EXHIBIT B

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Stranded by the Safety Net

HOW TO FIX THE BENEFIT CLIFF PROBLEM

Stranded by the Safety Net: How to Fix the Benefit Cliff Problem

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Executive Summary

The US safety net should help low-income families meet their immediate needs while supporting their long-term upward mobility. Yet certain program rules—especially those that create "benefit cliffs"—often do the opposite by discouraging work and trapping families in poverty. At its core, a benefit cliff occurs when government benefits decrease too abruptly as earnings rise, leaving some recipients worse off by working more. This discourages independence through work and jeopardizes upward mobility.

This report explores how current safety-net programs in the US create benefit cliffs and outlines an agenda for reform. We propose a two-pronged strategy. First, we highlight immediate reforms that program administrators and policymakers can implement within the safety net's existing structure to offer near-term relief to participating households. Second, we outline comprehensive reforms to reconfigure the entire system and better support work, increase efficiency, and encourage two-parent families. Together, these steps are necessary to not only reduce benefit cliffs but also create a more efficient and effective safety net.

In the first chapter, we define the concept of benefit cliffs and explain why policymakers should be concerned about their negative effects on employment. The second chapter examines individual safety-net programs and highlights how specific program rules contribute to the benefit cliff problem. The third chapter outlines immediately actionable policy recommendations that state and federal administrators and policymakers can adopt to reduce benefit cliffs within the safety net's existing structure. The fourth chapter offers a vision for comprehensive reforms designed to create a more efficient, pro-work, and pro-marriage safety net, followed by concluding thoughts.

Addressing benefit cliffs in safety-net programs is ultimately a federal responsibility, because programs are primarily authorized, funded, and designed by federal policymakers, with states administering them under federal oversight. Sustainable solutions to the design flaws that create benefit cliffs require a substantial federal role. For these reasons, this report focuses on federal actions to address benefit cliffs while highlighting changes states can pursue within the authority given to them by the federal government. Without such reform, state-led stopgap measures may yield partial progress yet ultimately will fall short.

A common proposal to address benefit cliffs is to extend program eligibility to higher-income households so that benefits can phase out more gradually. However, the trade-offs of such an approach—especially its substantial cost to taxpayers—outweigh the potential advantages. We believe that any reform to address benefit cliffs must consider the broader trade-offs associated with expanding eligibility for safety-net programs. Therefore, we identify three broad principles that should guide safety-net reform efforts, including those to address benefit cliffs:

1. The safety net should prioritize policies that support work and marriage as a proven way to escape poverty and achieve upward mobility.[1]

2. Assistance for those capable of work should be temporary and targeted, though the safety net should offer sustained support for those permanently unable to provide for themselves due to disability or age.

3. Federal and state funding for the safety net must be grounded in fiscal responsibility, reflecting the government's duty to be a good steward of public resources.

These three principles guide the two-pronged reform approach of immediately actionable items and comprehensive reforms that we outline in this report. (See Table 1.)

Table 1. Immediate and Comprehensive Reforms to Address Benefit Cliffs

Immediate Reforms	
Individual Program Administrative Reforms	States have some existing administrative authority to reduce benefit cliffs in individual programs. They often can make administrative decisions, such as frequency of benefit reauthorizations, that can make benefit cliffs better or worse. They also have existing authority to request waivers of federal rules, which can be used to lessen benefit cliffs. We outline several key steps states can take to use their existing administrative authority to offer immediate relief to families at risk of a benefit cliff.
Individual Program Legislative Reforms	Where states do not have existing administrative flexibility, Congress should legislate changes to individual program rules to lessen benefit cliffs. We offer one example for the Supplemental Nutrition Assistance Program (SNAP), recommending that Congress statutorily change SNAP's benefit level, deductions, and eligibility limit to address benefit cliffs. This can serve as a model for other program reforms.
Cross-Program Administrative Reforms	While individual program reforms are important, benefit cliffs are worse when households receive multiple benefits. We outline how federal agencies, through existing waiver authorities, can guide states on soliciting federal approval for demonstration projects aimed at reducing cross-program benefit cliffs. We also identify ways federal agencies can revise rules and regulations to make it easier for states to address cross-program benefit cliffs, such as coordinating how states claim costs across programs.

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Cross-Program Legislative Reforms	Where existing waiver authority falls short, Congress should legislate a “superwaiver,” which would allow states to consolidate and coordinate multiple safety-net programs while maintaining federal accountability for results. This would allow states to innovate and test processes for consolidating programs to improve delivery and efficiency. The results would help inform comprehensive reforms.
Comprehensive Reforms	
Consolidate Programs and Reduce Redundancy	Congress should legislatively combine safety-net programs and coordinate administrative functions in several key areas. This would improve efficiency, eliminate overlapping services, and yield long-term taxpayer savings. We recommend that Congress establish select committees to oversee this approach and use “superwaiver” demonstration projects to inform this effort.
Standardize Eligibility Rules and Benefit Phaseouts Across Programs	Congress should standardize eligibility rules across programs. This would involve aligning benefit levels and taper rates and creating program exit thresholds across programs so that families experience a consistent, predictable phaseout of government assistance.
Streamline Delivery Systems Across Programs	Congress should also streamline administrative systems by giving all states the ability to adopt the “One Door” approach that Utah uses under specialized authority from the federal government. A One Door approach creates a more efficient and effective system by allowing participants to seamlessly access benefits and connect to employment and job training. It helps address benefit cliffs by better coordinating benefits and informing participants of program rules and regulations.

Source: Authors.

1

What Are Benefit Cliffs, and How Do They Affect Employment?

The notion of work as the path to a flourishing life is deeply rooted in America's core aspirational principles of freedom and opportunity, which have laid the foundation for the American Dream. However, growing numbers of Americans regard that vision as out of reach.

In a 2017 Pew Research Center survey, 82 percent of respondents said they either had already achieved the American Dream (36 percent) or were on their way to achieving it (46 percent). Only 17 percent said it was out of reach.[2] Just seven years later, a 2024 Pew Research Center survey found only a slim majority of Americans (53 percent) believe that the American Dream is still possible. Poor Americans are among the most pessimistic, with only 39 percent saying the American Dream is still possible.[3] Other surveys have captured similar trends.[4]

That pessimism—and the belief that work does not always lead to opportunity—mirrors the realities of low-income Americans.

Consider Marcella Patiño, who shared her experience in a Sutherland Institute podcast in 2024.[5] She is a single mother of three, striving to work and earn enough to no longer rely on government assistance programs. Though she wanted to progress in her career, at various points she confronted a daunting reality: America's safety net is structured in a way that makes progress difficult to achieve. That flawed structure is why she turned down work opportunities and raises. She feared that a small increase in earnings would trigger a sudden and disproportionately large reduction in government benefits, making her and her family worse off.[6]

Patiño is one of many striving for upward mobility through work who find that goal out of reach because government assistance, though necessary in the short term, includes structural

flaws that hold her back. Essentially, our well-intentioned safety net for low-income Americans inadvertently discourages people like Patiño from working more or accepting higher pay, unfairly harming them through promises of income support.

What Are Benefit Cliffs?

The US safety net provides government benefits to low-income households through programs that help families afford food, shelter, utilities, health care, and other basic necessities. In recent decades, the size and scope of safety-net programs have grown, with federal expenditures on major means-tested safety-net programs nearly doubling in constant dollars since 1995.[7] Benefits are targeted to low-income households, typically phasing out as earnings rise. However, safety-net program rules can disincentivize employment and make participants feel stuck in poverty, unable to escape government dependency and discouraged from working more.

One of the major impediments to low-income families getting ahead involves an abrupt or complete loss in government benefits once their income crosses a certain eligibility threshold. This presents a contradiction: To escape poverty, individuals must increase employment and earnings, yet they can face a drop in total income when they work more hours or accept higher pay because they lose benefits. Even though many safety-net programs add income to earnings for those at very low income levels, misaligned program rules that dictate how benefits phase out can discourage work at slightly higher income levels.

Various terms are often used to describe the sharp reduction in government benefits that can occur when an individual increases earnings. A *benefit cliff* reflects the situation in which increased earnings—such as from a raise, a promotion, more hours, or a new job—trigger an abrupt reduction or complete loss of government benefits that outweighs the additional earnings, leaving the household financially no better-off or even worse off. An *earnings*

loss rate or *effective* (*or implicit*) *marginal tax rate* reflects the share of additional earnings lost through benefit reductions. When this rate is 100 percent or more, the increased earnings are completely offset by benefit losses. However, even when this rate is less than 100 percent, an individual may be discouraged from working more because his or her overall income gain is so small that the extra work or additional pay is not worth the effort. The overall effect of these dynamics is often described as a *poverty trap*.

Throughout this report, we use the term *benefit cliff* broadly to cover the range of situations in which individuals can lose all or a substantial amount of government benefits by working or earning more, thereby influencing employment decisions.

How Do Benefit Cliffs Affect Employment?

