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The Impact of Benefits Cliffs and Asset Limits on Low-Wage Workers: New Evidence from a Nationally Representative Survey

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HIGHLIGHTS

How Many Low-Wage Workers Are Affected by Benefits Cliffs and Asset Limits in Public Programs?

- About one third of all workers receive some type of public benefit. However, these benefits create barriers to work and economic opportunity by placing caps on workers' earnings and savings amounts. As a result, workers may find themselves in a position where earning more money can make them worse off if they lose their benefits. This is known as the *benefits cliff*.
- We examined low-wage workers' responses to the risk of losing their benefits, including working fewer hours, turning down promotions, limiting their savings, and changing their family structure. We also examined what programs workers were trying to stay on when they took these actions.
- We found that 22% of workers enrolled in any public program took at least one cliff-related action to stay on public benefits. The most common responses to the risk of losing benefits were not taking on additional hours at work, keeping savings below a program limit, not taking raises or promotions, and not taking job offers.
- These cliff experiences tended to overlap, as there were strong correlations between experiences like working fewer hours and turning down jobs.
- Policymakers have an array of tools to reduce the impact of these cliffs on workers, including raising income and asset limits, streamlining eligibility rules, creating more gradual benefit phaseouts, and providing transitional benefits to workers who lose eligibility for a program.

Washington University in St. Louis

Over 40 million workers in the United States—almost a third of all U.S. workers—receive public benefits.[1] Many of these workers face a unique challenge: They would like to earn higher wages, take on more hours, or look for better jobs. However, doing so may push them over a benefit program's income limits, causing them to lose their eligibility for the program or to experience reductions in the benefits they need to make ends meet. In fact, earnings increases can sometimes make a worker worse off if those increases do not cover the value of the lost benefits—for example, the loss of financial assistance to pay for childcare.[2] This is referred to as the *benefits cliff*.

Relatedly, some programs impose asset limits that can cause individuals to lose benefit eligibility if their savings go above a certain threshold. Examples of such programs include Supplemental Security Income (SSI) and, in many states, Medicaid, Temporary Assistance for Needy Families (TANF), and the Supplemental Nutrition Assistance Program (SNAP).

These income and asset limits can be strict. For example, SSI recipients can lose eligibility for the program—which is often an essential lifeline for individuals with disabilities—if they have more than $2,000 in savings ($3,000 for couples). In other cases, income increases worth a dollar or two more per hour can lead to the loss of thousands of dollars in childcare subsidies, SNAP benefits, and Medicaid coverage. Additionally, confusing eligibility requirements can cause workers to fear hitting a benefits cliff even when they are not near one. That fear can further impede their ability to earn and save.

One way to understand benefits cliffs is through effective marginal tax rates—the amount that an income increase of $1 would be "taxed" through the loss of public benefits.[3] The rate varies from 17 to 65 cents across different bands of income and household sizes.[4] These high effective marginal tax rates can force workers to act in ways that inhibit their career growth and earning power, prompting them to decline additional work hours, job offers, raises, and promotions.

This is a major issue for workers who want to find better jobs, advance their careers, and achieve their financial goals, because they have to continue working in suboptimal jobs in order to receive the public benefits required to sustain their families. These workers can find themselves in the difficult position of choosing between a higher-paying job with greater career growth potential, and maintaining their eligibility for the essential health, food, or dependent care benefits they need to keep their family afloat. This is also an issue for employers, whose ability to attract and retain talent is affected when the workforce's employment decisions are driven by concerns about public benefit eligibility. Recruitment and retention also are shaped by policymaker preferences that benefit recipients work more hours, earn more money, and eventually move out of the public benefits system.

Though this is a widespread problem, the full scope of the issue is unknown,[5] and estimates vary widely on the number of households affected by benefits cliffs and asset limits.[6] In this research brief, we present new evidence on the rates at which low-wage workers are affected by benefits cliffs and the actions they take to stay on those benefits. We also examine the programs that low-wage workers were trying to stay on when they took these actions. To do so, we draw on data from the Workforce Economic Inclusion and Mobility (WEIM) survey administered to a nationally representative sample of 2,511 U.S. workers earning less than 250% of the federal poverty line. These results draw on Wave 1 of the WEIM survey, which was administered in November and December of 2023.

