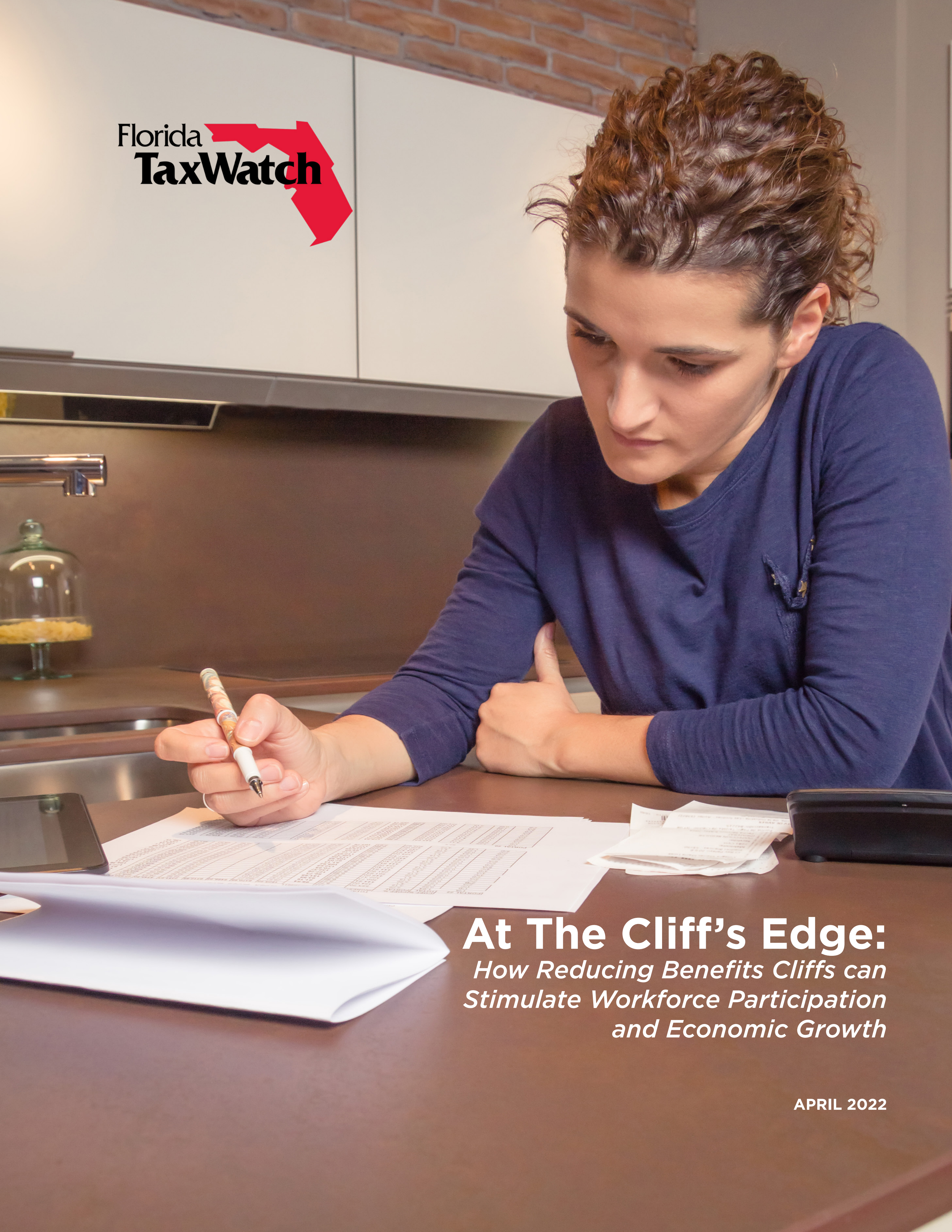

Florida TaxWatch

At The Cliff's Edge:

How Reducing Benefits Cliffs can Stimulate Workforce Participation and Economic Growth

APRIL 2022

Florida TaxWatch

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Dear Fellow Taxpayer

Florida has emerged from the COVID-19 pandemic as a national leader for job creation, economic growth, and low-tax burden. Months of positive job growth across different industries have created tremendous economic gains and lower unemployment, but questions remain about other aspects of the labor force. In particular, labor force participation remains relatively low among women and, after peaking in the mid-2000s, Florida's overall labor force participation rate has declined ever since.

