One Step Forward, Three Steps Back

How Americans are Falling off of the Benefits Cliff and What You Can Do About It

FAMILY SCHOLAR HOUSE

Abstract

The American social safety net was designed to lift people out of poverty and set them on the path to success. However, after more than 80 years of varying iterations, the current system presents palpable challenges for recipients. Under the current model, a slight increase to a recipient's income can result in a total loss of benefits, leaving the individual in a worse financial situation despite career advancement. The negative implications for recipients and others call for additional research, a discussion on current efforts, and potential solutions moving forward. This paper outlines the ramifications of the benefits cliff on individuals, families, businesses, and state and federal budgets.

> *"For families, the cliff effect can create an anchor into, rather than a ladder out of, poverty."[1]*
>
> *- The National Conference of State Legislatures*

Introduction

Controversy surrounding public benefits for Americans has a long history. State and federal lawmakers grapple regularly with regulation and enforcement. Who should qualify? For how much should they qualify? How long should they receive the benefit? Where does the role of government end and the role of nonprofit and private markets begin? How can policies incentivize participation in the workforce?

Widely acknowledged as an imperfect system, the social safety net's shortcomings make the benefits cliff phenomenon one of the most critical barriers to 59 million Americans becoming self-sufficient.[2] Because of this, many families find that even a slight increase in income can result in the loss of eligibility for their benefits, creating a net loss of up to thousands in their monthly household budget.

We contend that at least some of these programs are outdated, are inadvertently furthering the cycle of poverty, and are increasing the likelihood that individuals will remain on assistance. Perhaps the most critical deficiencies in benefits program structures is that they are typically designed for short-term, temporary use.[3] This white paper will argue that longer on and off ramps are needed to ensure fiscal responsibility of tax dollars. Further, reforms are needed to spur recipients to achieve lifelong self-sufficiency and to become economic catylists.

What is the Benefits Cliff?

The benefits cliff is what happens when recipients abruptly lose benefits and the sudden ineligibility results in a net loss to the family budget. That is, the increase in income is not substantial enough to cover the amount of the total budget loss as a result of losing benefits.

Many of the benefits programs in place have their roots in President Roosevelt's iconic Social Security Act, passed by Congress in 1935 in response to the Great Depression.[4] Later, the Federal Poverty Level (FPL) was established in 1964 by the Social Security Administration.[5] This level varies over time and is calculated by taking the cost of a minimum food diet multiplied by three, which is assumed to cover the additional costs of living and is adjusted annually for inflation.[6] Today, public assistance is comprised of a series of programs, some of which are jointly funded by state and federal dollars.

What does the benefits cliff look like in practice? Meet Megan. Megan was a freshman in college when she learned she was pregnant and considered dropping out of college in order to care for her child. Then, she was introduced to Family Scholar House. With the support of her family advocate, Megan applied for and received benefits to support her and her son so she could stay in her post-secondary program and enter the healthcare workforce as a nurse.

As she prepared to graduate with her Bachelor of Science in Nursing (BSN), Megan was receiving the following benefits:

- Temporary Assistance for Needy Families (TANF), also known as the Kentucky Temporary Assistance Program (KTAP). Her monthly subsidy was $226.
- Supplemental Nutrition Assistance Program (SNAP), formerly known as "food stamps." Her monthly allotment for food for her and her son was $367.
- Section 8 housing assistance for her apartment at Family Scholar House, as long as she maintained Family Scholar House program compliance. She was paying $12 in rent based on her minimal income while a student parent; Section 8 was covering the remaining $725 of her monthly rent.
- Megan was on Medicaid and her son was on K-CHIP, Kentucky's version of the State Children's Health Insurance Program (S-CHIP). This covered all of their preventative and routine medical needs.
- She also had childcare assistance of $125 per week for her son's care while she was in class and at required clinical labs.

Thus, in addition to having health insurance for both her and her son, Megan had government support of $1,818 per month.

In May 2014, Megan graduated from college and entered her career as a nurse. Her pay was $21.15 per hour, so as a BSN working 36 hours per week (three 12-hour shifts), she made $39,592.80 before paying taxes. Her after tax, annual net income was $27, 584.60. This equates to $2,298.72 monthly. Megan had to pay out-ofpocket for childcare at $600 per month and her employer deducted money from each paycheck for health insurance for her and for her son.

Because her annual compensation was more than double the Federal Poverty Level of $15,730 for a household of two persons, she lost all of her benefits. At this point, Megan's monthly after-tax income minus childcare and health insurance costs was several hundred dollars less than what she was receiving while living at Family Scholar House and on government subsidy programs.

Megan continued her education while working and is now close to earning her Master's in Nursing Practice (MSN). As a result of her education, Megan has student loans totaling $122,798 with monthly repayments of $1,363.

As of 2022, eight years after graduating, she now makes $90, 245 annually, which equates to $48.21 per hour. She is finally regaining her footing from losing all government assistance when she graduated from Family Scholar House and entered her career. While she is proud to be financially independent, she remembers the early years and how it felt to face the benefits cliff.

Not all benefits receipients are as fortunate as Megan. Heather found Family Scholar House while attending the Georgia Chaffee Teenage Parent Program (TAPP). Throughout her time at TAPP, FSH staff conducted workshops and provided support services directly at her school. After graduating high school, in June of 2017, Heather moved into Family Scholar House to pursue her BSN at the University of Louisville. Upon moving in, Heather's family advocate assisted her in applying for the benefits to support her and her daughter while she works toward completion of her post-secondary program.

While attending school, Heather worked part-time making $15 per hour. Heather was receiving the following benefits:

- Supplemental Nutrition Assistance Program (SNAP), formerly known as "food stamps." Her monthly allotment for food for her and her daughter was $152.
- Section 8 housing assistance for her apartment at Family Scholar House, as long as she maintained Family Scholar House program compliance. She was paying $300 in rent based on her minimal income while a student parent; Section 8 was covering the remaining $437 of her monthly rent.
- Heather was on Medicaid and her daughter was on K-CHIP, Kentucky's version of the State Children's Health Insurance Program (S-CHIP)
- She also had childcare assistance of $125 per week for her daughter's care while she was in class, at clinical labs, and at work.

After graduating in May of 2021, Heather entered the nursing field making $28 per hour. This caused Heather to lose all of her benefits. Heather and her daughter moved out of Family Scholar House in August, and without support from her benefits, it became increasingly more difficult to support her family on a single income. Heather is now a Trauma Certified Registered Nurse. Without the assistance provided by Family Scholar House and other non-governmental organizations, she may not have survived the benefits cliff. In short, without other groups extending on and off ramps for benefits recipients like Heather, government support would have been prolonged, costing Heather career opportunities and taxpayers thousands in aid.

