GEORGIA CENTER FOR OPPORTUNITY

Testimony Before the Kentucky Benefits Cliff Task Force Pursuant to 2022 R.S. Acts Ch. 211 § 23 (H.B. 7) October 20, 2022

Introduction

Representative Jonathan Dixon and members of the Benefits Cliff Task Force, thank you for the opportunity to testify today on this very important topic. We represent the Georgia Center for Opportunity (GCO), and we have spent considerable time modeling and studying this issue.

The Georgia Center for Opportunity is a nonprofit think tank focusing on policies and programs that promote quality education, fulfilling work, and healthy family lives. More recently, our work has extended beyond the borders of Georgia, working with organizations in other states to find common ground for policy solutions. We have produced studies on all 50 states and have developed a benefits cliff model that will include 12 states by the end of this calendar year.

Background on GCO's Model

To our knowledge, our model is the oldest in the country. Its earliest version was originally developed for Pennsylvania's Public Welfare Department. In July 2012, Public Welfare Secretary Gary Alexander released results of the model during an American Enterprise Institute presentation. The chart went "viral" in the halls of Congress, and since then other organizations have developed similar models, including the Congressional Budget Office and the Federal Reserve Bank of Atlanta.

Our public website (www.benefitscliffs.org) displays benefits received from earnings and major safety-net programs in both graph and table form. Users can generate results for various family scenarios - down to the county level - across 10 states currently, and across 12 states and 1,153 counties/parishes by the end of 2022.

The website is just a glimpse of the model; we also have advanced versions that can generate additional results from more complex inputs.

Our benefits cliffs model a computational (rather than statistical) model that converts tax and safety-net eligibility rules into benefit amounts. Therefore, the results are what a family would receive given the program rules, provided the inputs match the family's situation.

Our model focuses on the largest safety-net programs in terms of government spending, and it covers about 80 percent of the federal spending on these programs. If we narrow the topic to health, cash, food, housing, and childcare, our model covers about 95 percent of federal funding.

Complexity of Benefits Cliffs

Benefits cliffs are complex; there is usually not just one benefit cliff per family situation. There can be multiple benefit cliffs over a range of earnings because safety-net programs are disjointed and do not align their eligibility rules and definitions.

Geography, family size and characteristics, magnitude of benefits received, and program structure all influence benefits and benefits cliffs. In addition, benefit cliffs can occur as a result of receiving benefits from multiple programs, even if each program that comprises the mix does not have a benefits cliff in itself. We call this phenomenon the “stacking problem”.

Examining benefits cliffs closely reveals some unusual results in certain situations. For example, benefits can disappear at one earnings level and then reappear at a higher level because of the interplay of multiple safety-net programs.

Economists are not just worried about the high visibility of the cliffs themselves, which often creates somewhat of a “wow” response. Equally concerning are the low incentive scenarios in which additional earnings yield little to no benefits. These are the ranges where net income runs relatively flat, despite increases in wages, giving little incentive for individuals to earn more money. For example, why should a worker pursue a $1 pay raise if he or she comes out only $0.10 better? In other words, it does not require an absolute drop in total benefits before disincentivized behavior kicks in. For this reason, statistical data is not likely to show large numbers of individuals with earnings near the edges of the cliffs; they will more likely be dispersed over the relatively flat range of low incentives.

Three Limitations on Modeling

Because computations have limitations, program nuances are important to interpret the modeling. For example, refundable tax credits lack regular income flow for recipients. This can also be observed with federal Earned Income Tax Credit, which requires recipients to wait until they file their taxes before they can access the cash assistance - an unreasonably long delay for persons targeted by the program. This is just one reason why taxing agencies, such as the IRS, are poor choices to run safety-net programs.

A second limitation is that not all programs guarantee benefits, even if an applicant is eligible. Subsidized childcare and Section 8 housing are two examples. Some states restrict childcare benefits based on predefined priority groups. In all states, Section 8 benefits are very difficult to receive due to limited funding, which creates a great inequity. There can be two families in the exact same financial situation, but one gets the Section 8 voucher while the other does not.

A third limitation is the difficulty of modeling due to non-compliance at both the recipient and agency levels. For example, the Earned Income Tax Credit has a well-known high non-compliance rate where recipients inaccurately report their situations in ways to maximize their benefits. Likewise, not all administering agencies comply with all program rules.

