Connecticut Association for Human Services
237 Hamilton Street, Suite 208
Hartford, Connecticut 06106
www.cahs.org

Robert Blakey , Interim CEO
860.951.2212
860.951.6511 fax

Pushed over the Edge with Nowhere to Land; summarizing key qualitative findings concerning the benefit cliff effect in Connecticut

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Abstract

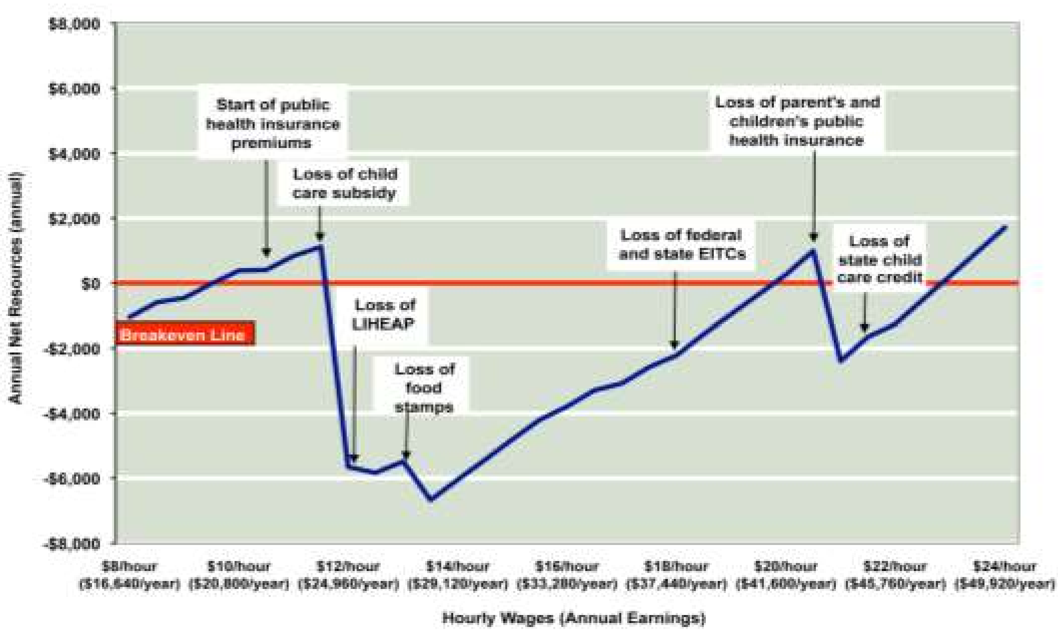
The benefit cliff effect punishes low-income working families by cutting off critical public benefits right when families are on the cusp of attaining greater economic security. The phenomenon, while documented across the nation, has been under examined in Connecticut, where deep generational poverty continues to exacerbate disparities in outcomes across health, education, and family and community well-being. Through focus groups and key informant interviews, CAHS engaged in qualitative research to better understand how the recipients of public assistance programs perceive and experience the benefit cliff, and how the benefit cliff effect impacts the incentive to work and the work-related behavior of public assistance recipients. With an eye toward potential policy solutions, this report also identifies key informational barriers as well as the learning process associated with navigating barriers to working while receiving public benefits, in addition to surfacing innovations to the delivery of public benefits and the structure of programs that could better support the needs of families facing benefit cliffs. Ultimately, this report finds that while the cliff effect does prompt families to engage in earnings-moderating behavior, this phenomenon primarily occurs among full-time workers who turn down overtime or meager pay raises because they know the loss of their benefits would be greater than the potential increase in income associated with these one-time opportunities. This report also finds a gendered skew in the stress associated with managing the benefit cliff, and suggests that policies designed to lessen the cliff phenomenon should expand participant access to assets and other forms of supplemental income, including the EITC, to enable families to move out of poverty. The following brief is a summary of that report; the full report can be made available upon request.