Employment is one of the most effective ways to reduce poverty and help families move up the income ladder.[8] Data show that full-time work, in particular, is strongly associated with low poverty rates. Between 2019 and 2023, only 2 percent of full-time, year-round workers in the United States were in poverty, compared with 21 percent of nonworkers.[9] Steady employment has proved to be one of the surest paths out of persistent, generational poverty for American families.[10]

Economic theory suggests that the prospect of hitting benefit cliffs affects behavior.[11] The effects can include working fewer hours or turning down pay raises, promotions, or new job opportunities because the resulting loss of benefits exceeds the financial gain from higher earnings.[12] While the precise number of benefit recipients who encounter a benefit cliff in any given year is unclear, millions of families have modest earnings clustered in the range that would expose them to benefit cliffs.[13] By discouraging individuals from working more, benefit cliffs can trap them in poverty and limit upward mobility.

A large body of research examines the labor-supply effects of means-tested benefits, including both work incentives and

disincentives.[14] Benefit cliffs may not affect every benefit recipient at all times, but they remain a substantial problem because there is the *potential* to affect everyone at some point. A May 2025 report by the Center for Social Development at Washington University in St. Louis found that nearly one in four public assistance recipients (22 percent) reported taking at least one negative action to avoid triggering a cliff effect, such as turning down a raise or promotion, working fewer hours, or declining a job offer.[15]

Further evidence is provided by a Sutherland Institute survey of Utah adults who were current or recent participants in government safety-net programs. An astounding 62 percent of respondents felt stuck in a low-income job and believed higher earnings would trigger a loss in benefits that would make earning more not worth it. As a result, 43 percent of respondents admitted to having deliberately limited their household income to avoid losing government benefits, including by turning down a raise or promotion or choosing not to get married.[16] These survey results show that individuals experience real frustration when they face the same or a worse financial situation after accepting more hours, a pay raise, or a new job opportunity. This frustration can influence their future decisions.[17]

The perverse reality is that the safety net for low-income Americans has made it economically rational and psychologically understandable for them to decline opportunities and choose not to better themselves. This is antithetical to the American Dream and our nation's core identity as a land of opportunity. How policymakers choose to address this challenge has far-reaching implications for the size and scope of government programs, federal expenditures, and the role of the safety net as a whole.

For the countless Americans like Patiño who strive to create a better life for their families, it is time to usher in a new welfare reform movement that creates a clear path to upward mobility. What follows is an intensive review of benefit cliffs in both individual programs and situations in which households participate in multiple programs, along with a policy roadmap for addressing the associated work disincentives.

2

How Do Safety-Net Programs Create Benefit Cliffs?

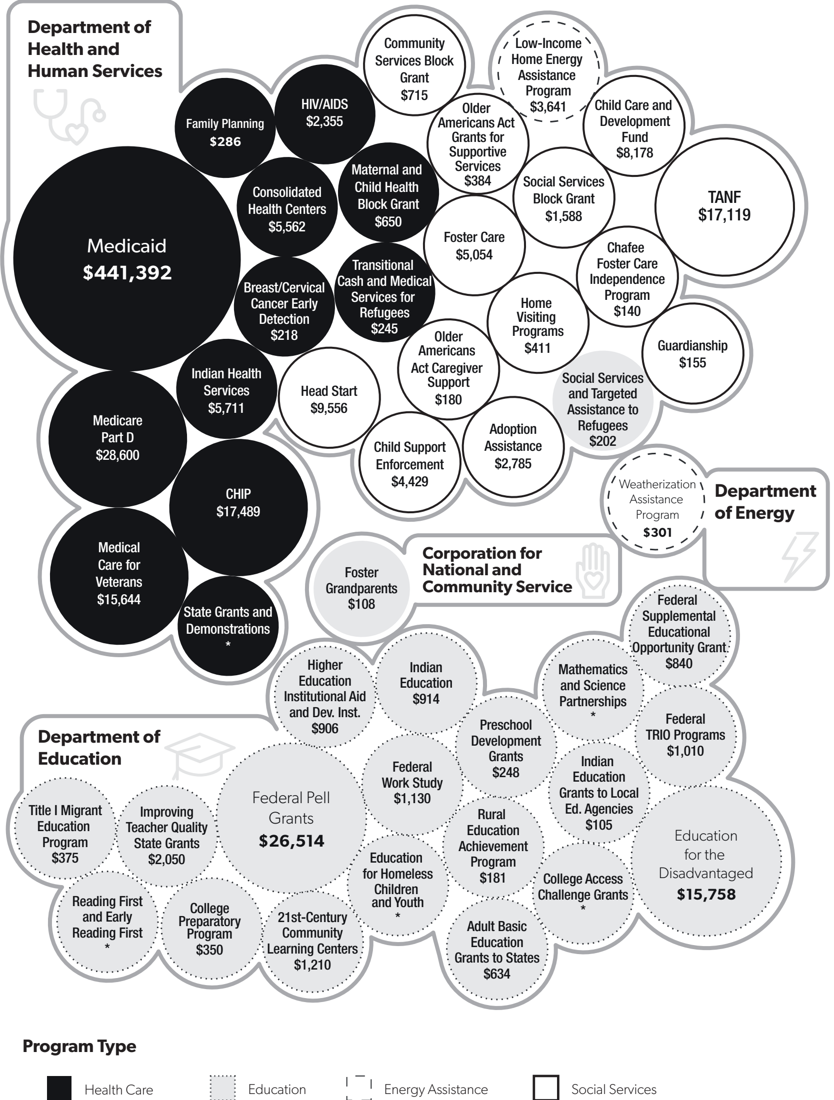
The importance of addressing benefit cliffs in safety-net programs has grown as programs have increasingly served work-capable individuals. Traditionally, safety-net programs prioritized poor households with children, individuals with permanent disabilities, and the elderly. Over time, however, program eligibility standards have expanded to draw more working-age, nondisabled parents and childless adults into safety-net programs. As a result, both the reach and cost of means-tested safety-net programs serving working households have grown substantially and continue to increase—making the challenge of benefit cliffs even more pressing.

Individual Programs

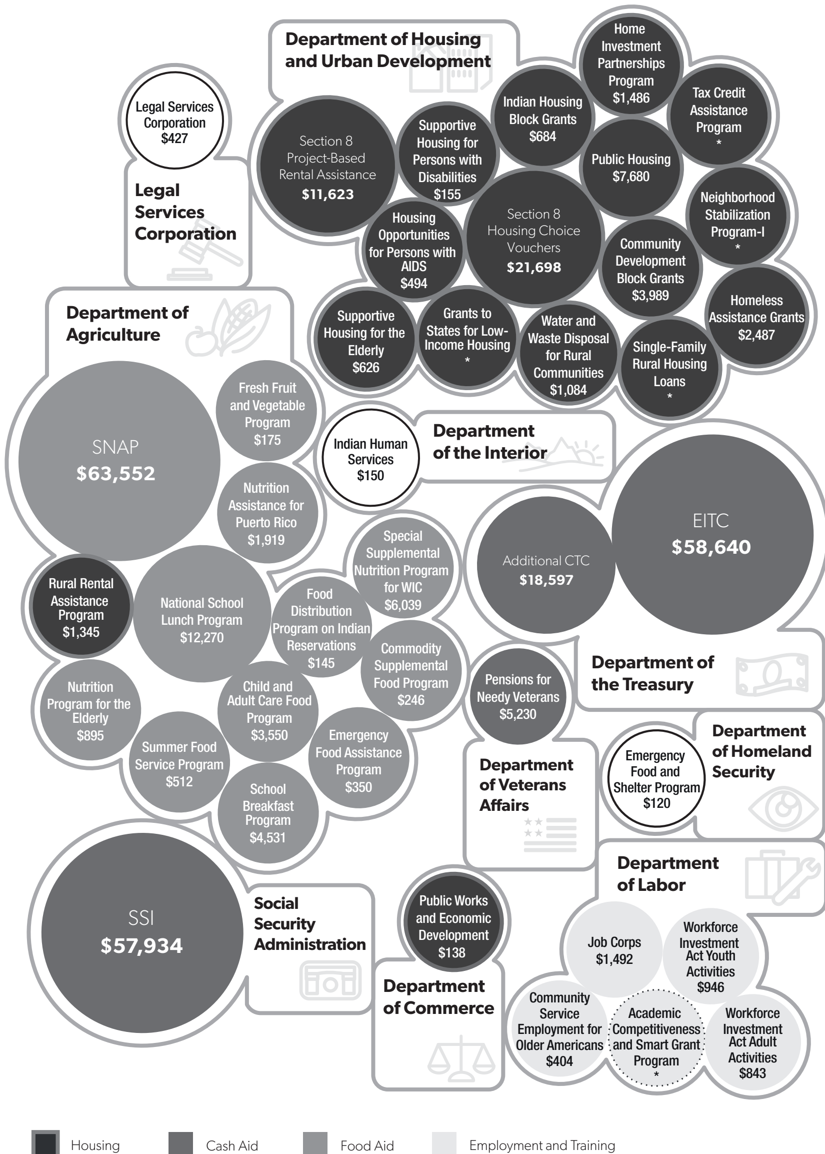
In all, the federal government operates more than 80 programs and will spend nearly $1.2 trillion—matched with at least an estimated $341 billion in state spending—on means-tested safety-net programs in fiscal year (FY) 2025, according to the Congressional Budget Office and the National Association of State Budget Officers.[18] Figure 1 illustrates this hard-to-navigate web of means-tested safety-net programs.