Alongside Florida's economic recovery, enrollment in public assistance programs spiked in response to the COVID-19 pandemic as families wrestled with sudden financial shocks. Medicaid enrollment remains elevated above pre-pandemic levels and is expected to climb for the foreseeable future. For low-income and asset-limited populations, who are also wrestling with historically high inflation rates, these challenges have significant long-term implications for economic mobility and self-sufficiency.

The U.S. social safety net system was designed to provide a base level of financial stabilization for vulnerable families while enabling opportunities for future advancement. A complex set of income eligibility requirements across various programs makes this core goal a practical difficulty. More troubling, recipients sometimes face a concerning trade-off between earning more income and losing public benefits. Known as a "benefits cliff," this scenario occurs when individuals make marginally more than a program's income threshold, losing the associated public benefits and being financially worse off than before the earnings change. The result is a perverse disincentive to work or earn more.

Addressing benefits cliffs must be a key policy priority for Florida moving forward if the state expects to continue its workforce recovery and achieve its economic growth goals by 2030 and beyond. From having a more generative workforce to reducing public assistance usage, solutions to the benefits cliff challenge yield a significant public return over time.

Florida TaxWatch undertakes this independent research project to analyze benefits cliffs, their economic and fiscal effects, and initiatives other states are pursuing to address the problem. Florida TaxWatch provides several practical policy recommendations to mitigate the benefits cliff while expanding economic self-sufficiency, advancement, and mobility over time.

Sincerely,

Dominic M. Calabro

Dominic M. Calabro

President & Chief Executive Officer

CONTENTS

ACRONYMS AND ABBREVIATIONS

Acronym	Definition
AFDC	Aid to Families with Dependent Children
ALICE	Asset Limited, Income Constrained, Employed
CNA	Certified Nursing Assistant
CCDF	Child Care and Development Fund
CEPP	Colorado Cliff Effect Pilot Program
CHIP	Children's Health Insurance Program
CLIFF	Career Ladder Identifier and Financial Forecaster
CTC	Child Tax Credit
EITC	Earned Income Tax Credit
FATES	Families' Ascent to Economic Security
FFCRA	Families First Coronavirus Response Act
FPL	Federal Poverty Level
FY	Fiscal Year
LFPR	Labor Force Participation Rate
PHE	Public Health Emergency
PRD	Policy Rules Database
RN	Registered Nurse
SMI	State Median Income
SNAP	Supplemental Nutrition Assistance Program
SSI	Supplemental Security Income
TANF	Temporary Assistance to Needy Families
VITA	Volunteer Income Tax Assistance
WIC	Women, Infants, and Children
WIOA	Workforce Innovation and Opportunity Act

Executive Summary

Based on many economic indicators, Florida's labor market has experienced a significant rebound since the early pandemic lows. By the beginning of 2022, Florida's total employment eclipsed 9.1 million workers, adding 504,000 jobs over the year. The state has reclaimed all the jobs lost between February and April 2020. As job growth continues across all major economic sectors, the state's unemployment rate has inched lower to 3.5 percent as of January 2022.

Despite the seemingly unabated progress, a deeper analysis reveals the labor market recovery has been far from flawless. The "Great Resignation" has led to heightened job quit rates for reasons such as low pay and health risks. The lack of access to affordable childcare has led to more than 170,000 women in Florida exiting the workforce, and due to market forces, inflation has erased wage gains for many workers.

Throughout the ongoing pandemic recovery, labor market participation has been particularly concerning. After peaking in March 2007, Florida's labor force participation rate has steadily declined, hitting a low point of 53.8 percent in April 2020. By the start of 2022, the participation rate had recovered to 58.6 percent but remained below pre-pandemic levels.

The reasons for lower workforce participation, especially among women, are diverse and include factors such as early retirements and increased caregiving responsibilities. Early research from the Federal Reserve finds that based on survey responses, the number of individuals citing "other reasons" for nonemployment has been growing. One specific factor in this broad category involves the loss of valuable benefits as income grows, more than offsetting any gains and disincentivizing employment.

