NATIONAL CONFERENCE OF STATE LEGISLATURES

State Policies to Counteract the Cliff Effect in Public Programs

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The cliff effect refers to the sudden decrease in benefits that can happen with a small increase in earnings. Individuals receiving work support benefits, such as child care assistance, nutrition or cash assistance and some tax credits can often lose many of those benefits with just a slight increase in wages. Often, the wage increase does not offset the amount lost through the work support programs.

The research on the cliff effect stresses the importance of policies that take into account the consequences of eligibility cut-offs on overall financial security. Families can lose benefits before their earnings are high enough to adequately meet their basic needs. State policies that can address the cliff effect center around aligning work support programs and benefits with financial self-sufficiency benchmarks. Below are some policy options states have taken that would help counteract the cliff effect.

This document is meant to describe those policies recommended by researchers who have examined the cliff effect, and to identify states that have implemented some of these policy options. NCSL has provided these policy options for informational purposes only and does not endorse any specific policies. Addressing the full effects of eligibility cut-offs requires a comprehensive review of public programs and an understanding of the interaction between various policy and program areas.

Define Financial Self-Sufficiency

One way to understand and put into context the cliff effect and is to establish a definition of financial self-sufficiency and the income level a family requires to meet their basic needs without public assistance. Some states use 200 percent of the federal poverty guideline as a proxy for this, while other states have taken a more nuanced approach and factored in the varying costs of living by geography, household size and ages of children. The Center for Women's Welfare at the School of Social Work at the University of Washington has created a Self-Sufficiency Standard, defined as the income needed for a family to meet its basic needs without any public or private assistance. The Standard takes into account the age and composition of the family and includes the costs of all major budget items. It is also calculated by geographic area and takes into consideration the local cost of living.

At least 41 states have calculated the Self-Sufficiency Standard for their state. The Standard can be used as a benchmark to identify the "cliffs" and serve as the target income level at which public programs should expire.

There are some examples of states and local districts using the Standard in their public programs:

- Benchmark for self-sufficiency in workforce programs (Chicago)

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- Formal measure of self-sufficiency and benchmark for success in welfare programs (Sonoma County, CA)
- Part of eligibility criteria for job training services (DC and Colorado, Eastern Region Workforce Board in Fort Morgan)
- Tool to analyze eligibility levels and program co-payments (Oklahoma, Pennsylvania)
- Create self-sufficiency calculators that staff and consumers can use (Colorado, DC, Pennsylvania and Washington states. Also localities: Chicago, New York City, California Bay Area)

Indiana passed a resolution in 2011, HR62, urging state agencies to use the Self-Sufficiency Standard when counseling individuals who seek assistance, education, training or employment.

Review Eligibility Levels and Include Phase-Outs

The main cause for families to suddenly lose benefits is tied to the eligibility thresholds for programs. As families work and begin to earn more, their earnings can push them above the eligibility level. The "cliff" happens when the increased earnings are not enough to cover the cost of the benefit and the family is in effect worse off financially than if they did not take the raise or higher paying position. Families find themselves in untenable situations where their efforts to become self-sufficient are actually causing further financial stress. To lessen the effects of a sudden loss of benefits, states have a few options:

1. Increase the eligibility limit so that it is more closely tied to the amount needed to meet self-sufficiency guidelines
2. Phase out benefits by establishing sliding scales and gradually lowering benefit amounts
3. Align eligibility across programs so that families do not lose all benefits at once

Examples of eligibility choices with the Temporary Assistance to Needy Families (TANF) program include addressing asset policies and how states treat child support income when determining eligibility. Below are states that have taken steps to address these concerns:

Eliminate the asset test allowing families to have some savings and still be eligible for assistance.
At least eight states have no asset limit:
Alabama, Colorado, Hawaii, Illinois, Louisiana, Maryland, Ohio and Virginia

Exempt all vehicles or have no limit:
Nineteen states and DC:
Alabama, Alaska, Arizona, Colorado, Delaware, DC, Hawaii, Illinois, Kentucky, Louisiana, Maryland, Michigan, Mississippi, New Jersey, New Mexico, North Carolina, Ohio, Utah, Virginia

Disregard child support collected by the state in determining eligibility:
At least 27 states, DC and Puerto Rico:
Alaska, California, Colorado, Connecticut, Delaware, District of Colombia, Georgia, Illinois, Indiana, Maine, Maryland, Massachusetts, Minnesota, Montana, New Jersey, New Mexico, New York, Oregon, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, Tennessee, Texas, Vermont, Virginia, Washington, West Virginia, Wisconsin

Provide Work Supports that Bridge the Gap

Work supports refer to those policies and programs that families can receive while working and serve as a supplement to their wage earnings. The most common include child care assistance, nutrition assistance (formerly called food stamps), tax credits, and other housing, transportation and health care programs. These are often very effective at helping families meet their basic needs, however, eligibility for these programs is often cut off before a family is able to meet those needs on wages alone. Providing these work supports and aligning eligibility with self-sufficiency goals can help bridge the gap between earnings and self-sufficiency.

