

Confirmed. Welfare Cliffs Pervasive in 8 Southeast States

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Welfare cliffs are a real problem for welfare families. For example, a single mom with two children could face the situation where a pay raise would make her worse off. How? Because, as a welfare cliff is defined, she would lose more, and often much more, in welfare benefits than she would gain in additional earnings. This was demonstrated by a computational model developed for the Georgia Center for Opportunity (GCO) in 2016. Using this model, a March 2017 GCO report demonstrated the scope and extent of the problem using specific scenarios.

Funded by a 2019-2020 Searle Freedom Trust grant, GCO not only updated its model but also improved and expanded it to include seven other states. Not only do the welfare cliffs still exist in Georgia, but they also exist in Alabama, Florida, Louisiana, Mississippi, North Carolina, Tennessee, and Texas.

As of March 31, 2020, GCO is allowing the public to view for the first time on its welfarecliff.com website common scenarios from these states using the upgraded model with 2020 data. Website users can view statewide averages of welfare benefits for all eight states, and the welfare cliffs are graphically displayed and easy to spot. Furthermore, in addition to selecting the state, users can see how the benefits and cliffs change by choosing whether the single mom has one child, two children, or three children. Viewers can also see how benefits change by selecting or deselecting subsidized childcare or Section 8 housing choice vouchers or both. Finally, the users can see how benefits change when one child is disabled and receives Supplemental Security Income (SSI).

The website graphics on the website are simply illustrations of what this powerful and dynamic model can do. It uses an Excel platform and can generate countless scenarios by varying the age of the single parent, the number of children up to four, the ages of the children, the sex of the children, disability statuses of the children, whether they are in school, childcare settings, and childcare rate categories. Furthermore, the model can examine the impact of welfare programs in any combination or in isolation. Over the next several months, GCO will be refining the model even more, allowing users, for example, to delve down to view welfare cliffs at the county level.

†Erik Randolph, Disincentives for Work and Marriage in Georgia's Welfare System, Georgia Center for Opportunity, Revised and Updated, March 2017, <http://cms.welfarecliff.org/app/uploads/2017/04/With-Covers-WEB-3.1.17-Disincentives-for-Work-and-Marriage-in-Georgias-Welfare-System.pdf>.

Sample Illustration

This briefing highlights a single family structure to see how the welfare cliffs change for each of the eight states listed above. The scenario revealed here is for a 30-year old single mom with an 8 year-old girl and a 2 year-old boy, neither of whom have a disability. When the children are not in school and placed in a childcare setting, the mom chooses to place them in a childcare center that charges the regular or standard rate according to each state's subsidized childcare program.

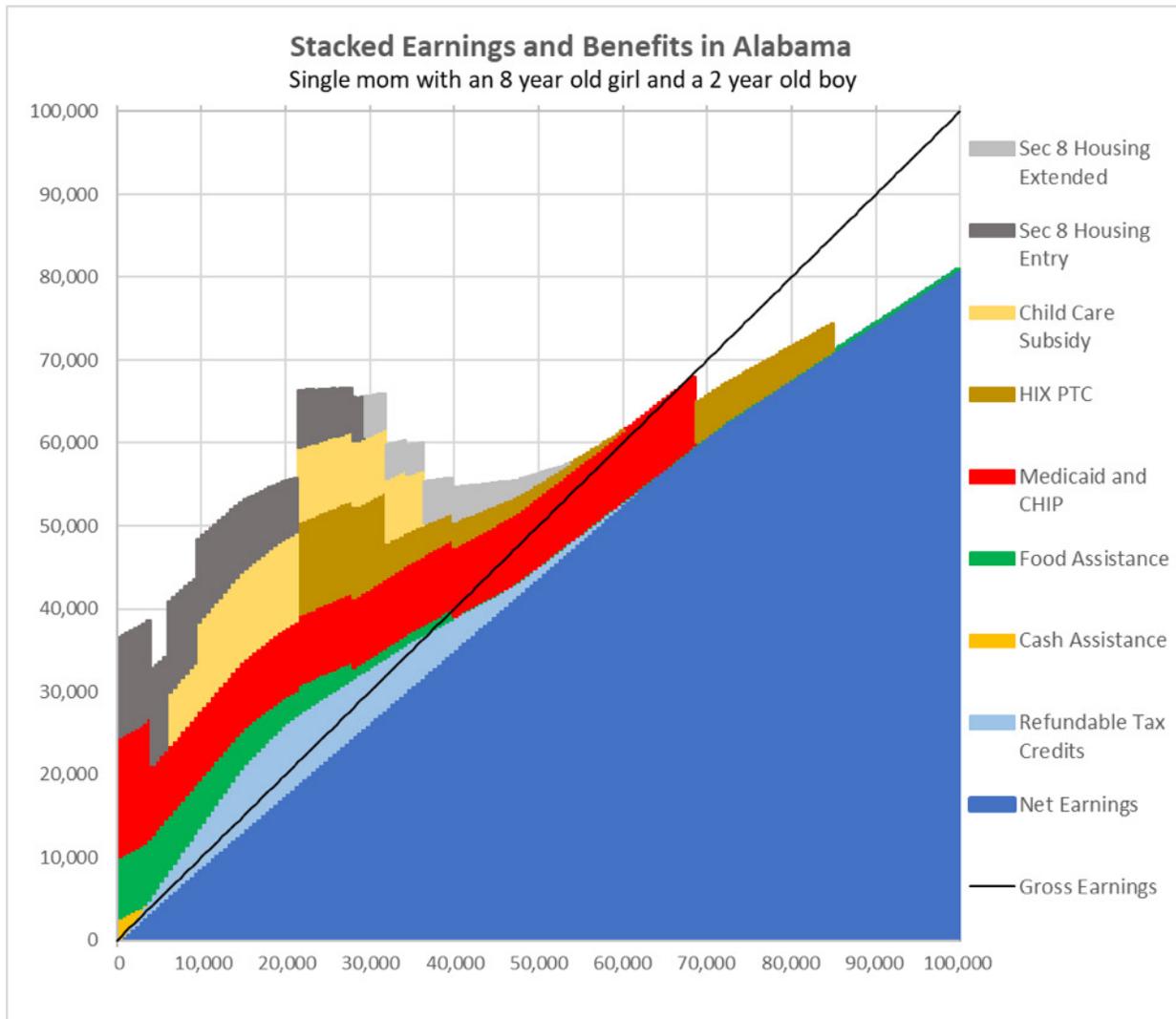
The illustrations assume that the family receives both subsidized childcare and a Section 8 housing voucher. Keep in mind that there are waiting lists for both programs. It is especially hard to attain a Section 8 voucher. The model itself, and the website, allows the user to deselect these programs to view the cliffs for families who cannot attain subsidized childcare or Section 8 housing or both.

