



# The Cliff Effect and Other Disincentives in our Public Benefit System



**WOMEN'S FUND**  
of the GREATER CINCINNATI FDN.

*July 2020*

# Introduction

Dear Partners,

For nearly a decade, the Women’s Fund has studied the Cliff Effect— when a small increase in wages triggers a complete cut-off of a public benefit, leaving the worker worse off financially. What started as the search for specific cliffs in our public benefits system has evolved into a comprehensive analysis of the disincentives phenomenon in our public benefit system. These structural flaws make it harder for working women to achieve self-sufficiency. This report is an update from our original 2016 report and outlines the structural flaws and disincentives in our public benefit system and offers policy recommendations to help correct this system.

As we talk with women across our region, we hear an innate desire to feel secure in their finances and provide for their families, without government or social service assistance. However, as hard as they work, they struggle to get ahead.

The public benefit system is meant to be a safety net for our community members when they experience economic hardship, providing a pathway out of poverty without sacrificing basic needs like food, housing and child care.

While the purpose of this system is well-meaning, public benefits do not provide a path of out of poverty for many participants. In fact, its current structure disincentivizes transitioning off of public benefits, making the journey from minimum wage to self-sufficiency longer without significant financial gain.

There are several overarching structural disincentives explored in this report including the benefits cliffs, gross resource stagnation and the overreliance of the Federal Poverty Level over the Self-Sufficiency Standard, as a measure of need. The good news? While these are complex systems, concrete actions can be taken to end this cycle of instability and dependence.

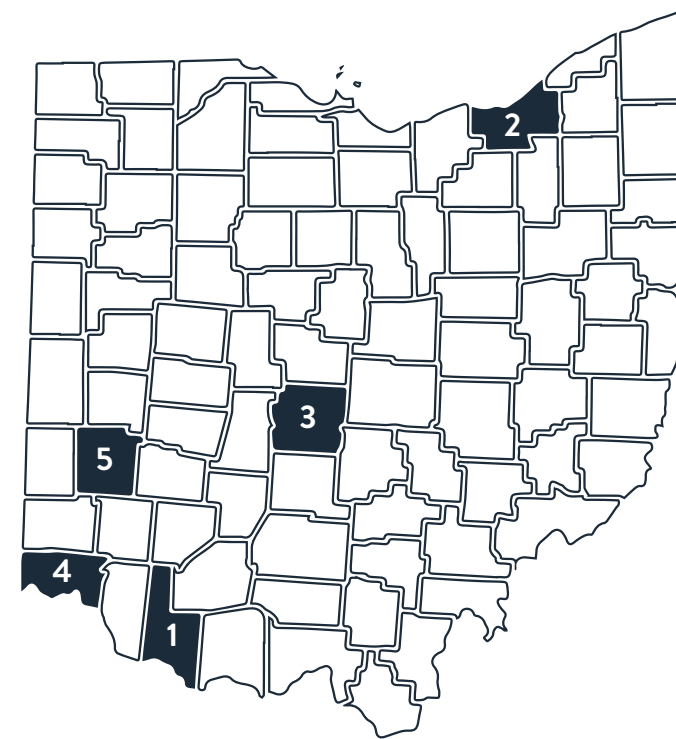
We know our community is stronger when all people can participate, prosper and reach their full potential. Women are disproportionately represented among those living in poverty. If we want to tackle poverty, we must understand and address the needs and challenges of working women.

Let us use this data as a floodlight to illuminate the challenges we must tackle together.



Executive Director  
Women’s Fund of the Greater Cincinnati Foundation

# Framing the Issue



## Analyzed Counties in Ohio

1. Brown
2. Cuyahoga (Cleveland)
3. Franklin (Columbus)
4. Hamilton (Cincinnati)
5. Montgomery (Dayton)

All public assistance programs are designed to help those who need assistance. It is a disservice to both the mission and intent of these programs and to the programs’ participants to not address the Cliff Effect and disincentives to work, as they negate the primary objectives of these programs— to help lift people out of poverty.

This analysis examines self-sufficiency and public assistance dollars received for one household type across five Ohio counties, chosen to represent urban, suburban and rural counties in the state. The illustrative household type for this report comprises one adult and one preschooler (three to five years old.) Individuals were assumed to work 40 hours per week for 50 weeks per year.

