



Policy Change Can Reduce Benefit Cliffs and Incentivize Work

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February 2022

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Public benefits like child care, Medicaid health coverage, housing vouchers, and food assistance help low-income families meet their basic needs. For working families, benefits can bridge the gap between their earnings and the amount of money they need to make ends meet. In Ohio, someone working 40 hours per week for 52 weeks per year at minimum wage would earn less than the federal poverty level (FPL) for a family of three. The worker's low income means the family would qualify for a number of public benefits, despite being fully employed. Benefit cliffs occur when a small increase in earnings means a family no longer can receive a public benefit which was helping them to feed their families, afford medical care, access quality child care or otherwise balance their budget. Research from the Federal Reserve Bank of Atlanta found that, "These benefits cliffs can be so severe that low-income workers may be temporarily better off financially by not advancing to take a higher paying job."¹

[Policy changes](#) enacted in Ohio over the past several years have improved benefits cliffs for the state's low-income workers, especially workers with children. But there is much more which can be done.

Several studies² have found that fear of encountering benefits cliffs causes many low-income workers to be more cautious in their career and job decisions. The threat of encountering a cliff is enough to change worker's behavior. Benefits cliffs are most harmful when workers make job and career decisions based on short-term financial considerations. Benefit cliffs hurt the families who are worse off financially despite moving ahead, hurt businesses who experience churn and struggle to fill open positions and retain workers, and hurt taxpayers who bear the cost of elevated need for public benefits.³

Some benefit programs have strict federal requirements, while others allow state governments more discretion to define who is eligible and what benefits are available. States can also participate in or apply for waiver programs to gain additional flexibility. Florida, Colorado, and several of the states in New England have made changes to benefit programs with the explicit intention of reducing benefit cliffs facing families.

¹ Altig, David, Elias Ilin, Alexander Ruder, Ellyn Terry, "Benefits Cliffs and the Financial Incentives for Career Advancement, *Federal Reserve Bank of Atlanta*, February 2020.

² Examples include "Child Care and Low Income Families: Coping with the Cliff Effect" from The Women's Foundation of Colorado and "Cliff Effect Qualitative Insights" from the Greater Cincinnati Foundation.

³ Benefit cliff policy discussions are most relevant for a portion of the public benefit caseload – those who are working age adults without disabilities and some children in low-income families whose parents are employed. In reality, most Ohioans who receive public benefits are children themselves, older adults, and persons with disabilities.

Benefits programs create smaller cliffs if:

- **Benefit amounts taper out**, meaning that a family receives less as they earn more. The way Supplemental Nutrition Assistance Program (SNAP) is ordinarily administered is an example of a benefit with this design. On the other hand, Medicaid coverage for parents and children has an abrupt cutoff where earning just \$1 too much means a complete loss of the benefit.
- **Families can maintain benefits even as they earn more.** Ohio's child care program is designed with an initial eligibility threshold. But once a family qualifies for the program, children can continue to receive a subsidy even as their parents' income increases, as long as the family makes a copayment. In contrast, eligibility for Ohio Works First (OWF, Ohio's [Temporary Assistance to Needy Families](#) [TANF] program) is set very low so that most poor working families cannot access cash assistance, and it ends well before a family is earning enough to be self-sufficient.
- **A small temporary increase is assessed appropriately.** All public benefits require periodic review of income and other paperwork and/or an interview to maintain eligibility. Recertification is important to maintain program integrity, but if done too often can be wasteful of county departments' time and taxpayer resources. Unlike higher-wage salaried employees, many lower-wage workers' paychecks vary, especially for hourly workers who do not receive Paid Time Off.
- **They allow workers to build a cushion**, so that they can handle unexpected expenses and save for their family's future. Asset development provides families with savings, enabling them to avoid immediately returning to public benefits when they encounter a crisis or unexpected challenge. Economic security means families can solve their problems themselves.

What Ohio Has Already Done

Ohio has taken some important steps which can minimize or address benefit cliffs.⁴ The most deliberate is the "Benefit Bridge" pilot included in Ohio's recently passed biennial budget. The Benefit Bridge enables six counties' departments of Job and Family Services to test approaches to minimize the impact of benefits cliffs. It is largely based on the success of efforts in Allen County, which paired [TANF Prevention, Retention, and Contingency](#) (PRC) supports with job coaching assistance and financial incentives benchmarked to employment goals for a limited number of TANF participants. It also included subsidized employment. The identified pilot counties are Allen, Fairfield, Hamilton, Licking, Meigs, and Stark. Many features of the pilot align with solutions other states have enacted.