Appendix A details the welfare cliffs for each state, and Appendix B provides the data generated by the model in tables. Appendix C gives a more complete explanation defining the terms and the assumptions used to generate the data. Appendix D provides an extensive list of the sources relied upon by the model. The following programs are modeled, and the values of the benefits are graphed in the accompanying charts.

- **Gross Earnings** is simply the total earnings before taxes and benefits. It is the independent variable, ranging from no earnings to \$80,000 in \$500 increments, which approximates a pay raise just under a 25¢ for a full-time worker who works 40 hours per week all year (52.2 weeks per year).
- **Net Earnings** is the earnings after payroll taxes for Medicare and Social Security, and after paying federal and state income taxes, except for the portions of the income taxes that are the federal refundable tax credits and any state credits that match the federal refundable tax credits. Of the eight states studied, Florida, Tennessee, and Texas do not have income taxes impacting families.
- **Refundable Tax Credits** are those tax credits that count as an overpayment of taxes, allowing taxpayers to receive a subsidy from the tax system without paying a dime in income taxes. The federal refundable tax credits include the **Earned Income Tax Credit (EITC)**—one of three largest welfare programs—and the **Additional Child Tax Credit (ACTC)**. Of the eight states, Louisiana is the only state that matches the federal EITC.
- **Cash Assistance** consists of two programs: **Temporary Assistance for Needy Families (TANF)** cash grants, which is a federal block grant program supporting state welfare programs, and **Supplemental Security Income**, which is a federal program for persons with disabilities.

- **Food Assistance** consists of three parts. Originally named food stamps and one of the three largest welfare programs, the **Supplemental Nutrition Assistance Program** (SNAP) is a federal program administered by the states, providing allotments to households to purchase food. The Women, Infants, and Children program provides special supplemental nutritious food packages. Subsidized school meals is the third part, but it is actually made up of two programs: The **National School Lunch Program and the School Breakfast Program**. Next to SNAP, subsidized school meals is the largest food assistance program.
- **Medicaid** and the **Children's Health Insurance Program** (CHIP) are medical assistance programs, providing access to medical care and health insurance. The largest welfare program, Medicaid is a joint federal-state program. The federal government provides grants to the states, and states administer the program consistent with federal regulations but use different eligibility criteria. When children no longer qualify for Medicaid, they may access health insurance through CHIP based on each state's criteria and subject to each state's cost-sharing requirements. Each states' CHIP goes by a different name, as follows: Alabama, All Kids; Florida, KidCare; Georgia, PeachCare; Louisiana, LaCHIP Affordable Plan; Mississippi, CHIP; North Carolina, Health Choices; Tennessee, CoverKids; and Texas, CHIP.
- Segregated from the other medical assistance programs, the **Premium Tax Credit** (PTC) provides a refundable tax credit to taxpayers who purchase health insurance on **Health Insurance Exchanges** (HIX) created by the Affordable Care Act (ACA). The credit is based on the cost of the Second Lowest Cost Silver Plan, which varies by each rating area within each state.
- **The Child Care Subsidy** is based on each state's subsidized childcare program, supported by the federal Child Care Block Grant. The states use different definitions for the childcare settings, rate categories, age groups, zones, and cost sharing. The program names are as follows: Alabama, Childcare Subsidy Program; Florida, School Readiness Program; Georgia, Childcare and Parent Services; Louisiana, Childcare Assistance Program; Mississippi, Childcare Payment Program; North Carolina, Subsidized Childcare Assistance Program; Tennessee, Childcare Certificate Program; and Texas, Childcare Services.
- **The Section 8 Housing Choice Vouchers Program** is a federal program providing rental assistance. The program is administered by Public Housing Authorities, which are creature of state law, and, in some cases, state agencies.

