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Testimony on Benefit Cliffs

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Topic: Overview of Benefit Cliffs and Their Implications
Testimony Given Virtually

Introduction

Co-chairs Senator Jane English and Representative Mary Bentley, it is good to see you again. I am pleased to be here before this subcommittee and thank you for the honor of allowing me to give testimony on this important topic.

My name is Erik Randolph, and I am the Director of Research for the Georgia Center for Opportunity (GCO), a 501(c)(3) nonprofit organization focusing on policies and community engagement to ensure that every person—no matter their race, past mistakes, or the circumstances of their birth—has access to quality education, fulfilling work, and a healthy family life.

Along with the Pelican Institute for Public Policy and the Texas Public Policy Foundation, GCO founded the Alliance for Opportunity, a coalition that works with state and federal leaders to transform safety net programs from a fragmented system that merely manages poverty into an integrated system that restores work opportunity, family stability, dignity, and upward mobility.

I have visited Arkansas several times now, and it might be the friendliest place on Earth. Everyone has been very nice, supportive, and easy to talk to and work with. My first time in Arkansas was in 2013 when I was part of the Alexander Group presenting before the Arkansas General Assembly on ways to more efficiently run safety net programs and improve program integrity measures to guard against fraud, waste, and abuse.

Last year, I was also part of the Alliance for Opportunity team that examined how Arkansas coordinates workforce development and social service programs. That study was sponsored by this subcommittee, and the final report was delivered on January 30, 2026. As part of our review of Arkansas's safety net programs, we conducted site visits, following the process from case workers to case managers, and we also interviewed cabinet level officials, including the Secretary of Human Services.

When it comes to benefit cliffs, I have been personally studying the phenomenon since 2011, when I was a Special Assistant to Pennsylvania's Secretary of Public Welfare (the department has since been renamed the Department of Human Services). In my position there, I developed a computer model showing benefit cliffs—I believe it was the earliest model in the nation.

Now that I am with the Georgia Center for Opportunity, we have significantly advanced the benefit cliffs computer model, and it is more granular in detail than some competing models. Arkansas is one of 13 states we have modeled. Presently, we are undergoing a major upgrade to our model using artificial intelligence agents.

I would like to provide an overview of four major themes during this testimony. First, I will put benefit cliffs into proper context: why they exist, their causes, and what they mean for program participants. Second, I will talk generally about solutions and what states can and should do. Third, I will give a quick overview of benefit cliffs in Arkansas. Finally, I will outline some actions that the Arkansas General Assembly might want to consider.

Benefit Cliffs in Context

Perhaps the best way to think about benefit cliffs is to realize that they are the extreme case of losing net earnings due to taxes and lost benefits when attempting to make more money. The underlying economic process can be described as "earnings loss rates." Economists use the term "effective marginal tax rates."

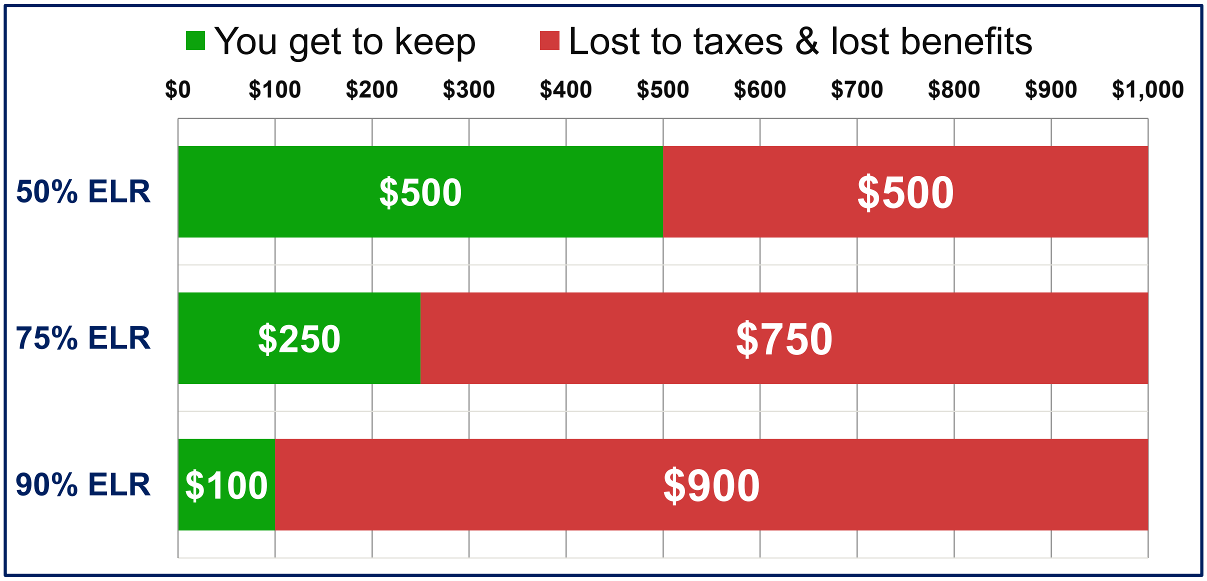
Here is an easy way to think about it. If you had the opportunity to earn $1,000 over two weekends, would you do the hard work to earn that $1,000 if you get to keep only $500? You only get to keep $500 because the remaining $500 will be taken away for taxes or lost safety net benefits you no longer qualify for. This is an earnings loss rate of 50%.