Alongside the workforce situation, Florida's public assistance landscape has also felt the brunt of pandemic-induced factors. Between January 2020 and December 2020, the number of Floridians receiving Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance to Needy Families (TANF), and Medicaid rose between 18.2 and 28.9 percent. Although SNAP caseloads have declined since then, Florida's Medicaid enrollment has remained elevated in 2022, reaching 4.3 million people.

These labor market and public assistance outcomes are especially consequential for the more than 2.7 million Floridians in poverty and the more than 2.6 million households who are *Asset Limited, Income Constrained, Employed* (ALICE). For ALICE households, families earn above the federal poverty threshold but cannot afford basic household necessities due to the cost of living. Addressing the challenges directly affecting low-income populations will be imperative for economic mobility and Florida's economic growth.

The U.S. social safety net system encompasses various public assistance programs that assist low-income individuals and families weathering financial challenges. Through direct cash transfers, in-kind benefits, and tax credits, these programs provide a base level of economic stabilization while yielding opportunities for further economic advancement. Due to the way many programs are designed, most public assistance programs are "means-tested," meaning they are only available to individuals with income up to a certain threshold. This particular program design can sometimes have the unintentional consequence of causing families to suddenly lose benefits after earning more income.

Benefits cliffs occur when a marginal wage increase results in the partial or total loss of public benefits for different public assistance programs. For illustrative purposes, imagine a mother earns a $1,000 annual raise but loses more than $8,000 in childcare assistance—a cliff effect occurs. When benefits cliffs materialize, there may be a subsequent disincentive for individuals to progress along a wage or career path necessary for economic self-sufficiency and advancement.

Under a simulated scenario using the Federal Reserve's Policy Rules Database (PRD), Florida TaxWatch finds a single mother of two children enrolled in various public programs would experience three distinct, sizeable benefits cliffs. The cliffs represent the cumulative effects of losing Medicaid for adults, children, and childcare assistance. Even though the results are simulated, the findings underscore the need to consider benefits cliffs at the intersection of women's workforce participation and children's outcomes.

More than just affecting family outcomes, benefits cliffs can have a broader impact on the economy. When workers are disincentivized from pursuing higher earnings or other forms of career advancement, local businesses struggle to attract and develop talent. In one Colorado-based study, participants were 2.8 times more likely to reduce work hours or earnings to lessen the childcare benefits cliff. From a fiscal standpoint, benefits cliffs can lead to higher utilization of public assistance, increasing taxpayer costs over time. When cliff effects are overcome, however, higher earnings can promote more local spending, added tax revenue, and lower public assistance usage.

Looking ahead, benefits cliffs will likely remain a concern as Florida families deal with financial fluctuations and an evolving workforce. Wage growth—either from market forces or anticipated minimum wage increases in Florida—will be worth monitoring as income thresholds can be slow to respond to changing economic dynamics. Another uncertainty relates to the eventual end of the Public Health Emergency (PHE), which has an important influence on enhanced Medicaid funding and health insurance coverage.

Remedies to address benefits cliffs range in scale and approach—no one action will entirely mitigate cliffs. By lessening the financial shock, engaging local partners, considering state eligibility rules, and removing the frictions that discourage economic growth, progress can be made. To smooth out benefits cliffs, Florida TaxWatch recommends the following to policymakers, stakeholders, and local entities:

- For Florida Children's Health Insurance Program (CHIP)—also known as KidCare—for families facing the benefits cliff, increase the income eligibility threshold beyond 200 percent of the FPL and gradually raise the premium amounts families pay until an established level.
- Because the economic burdens vary by community, modify Florida's Child Care and Development Fund (CCDF) eligibility design to provide for an alternative co-pay schedule that takes into account each county's cost of living.
- Incorporate benefits cliffs visualization tools like the Career Ladder Identifier and Financial Forecaster (CLIFF) and Policy Rules Database (PRD) within workforce development organizations, local businesses, nonprofits, and other agencies.
- Perform a state-level comprehensive assessment to examine the aggregate economic and fiscal impacts of benefits cliffs on Florida's economy. The assessment should identify the most common combination of public assistance programs, which programs create the biggest cliff effects, and how such difficulties reduce labor force participation and increase state costs.
- Encourage participation in the federal Earned Income Tax Credit (EITC) program by supporting local Volunteer Income Tax Assistance (VITA) sites and directing caseworkers to automatically inform eligible families of this service when they apply to state-level public assistance programs like TANF, SNAP, or Medicaid/CHIP.
- Support affordable housing efforts around the state of Florida by ensuring adequate levels for the Sadowski affordable housing trust fund and not redirecting targeted funds to other state issues.
- Identify potential ways to use Workforce Innovation and Opportunity Act (WIOA) resources and partner programs to alleviate benefits cliffs and incorporate existing benefits cliffs tools.