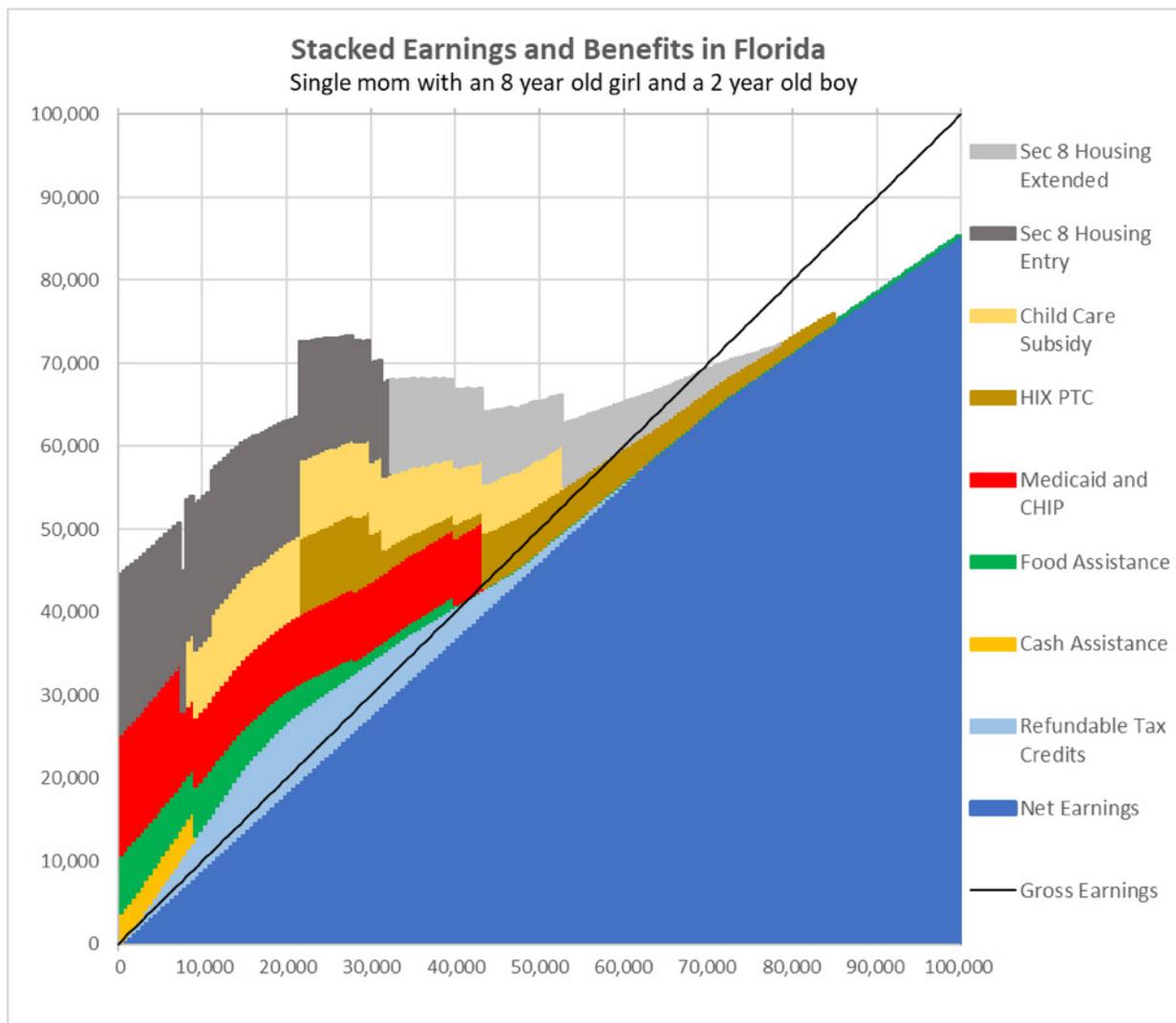
Alabama



For a single mom in Alabama, there is not one welfare cliff but eleven welfare cliffs, according to the definition of a welfare cliff. Some of the cliffs are fairly small—the smallest being a \$59 annual loss in benefits beyond her additional earnings for a pay raise of just under 25¢. However, most cliffs are large with an average loss of \$2,331. The largest cliff is \$6,150 when she would earn \$15.33 per hour or \$32,000 annually. See Appendix A for a complete listing of Alabama’s cliffs for this scenario.

In Alabama, her net earnings and welfare benefits peak at \$66,685 when she earns just \$13.18 per hour or \$27,500 annually. From there, her combined earnings and benefits cascade downwards until she hits \$54,688. This occurs when she earns \$19.16 per hour, or \$40,000 annually. She will not recover her loss in benefits and earnings until she would earn \$32.10 per hour, or \$67,000 annually, requiring a pay raise of \$18.92, or \$39,500.

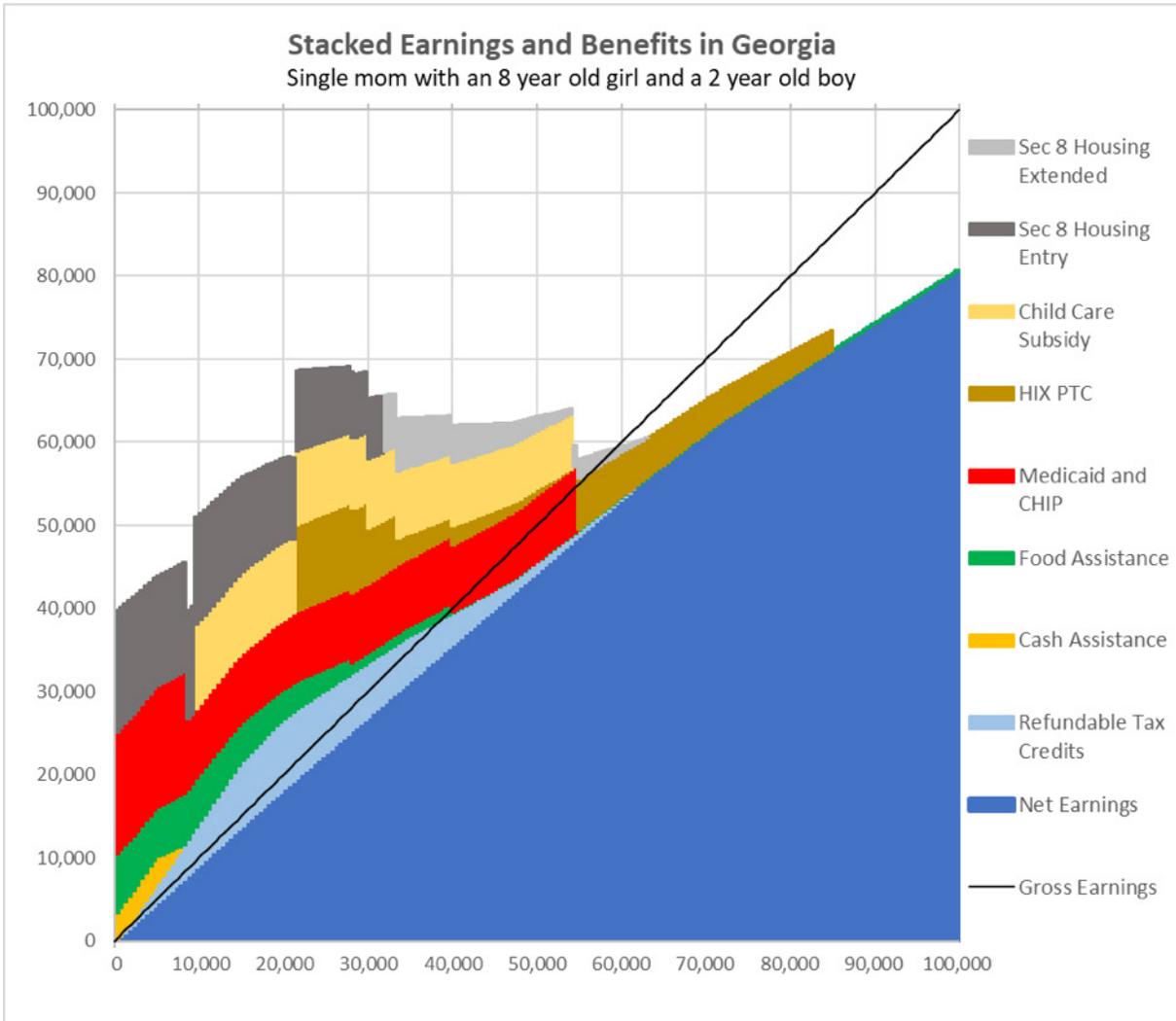
Florida



For a single mom in Florida, there is not one welfare cliff but twenty-three welfare cliffs, which is the most from any of the eight states studied. Some of the cliffs are small with the smallest being a \$28 annual loss in benefits beyond her additional earnings for a pay raise of just under 25¢. However, the average loss is \$971. The largest cliff is \$5,763 when she would earn just \$7,500 annually. See Appendix A for a complete listing of Florida's cliffs for this scenario.