A Digest of Benefits

Supplemental Nutrition Assistance Program (SNAP)

SNAP provides funds to families according to the number of individuals in the household. Formerly known as the food stamp program, this benefit has become electronic, so families no longer have to go to the grocery store with brown, blue, and green coupons issued by the government. SNAP benefits can be used for approved food items at various approved retailers, including some farmer's markets. SNAP has income requirements as well as work requirements. In Kentucky, participants cannot have more than $2,250 in cash and assets ($3,500 for age 60+) and must not exceed an income of $36,075 for a family of four.[7] This program is solely funded by federal dollars. An estimated 41.5 million Americans, or one in eight, received SNAP benefits in 2021, which was an increase from previous years due to COVID.[8, 9]

The U.S. Department of Agriculture (USDA) offers program flexibility within various nutrition programs. Most recently, this flexibility was seen during the pandemic when "Pandemic EBT" was offered. Streamlined application processes, including adjustments to interview requirements and waiving of recertification interviews, were also added.[10] Current policies incentivize young adults who are struggling financially to have a child in order to receive assistance, a policy that is overdue for change.

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

The WIC program offers nutrition and health services to qualifying pregnant and postpartum mothers, breastfeeding women, and children up to age five.[11] Although similar to SNAP benefits, WIC has program-

The 2022 poverty level for a single parent with one child is $18,310. Heather would have to work over 50 hours per week every week of the year at the federal minimum wage of $7.25 to rise above the poverty level.[12]

specific limits on what participants can purchase with WIC dollars. WIC covers baby formula, baby food, whole grains, juice, eggs, dairy, and vegetables, with restrictions including the size of canned goods, the percentage of fat in milk, brands, and more.[13] In addition to food and formula vouchers, this program also provides healthcare support, breastfeeding support, and information on healthy eating.[13] As of 2021, a family of four must earn under $26,500 in annual income to receive full benefits, and under $49,025 to receive partial, reduced benefits.[14]

Medicaid

Medicaid provides healthcare coverage for low-income families, qualified pregnant women, and individuals receiving Social Security Income. Medicaid works alongside the Children's Health Insurance Program (CHIP) to provide healthcare coverage for children. These programs are jointly funded with a combination of state and federal dollars. States have some control over eligibility, although the categories of individuals listed above have mandatory coverage. For Kentucky residents, a family of four may not have over $36,908 in annual income in order to qualify.[15] As of May 2022, Medicaid and CHIP programs provide healthcare coverage for approximately 72.5 million Americans, or one in five people.[16] Medicaid is the largest source of coverage for low-income populations. [17]

Temporary Assistance for Needy Families (TANF)

Originally called "welfare," TANF provides short-term income assistance for families with children.[18] To qualify, an individual must be pregnant or have a dependent under the age of 18. Maximum payment amounts depend on family size and their monthly gross income. For example, a family of four with a monthly income of under $1,096 is eligible to receive up to $328 per month in cash benefits.[19] In fiscal year 2021, 865,205 American families were receiving TANF benefits.[20] For Kentucky families, this program is also known as the Kentucky Temporary Assistance Program (KTAP). This program is one of the few that tapers, which is done by increasing the income limit for program exit, phasing out monthly cash assistance, and reducing employment-related daycare co-payments for three months.[20] However, as mentioned in the name, this is temporary assistance. An individual can only receive these benefits for up to 60 months within their entire lifetime.[20] TANF is a joint funding program, meaning state programs receive federal funds but must also contribute.

Housing Choice Assistance Program (Section 8)

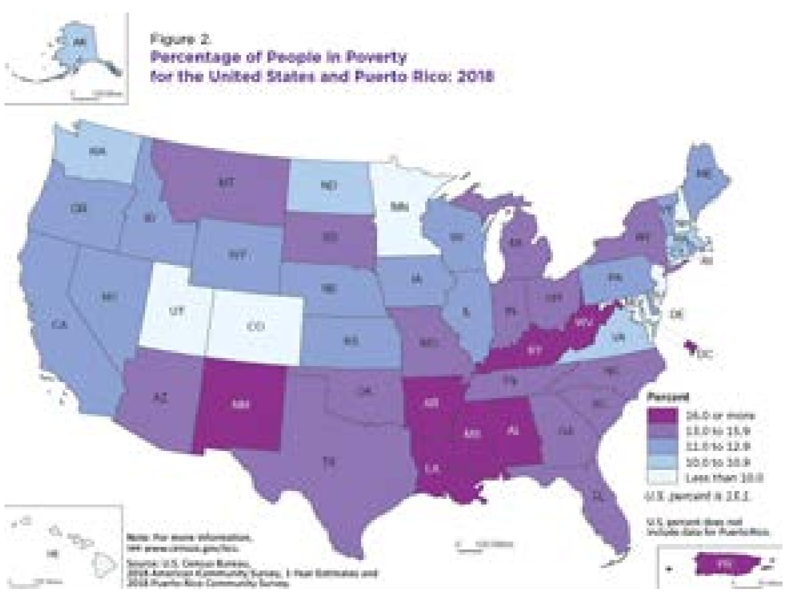
Section 8 offers housing subsidies in the form of a voucher to families making under 50% of the area median income (AMI) for the county in which they reside, factoring in household composition.[21] For most participants, rent assistance rests between 30% to 40% of their monthly income, although some participants may have their full rent portion provided.[22] If a participant's income increases, benefits will shrink until 30% of the family's income equals or exceeds the allowable rent cost. After the family's income exceeds the allowable amount for six months, the family will be deemed ineligible to receive the subsidy. However, this reduction in benefits is not an immediate action in most cases and can take up to one year to take effect before the family loses their voucher.

Housing vouchers can allow families to purchase a home, but can also be used for rent subsidies on qualifying apartments. However, finding apartments that accept Section 8 funds can be extremely challenging. Applicants should be advised that the waiting list for this program is long, and the program lacks funding. Only two out of the 50 largest housing agencies have a waiting list of under one year, and the states with the longest wait times have had families on waiting lists for up to eight years.[23] None of America's 50 states has an adequate supply of affordable rental housing for low-income renters.[24] As of 2020, there were a reported 6 million people utilizing public or authorized housing.[22]

Child and Dependent Care Tax Credit

As part of the American Rescue Plan, the childcare tax credit helps cover child and disabled adult care expenses so caretakers can work. This credit is based upon income and expenses related to caring for a dependent. As of the 2020 tax year, qualified individuals could claim up to $3,000 for one person, or $6,000 for two or more dependents through claiming 20%-35% of qualified expenses.[25] In order to receive this credit, applicants must prove need of care. For example, in a two-parent household, both parents must be working, be a full-time student, or otherwise be unable to care for the child or dependent.[26] At this time, it is uncertain whether this benefit will continue.

