, have incomes between 100 percent and 250 percent of the federal poverty line, and/or work part-time, as they tend to fall in the income range where eligibility for many programs ends or declines substantially. Given the significant variations in eligibility and programs from state to state, there are exceptions to this rule.[11]

**This pressure is felt most acutely by workers in low-income families earning $10–20 and hour, and or have incomes between 100 and 250 percent of the federal poverty line.**

These individuals also tend to be parents with children, as a significant number of redistributive programs target low-income families for support.[12] For example, some programs such as TANF or WIC, are simply not available to single adults, and others — like the EITC — provide significantly less benefits. For this reason, perverse work incentives are the least impactful on single people with no children.[13]

Properly understood, since low-income families are eligible for the greatest number of government programs and are able to receive the most aid, the loss of that aid once reaching eligibility limits is most severely felt by that demographic.

However, to some extent potential benefit cliffs and plateaus are less of a factor to many low-income workers than other barriers they face. For example, low-income and low-skilled workers typically have unstable employment,[14] often as a result of not having a high school diploma or GED (40 percent), childcare issues (34 percent), mental health problems (31 percent), caring for a child with special needs (29 percent), transportation problems (27 percent), limited work experience (22 percent), unstable housing (22 percent), and physical health problems (21 percent). Many in this group identify as experiencing more than one of these barriers.[15]

For these workers, the numerous barriers they face already limit the amount they work and the income they generate, making it unlikely that they will be affected by benefit cliffs. But even if they are, other factors may be more important.

To understand how benefit cliffs actually impact decision-making for parents and families, rather than just through modeling, some researchers have taken the opportunity to speak with real families.

## Do Cliffs Influence Behavior?

One study on navigating benefit cliffs by Ballentine et al. interviewed 25 parents whose recent income increase could subject them to benefit cliffs and found that their decision-making was complex. The study found that for parents who experienced a loss of public benefits, the response to that reduction was rarely a reduction in working hours. Parents took several other factors into consideration, including pay, childcare, transportation, and working environment.[16]

Other low-income families who are simply not aware of the impending cliffs and the impacts they may have on their net income make employment decisions regardless of the cliffs. Nevertheless, a significant minority make decisions about employment and work mindful of the cliffs and plateaus. "According to a report on the state of Colorado, 34 percent of government-supported families specifically strategize to avoid the cliff effect. In fact, women in this group were willing to turn down 12 hours of extra weekly work to avoid the cliff."[17]

**A significant minority of low-income families make decisions about employment and work mindful of cliffs and plateaus, as high as 34 percent in some states**

This could be because Colorado has one of the highest effective marginal tax rates in the country for TANF and SNAP recipients, making them more attuned to benefit cliffs.

Colorado is not the only state where a significant share of low-income workers are concerned about navigating welfare eligibility limits. For example, in a 2019 survey of business leaders in Ohio, "nearly 1 in 5 had in some way experienced issues with hiring, promoting, or increasing wages for their employees due to concerns that increased income would result in losing some form of public assistance."[18]

## Welfare in Massachusetts

Massachusetts has a higher take-up rate for public benefits than the nation as a whole, likely due in part to its looser eligibility requirements compared to other states and higher spending per capita.[19] As of 2018, 22.5 percent of the total U.S. working-age population received at least one public assistance benefit, compared to 26 percent in Massachusetts. Of those, 85 percent received health insurance, 33 percent received SNAP, 23.5 percent received housing assistance, 7.5 percent received WIC, 7.5 percent took in some form of energy aid, and 2.7 percent obtained cash assistance.[20]

In absolute terms, as of 2022, in Massachusetts the enrollment breaks down as follows:

- Two million individuals enrolled in MassHealth
- A million individuals enrolled in SNAP
- 435,000 receiving Earned Income Tax Credit
- 368,000 individuals with federal rental assistance
- 9,500 households receiving Massachusetts Rental Voucher Program (MRVP)
- 134,000 households with the Low-Income Home Energy Assistance Program (LIHEAP)
- 115,000 individuals with WIC benefits
- 39,500 households receiving Transitional Aid to Families with Dependent Children (TAFDC)
- 20,000 households receiving federal childcare subsidies
- 54,000 children provided assistance for childcare assistance

