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### MEMORANDUM

**To:** Robert Stivers, President of the Senate  
David Osborne, Speaker of the House  
Members of the Legislative Research Commission

**From:** Senator Jason Howell, Co-chair  
Representative Jonathan Dixon, Co-chair  
Benefits Cliff Task Force

**Subject:** Findings and Recommendations of the Benefits Cliff Task Force

**Date:** November 16, 2022

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In a memorandum dated June 3, 2022, the Legislative Research Commission (LRC) established the Benefits Cliff Task Force. Pursuant to the memorandum, the membership task force was comprised of the following:

Senator Jason Howell, Co-Chair  
Representative Jonathan Dixon, Co-Chair  
Senator Phillip Wheeler  
Senator Mike Nemes  
Senator Gerald Neal  
Representative Russell Webber  
Representative Josh Bray  
Representative Pam Stevenson

LRC directed the task force to study policies and proposals and to submit recommendations that seek to eliminate the benefits cliff as a barrier to work, career advancement, and self-sufficiency and to reduce benefit duration and dependency in the Commonwealth. The task force was specifically directed to:

1. Review the impact of the public assistance benefits cliff on labor force participation, employment, wages, and benefit duration and usage and to develop public policy recommendations to support working families in transitioning off public assistance into gainful employment and self-sufficiency;
2. Study how the benefits cliff affects:
  - a. Financial, employment, and career decisions made by public assistance beneficiaries;
  - b. Labor force participation, employment, wages, education, health, and poverty; and
  - c. The ability of businesses to hire and promote workers;
3. Study the eligibility rules and income thresholds for current public assistance programs administered by the Cabinet for Health and Family Services;
4. Study the fiscal impact of the benefits cliff on state finances and identifying budgetary impacts of addressing the benefits cliff;
5. Study the interconnections of the benefits cliff across multiple layers of government and other support networks;
6. Study the awareness of the benefits cliff among public assistance beneficiaries, government agencies and programs, the nonprofit sector, the business community, and the general public;
7. Evaluate policies and proposals, including the proposal submitted by the Cabinet for Health and Family Services pursuant to Section 32 of 22RS HB7, and best practices in other states, academia, and the think tank sector that aim to assist individuals in transitioning off public assistance into gainful employment and self-sufficiency; and
8. Make recommendations.

The eight-member task force began meeting in July 2022 and convened five times during the 2022 Interim. The task force heard testimony from more than two dozen individuals, state agencies, advocacy groups, nonprofit agencies, and think tanks on various topics including the impact of the benefits cliff on public assistance beneficiaries and employers, state options and flexibilities for addressing the benefits cliff, and policy recommendations to smooth the benefits cliff with the aim of transitioning beneficiaries off public assistance and into gainful employment and self-sufficiency.