Percent of Total Population in Poverty, 2018[27]



Earned Income Tax Credit (EITC)

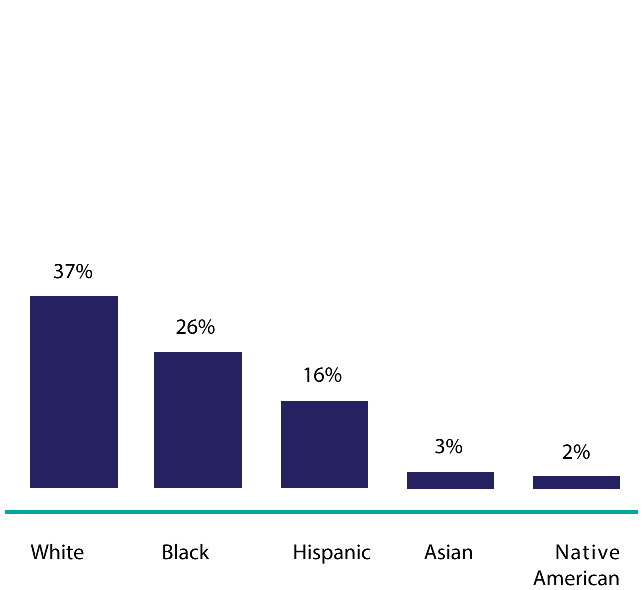
This form of assistance helps reduce tax liabilities for low- and moderate-income families. The amount received is based upon the number of dependents an individual claims on their taxes. For many low-income families, this amount can significantly increase a tax return or will help decrease the amount that is owed. Basic qualifications include dependents claimed, earning income under $57,414 per year, and a valid social security number.[28] Substantial changes were made to this program that have gone into effect for 2021, and now, more individuals will qualify for the credit because of rising inflation rates. Further, single individuals or unmarried couples can claim their children even if their children do not have social security numbers, and married but separated spouses can claim themselves as still married in order to claim the EITC.[29] Kentucky does not have a refundable state earned income tax credit.

Recipient Demographics

Not all who qualify are receiving benefits, because many do not know that they qualify or struggle to navigate the application process. In 2020, one in five families in poverty in the U.S. received cash assistance through the Temporary Assistance for Needy Families (TANF) program, despite likely eligibility.[30]

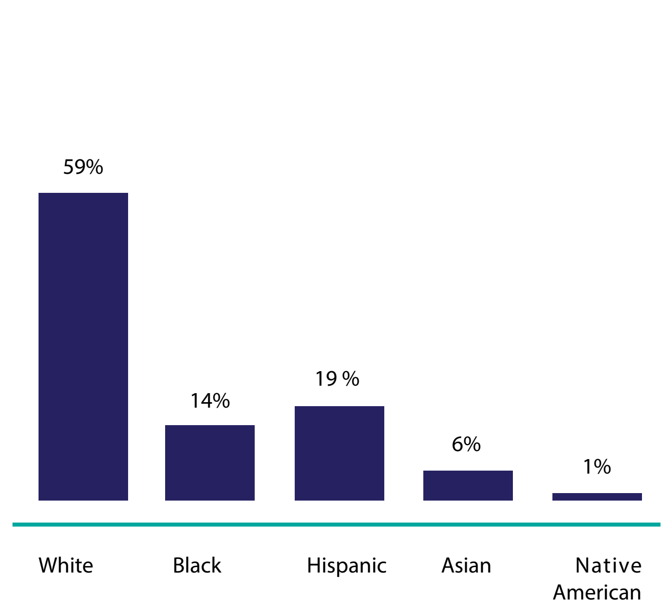
An overview of SNAP recipients from the USDA is revealing. The most marginalized communities are disproportionately and positively impacted. Minority SNAP recipients make up more than 60% of the total, but represent approximately 25% of the total American population. Minorities are disproportionately represented in all benefits programs. For example, Black Americans represent 12.4% of the population, but 26% of SNAP and TANF recipients.[31, 32]

DEMOGRAPHICS OF BENEFITS RECIPIENTS



*Race Unknown: 16%
Source: 30

DEMOGRAPHICS OF U.S. POPULATION



Source: U.S. Census Bureau, 2020

The Worker's Dilemma

Research from the Atlanta Federal Reserve is clear. Benefits cliffs can and do cause recipients to turn down raises, extra hours, and opportunities for job training that could lead to promotions.[33] The report also shows that the psychological stress of not knowing if or when benefits will be cut impacts important career decisions.[33]

The occupation in which an individual works can play a significant role in the likelihood of reliance upon government assistance programs. According to the UC Berkeley Labor Center, 52% of fast food workers receive government assistance.[39] The failure to increase the federal minimum wage in the past 12 years creates financial hardship for not only the families who are struggling to make ends meet, but also federal, state, and local government budgets that are stretched thin to support these individuals through various government benefit programs. In fiscal year 2021, total US government spending on welfare alone was estimated to be around $2,397 billion.[35]

Americans have not seen a federal wage increase since 2009, when it increased from $6.55 to $7.25 per hour, an increase of 70 cents per hour.[36] This increase in minimum wage is simply not enough for individuals to live on, let alone sustain a family, especially considering inflation. In 2009, the inflation rate was -0.36%, which has since increased drastically to 8.26% in 2022.[37] Recent studies demonstrate the dire need for another increase, noting that 42% of U.S. workers make under $15 per hour.[38] Those workers would have to work 40 hours per week without any time off every week of the year to make $31,200 before paying taxes.

Did You Know? The top two employers of welfare recipients in America are Walmart and McDonald's. [39]

The role of the business sector is a key component for self sufficiency. Data from the Bureau of Labor statistics shows that those employed in the service industry are more likely to be in poverty than their otherwise-employed peers.[40] The Government Accountability Office reports that 72% of Medicaid and SNAP recipients in 2018 worked in the following five industries: education, hospitality, retail, manufacturing, and business services.[30] In fact, the majority of adults on SNAP work, and over half of them work nearly full-time at an average of 33 hours per week.[30] More employed adults enrolled in Medicaid work for private companies than for the public sector.