The data show that many workers who are eligible for numerous welfare programs either do not utilize any of them or opt into certain programs but not others. For example, in the United States, over 16 percent of those receiving SNAP benefits received only those benefits, even though their qualifying income for SNAP also made them eligible for health insurance and other types of assistance. More specifically, only 11.5 percent of the working-age population receiving public assistance were enrolled in both SNAP and health insurance, a lower percentage than just those enrolled in SNAP.[21]

**Uptake for welfare programs is often inconsistent for individual recipients, with those qualifying for multiple programs often not opting into every program they qualify for.**

Additionally, some studies have found that uptake of certain programs can also be severely limited due to supply and funding. For example, the U.S. Chamber of Commerce found that "only 1 in 6 and 1 in 4 families who are eligible for childcare and housing subsidies" actually end up receiving them, even though both benefits are highly desirable.[22]

In Massachusetts, nearly 48 percent of working-age welfare recipients enrolled in subsidized health insurance only, most likely a result of the ACA's Medicaid expansion and its generous coverage, Massachusetts' law mandating coverage for all residents, the high cost of health insurance.[23] The most popular combination of benefits for working-age welfare recipients in Massachusetts are SNAP and health insurance, but even then, that represents only 6.4 percent of the state's total benefit recipient population.[24] However, while often not in combination, uptake for both programs was high among working-age adults receiving at least one benefit. Of those, nearly 85 percent received at least health insurance and almost 33 percent received at least SNAP.

The lower an individual's income, the more likely he or she is to enroll in more than one welfare program. Of the 6.8 percent of Massachusetts recipients below the federal poverty line (FPL) who receive at least one benefit, uptake of multiple benefits is much more likely. The most common combination for this population, at 16.4 percent, was housing assistance, SNAP, and MassHealth; 7.8 percent were enrolled in SNAP and MassHealth; and the majority of the rest received some combination.[25] Surprisingly, a quarter of those with incomes below the poverty line claimed not to be enrolled in any welfare programs. Since the data was self-reported and there is a negative stigma associated with welfare enrollment, it's likely that some respondents underreported their enrollment.

A similar picture emerges for those with income between 100 and 200 percent of the FPL, representing 10.5 percent of all working-age adults; 30 percent were not enrolled in any benefit programs.[26]

Among this demographic, health insurance only was the most common benefit combination for which they were enrolled (30.5 percent), followed by SNAP and health insurance (9 percent); then heat subsidies (LIHEAP), SNAP, and health insurance (6 percent); public housing only (5.4 percent); and public housing and health insurance (5.39 percent).[27] Eighty-two percent of this cohort at least received health insurance benefits; at least 43 percent were enrolled in SNAP, and at least 31 percent received some form of housing assistance.

Working adults enrolled in Medicaid and SNAP were most likely to be employed in leisure and hospitality and food service and food preparation occupations.[28]

## Disagreement Among Experts

The issue of benefit cliffs is far from settled. While most researchers generally believe the cliffs exist, many experts disagree on the extent, scope, and potential harm resulting from them.

Several recent studies have documented the existence of benefit cliffs and plateaus.[29] As a result, advocacy groups have begun advancing remedies, and organizations serving low-income families are increasingly trying to educate the public on the issue. Yet significant questions remain, such as: To what extent do benefit cliffs change individual behaviors around work? How many people do the cliffs actually impact? And what kind of solutions make the most sense?