Solutioning

Needless to say, solutioning can be very difficult. It took more than half a century to get where we are today, and no one has yet presented a complete package on how to solve the benefits cliffs problem. It will take the efforts of many analysts and policymakers to pull us out of our current situation.

GCO's expertise and modeling can help to find these solutions. We believe that an essential part of solutioning is to use modeling to understand the nature of benefit cliffs, both from earnings and marriage. This will require an understanding of both program rules and economic behavior, including taking non-compliance into account.

For solutions to be viable, they also must be fiscally sound and avoid creating higher levels of dependency on government. Therefore, we need to pursue changes that reduce the number of persons dependent on assistance as well as the degree of dependency. At the same time, solutions cannot simply cut the number of persons receiving assistance. The persons must be better off financially through non-government sources of income.

For these reasons, we also believe that the best results will come from coupling work with a realignment of incentives both for earning more and for supporting marriage. This is not an "either" "or" proposition. Based on our research, we believe we need both components to be successful.

The realignment of incentives must be done in such a way that there is also an incentive to improve one's own situation. In the absence of taxation and benefits from safety-net programs, there is a natural incentive to increase earnings and form a family, and solutions should simulate that incentive structure as best as is possible.

We should also point out that a work first policy is about more than simply the financial advantages that come with working. There are also nonfinancial benefits, such as the dignity, self-respect, and sense of purpose that come with gainful employment.

We would like to discuss four general approaches to solutioning. These are not mutually exclusive of each other, and we recommend adopting a strategy of undertaking them simultaneously. The four general approaches are as follows:

1. Long-term systemic reform
2. State-level administrative structural reform
3. Specific state level program reforms
4. Specific federal level program reforms

Long-term Systemic Reform

GCO published three reports in a series that lays out a vision for systemic reform, which can be found on our website: https://foropportunity.org/work/. The reform requires both state and federal changes that consolidate safety-net programs into five programs, integrate eligibility systems, reconfigure eligibility rules that mitigate benefit cliffs, and streamline program administration.

Because this is a long-term strategy, it is recommended that states work to move toward the vision incrementally over time.

State-level Administrative Reform

The Georgia Center for Opportunity has partnered with the Texas Public Policy Foundation and The Pelican Institute for Public Policy to form The Alliance for Opportunity (https://allianceforopportunity.com). One goal of the Alliance is the full integration of safety-net programs with workforce development programs. Currently, the state of Utah has the most advanced integration.

What this would mean, in practice, for most states (and what are focusing on in Georgia) is the creation of a new Department of Workforce Services, resulting in merging a few agencies as well as realigning responsibilities.

While this approach would not alter eligibility rules, its revised administrative structure would change the focus to be a “no wrong door” and “work first” policy. The main objective would be employment connection activities, and safety-net programs would be viewed as work-support.

Every recipient would receive an individualized plan to move toward self-sufficiency. Instead of sending the people on goose chases to multiple locations for the help they need, all services would be accessible at one location. Instead of having them provide the same information multiple times, they would submit their information just once to a streamlined application process with a single point of contact and coordinated case management.

There is one obstacle on the workforce development side that can hinder the complete integration of workforce development funds, and that’s the federal law(s) which prohibit this type of integrated structure. The only state currently permitted to do so is Utah, which developed its integrated system before federal law defined the Workforce Investment Act, and Utah was grandfathered into federal law. However, we do not recommend letting this stop states from moving towards this comprehensive model. Our team is working with Congressional staff and members to amend federal law to allow all states to have the same option afforded to Utah.

Specific state level program reforms

We are also working on specific proposals to detail out what states can do in the short term to reduce the negative impacts of benefits cliffs. In addition to the suggestions outlined here, states have the ability to seek waivers for pilot programs and demonstration projects. In our Georgia welfare system reference guide, we cite a handful of programs where waivers are possible, including Medicaid, the Children’s Health Insurance Program, Affordable Care Act exchanges, and the Supplemental Nutrition Assistance Program (SNAP), also known as food stamps.

Our modeling, as well as an abundance of anecdotal evidence, show that subsidized childcare programs can have some of the most significant benefits cliffs. A single parent will turn down a better paying job opportunity if it means s/he will lose childcare benefits.

Because subsidized childcare is a federal block grant, states have more flexibility in how they design these programs compared to most other safety-net programs.

Modeling has shown that the cost of childcare is a major factor in the severity of the benefits cliffs. If we can make childcare less expensive, the cliffs are more manageable. Therefore, from a cliffs perspective, it makes sense to build in incentives for parents to choose less expensive options. A byproduct of this approach is that it would extend the limited funds to serve more families.