Key Findings

How Many Low-Wage Workers Are Affected by Benefits Cliffs and Asset Limits?

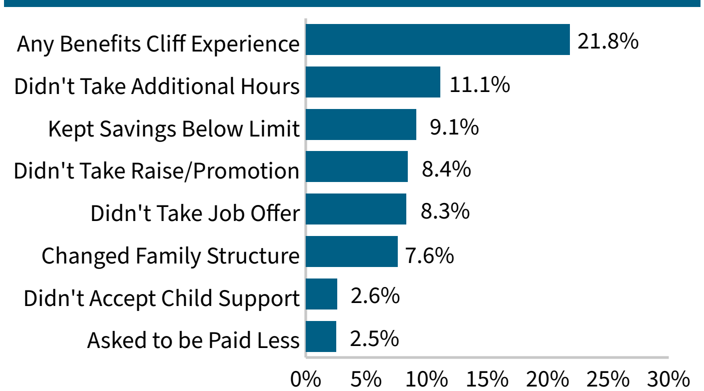
The WEIM survey asked respondents whether they participated in any of 11 different public programs, including SNAP, Medicaid, Social Security Disability Insurance (SSDI), the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), housing assistance programs, and others. If a respondent reported that they were currently participating in at least one of these programs, we asked whether they engaged in any of the following behaviors to maintain program eligibility:

- not taking additional hours at work
- not taking a raise or promotion at work
- not taking a job offer
- asking to be paid less at work
- leeping their savings below the limit set by a program
- changing their family structure (e.g., not getting married)
- not accepting child support

Figure 1 shows that, in total, 21.8% of low-wage workers reported participation in any public program and taking at least one of these actions, which we refer to as benefits cliff experiences.

Figure 1 also examines the specific actions taken to continue receiving public benefits. The most common action reported

FIGURE 1
Worker Responses to Benefits Cliffs and Asset Limits



Note. $N = 1{,}174$ participating in any public program.

FIGURE 2

The Correlation Between Benefits Cliff Experiences

	No Raise/Promotion	Fewer Hours	Turn Down Job	Family Change	No Child Support	Asset Limits
Fewer Hours	.855					
Turn Down Job	.879	.826				
Family Change	.700	.621	.633			
No Child Support	.671	.662	.562	.634		
Asset Limits	.661	.647	.705	.668	.571	
Paid Less	.738	.759	.752	.646	.716	.806

Note. *N* = 1,050. A correlation of between 0.5 and 0.7 is a moderately strong correlation. A correlation greater than 0.7 is a strong correlation.

was not taking on additional hours, with 11.1% of program participants reporting that they made this decision. However, noteworthy percentages reported declining raises or promotions (8.4%) and job offers (8.3%). In terms of asset limit responses, 9.1% of workers reported saving less to stay on benefits. Interestingly, 7.6% of respondents reported not getting married or otherwise changing their family structure to stay on benefits. This finding implies that the economic effects of these policy-design choices extend beyond income and savings decisions.

How Do Benefits Cliff Experiences Overlap?

Worker responses to benefits cliffs and asset limits often do not exist in isolation. That is, a worker who reports reducing hours to retain benefits may also turn down raises or promotions, and a worker who limits savings to avoid an asset limit may also turn down jobs, hours, or raises. Of the low-wage workers in our sample who reported any response to benefits cliffs or asset limits, more than half (57.9%) reported multiple responses, and 9.2% reported engaging in four or more of the behaviors we measured.

Figure 2 shows how these behaviors correlate with each other. A correlation above 0.7 is typically considered to be a strong correlation, and correlations between 0.5 and 0.7 are typically considered moderately strong. In our study, every measured response to benefits cliffs and asset limits was positively correlated with every other response, and in many cases the correlations were strong. Each of the income-related behaviors—working fewer hours, turning down raises or promotions, turning down job offers, and asking to be paid less—were strongly correlated, meaning that benefits cliffs are likely distorting worker earnings in multiple ways.