In the camp of those downplaying the significance of benefit cliffs is the Foundation for Government Accountability (FGA), which has published several papers on the topic. One study, titled "Three Myths About the Welfare Cliff," lays out a series of arguments why concerns over welfare cliffs are mostly unfounded. While first acknowledging the theory of welfare cliffs is not entirely without merit, the FGA study claims that most welfare enrollees are not approaching welfare cliffs, that welfare cliffs don't leave workers worse off, and that welfare enrollees are not simply "thrown off the ledge without a parachute."[30]

### Scope and Effect on Work

To make this argument, FGA relies heavily on SNAP enrollment data. In support of the first pillar of their argument, that there are few actual families and workers approaching cliffs, FGA invokes the demographics of the SNAP program as its primary evidence. They assert that most non-disabled working-age adults in that program do not work, citing 2015 statistics from the U.S. Department of Agriculture showing that of the able-bodied SNAP population, only 8 percent work full time, 27 percent work part time, and 62 percent don't work at all.[31] By their estimates, this means that out of over 13 million able-bodied SNAP beneficiaries, only about 251,000 are within 10 percentage points of an eligibility limit.

This assertion is called into question by more recent findings from the Government Accountability Office (GAO). While the USDA data are accurate, they represent a snapshot in time, and therefore, don't provide a holistic view of the working habits of that population.[32] For example, it may not capture low-income workers who are temporarily unemployed but otherwise work regularly.

Two studies, one from the GAO[33] and the other from the Census Bureau, provide evidence to support this assessment.[34] Using employment data from 11 states in combination with Census data, the GAO concluded that 70 percent of the adult working population enrolled in either SNAP or Medicaid worked full time, with 51 percent working full time for the whole year and the remaining 21 percent working full time for part of the year. These beneficiaries were likely to work in the leisure, hospitality, and food service industries, where employment is often less stable.

**Of the adult working-age population enrolled in either SNAP or Medicaid nearly 70 percent worked full time for the full year or part of it.**

The Census Bureau study, using American Community Survey data, found that "more than three-quarters of…families [receiving SNAP benefits] had at least one person working and about one-third included two or more workers." Working rates were even higher among married couples receiving SNAP benefits; among those 84 percent worked and almost 50 percent had two or more workers, including 15 percent with three or more in the household.

However, those rates only refer to healthy working-age adults. As the USDA has noted, roughly 65 percent of all SNAP recipients are elderly, disabled, or children and thus, when including these groups, the overall working population for SNAP is much smaller—about 25 percent.[35] This is a likely reason why a 2015 Census Bureau study examining data from 2009–2012 found that a plurality of SNAP recipients (38.6 percent) received benefits for as long as 48 months, a percentage that roughly corresponded with the number of recipients also receiving social security benefits (31.8 percent). In addition, 30.4 percent of recipients, roughly in line with the working population on SNAP, only participated for between 1 and 12 months.[36]

Additionally, the left-leaning Center for Budget Policy Priorities (CBPP) has found that of those participating in SNAP at some point during a three-and-a-half-year span between 2009 and 2013, 40 percent of recipients participated when they were working, and 62 percent participated when they were not in the labor force.

These data, in combination with the findings from the GAO and Census Bureau, suggest that most healthy working-age SNAP recipients likely use the program as a resource through unstable and low-paying employment, and not as a crutch to avoid working. Among the able-bodied adults who didn't work within a year of receiving SNAP benefits, most cited caretaking responsibilities, a lack of a high school degree, or a significant work-limiting health condition as a reason for their prolonged unemployment.[37]

### How Many Workers are Truly Affected?

However, while FGA's estimates for working SNAP beneficiaries may be disputed, the unstable employment of those recipients noted in the GAO and CBPP studies may lead many of the working adults in those programs to have low enough yearly earnings that they don't fall into the income ranges most affected by benefit cliffs and plateaus. For example, Richardson and Blizzard note that "…benefits cliffs are not an issue for most low-income individuals since they occur only at a few relatively high levels of income." Typically, to be confronted with benefit cliffs, workers must earn between $10–20 an hour, which is higher than the minimum wage in many states.