Her net earnings and welfare benefits peak at \$73,377 when she earns just \$13.18 per hour or \$27,500 annually. From there, her combined earnings and benefits cascade downwards until she hits \$62,817. This occurs when she earns \$25.39 per hour, or \$53,000 annually. She will not recover her loss in benefits and earnings until she would earn \$38.81 per hour, or \$81,000 annually, requiring a pay raise of \$25.63, or \$53,500.

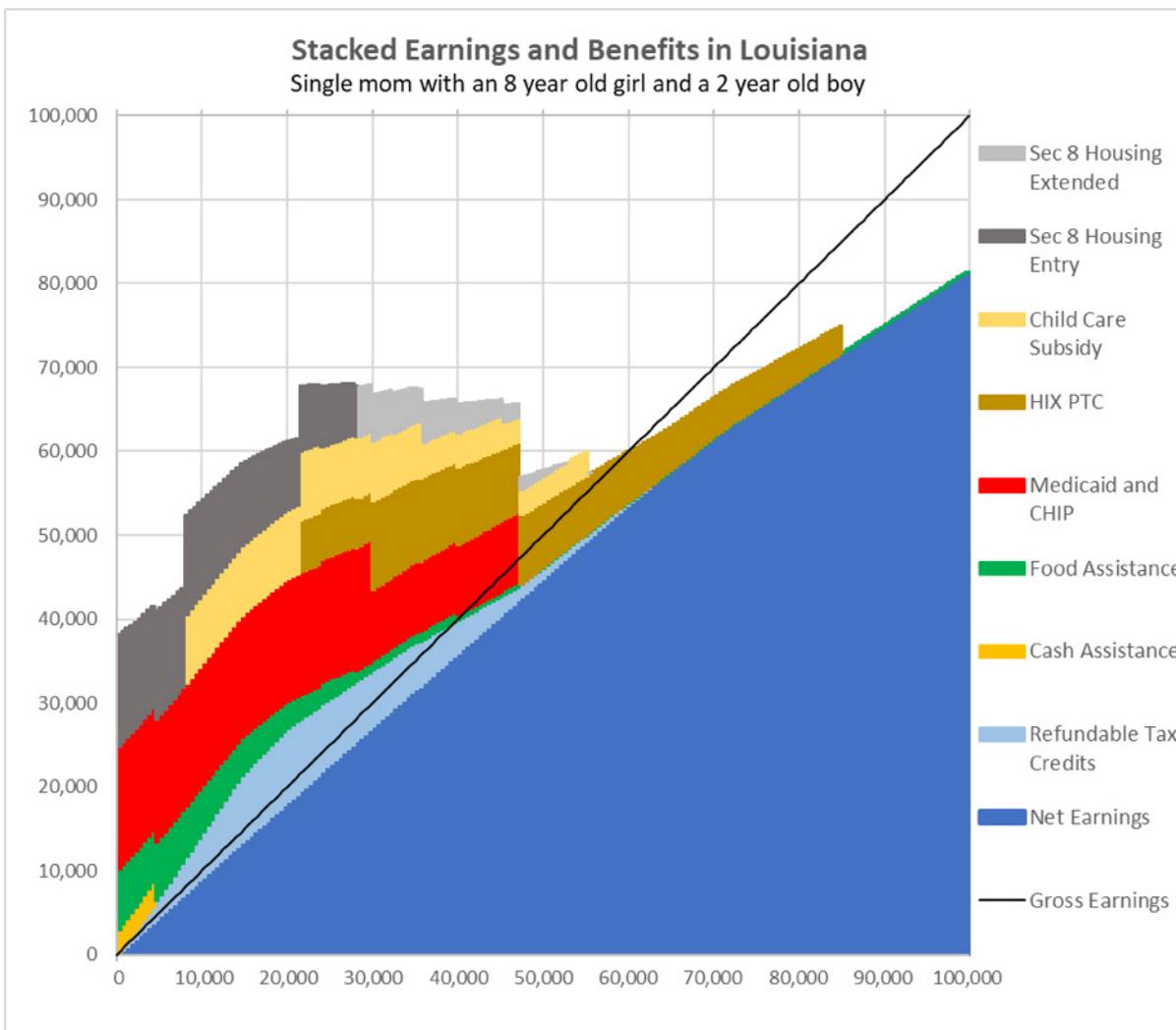
Georgia



For a single mom in Georgia, there is not one welfare cliff but fourteen welfare cliffs. Some of the cliffs are very small, the smallest being just a \$2 annual loss in benefits beyond her additional earnings for a pay raise of just under 25¢. However, the average loss of \$1,595 is much more. The largest cliff is \$5,799 when she would earn just \$8,500 annually. See Appendix A for a complete listing of Georgia's cliffs for this scenario.

Her net earnings and welfare benefits peak at \$69,127 when she earns just \$10.30 per hour or \$21,500 annually. From there, her combined earnings and benefits cascade downwards until she hits \$58,051. This occurs when she earns \$26.35 per hour, or \$55,000 annually. She will not recover her loss in benefits and earnings until she would earn \$36.89 per hour, or \$77,000 annually, requiring a pay raise of \$23.71, or \$49,500.