Not only do low wages make it nearly impossible for these individuals to save money, most public assistance programs disincentivize doing so. Along with obscure income limits, most programs also have asset limits. One dollar of assets over the limit could result in loss of thousands of dollars per month.[14] Identifying the threshold for an asset limit is often difficult, if not impossible, to find, and can mean the difference between receiving assistance for food, medical coverage, housing, and more. Yet, most states have removed asset limits for SNAP, making it difficult to determine what counts for what program.[41] Assets can include cash, savings, investments, property, and in some states, vehicles. Ultimately, this means individuals are prohibited from having enough savings to cushion them from unexpected losses like unemployment, health crises, vehicle repairs, etc.[41]

Despite the harsh consequences that come from encountering the benefits cliff, many individuals struggle to understand what amount of financial earnings will push them off of the metaphorical edge. Uncovering the complexities of government assistance is no small feat, especially considering the benefits and their limitations vary by city, county, and state.[42] Depending on which state you reside in, the accessibility of assistance programs varies. Each of the states make decisions regarding how programs are administered, who qualifies for each program, and the amount of benefit each family or individual is allowed to receive.

Hear from Joy Collins, who experienced the benefits cliff first hand.[43]

https://vimeo.com/420537547

The Self-Sufficiency Standard

The Self-Sufficiency Standard refers to the income necessary for a family to meet its basic needs without public or private assistance42[1] It was developed in the mid 1990s and was first used in Iowa in 1996. Since then, 41 states and the District of Columbia have adopted this standard for use in federal job training programs, where it is used to determine what a family needs to live without government, nonprofit, or private assistance.[1]

The Self-Sufficiency Standard should play a critical role in policy development, as it is a more accurate reflection of what families need to transition off of public benefits. Information compiled on the standard from the University of Washington's School of Social Work describes its necessity in policy, claiming that using the Federal Poverty Level is "methodologically out of date."[44] Because the Federal Poverty Level is determined by calculating three times the estimated costs for food rather than accounting for healthcare, childcare, transportation, and more, the Federal Poverty Level's basic calculation mechanism, according to the University, "at best measures deprivation."[44]

Using 2022 numbers, the poverty line for a family of two adults with two children is $27,750, and the poverty line stays the same no matter where you live in the country.[12] The same $572 per person per month threshold applies whether you live in New York, New York or Hazard, Kentucky.[30] 2021 data shows that urban households spent almost $400 more on food in 2011 than their rural counterparts, even though rural households allocated a greater percentage of their budgets to food.[45] Urban households also spent more on housing and other necessities. Data from the same year shows urban households spent $2,404 more on rent per year, and $1,946 more on owned homes. Urban households also spend nearly double on household operations.[45]

There are a lot of undocumented costs that affect self-sufficiency. Even with phased government supports, some low-income recipients still require additional supports as they transition off of benefits, leaving nonprofits and extended family members to pick up the slack.[46] In fact, research shows that even individuals receiving assistance before experiencing the benefits cliff still have to rely on local nonprofits and charities as well as family and friends in order to survive.[46]

"If you're evaluating performance as a gain to self-sufficiency, you want to look not just at employment, not just wage gain, but whether receipients are moving closer toward a local self-sufficiency target."[47]

- Alex Ruder
Principal Adviser, Community and Economic Development
Atlanta Federal Reserve

The Trauma Factor

It should come as no surprise that family life can be strongly impacted by the financial consequences of the benefits cliff. The cost of living in poverty is detrimental to everyone in the household, not just the parents struggling to make ends meet. During a U.S. House Committee hearing on Oversight and Reform, single mother of three Amy Hutchison explained, "Poverty rolls off the back of parents and right onto the shoulders of our kids, despite how hard we try."[48] As of 2022, Kentucky ranks 7th in the nation for highest rates of poverty. Three in 20 Kentuckians and one in five Kentucky children lives in poverty.[49]

Children experiencing poverty release elevated levels of cortisol, a stress hormone that can shorten attention spans and result in behavioral outbursts.[50] Research from The Momentous Institute in Dallas reveals why—the stress hormones mimic the feeling of being in a car crash. Jessica Trudeau, director of development for the Momentous Institute, explains, "If you think about the impact on education, imagine if right after you were in a car crash I walked up to you and said, 'I need you to take a test.' Could you do it? Would you perform well?"[50]

Trauma in Kentucky is pervasive for two reasons – Kentucky has high rates of poverty in families with children, and Kentucky is ranked in the top five worst states for child abuse.[35] Black and Hispanic children are disproportionately abused in Kentucky, and boys are almost as likely as girls to be abused. Despite chronic underreporting and slowed data due to school and daycare closures during 2020, research estimates 17,000 children were abused in Kentucky in 2020.[35]

The data is clear on the impact of poverty on humans. Poverty causes trauma, especially after prolonged exposure. Chronic stress resulting from poverty can create an overreliance on the body's fight-or-flight adrenal response, which places people in these circumstances at higher risk of cardiovascular ailments, anxiety, and depression.[51]

Researcher Meghan Resler explains, "Ongoing stress associated with poverty, or the stress of living with less than one needs, creates constant wear and tear on the body, dysregulating and damaging the body's physiological stress response system and reducing cognitive and psychological resources for battling adversity and stress."[52] Multiple studies have also found that an individual who has experienced a traumatic event is more likely to develop eating disorders or becoming obese, both of which can result in early mortality.[53]

Individuals who live in poverty are more likely to be exposed to trauma to begin with, including environmental, community, and domestic violence. Poverty is disproportional by race and ethnicity as well. Of the 12 million American children living in poverty, 25% are Black and 35% are Hispanic or Latino, but they represent only 14% of the 26% of the total childhood population, respectively.[54] Considering the heavily-documented role of racial bias in hiring and promotional practices, lending, and policing and sentencing, poverty is a catalyst in anchoring individuals with trauma into further traumatic circumstances.

Challenges for Career Counselors

New research has also shown that caseworkers who assist in career counseling for low-income individuals and families are more likely to put clients into quick employment rather than long-term career positions.[3] According to the Center for Community Solutions, benefit cliffs harm individuals the most when workers make long-term career decisions based on short-term financial considerations.[55] Unfortunately, many of the quick employment positions do not pay enough to outweigh the cost of the loss of benefits, putting the client in a worse financial situation than they were in previously.[3] On the other hand, employment that pays enough to cover the loss of benefits is often hard to obtain for families, who are statisically likely to be less educated.[33] Several studies have shown that fear and uncertainty around loss of benefits is causing some workers to turn down promotions or not apply for some jobs. The reason cited most often is fear of experiencing a net loss to their monthly income as a result of the benefits cliff.[55] Family Scholar House and similiar programs address this by prioritizing the education necessary for high-demand careers.