As a result, benefit cliffs are more likely to affect recipients who are already working and making decisions about whether to increase hours or take a pay raise, as opposed to workers looking to rejoin the labor force or those with unstable employment.[38]

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The percentage of low-income workers changing their work behavior as a result of the cliffs is likely to be higher than the 2 percent FGA estimates, albeit not a majority of that demographic, as a number of studies have found. For example, a study of welfare in Colorado found that 34 percent of government-supported families specifically strategize to avoid the cliff effect. Another 2019 report from the Ohio Chamber of Commerce found that 18.6 percent of businesses reported experiencing issues with hiring or increasing wages for employees due to concerns that increased income would result in a loss of public assistance.[39]

In fact, a 2020 National Bureau of Economic Research (NBER) paper found that one in four low-wage workers will face lifetime marginal tax rates (LMTR's) above 70 percent.[40] Twenty percentage points higher than the median LMTR for the richest 1 percent of taxpayers (50 percent) and all other workers (42 percent). When assuming full participation in welfare programs, the median LMTR for the lowest income quintile was 48.8 percent, higher than all but the highest income quintile. This further indicates that issues with the cliff effect may be more widespread among low-income earners than FGA has estimated.

Whatever the exact percentage of recipients facing benefit cliffs, optimizing programmatic design to encourage work should be a top priority. If social welfare programs are truly intended to provide temporary assistance on the path to self-sufficiency, system features that are a disincentive to work or advancement run counter to this goal.

As FGA's study asserts and other studies have found, the current design of some programs, particularly food stamps, has led to some modest reductions in employment rates and number of hours worked, especially for women.[41] These findings, supported by other research, indicate that the labor force participation of two-parent families is highly sensitive to the triggers that cause changes in government assistance structures.[42]

Additional evidence reinforces this claim that work requirements for welfare programs increase employment and decrease the number of individuals on welfare rolls. A recent paper regarding TANF in Alabama found that when work requirements were implemented for recipients with children older than six months of age, their employment rate increased by 12 percent.[43] Other studies reinforce these claims for SNAP enrollment,[44] while others still find little or no effect.[45] Some scholars worry that work requirements may have a disproportionate effect on homeless individuals being screened out.

Having more definitive data on this issue is critical to ensuring that these programs are meeting their intended goals.

### Do Benefit Cliffs Leave Workers Worse Off?

The second pillar of FGA's claim is that benefit cliffs don't leave workers worse off. One of their studies found that after leaving food stamps, workers increased their gross income by as much as 250 percent after four years.[46] Because FGA did not consider effective marginal tax rates and net income, those gains may be less significant than claimed.

**Benefit cliffs and short-to-medium-term financial downsides can dissuade workers from pursuing long-term financial gains and independence.**

FGA is not the only research organization to find that over the long term, advancements in work leave workers better off. Nevertheless, benefit cliffs and short-to-medium-term financial downsides can dissuade workers from pursuing long-term financial gains and independence.

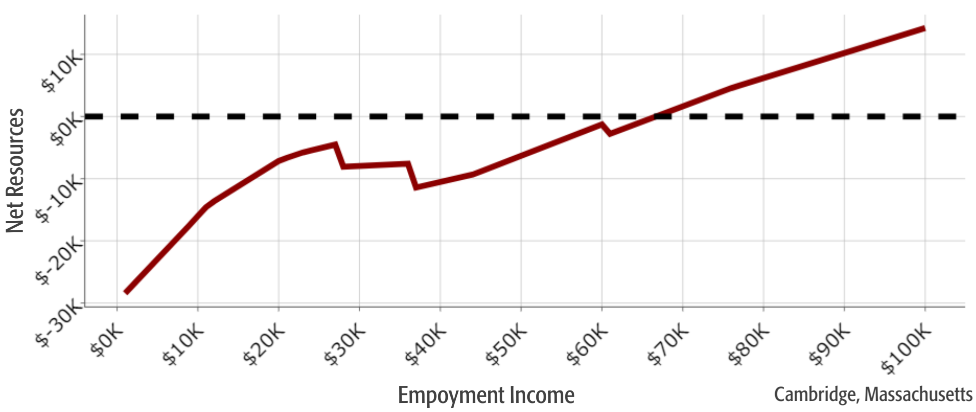
A recent paper examining the health services career pathway from certified nursing assistant (CNA) to licensed practical nurse (LPN) to registered nurse (RN) emphasized this dynamic. The study found that after taking on additional education and certifications, an individual would wait several years before they saw a significant increase in their annual net resources, even though each career advancement would lead to significantly higher net financial resources in the long run. If a researcher only analyzed annual aftertax income, this dynamic would not be clear, as each career advancement leads to higher yearly earnings. It is only when the individual's interaction with benefit programs is incorporated into the analysis that it becomes clear how the health services career pathway can dissuade many potential workers.

