

# BENEFITS CLIFF



**Imagine running at top speed** on a forest trail. Suddenly, the trees clear, but your feet are flying so fast you can't stop. Then you see it looming ahead of you—a cliff of impossible height. You dig in your feet to stop. They skid across the dirt, sending pebbles plummeting over the edge. Then you wake up.

Even if you don't have firsthand experience with this particular recurring nightmare, the imagery of a sudden cliff is prevalent across popular media. But for many, this literal cliff is not just a recurring image. It is a figurative obstacle they face in seeking higher wages and career advancement. In this case, it's called the benefits cliff.

## WHAT IS A BENEFITS CLIFF?

A benefits cliff is the figurative chasm that opens for public assistance recipients who are offered a pay raise. "The term describes a positive change in someone's personal finances—a raise or rise in income, of as little as 25 cents an hour, in some cases—that then disqualifies them from continuing to receive public benefits, whether or not they're financially stable enough to absorb the loss of those benefits" (Nargi, 2021). This critical aid that is lost when a household's financial situation improves is not sustainable. It prevents people from seeking new and better jobs for fear of losing healthcare, childcare, food, or housing. And it creates uncertainty and instability in some of our most vulnerable populations, disincentivizing people to enter training programs, buy vehicles and houses, and start savings accounts.

## WHY IS LEGISLATION NEEDED TO ADDRESS THE BENEFITS CLIFF?

Laws and policies that dictate necessity and eligibility for public assistance programs have brought many households to a benefits cliff. This issue can only be solved through innovative legislation. "Our current system creates a situation in which individuals and families are stuck in a 'poverty trap': forced to be reliant on their benefits, rather than moving toward wealth-building and economic security, which affects both individuals' and families' financial independence as well as [a] state's overall economy" (Rucci, 2022). New legislation that puts benefits cliffs at the forefront of consideration for at-risk families can allow for access to higher paying jobs and career paths while also providing a safety net for those who will still rely on public assistance until they can save enough money for emergencies or to purchase a car or home.

## WHAT IS BEING DONE ELSEWHERE TO ADDRESS THE BENEFITS CLIFF?

Massachusetts proposed a guaranteed income pilot study. Lawmakers in the state asked, "what would happen if families encountering the benefits cliff were able to reduce or eliminate an income shortfall with funding from the state's Earned Income Tax Credit (EITC) program?" (Chiarenza, 2022). They hypothesized that by supplementing a family's income when they see a raise in salary, but a loss in public assistance funds, families would begin to build savings and retain adequate healthcare, childcare, and housing. Some tried to frame these supplements "...as a short-term investment in people who want to work, likely to lead to a long-term gain for recipients and taxpayers alike" (Chiarenza, 2022). Such an approach benefits the economy as a whole and not just individual households.

With help from several lawmakers and support from experts in the field, \$1 million in funding for the Cliff Effect Pilot Program was announced in Massachusetts on July 26, 2022. “The three-year pilot program, which uses funding from the American Rescue Plan Act, combines financial aid with job training and mentoring to help workers identify career paths” (Blanco, 2023). With the implementation of this three-year pilot program, Massachusetts aims for a statewide effect of a gradual, upward slope utilizing career training and career planning, rather than a benefits cliff that leaves its residents with few to no options in the job market. This two-pronged approach offers an effective and sustainable long-term solution.

**WHAT IS BEING DONE IN MARYLAND TO ADDRESS THE BENEFITS CLIFF?**

Maryland can learn a lot from the efforts in Massachusetts to address the benefits cliff.

State	Maryland	Massachusetts
Population (2021)	6,165,129	6,984,723
% of Population at Risk of Poverty (2020)	9.2%	8.4%
GDP per Capita (2021)	\$72,007	\$91,819
Unemployment Rate (12/2022)	4.0%	3.3%
Population Density (2021)	192 people per sq km	256 people per sq km
Human Development Index (2015)	.934	.955

(Alldatanow, 2023)

As seen in the table above, the two states are fairly similar regarding poverty risk and unemployment rates. Of particular note is the comparative Human Development Index score. On this scale, a higher score means that a state’s residents have a longer life expectancy, higher education levels, and a greater gross domestic profit (GDP) per capita than residents in a state with a lower score (Stanton, 2007). A similar score here means that the residents in these two states face a similar landscape on their journey to health, happiness, and financial freedom. Massachusetts has since brought forth legislation to protect its citizens from hitting a benefits cliff. Maryland must follow the northeastern commonwealth by enacting similar policies.

In early 2020, Maryland’s minimum wage increased to \$11 per hour. Even with this increase, “two parents who work full-time, minimum-wage jobs only see a net increase of \$320 per month because their eligibility for benefits decreases as earned income increases. And single parents with two children can meet their basic needs only if they also receive public assistance with housing and health insurance...” (Shwe, 2020). With legislation that provides a bigger safety net to mitigate the benefits cliff brought on by a minimum wage increase, these hypothetical households would be safe to earn and save more money without having to worry about housing, health insurance, and other basic expenses.

Policymakers here in Maryland are looking to utilize both technologies aimed at calculating benefits cliffs and changes to public assistance to ensure families do not lose their benefits when switching jobs or accepting a raise. United Way of Central Maryland partnered with the Federal Reserve Bank of Atlanta and the Federal Reserve Bank of Richmond to launch its [Career Ladder Identifier and Financial Forecaster \(CLIFF\) Dashboard](#) to help Marylanders make informed career decisions to overcome the benefits cliffs. “The tool is meant to supplement financial, career, and education coaching so users can best determine their optimum financial situations” (Kirby, 2022). Providing a benefits cliff calculator gives families autonomy in making decisions about their careers and finances.

A commission in 2017 also found that families could also benefit from guaranteed income. The commission recommended that temporary cash assistance (TCA) families receive Transitional Support Services (TSS) benefits to help them once they were gainfully employed and no longer qualified for other benefits. “TSS payments are equal to the benefit amount that the household received before employment earnings” (Maryland Department of Human Services, 2021). Like in Massachusetts, this guaranteed income would allow families to begin building wealth while still maintaining the benefits they received before. Then, the program can be gradually phased out as their savings increase, creating a gentle slope to financial freedom rather than a benefits cliff.

In March 2023, the Maryland State Legislature will hear testimony on SB787, sponsored by Senator Shelly Hettleman and HB1286, sponsored by Delegate Aletheia McCaskill: Human Services-Benefits Cliff Pilot Program-Establishment, modeled on the Massachusetts pilot program that passed in July of 2022. If it can garner enough support, Maryland could have its very own benefits cliff pilot program that seeks “to mitigate the cliff effect and increase workforce participation by Pilot Program participants” (*Human Services - Benefits Cliff Pilot Program - Establishment, 2023*). With the passage of this bill, Maryland will be on its way to building bridges to financial freedom for its most vulnerable citizens.

## CONCLUSION

When public assistance disappears *immediately* based on varied eligibility requirements, low-income families are left in a worse financial position even when accepting a raise or switching jobs or careers. This benefits cliff is so problematic that some households would rather turn down promotions or better jobs than risk losing healthcare, childcare, food, or housing. Massachusetts’ new pilot program can serve as a good example of efforts that Maryland can take to mitigate the benefits cliff. One big takeaway from the Bay State is the importance of a twofold solution. First, build bridges to financial independence by changing or extending eligibility requirements for public assistance programs. Second, allow families to be their own financial architects by providing easy-to-use benefits cliff calculators and career planning tools. If Maryland were to enact policy change that addressed these two factors, it would prevent many residents from confronting a benefits cliff and wondering if they will be able to stop in time before plummeting to financial ruin.

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