What if you were only allowed to keep $250 of the $1,000? Would you still work to earn that $1,000? That would be an earnings loss rate of 75%.

Now what if you were only allowed to keep $100 of the $1,000 you earned? That earnings loss rate of 90% is the equivalent of earning $5 an hour assuming you worked for 40 hours.

Figure 1 provides a graphical example.

Figure 1: Examples of earnings loss rates

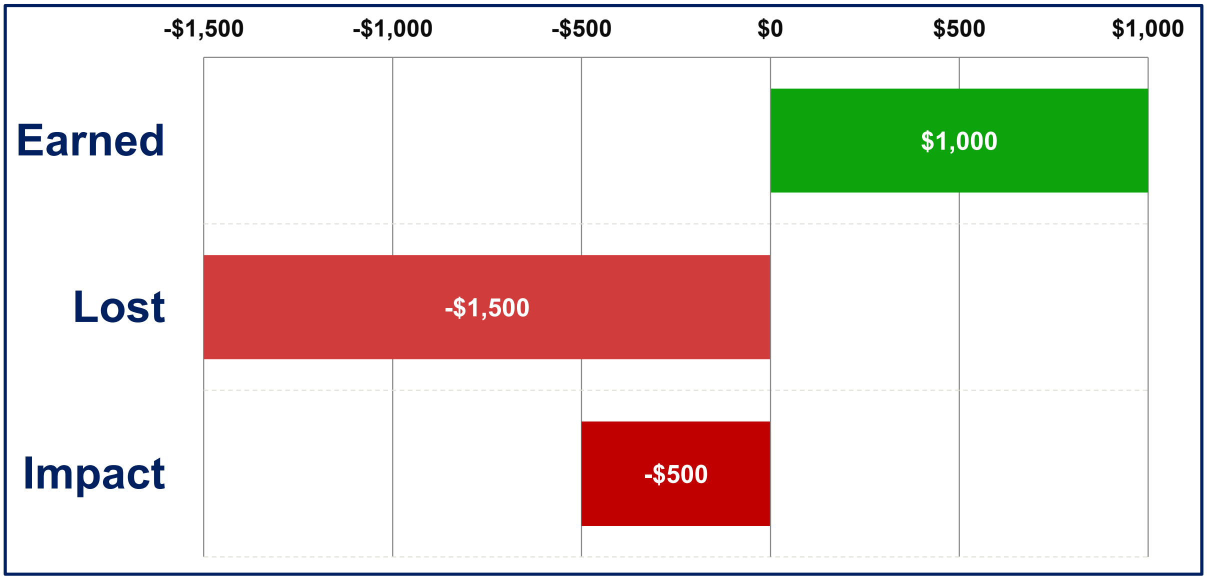


The answers to those questions are specific to each person. It depends on an individual's earnings loss tolerance. Some of us have a higher tolerance than others.

Let us pause for a moment to reflect on the fact that high or extremely severe earnings loss rates disincentivize people from earning more money. They will likely either choose not to work overtime or turn down a new position that comes with more responsibility and more pay if much of their net earnings will disappear to taxes and lost benefits.

The worst case is when the earnings loss rate is over 100%. That means that the person loses more to taxes and lost benefits than what they gained from the additional earnings, making them worse off than they were prior to earning more money. This most extreme case is what is called a benefit cliff. Figure 2 provides a graphical representation.

Figure 2: Illustration of an earnings loss rate of 150%, which is a benefit cliff



GCO developed a policy guide that classifies earnings loss rates by severity. According to this scale, high earnings loss rates are classified as those over 50% but less than or equal to 75%, and extreme earnings loss rates are more than 75% but less than or equal to 100%. Benefit cliffs have earnings loss rates over 100% and are classified as prohibitive. Table 1 shows the Earnings Loss Rate Severity Scale Policy Guide.

Table 1: Earnings Loss Rate Severity Scale Policy Guide

Severity	Range	Description
Prohibitive	100% < ELR	Benefit cliff: total disincentive, punitive, and very significant potential for behavioral change to avoid loss
Extreme	75% < ELR ≤ 100%	Extreme severity: little to no incentive for gaining more income, and significant potential for behavioral changes to avoid loss
High	50% < ELR ≤ 75%	High severity: high potential for behavioral changes to avoid loss
Moderate	25% < ELR ≤ 50%	Moderate severity: some moderate potential impact on behavior to avoid loss
Low	0% ≤ ELR ≤ 25%	Low severity: little to no potential impact on behavior to avoid loss
Negative	ELR < 0%	Negative severity: benefit gain exceeds gain in earnings, creating a potential impact on behavior to earn more

The reason high earnings loss rates and benefit cliffs exist is because the safety net system is a hodge-podge of programs that were designed in isolation, and the cumulative effect was not considered when they were created. Therefore, there is little to no coordination among the tax and safety net program rules. By their nature, safety net programs have ways to test for eligibility, and when program recipients start to earn more money, the benefits will eventually be phased out. Some programs taper off benefits slowly, but many programs end benefits abruptly. A few programs reduce benefits in steps, which, if large enough, can create a series of benefit cliffs.

