Brief

The Benefits Cliff Dilemma: Navigating Wage Increases and Public Benefits

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A Case Study With New York City Home Care Workers

Across the country, states are amending minimum wage laws to raise wages for low-income workers.[1] Some policies target specific worker groups, such as New York's decision to increase wages for home care workers in 2022 and 2023.[2]

However, for individuals using public benefits, a slightly higher wage doesn't always translate into a higher total combined income (i.e., wages plus benefits). For many people, an incremental wage increase can trigger an immediate loss of public benefits greater than their overall increase in pay – resulting in a *benefits cliff.*

> *A **benefits cliff** occurs when people using municipal, state, or federal benefits receive a raise or an increase in their work hours and then discover that they make too much money to qualify for benefits, but are not yet making enough wage income to sustain themselves and their households.*[3]

To better understand the effects of mandated incremental wage increases on individuals who supplement wage income with public benefits, the Financial Health Network collaborated with two Financial Solutions Lab Accelerator and Exchange alumni, Leap Fund and Neighborhood Trust Financial Partners, as well as The ICA Group, to speak with New York City-based home care workers receiving public benefits. We conducted our research in late 2022, around the time of a state wage increase in New York that impacted these workers directly. As of October 2022, the minimum wage for New York City home care aides[4] increased by $2 per hour (to $17 per hour) per the state's mandate, and a subsequent $1 per hour increase is scheduled for October 2023.[5]

[1] Lorie Konish, "These states are raising their minimum wages in 2023. Chart shows where workers can expect higher pay," CNBC, January 2023

[2] "Final State Budget Includes Minimum Wage Increase for Home Care Aides," Home Care Association of New York, April 2022; The $17 wage is only for home care aides in NYC, Long Island, and Westchester. The hourly minimum wage is $15.20 per hour for the remainder of New York State. Learn more here.

[3] "What is a Benefits Cliff?" benefitscliff.com, January 2022.

[4] Under Public Health Law § 3614-f, "home care aide" refers to a home health aide, personal care aide, home attendant or other licensed or unlicensed person whose primary responsibility includes the provision of in-home assistance with activities of daily living, instrumental activities of daily living or health-related tasks.

[5] "Final State Budget Includes Minimum Wage Increase for Home Care Aides," Home Care Association of New York State, April 2022.

At a time when the country is facing a caregiver shortage,[6] it is critical to understand the needs and challenges of the home care workforce. This brief discusses our exploratory research, which seeks to build on efforts to examine the dynamics of wage increases on workers who use public benefits.[7] This small-scale, human-centered research project also aims to inform policymakers and employers who are implementing wage changes about the holistic impact of wage increases on workers who receive public benefits. Finally, we hope to build awareness about the importance of empowering workers to understand the direct relationship between their income and professional trajectory and their access to public benefits.

Benefits cliffs are important for workers using benefits to consider when they are given the **option** of accepting a promotion, a raise, or an increase in their work hours. However, many workers face such cliffs unexpectedly because:

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Many benefits are subject to eligibility cut-offs or phase-outs dictated by federal or state policy.	Most people *don't know* they'll hit a benefits cliff until after they already have.	Many workers unknowingly face *mandatory* cliffs as a result of decisions made by legislators or employers.

Methodology

In order to engage directly with and interview New York City home care workers accessing public benefits, the Financial Health Network partnered with:

(1) **Leap Fund**, an organization with a platform that trains coaches and provides resources and a calculator that helps clients navigate benefits cliffs.

(2) **Neighborhood Trust Financial Partners**, a financial coaching organization with expertise working with low- to moderate-income clients.

(3) **The ICA Group**, an organization focused on worker ownership and economic democracy with expertise in the home care industry, including in New York.

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[6] "State of Home Care: Industry at a Crossroads," Home Care Association of America, January 2022.

