



GEORGIA CENTER *for*  
OPPORTUNITY

# Examining Safety Net Benefit Cliffs

House Rural Development Council Meeting

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September 1, 2021 Virtual Hearing**



The Georgia Center for Opportunity (GCO) is a non-partisan, non-profit organization working to improve the lives of individuals and families by promoting quality education, fulfilling work, and healthy family life.

GCO has developed computational models to show safety net benefit cliffs and marriage penalties.

Our presentation today will review results and observations from those models.



The GCO Safety-Net Program Benefit Cliff model is a **computational model that converts tax and welfare program rules into algorithms** that enable us to see the impact of income taxation and safety-net program benefits on families due to changes in earnings. It is a public policy tool that enables us to analyze the systemic impact of income taxes and assistance programs and to develop solutions of unwanted cliff effects.

It is named the cliff model because it can show those changes in earnings where the gain in earnings cannot offset the loss in net income and benefits.



The Cliff Model is available:

- On our website at <https://www.benefitscliffs.org>
- As an Excel workbook for academic researchers, provided they sign a non-disclosure agreement



## Variables

- Independent variable is earnings
- Dependent variables are tax liabilities and welfare program benefits

## Some Basic Assumptions

- Standard deductions on taxes and nothing unusual
- No income other than earnings and welfare benefits
- No excess resources that would disqualify the family for benefits due to welfare program excess asset tests



## Input Variables

- Year (2020 or 2021)
- State (AL, FL, GA, LA, MS, NC, SC, TN, TX)
- Political Subdivision (All counties or parishes with those states)
- One or two parents
- Parents' ages
- Whether mom is pregnant
- Number of children (1 to 4)
- Ages of children
- Sex of children
- Whether child is disabled
- In school
- Subsidized childcare setting
- Rate category of childcare



# Major means-tested programs modelled

- Earned Income Tax Credit (EITC)
  - Additional Child Tax Credit (ACTC)
  - Temporary Assistance for Needy Families (TANF) Cash
  - Supplemental Security Income (SSI)
  - Supplemental Nutrition Assistance Program (SNAP), aka food stamps
  - National School Lunch and Breakfast programs (NSLP)
  - Women, Infants and Children (WIC) food packages
  - Section 8 Housing Choice Vouchers (HCV)
  - Childcare and Parents Services (CAPS)
  - Medicaid
  - Children's Health Insurance Program
  - Affordable Care Act subsidies
- {refundable tax credits}**
- {cash}**
- {food assistance}**
- {housing assistance}**
- {subsidized childcare}**
- {medical assistance}**



# Major programs modeled are 95% of spending

Welfare Programs Modelled: EITC, ACTC, TANF, SSI, SNAP, NSLP, NBP, WIC, HCVs, Subsidized Childcare, Medicaid, CHIP, and ACA HIX subsidies.

These programs constitute **95% of federal welfare spending** in the areas of cash, food, housing (including public housing), childcare, and health.

Program Area or Earmark	Federal Expenditures (Millions)				Number of Programs		
	Total	Covered	Percent Covered	Not covered	Total	Covered	Not covered
Health	\$362,085	\$333,411	92.1%	\$28,674	9	3	6
Cash	\$152,941	\$152,941	100.0%	\$0	5	4	1
Food	\$105,782	\$101,119	95.6%	\$4,663	10	4	6
Housing	\$33,490	\$32,551	97.2%	\$939	5	3	2
Childcare	\$5,123	\$5,123	100.0%	\$0	1	1	0
Subtotal	\$659,421	\$625,145	94.8%	\$34,276	30	15	15

**Sources: U.S. Government Accountability Office (GAO-15-516) and author's calculations. 2015 data**

Welfare areas not considered: education, social services, veteran benefits, Indian programs, community development, job training, energy, homelessness, Puerto Rico, Refugees. If we include these, then the model covers 80% of federal spending out of the 83 programs identified by the U.S. GAO.





