



One Step Forward, Two Steps Back:

Addressing the Benefits Cliff Barrier to Family Economic
Stability and Mobility

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Many experts point to cliff effects as the primary reason low-income families fail to achieve self-sufficiency (Urban Institute, 2022). Cliff effects occur when benefits from public work support programs (such as medical assistance, SNAP, child care assistance, etc.) decrease or end completely as household income increases. Because program eligibility and benefit amounts are based on income, as families earn more money, public work support benefits phase out or end abruptly (Indiana Institute for Working Families, 2012). Often the increased amount of income a family may receive by accepting a new job, getting a raise or increasing hours worked does not make up for the loss or decrease of benefits (Urban Institute, 2022; Indiana Institute for Working Families, 2012). The result is that families are stuck on a one-step forward, two steps back pathway that delays their progress toward economic stability and prevents them from successfully making the transition to self-sufficiency.

Opportunity and Outcome Gaps Exacerbated by Benefit Cliffs

Most low-income families that rely on public work support programs to make ends meet will experience benefits cliffs as their income increases. Although some of these cliffs are minor, the accumulated impact of the losses creates a very bumpy pathway to self-sufficiency. Families often stall out - making the difficult decision to forgo opportunities to increase earned income since they cannot afford to lose program benefits.

The issue of benefit cliffs disproportionately affects families with young children. The family highlighted in Figure 1 sees their resources drop precipitously even before they have achieved enough combined resources to cover a bare bones budget. Young families are more likely to live below the poverty line, be employed in low or lower wage work and lack sufficient assets to manage fluctuations in expenses or income. At the same time, they face significant child care costs that for Minnesota families are among

the most expensive in the nation. Because the market rate for child care, along with health care, a major portion of the expenses for young families, there is a rational reluctance to accept higher earnings that would precipitate a loss of these two benefits.

Families that are Black, Indigenous and People of Color (BIPOC) are also disproportionately burdened by the negative effects of benefits cliffs due to the added layer of racial disparities in income and workforce participation and the systems through which work support programs are administered (Federal Reserve of Atlanta, 2020; National Center for Childcare, 2021). Female-led households and other marginalized groups including immigrants, people with disabilities, and youth involved in the foster care system also encounter higher levels of disruption to their economic mobility due to benefits cliffs and the complexities of the eligibility rules for public programs (National Center for Child Poverty, 2021).