This effect is true more generally, though the severity of the disincentive depends on the individual's particular circumstances. For example, with respect to a health services career, not all those pursuing it are likely to receive every social welfare benefit for which they are eligible, as the previously mentioned study assumed, making the delayed pay increase less impactful for them.

Yet, even when only considering popular benefit combinations, benefit cliffs and plateaus have a clear impact on low-income workers' net incomes.

To illustrate this point, let's consider a single parent with one child receiving SNAP, Medicaid, CHIP, EITC, CTC, and housing voucher benefits/credits. Housing benefits gradually decrease as the individual's total income rises, while losing SNAP eligibility and the gradual decrease of EITC compound upon each other to create a situation where the individual sees little to no gain in net income between $25,000 and $50,000 in earned income, as Figure 1 makes clear.

Figure 1. Source: Federal Reserve Bank of Atlanta, Policy Rules Database




The different ways that benefit program structures interact with each other are responsible for this significant stretch of net income stagnation. Some benefits like the EITC—with its gradual phaseout as income rises—have little detrimental impact on workers' net income as earned income grows from employment on its own. The EITC only has a 21 percent phaseout rate, keeping its marginal tax rate low.[47] Yet when combined with the phaseout of housing voucher funds and the complete loss of SNAP benefits, those losses can compound to create a high effective marginal tax rate.

This is especially true for individuals receiving housing vouchers, childcare subsidies, or TANF, as those programs have some of the largest benefit cliffs.[48] They tend to have steeper phaseouts and more generous benefits. For example, in a state like Massachusetts, housing costs can be exorbitant for low-income renters. While a section 8 housing voucher's relative value remains consistent as income rises because it requires a recipient to pay 30 percent of their income when combined with the loss of other benefits, this can create a significant plateau or cliff.

FGA's claim that individuals benefit from work and growing their income is correct in the long-term. Yet, short-term hurdles, often caused by benefit cliffs and plateaus, can impede low-income workers from pursuing their long-term best interest.

### Do Benefit Cliffs Come with a Parachute?

The final pillar of FGA's argument against the salience of benefit cliffs and plateaus, is that states provide sufficient offramps for federal and state programs, primarily through gradual benefit loss, income disregards, and transitional benefits.

This is true to a certain extent, but the size and scope of state-level programs vary significantly. While some states, like Nevada, are able to keep effective marginal tax rates low for low-income workers, other states, such as Colorado, are not.[49]

In Nevada, for example, there are significant gross income disregards for their state TANF program for up to a year after new income is earned. Beginning with a total disregard for the first three months and gradually phased down to 65 percent of income, Nevada extends the amount of time low-income workers remain on rolls and thus creates a more gradual offramp than the original structures of the federal TANF program dictate. This more gradual easing of benefits reduces the marginal tax rate for recipients, increasing their income through work and allowing them to realize a greater percentage of earned dollars.

Other states, like Massachusetts, have implemented similar reforms in recent years on those grounds. Reforms implemented since 2017 have allowed for gross income disregards of 100 percent for six months and eliminated the asset limit for TAFDC eligibility.