## Federal Poverty Level

The Federal Poverty Level (FPL), established in 1965, is a measure of annual earned income used to determine eligibility for public assistance programs and benefits, nationwide. FPL is calculated for various household sizes but without distinction of geography or type of persons in the household. Numbers are adjusted for inflation each year by the Department of Health and Human Services (HHS). When the FPL was established in 1965, poverty thresholds were determined from the cost of a minimum food diet multiplied by three to account for other expenses. Today we use the same model but adjusted yearly for inflation.

## Cliff Effects

Many social assistance programs intend to alleviate the challenges faced by low-income individuals and families. Although the programs aim to assist those living in poverty, navigating their complex rules can be a challenge. A public assistance participant may even fear a situation called the income “Cliff Effect,” a wage threshold where a family or an individual gross resources decline as a result of losing a certain program’s aid. Total gross resources are defined as earned income plus public assistance benefits the household is receiving.

## Total Gross Resource Stagnation and Disincentives to Work

Another issue households face is total gross resource stagnation. Total gross resource stagnation is when a household’s total gross resources do not increase at the same rate at their earned income. For the counties examined in this report, gross resources are relatively stagnant for wages between \$11.50 per hour (\$23,000 in earned revenue a year) and \$19.00 per hour (\$38,000 in earned revenue a year) This stagnation may occur due to public assistance program phase outs or the gradual decline of assistance dollars as their earnings are increasing. This disincentivizes individuals from increasing their hours, taking a job promotion or a raise, and more broadly, stifles the potential of an individual to better their circumstances or meet their family’s needs. Under these conditions, the current public assistance program structure creates economic disincentives for individuals to strive toward career advancement and rise out of poverty.

# The Federal Poverty Level and Self-Sufficiency Standard

The Federal Poverty Level (FPL) does not include adjustments for geographical area. Therefore, the measure of poverty is the same whether you live in New York City, rural Oklahoma, or Cincinnati despite the different costs in living. It also does not differentiate between various household compositions--the FPL for a three-person household is the same for two working parents and a child and a single parent with two children. 100% FPL equates to \$8.23 per hour. Ohio's 2018 minimum wage was \$8.30 per hour.

2018 Federal Poverty Level Income Bracket Chart

Persons in Household	1	2	3
100% FPL	\$12,140	\$16,460	\$20,780
138% FPL	\$16,753	\$22,715	\$28,676
200% FPL	\$24,280	\$32,920	\$41,560
250% FPL	\$30,350	\$41,150	\$51,950
300%FPL	\$36,420	\$49,380	\$62,340

Some households may be above 100% FPL but still unable to provide for basic needs for their families from earned income alone. The Self-Sufficiency Standard was developed to understand the income needed to provide basic needs without accessing public assistance programs for a specific household composition and geographic location. The Standard's definition for basic needs includes housing, food, transportation, child care, and health care. It does not include funds for an emergency car repair, school supplies, student loan repayment, clothing, etc. The Self-Sufficiency Standard is a better measurement of basic income needs for our communities, as it takes into account household composition and geographical locations.