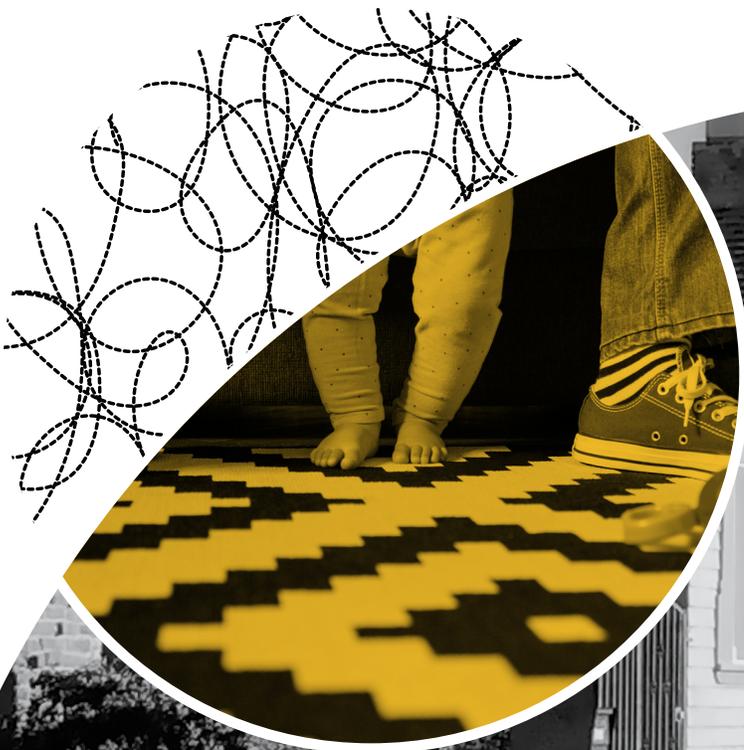
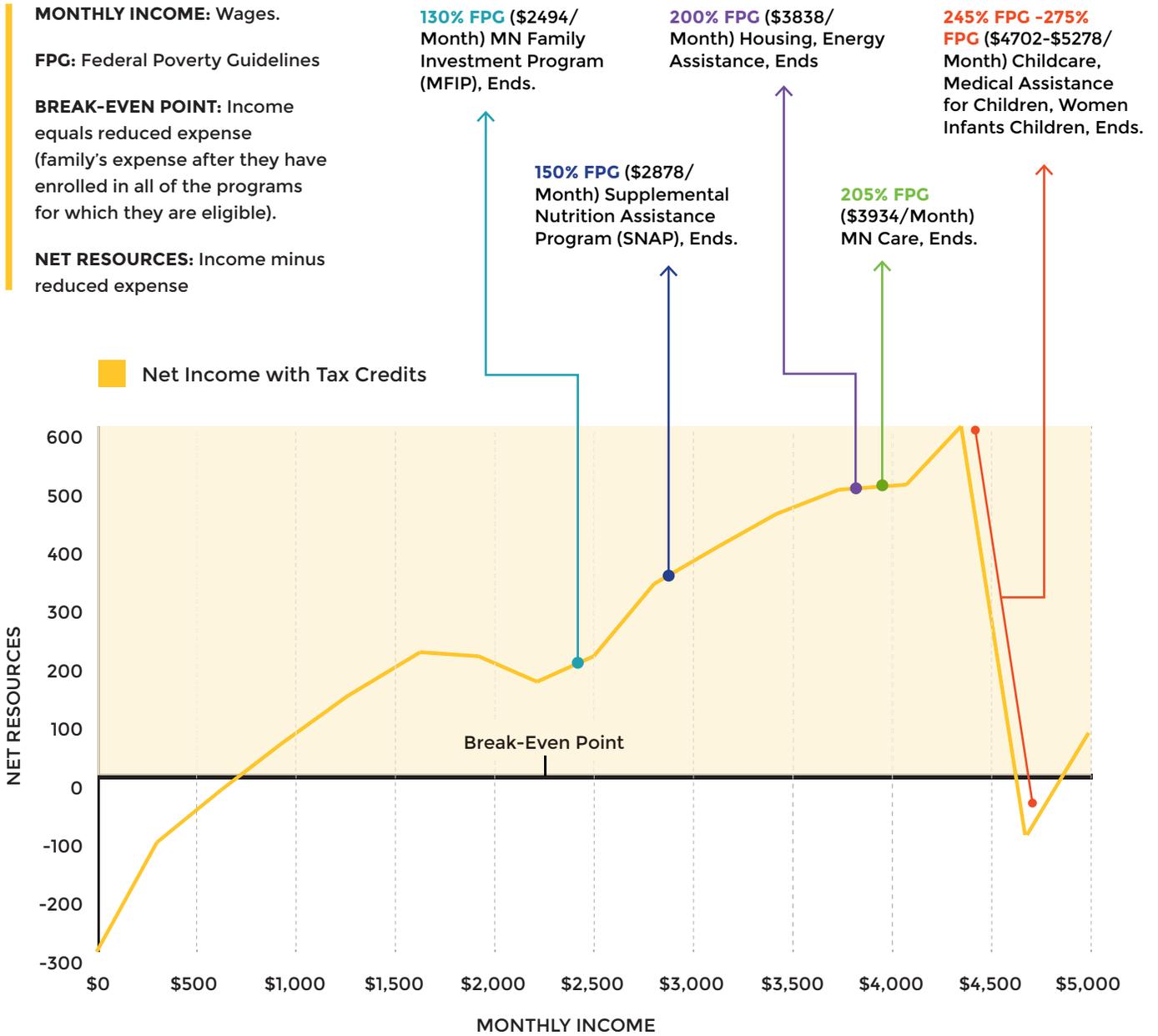


Figure 1:

Total Family Resources Tumble Before Reaching Self-Sufficiency



Benefit Cliffs Occur across the Income Scale in Minnesota

Examples based on a family of three. One parent and two children (ages 1 and 3) living in Dakota County.

CDF-MN Economic Stability Indicator tool (ESI) was used to run scenarios and generate analysis. ESI is a tool that illustrates the interactions between wages, tax liabilities, public work support programs and tax credits and how they can or cannot bring a family to a place of economic stability. Learn more: economicstabilityindicatormn.org

*Federal Poverty Guidelines (FPG) levels for exit levels are approximate

Opportunities to Soften Cliff Effects

Children's Defense Fund-Minnesota (CDF-MN) recommends a variety of approaches that could be taken to address the benefits cliff challenges faced by struggling families. Using our Economic Stability Indicator (ESI) tool, we are able to build scenarios that allow us to analyze and evaluate potential solutions that would soften the impact of cliff effects. These policy recommendations include better alignment and coordination of eligibility and administration across public work support programs, full funding of programs to eliminate wait lists and ensure benefits for all families that qualify, increased use of flexible cash programs that allow families to allocate funds where they are most needed, and reformed tax credit programs to better support families throughout the year.