## Default setting for welfare family with children

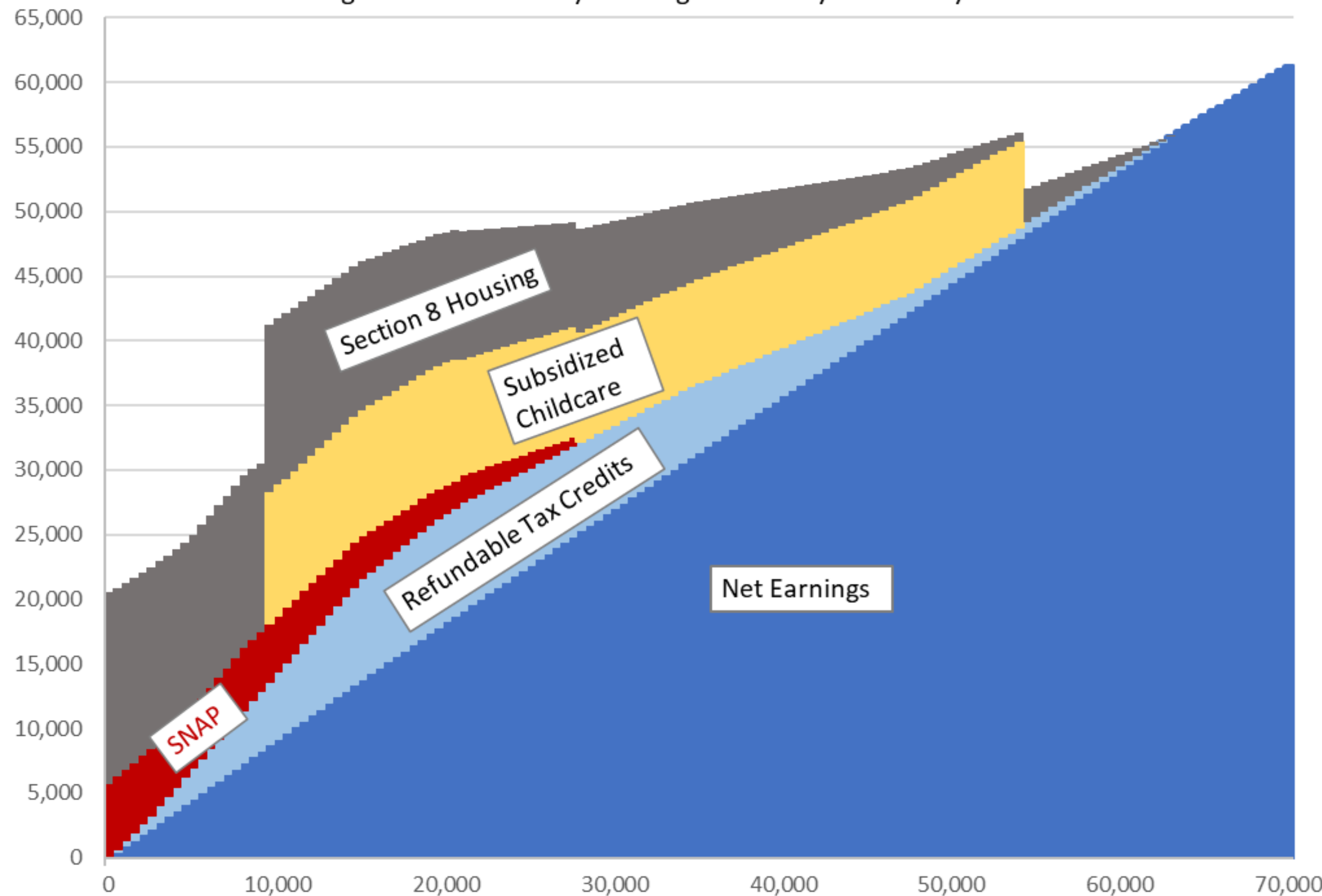
- Statistically, single mom household with two children
- Most households with children are single mom households: 50.3% compared to 39.5% of married couples and 10.2% of single dad households.
- Nationally, 50% of single mom households participated in means-tested programs, compared to 29.5% of male households and 14.7% of married couples.
- 43.2% of single moms were in poverty in Georgia in 2014, compared to 9.8% of married couples.

## Georgia Families with Children 2014

Income relative to Federal Poverty Level	Percent of Families				Average Number of Children			
	Married	Widowed or divorced	Never married	All Families	Married	Widowed or divorced	Never married	All Families
≤ 100%	40.1%	22.9%	36.9%	100.0%	2.3	1.7	2.2	2.1
>100% and ≤ 200%	58.2%	26.3%	15.5%	100.0%	2.0	1.5	1.7	1.9