Some research suggests that income disregards may have little or no positive effect on labor supply or income.[50] However, there is significant evidence that regardless of whether any particular policy is responsible for lower effective marginal tax rates for low-income workers, state-level policy is so impactful overall that the most successful way for low-income individuals to reduce their marginal tax rates is to simply leave their state for one with a better welfare structure.[51]

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## State of Reform and Proposed Policy Interventions

Amid growing conversation around the cliffs and net income for welfare recipients, several states, policy groups, and legislators have offered a diverse array of potential solutions. These solutions range from restructuring benefits and offramps, to new programs, to greater educational and work resources for low-income individuals.

The National Conference of State Legislatures (NCSL) has suggested five reforms to ease the effects of benefit cliffs:[52]

1. Map benefit cliffs for residents through self-sufficiency standards and benefit calculators. A self-sufficiency standard would identify for residents and the state what net income is required to meet basic needs. The typical standard is 200 percent of the federal poverty line. A benefits calculator would provide residents with the ability to better plan out their financial futures and allow the state to identify common cliffs and specific issues with program structures.
2. Align eligibility levels across programs.
3. Make work pay by creating tax incentives for working families and career pathway programs.
4. Increase family economic security through asset development, including through individual development and escrow accounts.
5. Foster culture and civic changes in the public and private sectors.

Investments in childcare are another potential solution. Many reform advocates have identified childcare as a central issue affecting the behaviors of working parents. Many families can't afford childcare and have to reduce the number of hours they work in order to meet the needs of their young children.

A Federal Reserve Bank of Boston study recommended increasing childcare subsidies to ensure greater access for low-income families. Through economic modeling, they found that childcare could significantly reduce the effects of most benefit cliffs and lower the wage needed to cover basic costs in Massachusetts.[53]

However, the Federal Reserve Bank's model is based on implementation of universal childcare, meaning that everyone would have access to the expanded benefit, no matter their income. This would pose a significant cost to taxpayers, and it is unclear whether the economic benefit would outweigh what would likely be a substantial price tag.

Several studies have likewise found childcare subsidies to have a significant impact on work. For example, one study found that new subsidies increased mothers' weekly work hours by 6.2 percent. Inversely, in states with stringent childcare eligibility requirements, mothers worked 174.31 fewer hours annually.[54]

While making childcare completely universal is likely not a viable solution, limited expansions to childcare subsidies could prove more cost effective given the time limitations for benefit eligibility.

Other research has found that state leaders could also effectively increase work for single parents by increasing the supply of childcare.[55]

Consolidation of federal welfare programs is another potential solution. A large part of the benefits cliff issue relates to the sheer number of programs the federal and state governments employ. It's difficult for low-income people to navigate these programs, making them reluctant to give up the benefits once they get them. The lack of coordination and differing eligibility requirements end up creating multiple cliffs over a range of different income levels, providing disincentives for workers to take on additional work or higher wages.

The Family Security Act, first proposed by Senator Mitt Romney (R-UT) in 2021, would consolidate multiple programs and credits (state and local tax deduction, head of household filing status, child and dependent care credit, etc.) into a monthly child benefit that would be provided directly to families. The program would theoretically slow benefit cliffs and could provide a model for how policy might be streamlined at the state level.

## Reforms in Massachusetts

The state has thus far taken a number of steps to reduce the effects of benefit cliffs for working families. Most recently, reforms have been made to TANF (TAFDC) and the state's school lunch program. In 2021, the $2,000 asset limit for TAFDC was removed, so only the income of applicants and income generated from assets would determine their eligibility for benefits. Additionally, a provision was added to disregard 100 percent of a recipient's income for six months if it fell below 200 percent of the federal poverty line. Theoretically, these changes are meant to "smooth transitions to work, sustain families when inevitable emergencies occur, and enable workers to begin accumulating financial assets."[56]

In 2022, the Baker administration and legislature stepped in to provide $110 million free school lunches to all students after the federal pandemic-related policy expired. The renewal of the state free lunch program has the potential to eliminate benefits complications for many parents. The federal free and reduced lunch program has one of the largest drop offs in benefits of any federal/state program. There's a 40 percent reduction of benefits when a family's income surpasses 130 percent of the poverty line and a 100 percent reduction when income surpasses 185 percent of the poverty line.