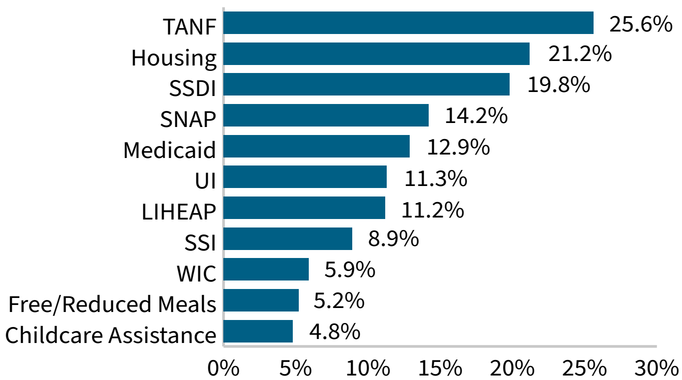
Similarly, keeping savings low in response to asset limits had a moderately strong correlation with earnings-reducing behaviors, implying that asset limits and benefits cliffs are working in tandem to reduce both earnings and wealth.

What Programs Are Low-Wage Workers Trying to Stay On?

Public benefit programs vary widely in their structure, eligibility requirements, and role in participants' economic lives. Because of these differences, the benefits cliffs and asset limits in some programs may pose higher risks to recipients than those in other programs. We asked respondents which programs motivated them to engage in the measured behaviors. **Figure 3** shows the results.

Across measured programs, TANF recipients reported the highest rate of benefits cliff experiences, with 25.6% of current TANF recipients reporting that they had taken at least one of the actions listed above to retain eligibility. Housing assistance programs were also commonly associated with benefits cliff experiences, as 21.2% of recipients reported taking at least one of these actions keep their eligibility. Among workers participating in SSDI, SNAP, Medicaid, unemployment insurance, and the Low-Income Home Energy Assistance Program (LIHEAP), between 10% and 20% reported at least one benefits-cliff experience as a result of each program, while fewer than 10% of workers participating in childcare assistance, SSI, Free/Reduced Price (FRP) Meals for schoolchildren, and WIC reported at least one such experience. Among benefit programs, TANF is recognized as having a relatively severe cliff, as does housing assistance.[7]

FIGURE 3
The Programs Associated With Benefits Cliff Experiences



Note. TANF = Temporary Assistance for Needy Families; SSDI = Social Security Disability Insurance; SNAP = Supplemental Nutrition Assistance Program; UI = Unemployment Insurance; LIHEAP = Low-Income Home Energy Assistance Program; SSI = Supplemental Security Income; and WIC = Special Supplemental Nutrition Program for Women, Infants, and Children. *N* varies by program participation, ranging from 42 to 734.

Who Is Most Likely To Be Affected By Benefits Cliffs And Asset Limits?

Benefits cliffs do not affect all workers equally. To show which groups may be most vulnerable to benefits cliffs and asset limits, **Table 1** presents the likelihood of any benefits cliff response, as well as of four specific cliff responses. Three of these responses impede economic mobility (e.g., not taking a raise/promotion, not taking additional hours, declining a job offer), while keeping savings below asset limits increases financial precarity by reducing the ability to respond to emergencies. Workers who are already more economically vulnerable are more likely to experience the detrimental economic and financial effects of benefits cliffs.

Notably, workers in households that include people with disabilities were more likely to have taken each of these four actions, showing their particular vulnerability to the economic effects of benefits cliffs and asset limits.

Policy Implications

Benefits cliffs and asset limits are policy choices, choices that create substantial barriers to work and economic mobility for households. Our work shows that these policies affect large percentages of the low-wage workforce and that workers often experience multiple, overlapping effects from benefits cliffs and asset limits. It is not just that a worker is forced to work fewer hours, or decline a promotion, or keep their savings below a limit. These things often affect workers simultaneously, with workers forced to keep their incomes and their savings low just to maintain eligibility for benefits.

This incentive structure distorts economic behavior in ways that are harmful to workers, to employers, and to governments. Workers would clearly gain from being able to earn higher wages without being placed in a worse financial position from the loss of benefits. Employers have an interest in a workforce that is able to work more hours and take the positions for which they are best suited. Governments and communities would benefit from a workforce with higher employment rates and earnings potential.