The underlying principle is that earnings loss rates are additive, which means the effect compounds. We call this the stacking effect. For example, suppose someone loses 15% in marginal earnings from taxes and another 30% in lost safety net benefits from one program (the statutory benefits reduction rate for the Supplemental Nutrition Assistance Program (SNAP)). The combined effect is an earnings loss rate of 45%. There are over 80 safety net programs, and we have modeled the major ones. When we account for multiple programs, which is common among program participants, the participants can find that the cumulative loss rate is above 75%. This is disincentivizing even before the family reaches a benefit cliff. The cumulative high earnings loss rates can also run over a long range of potential incomes.

And as mentioned, there may be more than one benefit cliff. Over a range of potential earnings that we have modeled, a family can run into multiple benefit cliffs, perhaps four or five or more. This can be very discouraging for program participants and can trap them at their current economic status, wiping out their hopes of upward economic mobility.

General Solutions

Taxation and safety net programs were created by legislative bodies, and both states and the federal government have the responsibility for administering them. Likewise, both state and federal governments have opportunities to mitigate benefit cliffs or eliminate them altogether.

Safety net programs are a mix of federal and state rules that often intertwine. Some programs are totally controlled by the federal government, such as the federal Earned Income Tax Credit (EITC), which is a means-tested safety net program; the Supplemental Security Income (SSI); and Premium Tax Credits for accessing health insurance through government-run health insurance exchanges.

There are also programs in which states have significant control. These are primarily block grants, including the Temporary Assistance for Needy Families (TANF) Program, Child Care Assistance Programs (CCAPs), and the Low-Income Home Energy Assistance Program (LIHEAP).

Additionally, there are programs that states administer for the federal government, like SNAP.

There are joint programs as well, like Medicaid and the Children's Health Insurance Program (CHIP).

And then there are rental assistance programs controlled by the federal government but administered by local housing authorities (that were created under state law), or occasionally, like in rural counties in Georgia, administered by a state agency.

Fortunately, federal law provides for waivers to federal rules for selected programs, like Medicaid and SNAP, that allow for innovation, giving states the ability to test new methods, including welfare reform. The waivers differ for various programs that have different rules and guidelines that can limit the utility of those waivers in some circumstances, but overall, waivers still provide flexibility for states to demonstrate new solutions.

To summarize, states have substantial control over some programs by virtue of them being block grants, and states have some control over non-block grant programs through waiver processes, which give them flexibility to demonstrate better ways of administering the programs.

In addressing benefit cliffs, we must decide if we want real solutions that solve the cliffs or temporary solutions that may ease the situation for some recipients. The problem with the latter approach is that the responses are usually demonstration projects that ease the situation for a few participants but cannot be scaled effectively to all recipients without significantly increasing government spending or simply shifting the cliff effect to others at a higher income level, or both. We at GCO believe that the solution must not shift the problem onto others. And it must make the situation better not for just a select few but for all recipients. Moreover, it must be fiscally responsible, fulfilling the duty to be good stewards of public money.

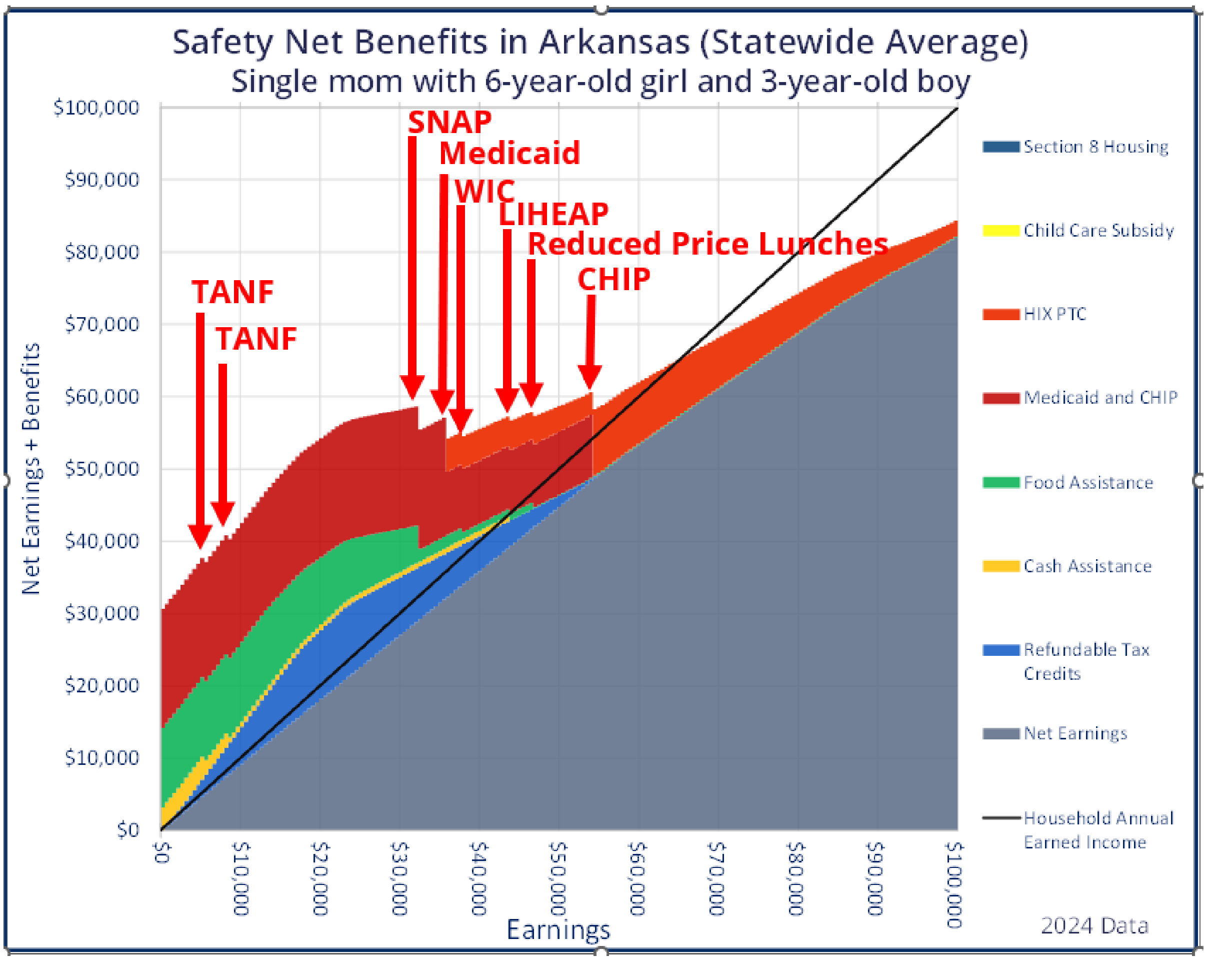
The solutions that we have been promoting address the root causes of high earnings loss rates and benefit cliffs. Broadly speaking, when starting benefit amounts are too high, it is impossible for benefits to taper off to zero without running into a benefit cliff before income eligibility is exceeded, and it can make the safety net program exorbitantly expensive. Postponing the tapering of benefits until higher incomes can also have the same effects. Some programs fail to taper benefits at all, guaranteeing a benefit cliff when income eligibility is lost. Moreover, there is no coordination of the various benefit reduction rates.