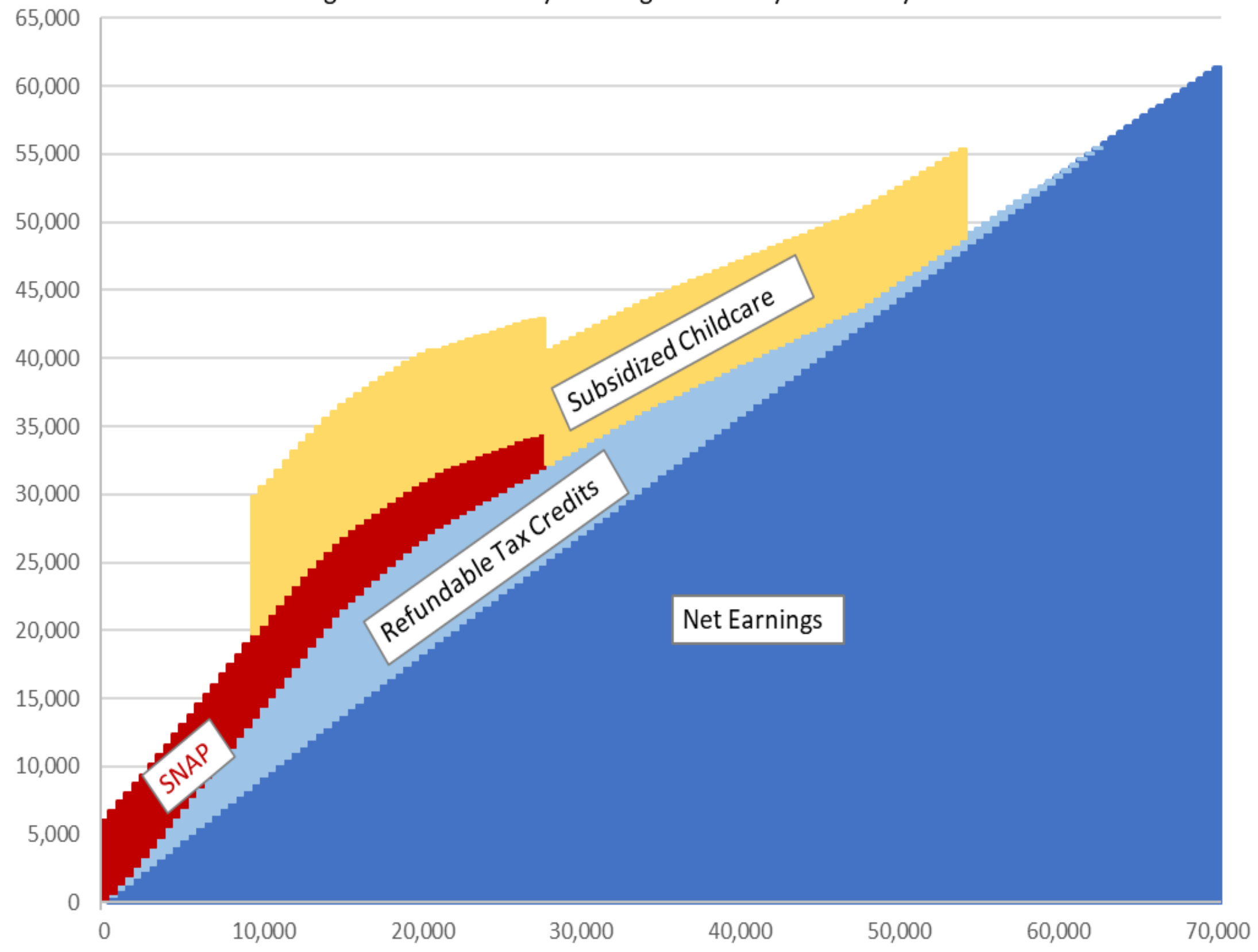
**Pre-Pandemic Stacked Earnings and Benefits in Georgia**  
 Single mom with an 8 year old girl and a 2 year old boy