Career counselors are tasked with focusing on a client's immediate needs first, causing them to prioritize quick job placements over long-term career planning.[33] Counselors in the study noted that they rarely, if ever, provide labor market information to participants as clients are weighing their career options. Counselors also noted that their clients often struggle with career planning because they are fearful of the uncertainty of losing the benefits they have relied on. Finally, the focus group participants said that they often lack clarity on the rules that change state by state, making it difficult for career counselors to guide them through a financially sound career decision.[33]

Costs

Benefits programs are wildly expensive and could be reduced if intentional efforts to reduce poverty were made. Experts estimate that the U.S. will spend at least $1.3 trillion on welfare programs in 2022, or approximately $1 out of every $5 spent by the federal government.[30]

Both state and federal budgets are heavily impacted by the use of government assistance programs. Research from Berkeley's Labor Center found that 56% of state and federal spending combined was spent on public assistance for working families.[34] State agencies spend just under half (44%) of their government direct expenditures on public assistance.[30]

Poverty affects everyone, and literature from the National Conference of State Legislatures claims that slow economic mobility is one consequence of the benefits cliff.[60] When individuals make financial decisions, such as not taking a higher-paying job for fear of losing benefits, taxpayers have to pay more.[55] Census research predicts that a single parent with two dependents could receive up to $30,000 in benefits annually if they were to utilize a combination of assistance programs, such as SNAP, Section 8, EITC, Medicaid, Childcare subsidies (CCDF) and more.[3] This is a hefty price tag for taxpayers as well as for federal and state budgets.

The need for childcare assistance is especially prevalent. According to the U.S. Census Bureau, the use of childcare subsidy programs allow women to remain in the labor force, benefiting the economy, and lowering wage differences between men and women.[3] This economic benefit applies to single and married women alike. Children and young adults are heavily-reliant on these programs. Almost one-third of the U.S. population under the age of 18 received state assistance for childcare, housing, and/or food assistance in 2019.[2] For single parents, the loss of financial revenue as a result of hitting the benefits cliff can mean the difference between having enough food to eat, being able to afford childcare, or the ability to afford housing, but not all three.

The business community also suffers when recipients fall off the benefits cliff. If people are deterred from seeking overtime, job training, or promotions, businesses are more likely to experience difficulty in promoting their current staff or filling positions that may push people over the metaphorical edge.[55] This can be harmful to the economy and could result in higher rates of unemployment and chronic understaffing issues. Thankfully, benefits cliff calculators such as the Family Resource Simulator from the National Center for Children in Poverty and Kentucky's Family Resource Simulator can be used to help employers and employees alike see the impact of benefits cliffs on wages and advancement and then make informed decisions.[1]

Impact of COVID

Because so many benefits recipients work in the service industry, thousands of families receiving benefits were financially devastated in the early stages of the COVID-19 pandemic. While lawmakers were working toward consensus on aid packages, every day that benefits recipients went without work cost them dearly, especially because benefits recipients are unable to amass necessary savings for emergencies without losing benefits.

During this time, low-wage workers lost their employment five times faster than middle-wage earners.[58] Meanwhile, families with children were forced to shift to online learning. Lack of technology and access to high-speed internet meant some children were simply unable to log on until supplies from school districts were delivered. Even then, many low-income families received devices, but did not have access to the internet. Further, many districts in Kentucky initially provided only one device per family, which means families with multiple students would have to share the device. Pre-pandemic (early 2019) numbers alone show that one in ten Americans had access to the Internet only on their smartphones.[59]

The closing of childcare centers also meant that more than 10 million American moms left the workforce in order to care for their children, a number that increased by 1.4 million as a result of the pandemic.[60] Families receiving benefits that have work requirements were suddenly at risk of experiencing the benefits cliff simply because of lack of childcare. Lack of childcare disproportionately impacted women of color, women without a college degree, and women in low-income housing.[61]

The pandemic also caused social isolation and presented an increased risk of child maltreatment and intimate partner violence, areas in which Kentucky already ranks poorly.[61] For many, the social isolation experienced during the pandemic led to increased mental health issues and difficulties within relationships. Domestic violence cases also saw an 8.1% increase since orders of lockdown began, a number that is likely underreported.[62]

The benefits cliff has been more severe for people post-pandemic. Census data shows that COVID stimulus payments lifted nearly 12 million people out of poverty and expanded unemployment kept around 6 million people from falling into poverty.[63] Additionally, rates of deep poverty (incomes of 50% below the poverty level) were higher due to the pandemic, as they likely experienced more difficulty receiving Economic Impact Payments and Unemployment Insurance.[58] Further, many people who qualified for unemployment services did not receive them, either due to administrative error or confusion about how/if to apply.[61] Nationally, 2021 estimates show that only one in four unemployed people received benefits. Of those, two out of three said they didn't apply, because they didn't think they were eligible.[61] One in four said they did not know how to apply at all.[61]

Additionally, an estimated 12 million low-income individuals make so little that they are not required to file taxes. They missed out on stimulus payments and the Earned Income Tax Credit that they were eligible for as a result, a mistake that could cost a family of four with two children up to $11,964.[61,64,65] This nearly $12,000 in assistance could mean the difference between reliable transportation or potentially covering the cost of rent for the year. On the other hand, owning this amount in cash assets could also make the family ineligible for a variety of assistance programs that they may desperately need.