However, the current trend in daycare has been the exact opposite. According to the Consumer Price Index, daycare and preschool costs increased 90 percent over the last twenty years. Governmental policies are partially to blame for this trend, including states imposing unnecessary requirements on daycare centers, such as requiring college degrees for daycare workers.

Instead, states should review their program rules to find ways to responsibly reduce costs. Additionally, states should revamp their cost sharing components to encourage less expensive settings.

These are just a few ideas for subsidized childcare programs. Other ideas may include helping employers understand the ROI of providing daycare services to their employees and providing them with information on federal and state tax credits that may help offset any childcare options they may offer.

Although states have little latitude with some safety-net programs, there are still ways to use every flexibility provided by those programs to reduce benefit cliffs. For example, take SNAP. Section 2026 of 7 U.S. Code Chapter 51 gives the Secretary of Agriculture the power to waive regulations to allow states to try pilot projects. Permissible projects under this section include increasing self-sufficiency and testing innovative welfare reform strategies. States could use this waiver opportunity to develop a proposal that addresses benefits cliffs from SNAP.

It should be stressed that states should take advantage of these demonstration and pilot programs authorized in federal law. Congress created them so that states may experiment, which will enable us as a society to find better solutions to some of the most challenging aspects of safety-net programs.

Likewise, states can opt out of federal waivers when they are counterproductive. Using a SNAP example again, the Families First Coronavirus Response Act authorized states to issue the maximum allotment for every SNAP household. Unfortunately, this created massive benefit cliffs for every SNAP household. Using today's rates, a single mom with one child would lose $516 a month, or $6,193 a year, for earning over the limit. A household of four would lose $939 a month, or $11,268 a year.

Just last week, the Biden Administration extended the pandemic emergency declaration another 90 days, and this emergency maximum allotment program is still active. Kentucky did not renew its waiver in May 2022. However, there are still 30 states who have active waivers in this program creating the serve benefits cliffs.

The point here is that administering agencies need to consider which waivers they seek and keep (or not seek and keep) and their impact on benefits cliffs.

Specific Federal Level Program Reforms

Ideally, we need to pursue federal solutions in addition to state solutions. For this reason, it is important to identify those changes that are needed at the federal level and subsequently work with our congressional delegations. The more states that do this, the greater the possibility that changes in federal law will happen.

For example, Welfare Reform of the 1990s created the Temporary Assistance for Needy Families program, which was passed by a Republican-controlled Congress and signed into law by a Democrat President. This happened because these ideas originated from the states, were shown to work, and were subsequently adopted at the federal level.

The list of federal solutions is long, but we will cover two ideas: the SNAP program and the Earned Income Tax Credit.

Our modeling shows two problems with SNAP that create benefits cliffs. The first is the disregard of income when determining monthly allotments. In effect, this cross-subsidizes non-food needs and complicates the calculations of benefits. It would be better if these disregards were modified or eliminated to simplify the calculation. This one change would significantly reduce the incidence of SNAP-related benefits cliffs.

The second change with SNAP would be to create two sets of maximum allotment tables: one for married-couple households, and the second for non-married households. This revision, if done properly, would help reduce marriage penalties due to the program.

The Earned Income Tax Credit is another program that can be addressed at the federal level. Although this program does not create benefit cliffs from earnings, it does have marriage penalties. And, as already mentioned, it also encourages noncompliance and lacks monthly flow of funds to those families who need the cash assistance.

First, marriage penalties can be addressed by modifying the program factors that determine the credits.

For the other two problems, there are several options. The first would be to reinstate a reinvigorated cash advancement component to the program that was eliminated during the first term of the Obama administration. Perhaps the better option would be to transfer the administration of the program to the states who already administer the bulk of safety-net programs anyway.

Concluding Remarks

The Georgia Center for Opportunity continues to dedicate significant resources to model benefit cliffs from both earnings and marriage, and to keep the data current. Its model is the oldest and most detailed when compared to other models. By the end of this calendar year, the model will cover 33 percent of the U.S. population.

GCO also dedicates resources to understanding and solutioning both computationally and qualitatively. We survey end users to balance customization with efficiency. Our model was originally developed to help policymakers, but can also be leveraged by companies, service providers and researchers.

We collaborate with other organizations on a regular basis and would welcome the opportunity to work with Kentucky as well.

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