The state has also implemented, or intends to implement, two new programs: the Learn to Earn Initiative (LTE) and Cliff Effect Pilot Program. The LTE, first funded in FY18, provides grants through the Commonwealth Corporation to community and business partners to create and maintain occupationally specific training and placement programs for low-income workers. The programs also include coaching, before and after a job placement, as well as education on government assistance and benefit cliffs.[57]

The Cliff Effect Pilot Program, seeking to investigate a potential solution to benefit cliffs through an expansion of the EITC, received $1 million in funding in 2022. Once created, the program will provide additional benefits to 100 Massachusetts families through the state EITC to offset any losses of income they might experience as a result of cliffs over a three-year period. The more gradual easing of benefits would theoretically eliminate the disincentive to take on additional work and wages.[58]

## Conclusion

The conversation on the rightful role of work and welfare is an ongoing one with differing points of view and often conflicting data. As recent federal reforms have shown, the country is split when it comes to the proper role of work in assistance programs. While advocates for work believe work requirements should be more stringent, others are concerned about how such requirements might affect vulnerable populations like the homeless or veterans.

Generally, there is consensus that welfare should be structured in the most optimal way to promote work and independence for those who are able to do so. To achieve this goal, a more comprehensive review of current policies, and how they interact, is in order.

Currently, not enough attention is paid to how each program is structured, how they overlap with other programs, and how differing income and eligibility requirements often lead to unintended consequences that not only discourage work but actually entangle beneficiaries in a web of costly disincentives.

**How each program is structured, how they overlap with other programs, and differing income and eligibility requirements can lead to unintended consequences that entangle beneficiaries in a web of costly disincentives.**

The issue of benefit cliffs offers a glimpse into the unintended consequences of the complex welfare system we've created. Receiving benefits from multiple programs with largely uncoordinated exit ramps creates barriers for families and workers seeking to be financially independent from the government. High effective tax rates on earned income make it difficult for workers to escape poverty and climb the economic ladder.

Benefit cliffs and plateaus also burden businesses by exacerbating our current labor shortage. Aging demographics, slow population growth, low unemployment rates, and industry-specific workforce shortages make encouraging work a critical tool for sustained economic growth and competitiveness.

States seeking to improve their social safety nets should first look to:

- Better coordinate program eligibility
- Create gradual offramps for programs with rigid benefit allotments and income eligibility
- Differentiate program structures for different demographics (disabled, able-bodied adults, children, elderly, etc.)

There is still significant research to be done on the effects of benefit cliffs, but this issue is part of a much larger discussion on the issues confronting our welfare system. More clearly defining the purpose of welfare programs and determining how best to measure their success and better coordinate programs are important first steps to resolving the benefit cliff question.

If we are to better serve low-income workers, more work needs to be done to ensure that welfare is truly transitional and not structured in a way that facilitates dependency.

## Appendix: Programs and Eligibility

**MassHealth** - is the Medicaid expansion program administered by the Massachusetts government. It pays for healthcare for certain low- and medium-income people living in Massachusetts. Eligibility is primarily determined by residency, income, and immigration status. The maximum income allowable is $19,392 for a single-person household and increases by increments of $6,836 for every additional household member. For recipients with incomes over 150% of the poverty line, a monthly premium is accessed based on the relative income of said recipient. MassHealth coverage can vary based on age, parental status, pregnancy, disability status, whether a recipient is HIV positive or has breast or cervical cancer, and whether they work for a small employer. For more information visit here.

**TAFDC** - or Transitional Aid to Families with Dependent Children, is a cash assistance program to supplement recipients' income and assist them in meeting basic needs. It is the Massachusetts specific iteration of the federal TANF program, or Transitional Aid to Needy Families. Benefits for TAFDC differ based on whether the recipient receives housing assistance or not. For a household of one the initial benefit amount is $513 with housing assistance and $553 without, assistance increases for both at increments of $139 for each additional household member. TAFDC has work requirements and limits use to 24 months during a five-year span. For more information on eligibility and benefits see here.