[7] Allison Cook, "Benefit Cliffs and Benefit Plateaus: Do Higher Wages Result in Higher Incomes for New York City's Home Care Aides?" PHI National, July 2017.

The objective was to conduct interviews during November and December 2022 with a small set of home care workers who use public benefits to explore:

- The financial health of the home care workers interviewed
- The workers' use of public benefits
- The workers' awareness of benefits cliffs and its impact on previous decisions
- The implications of the mandated wage increase on the interviewed workers' benefits and on the workers' potential subsequent decisions (such as whether to cut back on hours worked to avoid a benefits cliff)

We screened potential study participants based on three criteria: if the respondent was a home care worker; if they received public benefits; and if they agreed to participate in the study.

Next, leveraging Leap Fund's Coaching Program (which includes its benefits cliff calculator), the Financial Health Network and Leap Fund developed a protocol for interviewing participants about their financial health, work hours, use of public benefits, and familiarity with the concept of benefits cliffs. If Leap Fund's benefits cliff calculator determined that a given participant would be facing a benefits cliff, participants were asked what impact that information would have on their short- and long-term decision-making.

The Financial Health Network engaged Neighborhood Trust's trained financial coaches to meet with respondents and carry out the interviews. The ICA Group helped identify and communicate directly with home care employers to recruit eligible workers for this pilot.

As part of the study, participants completed a one-hour-long coaching session with a financial coach, during which they shared some information about their finances and their experiences navigating wage and benefits dynamics.[8] Utilizing Leap Fund's calculator, the benefits cliff predictions helped the counselors and workers better understand each participating worker's vulnerability to predicted benefits cliffs. The conversations then turned to the worker's future financial plans in light of the information gleaned from the coaching session and the benefits calculator.

After examining opportunities with eight home care employers in New York City, we ultimately engaged with 38 employees across two organizations, a pool out of which we completed 11 interviews. Two main factors that limited the final number of participants were 1) language accessibility and 2) the requirement that participants were already accessing public benefits.

[8] Participants received compensation for their participation in the study and gave their consent to participate.

Key Observations

The overall financial health of respondents was low.

The Financial Health Network's Financial Health Score® measures an individual's financial health by examining criteria across an individual's ability to spend, save, borrow, and plan. An individual's score indicates whether they are considered Financially Healthy, Coping, or Vulnerable, in descending order of financial health.

> Among the home care workers interviewed for this brief, **91% of respondents' financial health scores were below the 2022 U.S. average**, with only one of the 11 respondents (9%) deemed Financially Healthy, 27% deemed Financially Coping, and 64% deemed Financially Vulnerable.[9]

Within this group of home care workers, we saw that the two areas causing the most financial vulnerability were the ability to spend (i.e., spend less than income and pay bills on time) and save (i.e., have sufficient liquid and long-term savings), pointing to serious cash flow and savings challenges.

Home care workers in the study were using multiple sources of public benefits.

Interviewed workers shared that their households accessed a variety of public benefits,[10] including Social Security Disability Insurance (SSDI), Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), and Medicaid. The two programs most used by the respondents were SNAP (82% of respondents) and Medicaid (73% of respondents); 64% of respondents noted accessing at least two forms of public benefits simultaneously.

> **Note:** Across the U.S., 12 million wage-earning adults (ages 19 to 64) are enrolled in Medicaid and 9 million wage-earning adults are in households receiving food benefits from the federal Supplemental Nutrition Assistance Program (SNAP). Approximately 70% of adult wage earners in both programs worked full-time hours (i.e., 35 hours or more) on a weekly basis, and about one-half of them worked full-time hours annually.[11]

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[9] Learn more about Financial Health Network's FinHealth Score methodology here.
[10] Receiving public benefits was a requirement to participate in the interviews.
[11] "Low-Income Workers: Millions of Full-Time Workers in the Private Sector Rely on Federal Health Care and Food Assistance Programs," US Government Accountability Office, February 2021.