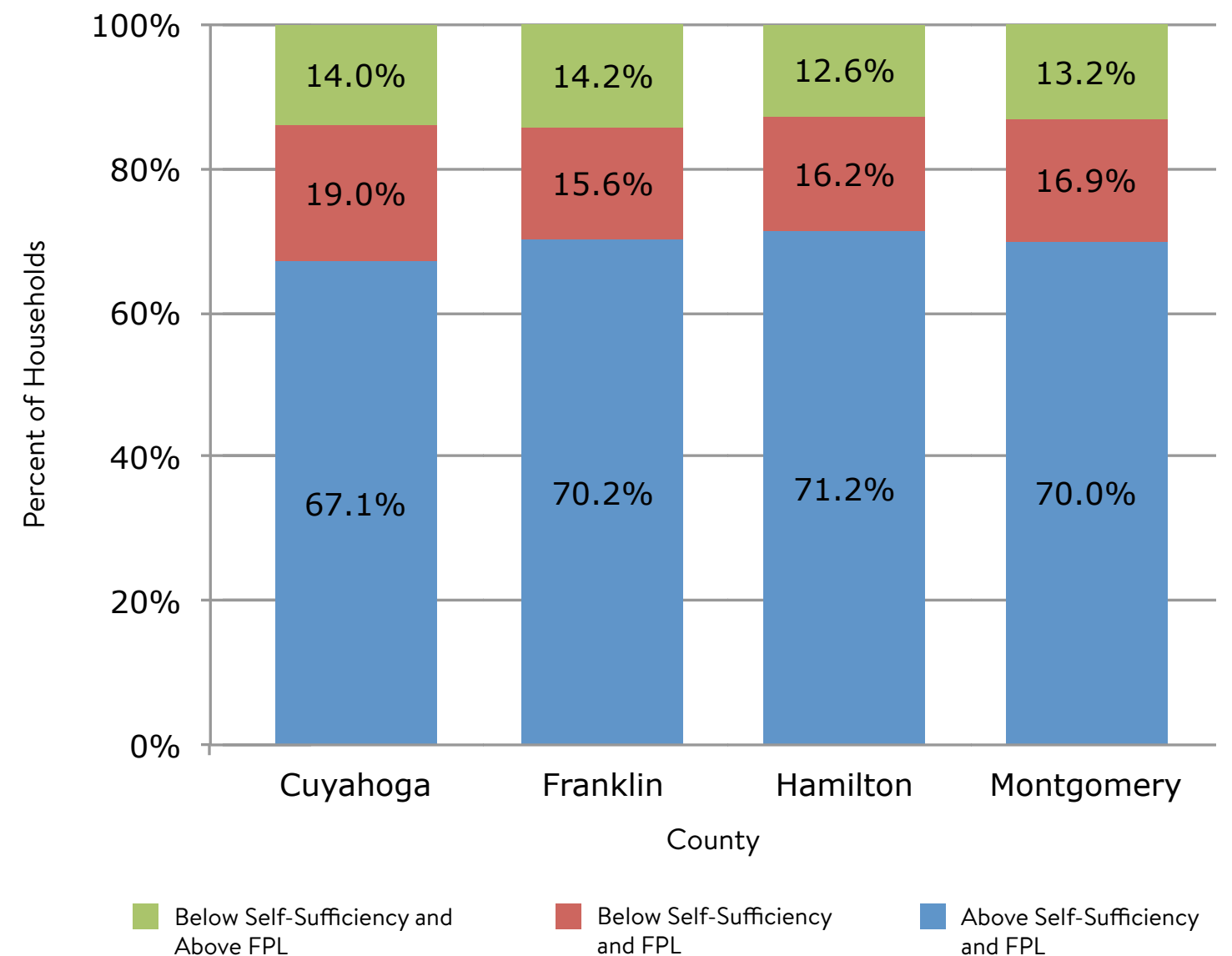
Self-Sufficiency Standard per County for one adult and one preschooler

County	Household Hourly Wage for Full-Time	Household Annual Income (Self-Sufficiency Standard)	Percentage of FPL
Brown	\$15.55	\$31,103	189%
Cuyahoga	\$18.93	\$37,852	230%
Franklin	\$21.45	\$42,902	261%
Hamilton	\$20.40	\$40,792	248%
Montgomery	\$19.63	\$39,267	239%

# Comparing the FPL and Self-Sufficiency

About 30% of households in our five counties are below the Self-Sufficiency Standard, but about 13% of the households are not counted in federal poverty metrics. This has a negative impact on public benefits funding and structures in our community, as the actual numbers of households struggling financially is inaccurate with current metrics. When we consider this data with a gender-lens, of female householder, no husband present in Hamilton County 53.7% of these households are below the Self-Sufficiency Standard.