Fraud

Despite rhetoric to the contrary, fraud in public benefits is relatively rare in America. The data simply does not indicate that recipients are unwilling to work or are abusing the system. For example, the USDA reports that only 1% of SNAP recipients are fraudulently qualified.[35]

Out of the 64,565 cases reported to the U.S. Sentencing Commission in 2020, just 4,356 cases involved theft, property destruction, or fraud. In fact, just 6.4% of reported fraud offenses involved government benefits fraud.[66]

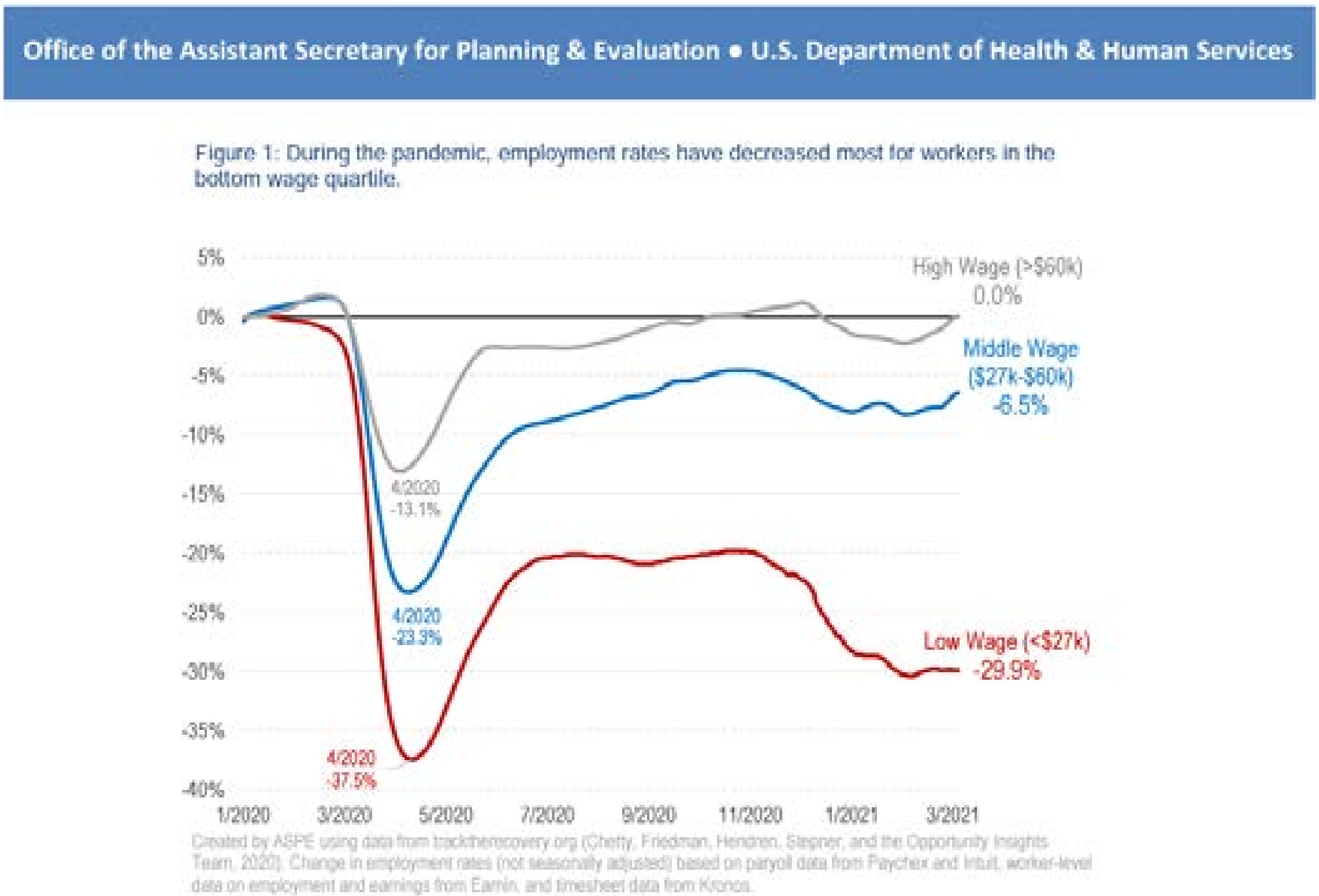
Further, the vast majority of people who receive benefits are also participating in the workforce. Approximately one in four government assistance participants are members of working families.[67] Similarly, a study conducted by the Urban Institute showed that over 83% of families who utilized childcare assistance programs had a member of the family that was currently employed.[68] For those who are not working or are struggling to maintain employment, stereotypes run counter to research. The National Partnership for Women and Families

PODCAST FEATURE | Hear Alex Ruder's comments on the impact of COVID-19 on the Benefits Cliff on American Enterprise Institute Podcast, *Hardly Working* with Brent Orrell.[69]
https://www.aei.org/podcast/dr-alex-ruder-on-benefits-cliffs/

shows that a significant amount of low-income families and individuals utilizing public assistance programs face serious barriers that make it more difficult to obtain and sustain employment. These include substance use disorder, domestic violence, physical and mental disabilities, discrimination, and housing instability.[70] Further, approximately 30.4% of adults using income-based government assistance have a disability.[71]

The United States Sentencing Commission documents and analyzes benefits fraud cases across the country. Their studies from 2020 show that fraud has decreased by nearly half since 2016.[66]

Economic Impacts



Click chart to view within direct source.[61]

The federal government spent nearly $1.5 trillion on welfare spending in 2021, and even when removing the stimulus payments, experts estimate that number will reach at least $1.3 trillion in 2022.[73] Out of the $165 billion expected to be spent on nutrition assistance for programs, SNAP is estimated to account for $115 billion of the funds. Another $81 billion is expected to be spent on housing assistance.[72] Medicaid is the largest portion by far, totalling 43% of all public benefits spending.[72]

In terms of investment, investing in programs that benefit children are unsurprisingly favored. Children account for less than 20% of Medicaid expenditures, but they represent 40% of all recipients. Keeping children well is important both for their long-term viability in the workforce and for their short-term impact on current workers. Why? When children are sick, parents have to stay home from work.

Absenteeism also impacts students' ability to learn at the same rate as their peers, which can impact their workforce participation later in life. Data from the National Center for Educational Statistics shows that students with higher absenteeism rates tend to have poorer academic performance.[74] One study shows that the impact is compounding — missing more days in Kindergarten was associated with poorer academic performance in first grade and in reading, mathematics, and general knowledge in the years following.[55,79]

Absenteeism due to trauma can be a result of physical injury, emotional distress, or the demands of economic poverty (i.e. missing the bus, needing to work, etc.). Physical manifestations of trauma can cause higher rates of physical illness as well, which can contribute to higher rates of absenteeism. The takeaway? Children's health is a great investment in the nation's future.