Introduction

THE WORKFORCE SITUATION

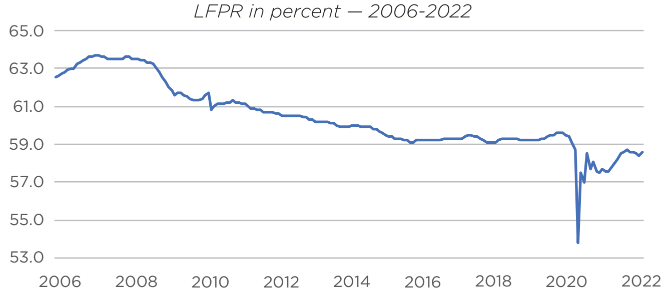
By many measures, Florida's labor market has made a rousing recovery ever since the COVID-19 pandemic first upended the economy and created an unprecedented downturn in early 2020. Although months of economic hardship followed, Florida quickly started to reclaim jobs and has maintained an accelerated pace ever since. As of January 2022, Florida's total employment surpassed 9.1 million, adding 504,000 jobs over the year.[1] The state of Florida has recovered all the jobs lost between February and April 2020, and positive job growth has continued across all ten major industries. A marked departure from the pandemic's worst moments, Florida's unemployment rate inched downward to 3.5 percent at the beginning of 2022.[2]

Despite the economy's tremendous progress, upon deeper inspection, it becomes apparent the labor market recovery has been far from perfect. In line with the "Great Resignation," job quitting rates have been rather pronounced in service industries as workers cite low pay, overall uncertainty, and other high-risk factors.[3] This comes at a time when there are more than 650,000 job openings in Florida, outpacing the number of unemployed individuals across the state.[4] The lack of affordable, accessible childcare, and other reasons has sidelined some 170,000 women from Florida's workforce, and due to market forces, inflation has negated considerable wage gains for many workers, eroding purchasing power in the process.[5]

Labor force participation has been one of the more concerning aspects of the ongoing pandemic recovery. Since peaking in March 2007, Florida's labor force participation rate (LFPR) has steadily declined (See Figure 1). The pandemic only exacerbated declining participation, sinking to a low point of 53.8 percent in April 2020. By the start of 2022, the LFPR recovered to 58.6 percent but still remained below pre-pandemic levels.[6]

Fig. 1. The Pandemic Accelerated Florida's Already Declining Labor Force Participation Rate

LFPR in percent — 2006-2022



Source: U.S. Bureau of Labor Statistics

Closer analysis suggests that a mix of reasons, ranging from earlier retirements to taking care of family, has led to many exits from the labor force, disproportionately among women.[7] Research from the Federal Reserve has also found that among survey respondents, the number of individuals citing "other reasons" for nonemployment has been growing since December 2020. Although difficult to pinpoint what this broad category entails, the study suggests one specific factor may be the loss of valuable public benefits that more than offset income gains, disincentivizing employment as a result.[8] Regardless of the exact reason, lower workforce participation is concerning for Florida's longevity as the state continues to recover from the pandemic and also confronts a rapidly aging population over the coming years.[9]

1 Florida Department of Economic Opportunity (DEO), "Florida's January Employment Figures Released," Mar. 14, 2022. Note: The employment figures refer to Florida's nonagricultural employment (seasonally adjusted).

2 Florida Department of Economic Opportunity (DEO), "Florida's January Employment Figures Released," Mar. 14, 2022.

3 Florida TaxWatch, "Despite Positive Job Growth in Recent Months, People Are Quitting Jobs at Record Rates," Jan. 7, 2022.