Percentage of Households Above and Below Self-Sufficiency and FPL\*

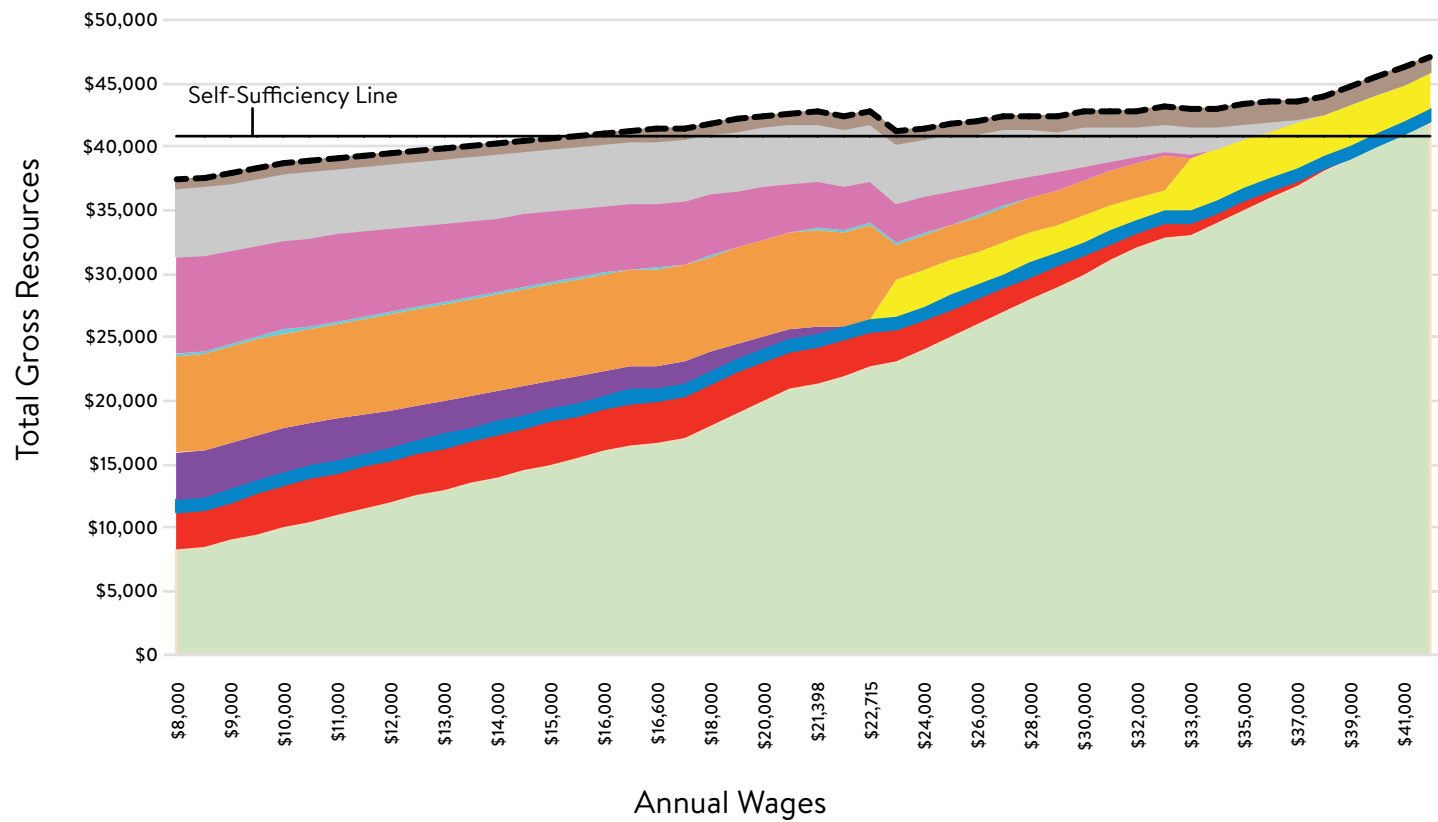


\*Data for Brown County was not available through the IPUMS Database.

# Total Gross Resources Household with 1 Adult and 1 Preschooler in Hamilton County

The graph below illustrates the dynamics between annual earned income and the array of varying social assistances for a household with one adult and one preschooler in Hamilton County. As the annual earned income increases, the total gross resources (the black dotted line) remains relatively flat due to social assistance programs phasing out and declining in benefit dollars provided. Unless a household is making more than \$40,000 a year, or \$20 an hour working full-time, there are no significant impacts on its gross resources despite career advances.

The adult transitions from Medicaid to Affordable Care Act (ACA) at 138% FPL, or \$22,715 in annual earnings, causing a slight cliff. Total gross resources are relatively stagnant from \$16,600 to \$38,000. This equates to earning between \$8.30 and \$19.00 per hour at full-time work. Between \$16,600 and \$38,000 in annual earnings, the household's total gross resources increase by \$4,497 (an 11% increase) while annual earnings increase by \$21,400 (a 129% increase). Until the single-parent household reaches approximately \$19.00 per hour, their total gross resources are not increasing at the same rate as their annual earnings.