The best solutions involve the difficult work of adjusting the critical program factors, such as the starting amount of the benefits to be sure that they are adequate but economical, the tapering points, the benefit reduction rates, and the ending points. Also, the programs need to be linked to job requirements and administrative structures that are well coordinated and provide program integrity safeguards.

High Earnings Loss Rates and Benefit Cliffs in Arkansas

We ran scenarios using our benefit cliffs computer model specifically for Arkansas. Using statewide averages of safety net benefits for 2024, we considered the case of a single mom with a 6-year-old girl and a 3-year-old boy where no one in the household had a disability.

Figure 3: Basic Benefits Package Scenario



For the first scenario (Figure 3), we used the basic benefit package provided by major safety net programs[1] that most eligible families would receive. We found eight income levels that had benefit cliffs:

- a $487 benefit cliff when the TANF cash subsidy was reduced at $5,500 in earnings
- a $497 benefit cliff when the TANF cash grant was lost at $8,500 in earnings
- a $3,138 benefit cliff when SNAP benefits were lost at $32,500 in earnings
- a $2,892 benefit cliff when adult Medicaid benefits were lost at $36,000 in earnings
- a $482 benefit cliff when food benefits from the Women, Infants, and Children (WIC) program were lost at $38,000 in earnings
- a $494 benefit cliff when LIHEAP benefits were lost at $44,000 in earnings
- a $590 benefit cliff when the reduced-price school meals were lost at $47,000 in earnings
- a $2,319 benefit cliff when the Children's Health Insurance Program (CHIP) benefits were lost at $54,500 in earnings

Worse, there is a significant range of extremely high earnings loss rates averaging 78.4% from $24,500 to $32,000, which will likely disincentivize the single mom from attempting to earn more money even before she reaches the SNAP benefit cliff. Likewise, there is a range from $39,000 to $53,000 that crosses over the benefit cliff of the lost reduced-price school meals with high earnings loss rates averaging 53%.

We are not overly concerned about the TANF benefit cliffs that occur at the low-income levels because they are the easiest to overcome by working more hours. However, the other benefit cliffs are more troubling. Typically, most cause greater losses, but importantly, they happen at income levels where earning more may be more difficult without a substantial increase in skills and responsibility, and they occur in close proximity to the elongated ranges of high or extremely high earnings loss rates that may have already depleted a willingness to earn more.