Background on the cliff effect

The benefit cliff effect is an unintended consequence of the income limits which define eligibility for needs-based public assistance programs. Broadly speaking, to qualify for and continue to receive public benefits, families must meet income thresholds dictated by either the federal or state government. When the income of a household rises above said threshold, their eligibility is terminated and their benefits are either reduced or cut entirely. [i] For some programs, like the Earned Income Tax Credit (EITC), benefits gradually phase out or "slope-off" as income rises; while the largest benefits are paid to households with the lowest incomes, families living above the FPL can continue to receive the credit and benefits slowly decline in relationship to an increase in earnings. [ii] This feature of the EITC has been credited with enabling the program to dramatically improve family economic stability,[iii] and is linked to the income-smoothing impacts of the credit which are associated with improved maternal and infant health among recipients.[iv] However, for the majority of public assistance programs, the cut-off for households earning above the eligible threshold is so immediate and sharp that marginal wage increases for hourly workers can result in the complete decimation of their benefit resource base. [v]

Visual models, exemplified by the modeling of the cliff effect in Des Moines, Iowa in Figure 1 below, help to explain how families can end up with fewer net-resources even as their income rises. The red line represents a break-even threshold, at which a family's annual net-resources are zero. Holding work hours constant, the household first experiences a cliff when the working parent receives a raise from $10 to $12 per hour, and the annual income rises above the eligible threshold for the child care subsidy. Because child care is often the single-largest expense for low-income working families, ranging from 12 to 34 percent of a family's total budget for center-based care,[vi] the loss of the subsidy takes a significant toll on the total resources of the household, depicted by the plummeting blue line. As the working parent continues to earn raises, the household "falls off" additional benefit cliffs, first losing their Low Income Home Energy Assistance Program (LIHEAP) benefits, followed shortly thereafter by their Supplemental Nutrition Assistance Program (SNAP) or "food stamp" benefits. Due to the cliff effect, the family will continue to find that wage-increases result in a substantial reduction in their resources until the working parent can achieve a dramatically higher wage.

Figure 1: Fluctuation in Net-Resources for a Single-Parent Working Full-Time with Two Children Under Age 6



Source: The Cost of Living in Iowa — 2011 Edition, using the National Center for Children in Poverty's Family Resource Simulator[vii]

Though the visual representation of the cliff effect in Figure 1 uses Iowa-specific income limits from 2011, the same principles apply to the loss of benefits in Connecticut, as well as other states. Drawing on the National Center for Children in Poverty's Family Resource Simulator, a number of states and counties have produced models of the cliff effect using geographically specific program eligibility and benefit data,[viii] which can demonstrate how the net-resources of families of different sizes and compositions, enrolled in a variety of public assistance programs, change as they move up the wage scale. While such a tool is being developed by the University of Connecticut, the most recently updated publically available models for Connecticut have not been revised since 2003.

The larger impact of the cliff effect on the workforce participation and economic stability of benefit recipients has been well-documented in various contexts. Across numerous states, the literature confirm that the cliff effect reduces the desire of public assistance recipients to accept raises and overtime and to shift from part-time to full-time work, and further prevent parents from pursuing the educational and training activities necessary to obtain meaningful increases in income. One such study, which examined the behavior of working mothers receiving the Colorado Child Care Assistance Program (CCCAP), a child care subsidy for low-income working parents, found that families whose earnings were near the upper-limit of the program's eligibility guidelines strategized about how to preserve their subsidy by turning down extra work hours and raises. Increased exposure to the cliff effect also appears to produce an increasingly negative impact on workforce participation. Parents within the CCCAP study were more 2.8 times more likely to reduce work hours or earnings to in an attempt to mitigate the cliff effect if they had already been cut-off from their child care subsidy once before.