4 U.S. Bureau of Labor Statistics (BLS), "State Job Openings and Labor Turnover – December 2021," Feb. 17, 2022.

5 Florida TaxWatch, "Working Paper: Where Are The Women?," Jan. 21, 2022, and "Wage Growth and Talent Attraction in the Pandemic Labor Market," Feb. 17, 2022.

6 The prime-age labor force participation rate (ages 25-54) is another important indicator less sensitive to demographic effects because retirement age adults are not included. This prime-age measure will be important to monitor in future years as the Baby Boomer population retires.

7 Federal Reserve Bank of St. Louis, "Why Are Workers Staying Out of the U.S. Labor Force?" Feb. 2, 2022.

8 Federal Reserve Bank of Cleveland, "What's Holding Back Employment in the Recovery from the COVID-19 Pandemic?" Dec. 21, 2021.

9 Florida TaxWatch, Aging in Place—The Economic and Fiscal Value of Home and Community-Based Services, Jan. 2022.

THE PUBLIC ASSISTANCE SITUATION

Paralleling the pandemic's economic and workforce repercussions, enrollment in safety net programs began to swell as many families required additional assistance to weather the financial fallout. Public assistance programs, such as the Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance to Needy Families (TANF), and Medicaid, all witnessed increased enrollment across the nation and in Florida.

Based on caseload data:

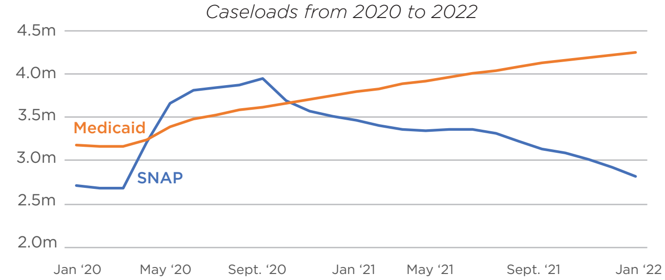
- The number of Floridians receiving SNAP rose from 2.7 million in January 2020 to 3.5 million in December 2020, a 28.9 percent increase;
- The number of Floridians receiving TANF rose from 58,300 in January 2020 to 72,900 in December 2020, a 25.0 percent increase; and
- The number of Floridians enrolled in Medicaid rose from 3.2 million in January 2020 to 3.8 million in December 2020, an 18.2 percent increase.[10]

Since peaking in the summer of 2020, the number of Floridians receiving SNAP and TANF has gradually fallen as the economic recovery has progressed, with TANF enrollment eventually falling below pre-pandemic levels but SNAP enrollment remaining elevated above pre-pandemic levels. Medicaid has been the one exception with program enrollment consistently rising in Florida, eclipsing 4.0 million in mid-2021 and reaching 4.3 million people at the start of 2022 (See Figure 2 comparing SNAP and Medicaid trends). Due to federal maintenance of eligibility requirements under the Families First Coronavirus Response Act (FFCRA), states must ensure continuous coverage for those enrolled in Medicaid as a precondition to receiving enhanced federal matching funds.[11]

The expected end of the federal Public Health Emergency (PHE) in July 2022 makes predicting future caseload growth tenuous; however, estimates from Florida's Social Services Estimating Conference projects TANF caseloads will fall to 31,200 in Fiscal Year (FY) 2022-2023 while Medicaid enrollment will continue growing to nearly 5.1 million in FY 2022-2023.[12] Adding to the forecasting uncertainty, the complex interplay between program income thresholds and rising nominal wages due to market forces makes actual enrollment variable among different populations. Particularly for the vulnerable populations in low-income areas, any impending changes to safety net program eligibility will have a large impact on families that have relied on emergency assistance throughout the pandemic for stability.

Fig. 2. Florida's Medicaid Enrollment Has Steadily Increased While SNAP Has Gradually Fallen

Caseloads from 2020 to 2022



Source: U.S. Bureau of Labor Statistics

CONSTRAINED POPULATIONS AND ECONOMIC OPPORTUNITIES

Whether analyzing labor market developments or public assistance usage, the outcomes over the past two years have been particularly consequential for low-income and asset-limited populations throughout Florida. A cursory look at headline economic indicators, such as declining unemployment rates or positive job growth figures, may sometimes mask the pandemic's ongoing disparate impacts. For the state of Florida, understanding the differing experiences between portions of the economy will be essential for any future analysis or policy decision.