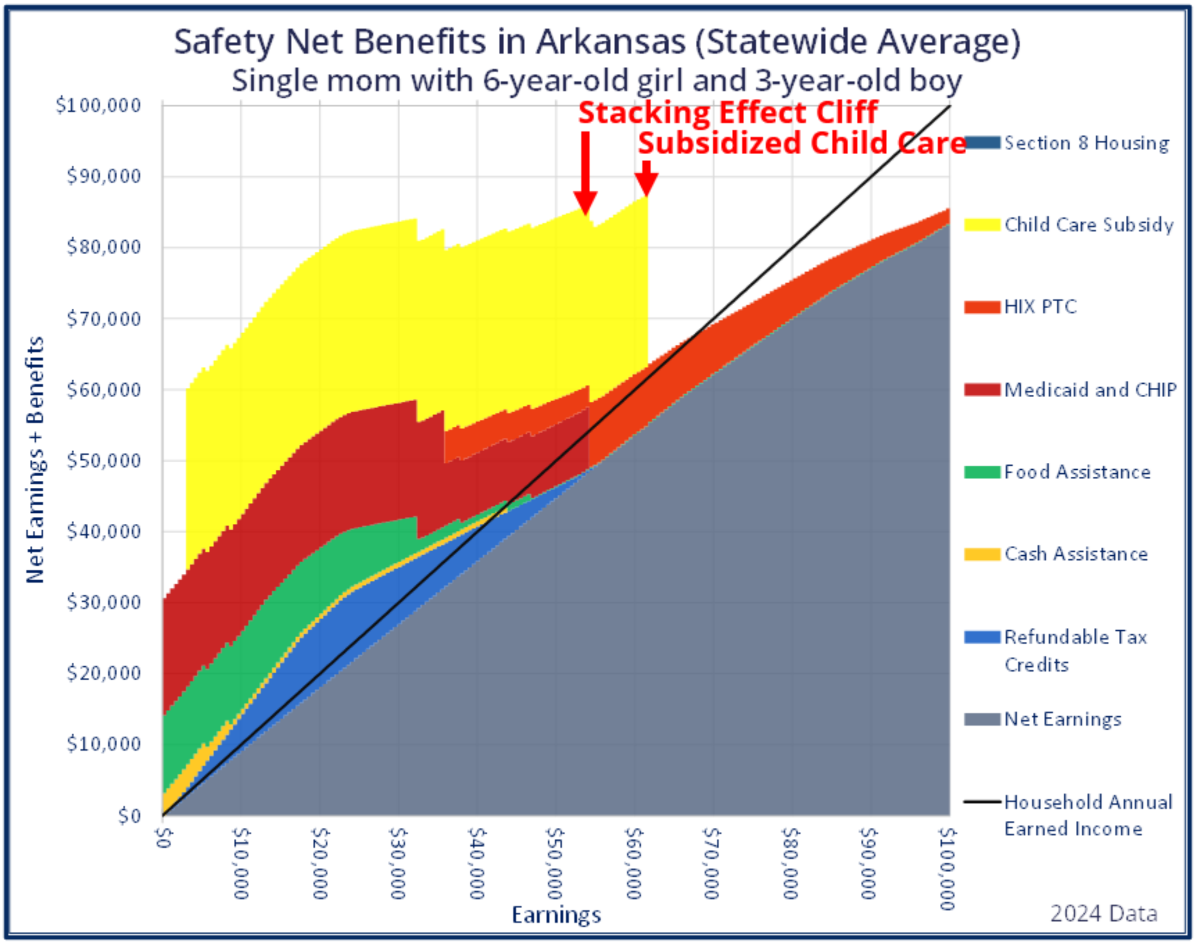
We added subsidized child care to the scenario above to create a second scenario (Figure 4). In addition to the income ranges of high and extreme earnings loss rates and the eight benefit cliffs just described, there are two new benefit cliffs:

- an $831 stacking effect benefit cliff at $55,000 in earnings, and

[1] The programs included the EITC, the Additional Child Tax Credit (ACTC), TANF Cash, LIHEAP, SNAP, WIC, free or reduced-price school meals, Medicaid, CHIP, and the premium tax credit for accessing insurance through the Arkansas Health Insurance Exchange.

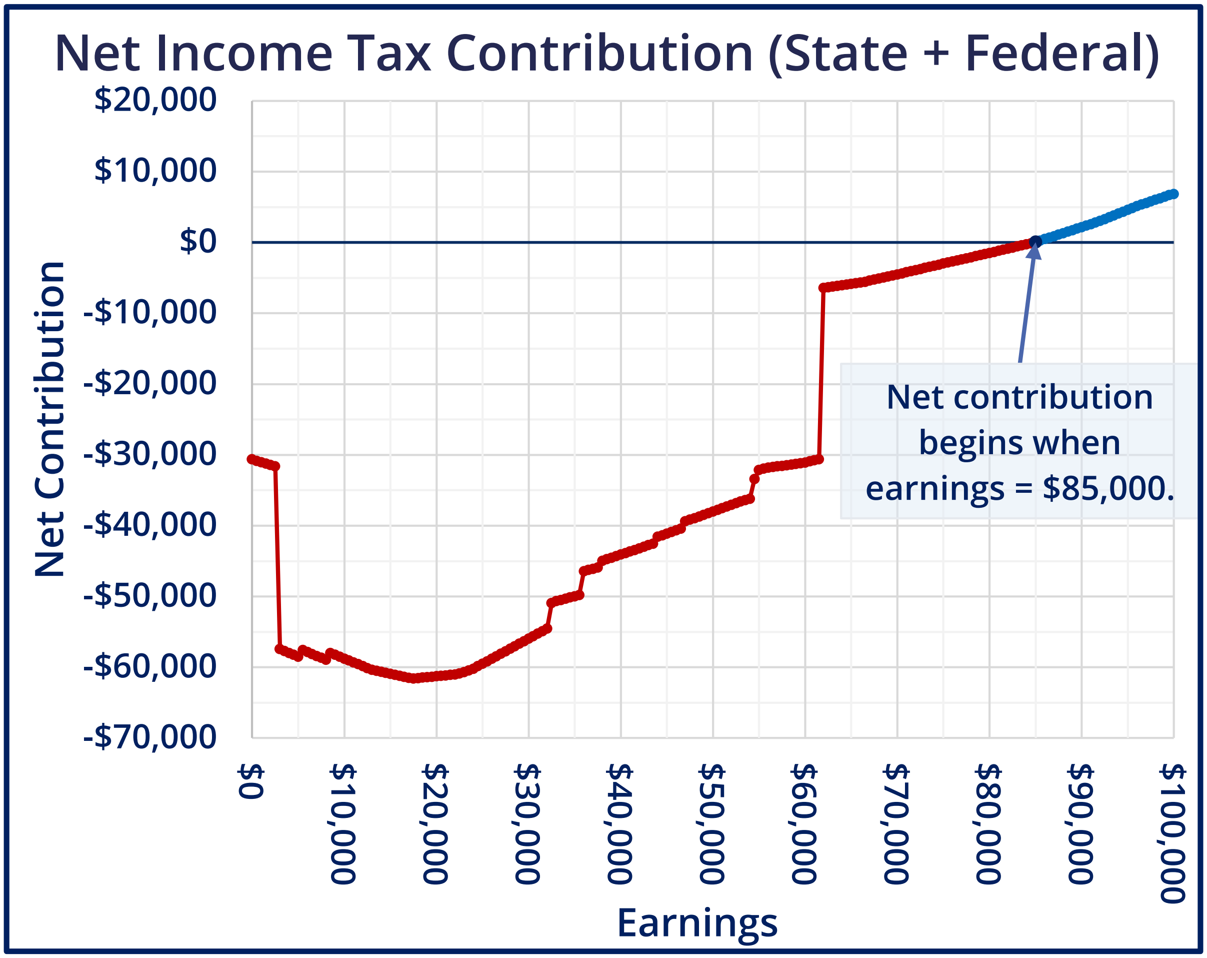
- a devastating $23,727 benefit cliff with the loss of subsidized child care at $62,000 in earnings