Each program presents a potential benefit cliff because they are all means-tested and not aligned. Means testing ensures that programs target those with the least financial resources by reducing and eventually ending benefits as household incomes rise. Ideally, program rules allow for a gradual benefit reduction as earnings rise so that households only minimally notice the loss in benefits. However, program rules for many safety-net programs fail to align.

Figure 1. Federal Means-Tested Benefit Programs and Spending in FY2018



Source: Angela Rachidi et al., "A Safety Net for the Future: Overcoming the Root Causes of Poverty," in *American Renewal: A Conservative Plan to Strengthen the Social Contract and Save the Country's Finances*, ed. Paul Ryan and Angela Rachidi (American Enterprise Institute, 2022), 134–35.



Note: The numbers indicate annual program budgets, in millions of US dollars. Programs denoted with an asterisk have annual obligations of less than $100 million, according to the Congressional Research Service.

This results in an abrupt loss of benefits as earnings rise, which creates benefit cliffs for far too many households, discourages work, and impedes upward mobility.

The largest share of federal safety-net expenditures goes to health insurance programs, including Medicaid and the Children's Health Insurance Program (CHIP). These programs accounted for over $900 billion in total costs in FY2024, of which the federal government covered 69 percent. Nearly 78 million individuals, or nearly one in four Americans, were covered.[19] The federal government also provides significant cash and in-kind assistance to help tens of millions of low-income individuals and families make ends meet in other ways.

Low-income families with children can receive cash assistance from the Temporary Assistance for Needy Families program and the refundable child tax credit (CTC), and both childless adults and families with children can also receive cash benefits through the earned income tax credit (EITC). The Supplemental Security Income program provides monthly cash assistance to low-income individuals and families that include a disabled child or adult, along with low-income seniors. To help individuals and families afford food, the Supplemental Nutrition Assistance Program (SNAP) provides food assistance to low-income households, and the National School Lunch Program offers school meals to children. Several federal programs provide housing and childcare assistance to some households with low incomes.

Appendix A summarizes key rules and their impact on benefit cliffs for eight of the largest safety-net programs by participation and expenditures. The likelihood of facing a benefit cliff varies by household composition and income level. At lower income levels, many safety-net programs—including the EITC, the CTC, and SNAP—actively incentivize work by phasing in as earnings grow (in the case of the EITC and CTC) or by disregarding certain types of income for the purposes of calculating benefit levels (in the case of SNAP). However, as household income continues to rise and benefits stop increasing or start to phase out, these incentives become disincentives because benefit losses offset additional earnings.

An Example of Benefit Cliffs in a Single Program: SNAP

By design, means-tested programs reduce benefits as earnings rise. Ideally, these reductions should phase out consistently, smoothly, and predictably, so that households are always better-off when they earn more. Currently, benefits do not phase out smoothly in SNAP, creating significant work disincentives as earnings rise.

SNAP is designed to phase out at a rate of 30 percent, meaning for every one dollar of increased income above a threshold, the household loses $0.30 in SNAP benefits until the household's income reaches the gross limit, at which point benefits end. However, various deductions for earnings, childcare expenses, and shelter costs mean that the overall phaseout is often less than 30 percent (which incentivizes work) and that the phaseout starts at a higher gross income when families have substantial deductions (which can lead to a benefit cliff). That keeps the SNAP benefit level relatively high even as earnings grow.

Meanwhile, SNAP also has gross and net income eligibility limits, which set the maximum income level (or "exit point") for benefit eligibility. When those exit points and the phaseout rate do not align, some households may continue receiving a relatively high benefit as their income approaches the gross or net income limits. At that point, additional earnings can result in the abrupt loss of a substantial SNAP benefit—creating a significant benefit cliff. In other words, although SNAP tapers slowly for households at lower earnings levels, as households approach SNAP's income eligibility limit, they face a large and sudden benefit cut even with a small earnings increase.

Consider a SNAP household of four people with gross income of $3,348 per month ($40,176 annually), or 125 percent of the federal poverty level in 2025. Based on various deductions to their gross income, the household might receive a SNAP benefit of $500 per month. But if the household earns $500 more per month from working (for a new total gross income of $3,848), they stand to lose all of their $500 in monthly SNAP benefits because

$3,848 puts them over the program's income eligibility limit, leaving them no better-off financially despite earning more.

Even in states that use broad-based categorical eligibility to increase the income eligibility limit, households can still face a benefit cliff when the benefit amount remains relatively high at the program exit point. This serves as a strong disincentive to increase work and earnings. While an individual may want to earn more, they may understandably decide not to, to avoid losing the security of continued SNAP eligibility.

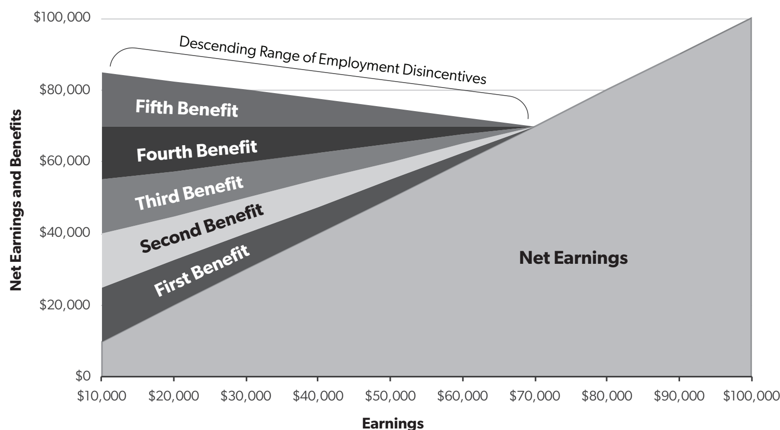
Benefit Cliffs When Households Receive Multiple Benefits

The existing safety net's complexity compounds the problem of benefit cliffs when households collect multiple means-tested benefits, which each feature their own benefit phaseouts as income rises. This is no hypothetical concern, as many US households receive benefits from multiple programs.

Participating in multiple programs worsens the benefit cliff problem because households stand to lose multiple benefits at or around the same earnings level due to what is called a "stacking" effect. While most households do not receive every available benefit, many low-income households receive a core package of benefits. According to an analysis by the US Department of Health and Human Services (HHS), by far the most common program combinations among low-income households with children involve SNAP, the EITC, the CTC, and Medicaid.[20] When households receive these programs together, they face steeper effective marginal tax rates as the phaseout rates from each individual program stack on top of each other. This challenge is particularly pronounced when programs rapidly phase out benefits over similar income ranges, significantly reducing or erasing the overall income gains from increased employment or wages.

Figure 2 provides a simplified illustration of these "stacking" dynamics, using the example of a single mother with two children

Figure 2. An Example of the Stacking Effect of Hypothetical Safety-Net Benefits



Source: Erik Randolph, Georgia Center for Opportunity.
Note: This figure reflects the receipt of hypothetical benefits for the purposes of illustrating the "stacking" effect.

receiving up to five hypothetical benefits. As shown in the figure, if the mother received only one benefit (depicted by the "First Benefit" shaded area), the family's net income (i.e., earnings plus benefits) would still increase significantly as her earnings grew. However, the slope of the net income line flattens as more benefits stack on top of each other. This happens because the family's benefit package constitutes a larger share of overall net income at low earnings levels when they receive multiple benefits, and as the benefits start to phase out, the family loses a larger share of net income relative to the gain in earnings. In other words, a larger benefit package and a flatter slope translate into an increasingly larger share of net income "taxed" away due to benefit reductions.

While this family's overall net income increases as earnings grow even when participating in up to four benefit programs, a higher overall ratio of benefits to earnings creates larger effective

marginal tax rates and growing work disincentives when all benefits start to phase out. When this family collects all five hypothetical benefits, an earnings increase means they are actually financially worse off until they earn more than $70,000 per year.