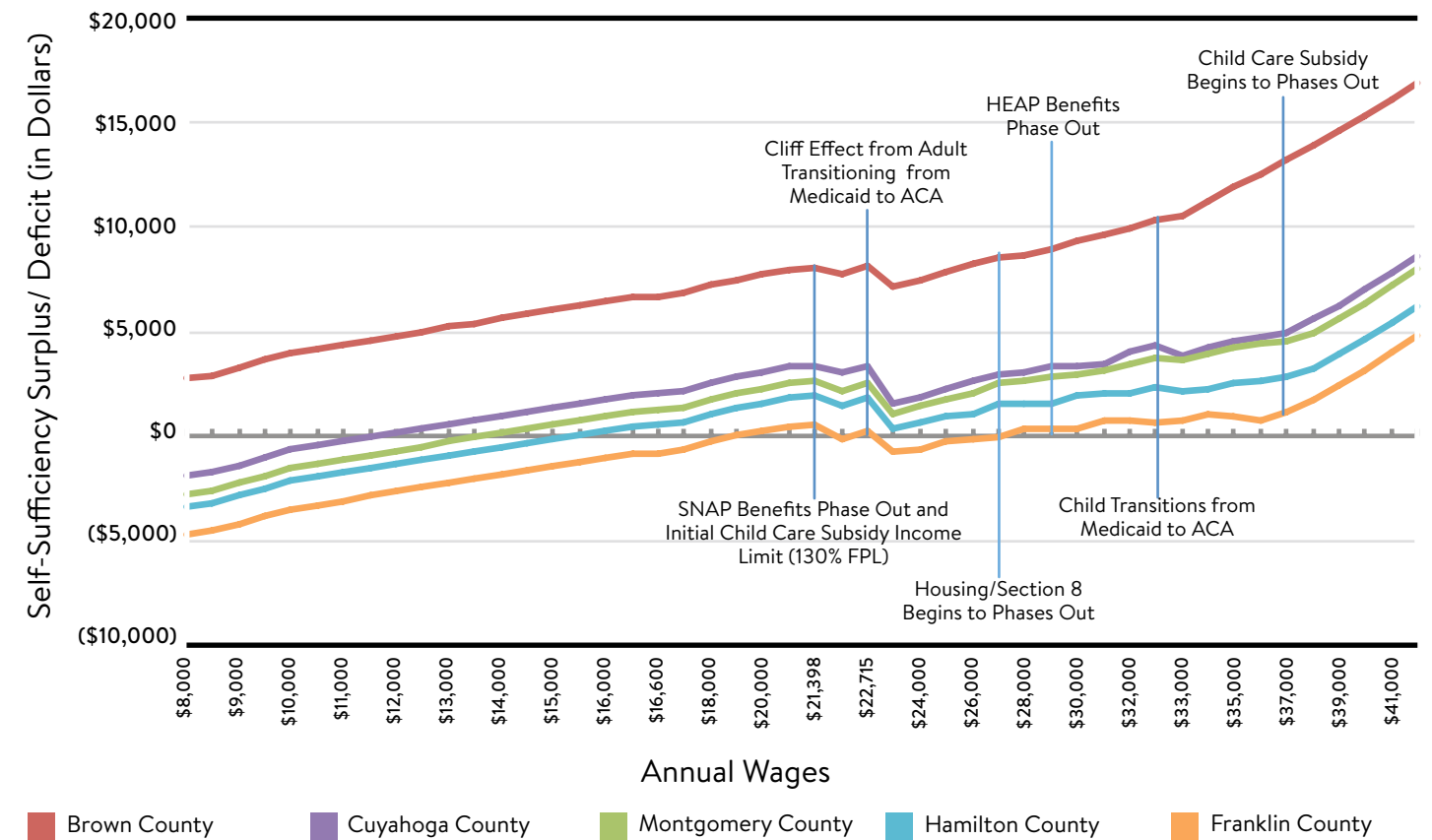
	Annual Earnings	Hourly Earnings Working Full-Time
Annual Wage	\$16,460	\$8.23*
Federal Earned Income Tax Credit	\$21,398	\$10.70
Child Tax Credit	\$22,715	\$11.36
Housing Voucher/Section 8	\$32,920	\$16.46
Child Care Subsidies	\$41,150	\$20.58
Federal Child and Dependent Care Tax Credit		
SNAP		
Medicaid		
HEAP		
Affordable Care Act		
Self-sufficiency Standard		
Total Gross Resources		

5 \*Minimum wage in Ohio in 2018 was \$8.30

# Public Benefits Journey by County Household with 1 Adult and 1 Preschooler

The graph below begins at \$8,000 in annual earnings and ends at \$42,000. Total gross resources are relatively stagnant for most counties between approximately \$23,000 and \$38,000. This equates to earning between \$11.50 and \$19.00 per hour at full-time work. Until the single-parent household reaches approximately \$19.00 per hour in each county, their total gross resources are not increasing at the same rate as their annual earnings.

The Medicaid to ACA cliff effect occurs for each county at 138% FPL when the adult transitions to ACA from Medicaid, which equates to \$11.36 per hour to \$22,720 annually. Noteworthy is that the Franklin County household is pushed back below self-sufficiency threshold due to the Medicaid/ ACA Cliff Effect.



Based on Ohio's 2018 minimum wage, \$8,300 represents minimum wage at 1,000 hours per year, \$16,460 is 100% of FPL, \$22,715 is approximately 138% FPL, and \$40,000 is approximately 250% of FPL.