**Federal EITC** - or the Earned Income Tax Credit, is a tax refund for low-income households with a working adult. It is specifically targeted at working families, as the benefits are severely reduced for single individuals. Families without any income are not eligible for benefits but those with working adults receive an increasing amount of tax refund up until a certain income threshold, at which point the benefit decreases until being phased out entirely. Income limits also vary by tax filing status, with higher limits for married couples filing jointly. See here for an interactive dashboard to see the level of benefits at different income levels and number of dependent children, and here for more eligibility guidelines.

**MA EITC** - is a Massachusetts-specific supplement to the federal EITC, capped at 30 percent of the benefit provided by the federal program.

**WIC** - or the Special Supplemental Nutrition Program for Women, Infants, and Children, is a federal assistance program geared towards women who are pregnant or mothers of young children up to the age of 5. The program seeks to provide healthy foods, nutrition education, breastfeeding support, and referrals to healthcare and other services to Massachusetts families who qualify. In order to be eligible for WIC, a household of one must not make greater than $2,248 monthly, with limits increasing by $793 for each additional household member. See here for other eligibility requirements.

**CTC** - or the Child Tax Credit, is a federal program that provides monthly or lump-sum payments to families for each dependent child under the age of 18 that they have. Income eligibility requirements are not very strict, with married couples with income of up to $400,000 able to receive benefits. Benefit amounts are greater for families with children under the age of 6 and for those at lower income levels. The maximum benefit is $3,600 per child for families with children under 6 and $3,000 per child for families with children between the ages of 6 and 17. See here for more information on eligibility and benefits.

**UI** - or unemployment insurance, offers benefits to workers who have lost their jobs through no fault of their own. In Massachusetts benefit amounts are dependent on several factors, including past earnings and the stated reasons for leaving a job. To be eligible, an individual must have earned at least 30 times the benefit amount with their current employer, be unemployed through no fault of their own, and be willing and able to take on suitable work when offered. The benefit amount is 50 percent of the individual's average weekly wage and cannot exceed $1,015 per week. An individual can stay on UI benefits for up to 30 weeks. See here for more information.

**SNAP -** or the Supplemental Nutrition Assistance Program, provides funds to individuals in order to assist them in purchasing food. Benefits start at $281 for a household of one and increase in increments of $211 for each additional household member. Income eligibility ends at $2,265 per month for a household of one and increases in increments of $787 for each additional household member. See here for more information about benefits and eligibility.

**Section 8 Housing -** is a federally funded program to provide housing assistance in the form of a voucher to low-income individuals. Eligibility is based on gross income. 75 percent of all households selected to receive Section 8 must have incomes within 30 percent of the area median income ($24,800 for a family of four in Boston). Twenty-five percent percent of Section 8 households can have incomes up to 50 percent of the median ($41,350 for a family of four).[59] Recipients typically pay between 30 and 40 percent of their income towards rent and the voucher covers the rest. See here for more information on the program and eligibility.

**MRVP -** or the Massachusetts Rental Voucher Program, is a separate state-specific program seeking to provide housing assistance. Applicants for state-funded vouchers are eligible if they earn no more than 80 percent of the Area Median Income (AMI). There are two different types of vouchers under this program, mobile and project based, each with differing rules and requirements. Like the federal section 8 program, renters receiving assistance still pay between 30 and 40 percent of their income to rent, but the voucher covers the difference. See here for more information.

**LIHEAP -** or the Federal Low Income Home Energy Assistance Program, is targeted at helping low-income families pay their winter heating bills. In order to be eligible, an individual's household income cannot exceed 60 percent of Massachusetts' estimated state median income. For example, "in 2023, $55,461 for a family of 2 and $81,561 for a family of 4". Find more information on LIHEAP here.

For a more comprehensive examination of Massachusetts Programs see this 2019 study.

## Endnotes


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