Most home care workers in the study worked less than full-time hours, lacked workplace-subsidized healthcare, and used Medicaid for healthcare coverage.

Of the nine respondents who estimated their weekly hours, the average number of hours worked was 22.75 hours per week, with only one respondent working more than 35 hours per week. Only one respondent noted having healthcare provided by their employer, while 73% of respondents reported receiving their healthcare coverage through Medicaid.

The incomes of home care workers in the study were directly impacted by the wage increase mandate.

Nearly two-thirds (64%) of respondents reported a wage of exactly $17 per hour, which represents the current minimum for home care workers in New York City after the October 2022 increase. Barring any additional salary adjustments in the meantime, these workers' wages will increase to at least $18 per hour in October 2023, which could pose the risk of additional benefits cliffs.

Nearly all respondents were unaware of benefits cliffs, and some found out that they were projected to face one themselves.

Nine of the 11 respondents were not familiar with the concept of benefits cliffs or the ways in which changes to their income could trigger immediate losses in benefits eligibility.[12] Upon completing the interviews, two of the respondents were projected to encounter a benefits cliff as a result of the wage increase.

Several respondents shared their perspectives and personal challenges with benefits cliffs:

- One worker expressed frustration over not wanting to lose hours at work, yet needing to work one less hour per week to avoid losing SNAP benefits. A $17 gain for that one additional hour of work would trigger a $300-per-month loss in SNAP benefits, a benefit that the client reported having received for the past three years.
- Another respondent facing a cliff said that keeping their job was more important than losing their benefits, and they would just have to work harder on planning and budgeting if they lost their benefits.

[12] Data from Leap Fund's 2022 report reflect a similar lack of awareness of benefits cliffs; 80% of Leap Fund clients cited in the 2022 report had not heard of the concept of benefits cliffs before their coaching sessions (based on a sample of 670 clients across 40 organizations).

These stories underscore the importance of transparency around benefits cliffs. Currently, most workers don't know that they will hit a benefits cliff until after they have already hit the cliff and have lost some or all of their benefits. As the examples above indicate, transparency around benefits cliffs gives workers the ability to plan for and create a budget that accounts for these cliffs.

Still, working more hours to overcome a benefits cliff is not an option for everyone, even if an employer offers additional hours. For example, one respondent said she is limited to working 20 hours per week due to a medical condition (which itself is not eligible for SSDI).

If wage increases (rare in the home care sector) lead caregivers to reduce hours or reject additional work hours to maintain their public benefits, this runs counter to the aims of policymakers, makes it harder for employers to run home care businesses, and further contributes to the caregiver shortage crisis in home care.

Reflections and Recommendations for Future Work

The purpose of this-small scale study was to better understand the impact that regulatory or enterprise-level changes in labor policy can have on workers who use public benefits. Having conducted a number of interviews and observed some of the acute financial health challenges that home care workers in New York City face, we are eager to expand upon this research.

While the responses we received were compelling, a deeper look at financial constraints and benefits use among home care and other worker groups around the country would provide a more holistic understanding of how to craft public policy and workplace norms that better empower workers and support their financial health.

The Financial Health Network will seek to further understand and build awareness of the implications of wage increases for workers who use public benefits. Key questions for further exploration include:

- How do workers approach making professional and financial decisions once they are equipped with information about the impact of wage changes on their benefits?
- How can understanding the financial health of workers help policymakers and employers better meet workers' needs and foster sustainable economic growth?
- What are the implications of incremental wage increases on worker engagement, productivity, and retention in sectors with high rates of benefits usage?