### 1 Adult, 1 Preschooler Social Assistance Eligibility

Annual Earnings	\$8,300	\$16,460 \$8.23* per hour	\$22,715 \$11.36 per hour	\$40,000 \$20.00 per hour
Hamilton County	<ul style="list-style-type: none"> <li>EITC</li> <li>Child Tax Credit</li> <li>SNAP</li> <li>Child Care Subsidy</li> <li>Medicaid</li> </ul>	<ul style="list-style-type: none"> <li>EITC</li> <li>Child Tax Credit</li> <li>SNAP</li> <li>Child Care Subsidy</li> <li>Medicaid</li> <li>ACA</li> </ul>	<ul style="list-style-type: none"> <li>EITC</li> <li>Child Tax Credit</li> <li>SNAP</li> <li>Child Care Subsidy</li> <li>Medicaid</li> <li>ACA</li> <li>HEAP</li> <li>Housing Assistance (Section 8)</li> <li>Child and Dependent Care Tax Credit</li> </ul>	<ul style="list-style-type: none"> <li>EITC</li> <li>Child Tax Credit</li> <li>SNAP</li> <li>Child Care Subsidy</li> <li>Medicaid</li> <li>ACA</li> <li>HEAP</li> <li>Housing Assistance (Section 8)</li> <li>Child and Dependent Care Tax Credit</li> </ul>

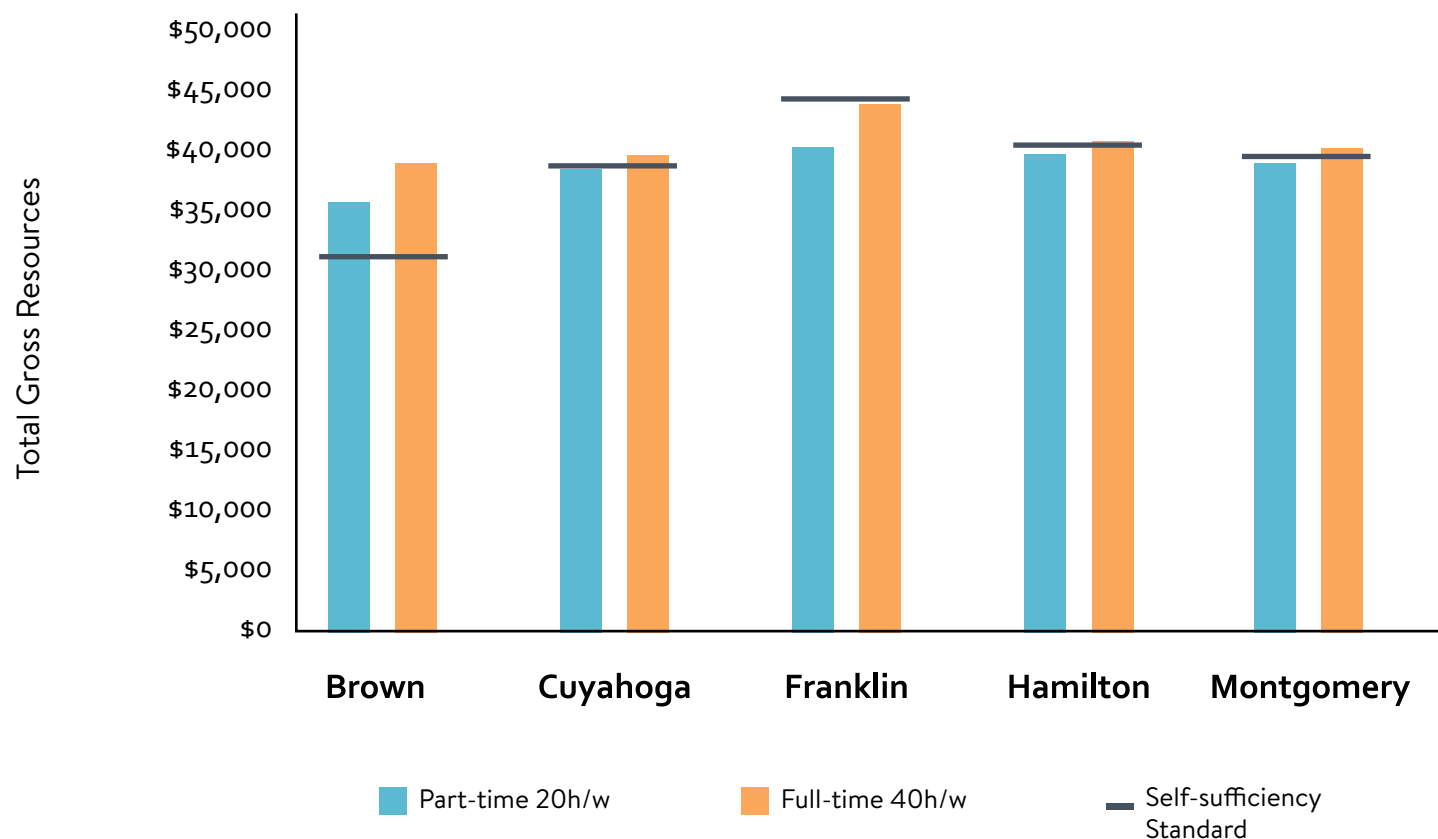
TANF was excluded due to inconsistencies in program requirements as well as differences in time allowance for payment remittance.