Examples of state policies that could address the cliff effect in these programs:

Child care assistance – Child Care Development Fund (CCDF) subsidies are an important benefit for working families. Establishing higher income eligibility thresholds or phasing out eligibility as earnings increase can reduce the impact of a sudden loss of benefits. Some states have set eligibility levels at 200% of the federal poverty level or higher.

At least 22 states with eligibility levels at or above 200% FPL:

- Alaska
- California
- Colorado
- Connecticut
- Delaware
- Illinois
- Maine
- Maryland
- Massachusetts
- Mississippi
- New Hampshire
- New Jersey
- New Mexico
- New York
- North Carolina
- North Dakota
- Oklahoma
- Pennsylvania
- South Dakota
- Texas
- Vermont
- Washington

Nutrition Assistance – Expand categorical eligibility

The Supplemental Nutrition Assistance Program (SNAP) allows states to expand eligibility for the program by establishing automatic eligibility for individuals who qualify for other public assistance programs.

At least 42 states have taken advantage of this policy by establishing broad-based categorical eligibility for SNAP benefits if they qualify for non-cash TANF or State Maintenance of Effort (MOE) funded benefit.

State Earned Income Tax Credit –
The federal earned income tax credit is credited with lifting millions of families out of poverty by offsetting the federal income tax for lower income earners. Twenty-nine states, the District of Columbia and Puerto Rico have implemented a state credit to do the same for state and local income taxes. The majority of state credits are refundable and based on the federal credit amount. The credits range from as low as 3% of the federal credit in Montana up to 100% in DC.

Refundable credits: 23 states, DC and Puerto Rico
  California, Colorado, Connecticut, District of Columbia, Illinois, Indiana, Iowa, Kansas, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Montana, Nebraska, New Jersey, New Mexico, New York, Oklahoma, Oregon, Rhode Island, Vermont, Washington and Wisconsin

Non-refundable: 6 states
  Delaware, Hawaii, Ohio, Oklahoma, South Carolina and Virginia

Other low-income tax credits –
Some states have created tax credits targeted to low-income families with incomes below a certain level. Most of these are nonrefundable.

Targeted tax credit for low-income families: At least 11 states

- Arizona – Nonrefundable Family Tax Credit based on family size/structure and income
- Georgia – Nonrefundable Low Income Credit if income less than $20,000
- Indiana – Refundable Unified Tax Credit for the Elderly if income less than $10,000 and one or more household members are 65 or over
- Kentucky – Nonrefundable Family Size Credit based on family size and income
- Maryland – Nonrefundable State Poverty Level Credit equal to 5% of earned income based on family size and structure
- New York – Nonrefundable Household Credit if income less than $28,000 for single filer and $32,000 for other tax filers
- Ohio – Nonrefundable credit to ensure low-income families with incomes under $10,000 do not pay any income tax
- Pennsylvania – Nonrefundable Tax Forgiveness Credit to reduce all or part of tax liability
- Virginia – Nonrefundable Tax Credit for Low-Income Individuals can be taken in lieu of EITC; based on family size and structure
- Wisconsin – Nonrefundable Working Families Tax Credit if income less than $19,000 for married filers, $10,000 for others
- West Virginia – Nonrefundable Family Tax Credit based on family size and structure

Other states provide credits to offset sales tax/tax on food, including Arizona, Hawaii, Idaho, Kansas, Maine, New Mexico and Oklahoma.

Other policy areas to consider:

- Public health insurance
- Housing assistance
- Energy assistance
- Transportation
- Education and training programs

Additional Resources

- Self Sufficiency Standard by State – Center for Women's Welfare, School of Social Work, University of Washington
- State Policy Tracker – National Center on Child Poverty
- Making Work Supports Work – National Center on Child Poverty
- State Tax Code as Poverty Fighting Tools - Institute on Taxation and Economic Policy
- State Tax Credits – Tax Credits for Working Families
- U.S. Hunger Solutions: Best Practices for Eliminating the Asset Test in SNAP Through Broad-Based Categorical Eligibility – Food Resource and Action Center
- Temporary Assistance for Needy Families (TANF) Policies - Urban Institute Welfare Rules Database

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