Figure 4: Basic Benefits Package Plus Subsidized Child Care Scenario



For this second scenario, we calculated the percentage of income levels that had high and severe earnings loss rates. We used the range of $0 to $85,000, and the upper limit was chosen because that is the point at which the single mom will make her first positive net contribution to combined federal and state income taxes (Figure 5). We found 18% of the range had high earnings loss rates and 9% had extreme earnings loss rates. After adding the benefit cliffs to the calculation, nearly one-third of all income in that range disturbingly had a high loss earnings rate, an extreme earnings loss rate, or a benefit cliff.

Figure 5: Net Income Tax Contribution



For the final scenario (Figure 6), we added the benefit of Section 8 rental assistance vouchers to give us what we call a complete benefits package. Although Section 8 benefits taper off slowly without imposing a new benefit cliff, the stacking effect makes nearly all earnings loss rates worse. This changes the distribution of earnings loss rates from the previous scenario—now 59.4% of all income ranges from $0 to $85,000 result in a high or extreme severe earnings loss rate or a benefit cliff (Figure 7).

This revised distribution might underestimate the pervasiveness of the disincentives. The disincentives really do not kick in until about $18,000 in earnings, which is well below what a single mom needs to earn. If we adjust the range to be $18,000 to $85,000, the effective income range percentage becomes 75.4%.