More critically, the cliff effect has concrete negative impacts on the health and well-being of low-income families who often struggle to meet basic needs even as their earnings increase. The loss of SNAP and TANF benefits is associated with increased levels of food insecurity and malnourishment among young children, with the highest impacts observed in single-female headed households and among Black or African American and Hispanic or Latino children. In a survey of 78 low-income women and 32 social service providers, researchers determined that higher-earning participants (earning roughly $34,000 annually) fared worse than their lower-income peers because of the cumulative impact of managing the repeated loss of resources due to fluctuations in income. Coping strategies employed by the mothers surveyed included skipping meals or living without electricity for extended periods of time in an attempt to stretch limited resources after the loss of a benefit.

Qualitative research has also begun to probe the experiences of families and case managers struggling to navigate the cliff effect. Through a series of discussions with benefit recipients and case managers, researchers with the Women's Fund of the Greater Cincinnati Foundation documented high levels of emotional attachment associated with preserving benefits, which was correlated with a profound sense of instability and fear when participants encountered the benefit cliff. Additional qualitative data has illustrated that the ability to find appropriate child care is a determining factor in the work-modification decision making process of parents facing a benefit cliff. Anecdotes from news outlets mirror these qualitative reports, and have publicized the stories of parents, who, despite working full-time and collecting cans in their neighborhood to earn a small payout at the local recycling warehouse, find themselves sinking even deeper into poverty.

Research overview

Five focus groups were conducted between July and December of 2018, in Bridgeport, Colchester, Hartford, Meriden, and Norwalk. These towns were convenient sample settings because of CAHS' connection to gatekeepers who are involved with the Connecticut two-generation project.

- Recruitment through 2Gen community gatekeepers

- 47 parent/caregiver participants, receiving at least one public benefit
- Consent protocol was critical to open discussion
    - *Anonymous*, but not confidential

Qualitative Findings

1. A Sudden, Confusing Loss; Experiences "Falling Off" the Benefit Cliff

Though participants were largely unfamiliar with the terms "benefit cliff" and "cliff effect," an overwhelming number of respondents in the focus groups and key-informant interviews reported having benefits reduced or cut off due to an increase in income beyond the eligibility threshold for a particular assistance program. Of the 10 participants who had not personally experienced the cliff effect, 8 were relatively new to the public assistance system and had been enrolled in benefit programs for less than a year. The experience of losing benefits following an increase in income was jarring, according to many parents, because a number of participants were unaware that their benefits would be immediately and entirely terminated if they surpassed the income threshold. While a handful of respondents mentioned that they had been informed of the sharp eligibility thresholds associated with their benefits during their initial application, a greater share of participants was adamant that they had not been informed ahead of time that their benefits could be cut completely. For HUSKY recipients, official notices indicating that they had lost eligibility for the insurance program arrived late or were absent entirely, and they only found out that their children were not covered when they tried to visit the doctor. Across the five sites, four respondents shared stories of medical emergencies which were not covered by HUSKY because, unbeknownst to them, their coverage had been denied following fluctuations in their income or issues submitting their enrollment forms.

Respondents indicated that the sudden loss of benefits sometimes forced their households to accumulate debt, on credit cards, and through loans from family members, which they would not be able to pay off until receiving their EITC after tax-season. Though benefits were critical to the subsistence of many families, the cliff effect was implicated by many respondents as the reason they could not achieve long-term economic stability. This was largely because households found that losing a particular benefit frequently represented a larger hit to their overall resources than the marginal value added by their increased income, rendering their household less economically secure even with more wage-income entering the home. As described by a parent in Norwalk;

> "It's like being pushed over the cliff, not falling. You have to work to qualify, but then working too much can cost you your Care4Kids? The same goes for food stamps and HUSKY, and with those we're barely getting by [...] And because you're not allowed to save anything up, to have money in your bank account, you have nowhere to land."

