

## White Paper: The Social Safety Net and the Benefits Cliff

“The social safety net disincentivizes work.” We’ve all heard it - especially in a policy environment that is placing more emphasis on providing public benefits to more people, in more situations. So does this narrative hold up to scrutiny? What are the reasons why, or why not? We’ll explore that and more in this **white paper on the social safety net and the benefits cliff**.

“Social safety net” is a term that describes a range of policy measures and programs designed to stabilize and support those with low or no income, or with barriers to supporting themselves and their families. It is encompassing of everything from the Supplemental Nutrition Assistance Program (SNAP) to the Earned Income Tax Credit (EITC). Many of these programs have strict eligibility requirements regarding income and family size, and generally have low uptake among those eligible. Fully one-quarter of working families living below the poverty line receive no public benefits, and a mere seven percent participate in a suite of programs (SNAP, Medicaid, and child care subsidies), such that \$65 billion in benefits go unclaimed each year. “Benefits cliff” is a term that describes what happens when these public benefits programs phase down or out quickly. This can lead to an abrupt reduction or loss of benefits for families as their household earnings increase, but have not increased enough for self-sufficiency to be reached.<sup>1</sup>

Much has been written on the effects of benefits cliffs on low-income families’ motivation to work – a primary point of political debate about the value of public benefits programs. An emergent viewpoint is that means-tested programs (programs like we are discussing, for which eligibility is lost or benefits phased out as income increases) create a “poverty trap” – that they discourage recipients of public benefits from earning more money because they create high “marginal tax rates” (i.e., that rapid phase-outs of benefits mean that an increasing percentage of each additional dollar earned is canceled out by loss of benefits). Some think tanks have responded by noting that economic theory predicts families should respond to these high marginal tax rates in one of two ways: “On the one hand, you may choose to work less because you are getting less reward from work, which is called the substitution effect. On the other hand, you might work more in order to recoup the lost income, known as the income effect.”<sup>2</sup>

Supporters of the “poverty trap” argument contend that the substitution effect has the greater impact on the behavior of families in poverty. Most data and research, however, demonstrates that a potential loss of benefits as their earnings increase has little impact on low-income families’ decisions about whether to accept higher paying work or more hours on the job. For example, single mothers, who have benefitted from the greatest expansion of public benefits programs (particularly those supporting work such as the Earned Income Tax Credit and the Child Tax Credit) over the past two decades, have also made large gains in levels of employment since expansion began.<sup>3</sup>

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<sup>1</sup> Benefitscliff.com

<sup>2</sup> <https://www.urban.org/research/publication/addressing-benefits-cliff-and-encouraging-work-welfare-recipients>

<sup>3</sup> [https://www.seattlejobsinitiative.com/wp-content/uploads/SJI\\_BenefitsCliffs\\_Report\\_MAR2015.pdf](https://www.seattlejobsinitiative.com/wp-content/uploads/SJI_BenefitsCliffs_Report_MAR2015.pdf)

On the other hand, levels of employment have fallen the most for childless adults (men in particular) during that period – a group that qualifies for only limited benefits such as SNAP and a minimal Earned Income Tax Credit. Qualitative studies asking low income parents about how they make decisions about work find that phase-out of benefits is rarely a consideration in whether to work more hours or accept a higher-paying position, as opposed to factors like the ability to find appropriate child care.<sup>4</sup>

For policy makers and employers alike, understanding this cliff and its effects is crucial to finding success in retaining and empowering low income and frontline workers. It does not make sense to demonize the social safety net as a form of disincentive towards work. Much of the net (ie the Earned Income Tax Credit) is actually built to incentivize work – and, other factors (ie availability of childcare) may be larger impediments to individuals taking on work. Building workforce supports around our low income employees can alleviate the burden they face from these impediments, and make work more attractive and empowering.

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<sup>4</sup> <https://iiwf.incap.org/assets/docs/Public-Policy/Cliff-Effect/Cliff-Effect-Community-Conversation.pdf>