Figure 6: Complete Benefits Package Scenario

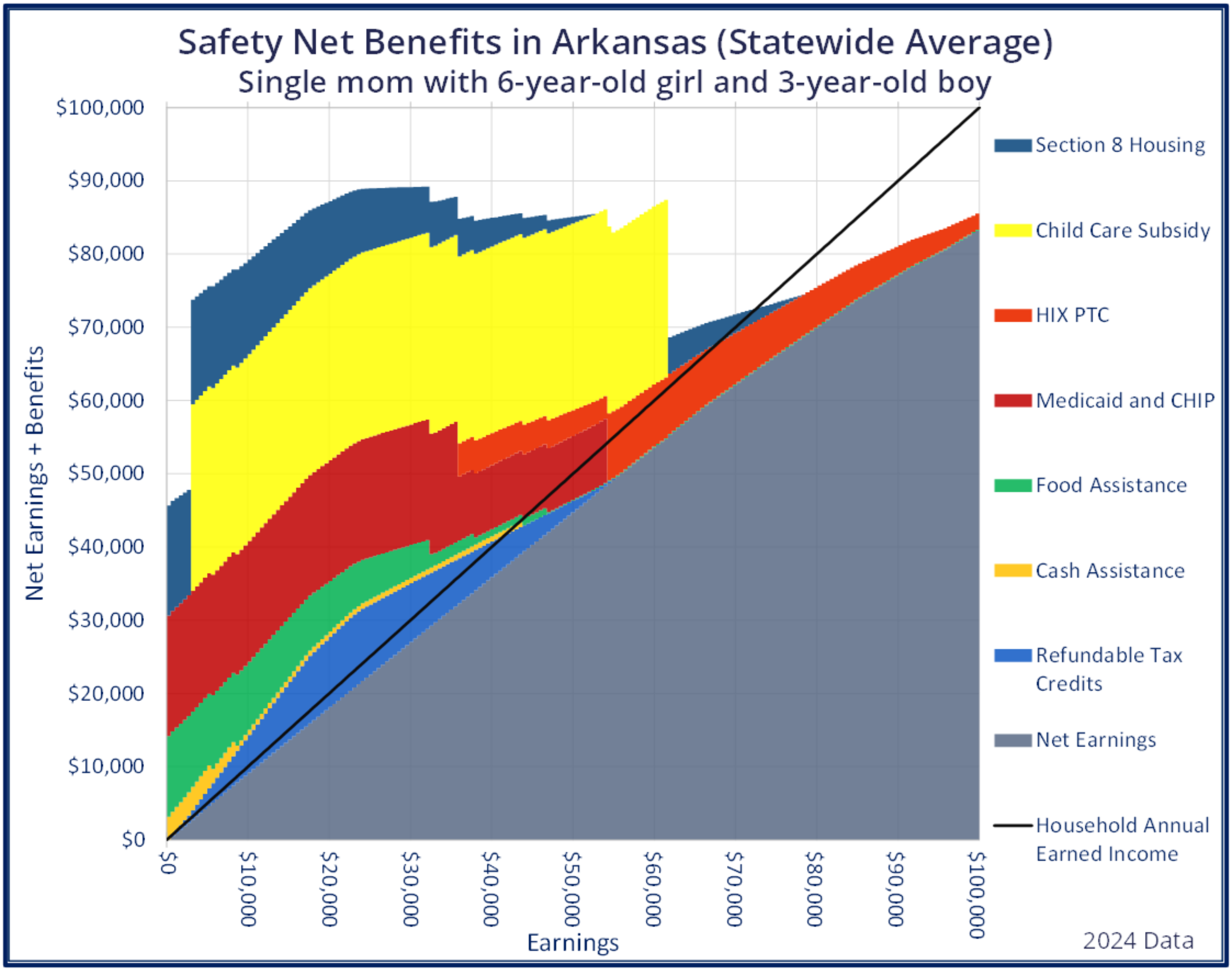
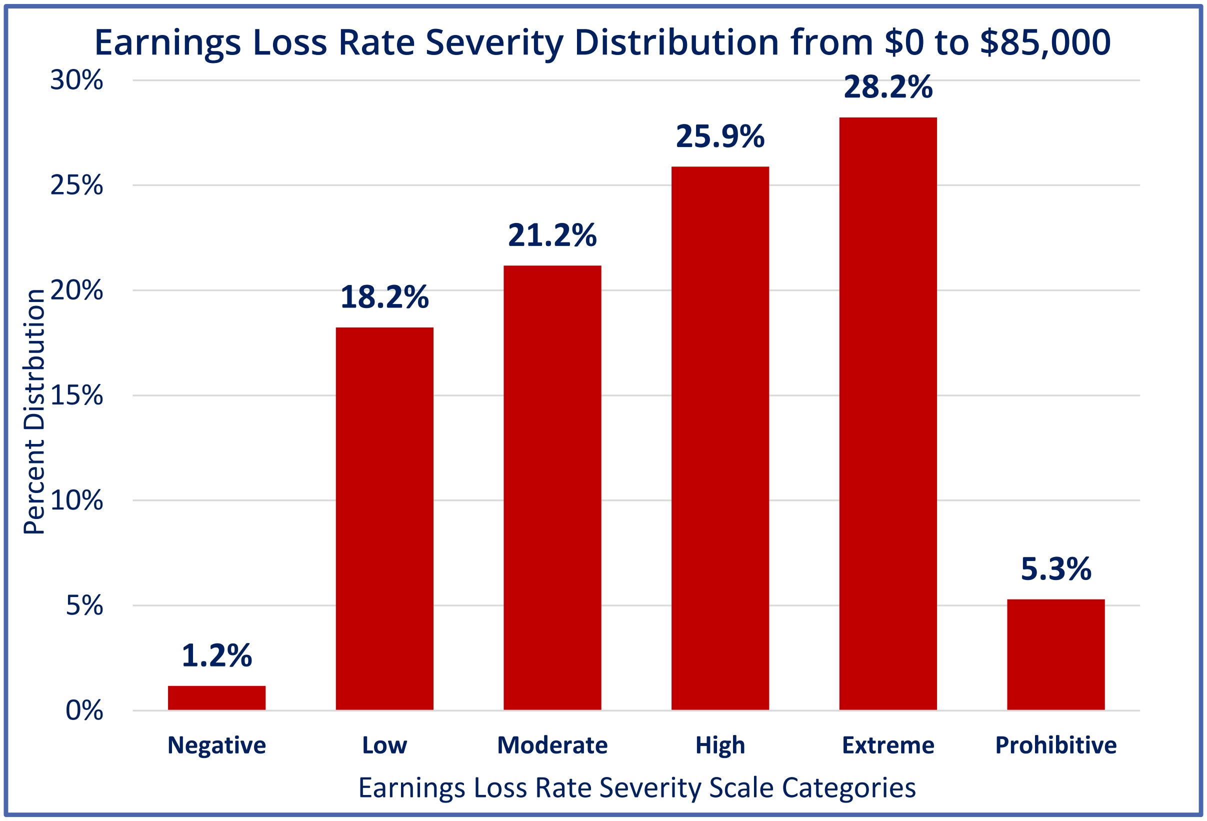


Figure 7: Distribution of Earnings Loss Rates



What the Arkansas Legislature Can Do

The Arkansas General Assembly can do more than simply pass a resolution urging Congress to solve benefit cliffs—although that is important. At the state level, it can take specific action on programs that the Arkansas executive branch controls or administers. It can authorize the governor to seek waivers for the specific purposes of implementing program changes and creating demonstration projects that address benefit cliffs. It can also modify how Arkansas administers its block grant programs.