TABLE 1.
Disparities in Benefits Cliff Experiences

	Comparison Group	Any Benefits Cliff Response	Didn't Take Raise/Promotion	Didn't Take Additional Hours	Didn't Take Job Offer	Kept Savings Below Limit
Disability	No disability in HH	Disability in HH (+)***	Disability in HH (+)**	Disability in HH (+)**	Disability in HH (+)*	Disability in HH (+)**
Age	18–29 years old	Over 45 (+)**	n.s.	Over 60 (-)**	Over 45 (-)**	Over 60 (-)*
Education	HS degree	n.s.	n.s.	n.s.	Less than HS (+)*	n.s.
Immigrant	All HH born in United States	n.s.	n.s.	n.s.	n.s.	Immigrant HH (+)*
Banking	Has bank account	Unbanked (+)*	n.s.	Unbanked (+)*	n.s.	Unbanked (+)*
Income	$0–$10,000	$30K–$50K (-)**	$40K–$50K (-)**	$40K–$50K (-)*	$30K–$50K (-)**	n.s.
Savings	$0	$501–$25K (+)**	n.s.	$501–$2,500 (+)*	$10–$25K (+)**	$501–$25K (+)*

Note. n.s. = not statistically significant; HH = household. No statistically significant relationships observed by race/ethnicity or employment type (full time/part time). *p < .05; **p < .01; ***p <.001.

Moreover, benefits cliffs and asset limits in public programs create a network of public policies that work at cross-purposes. For example, the federal government recently passed the SECURE 2.0 Act,[8] which creates an array of savings incentives for low-income households. The incentives range from tax credits to employer-based emergency savings accounts. However, the impact of these savings incentives will necessarily be muted, and may not reach those who could stand to benefit the most from those incentives, if workers cannot claim them for fear of losing eligibility for their public benefits. Specifically, retirement savings are counted toward asset limits in many programs, including SSI and Medicaid, if they can be withdrawn.

Even if a cliff is not imminent, navigating the complication and uncertainty around benefits-program requirements can hold workers back from making decisions that improve their economic future. One study found that TANF recipients often perceived asset limits as being much stricter than they were and that such perceptions limited their willingness to save money.[9] Benefits cliffs and asset limits, in tandem with the administrative burdens placed on benefit recipients around understanding eligibility requirements, program benefits, and compliance rules, create a complex set of rules and procedures that differ across programs, across states, and across time.

Removing the barriers imposed by benefits cliffs will require modernizing the benefits system, including improving transparency by simplifying program requirements and streamlining application processes across programs.[10] Policymakers should also consider the following strategies in creating a benefits system that promotes work while facilitating financial stability and economic mobility.

Raising Income and Asset Limits

Currently, some programs set income caps well below what would be required for families to live independently if they lost their benefits, and many asset limits are set so low that families cannot build even a modest savings buffer without risking their benefits. Asset and income limits should be set at a level that ensures families can escape poverty before their benefits end.

Streamline Eligibility Rules and Improve Information Sharing

Navigating eligibility for multiple public programs, each with its own eligibility rules, compliance requirements, and income/asset limits, is likely confusing and stressful for families. This may, in turn, limit their willingness to participate in programs for which they are eligible, increase their risk of losing access to their benefits because they were unaware of a given program rule, and, out of fear of losing eligibility, impede their ability to work or save. To address these issues, public benefit programs should work to streamline their eligibility criteria and offer beneficiaries a common application.

Create More Gradual Phaseouts

Rather than setting strict income cutoffs, which create strong work disincentives, benefits policy should gradually phase down the dollar value of public benefit programs as income increases, so that families still experience a net inflow of resources as their earnings increase.

Leverage Transitional Benefits

Some states have implemented programs to provide economic supports for families that become ineligible for public benefit programs due to an increase in income. For example, Washington state offers five months of food assistance to families that become ineligible for TANF. This approach can help soften the impact of losing benefits, limit work disincentives, and give families more capacity to adjust to the loss of program benefits.

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Notes

1 Cooper (2016).

2 Despard (2022).

3 Despard (2022).

4 Parrott and Greenstein (2014).

5 Leap Fund (n.d.).

6 See, for example, Roll (2018); Roll and East (2014); Wood et al. (2018).

7 Despard (2022).

8 SECURE 2.0 Act of 2022.

9 O'Brien (2008).

10 Abbi (2020).

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