2. Earning moderating behavior to avoid the cliff effect; rare & selective

Across the five focus groups and key-informant interview, roughly only one third of respondents indicated that they intentionally moderate their earning to avoid a benefit cliff, either by restricting hours worked or declining potential raises. However, the majority of participants who reported restricting their earnings were already working full-time, and therefore referenced opting out of overtime and new job opportunities rather than cutting back on regular work-hours. Respondents most frequently reported turning down additional work hours or modest wage increases to avoid the cliff effect when childcare (Care4Kids), housing (Section 8 vouchers) and health insurance (HUSKY) benefits were concerned. Follow-up probing questions revealed that many of these respondents had lost eligibility for these benefits before when their earnings were higher, and had found the reduction in net-resources was too large for their families to bear.

In practice, reporting changes in income is often a cumbersome affair, and can require benefit recipients to obtain a notarized letter detailing the change in their earnings from their employer. As indicated by four respondents, this can be a humiliating process given the stigma around benefit use and reliance on the welfare system. Still, the threat of sanctions or the permanent the loss of eligibility for committing benefit fraud is severe enough that participants reported almost always reporting increases in their income. However, unexpected decreases in earnings, which were often caused by the need to leave work to care for a sick child, were not seen as risks to benefit eligibility. Correspondingly, rather than reporting a dip in income due to uncompensated time-off from work or unpredictable scheduling— an activity which, ironically, could require participants to take more time off from work to spend upwards of 3 hours on the phone or in the DSS office— participants frequently "bit the bullet" and compensated for the gap in resources by asking family members for assistance, visiting local food pantries, or using credit cards to meet the basic needs of their household.

The issue was summarized by one parent, who also noted that her situation as better than that of many peers, because she at least had some paid time-off;

> "My food stamps fluctuate all the time depending on how many hours I work. But it's not that I want to miss work. My son is special needs; he's got issues, so he's got a lot of appointments that he's got to go to, so I can't go to work. And I only get so many paid vacation days, so I end up taking a lot that are unpaid. But because [the Department of Social Services] has already calculated my income for my food stamps, I have to pay for food on top of rent when my benefits aren't enough. So it's like I'm dying, we're struggling. It's hard to do everything that my kids need […] So why would I take overtime or go asking for a raise if I'm going to lose my food stamps in the end?"

As a consequence of the income-change reporting system and the lack of paid family and medical leave and predictable scheduling in Connecticut, several participants who were working full-time were hesitant about committing to full-time employment. While the increase in hours worked would dramatically increase their overall projected gross income and correspondingly reduce their benefit package, the lack of protection from unexpected losses in earnings due means that a family emergency could still decimate their monthly non-benefit resources, increasing their need for (but not access to) public assistance. Therefore, instituting family-supportive employment policies to help stabilize the earnings of benefit recipients could mitigate some of the disincentive created by the cliff effect to pursue full-time work.

Participants who engaged in earnings-moderating behavior emphasized that they were making the rational choice for their families right now, however many others were quick to point out the long-term implications of suppressing wages or hours worked. Still, others spoke about an internal tension and emphasized that they were considering the longer term well-being of their families by preserving the benefits that saw as a temporary, but necessary support. Restricting earnings seemed like a contradictory move to many participants, who felt that at once they were holding themselves back while clinging onto the only resources available to their families.

3. Information Gaps & Misunderstandings About Income and Asset Limits Reduce Saving Behavior

- Confusion about which benefits carry asset limits; no SNAP asset limit for under 185% FPL
- Informal saving in relatives' accounts, "quarters under the bed" because of fear of income & asset limits
- Confusing income for assets, spending down EITC quickly due to fear of being penalized

Participants expressed a generalized fear of asset limits, and often worried that one-time influxes of cash from relatives or tax returns would have the same impact as wage increases on their income eligibility limits and benefits. However, participants were unable to name which programs carried asset limits, or the amounts associated with a given program. While parents reported wanting to build up their savings, the majority of participants reported they were not currently saving in a bank account. Instead, participants detailed saving in informal arrangements, including in family members' accounts. Additionally, many participants noted that the cliff effect, and confusion over asset limits, decimated their motivation to save;

> "You've got to report your income, so that you're not going to the state saying I need help, and they're looking at the $800 sitting in your account. To them, once you have it, then that's the limit. They're not really worried about you saving, even if you want to save some money for college. Even if you have an account for your kids, those are still things that you have to report […] I'm not saving to lose it.