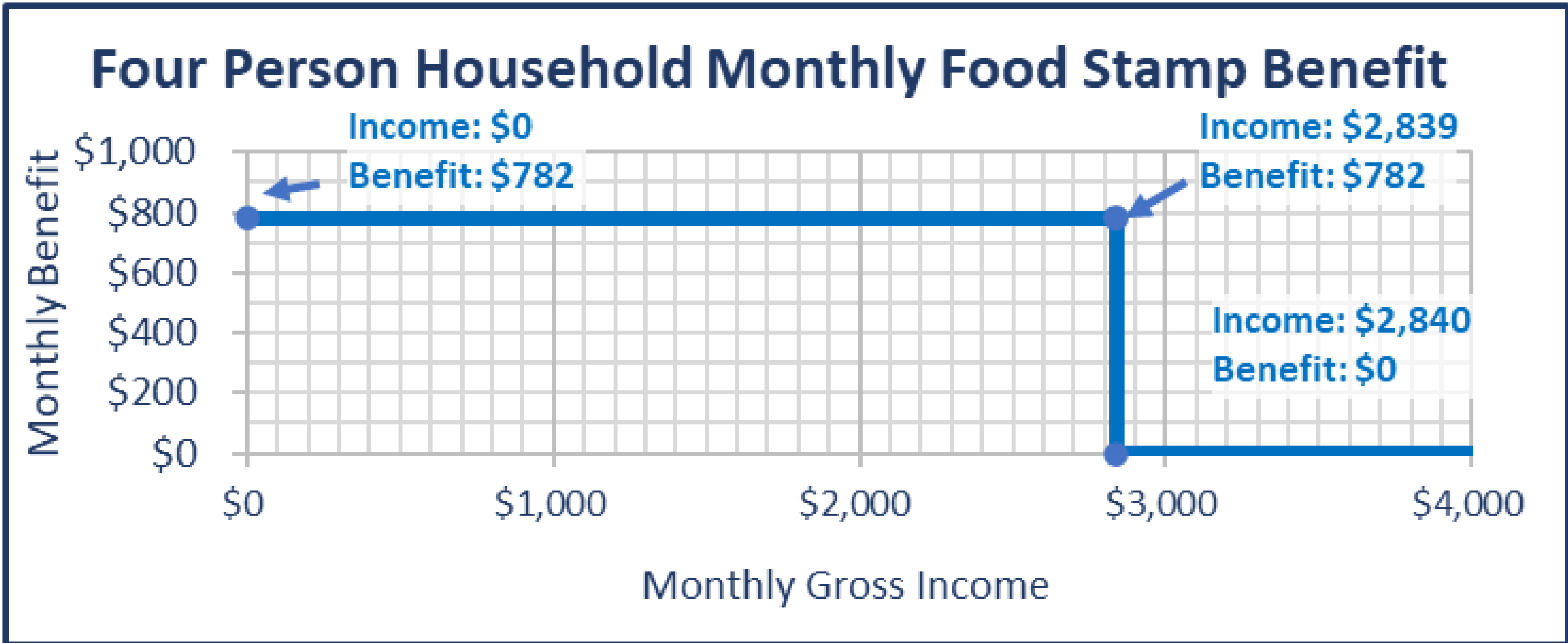
**Pre-Pandemic SNAP:** When a SNAP household has a disabled member, or when the household receives Section 8 housing and subsidized child care, there is no SNAP benefit cliff. **Note:** this scenario does not include other programs than what is listed.



**Pre-Pandemic Stacked Earnings and Benefits in Georgia**  
 Single mom with an 8 year old girl and a 2 year old boy



**Pre-Pandemic SNAP:** Let no member of the household be disabled, and take away Section 8 housing, which most people cannot get, then there is a SNAP benefit cliff. For the scenario to the left, the cliff requires a 9.6% pay raise to overcome. **Note:** this scenario does not include other programs than what is listed.



**Pandemic SNAP:** There is a severe SNAP benefit cliff requiring at least a 27.5% pay raise to overcome for this scenario.



## **Observations on General Causes of Safety-Net Cliffs**

1. Hard Cut-offs that Do Not Taper—Primary Cause
2. Stacking of Benefits One on Top of the Other—Primary Cause
3. Benefit Levels that Start Too High—Secondary Cause
4. Eligibility Rules that Disregard Income—Secondary Cause
5. Unfavorable Factors for Married Couples
6. Program Disincentives to be Married



## General Conclusions

1. Cliffs and penalties of the safety-net system are real
2. Economic incentives matter
3. Therefore, align economic incentives with safety-net policy
4. Anticipated benefits from the redesign
  - a. Greater participation in labor force
  - b. Expanded economy
  - c. Less poverty
  - d. More potential tax revenue for state and local government
  - e. More economic opportunities for individuals
  - f. Happier citizens



# The Georgia Center of Opportunity

focuses on creating opportunities for:

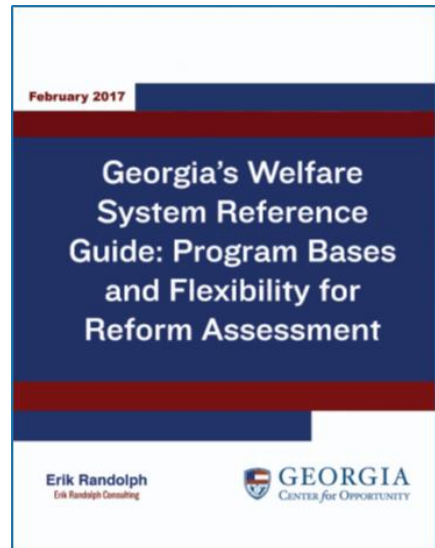
**a quality education,**

**fulfilling work, and**

**a healthy family life**

for *all* Georgians.