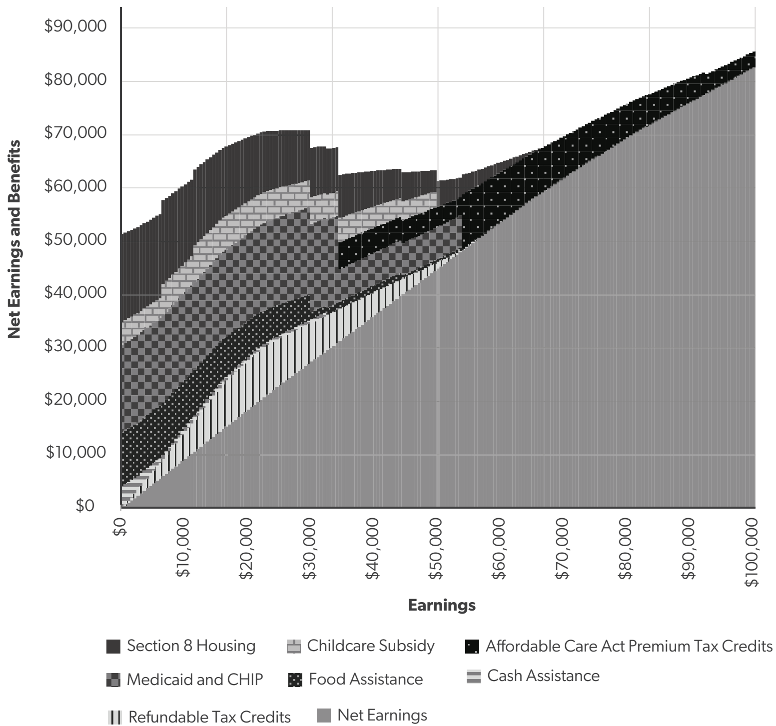
Others have also documented the potential problem of benefit cliffs when families receive multiple benefits. Research from the Atlanta Federal Reserve Bank found "a hypothetical single adult, one child (aged three) family living in DC would receive no financial gain from a wage increase between $11,000 and $65,000 of earned income."[21] In Illinois, a 2022 study from the University of Chicago and Atlanta Fed showed that a mere $1,000 annual wage increase, from $54,000 to $55,000, would result in a family losing over $25,000 in childcare benefits.[22]

Figure 3 simulates actual safety-net benefits a single mother with two children in North Carolina would receive based on different earnings scenarios. Notably, the mother in this example generally experiences a work *incentive* at earnings levels below $30,000 per year—that is, her net income grows even more than her earnings alone due to the way benefits phase in. This is primarily because the EITC and CTC—and to some extent SNAP—grow with additional earnings up to a certain point. However, this work incentive shifts to a disincentive as this mother reaches earnings levels at which benefits start to phase out.

In any particular program (with some notable exceptions), the benefit amounts generally phase out slowly as earnings increase. Families that receive only one benefit—for example, refundable tax credits—experience a slow tapering of benefits. In this example, the family's net income would still increase as the mother's earnings grow. However, when adding SNAP, this family would face an abrupt benefit drop as the mother's earnings exceed $30,000 per year, primarily due to the combined program phaseout.

The stacking problem is made worse when the family also receives childcare and housing subsidies, demonstrating the potential for substantial benefit cliffs among households receiving multiple benefits. The top line of Figure 3 reflects net income (i.e., total benefits plus earnings less taxes) and shows that the

Figure 3. Safety-Net Benefits Based on North Carolina Policies: A Single Mother with Two Children



Source: Erik Randolph, "The NC Benefits Cliffs Problem—and It's Worse Than You Think" (working paper, Georgia Center for Opportunity, October 4, 2023), https://foropportunity.org/wp-content/uploads/2023/10/SNAP-Cliffs-Solution-v1.9.pdf.
Note: The calculations use 2023 data for a single mother in North Carolina with an eight-year-old girl and a two-year-old boy. They assume that no one in the family has a disability. The calculations assume low excess resources that qualify the family for benefits and a complete benefits package, including Section 8 housing vouchers. The calculations use precise eligibility rules to calculate benefits and do not assume any unusual circumstances. Hidden cliffs are when outside factors create a cliff but are not shown in the modeling.

combined effect of phasing out all of these benefits over a similar earnings distribution results in an abrupt drop in net income as the family starts to earn more than $30,000 per year. In fact, in North Carolina, a mother receiving this package of benefits would

have to earn $70,000 per year from work to reach a higher net income than if she earned $30,000 per year from work and kept her full benefits. This is a substantial work disincentive.

Families participating in multiple benefit programs—and therefore exposed to the most severe benefit cliffs—are common. HHS reports that in 2019 approximately 30 percent of the population (or 99.1 million people) received at least one means-tested program, and almost half (49 percent) of children received at least one safety-net benefit.[23] It was far more likely for children to receive multiple benefits rather than just a single benefit and slightly more common for all people to receive multiple benefits rather than a single benefit. Among children who received any benefit, 67 percent received benefits from two or more programs.[24]

HHS also reviewed the overlap between specific programs. Among SNAP participants, 60 percent also received Medicaid, and 45 percent also received the EITC. Among EITC recipients, 36 percent also received SNAP and 49 percent Medicaid.[25]

Another analysis by HHS found that the most common program combinations involved SNAP, the EITC, the CTC, and Medicaid. They found that "approximately 3.0 million households receive SNAP + EITC + Child Tax Credits (CTC) + Medicaid/Children's Health Insurance Program (CHIP). This is the most common combination of programs, and these families experience a median marginal tax rate of 42 percent."[26]

The next chapter turns to immediate reforms that policymakers and administrators can make to address benefit cliffs when households participate in individual and multiple programs.

3

Immediate Reforms

This chapter focuses on benefit cliff reforms that are immediately actionable through administrative and legislative efforts within the structure of the existing safety net. The next chapter turns to more comprehensive reforms, which should also begin soon but will require greater time, effort, and coordination among policymakers. Both the immediate and comprehensive reforms are aimed at addressing benefit cliffs while building a safety net that is more supportive of work and two-parent families as a proven way to reduce poverty and increase upward mobility.

Addressing the problem of benefit cliffs can start with individual programs, using administrative and legislative actions. Federal agencies and states should explore existing administrative flexibilities to better align eligibility thresholds and benefit amounts while ensuring frequent benefit reassessments reduce abrupt benefit changes. Congress should use its legislative authority through reauthorization bills—such as the farm bill, which authorizes the Supplemental Nutrition Assistance Program (SNAP)—to restructure individual program rules to reduce benefit cliffs.

Because benefit cliffs are worse when participants receive benefits from multiple programs, cross-program reforms are also necessary. States should utilize existing administrative flexibilities to better align eligibility criteria and benefit reductions and streamline oversight across programs. Federal administrative agencies can encourage this by clarifying existing waiver authorities and reducing barriers to program integration, such as how states are reimbursed for operating federal programs.

Finally, where existing administrative flexibilities fall short, Congress should legislate a cross-program "superwaiver" to empower states to innovate and test approaches aimed at safety-net

consolidation and coordination. The lessons learned from these superwaiver demonstration projects would help Congress develop comprehensive reforms aimed at consolidating, coordinating, and reducing redundancy across safety-net programs.

Individual Program Reforms

State Administrative Options. States can use existing administrative flexibilities to avoid serious benefit cliffs for participating households. States should assess their specific benefit cliffs in key safety-net programs—Medicaid, SNAP, Temporary Assistance for Needy Families (TANF), housing assistance, and childcare assistance—and determine whether administrative decisions affect the severity of those cliffs. States should also include any state-funded safety-net or workforce programs in this review.

For programs that are structured as block grants (that is, under which states receive a specified amount of federal funding but have some flexibility in how to use it), such as TANF and the discretionary portion of the Child Care and Development Fund, states should review their program rules to ensure that benefits taper at a reasonable rate and phase out to zero dollars.

Importantly, however, states should not simply use their administrative authority to expand eligibility to higher-income households. Doing so carries trade-offs that can undermine efforts to address benefit cliffs, including greater exposure to work and marriage penalties and, most significantly, higher government spending. Instead, states should realign benefits in a cost-neutral way. For example, states could reduce or eliminate benefit cliffs associated with childcare assistance programs by relying more heavily on public-private partnerships, promoting in-home and relative care, and reducing childcare costs through regulatory reform.[27] When benefit rules cannot be realigned administratively, states should pass legislation to ensure that benefits in these block grant programs phase out smoothly before the household reaches the income eligibility exit point.

States also should make sure that beneficiaries can clearly anticipate how benefits will phase out as their income rises. This may require more frequent income verifications to ensure benefits regularly adjust with earnings—for instance, quarterly or monthly rather than annually. This would ensure that benefit levels are adjusted for changes in income in nearly real time.

For safety-net programs that are entitlements (that is, when every eligible household that applies receives a benefit), such as SNAP and Medicaid, states may not have flexibility to realign benefits, but they have options in how they administer these programs, including federal waivers they can pursue. States should begin with SNAP and apply for waivers to implement benefit changes. Specifically, we recommend the following actions.

- Consistent benefit reductions require consistent income assessments. States should end SNAP administrative options like "simplified reporting," which 31 states have adopted.[28] Simplified reporting does not require recipients to report income changes between recertification periods unless it would put them above eligibility limits.[29] This can contribute to benefit cliffs by not allowing benefits to phase out more slowly in real time as income rises. States should conduct frequent data matches to verify earnings and adjust benefits accordingly.

- States should review their broad-based categorical eligibility policies and ensure that SNAP's income eligibility limits remain consistent with federal law and align with benefit levels and tapering rates.

- States should submit a 2026 waiver to the Food and Nutrition Service (FNS) to modify benefits for up to 15 percent of their SNAP caseload. States could focus on modifying benefits for participants who are employed, non-elderly, and nondisabled and test different approaches to realign benefits to avoid cliffs. For example, states could reduce income deductions so the benefit reduction initiates at a lower gross income

point. States could also reset the benefit phaseout rate to ensure a consistent and predictable reduction (for example, 22–24 percent), ensuring that benefits decline to near zero before the gross and net income limits.

States can also implement changes to their Medicaid program to offset a household's loss of public health care coverage when it reaches the income limit. Because Medicaid does not typically require a contribution from the participant, it is substantially more difficult to phase down the benefit as income rises. Nonetheless, below are considerations for immediate reforms that states could enact.