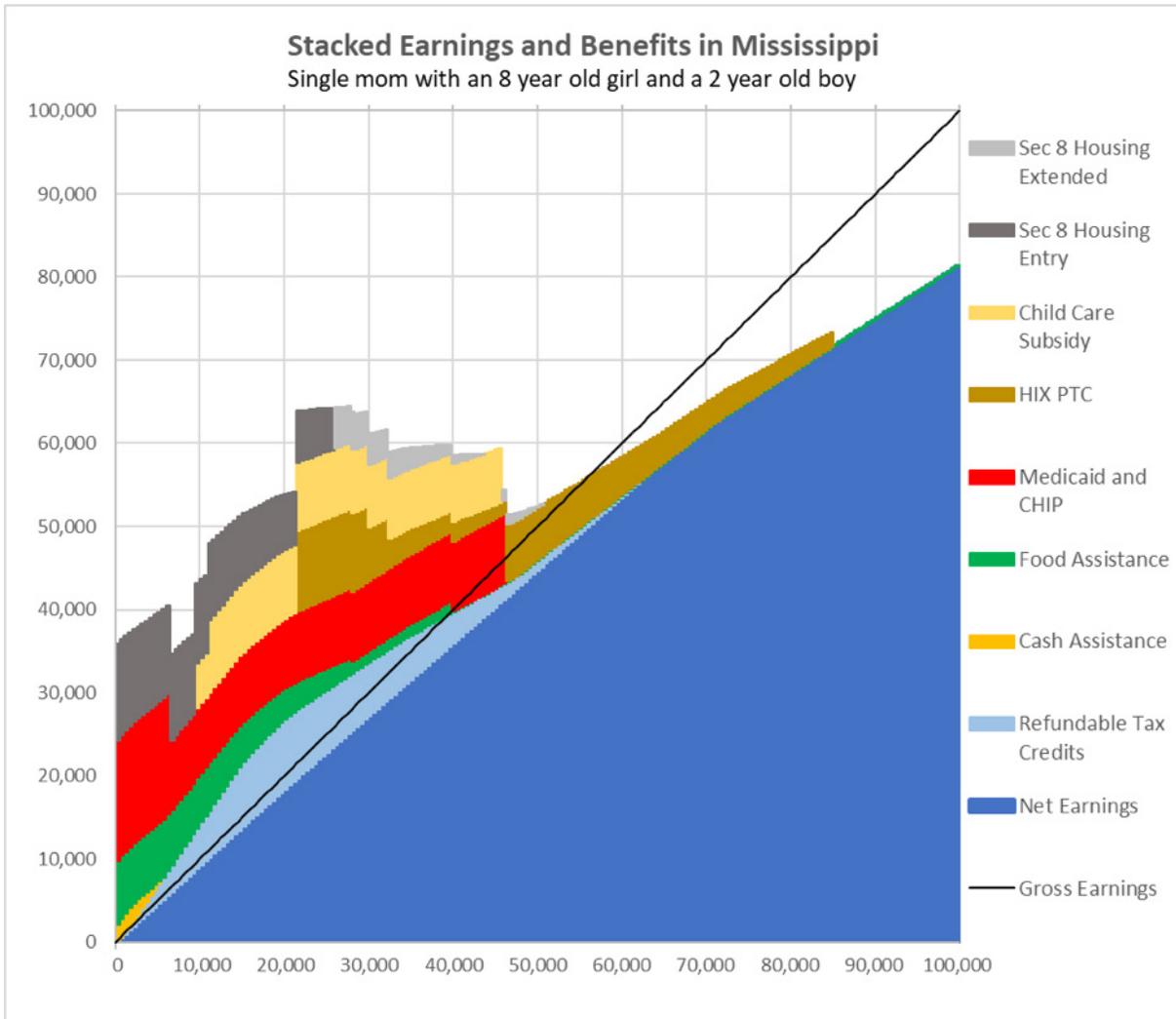
Louisiana



For a single mom in Louisiana, there is not one welfare cliff but fourteen welfare cliffs. Some of the cliffs are small with the smallest being a \$20 annual loss in benefits beyond her additional earnings for a pay raise of just under 25¢. However, the average loss is \$1,436. The largest cliff is \$8,815 when she would earn just \$22.76 per hour or \$45,500 annually. See Appendix A for a complete listing of Louisiana's cliffs for this scenario.

Her net earnings and welfare benefits peak at \$68,177 when she earns just \$13.18 per hour or \$27,500 annually. From there, her combined earnings and benefits cascade downwards until she hits \$56,936. This occurs when she earns \$22.73 per hour, or \$47,500 annually. She will not recover her loss in benefits and earnings until she would earn \$34.98 per hour, or \$73,000 annually, requiring a pay raise of \$21.80, or \$45,500.