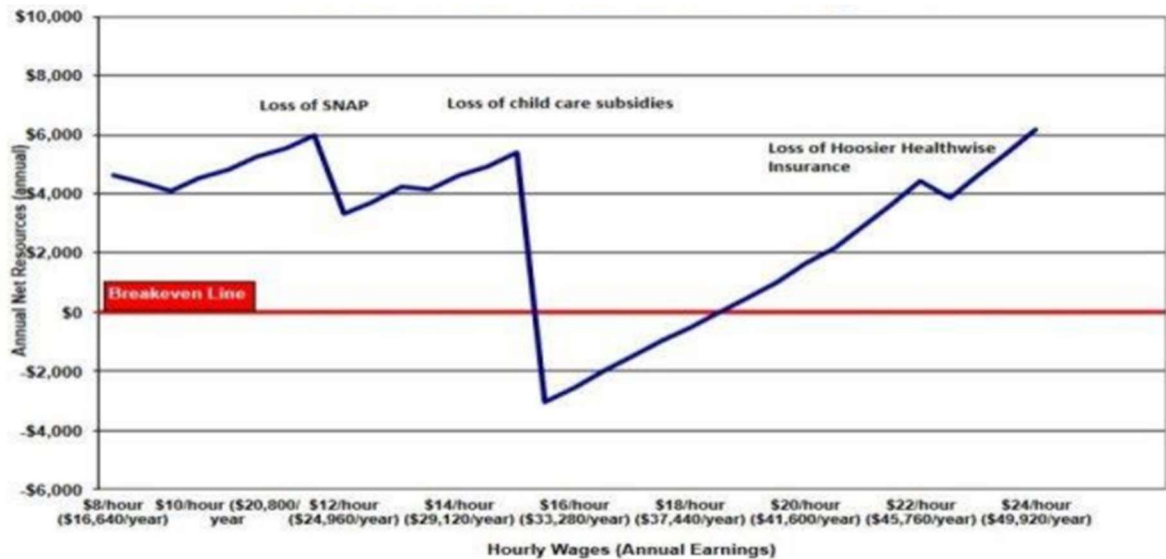
In accordance with the June 3, 2022, memorandum, the task force submits the following findings and recommendations to LRC for consideration. These findings and recommendations are based on the testimony provided to the task force during the 2022 Interim and do not represent independent research conducted by LRC staff. This memorandum serves as the final work product of the task force.

## Findings

1. **The terms “benefits cliff” or “the cliff effect” refer to the sudden decrease in public benefits as the result of an increase in earnings.**

When income increases, even by a small amount, families can lose some or all economic support provided through public assistance programs such as the Supplemental Nutrition Assistance Program, child care subsidies, and Medicaid. This loss of support often means that a family’s overall access to economic resources is reduced as a result of earning

more income, and it should be noted that a family receiving public assistance benefits faces not just one benefit cliff but multiple cliffs as their income increases. The graph below, which was provided to the task force by the National Conference of State Legislatures, illustrates the benefits cliffs for a single parent with two children.



Source: National Center for Children in Poverty's Family Resource Simulator, Indiana 2011 <[www.nccp.org/tools/frs](http://www.nccp.org/tools/frs)>. When eligible, the family receives the following work supports: federal and state tax credits, SNAP/food stamps, public health insurance, and a child care subsidy. Budget numbers are from NCCP Basic Needs Budget Calculator and the Self Sufficiency Standard for Indiana.

**2. For public assistance beneficiaries the benefits cliff can serve as a barrier to gainful employment and self-sufficiency which in turn can increase the amount of time an individual or family remains on public assistance.**

Many public assistance beneficiaries are acutely aware of the risk of losing access to supports and even an overall decrease in financial resources as a result of marginal increases in income. As illustrated in the graph above, an increase in income from \$29,120 per year to \$33,280 per year can result in the termination of child care subsidies. For a single mother with two children, the loss of these subsidies might mean a loss of nearly \$10,000 in net resources annually despite an increase in annual income of over \$4,000. Public assistance beneficiaries are making sound financial decisions for their families when they refuse a pay increase or promotion or when they continue to work part-time when full-time employment may be available because accepting a pay increase or working more hours could create an even worse financial situation for the individual and their family.

**3. Kentucky is not alone in its attempts to better understand and address the benefits cliff.**

At least half a dozen other states, including Maine, Nebraska, Texas, Iowa, Massachusetts, and Ohio, have enacted, or considered, legislation to establish studies, work groups, task forces, or committees charged with examining the benefits cliff in their state.

**4. The benefits cliff and continued access to affordable, quality child care are key concerns of Kentucky's business community as it creates significant staffing challenges.**

Employers report that workers are hesitant to accept wage increases, offers for additional paid hours, or a transition from part-time employment to full-time employment due to fears of how higher income could affect their eligibility for public assistance programs. The reluctance of workers to advance in their careers creates significant staffing challenges for employers, particularly during periods of exceptional labor market tightness like what Kentucky has been experiencing since the onset of the COVID-19 pandemic. Equally troubling, the benefits cliff limits upward mobility and traps Kentucky families in cycles of poverty and government dependence.