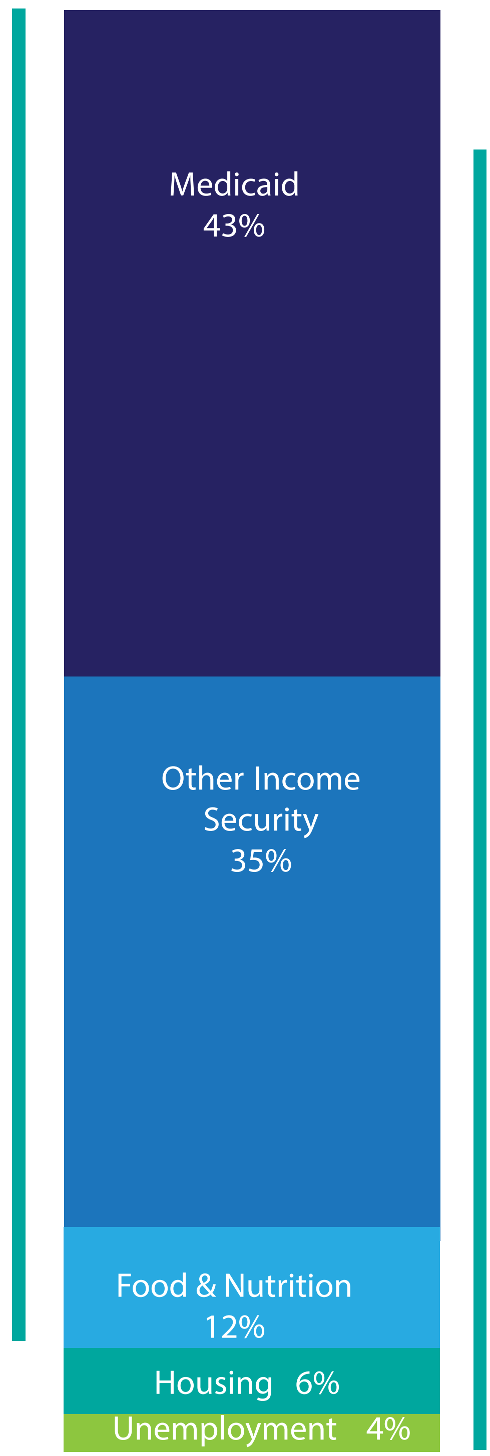
Kentucky Policies

Some policies differ from state to state. The information in this section is reflective of a July 28, 2022 digital interview with Jason C. Dunn, Director for the Division of Family Support in the Department for Community Based Services at the Kentucky Cabinet for Health and Family Services.[76]

Benefits Transitions

Kentucky does not have a program that tapers recipients off of SNAP, although the gross income limit is twice that of the Federal Poverty Level (200% FPL). A Transitional Benefit Alternative, which would apply only to households exiting the TANF program, is being developed for Kentucky. Expected rollout of that program would be January 2023.

2022 ESTIMATED PUBLIC ASSISTANCE SPENDING



Source: 30

"As part of our modernization effort, we hope to extend income exclusions for a period of 6 months before any is counted, and will disregard 50% for a time after that," Dunn said, noting that this would not be tied to the end of the certification period for TANF.

When asked about Kentucky programs that would help subsidize employment to ensure self-sufficiency as wages increase, Dunn cited the Ready to Work program, which is available to families receiving TANF. The program, in partnership with the Kentucky Community and Technical College System (KCTCS), provides "intensive case management for students, including advocacy and mentoring, and work study opportunities, both on- and off-campus, that do not count against TANF cash assistance eligibility (although it does count in SNAP)."

Contracts with some TANF providers may also provide wage subsidy funding. Beginning in 2022, all Ready to Work students in the KCTCS programs have access to additional support provided by Family Scholar House success coaches and advocates.

Kentucky-Specific Asset Limits

Kentucky is a Broad-Based Categorical Eligibility (BBCE) state, which means that the majority of benefits recipients do not have to pass asset testing to obtain SNAP eligibility. Asset limits for TANF and kinship care programs are $2,000, but the Cabinet says current efforts to raise that limit to $10,000 are in progress.

According to Dunn, any benefits recipient who receives $3,500 or more in lottery/gaming is automatically ineligible to receive SNAP and is not considered eligible for BBCE if they re-apply for SNAP benefits at a later date. In other words, SNAP asset testing would apply to these recipients.

Some programs that assist benefits recipients of TANF provide individual development accounts. Kentucky does not include the funds in these accounts toward asset tests for TANF.

"Express Lane" Eligibility

Kentucky's application processes and systems are integrated, according to Dunn, who said that applicants for TANF, Medicaid, SNAP, and the Childcare Assistance Program can all be submitted through a single application. Through Family Scholar House's Trager Response Center, anyone in Kentucky can receive support in completing these applications as well as applications for the Free Application for Federal Student Aid (FAFSA) and the Affordable Connectivity Program, which can help low-income individuals acquire Internet services.

Work Requirements

SNAP and TANF both have work requirements in Kentucky, either through proof of work or proof of applying for work. TANF recipients pursuing education or approved job training can be counted as fulfilling that requirement for up to 12 months. Enrollment in college can also count toward required hours above the 20 per week completed in a core activity such as the Ready to Work program.

Understanding Eligibility

Several tools are available for understanding eligibility. The Family Resource Simulator from the National Center for Children in Poverty provides a nationwide tool. In Kentucky, the Cabinet for Health and Family Services recently partnered with the Kentucky Center for Statistics (KYSTATS), which has produced a benefits cliff calculator called the Family Resource Simulator. While somewhat technical, the tool allows families to enter their specific information to anticipate resource cliffs.*

Policy Considerations

One of the most common issues that individuals run into when facing the benefits cliff is the lack of clarity regarding income limits and eligibility despite available tools. Increased transparency and consistency in multi-state tools for comparison would be extremely beneficial to both clients and program workers.[33]User-friendly public-facing benefits calculators would help clients make informed financial decisions to prevent devastating surprises. Additionally, continued support from modeling tools such as the Family Resource Simulator from the National Center for Children in Poverty (NCCP) may be an answer for issues found within assistance programs. These simulators work to test and review the effectiveness of different financial assistance policies.[77] However, the current benefits cliff calculators such as the Family Resource Simulator from the National Center for Children in Poverty and Kentucky's Family Resource Simulator may not be suitable for all families. Its reporting is currently limited to families with five children or less with no more than two adults in the household, which may be difficult for larger families or two parent households with disabled, dependent adults.[78,79] Adjusting the current resource calculator to be more inclusive to all families would be a positive step.