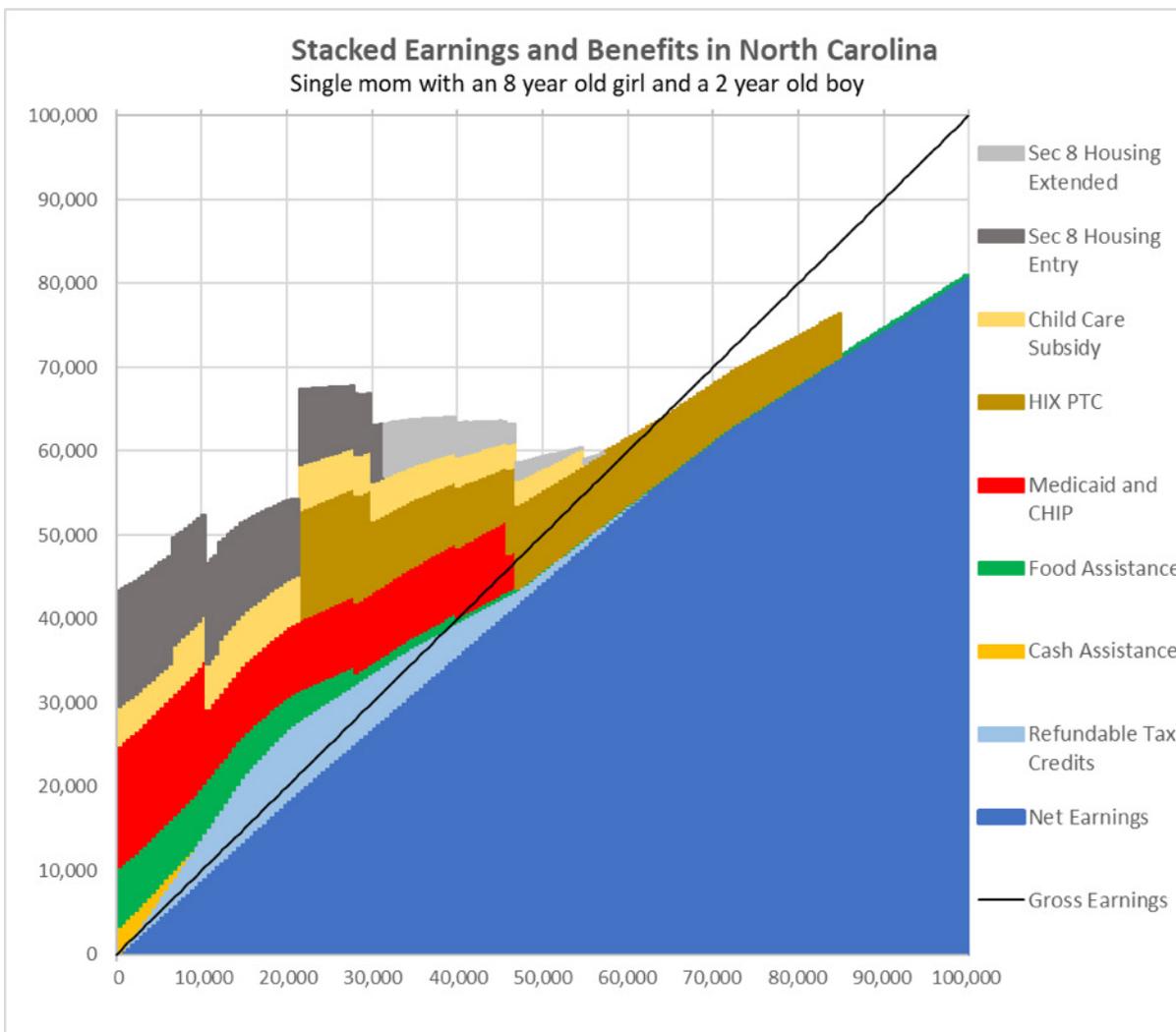
Mississippi



For a single mom in Mississippi, there is not one welfare cliff but eleven welfare cliffs. Some of the cliffs are very small with the smallest being a \$4 annual loss in benefits beyond her additional earnings for a pay raise of just under 25¢. However, the average loss is \$2,042. The largest cliff is \$5,778 when she would earn just \$6,500 annually. See Appendix A for a complete listing of Mississippi's cliffs for this scenario.

Her net earnings and welfare benefits peak at \$64,449 when she earns just \$13.18 per hour or \$27,500 annually. From there, her combined earnings and benefits cascade downwards until she hits \$51,480. This occurs when she earns \$22.28 per hour, or \$46,500 annually. She will not recover her loss in benefits and earnings until she would earn \$33.30 per hour, or \$69,500 annually, requiring a pay raise of \$20.12, or \$42,000.

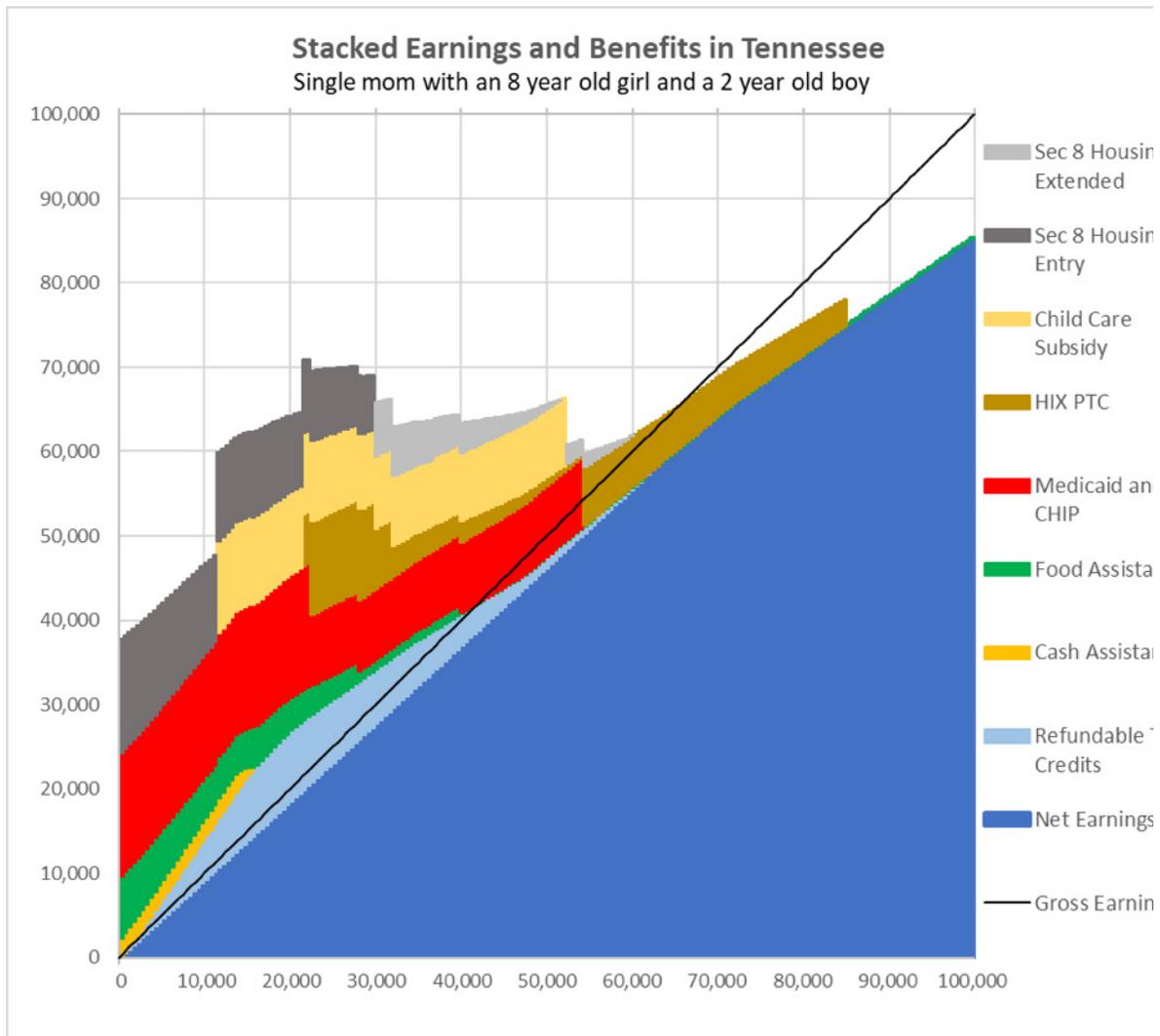
North Carolina



For a single mom in North Carolina, there is not one welfare cliff but eleven welfare cliffs. Some of the cliffs are small with the smallest being a \$14 annual loss in benefits beyond her additional earnings for a pay raise of just under 25¢. However, the average loss is \$2,039. The largest cliff is \$5,783 when she would earn just \$10,500 annually. See Appendix A for a complete listing of North Carolina's cliffs for this scenario.