⁴ The National Conference of State Legislatures has documented many of the policy approaches available to states. <https://www.ncsl.org/research/human-services/addressing-benefits-cliffs.aspx>

In particular, Ohio's PRC program is well-designed and effective when implemented with fidelity. PRC is flexible and provides small, one-time cash payments to families to address immediate needs. Under the Allen County program, PRC was meant to balance reductions in public assistance benefits and could pay for emergent needs including work tools and safety equipment, transportation or car repairs, and rent or utilities. Counties have broad leeway to design a PRC program which fits local needs, and advocates⁵ have recommended utilizing unspent TANF funds to increase PRC.

The Ohio Department of Job and Family Services (ODJFS) is also taking the important step of developing a calculator tool which can help individual workers understand how increased wages will impact the financial bottom line for their families. It should be suitable for use by working Ohioans, case managers, and job coaches. Being armed with the information should reduce fear of cliffs and enable workers to plan ahead and manage benefit loss more effectively.

Other benefit policies were not enacted to address benefit cliffs in particular, but do improve the situation facing Ohio's working families. For example, many other states are reducing asset tests as a benefit cliff reducing measure. However, there are already no asset tests for most of Ohio's benefit programs. This means that workers can build a cushion while still receiving benefits, and, for example, Ohioans are not forced to [sell their car to receive SNAP](#).

High-quality child care programs have a large return on investment because they help children start school ready to learn while providing a vital work support for working parents. The pandemic has shown the challenges which arise for employees and employers when child care is disrupted. Community Solution's benefit cliff model shows that the copayments at higher incomes are so high that they effectively erase any raises. On October 1, 2021 the initial eligibility threshold for Ohio's child care subsidy program increased from 130 percent FPL to 142 percent until 2023, allowing more working families to access this important benefit. The child care subsidy in Ohio has copayments allowing cost-sharing between government and families who earn more while keeping program budgets at reasonable levels.

While Ohio has already exercised some of its options to reduce benefit cliffs or reduce their impact on working families, there is more which can be done especially as we face an abrupt unwind of pandemic-related policy changes to benefit programs.

⁵ Advocates for Ohio's Future, "AOF Sets Budget and Policy Priorities for 2021", January 2021. <https://www.advocatesforohio.org/news/aof-sets-budget-and-policy-priorities-for-2021>

What Ohio Should Do

In today's environment where Ohio businesses are struggling to maintain their workforce, any efforts to address the benefit cliff must incentivize work and provide families with a place to land if they do encounter a benefit cliff.

- **Streamline benefits eligibility and reporting processes**

Improving efficiency in the administration of programs saves taxpayer money and reduces barriers for families. The federal agencies which administer public benefit programs offer states a range of flexibilities and waivers allowing states to tailor their public benefit programs. The state could implement flexibility allowed by federal regulation when administering programs during normal times.

- The weekly or monthly income of low-wage and hourly workers can fluctuate, and some policy proposals would require families to report income changes every time their paycheck is different. *Universal Simplified Reporting* is already in place for some, but not all programs. It allows families to complete annual or semi-annual reports, while still requiring the worker to notify ODJFS when their income goes above eligibility limits.
- *Continuous Eligibility*, where permitted, allows children and other beneficiaries to receive benefits for an entire certification period, typically six to 12 months, even if the household income rises above initial eligibility thresholds. This is easier to administer, provides a ramp to leave benefits, and does not immediately penalize those who move toward family-sustaining employment. Relatedly, longer redetermination periods enable workers to accept more hours at their jobs temporarily, without fear of it causing them to lose benefits. It also reduces churn and recidivism in benefit programs and can improve employee retention.
- *Ex Parte Renewal Processes* enable states to use available data sources to confirm ongoing eligibility, rather than relying on beneficiaries to submit paperwork which can be cumbersome, especially since many county Job and Family Services offices are still working remotely. They utilize third party systems to verify income, which can reduce fraud, improve efficiency, and help eligible individuals maintain benefits. For example, by improving the existing ex parte renewal process to include SNAP data, the Ohio Department of Medicaid can review an enrollee's coverage by assessing existing SNAP data to confirm ongoing eligibility.
- Similarly, *Express Lane Eligibility* permits states to rely on findings from other agencies to facilitate enrollment in benefits, because if a person meets income qualifications for SNAP, they also almost certainly qualify for Medicaid.

- **Properly exempt adults from mandatory work activities**

Most working age childless adults without disabilities are required to participate in “work activities” to maintain benefits. Unfortunately, the definition of work and training activities no longer aligns with the types of education or certifications needed to advance in a career and move toward economic self-sufficiency. The state is allowed to implement exemptions, but Ohio has not taken advantage of all the program flexibility allowed under federal programs such as TANF, SNAP, and Medicaid. This is especially true for individuals who are struggling with addiction or mental illness or who are pursuing education.

Under current rules, only part of the time spent working toward a GED or high school equivalence can be counted. For those who already have a high school credential, attending college, even full time, is typically not considered an acceptable work or training activity. Most low-income college students do not qualify for food assistance or TANF unless they have other characteristics which allow them an exemption. Exemptions include living with a disability, being over the age of 50, working at least 20 hours per week in paid employment, or caring for a young child.