- States should institute a modest and income-scalable cost-sharing requirement, enabled by the One Big Beautiful Bill Act (OBBBA). For example, adults in Medicaid expansion states with incomes above 100 percent of the federal poverty level (FPL) could be required to pay up to $35 per claim, capped at 5 percent of income.

- States could submit requests for Section 1115 waivers to create nominal and scalable monthly premiums, similar to Georgia's Section 1115 waiver, which the Centers for Medicare & Medicaid Services (CMS) has approved.[30]

- States could submit Section 1115 waivers allowing households to save for future health coverage expenses, like deductibles. In 2020, Indiana received approval from CMS to implement the Healthy Indiana Plan, which includes a Workforce Bridge Account. Under this feature, individuals can use up to $1,000 from their existing POWER account (a health savings account) when transitioning off Medicaid to private coverage to help cover their initial expenses.[31]

- States could adopt a comprehensive and permanent solution requesting a Section 1332 waiver of the Affordable Care Act

and a Section 1115 waiver under the Social Security Act. For example, a state could adopt a consumer-driven, market-based risk equalization system that solves the problems of preexisting conditions, universal coverage, and other vexing issues associated with health insurance markets while preserving quality of care and innovation and allowing citizens to access the most advanced treatments.[32]

Legislative Options: SNAP. Congress should also legislate changes in individual programs to ensure that benefits phase out consistently before households reach income eligibility limits. Congress should use reauthorization legislation to accomplish this. For example, Congress could reform benefit rules in the SNAP program in the upcoming farm bill reauthorization.[33] Congress should assess other safety-net programs for benefit cliffs as part of its legislative reauthorization process and apply the same principles.

Today's SNAP benefits were originally intended to be phased out at a gradual rate of 30 percent for every additional dollar earned and to be completely zeroed out once the household reaches the income limit of 130 percent of the FPL. However, many households do not fully phase out of SNAP benefits by the time they reach the income limit. One of the main reasons is that SNAP benefits and gross income deductions have increased substantially. For example, the Biden administration unilaterally increased SNAP benefits by more than 21 percent in 2021. The higher benefit level means that benefits do not fully phase out by the time the participants reach the gross or net income limit, creating a benefit cliff.

Additionally, over the years, Congress has created new deductions from gross income, which means a lower net income for the purposes of determining benefits. This means benefit levels remain at higher levels longer and do not phase out to zero by the time the household reaches the income eligibility limit.

Congress can fix these flaws contributing to abrupt SNAP benefit cliffs through the following changes:

- Align the maximum benefit level, the tapering point, the tapering rate, and the income exit point.

- Eliminate all income deductions or create a lower cap on deductions so that the benefit reduction initiates at a lower gross income amount.

- Eliminate simplified reporting, require states to check payroll data in a timely manner, and change reporting for independent employees.

- Reset the benefit phaseout rate to ensure a consistent and predictable reduction (for example, 22–24 percent), ensuring that benefits decline to near zero before the gross and net income limits. Importantly, the phaseout rate of any individual program still needs to be coordinated with other programs so that the aggregate phaseout rate remains reasonable—for example, the package of benefits phasing out at a combined rate of 30 percent for every additional dollar earned.

Cross-Program Reforms

Administrative Options. Under current law, federal administrative agencies can empower states to innovate across programs to make them more effective. Federal administrative agencies can use guidance letters and policy memorandums to inform states of their ability to conduct demonstration projects that address benefit cliffs while also offering guidance on developing innovative solutions for delivering safety-net benefits. Specifically, we recommend the following actions.

Provide Guidance on Cross-Program Flexibility. Federal agencies should issue guidance letters and policy memorandums to state program directors, including potentially coordinated guidance from CMS, FNS, the Administration for Children and Families,

and the Employment and Training Administration, modeled on the 2018 CMS Community Engagement State Medicaid Director Letter.[34] These letters would invite states to submit waiver requests and clarify states' ability under existing waiver rules to modify and taper benefit levels and address other marriage and work penalties. In this process, federal agencies should also identify commonsense conditions for waivers, such as prohibitions against adding recipients, increasing benefits, or imposing work requirements on the elderly, the disabled, or households with young children.

Implement Consistent Eligibility Verifications Across Programs. Coordinating consistent and frequent eligibility verifications across programs is important too. Particularly in light of the OBBBA's new eligibility requirements for Medicaid and SNAP, federal administrative agencies should use consistent requirements for verifying eligibility across programs, specifically in terms of what data they must compare, how frequently to verify income, and their ability to automate data matches whenever possible. These efforts would improve program integrity and reduce future benefit cliffs by adjusting benefit levels nearly in real time, saving time and resources for state employees and beneficiaries. This guidance should come in the form of administrative memorandums or new regulations, as appropriate.

Coordinate Cost-Allocation Models Across Programs. Federal agencies, particularly the Office of Management and Budget, should streamline state program integration by issuing guidance on cost allocation. Cost allocation is the process of identifying, aggregating, and assigning expenses by program to the respective federal agency that reimburses benefit and administrative costs. Existing cost-allocation models are a substantial barrier for states interested in consolidating safety-net programs, coordinating benefit rules, and addressing benefit cliffs.

Without a cost-allocation model that allows for cross-program coordination, states must submit separate reimbursement data for each safety-net program to different federal agencies,

Cost-Allocation Example

Utah has a unique federally approved cost-allocation plan. Utah's finance team uses a Random Moment Time Study (RMTS), including a statistically valid sampling method of random moments in time with random employees that accurately reflects the agency's workload. An RMTS assesses how long Utah's caseworkers spend with each federal program. Under an arrangement with the federal government to simplify reporting requirements, the data are submitted to just one federal agency: the US Department of Health and Human Services. All federal agencies affected by the cost-allocation plan also review and approve it.

generally requiring separate workers and processes for every program. Under current rules, state agencies receive different federal matches for administering each federal program—for instance, up to 90 percent for Medicaid program components, 50 percent for SNAP administration (soon to move to 25 percent under the OBBBA), and separate funding matches for workforce programs. Guidance on a cross-program cost-allocation model would ensure that states can integrate their systems to reduce redundancy and coordinate programs to avoid benefit cliffs.

Legislative Option: Allowing Cross-Program Demonstration Projects. Congress should pass legislation allowing states to apply for a superwaiver, which would waive rules across programs and allow states to develop cross-program solutions to benefit cliffs. Through this superwaiver, states could develop innovative multi-program demonstration projects allowing for consistent eligibility standards, benefit amounts, benefit phaseouts, and income limits. For example, a state could propose to combine SNAP, Supplemental Security Income (SSI), housing assistance, and childcare

assistance. State waivers and demonstration projects served as the catalyst for welfare reform in 1996, and a superwaiver process would foster the same innovation and accountability today.

Like the pre-1996 welfare-to-work demonstration projects, states would have to evaluate their efforts and report their results to Congress. Furthermore, Congress should create guardrails around such demonstrations to protect program participants and taxpayers, including

- Setting the number and type of states that can apply for a demonstration project;
- Naming the programs that can be included in the demonstration project, such as Medicaid, SNAP, TANF, childcare, housing vouchers, and the Workforce Innovation and Opportunity Act (WIOA);
- Providing clear guidance for how the EITC, the CTC, and SSI would interact with individuals in states with a demonstration project;
- Detailing how states must continue to serve vulnerable populations, particularly the disabled, the elderly, and children;
- Ensuring that eligibility standards, benefit amounts, benefit phaseouts, and income limits do not exceed current program standards;
- Prohibiting the waiver of current work requirements;
- Requiring budget neutrality, if not savings, compared to pre-waiver years;
- Setting clear outcome measurements, beginning with WIOA exit measurements; and

An Example of a State Safety-Net Demonstration Project

A state could choose to combine SSI, SNAP, TANF, Section 8 housing benefits, child support, childcare assistance, and education and training dollars to develop a program that provides cash assistance and support services to families with children in poverty. Rather than requiring families to apply for these programs separately, the demonstration project would establish income criteria, assess eligibility, and develop a family assistance budget and service plan. It would provide assistance so that the family could meet its food, housing, and other expenses while developing a plan that sets clear goals for employment and self-sufficiency.

The state could impose work requirements on recipients as a condition of receiving assistance and set a time limit for cash support. The state could also set benefit levels to decline as earnings increase with federal refundable tax credits in mind. In this way, the state could avoid imposing prohibitively high effective marginal tax rates as adults work and earn more. The state could also implement transitional benefits to address marriage penalties, possibly disregarding the second adult's income in determining the household's benefit eligibility during the early years of marriage.

- Establishing the timeline for the demonstration project, beginning with a five-year time frame.

Through the above individual program changes and cross-program reforms, administrators and legislators could implement immediate reforms to reduce benefit cliffs within the current safety net. The next chapter outlines more comprehensive reforms aimed at eliminating benefit cliffs and building a more permanently efficient and effective safety net.

4

Comprehensive Reforms

The best long-term approach to reducing benefit cliffs is to comprehensively reform the safety net to improve its overall efficiency and effectiveness. These reforms focus on establishing a system that reduces work disincentives associated with benefit cliffs and helps reinvigorate the American Dream of achieving financial success without government assistance.