# Recent Research on Increasing Work Incentives



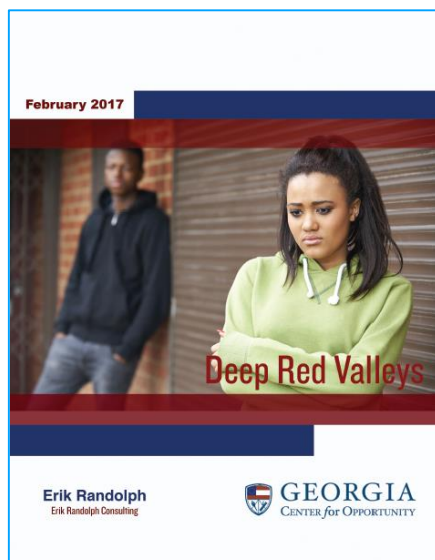
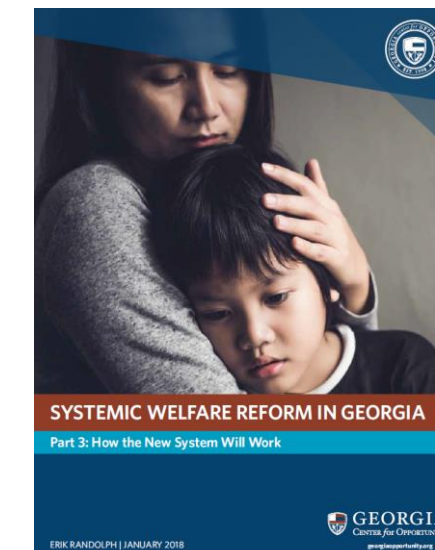
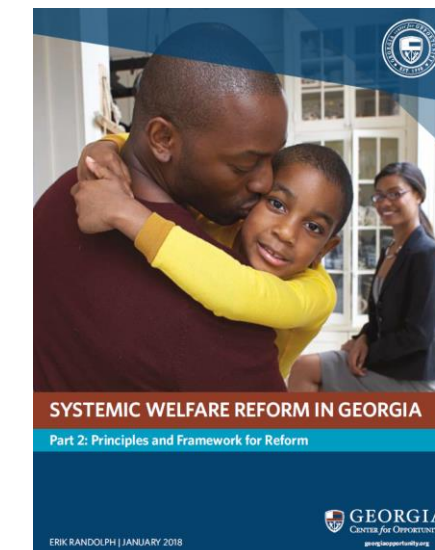
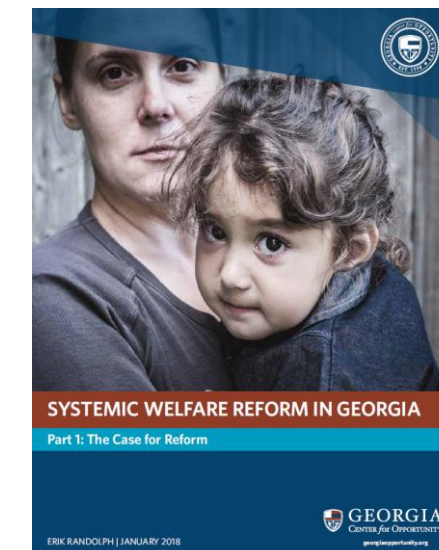
**Reference Guide:**  
*Georgia's Welfare System Reference Guide Program Bases and Flexibility for Reform Assessment*  
September 2016, revised March 2017



**On Health Insurance:**  
*A Real Solution for Health Insurance and Medical Assistance Reform*  
January 2018



**The welfare cliff:**  
*Disincentives for Work and Marriage in Georgia's Welfare System*,  
September 2016, revised March 2017



**Marriage penalties:**  
*Deep Red Valleys*  
February 2017

**Systemic Welfare Reform:**  
*Three part series: (1) The Case for Reform, (2) Principles and Framework for Reform, and (3) How the New System Will Work*  
January 2018

These reports are available online:  
<https://georgiaopportunity.org/employment/welfare-reform>