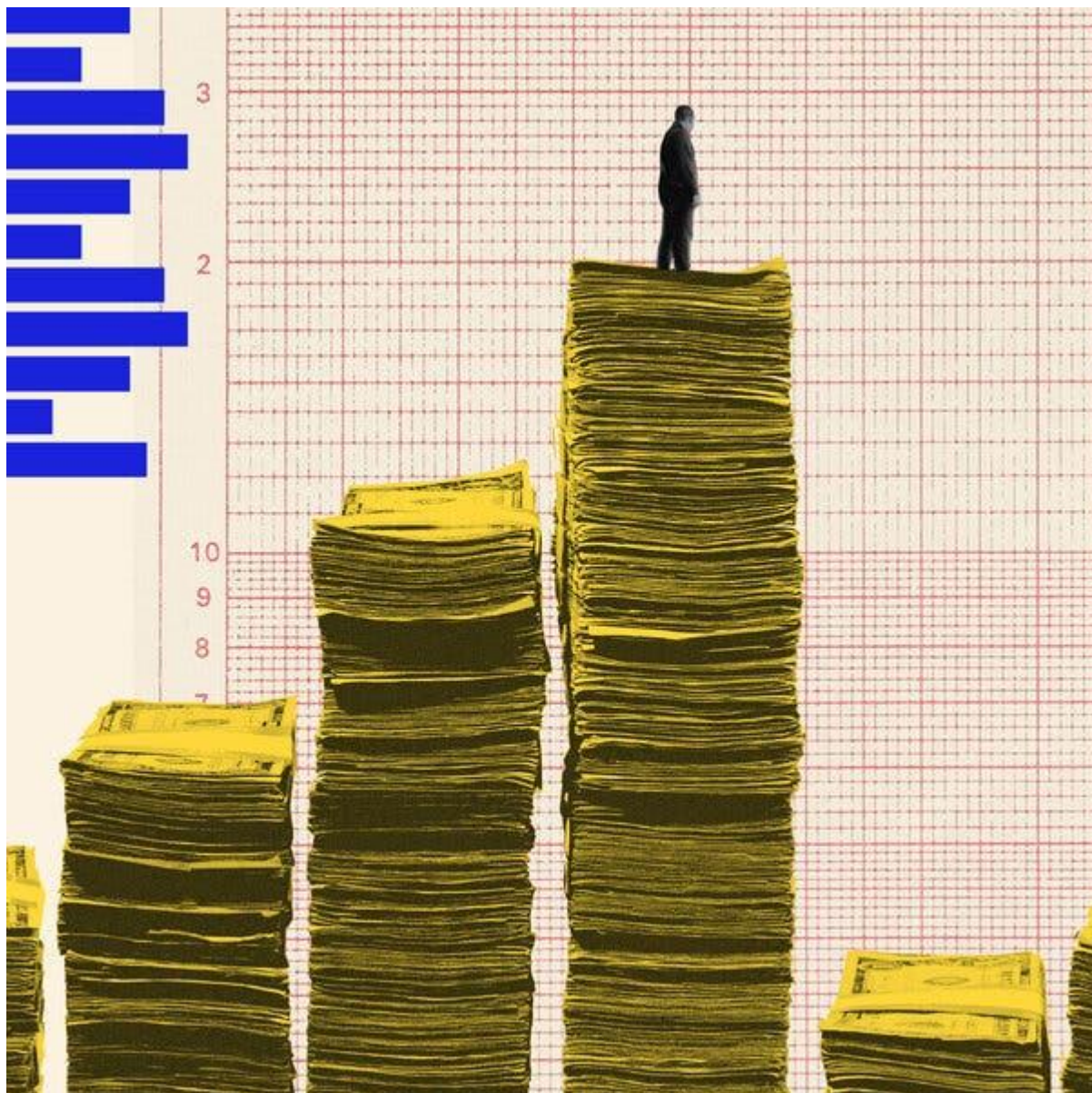


Subject: Opinion | The 'Benefits Cliff' Discourages People From Making More Money - The New York Times

<https://www.nytimes.com/2021/11/10/opinion/benefits-cliff-welfare.html>

# The 'Benefits Cliff' Discourages People From Making More Money

Nov. 10, 2021



Credit...The New York Times; Photographs by Lauren Nicole and Laurie Noble via Getty Images

By [Peter Coy](#)

Opinion Writer

You hear a lot about how high tax rates discourage rich people from working. You hear less about the same problem at the bottom of the income ladder, where the perverse incentives are far worse.

