



BENEFITS CLIFFS

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Economic Affairs Interim Committee

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MONTANA STATE LEGISLATURE

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"We see people who won't take a promotion or who quit because they lose benefits. People who won't take the opportunity to work full-time. This is detrimental to their long-term stability, who deal with churn and turnover." – Tricia Canavan, CEO, United Personnel

The Economic Affairs Interim Committee was assigned HJR 49, the study on benefits cliffs in public assistance programs. People face a benefits cliff when they receive public benefits from the government, earn a raise, and then discover they make too much money to receive the benefits.

For example, let's look at a hypothetical situation. Cassie is a single mom who works in a small office while raising her three-year-old son. Her employer does not offer health insurance or child care benefits. At \$11 per hour for her full-time job, Cassie earns \$22,880 per year, or \$1,906 per month. Cassie's boss is impressed with her work and offers her a promotion to office manager. The promotion will require Cassie to work some weekends, but she will get a \$5 raise per hour. At \$16 per hour with no overtime, Cassie's annual base earnings have now jumped to \$33,280, or \$2,773 per month. This is a gross increase of \$867 per month! Cassie is excited at the opportunity to increase her earnings, put her work skills to good use to further her career, and hopefully open some doors for her and her son. But, will Cassie take the promotion? It may depend on if she falls off the benefits cliff.

AVAILABLE PROGRAMS, TAX CREDITS, & DEDUCTIONS FOR MONTANANS

Montanans are eligible for various public assistance programs if they meet eligibility standards specific to the program, including income limits that are usually set as a percentage of the federal poverty level (FPL). The U.S. Department of Health & Human services updates the poverty guidelines annually.

Assistance Programs	Program Income as % of FPL	Tax Credits & Deductions
Medicaid, Medicaid Expansion	Varies from 24% to 250%	U.S. Earned Income Tax Credit (EITC)
Healthy Montana Kids (HMK)	Varies from 144% to 261%	Montana EITC
Supplemental Nutritional Assistance Program (SNAP)	200% (Gross Income) 100% (Net Income after Deductions)	U.S. Child & Dependent Care Credit
Temporary Assistance for Needy Families (TANF)	30% of 2011 FPL	Montana Child & Dependent Care Credit
Women, Infants & Children (WIC) Program	185%	U.S. Child Tax Credit
Best Beginnings Child Care Assistance	185% (Sliding Scale Structure)	U.S. Premium Tax Credit (ACA)
Low-Income Energy Assistance (LIEAP)	60% of state median income for 1-8 in household; 150% for 9+	

Let's come back to our hypothetical situation. The FPL for a 2-person household in 2021 is \$17,420. Based on Cassie's current wages, she is at 131% of the FPL and qualifies for Medicaid Expansion, SNAP, WIC, LIEAP, and Best Beginnings, where she pays \$189 for full time child care per month based on the sliding scale structure.

If Cassie accepts the promotion and raise, her new base salary of \$33,280 equates to about 191% of the FPL. This now means Cassie is no longer eligible for Medicaid Expansion or WIC, although her son may now be eligible for HMK. Her Best Beginnings co-payment has increased by \$418 per month, to \$607, and since her daycare is not open on the weekends, she will have an additional cost for a babysitter on the weekends she must work in her new position. Additionally, she may no longer be eligible for her SNAP benefits, depending on whether her deductions decrease her net income to 100% FPL. And, depending on how much overtime Cassie works, she may be disqualified for LIEAP, since she's now near the income limit for her household with her new base wage (for a 2-person household, the income limit is \$34,805). With the additional costs in health care and child care, and potential additional expenses for food and electricity, Cassie's actual take home pay could end up being less with her promotion than it was before. She runs the risk of falling off the benefits cliff and must decide if it's worth it to move forward in her career.

BENEFITS CLIFFS AFFECT WORKERS AND EMPLOYERS

As the example above shows, benefits cliffs may disincentivize workers from accepting increased work hours and wages, leading to decreased economic opportunity for families and lessening the chance for families to exit social support systems. Additionally, this creates workforce shortages for employers who must perpetually recruit, hire, and train for the same entry-level positions.

Businesses today are facing aging demographics, slow population growth, low unemployment rates, and industry-specific workforce shortages as they attempt to increase, or at least sustain, economic growth and competitiveness. The state has a vested interest in removing unintended barriers to improved employment and economic stability, including those related to benefits cliffs.

As part of its study tasks, the EAIC was asked to look at the eligibility requirements for and benefits provided by public assistance programs in the state, including tax incentives, review national and other state's efforts to address the issue, and review available financial modeling to examine the net resource variance when wages and benefits change. The committee may also consider looking into existing unemployment and workforce shortage issues in Montana and opportunities to increase workforce training programs.

Sources:

<https://dphhs.mt.gov/>

<https://www.ncsl.org/research/human-services/addressing-benefits-cliffs.aspx>

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