Her net earnings and welfare benefits peak at \$67,813 when she earns just \$13.18 per hour or \$27,500 annually. From there, her combined earnings and benefits cascade downwards until she hits \$58,705. This occurs when she earns \$22.52 per hour, or \$47,000 annually. She will not recover her loss in benefits and earnings until she would earn \$33.54 per hour, or \$70,000 annually, requiring a pay raise of \$20.36, or \$42,500.

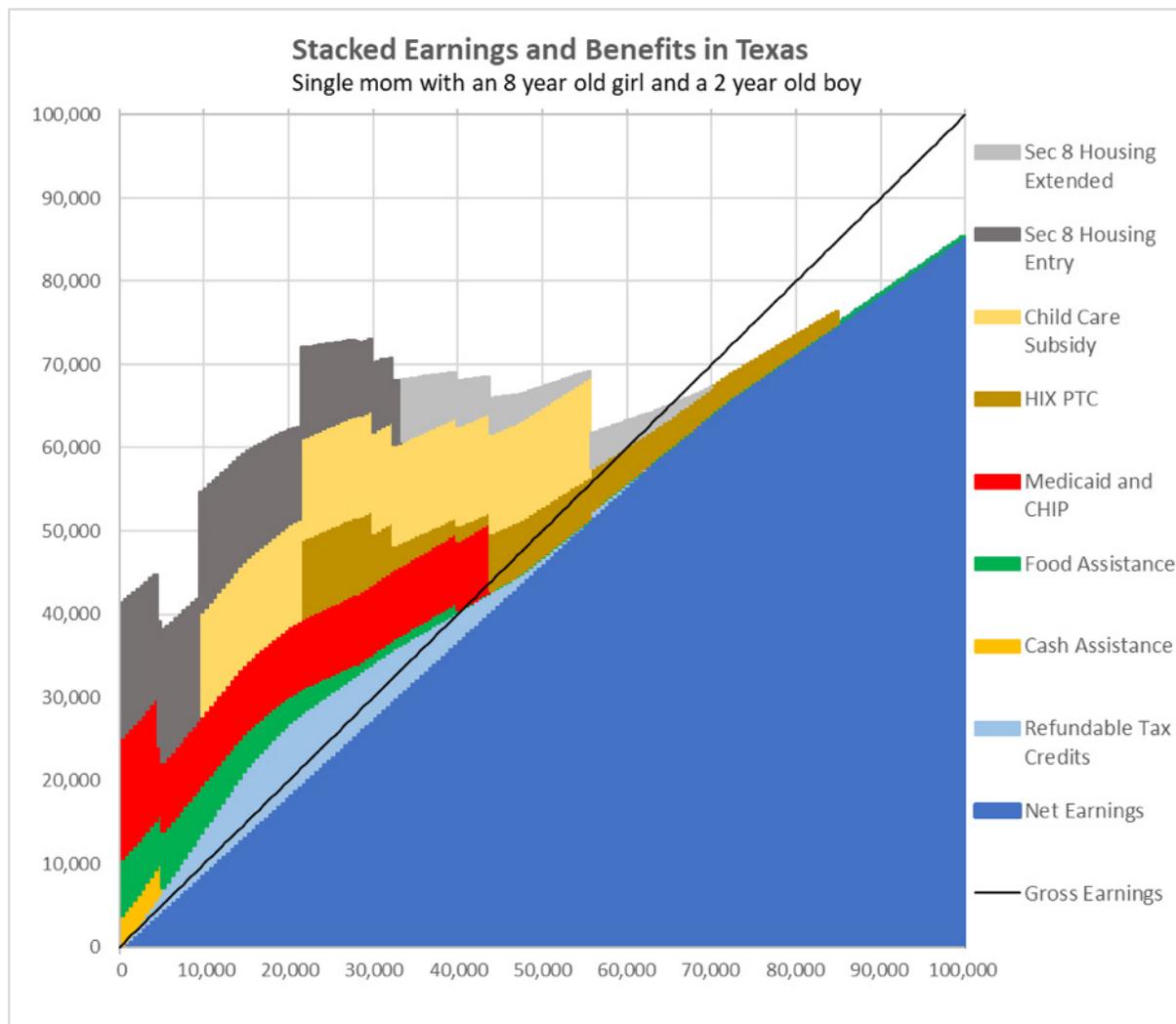
Tennessee



For a single mom in Tennessee, there is not one welfare cliff but fourteen welfare cliffs. Some of the cliffs are very small, the smallest being a \$7 annual loss in benefits beyond her additional earnings for a pay raise of just under 25¢. However, the average loss is \$1,422. The largest cliff is \$5,507 when she would earn just earn \$25.15 per hour or \$52,500 annually. See Appendix A for a complete listing of Tennessee's cliffs for this scenario.

Her net earnings and welfare benefits peak at \$70,889 when she earns just \$10.30 per hour or \$21,500 annually. From there, her combined earnings and benefits cascade downwards until she hits \$59,794. This occurs when she earns \$26.11 per hour, or \$54,500 annually. She will not recover her loss in benefits and earnings until she would earn \$35.22 per hour, or \$73,500 annually, requiring a pay raise of \$24.92, or \$52,000.

Texas



For a single mom in Texas, there is not one welfare cliff but ten welfare cliffs. The smallest cliff is an annual loss of \$114 for a pay raise of just under 25¢. However, the average loss is \$2,465. The largest cliff is \$7,431 when she would earn \$26.83 per hour or \$56,000 annually. See Appendix A for a complete listing of Texas's cliffs for this scenario.

Her net earnings and welfare benefits peak at \$73,020 when she earns just \$14.13 per hour or \$29,500 annually. From there, her combined earnings and benefits cascade downwards until she hits \$61,807. This occurs when she earns \$26.83 per hour, or \$56,000 annually. She will not recover her loss in benefits and earnings until she would earn \$38.09 per hour, or \$79,500 annually, requiring a pay raise of \$23.96, or \$50,000.

