

October 27, 2021

Chair McGovern, Ranking Member Cole, and Members of the Committee:

Thank you for the honor of speaking to you today about the relationship between benefits cliffs and economic mobility and resilience. My name is Brittany Birken and I am a principal adviser with the Federal Reserve Bank of Atlanta (Atlanta Fed). I am a member of the Atlanta Fed's Advancing Careers Initiative. The Advancing Careers Initiative works to improve workers' economic mobility and resilience by identifying how benefits cliffs can create financial disincentives to career advancement. We provide analytical tools and research that support solutions to those benefits cliffs and other structural financial barriers. We are currently engaged in benefits cliffs-related projects in numerous communities and states across the country, including the states of [Massachusetts](#), [Oklahoma](#), and [Texas](#); as well as other [partnerships](#) that may be of interest to members.

While sharing my expertise on the benefits cliffs today, I am speaking on my own behalf, and my views do not necessarily represent those of the Federal Reserve Bank of Atlanta or the Federal Reserve System.

Benefits Cliffs

I would like to begin by explaining why the Atlanta Fed is studying the impact of benefits cliffs on workers and the economy. Improving economic mobility and resilience is a key aspect of our community development responsibilities and is complementary to our monetary policy mandate to promote maximum employment. Economic mobility and resilience focuses on individual's ability to raise their standard of living and ultimately maintain financial household stability and wellbeing even through unexpected challenges in daily living. A core aspect of our work is to identify and understand the barriers that challenge economic mobility and inclusion.

Economic research has found that one such barrier can be benefits cliffs. Many major federal safety net programs such as food assistance, childcare assistance, and housing assistance are means-tested (that is, only individuals with income below certain thresholds are qualified). As workers advance in their careers and earn more money, the amount of support from safety net programs decreases. One significant barrier occurs when career advancement with relatively small increases in wage income puts a family above the income eligibility threshold for public assistance programs. Due to the loss of these programs, career advancement opportunities can result in the family being financially worse off (a benefits cliff) or no better off (a benefits plateau) than before the wage increase. These barriers can create a financial disincentive for career advancement, particularly when modest wage increases result in a loss of eligibility but are not sufficient for the family to meet their needs independently.

This loss of means-tested safety net support can mean that some workers have a financial disincentive to invest in their own human capital and advance from lower-wage work to jobs that lead to economic self-sufficiency. Ultimately, benefits cliffs may hamper the ability of workers to increase their income, accumulate assets, and improve their standard of living.

To illustrate this point, consider this true-life example. A single parent has two children younger than five. She works full-time and her employer offers her a .10 cent an hour wage increase. That nominal wage increase puts her over the threshold of eligibility for the childcare subsidy. Based on the childcare subsidy values in her state, the approximate \$200 in annual increased wages would result in the loss of about \$9,000 in childcare subsidy. She faces the dilemma of choosing between career advancement and the childcare subsidy which she needs in order to afford childcare for her young children and maintain employment.

A benefits cliff such as the one depicted here can be especially challenging if families lose eligibility to the public benefit program before they can afford the cost of goods and services independently without sacrificing other household budget items. Recent [research](#) on childcare benefits cliffs illustrates this challenge. Using Florida as a case study, it was determined that for a family of two adults and two young children, the size of the cliff at the eligibility threshold can be as high as \$16,000. The average two-adult and two-young-children family faces an annual financing gap of nearly \$11,000. Ninety-seven percent of the state's population live in counties where the amount of income needed for self-sufficiency is above the federal childcare subsidy eligibility threshold for this family type.

The Impact of Benefits Cliffs

While the example provided above is reflective of one public benefit program, it is important to consider the potential interaction of all core public benefit programs. Low-income families may access multiple public benefit programs depending on eligibility requirements, income, need, and availability (for those that have finite subsidy funding such as housing and childcare assistance). As workers advance in careers and earnings increase, the values of subsidies may be reduced and in combination this can also cause a reduction in net financial resources for the household.