Congress is the only institution that can comprehensively transform existing safety-net programs into a more rational system that fixes a multitude of problems, including benefit cliffs. Congress has the power to not only amend and repeal federal law but also overturn misguided administrative decisions and reset critical parameters necessary for the proper alignment of eligibility rules.

Congress must act comprehensively and intentionally. The issue is not only that individual safety-net programs are overly complex but also that the system of governance itself is excessively fragmented. Oversight of individual programs is divided among multiple congressional committees, resulting in a web of federal and state agencies making administrative decisions that collectively shape how the broader safety net operates.

As part of a comprehensive and deliberate approach, Congress must keep several key principles in mind. A common proposal to address benefit cliffs involves expanding program eligibility to higher income levels so that benefits phase out more gradually. However, such expansions come with significant trade-offs—most notably, substantial costs to taxpayers. Any effort to address benefit cliffs must weigh these trade-offs carefully. To that end, we propose three core principles to guide comprehensive safety-net reforms:

1. The safety net should prioritize policies that support work and marriage as a proven way to escape poverty and achieve upward mobility.

2. Assistance for those capable of work should be temporary and targeted, while offering sustained support for those permanently unable to provide for themselves due to disability or age.

3. Federal and state funding for the safety net must be grounded in fiscal responsibility, reflecting the government's duty to be a good steward of public resources.

With these principles in mind, Congress should reform the safety net to better coordinate program rules and requirements to address benefit cliffs and the resulting work disincentives. At its core, the benefit cliff problem stems from a misalignment among benefit levels, the income threshold at which phaseouts begin, the tapering rate, and the program exit point. Addressing these issues at the individual program level is necessary but insufficient. Lasting reform requires coordinating program administration and aligning benefit and eligibility rules across programs so participants experience a consistent and predictable path toward self-sufficiency.

To address benefit cliffs across programs while adhering to these principles, we have three recommendations for comprehensive reforms:

1. Consolidate programs and reduce redundancy.

2. Standardize eligibility rules and benefit phaseouts across programs.

3. Streamline the administrative delivery systems across programs.

Consolidate Programs

As already mentioned, the US operates more than 80 federally funded means-tested programs across assistance categories, such as food, shelter, utilities, and health insurance. Few believe such a system is optimal, and a practical and reasonable approach is for Congress to consolidate multiple programs into a single program for each category of assistance. For example, Congress should consolidate the existing 15 food assistance programs into a single program, making the system easier for households to navigate, simpler for states to administer, and less costly for taxpayers. Congress should outline program objectives and authorize federal funding but leave administrative responsibility to the states.

While consolidating numerous programs into a single system presents a complex challenge for policymakers, it also offers a valuable opportunity to design a more coherent and effective safety net. Importantly, such reform is possible within the existing congressional committee structure.

Using food assistance as an example, the House and Senate agriculture committees could task the Government Accountability Office (GAO) or the Congressional Research Service (CRS) with identifying every current federal food assistance program, including its authorizing legislation, funding source, and administrative agency. These reports could serve as the focus of joint committee hearings and markups with other relevant authorizing committees that inform legislation to consolidate programs into a single program. The committees could decide the structure of the new program, combining the Supplemental Nutrition Assistance Program (SNAP); the Special Supplemental Nutrition Program for Women, Infants, and Children; the various school meal programs like the National School Lunch Program and the School Breakfast Program; and the remaining food assistance programs. The legislative goals would be to align eligibility rules, ensure benefits taper gradually to zero, establish nutrition standards, and set state administrative and funding obligations.

Congress should use a similar process for other assistance categories such as cash assistance—for example, combining Temporary Assistance for Needy Families (TANF), the earned income tax credit (EITC), the child tax credit (CTC), and SSI—medical assistance, and other supports (e.g., childcare assistance, shelter assistance, and workforce training).

Coordinate and Standardize Program Rules

Once Congress reconfigured programs into several broad areas, coordinating and standardizing program rules and requirements would be easier. This would involve defining assistance units consistently across programs and specifying who within a household qualifies for benefits and at what benefit level. Doing so would create a more consistent experience for program participants and simplify program administration.

To start, the House and the Senate should create select committees with representatives from committees that previously oversaw individual safety-net programs. Their task would be to develop a report on their findings and draft legislation standardizing program rules and requirements in the new configuration. A crucial piece of this work would be examining benefit levels, benefit reduction rates, and exit points across all programs to ensure they are coordinated. The legislative process provides an excellent mechanism to glean the information needed to solve these vexing problems.

The select committees could charge the GAO or the CRS with comparing programs' rules and making recommendations for standardization and better coordination within the reconfigured structure. These recommendations could include the following:

- Standardize the definition of a child. Currently, the EITC defines a child as under age 19 or under age 24 if a full-time student, but the CTC defines a child as under age 17.

- Standardize how unmarried resident partners are treated. Currently, SNAP, the EITC, and TANF, among other programs, treat the income of unmarried resident partners differently.

- Standardize program redetermination rules, including what documentation is required, how frequently redeterminations occur, and the verification methods.

- Standardize targets for improper payment rates. Currently, for example, different expectations exist for improper payments in SNAP and the EITC.

As part of their analysis, the select committees could take testimony from agencies and experts on how to establish program rules that eliminate benefit cliffs and reduce high earnings loss rates. The select committees should also set objectives for other reforms, such as reducing marriage penalties and decreasing disincentives for people to enter or remain in the workforce.

Streamline Administrative Delivery Systems Across Programs

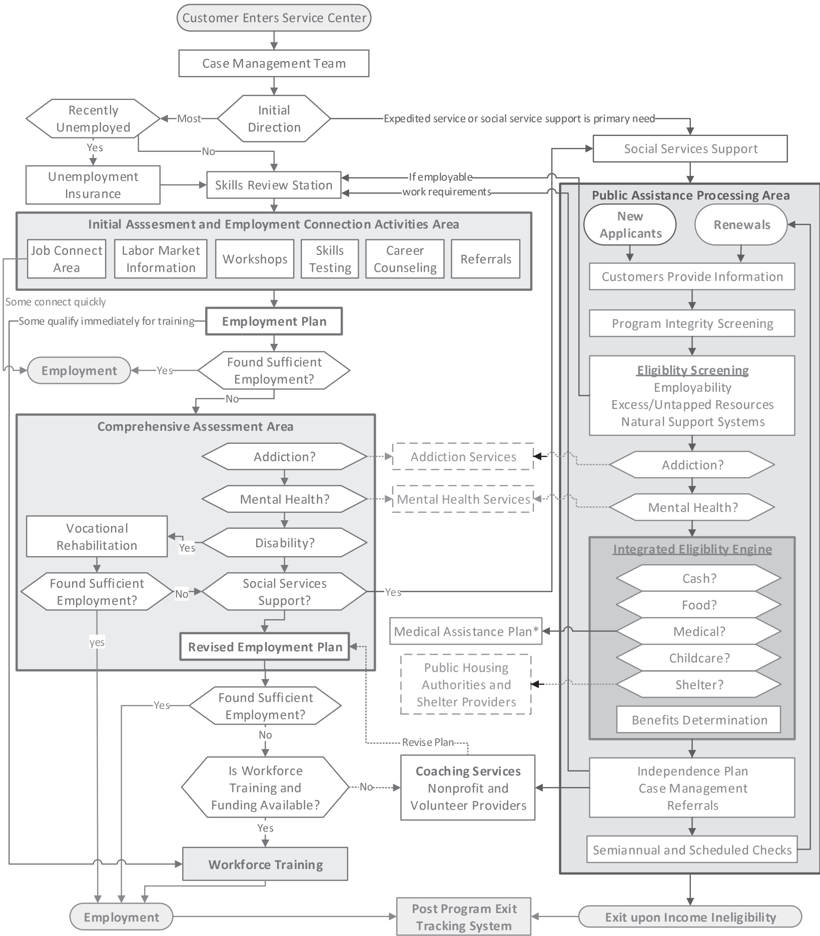
The third element of comprehensive reform is streamlining the administrative delivery system while making employment a central focus. An important part of addressing benefit cliffs involves participants being fully informed and aware of program rules, benefit amounts, and what happens when they start working and increasing earnings. A "One Door" administrative structure—that is, a process by which a family can access all forms of government help from one place rather than via multiple interactions—can not only help families navigate benefit cliffs but also offer a more effective system for helping low-income families generally. It also emphasizes work and can help in referring individuals to employment and job-training opportunities.[35]

A One Door administrative structure, which Utah began implementing in the 1990s, allows recipients to access benefits, social services, and workforce training seamlessly because administrative agencies coordinate eligibility for multiple programs rather than expecting families to navigate each individual program.[36] For example, instead of a household needing to apply for SNAP, Medicaid, and childcare assistance separately, in Utah they see one caseworker and go through one process to assess their eligibility for all potential programs (Figure 4).

As part of a comprehensive reform, the federal government should require states to adopt a One Door approach and help them achieve this goal by eliminating existing barriers to its adoption and investing in the information technology necessary to support the system. A reformed administrative delivery system would also allow for a simplified reporting and accountability system, which is currently overwhelming for states since many programs and federal agencies have different requirements.