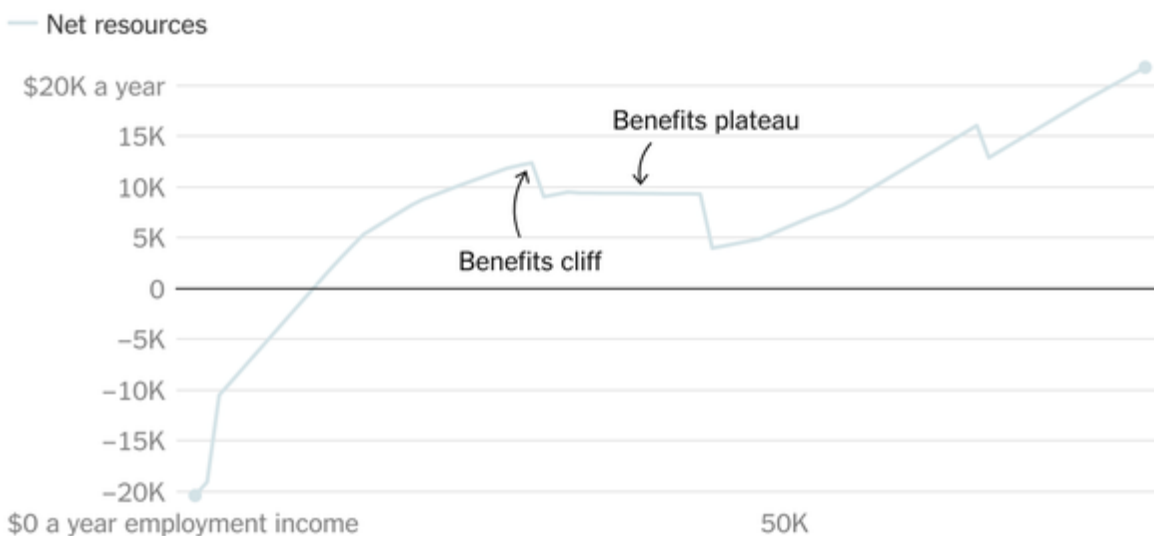
If low-income workers increase their paychecks too much, they can lose means-tested government benefits such as housing vouchers and food stamps. They fall off the “benefits cliff” and their overall resources decline. That may not fit the definition of a [confiscatory](#) tax, but it definitely discourages people from working more hours or for higher pay.

This chart shows an example, using an online tool created by the Atlanta Fed, for a fictitious 25-year-old single mother of two children, ages 3 and 5, who is working full time and living in Springfield, Mass. Her family receives food assistance, Medicaid for herself and her children, housing subsidies and several tax credits. When her net resources are below zero, she must borrow or spend less than the assumed minimum. When her net resources are positive she has some discretionary income. She is deciding whether to switch to a higher-paying career in health care. The landscape she faces is daunting.

Image

## Benefits Cliffs and Plateaus

"Leia" is a fictitious 25-year-old single mother. Here are her net resources for different levels of employment income.



Source: Federal Reserve Bank of Atlanta • By The New York Times

The problem of the benefits cliff — or really cliffs, since they appear at different income levels — has been known and studied for decades. Recently the search for solutions has intensified, as I found out when speaking to Raphael Bostic, president of the Federal Reserve Bank of Atlanta, [in August](#). The challenge is that one way to eliminate the benefits cliff is cruel and another way is costly. The cruel way is to get rid of benefits to the poor so they don't lose anything when they work more. The costly way is to stop phasing out benefits as people earn more, which means giving money even to the middle and upper classes, which would be similar to a universal basic income.