This policy disincentivizes participation by low-income adults in post-secondary programs which can put them on a different career trajectory and propel them out of poverty. Utilizing the flexibility given to the states under existing rules would mean that fewer Ohioans have to choose between advancing their education and careers and feeding their families.

- **Count income and assets in ways that incentivize work**

States are able to define how income is counted for eligibility determination for many public benefits. Employed individuals who are on the path off public benefits are currently penalized for working because additional earnings count against them. Instead, the less they work, the more benefits their family receives. Increasing earned income disregards across all benefit programs provides workers with a strong incentive to continue on their career pathway and leave public benefits behind.

Some working families are unable to make ends meet because they spend much of their earnings on basic needs including child care, medical expenses, and housing. Thirty-five states have increased the gross income threshold in the SNAP program, which enables families with high expenses for basic needs to avoid losing benefits when they experience a modest increase in earnings. This policy change is particularly helpful for working parents.⁶

⁶ Schanzenbach, Diane, “Who Would be Affected by Proposed Changes to SNAP?” Econofact, August 2019. <https://econofact.org/who-would-be-affected-by-proposed-changes-to-snap>

In recent years, several states have eliminated or increased the asset limits for public benefit programs. Ohio is one of many states that currently has no asset limits for SNAP and TANF. This must be protected. Some Medicaid recipients do have an asset limit, which could be revised to enable individuals to build a cushion.

These changes would enable employees to move closer to economic independence while minimizing the impact on the benefits they receive.

- **Make Ohio’s Earned Income Tax Credit (EITC) refundable**

EITC has been one of the most effective federal programs to reduce poverty and incentivize work. Refundable tax credits including EITC had the effect of pulling 5.3 million Americans out of poverty in 2020, most of whom were children and working age adults.⁷ Ohio is one of 29 states that has an EITC for state income taxes. All but six of those states have EITCs which are refundable, at least in part, meaning that qualifying taxpayers can receive a refund even if their tax liability is less than the credit amount.

Several states have explored or implemented a refundable EITC as a measure to reduce benefit cliffs. One state’s benefit cliff study commission found that EITC, “would smooth out cliffs with a broad brushstroke, reducing the need to calibrate improvements to the cliffs across a set of benefits.”⁸ Making Ohio’s EITC refundable would help bridge the gap between where benefits end and where family sustaining wages begin. It also requires no additional state spending to implement and is a simple way to address the impact of several cliffs at once.

- **Expand the use of existing tools**

Ohio has implemented several programs on a limited basis which could be expanded to cover more workers or more communities.

- *Individual Development Accounts (IDA)* are used in many other states. IDAs allow workers to set savings goals and matches their deposits with public or private funds, creating a multiplier effect. IDA assets can only be used for specific purposes, usually limited to a down payment on a first home, retirement, or higher education. They are typically exempted from asset tests and often not taxed. There are currently IDAs run by certain Community Development Corporations in Ohio which are matched by federal dollars. But they appear to be limited to a few categories of people (i.e. Refugees) and are only used in certain geographic areas.
- One feature of the successful benefit cliff elimination program in Allen County was a partnership with employers to create *Emergency Assistance Accounts*. These accounts are typically tied to payroll processes and provide funds that enable workers to invest in themselves. In some cases, deposits can also come from employers or outside entities, such as foundations. For example, money in Emergency Assistance Accounts

⁷ Fox, Liana and Kalee Burns, “The Supplemental Poverty Measure: 2020” *U.S. Census Bureau*, September 2021.

⁸ Maine’s benefit cliff study, as reported by National Conference of State Legislators, “Moving on Up: Helping Families Climb the Economic Ladder by Addressing Benefit Cliffs.” July 2019.

can typically be used for car payments, purchases of professional attire or tools, or better internet access. They can help bridge the gap between benefits and economic independence to make ends meet during the first critical months.

- Cuyahoga and several other counties participate in SNAP Employment and Training (*SNAP E&T*) where half of certain types of spending on workforce development activities supporting SNAP beneficiaries is reimbursed by the federal government. This allows communities to draw down additional federal funds for local programs. However, SNAP E&T requires a state or local match, and because Ohio invests little General Revenue Funds (GRF) into workforce programs, the amount of SNAP E&T draw down is severely limited.
- **Collaborate with employers**
Benefits cliffs can make it difficult for employers to attract and retain talent. Policy is just one component to address benefit cliffs, and employers should also play a role. Collaborations across the state are addressing the needs of workers and employers simultaneously. Subsidized employment, employer resource networks, workforce coaches, paid time off policies, and an examination of prevailing wage are all ways employers and government can partner to reduce the impact of benefit cliffs.

Benefit cliffs are a complex problem requiring multifaceted solutions. Ohio should exercise all available options to design and administer benefits programs in ways which propel employment, reduce dependence, and stabilize families.



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