Under the reformed safety net that we envision, including a One Door administrative delivery system, low-income families would experience a streamlined benefit system that aims to better address income insecurity by reducing employment barriers, supporting two-parent families, and moving families toward self-sufficiency.

Figure 4. One Door Customer Service Flowchart



Source: Ray Packer, Georgia Center for Opportunity.

5

Conclusion

There is broad agreement that independence through work and stability through strong families are essential to economic and social success. The US safety net has the potential to serve as a launchpad to opportunity when it reinforces and rewards these goals. Yet in its current form, many programs instead penalize employment and marriage, making upward mobility more challenging. For too many, the message is that the safety net punishes working more and at higher pay, so individuals—acting rationally—constrain their income to avoid such penalties, thus inadvertently limiting their progress toward economic independence. Adding to these challenges, the current safety net is duplicative, costly, and difficult to navigate.

The imperative for reforming America's safety net is clear: Parts of the system make it rational for participants to reject opportunity. Although many safety-net benefit rules are well-intentioned and aim to target assistance to those most in need, too often these same features create work disincentives such as benefit cliffs. Benefit cliffs trap low-income families in poverty by reducing the incentive to work and increase earnings. Given the overwhelming evidence that work is the clearest path out of poverty, these structural barriers reduce independence and are antithetical to the American Dream.

As we note, not all participants in safety-net programs face benefit cliffs at all times. However, the *potential* for a benefit cliff exists for every participant seeking to work more and escape government dependence, which sends a powerful and perniciously anti-work message. Beneficiaries of a properly functioning safety net should not experience system-related roadblocks on their pathway to prosperity. The recommendations in this report offer

elected officials, administrators, and national policy leaders who want to help families achieve upward mobility a starting point for commonsense safety-net reforms.

Simply put, rules should align across programs, benefits should taper consistently and predictably, and participants should not be penalized for working more. Safety-net reforms should be coordinated across all levels of government—federal, state, and local—to ensure effectiveness. And states should be empowered to test innovative solutions to identify and replicate the best policies. Congress and federal agencies should pursue reforms like administrative flexibility and state-based innovation in the short term and program consolidation and a One Door approach in the long term.

Comprehensive federal reform is the best way to remove structural flaws trapping low-income families in poverty. While policymakers are pursuing that goal, incremental reforms at the federal or state level can build support and momentum for larger reforms.

For too many Americans relying on safety-net programs, increased earnings—the surest path out of poverty—are penalized, making the American Dream feel out of reach. To help families pursue the American Dream, we must reestablish our nation as *the* preeminent opportunity society through the reforms outlined above. To accomplish that, we need a safety net that promotes upward mobility through a renewed emphasis on the dignity of work, which starts with eliminating flaws like benefit cliffs. The time is now to enact these reforms.

Appendix A. Summary of Major Federal Benefit Programs and the Potential Benefit Cliff Effect

The following is based on authors' analyses and observations from existing program documents, including benefit cliff computer modeling from the Georgia Center for Opportunity.

The Supplemental Nutrition Assistance Program

Eligibility Criteria. The Supplemental Nutrition Assistance Program (SNAP) is a federally funded but state-administered entitlement for low-income households that share meals together.[37] To qualify, applicants must meet up to three criteria. All households must have net income under or equal to 100 percent of the federal poverty level (FPL) and excess assets (excluding a vehicle and primary home) under $3,000 (or $4,500 if elderly or disabled). Net income is determined by subtracting a standard deduction and certain expense deductions from gross income, including an excess shelter expense deduction based on a complicated formula. Households without members with disabilities or without members who are 60 years of age or older must also have gross income under 130 percent of FPL.

Supplemental Security Income (SSI) and Temporary Assistance for Needy Families (TANF) recipients are categorically eligible for SNAP. Since 2009 and with Food and Nutrition Service permission, states have implemented broad-based categorical eligibility, allowing households receiving TANF token services to circumvent statutory eligibility criteria, including extending the gross income

test up to 200 percent of FPL in some states, ignoring excess asset tests, and even ignoring net income limits. Additionally, students age 18 through 49 who are studying at least half time are ineligible for benefits.

Phaseout Properties. A household with no net income (gross income minus deductions), as determined by SNAP rules, receives the maximum benefit, equal to the value of the Thrifty Food Plan for its household size. Once a household has net income (including earnings), benefits are reduced by 30 cents for each additional dollar earned. However, the earnings deduction and the complicated excess shelter expense deduction mathematically alter the effective benefit reduction rate to vary between 24 percent and 45 percent. Benefits continue to phase out until the household's income exceeds the monthly gross income limit or the net income limit.

Potential Benefit Cliff Effect. Households receiving substantial deductions for earnings, childcare, and excess shelter can maintain relatively high benefits as they approach the gross or net income limit. When they cross either income eligibility limit, they lose all benefits, which can be substantial, disrupting the gradual phaseout.

The Earned Income Tax Credit

Eligibility Criteria. The earned income tax credit (EITC) is an earnings-based refundable tax credit that can be claimed when filing a federal income tax return.[38] Eligibility and amount depend on the tax filing status and number of qualified dependent children under age 19, under age 24 and a student, or of any age if permanently disabled. Taxpayers without any qualifying children are also eligible for the EITC. A qualified child must have a familial relationship with the tax filer—including being adopted, a stepchild, or a foster child—and share residency for at least half the tax year.

The credit is calculated as a percentage of earnings until it reaches a maximum. After a second earnings threshold, the credit

phases out at a rate based on the number of qualifying children (including zero qualifying children). The phase-in thresholds and maximum credits, which are annually adjusted for inflation, increase with the number of children. The phaseout thresholds and when the credit stops are also adjusted annually for inflation, tax filing status (married families have a higher phaseout threshold), and number of children. Tax filers with no qualifying children must be at least 25 years of age but under 65 years of age.

Phaseout Properties. The credit phases out at a rate of 7.65 percent for zero children, 15.98 percent for one child, and 21.06 percent for two or more children. See Table A1 for the earnings thresholds at which the phaseout begins in tax year 2025.

Potential Benefit Cliff Effect. During the phaseout range, a work disincentive exists, but the rates are relatively low, which minimizes the effective marginal tax rate. The EITC allows benefits to phase out until the credit is $0. However, the income ranges for the EITC phaseout overlap with other programs, such as SNAP, which adds to the effective marginal tax rates of those programs, creating a stronger work disincentive.

Temporary Assistance for Needy Families

Eligibility Criteria. The TANF block grant program replaced the Aid to Families with Dependent Children (AFDC) program in 1996, and its rules vary by state.[39] To qualify for the TANF cash benefit, families with children must be defined as needy by states, which rely on countable income standards and excess asset tests. In 2023, the average initial eligibility income limit for a family of three was $1,056 per month, and the median was $939. These limits ranged from $307 in Alabama to $2,935 in Minnesota.

States differ in how they count income and what income disregards they allow. Most states change ongoing income eligibility thresholds sometime after the initial application month. States

Table A1. EITC Earnings Thresholds for Tax Year 2025

	Married Filing Jointly	Other Filing Statuses
Phaseout Begins		
No Children	$17,730	$10,620
With Children	$30,470	$23,350
Income at Exit		
No Children	$26,214	$19,104
One Child	$57,554	$50,434
Two Children	$64,430	$57,310
Three Children or More	$68,675	$61,555

Source: Tax Policy Center, "EITC Parameters," April 10, 2025, https://taxpolicycenter.org/statistics/eitc-parameters.

also differ in how they impose excess asset limits, and nine states do not have them.

Phaseout Properties. TANF does not have a uniform phaseout rate, as states calculate benefits differently. Thirty-six states and DC use a simple formula that applies income disregards as either a flat amount or a percentage to determine net income. Then the benefit is calculated by subtracting the net income from the payment standard. Twelve states do it the same way but apply a condition that the benefit be the lesser of that calculation or a maximum benefit amount. Arkansas and Wisconsin apply flat amounts as long as conditions for eligibility are met, such as being below the income limit.

Potential Benefit Cliff Effect. In general, phaseout rates for TANF's cash benefits rarely result in a cliff. TANF cash benefits are small compared to benefits from other programs, however, and they generally phase out to zero or end at income thresholds well below other program thresholds. TANF programs also require work, set time limits, and otherwise help move recipients from

welfare to work. These factors tend to make TANF's contribution to benefit cliffs minimal.

The Child Tax Credit and Additional Child Tax Credit

Eligibility Criteria. The child tax credit (CTC) is provided through the federal income tax system.[40] The credit is a fixed dollar amount for each qualifying child under age 17 and phases out at very high income levels. A qualifying child must have some familial relation to the tax filer, have lived with the filer for more than half a year, and be claimed as a dependent. The credit is $2,200 per child for tax year 2025 and will be adjusted annually for inflation starting in 2026.

Filers with insufficient tax liability to claim the full tax credit can claim the refundable additional child tax credit (ACTC), which phases in at 15 percent of earnings starting at $2,500 in earnings. The maximum refundable ACTC is $1,700 per child and will be adjusted annually for inflation starting in 2026.