Social workers who counsel low-income workers often try to help them get past the pain of the benefits cliff by encouraging them to keep their eyes on the prize: a level of income high enough that the loss of government benefits is a worthwhile trade-off. People who feel trapped by dependence on government benefits need moral support as well as financial support to get on a path to self-sufficiency, says Richard Barr, vice president for strategic and organizational development at the South Carolina Center for Fathers and Families. “We want to be tour guides,” he says, “not travel agents.” For people about to take a job that will threaten their benefits, “The fear factor is difficult to overcome: ‘Can I do it? Will they accept me? Will I stick and stay?’”

A complementary strategy is to provide financial assistance during the transition to better-paying work, so that families' resources decline less or not at all. There are dozens of such programs in the federal and state governments, some of which include incentives to save or to prepare for higher-paying work. The U.S. Department of Housing and Urban Development's [Family Self-Sufficiency](#) program, offered through public housing agencies, gets the incentives right: For families that opt in, when their rent increases because their earnings rise, the housing authority contributes the difference to an escrow account that becomes available to them when they “graduate” from the program and are off assistance. Congress [created](#) the program in 1990 at the request of President George H.W. Bush and Jack Kemp, who was the secretary of housing and urban development.

The benefits cliff not only discourages work; it also creates incentives for dishonesty. Residents hide income. Housing managers learn to look the other way. It doesn't have to be this way. David A. Smith, founder of the Affordable Housing Institute in Boston, [says](#) that until 1969 HUD didn't raise rents on tenants when their incomes went up.

There are many other solutions on offer. A slew of state initiatives aimed at fixing the benefits cliff are listed on a website called [benefitscliff.com](#), which was created by the nonprofit [Leap Fund](#). The Atlanta Fed highlighted several interesting efforts in the Southeast in a [conference](#) that it co-sponsored last year.

One person I interviewed for this newsletter was Anne Kandilis, director of Springfield WORKS/Western Massachusetts Economic Development Council. She's supporting a state bill that would experiment with redirecting the state's earned-income tax credit to counteract the fall from the benefits cliff, topping up families' resources so they don't decline when adults in the household increase their earnings. “We've made it really simple,” she said. “We just want to plug a gap.”

Plugging gaps is a great idea, but it's not enough. If all you do is keep people at the same level of resources when their income rises, meaning they keep none of the extra money they earn, they're facing an effective marginal “tax rate” of 100 percent. They're stuck on a plateau. (Contrast that with the current top federal tax rate of 37 percent.)

A plateau is better than a cliff, but it still severely discourages work, says Alexander Ruder, an organizer of the Atlanta Fed's conference who is a principal adviser on the bank's community and economic development team.

Ruder mentions another big problem: If you're a low-paid nursing assistant who's receiving government benefits, work-force-development people might encourage you to train to become a licensed practical nurse, the next rung on that career ladder. But a licensed practical nurse without benefits may wind up with fewer resources than a nursing assistant with benefits. For many people, the benefits cliff effectively yanks away the career ladder that is presented as the way out of poverty. One answer is to train to become a registered nurse, which is a better-paying job than licensed practical nurse, but that's more ambition than many people can realistically handle.

Barr, of the South Carolina Center for Fathers and Families, says one way to avoid the poverty trap created by the benefits cliff is earlier intervention: Teach teenagers about their career options so they can get the training and education they need before they have children to take care of. "When you put on weight it's hard to use wings," he told me. "Fly while you can."

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## Elsewhere

A bit of good news on the labor front: While the number of jobs in the United States in October remained down 2.8 percent from February 2020, the aggregate number of hours worked was down only 1.7 percent, according to data released on Friday by the Bureau of Labor Statistics. That's because the average number of hours that working people work per week has gone up. Here's a statistic you don't see every day: The aggregate number of hours worked per week in October was 49 million hours higher than it would have been if the number of working hours had fallen as much as the number of jobs. "Today's labor supply may be inadequate," James Paulsen, chief investment strategist for the Leuthold Group, wrote last month, "but it is also remarkably healthy compared to history!"

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## Quote of the day

"To say society is to speak of a history that is slow, mute and complicated; a memory that obstinately repeats known solutions, to avoid the difficulty and danger of imagining something else."

— Fernand Braudel, "The Structures of Everyday Life: Civilization and Capitalism, 15th-18th Century, Volume 1" (1981)