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GEORGIA CENTER FOR OPPORTUNITY

The Benefits Cliffs Problem—Worse Than You Think?

The Limited Prospects for a Single Mom in North Carolina, the Cliffs Explained, and Some Actionable Ways to Find Solutions

Full Research Paper is available here.

Summary

Safety-net programs can help individuals in times of need. However, for single moms who need assistance, there are serious drawbacks that can trap them in the system.

Using precise rules of eligibility, the Georgia Center for Opportunity studied the hypothetical case of Sophia, a representative single mom with two children in North Carolina. The study examined four benefit packages of safety-net programs—like the Earned Income Tax Credit, Medicaid, and subsidized child care services—considering two situations where no family member has a disability and where one child has a disability.

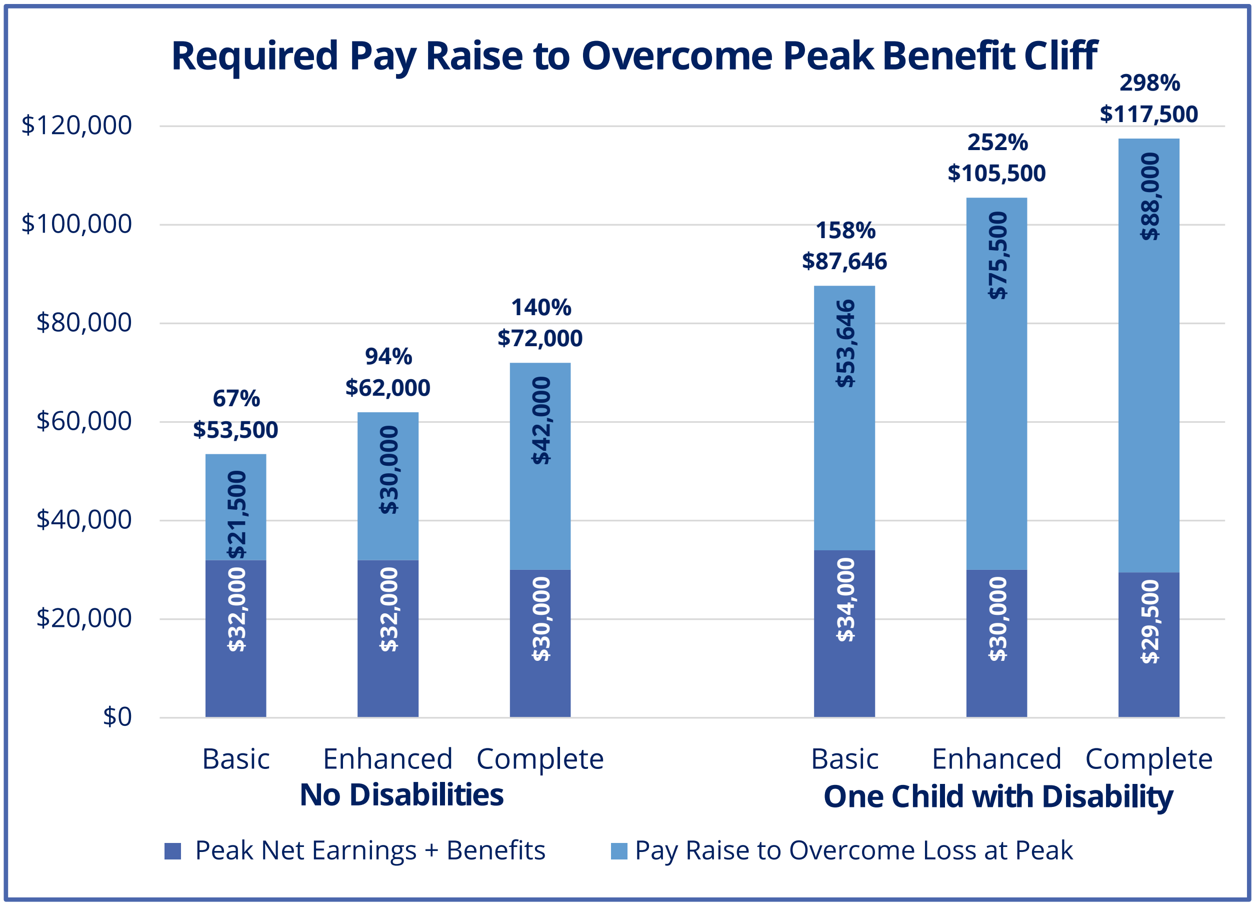
The study:

- Shows multiple benefits cliffs—when a family loses more in benefits and from taxes than what it gains from an increase in earnings—for each of the eight scenarios on an annual earnings range of up to $100,000.
- Explains the reasons for the cliffs.
- Introduces graphics that quantifies the severity of disincentives for earning more money.
- Details nuances, drawbacks, and other problems of safety-net programs that are harmful to single moms like Sophia.
- Analyzes how disincentives worsen as safety-net benefit packages get bigger.
- Proves that cliffs and disincentives worsen when one child has a disability.
- Calculates how difficult it is for Sophia to overcome benefit cliffs.
- Offers strategies for states, Congress, nonprofit organizations, employers, and individuals to help fix or ease benefic cliffs and marriage penalties.

In 2023, the safety-net system incentivized single moms with two children not to earn more than $29,500.