What Must a Single Mom Do to Overcome Welfare Cliffs?

Alabama	Net earnings & Benefits	Hourly Wage	Annual Gross Earnings
Peak	\$66,685	\$13.18	\$27,500
Trough	\$54,688	\$19.16	\$40,000
Loss Peak to Trough	\$11,997		
Recovery Level	\$66,830	\$32.10	\$67,000
Pay Raise Required to Overcome Peak to Recovery		\$18.92	\$39,500

Florida	Net earnings & Benefits	Hourly Wage	Annual Gross Earnings
Peak	\$73,377	\$13.18	\$27,500
Trough	\$62,817	\$25.39	\$53,000
Loss Peak to Trough	\$10,560		
Recovery Level	\$73,656	\$38.81	\$81,000
Pay Raise Required to Overcome Peak to Recovery		\$25.63	\$53,500

Georgia	Net earnings & Benefits	Hourly Wage	Annual Gross Earnings
Peak	\$69,127	\$13.18	\$27,500
Trough	\$58,051	\$26.35	\$55,000
Loss Peak to Trough	\$11,076		
Recovery Level	\$69,135	\$36.89	\$77,000
Pay Raise Required to Overcome Peak to Recovery		\$23.71	\$49,500

Louisiana	Net earnings & Benefits	Hourly Wage	Annual Gross Earnings
Peak	\$68,177	\$13.18	\$27,500
Trough	\$56,936	\$22.76	\$47,500
Loss Peak to Trough	\$11,241		
Recovery Level	\$68,237	\$34.98	\$73,000
Pay Raise Required to Overcome Peak to Recovery		\$21.80	\$45,500

Mississippi	Net earnings & Benefits	Hourly Wage	Annual Gross Earnings
Peak	\$64,449	\$13.18	\$27,500
Trough	\$51,480	\$22.28	\$46,500
Loss Peak to Trough	\$12,969		
Recovery Level	\$64,469	\$33.30	\$69,500
Pay Raise Required to Overcome Peak to Recovery		\$20.12	\$42,000

North Carolina	Net earnings & Benefits	Hourly Wage	Annual Gross Earnings
Peak	\$67,813	\$13.18	\$27,500
Trough	\$58,705	\$22.52	\$47,000
Loss Peak to Trough	\$9,108		
Recovery Level	\$67,906	\$33.54	\$70,000
Pay Raise Required to Overcome Peak to Recovery		\$20.36	\$42,500

Tennessee	Net earnings & Benefits	Hourly Wage	Annual Gross Earnings
Peak	\$70,889	\$10.30	\$21,500
Trough	\$59,794	\$26.11	\$54,500
Loss Peak to Trough	\$11,095		
Recovery Level	\$71,110	\$35.22	\$73,500
Pay Raise Required to Overcome Peak to Recovery		\$24.92	\$52,000

Texas	Net earnings & Benefits	Hourly Wage	Annual Gross Earnings
Peak	\$73,020	\$14.13	\$29,500
Trough	\$61,807	\$26.83	\$56,000
Loss Peak to Trough	\$11,213		
Recovery Level	\$73,140	\$38.09	\$79,500
Pay Raise Required to Overcome Peak to Recovery		\$23.96	\$50,000

For the single mom scenario considered for each of the eight states studied, it would be difficult for the mom to overcome the welfare cliffs. The net earnings and benefits peak with earnings ranging from \$10.30 per hour to \$14.13 per hour, with the mode being \$13.18. This is equivalent to annual earnings of \$21,500 to \$29,500, with the mode being \$27,500. It would not be rational for the mom to attempt to earn above those amounts. In order to overcome the cascading declines of welfare cliffs that follow, she would need to receive pay raises between \$18.92 per hour to \$25.63 per hour, which is the equivalent of earning \$39,500 to \$53,500 more than her current annual wage.

Conclusion

The details of the welfare cliffs vary among the eight states, such as the number of cliffs, the size of the benefits and cliffs, and the wage levels where the cliffs occur. The reason for the variance is that the states have different rules for some of the major welfare programs, such as with TANF cash grants, Medicaid, CHIP, subsidized childcare, and state income taxes and credits. Additionally, some federal programs determine benefits based on local factors that shift the size of the cliffs and where they occur, such as Section 8 housing that varies the factors based on county or metropolitan data and the HIX Premium Tax Credit that varies the factors based on HIX rating areas within each state.

There is another factor that is easy to miss because it is not illustrated in the graphics above. Critical welfare programs interact with each other and vary based on what other welfare benefits the families may receive. For example, food stamp allotments change depending on whether a family has childcare or housing costs. If a family receives subsidized childcare and Section 8 housing, as assumed in this paper, the food stamp allocations are actually less than what it would be otherwise.

If, however, the family had to pay childcare on its own, or all of its housing costs, the family would receive a larger SNAP allocation, which alters the allotment and actually creates a large welfare cliff where none existed before. The reason has to do with how SNAP determines the allotments. For the family studied here, the single mom would run into the gross income limit, which creates the cliff. Because families with a disabled member do not need to meet the gross income limit, they are spared this SNAP welfare cliff.

Despite all these variances among the states, the welfare cliffs among the states share common features and follow similar patterns. Foremost, for each and every state, there is not a single welfare cliff, but a series of welfare cliffs over the range of incomes. The root cause is an uncoordinated welfare system where each program has its own rules of eligibility that at times are contradictory. Another cause is the lack of thought put into the design of some of the programs.

Likewise, the net income and benefits for this family scenario for each state follow a pattern where a peak is reached with earnings between \$10.30 and \$14.13. Thereafter, net income and benefits take a long cascade downwards. In order for the mom to overcome the cliffs, she is faced with the obstacle of attaining massive pay raises, which are highly unlikely given the scenario considered here.

This policy briefing highlighted how welfare cliffs varies among eight states for a single family scenario. This scenario demonstrates only a small slice of the power and potential of the GCO welfare cliff model. There are countless other scenarios that can be analyzed, and in much greater detail. Moreover, each welfare program can be studied in isolation or in combination with any of the other major program. Now the public can view some basic scenarios generated by this model on GCO's welfarecliff.com website.