Future research could include deeper analysis on the overall percentage of home care workers accessing public benefits in various jurisdictions — and what the necessary income increases or policy adjustments would be to compensate these workers for any loss of benefits eligibility. 2021 research by the City University of New York's Graduate Center and School of Labor and Urban Studies modeled the potential impacts of different home care sector wage increases on benefits cliffs, tax revenues, worker retention, and other economic variables in New York.[13]

The research, and the Fair Pay for Home Care coalition and campaign, pointed out that a more significant mandated wage increase for home care workers (to $22.50 in New York City) would help workers avoid benefits cliffs. At the time, one advocate from an organization representing home care workers warned that a smaller increase "could force some home health aides to reduce their hours to remain on public benefits such as Medicaid, rather than increasing wages enough for people to get off of public benefits entirely" — a difficult decision we saw under consideration among some participants in our study.[14]

While research evidence overall is mixed as to the impact of benefits cliffs on the number of hours individuals work, observations from this study reinforce what researcher Mathieu Despard has termed the "two steps forward, one step back" effect of increased wages for many who use public benefits. Indeed, as Despard has noted, workers who use public benefits pay an effective marginal "tax" on their increased earnings when they face a benefits cliff and their benefits are cut off or phased out. These tax rates vary by benefit, from 17% to as high as 65%.[15]

Future research could examine benefits cliffs in other states and perhaps combine wage modeling with a human-centered research methodology (the CUNY study did not interview home care workers). Based on our experience, a human-centered approach to interviewing home care workers is critical to understanding the complex and precarious nature of the care workforce and their wages.

As mentioned, for this study we only interviewed workers who were receiving public benefits. A future study could look at workers who do not receive benefits, screen those workers for benefits, and empower them to make enrollment decisions weighing their potential benefits payments with their wage income. Conducting this research and performing benefits counseling in multiple languages to accommodate the language needs of care workers would further enhance the learnings from such a study.

[13] Isaac Jabola-Carolus, Stephanie Luce, & Ruth Milkman, "The Case for Public Investment in Higher Pay for New York State Home Care Workers: Estimated Costs and Savings," CUNY Graduate Center, March 2021.
[14] Caroline Lewis, "NY health budget only partially delivers on home care wages and coverage for undocumented immigrants," Gothamist, April 8, 2022.
[15] Mathieu Despard, "Benefits Cliffs: Effects on Workers and the Role of Employers," U.S. Chamber of Commerce Foundation.

Expanding from the home care sector, future exploration could include analysis of benefits cliff dynamics among minimum-wage workers in the retail and service industries.

Working directly with employers whose workforces include large numbers of minimum-wage workers who use public benefits could help these employers better integrate financial health measurement tools and processes for improving employee financial health, and incorporate an understanding of benefits cliffs into their raise structures.

Finally, while benefits cliffs have received more attention in policy circles of late, continuing engagement with policymakers will be critical to enact solutions in policy setting and implementation.[16] These could include requiring benefits agencies to utilize benefits calculators with their benefits recipients and implementing more gradual and generous benefits phaseouts. These changes would help workers better understand and potentially avoid the stark trade-offs they currently face.[17]

[16] Further reading is available at benefitscliff.com. For example, Kentucky created a benefits cliff taskforce to better understand the problem of benefits cliffs. Among the task force's recommendations were: implementing a benefits calculator to address the lack of transparency for benefits recipients in the state, and exploring ways to "tier" benefits to help recipients avoid cliffs.
[17] Further policy solutions are discussed in this recent report on benefits cliffs from the U.S. Chamber of Commerce Foundation.

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The Financial Health Network is a trusted resource for business leaders, policymakers, and innovators united in a mission to improve the financial health of their customers, employees, and communities. Through research, advisory services, measurement tools, and opportunities for cross-sector collaboration, we advance awareness, understanding, and proven best practices in support of improved financial health for all.

The Financial Solutions Lab (FSL) was established in 2014 to cultivate, support, and scale innovative ideas that help improve financial health. FSL focuses on solutions addressing acute and persistent financial health challenges faced by low- to moderate-income individuals, Black and Latinx communities, and other underserved consumers.

The Financial Health Network manages the Financial Solutions Lab in collaboration with founding partner JPMorgan Chase and with support from Prudential Financial.