Two specific proposals that were included in the Governor's 2022 supplemental budget recommendations and are receiving serious attention during the 2022 legislative session could help smooth out cliff effects and improve the economic stability of low-income families: six-month budgeting for the Minnesota Family Investment Program and fully funding Child Care Assistance.

First, the Governor's "Stabilizing Working Minnesotans" proposal would change how the state calculates benefits for the Minnesota Family Investment Program (MFIP) to provide more consistent financial support to the 56,000 Minnesota children served by the program (Find out how many children are served in your county: datacenter.kidscount.org).

Under this proposal, MFIP benefits would be determined based upon six-month reporting periods rather than the current monthly reporting periods. Under this proposal benefit amounts would be calculated based on the last 30 days of household income rather than income from two months prior. The Minnesota Department of Human Services (MN DHS) reports that MFIP recipients are

primarily employed in particularly volatile employment sectors, such as retail and food service. According to MN DHS, during a recent six-month window, more than half of working families receiving MFIP experienced three or more changes in income. These short-term swings in income result in monthly benefit cliffs and make it difficult for families to budget and make continuous progress toward exiting the program. Changing to six-month reporting periods would smooth out this volatility for families and I would align MFIP requirements with the Supplemental Nutrition Assistance Program (SNAP) and Housing support.

Second, ensuring full funding for the Child Care Assistance Program Basic Sliding Fee program would allow another 32,000 children from 16,000 families to benefit from the program and decouple guaranteed reliable child care support from Minnesota Family Investment Program eligibility and participation (Find out how many children receive child care assistance in your county: datacenter.kidscount.org).

As figure 1 shows, loss of child care assistance creates a significant cliff for the family in the scenario. In Minnesota childcare costs are among the highest in the country and they often hit when families have their lowest incomes. Under current Minnesota Child Care Assistance Program policy only Minnesota Family Investment Program families are guaranteed to receive child care assistance. All other families compete within an inadequately funded block grant program that does not cover all eligible applying families. In the past decade up to 8,000 children have been placed on wait lists for up to two years before being accepted into the program. Current policy that links a child care assistance guarantee to MFIP participation, potentially significantly increases fear among participants that losing MFIP may also result in loss of their child care assistance. Using budget forecasting to fully fund the CCAP program would create a guarantee of child care support for all eligible families regardless of their MFIP eligibility.

Realizing the Potential of Work Support Programs



Public work support programs provide critical support to low-income families, especially those from marginalized communities and those with young children. The goal of these programs is to fill in the gap between low wages and a family's basic needs, enabling families to be more economically stable while they move toward self-sufficiency. For children economic stability is particularly important as research shows the link between economic stability and improved childhood outcomes. However, some of the current structures and policies governing public work support programs pose barriers to the very families they were intended to support. Low-income families that achieve progress in the workforce and increase their income are often faced with benefit cliffs that significantly impact their economic stability and often leave them worse off.

Proposals such as those being considered at the Capitol this year would go a long way towards improving the economic stability of low-income families and softening the cliff effects they face as they try to achieve self-sufficiency.

Balancing at the Edge of the Cliff Experiences and Calculations of Benefits Cliffs, Plateaus and Trade-Offs, Theresa Anderson, Elaine Maag, Amelia Coffey, Hannah Daly, Heather Hahn, Kevin Werner, January, 2022: [Balancing at the Edge of the Cliff | Full Report | Urban Institute](#)

The Cliff Effect: One Step Forward, Two Step Back Policy Design as a Disincentive to for Economic Mobility, Indiana Institute for Working Families, October 2012: [Report-2012-CliffEffect.pdf \(incap.org\)](#)

The Racial Income Gap and Benefits Cliffs, Federal Reserve Of Atlanta, September 2020: [The Racial Income Gap and Benefits Cliffs - Federal Reserve Bank of Atlanta \(atlantafed.org\)](#)

Addressing Benefit Cliffs with the Family Resource Simulator, Heather Koball, Seth Hartig, and Suma Setty, National Center for Children in Poverty, May 2021: <https://www.nccp.org/wp-content/uploads/2021/05/Addressing-Benefit-Cliffs-with-the-Family-Resource-Simulator.pdf>

In her role as Outreach Coordinator at CDF-MN, Natletha Sumo manages Bridge to Benefits and the Economic Stability Indicator tool. Elaine Cunningham recently left a decades long tenure at Children's Defense Fund Minnesota where she pioneered the Economic Stability Indicator tool.

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