Interconnected with the workforce staffing challenges is the lack of access to affordable, quality child care and early learning programs. Addressing Kentucky's child care and early learning crisis along with the workforce challenges will require several policy solutions which include strategies to meet urgent needs and remedy long standing and system ailments such as Kentucky's early childhood ecosystem.

**5. The Cabinet for Health and Family Services is collaborating with Kentucky Center for Statistics to make improvements to an existing benefits cliff calculator and to fully integrate the calculator into the online kynect portal by July 2024. The Cabinet for Health and Family Services is also working with the Education and Labor Cabinet to make an automatic job-match search engine available to public assistance recipients through the kynect portal.**

The Kentucky Center for Statistics (KYSTATS), in partnership with the National Center for Children in Poverty, developed the Family Resource Simulator (FRS) to assist individuals in understanding the potential impact of changes in income or employment on the public assistance benefits received by the individual. The FRS is a benefits cliff calculator which is currently used by public assistance case managers and various workforce partners including Kentucky Career Centers, Bluegrass Area Development District, Kentucky Office of Vocational Rehabilitation, Metro United Way, Community Action Agencies, and Goodwill Industries. Rather than investing additional time and money on creating a new benefits cliff calculator, the Cabinet for Health and Family Services is working with KYSTATS to improve the functionality and ease of understanding of the FRS for public assistance recipients and their employers. The cabinet reported to the task force that refining the FRS and making it publicly accessible through the kynect portal will cost approximately \$230,000 with a project completion date of July 2024. The Cabinet for Health and Family Services is also working with the Education and Labor Cabinet to provide a link from the kynect portal to Focus Suite, an automatic job-match search engine currently utilized by the Education and Labor Cabinet.

**6. Tiering public assistance benefits, or phasing out benefits as the recipient's income increases, as opposed to terminating benefits following a marginal increase in income offers an opportunity to smooth the benefits cliff. However, the ability of**

**states to tier benefits and address the benefits cliff is significantly limited by federal regulations which govern most public assistance programs.**

The benefits cliff is most clearly observed when a recipient receives a marginal increase in income which places the individual just above the income eligibility threshold for a particular assistance and support program resulting in the full termination of benefits. Tiering benefits so that assistance is phased out as the individual's income increases, as opposed to the sudden elimination of the full benefit, offers an opportunity to smooth the benefits cliff. However, despite the fact that states are, in most cases, tasked with the responsibility of administering the various public assistance programs available to low-income individuals and families, these programs and the states that administer them rely heavily on federal funds to provide benefits to eligible individuals. In order to continue to receive federal funds, states must comply with strict federal guidelines and regulations which govern eligibility and benefits. Failure to comply with federal regulations could result in a state losing access to much needed federal funds. These regulations leave little room for states to make significant adjustments to eligibility criteria, level of benefits, or duration of benefits. Without greater flexibility states will continue to struggle to identify solutions to the challenges posed by the benefits cliff.

**7. The Utah Department of Workforce Services serves as a model of efficiency and effectiveness in the delivery of employment and job training services. Unfortunately, federal law now prevents other states from integrating employment and job training services into a “one-stop-shop” agency like Utah’s Department of Workforce Services.**

In most states, federally funded employment and job training service programs are administered by various cabinets, departments, and divisions across state government. The fragmentation of service delivery may result in a duplication of services, systematic inefficiencies, and confusing bureaucratic barriers that make it difficult for individuals to find the services they need and qualify for. In 1996, the Utah legislature tackled this challenge by establishing the Department of Workforce Supports as the sole agency in the state tasked with administering and funding all employment and job training service programs, and for the past several decades Utah has consistently led or ranked near the top across an array of economic and employment metrics. Unfortunately, inflexible funding and organizational provisions in the federal Workforce Investment and Opportunity Act create barriers for other states attempting to model Utah's integration of services into a “one-stop-shop” agency for the all employment and job training services.