On the topic of alleviating benefit cliffs, we have published several studies that may be helpful to members of this subcommittee. Most recently, we coauthored a booklet as part of a working group with the American Enterprise Institute and other State Policy Network organizations that focuses on how to fix benefit cliffs. At the end of this testimony, I list some of our studies that members may find helpful. And for the remainder of this testimony, I will highlight a few solutions that the subcommittee might want to consider.

SNAP: SNAP has benefit cliffs because there is a misalignment of factors. Arkansas could apply for a Section 2026 waiver for a demonstration project for no more than 15% of the population to show how realigning those factors can solve the SNAP benefit cliff.

Medical Assistance: Arkansas could seek a waiver like the one approved for the state of Indiana that allows for health savings accounts in Medicaid and a bridge account to help individuals transition to private coverage. More comprehensively, Arkansas can do a heavy lift by seeking a Section 1332 waiver of the Affordable Care Act to reform its health insurance system to give Arkansans the best system available anywhere in the world. In my opinion, the best systems are found in the Netherlands and Switzerland. Everyone in those nations has private health insurance within competitive markets that allow for innovation and high-quality care. Those countries have achieved universal coverage, and the challenging economic problems of health insurance have been solved by a risk equalization system among insurers. The closest thing the United States now has to a risk equalization system occurs with Medicare Advantage plans. However, Arkansas would likely want to adopt features from the Dutch and Swiss systems to create an even better risk equalization system than what are now used for Medicare Advantage plans.

Subsidized Child Care: Perhaps the most perplexing benefit cliffs to solve are those involving the subsidized child care program. A major obstacle is the high price of the service. Price inflation for child care services has almost quadrupled since Congress passed the Child Care and Development Block Grant Act in 1990, outpacing inflation for medical services or rent. In comparison, general price inflation is 2.4 times higher than it was in 1990. Without addressing the cost of child care, it may not be possible to solve the subsidized child care benefit cliff problem.

We recommend states adopt a three-pronged strategy:

1. Reduce the cost of child care services through regulatory reform.
2. Promote the in-home and relative care setting over the much more expensive center care setting.
3. Make extensive use of public-private partnerships with employers and nonprofit organizations to leverage private funds and resources to provide child care services.

In addition, we would recommend that Arkansas make an administrative change to its Subsidized Child Care Program to eliminate a marriage penalty feature that currently exists with the program. According to the Urban Institute's Child Care and Development Fund Policies Database, which is funded by the U.S. Department of Health and Human Services, Arkansas is one of 39 states that never counts partners of parents when determining household income. This puts married couples at a disadvantage. By joining the five states that always include partners' income, this marriage penalty would disappear.

Conclusion

Thank you for inviting me here today and giving me an opportunity to share our research on benefit cliffs. I will do my best to answer any questions members might have.

List of Studies on Benefit Cliffs

Joshua Bandoch, Nic Dunn, Leslie Ford, Angela Rachidi, Erik Randolph, and Matt Weidinger, *Stranded by the Safety Net: How to Fix the Benefit Cliff Problem,* American Enterprise Institute, December 2025, https://www.aei.org/wp-content/uploads/2025/11/Stranded-by-the-Safety-Net.pdf.

Angela Rachidi and Erik Randolph, *Eliminating the Benefit Cliff and Achieving Savings for Taxpayers: A Reform Proposal for the Supplemental Nutrition Assistance Program*, American Enterprise Institute, January 2025, Eliminating-the-Benefit-Cliff-and-Achieving-Savings-for-Taxpayers.pdf.

Angela Rachidi and Erik Randolph, *End Broad-Based Categorical Eligibility in SNAP and Address Benefit Cliffs*, Perspectives on Opportunity, American Enterprise Institute, September 2025, https://www.aei.org/wp-content/uploads/2025/09/End-Broad-Based-Categorical-Eligibility-in-SNAP-and-Address-Benefit-Cliffs.pdf.

Erik Randolph, *The NC Benefits Cliffs Problem—And It's Worse Than You Think,* Georgia Center for Opportunity, March 20, 2024, foropportunity.org/north-carolina-benefit-cliffs-problem.

Erik Randolph, *Solving Benefits Cliffs in Child Care Assistance Programs*, Georgia Center for Opportunity, November 2025, https://foropportunity.org/wp-content/uploads/2025/11/Solving-Benefits-Cliffs-in-Child-Care-Assistance-Programs.pdf.

Erik Randolph, *Solving the Food Assistance (SNAP) Benefits Cliffs: Fixing the Safety Net System*, October 4, 2023, https://foropportunity.org/wp-content/uploads/2023/10/SNAP-Cliffs-Solution-v1.9.pdf.

Erik Randolph, *Solving Medical Assistance Benefits: Removing the Healthcare Barriers That Trap People in Poverty*, Georgia Center for Opportunity, revised April 17, 2024, https://foropportunity.org/wp-content/uploads/2025/04/Solving-Medical-Assistance-Benefits-GCO-2025Ap17.pdf.