Understanding the complexity of net financial resources can provide context on challenges associated with benefits cliffs. Net financial resources include the after-tax or net income. This is an individual or family's take home pay from work. It also includes any public assistance programs the family may qualify for. This includes tax credits, cash assistance, and in-kind benefits individuals or families may receive from the government. Subtracting typical family expenses like childcare, food, healthcare, housing, transportation, utilities, and other miscellaneous expenses provides a realistic estimate of the family's disposable income or net financial resources.

As income increases, the loss of public benefit programs may lead to a loss in net financial resources that makes a worker worse off than they were before the income gain. Based on [analysis](#) of net financial resources, depending on family composition and the public benefit programs accessed, it is possible that a family may be no better off with an income of \$51,000 than \$7,000.

Benefits Cliffs and Workforce Development

Included in the portfolio of Advancing Careers work is the focus on how benefits cliffs interact with local workforce and economic development strategies. Workforce development—job training and employment services that help individuals acquire credentials that employers demand, obtain employment, and increase their earnings—is an important component of broader strategies to promote economic mobility and supply businesses with skilled talent. Many individuals in workforce

development programs receive some form of public assistance. At some point along their advancing career path, these individuals will gradually or suddenly lose this public assistance and potentially face a benefits cliff.

Benefits cliffs may affect decisions related to career advancement or net financial resources in ways that ultimately have consequences for economic self-sufficiency. First, workers may turn down opportunities to advance in their careers due to public assistance losses. Second, the complexity of programs means families may struggle to accurately forecast when and how much public assistance they will lose as earnings rise. Unanticipated losses in public assistance may create financial instability for a family just at the time they are beginning a new career, jeopardizing their stable employment. Third, individuals may advance in their careers, but losses in public assistance reduce or eliminate potential gains in the family's total financial resources. Thus, the family's standard of living does not improve as much as expected given an increase in income. This last consequence has implications for how policymakers evaluate the effectiveness of their workforce programs. If policymakers evaluate workforce development programs by measuring gains in employment earnings alone, the analyses may find improvements in earnings, but will not reflect that the programs may not have improved the standard of living for families.

Mitigating Benefits Cliffs can be a Gain to the Worker and the Taxpayer

The Advancing Careers research also focuses on benefits cliffs from the perspective of government finances. Programs that support career advancement for individuals on public benefits not only help individuals by increasing their earnings, but they can benefit the larger public as well. Since these public benefits are taxpayer funded, helping individuals advance up a career pathway has implications for government finances. As individuals earn more, they contribute more to employment taxes and pay more in consumer taxes as they spend more. At the same time, governments spend less on public assistance programs as individuals move towards economic self-sufficiency. Atlanta Fed research has [estimated](#) large potential returns to taxpayers when workers on public assistance advance to higher earnings through career pathways.

Concluding Thoughts

The [negative economic impact](#) of COVID-19 on low-income families, together with longstanding concerns about rising poverty, economic inequality, and gaps in the social safety net, have increased attention on programs and policies that provide household financial stability and promote economic mobility. I have explained in this testimony and in sharing Atlanta Fed [research](#) how benefits cliffs can present a barrier to both economic mobility and household financial stability. Carefully designed policies and programs that address benefits cliffs may provide greater financial incentives for career advancement, increase financial stability for families as they transition off of public assistance, reduce the uncertainty workers face when trying to forecast how an earnings increase will affect their overall financial resources, and result in large potential returns to taxpayers.

To accomplish these goals, policies and programs would need to improve the short- and medium-term financial incentives of individuals to advance up their local in-demand occupations and career pathways. Atlanta Fed [research](#) describes how improved incentives can lead to substantial long-

term gains to both individuals and the public. If of interest, I can be available to members and staff to provide a demonstration of our tools and the analytical capabilities that demonstrate the interaction of public benefit programs and policies along various career pathways.

Thank you for the opportunity to share testimony today.

Brittany Birken, PhD

A handwritten signature in blue ink, appearing to read "Brittany Birken", is centered on a light-colored rectangular background.

Principal Adviser
Federal Reserve Bank of Atlanta