**8. The Cabinet for Health and Family Services has utilized pandemic-era federal funds to make improvements to the Child Care Assistance Program which could help to alleviate the child care benefits cliff faced by working families, but the federal funds used to finance these changes will run out in 2024.**

In most states, the loss of child care assistance represents one of, if not the, largest benefit cliffs experienced by low-income working families. For a family with two children in Kentucky, a marginal increase in income can result in the loss of Child Care Assistance Program (CCAP) benefits causing the family to experience a benefit cliff of approximately \$1,500 per month or \$18,000 a year. The Cabinet for Health and Family Services has utilized Coronavirus Response and Relief Supplemental Appropriations

(CRRSA) Act and American Rescue Plan Act (ARPA) funds to make several significant changes to CCAP. These changes could help to minimize the impact of the child care assistance benefit cliff in Kentucky by eliminating parent copayments for CCAP recipients, increasing eligibility from 160% of the federal poverty level (FPL) first to 200% FPL then to 85% of the state median income, and establishing a six-month transitional exit period for households that experience an increase in income which place the household above the income eligibility threshold. While these changes have the potential to substantially reduce the child care benefit cliff in Kentucky, the federal funds used to finance these changes are set to expire in the summer of 2024, and the Cabinet for Health and Family Services reports that maintaining the elimination of copayments alone could cost the state approximately \$18 million per year.

### **Recommendations**

The Benefits Cliff Task Force recommends that the Kentucky General Assembly take the following actions during the 2023 Regular Session:

1. Adopt a joint resolution directing the Cabinet for Health and Family Services to conduct a thorough review of all public assistance programs administered by the cabinet to identify all flexibilities permitted under federal law, including but not limited to the ability to tier benefits, which may afford the state the opportunity to address the benefits cliff in Kentucky without the need for federal action and requiring the cabinet to submit a report containing its findings and recommendations to the Interim Joint Committee on Health, Welfare, and Family Services no later than November 1, 2023;
2. Adopt a joint resolution directing the Cabinet for Health and Family Services, in cooperation with the Education and Labor Cabinet, to conduct a thorough audit of all employment and job training programs to identify service duplications, inefficiencies in service delivery, and opportunities for improvement including the possible integration of all employment and job training programs under a single administrative unit in state government and requiring the cabinets to submit a report containing their findings, recommendations, and an action plan to the Interim Joint Committee on Health, Welfare, and Family Services and the Interim Joint Committee on Economic Development and Workforce Investment no later than November 1, 2023;
3. Adopt a joint resolution directing the Cabinet for Health and Family Services to study the cost of maintaining pandemic-era changes to the Child Care Assistance Program once federal pandemic relief funds are exhausted and requiring the cabinet to report its findings to the Interim Joint Committee on Health, Welfare, and Family Services and the Budget Review Subcommittee on Human Resources no later than November 1, 2023;
4. Adopt a concurrent resolution urging the United States Congress to study the benefits cliff phenomenon and how current federal regulations limit the ability of states to effectively address the challenges created by the benefits cliff and to amend federal statutes and regulations to grant states the flexibilities necessary to mitigate or

eliminate the benefits cliff including but not limited to amending fundings and organizational provisions in the Workforce Investment and Opportunity Act that may prevent states from administratively integrating all federally funded employment and job training programs under a single administrative unit of state government;

5. Enact legislation requiring the Cabinet for Health and Family Services to integrate a user-friendly benefits cliff calculator tool that allows users to weigh the pros and cons of upward mobility and benefit eligibility into the cabinet's outreach and support efforts;
6. Enact legislation directing the Cabinet for Health and Family Services and the Department of Revenue to establish outreach and tax filing support programs to increase the number of eligible individuals, particularly low-income earners, who file a federal tax return and claim the federal Earned Income Tax Credit; and
7. Identify opportunities and enact legislation that leverages public-private partnerships by creating new partnership programs to help reduce the impacts of benefits cliffs in certain circumstances.