6 \*Minimum wage in Ohio in 2018 was \$8.30

# Transitioning from Part-Time Work to Full-Time Work

## Household with 1 Adult and 1 Preschooler

The chart below displays the change in annual total gross resources when an employee earning \$12 per hour increases their hours from part-time (20 hours per week) to full-time (40 hours per week) for each of the five Ohio counties. This equates to an increase of 1,000 hours annually.



County	Change in Total Gross Resources	\$ Per Additional Hour Worked
Brown	\$2,689	\$2.69
Cuyahoga	\$1,719	\$1.72
Franklin	\$2,024	\$2.02
Hamilton	\$2,017	\$2.02
Montgomery	\$2,125	\$2.13

When the single parent increases their hours worked per week from 20 hours to 40 hours, the household's total gross resources increases by varying amounts annually, depending on the county. Increased gross resources ranged from \$1,719 in Cuyahoga County to \$2,689 in Brown County based on an additional 1,000 hours worked. This is equivalent to earning between \$1.72 and \$2.69 per additional hour worked. Notably, the additional 1,000 hours worked per hour at \$12 an hour does not equate to equivalent total gross resource gains.

# Ohio Public Assistance Policies

## Child Care Subsidies

Child care subsidies in Ohio vary from county to county, based on the location's cost of child care services and the age of the children requiring care. To be initially eligible for child care assistance, a household's monthly income cannot exceed 130% FPL. The ongoing eligibility income limit, however, is 300% FPL. In Ohio, this is a large problem.

A household is not eligible for the program unless they have income below 130% of FPL, despite maintaining eligibility until 300% FPL. This means many households with incomes over 130% FPL are never eligible for child care subsidies, and they are likely in need of child care support at their income level. The subsidy covers the full cost of child care until the household's income reaches 105% FPL. From 105% FPL to 300% FPL, the subsidy amount gradually decreases as the household's income increases.

## Earned Income Tax Credit (EITC)

Ohio is one of twenty-nine states that has an Earned Income Tax Credit, modeled after the federal program. Ohio's EITC is non-refundable, meaning that it only offsets an existing tax liability, rather than providing the surplus to the taxpayer if the credit exceeds the taxes paid.

Individuals in Ohio are automatically eligible if they receive a federal EITC and will receive 30% of their federal credit. Prior to 2019, the value of the Ohio EITC was 10% of the federal EITC. However, the increase from 10% to 30% only expands the credit by an average of \$6 for the lowest earning 20% of the population. Alternatively, creating a 10% refundable option would increase the average value of the credit for this same quintile by \$248.

## Supplemental Nutrition Assistance Program (SNAP)

The Supplemental Nutrition Assistance Program (SNAP) provides food benefits to low-income individuals and families through a debit-card program. Recipients receive a debit card to purchase eligible food items at local grocery stores and farmers' markets.

Individuals in Ohio are eligible for SNAP benefits if they earn up to 130% FPL. Individuals are also required to participate in employment or training activities for 30 hours per week (certain exemptions apply).

# Recommendations and Considerations

There is no quick fix to the benefit cliffs and other structural disincentives in our public benefits systems. However, by implementing a variety of measures and new approaches, government, business and non-profit leaders can smooth the cliffs, reduce the disincentives and create a system that provides a true pathway to self-sufficiency.

Based on the report prepared by the Economics Center, research into best practices from other communities and institutions and input from key stakeholders, the Women's Fund has developed the following recommendations.

## For Policymakers

### Program-Specific Recommendations in Ohio

#### Child Care.

The average child care cost for a four-year old in Ohio is \$7,895 per year, a huge expense for low-wage employees. Ohio should expand eligibility for publicly funded child care from 130% FPL to 200% FPL, while continuing to maintain eligibility through 300% FPL.