Progress has been made to help prevent future individuals from being impacted by the benefits cliff, though much work is still to be done with the help of local and federal policymakers. The benefits program TANF implemented a "Reinvestment Project" in 2016 to help combat benefits cliffs. Policymakers made three key policy changes at that time. The changes increased income limits for TANF exit, added phased-out cash assistance and reduced employment-related daycare copayments for three months.[80] By changing the ways in which a participant can exit benefits programs, families are less likely to experience a quick cut-off of their benefits and, in turn, are given the chance to take work opportunities that will give their family more financial stability in the long run.[80]

Following national TANF guidelines, KTAP works to provide cash assistance for low income families for a total of 60 months throughout a client's lifetime.[19] Unlike many programs that penalize a client's increased income, KTAP offers educational and work incentive bonuses to their clients. Additionally, increased earnings may not be counted for two months, allowing the individual a brief amount of time to receive both benefits and employment earnings.[19]

* *You can view it by clicking above or visiting https://kystats.ky.gov/FRS/GetStarted.*

This restricted timeline, however, can hurt clients who have not yet advanced into better financial situations and find themselves at the end of the allotted months in the program. It should be noted that states are allowed to exempt up to 20% of their recipients from the 60-month rule dependent upon certain circumstances.

Models in other states deserve more study, including Ohio's Benefits Bridge program modeled after the TANF Prevention, Retention, and Contingency (PRC) pilot program, which allows participants to access experience, job coaching, financial incentives, and subsidized employment as they transition off of benefits.[40] The PRC program also provides funds for work-related equipment, transportation, and assistance with housing and utilities.

There are a variety of ways in which policy makers can work to prevent benefit cliffs and the ramifications that come as a result of them. An incremental increase to the federal minimum wage is long overdue, especially when factoring in inflation. Some research contends that an increase in minimum wage paired with employer-provided health insurance would result in considerable savings for both federal and state budgets.[2] Increases to the minimum wage could help many individuals and families become self-sufficient.[81] Regardless, if the federal minimum wage was increased, the income limit for government programs should also increase accordingly.

Kentuckians have undoubtedly been impacted by the recent decline of SNAP benefits after the end of Covid-19 disaster declarations, which had previously provided hundreds more in food benefits during the pandemic. Kentucky SNAP participants, 12.1% of the state's population, reported around $100 less in groceries per person in the household post-pandemic.[82] This timing is especially harmful to families seeing around a 10% increase on the cost of food, paired with the additional cost for parents of providing summer meals for children on summer break.[64] Tania Whitfield, a single mother residing in Lexington, Kentucky, spoke with reporters on how when her benefits declined $250 per month, she had to pay nearly $800 per month for groceries, more than her monthly rent. In order to keep the cost of groceries down, she is forced to make a tough decision between healthy options and cheap, sugary foods.[83] This directly contradicts the purpose of SNAP benefits, aimed at providing assistance for healthier food options and increasing a household's food buying power. Therefore, the call to action for updated Kentucky policies is not a want, but a necessity for the health of Kentucky families.

The National Conference of State Legislatures lists a few additional ways in which benefit cliffs can be identified for both state and federal consideration. Among other potential options, they promote alignment of rules across various programs, disregarding certain forms of income, increased tax credits for working families, and suggesting career pathways.[1] They note that the Earned Income Tax Credit (EITC) has been extremely beneficial in the fight against poverty, as 9.4 million people, including five million children, were lifted out of poverty in 2018 alone.[1] Less commonly discussed and only provided for in five states is the use of the Career Pathways program, where students and workers alike are provided with maps used in the progression of career goals. These Career Pathway maps can help individuals in their efforts to earn higher wages through career advancement with the intention of ending reliance upon government assistance.[1] Through the use of one or more of these suggested options, individuals may be better suited to advance in their careers and end reliance upon assistance programs, or at the very least, be more knowledgeable on how to prevent experiencing the "cliff effect".

Conclusion

Millions of Americans rely on the use of government assistance programs each month.[2] These programs can assist in providing food, housing, cash assistance, healthcare benefits, and more. Unfortunately, these programs are prescribed in a way that makes it difficult for the individual to know and navigate income and eligibility limits. All too often, the benefits cliff only heightens the difficulty for an individual to break the cycle of poverty and obtain financial self-sufficiency.

To curtail the ramifications of the benefits cliff and reduce the reliance upon government assistance programs, changes must be made. Increased transparency, the use of career pathways, increases to the minimum wage, phase-out plans, and the use of program modeling tools are all potential options for policy makers to consider.[1,33,77,81]

The ramifications for businesses are significant. When low-wage workers lose critical government services that keep them able to work, businesses experience staffing challenges. Further, when workers turn down job promotions or other career advancement due to fear of losing benefits, they miss out on great opportunities that would help the worker and the company. Finally, the role of women in the workforce is critical, but loss of household funds for childcare can be a deep barrier to full participation of women in the workforce.

Family Scholar House

Family Scholar House is a nonprofit organization dedicated to ending the cycle of poverty and transforming their communities by empowering youth and families to succeed in education and achieve life-long self-sufficiency. As single parents, many pre-residents and current participants alike rely on the support of government assistance programs as they commonly face socioeconomic barriers that make financial self-sufficiency more difficult. However, Family Scholar House works diligently to fill in the gaps of support whatever they may be. This includes affordable housing, academic coaching, peer support, case management, providing connections to community resources and more. Therefore, even if a participant hits the benefits cliff, Family Scholar House can step in and provide proper support and accommodations for the individual while they obtain a post-secondary education degree or credential.

As of 2022, the completion rate for college credit hours attempted by Family Scholar House participants was 91%, resulting in these residents earning 709 college degrees.[21] By obtaining their post-secondary education, the participant families are more likely to hold higher-paying occupations, become active members in their communities' economy, and be less likely to rely on the use of government assistance programs. Additionally, their children are significantly more likely to obtain a post-secondary education, as the biggest predictor for college enrollment is whether or not a student's parents attended college. Following this pattern, families are given the tools to break the cycle of poverty and obtain life-long self-sufficiency.

Family Scholar House's focus on self-sufficiency is not only important for the health and well-being of parents and their children; it is an intentional investment in the workforce and the economy of our Commonwealth. At FSH, post-secondary education includes credentialing, apprenticeships, associate degrees, and bachelor's degrees. Success coaches specializing in academics, technical fields, and apprenticeships encourage and support preparation for high-demand careers. To this end, FSH partners with public and private colleges, universities, and employers to promote recruitment, retention, credential and degree completion, and workforce entry and advancement.

For example, FSH is partnering with Elizabethtown Community & Technical College to provide area students with additional support in entering healthcare and advanced manufacturing careers. Further, FSH is leading a Public Health AmeriCorps program to place 200 AmeriCorps members in healthcare positions across the commonwealth, with a goal of strengthening the education-to-work pipeline.

Connection to Family Scholar House's education and workforce services is as simple as a phone call to 1.877.677.9177. To learn more, visit www.familyscholarhouse.org.

FAMILY SCHOLAR HOUSE

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