10 State of Florida, "Public Assistance Caseload Report," Accessed Feb. 2020. Note: Florida TaxWatch compiled data from SNAP, TANF, and Medicaid.

11 Kaiser Family Foundation (KFF), "Analysis of Recent National Trends in Medicaid and CHIP Enrollment," Feb. 2, 2022.

12 Florida Legislature Office of Economic and Demographic Research (EDR), Social Services Estimating Conference Caseload Reports, Jan. 10, 2022. Note: The estimating conference does not provide official projections for SNAP caseload growth.

Based on the most recent U.S. Census Bureau data, 2.7 million Floridians were living in poverty in 2019, which equated to about 12.7 percent of the state's total population. For comparison, the national poverty rate was around 12.3 percent in 2019.[13] Broken down by age category, there were more than 737,000 children in poverty and more than 1.9 million Florida adults falling below the federal poverty level (FPL), which in 2019 was $12,490 for an individual and $25,750 for a family of four.[14] It should be emphasized, these state-level poverty statistics reflect pre-pandemic findings due to available data constraints. As such, it could be reasonably expected that the pandemic led to a notable rise in the number of Floridians experiencing poverty—a significant reversal from preceding years where poverty rates were declining.

Even for those above the FPL, economic conditions have severely restricted financial well-being. According to the United Way's *Asset Limited, Income Constrained, Employed* (ALICE) 2020 analysis, there were 2.6 million households in Florida who earned above the FPL threshold but could not afford basic necessities due to high costs of living.[15] Working in economic sectors, such as Health Care, Leisure and Hospitality, Retail Trade, and Educational Services, workers in the ALICE population bore the brunt of the pandemic's initial effects on service-related industries. Although labor market conditions have generally improved, rapidly rising inflation has further strained the ALICE population, which struggles to pay for budget items like housing, food, and childcare.

> *"Prior to the pandemic, we had money in savings and great paying jobs. We were laid off, with me and my daughter losing our jobs permanently…We have drained our savings and borrowed from retirement. We have nothing left. We don't qualify for a lot of [public] programs because my husband's salary is too high. Unfortunately, it's not enough to pay our bills and put healthy groceries on the table."*
>
> —Respondent, United Way's COVID-19 Survey Report on Florida's ALICE Population[16]

For these reasons and more, unpacking and addressing the challenges that disparately affect low-income populations will prove imperative for long-term economic growth and mobility as Florida moves on from the COVID-19 pandemic. A growing body of research has been devoted to exploring the factors that affect both *intergenerational* mobility (i.e., income movement from one generation to the next) and *intragenerational* mobility (i.e., income movement occurring throughout one's lifetime).[17] Crucially, bolstering workforce development and removing barriers to workforce participation are important components to broader strategies that promote both forms of economic mobility.[18]

Alluded to before but more explicitly discussed now, one core barrier to workforce participation and economic advancement deals with the sudden loss of public assistance benefits from earning more income. This "benefits cliff" results from exceeding a public assistance program's income threshold requirement and can limit one's ability to progress within a career path and up the economic ladder.

Addressing the structural barriers that enable benefits cliffs to exist can produce innumerable benefits for families, communities, and the state of Florida by incentivizing employment, reducing public assistance usage, and ultimately creating taxpayer savings. Removing labor market distortions will also benefit workforce participation for many local economies. Furthermore, since benefits cliffs often affect families with children, any potential successes can also yield significant multi-generational benefits over time.

13 U.S. Census Bureau, 2019 American Community Survey (ACS) 1-Year Estimates, Accessed Feb. 28, 2022. Table S1701.

14 U.S. Census Bureau, 2019 American Community Survey (ACS) 1-Year Estimates, Accessed Feb. 28, 2022. Table S1701. Federal Poverty Level (FPL) thresholds come from the U.S. Department of Health and Human Services' 2019 Poverty Guidelines.

15 United Way, Alice in Florida: A Financial Hardship Study – 2020 Florida Report, Accessed Feb. 28, 2022. Note: The data used in the Florida ALICE report come from 2018.