Other strategies included saving in cash, stored at home, as a means of avoiding the cliff effect. Notably, participants who reported spending down large sums of money in an effort to avoid losing eligibility for a range of benefits also indicated that they would prefer to keep extra funds in a savings account, were it not for asset limits. Children's education and retirement were among the most common reasons cited by participants for wanting to hide assets during their benefit redetermination period. Other informational gaps and inconsistencies were observed. Though the number of hours-worked does not directly impact the size of a family's benefit package, participants often equated hours-worked with income earned when discussing the cliff effect, which offers insight into the ways in which benefit recipients conceptualize and moderate their flow of resources in order to avoid the cliff effect.

4. The Socio-Emotional Burden & Two-Gen Impact of Benefit Maintenance

- Feeling judged, perceived as "undeserving poor" by benefit administrators, neighbors
  - Repeated emphasis on desire to not need benefits
- Sheltering children from loss of benefits & associated stress
  - "I'll eat a box of crackers if I have to for dinner,"
- Feeling denied right to just spend time with their kids

Women in the focus groups emphasized that their contact with state agency employees and benefit administrators increased their exposure to the socio-emotional burden of cultural stigmas surrounding benefit use, relative to their male partners. Interestingly, when public benefits administrators agents were unhelpful to participants reaching out with questions about their benefits, women perceived this lack of help as evidence of a lack of empathy on the part of these government workers. Participants noted that they often felt as if they were being judged for needing public assistance because public benefit administration workers would disrespect them, and then instantly become more responsive when parents called or visited with a preschool teacher or adult basic education counselor who was familiar with the system.

While participants cited that the cliff effect did reduce their incentive to work harder and earn more, they emphasized that being labeled as "undeserving" more negatively impacted their mental health. Across the focus groups and key-informant interviews, when discussing how the cliff effect harmed their family, respondents consistently emphasized that they did not want to use public benefits. Some participants even explicitly named the dominant cultural norms about the deserving versus the undeserving poor;

"It's like you're working so hard, but have nothing to show for it. I'm working 80 hours a week, but I can't find anything in my pocket when the bills come. I'm working so hard but they're still questioning whether we deserve it […] It makes hard working mothers want to give up. I'm strong so I know I'm not going to give up, but some people can't be that strong."

Even as many mothers defended their work in the home as legitimate labor that added to the well-being of their children, in the same breath, they would add that neighbors and friends judged them for having too many kids and for not maintaining formal employment. This theme intersected with shame about staying home to care for children rather than working as a way of avoiding the cliff effect, and spoke in a larger sense to the ways in which the benefit system concretizes the idea that motherhood, as characterized by Rickie Solinger, is a "class privilege appropriate only for women who can afford it." One mother lamented that the increased stress associated with losing her food stamps when she began to work more caused her to smoke more cigarettes, eat less well, and be more short tempered with her young daughter. Her anecdote, though directed at the broader stressors of parenting while navigating the cliff effect, aligns with research which suggests that the added economic stability provided by an increase in the Earned Income Tax Credit was responsible for a reduction in maternal smoking. In addition to these more tangible two-generational impacts, participants spoke about the ways in which the cliff effect made them more dependent on the public assistance system, entrenching their families further into a cycle of generational poverty.

"You never see someone in my position getting ahead, do you? You just hear that we're lazy, we're ungrateful, or that we're having more kids to stay on the system. That just makes me so sad, the hate we get for needing help. I just want to show them, the [politicians] who run on cutting welfare, how hard I work and how far back I get pushed for it. You want to call it falling off a cliff? No, cliffs are accidents. This is being beaten down."

Contact

Connecticut Association for Human Services
Liz Fraser, Policy Director| efraser@cahs.org

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