#### Refundable State EITC.

The Earned Income Tax Credit is a proven, bipartisan program with long-lasting positive effects. Ohio should strengthen its current EITC by making it refundable, increasing the credit by an average of \$248 for low-wage families.

#### Expand SNAP Eligibility.

Ensuring food access for longer provides stability for families and frees up resources to meet other basic needs, such as rent payments or medication. Ohio should expand SNAP eligibility from 130% FPL to 200% FPL.

#### Smooth the Medicaid to ACA Cliff.

Healthcare is a fundamental yet expensive need. Many low-wage workers lack access through their employers; less than one-third of low-wage employers offer health benefits, and only 15.2% of these employees are actually enrolled, likely due to high costs. Low-wage workers relying on public healthcare assistance experience a cliff when transitioning from Medicaid to ACA health insurance. Policymakers should consider Medicaid and ACA policy changes to smooth this cliff and avoid putting families in a worse-off position as they work toward self-sufficiency.

### Other Measures to Alleviate Cliffs and Disincentives

#### Implement a pilot program.

Develop county pilot programs to test modifications and allow public benefits money to be more flexible.

#### Develop a statewide calculator to identify benefit cliffs.

Create a public benefit calculator to enable individuals, employers and agencies to identify approaching public benefit cliffs, allowing them to make more informed decisions and better prepare to transition from public benefits.

#### Increase funding for initiatives and programs to support working families.

Provide additional government support and funding for organizations providing career coaching, financial planning and financial literacy training.

# Recommendations and Considerations

#### Adjust benefit programs as wages increase.

As minimum wages increase, policymakers should review public benefit programs and make adjustments in real time to avoid unintended consequences such as new benefit cliffs or other disincentives.

#### Develop a comprehensive plan.

Several states have created working groups to take a holistic approach to the cliff effect and public benefits programs. Consider appointing and funding a statewide taskforce to review public benefit programs and agencies, and develop recommendations to remove cliffs and disincentives.

#### Raise the minimum wage.

Our public benefit system serves to supplement wages that are too low to sustain basic needs. Stated another way, the government is subsidizing low wages with public benefits. Using evidence-based measures, policymakers should raise the minimum wage to a rate more in line with known self-sufficiency levels.

## For Employers

#### Understand your workforce.

Many workers making between minimum wage and \$19 per hour receive public benefits. For some employers, this is a significant percentage of their employees. Understanding the wage levels where benefits decrease can help employers plan career progression with their employees' total resources in mind.

#### Implement policies that support low-wage employees.

The Employer Toolkit developed by the Women's Fund is a free resource containing dozens of policies and practices to support low-wage workers. Visit [toolkit.cincinnatiwomensfund.org](http://toolkit.cincinnatiwomensfund.org) to learn more.

#### Increase wages.

More and more employers across the country are raising entry-level wages for their employees. Employers are increasingly recognizing this as both a business necessity as well as critical for their employees' stability. Although we must understand the implications of wage increases on benefit eligibility, creating more financial stability and a pathway to decreased reliance on public benefits is ultimately in the best interest of our workforce and the community.

#### Advocate.

Join with other employers and advocates to ask policymakers to improve the public benefits systems, creating a more motivated and supported workforce for the future.

## For the Community

#### Spread Awareness.

Increase awareness and develop a common understanding about the financial fragility of families, what constitutes self-sufficiency and how we can move more people toward it.

#### Expand Data Collection and Reporting.

Share data and findings among all poverty initiatives to create a common understanding and strongly advocate that all data and policy initiatives include a racial and gender lens.



### **About The Alpaugh Family UC Economics Center**

The Research and Consulting division of the Economics Center provides the knowledge building blocks that help clients make better policy and economic development decisions. Our dynamic approach and critical data analysis empowers leaders to respond to changing economic conditions, strengthen local economies, and improve the quality of life for their communities.

[www.economicscenter.org](http://www.economicscenter.org)



### **About the Women's Fund of the Greater Cincinnati Foundation**

Through leadership, research and policy advocacy, the Women's Fund works to identify and address employment barriers affecting working women and their families. Our mission is to ensure the economic self-sufficiency of women in the Greater Cincinnati area and ignite a shared desire to improve it. We focus on child care, employment, living wage, and training and education for women and their families with interventions at a systemic level.

To learn more, visit [cincinnatiwomensfund.org](http://cincinnatiwomensfund.org)