The CTC and ACTC work together. The refundable ACTC starts to phase out as the household increases its federal income tax liability, and the CTC replaces the refundable ACTC, which starts to offset the household's tax liability. At least one parent must have a work-eligible Social Security number to receive the CTC or ACTC.

Phaseout Properties. The CTC phaseout begins at $400,000 for married couples filing jointly and $200,000 for single filers. For income above these thresholds, the tax benefit is reduced by 5 percent (or $50 for every $1,000 of adjusted gross income), regardless of filing status.

For head-of-household filers with one qualifying child, benefits phase out completely at approximately $240,000 of income. For married couples filing jointly with one child, the phaseout occurs around $440,000. For families with two qualifying children, the phaseout thresholds increase to about $280,000 for head-of-household filers and $480,000 for married filers.

Table A2. Medicaid Income Limits, as a Percentage of the FPL

Children's Age	Low Limit	Median Limit	High Limit
0 to 1	144%	211%	380%
1 to 5	138%	175%	324%
6 to 18	138%	172%	324%

Source: Tricia Brooks et al., *Medicaid and CHIP Eligibility and Enrollment Policies as of January 2021: Findings from a 50-State Survey,* KFF, March 8, 2021, https://www.kff.org/report-section/medicaid-and-chip-eligibility-and-enrollment-policies-as-of-january-2021-findings-from-a-50-state-survey-report/.

Potential Benefit Cliff Effect. The CTC phases out gradually to zero at relatively high income levels, avoiding the sharp benefit cliffs seen in other programs.

Medicaid and the Children's Health Insurance Program

Eligibility Criteria. Medicaid is a joint state-federal program that initially provided medical assistance to persons with disabilities and needy families qualifying for cash grants through AFDC.[41] Eligibility has been expanded numerous times since its 1965 inception to include children, pregnant women, and parents and caretakers.

Most recently, and at the option of the states, eligibility was expanded to include all adults below 138 percent of FPL. In states that did not expand Medicaid, the median income limit is 199 percent of FPL for pregnant women and 40 percent for parents and caretakers.[42] Table A2 shows the Medicaid income limits for children as a percentage of FPL, including a 5 percent income disregard.

Forty states and Washington, DC, separately offer the Children's Health Insurance Program (CHIP), which covers children. The remaining 10 states have merged CHIP into their Medicaid programs. CHIP income limits have a median of 255 percent of FPL and vary from 190 percent of FPL to 405 percent of FPL.

There are no asset tests for Medicaid or CHIP, except for non-expansion populations. As a result of the One Big Beautiful Bill Act enacted in July 2025, starting in January 2027 (or, if a state is granted an extension by the secretary of health and human services, as late as January 2029) states must apply community engagement requirements for working-age able-bodied adult recipients, expecting them to engage in minimum amounts of employment, training, or community service to remain eligible.

Phaseout Properties. There are no gradual phaseouts for Medicaid. States have flexibility to operate their CHIP programs and typically charge premium co-shares at higher income levels. Depending on the states and their fee structures, CHIP may have a gradual phaseout, or it may phase out in steps based on a sliding scale.

When household income exceeds Medicaid limits, children typically transition to CHIP. When family members no longer qualify for Medicaid or CHIP or if they do not have adequate or affordable employer-based health insurance coverage available, as defined by the Affordable Care Act, they may access health insurance through government-run health insurance exchanges and apply for refundable premium support tax credits.

Potential Benefit Cliff Effect. Because family members, including children, can have different income eligibility limits depending on the public health insurance program they qualify for, families can experience a benefit cliff at different income levels for Medicaid and CHIP. Typically, transitioning off Medicaid or CHIP causes a loss in government support due to increased out-of-pocket costs. If employer-based insurance is unavailable, family members can secure subsidized health coverage through an Affordable Care Act (ACA) health insurance exchange. In that case, family members without disabilities above 100 percent of the FPL but below 200 percent of the FPL may qualify for plans with no premiums and premium support at higher income levels. However, there will be out-of-pocket costs; see Table A3 for the annual limits on out-of-pocket costs for 2025.

Table A3. Annual Limits on Out-of-Pocket Health Care Costs, 2025

Income Level (FPL)	Individual	Family
100–200%	$3,050	$6,100
201–250%	$7,350	$14,700
Above 250%	$9,200	$18,400

Source: Centers for Medicaid & Medicare Services, Center for Consumer Information & Insurance Oversight, "Premium Adjustment Percentage, Maximum Annual Limitation on Cost Sharing, Reduced Maximum Annual Limitation on Cost Sharing, and Required Contribution Percentage for the 2025 Benefit Year," November 15, 2023, https://www.cms.gov/files/document/2025-papi-parameters-guidance-2023-11-15.pdf.

Employees offered coverage through their employers pay on average 16 percent of the cost of individual premiums, or $1,368 annually, and 25 percent of family plans, or $6,296 annually. The ACA makes health coverage and its subsidies through the health insurance exchange unavailable to households with incomes below 100 percent of FPL because Medicaid was intended to cover those individuals. Even when other public health insurance options are available to families, the prospect of changing insurers and additional out-of-pocket costs can create the perception of a benefit cliff.

The Child Care and Development Block Grant and Child Care and Development Fund

Eligibility Criteria. Families with qualifying childcare expenses can be eligible for a childcare subsidy funded through the Child Care and Development Fund (CCDF), which combines funding from the federal Child Care and Development Block Grant (CCDBG) and other federal and state sources to operate the states' childcare subsidy programs.[43] Because CCDF is primarily funded through a discretionary block grant, not all eligible children are served.[44]

States establish income eligibility thresholds for childcare subsidies, with a federal income limit of 85 percent of the state median income (SMI) and asset limits of $1 million to use CCDBG funds. Many states set income limits lower than the federal limit, and for fiscal years 2022–24, thresholds ranged from 39 percent to 85 percent of SMI.

Children placed in childcare service settings must be under age 13, but some states allow for disabled children to be placed under age 19. Parents or legal custodians must work or have work-related activities, but states treat work-related activities differently.

Phaseout Properties. Federal regulations require a gradual phaseout of subsidies for eligible families; however, states have flexibility in how they structure their phaseout. Some states use family fees, others charge per child, and some charge flat fees.

Potential Benefit Cliff Effect. Because states have flexibility to design the subsidies' gradual phaseout, the prospect of a benefit cliff differs by state. Benefit cliffs in childcare programs can be severe because states often choose to keep subsidies high as income increases to cover more childcare expenses and because recertification for assistance happens only once every 12 months. (That is, benefits do not adjust based on income changes.) The result is that when a family crosses the federal income eligibility limit, they stand to lose a large childcare subsidy.

Section 8 Housing Choice Vouchers

Eligibility Criteria. Housing Choice Vouchers (HCV) is a discretionary program, not an open-ended entitlement.[45] This means funding is limited, and most income-eligible households do not receive assistance. Generally, to initially qualify for HCV assistance, a family must have an adjusted income below 80 percent of the area median income (AMI). However, most public housing

authorities target very low-income (50 percent or less of AMI) or extremely low-income (30 percent or less of AMI) families. Due to limited funding and long tenure of existing recipients, only 25 percent of income-eligible families can even initially receive assistance. Public housing authorities and a few state agencies operate HCV programs and set priority groups to receive assistance.

Phaseout Properties. HCV recipients must contribute 30 percent of their adjusted income or 10 percent of their gross income toward rent. This means that the HCV phaseout rate can vary, but generally it phases out at 30 percent for every additional dollar earned until the voucher phases out to zero dollars or the household reaches the income limit.

Potential Benefit Cliff Effect. The HCV does not have a benefit cliff by itself. However, because HCV recipients often receive other program benefits, such as SNAP, the EITC, Medicaid, and CHIP, its phaseout rates add significantly to overall effective marginal tax rates (i.e., the "stacking effect"), compounding the work-disincentive effect.

Supplemental Security Income

Eligibility Criteria. Administered by the Social Security Administration, SSI provides cash benefits to low-income disabled and elderly individuals.[46] Eligibility is determined by subtracting countable income from payment standards, which are $967 per month for individuals and $1,450 per month for couples in 2025. Countable income is determined through a formula that excludes various sources of earned and unearned income. Excess resources like cash, bank accounts, and other assets cannot exceed $2,000 for individuals and $3,000 for couples. Resources exempt from the excess resource test include the primary home, land, one vehicle, and most personal belongings.

Phaseout Properties. After the first $65 earned each month, benefits are subject to a 50 percent phaseout rate, meaning they are reduced by 50 cents for every dollar earned, up to the maximum benefit. Once income less exclusions exceeds the maximum SSI benefit, the individual is no longer eligible for SSI.

Potential Benefit Cliff Effect. SSI benefits phase out to zero because eligibility is based on income exceeding the maximum benefits, not based on the FPL. Although SSI does not have benefit cliffs by itself, its high benefit reduction rate (50 percent) adds significantly to effective marginal tax rates when stacked on top of other benefit programs, such as SNAP, causing significant work disincentives. These can be worse in states matching federal benefits. SSI benefit cliffs can also occur when surpassing asset limits results in an abrupt loss of benefits, discouraging disabled individuals from working or accepting promotions that could improve their financial independence.

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Notes

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