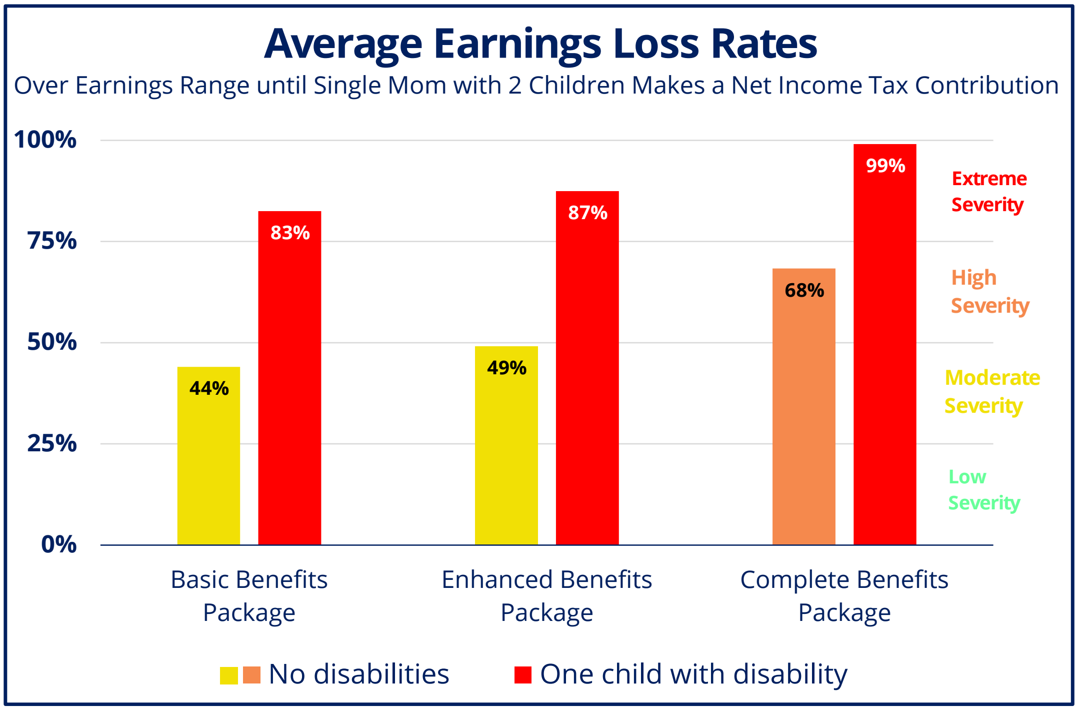
Disincentives for Earning More Money

Based on 2023 data, the safety-net system is sending the general message to low-income single moms with two children that it is better not to earn more than about $29,500 a year because they will suffer financially if they do. This earnings peak differs by household size and changes each year, but the pattern stays the same.



For the basic safety-net package—consisting of refundable tax credits, cash assistance, food assistance, and medical assistance—a single mom with two children in 2023 will need to increase her $32,000 in earnings by 67 percent to overcome the loss in benefits. If one of her children has a disability, she would need to make 158 percent more than her earnings of $34,000.

For the enhanced benefits package (including subsidized child care), or the complete package (also including Section 8 housing benefits), it will require significantly larger pay raises. Therefore, it is perfectly rational behavior for Sophia to turn down opportunities to earn more money or reduce her work hours to avoid losing benefits.



Beyond benefit cliffs, severe disincentives to earn more money start much earlier than the $29,500 threshold, making it equally rational for Sophia not to seek higher earnings before she reaches $29,500 in earnings. This evidence demonstrates that work requirements attached to safety-net programs are insufficient to reform the system. Systemic disincentives also need to be addressed.

Explaining the Cliffs.

The study explains each cliff—little and big—potentially encountered by single moms with two children, and why they occur. Some cliffs occur because some programs—such as subsidized child care or the school lunch program—have hard cutoffs instead of gradually tapering off benefits with increased earnings.

They also occur in programs that include a tapering feature. For example, Supplemental Security Income tapers benefits with earnings, but the tapering rate is too steep, causing cliffs and other severe disincentives to earn more money once it is combined with other benefit programs. The Supplemental Nutrition Assistance Program (SNAP, formerly called the Food Stamp Program) tapers benefits, but program features delay the income level for when the tapering starts, and it is almost always truncated by the SNAP Gross Income Limit or the Net Income Limit.

Finally, having too many uncoordinated benefit programs can cause cliffs without the loss of eligibility from any safety-net assistance program. This phenomenon is known as a cliff due to the stacking effect and can be easily seen when Section 8 housing assistance is added to the benefits package.

Putting Benefits Cliffs in Context

The study examines the many nuances of the major safety-net programs and exposes other problems not easily discerned by the modeling. Among the nuances are the drawbacks of Refundable Tax Credits that do not have benefit cliffs but lack monthly income flow for needy participants, have marriage penalties, and suffer from poor program compliance.

Medical assistance programs have problems of their own. Other than being known for generally poor health outcomes for its enrollees, Medicaid introduces cliffs for participants who exit the program because they will likely experience significant out-of-pocket expenses whether they obtain coverage through their employer or through government-run Health Insurance Exchanges.

Subsidized child care services can have severe cliffs, and there is no guarantee in obtaining the subsidy or finding a slot for child care services. Section 8 benefits are the most difficult to obtain and severely rationed, much more so than childcare subsidies, because of the prohibitive fiscal costs of unreasonably attempting to provide the benefits to everyone who might otherwise qualify.

Single moms might look to marriage as a way to overcome benefits cliffs, but then the system has severe marriage penalties that shut down that avenue in most cases.

Strategies to Fix the Cliffs

This report lists strategies for state governments, Congress, non-profit organizations, employers, and individuals on what they can do to help fix the safety-net system in a fiscally responsible manner, or to help ease the situation in addressing benefit cliffs, marriage penalties, and, more generally, disincentives for earning more money.

Although the task appears daunting, GCO believes it can be solved through collective, dedicated, and persistent action by public policymakers and partners, if they follow specific recommended strategies mentioned in the study.