16 United Way, COVID-19 Impact Survey – 2021 Florida Results Report, Released Spring 2021.

17 See Chetty et. al. (2017), "The Fading American Dream: Trends in Absolute Income Mobility since 1940," Dec. 2016; Pew Charitable Trusts, "Pursuing the American Dream: Economic Mobility Across Generations," Jul. 2012; and, Federal Reserve Bank of Atlanta, "Benefits Cliffs and the Financial Incentives for Career Advancement: A Case Study of a Health Care Career Pathway," Jan. 2020 (Revised Feb. 2021).

18 Federal Reserve Bank of Atlanta, "Benefits Cliffs and the Financial Incentives for Career Advancement: A Case Study of a Health Care Career Pathway," Jan. 2020 (Revised Feb. 2021).

Florida TaxWatch undertakes this comprehensive research analysis to explore the effects that benefits cliffs can have on workforce participation and other economic outcomes. The report begins with a brief overview of the social safety net system, drawing attention to eligibility rules, historical usage rates, and future impacts to Florida's budget. The analysis will then detail how benefits cliffs specifically affect individuals and their incentives, simulating the benefits cliff for a hypothetical scenario. Although the report does not provide an exhaustive account of all public assistance programs, it will formulate key strategies to minimize and address benefits cliffs.

The Social Safety Net System

Developed throughout the 20th century, the U.S. social safety net system has witnessed major additions and modifications since its inception. In response to the Great Depression, programs such as Social Security and the Aid to Families with Dependent Children (AFDC – the precursor to TANF) formed the foundation of the modern safety net system. Other programs were created in the 1960s and 1970s as part of the "Great Society," including Medicare, Medicaid, Supplemental Security Income (SSI), the Earned Income Tax Credit (EITC), and education-related programs.[19] By the 1990s, welfare reform was front and center with programs such as TANF replacing AFDC and instituting work requirements. Additionally, during this time, child-focused programs like the Children's Health Insurance Program (CHIP) and the Child Tax Credit (CTC) were established to assist families with vulnerable children.[20]

The modern U.S. social safety net encompasses a variety of public assistance programs that seeks to assist individuals and families facing economic challenges. These programs may provide tax credits, direct cash transfers, or in-kind benefits, such as nutrition or childcare assistance. There are two major classifications for public assistance programs: social welfare programs and social insurance programs. Social welfare programs (e.g., SNAP, TANF, Medicaid) are "means-tested," meaning they are only available to individuals with income up to a certain threshold, whereas social insurance programs provide benefits to qualifying individuals regardless of income (e.g., Social Security, Medicare, Unemployment Insurance).[21] The federal government fully or partially funds a large number of public programs, but states often administer benefits and can, in some cases, modify eligibility rules.[22]

19 Brookings Institute, The Social Insurance System in the U.S: Policies to Protect Workers and Families, Jun. 23, 2021.

20 World Bank, "Social Safety Nets in the United States – Briefing Book," Accessed Feb. 28, 2022.

21 U.S. Census Bureau, "About Public Assistance," Accessed Feb. 28. 2022; and University of Wisconsin-Madison Institute for Research on Poverty, "Social Insurance Programs" Accessed Feb. 28, 2022.

22 Brookings Institute, The Social Insurance System in the U.S: Policies to Protect Workers and Families, Jun. 23, 2021.

Table 1 provides an overview of several major social safety net programs in the U.S. and the corresponding income eligibility limits in Florida.

Table 1. Major U.S. Social Safety Net Programs and Florida Income Eligibility Limits

Program	Who is Served	What is Provided	Income Eligibility Limits (FL)
Medicaid/CHIP	Families with children, pregnant women, elderly, individuals with disabilities	Health insurance coverage	For children: ages 0-1 (206% of the FPL), ages 1-5 (140% of the FPL), ages 6-18 (133% of the FPL); For separate CHIP (210% of FPL); For pregnant women (191% of the FPL) and caretaking adults (equal to 27% of the FPL)
Supplemental Nutrition Assistance Program (SNAP)	All individuals or families are potentially eligible but some rules vary by characteristics	Resources to buy food	Most households must pass a gross income limit less than or equal to 200% of the FPL
Supplemental Security Income (SSI)	Seniors, individuals who are blind, individuals with disabilities	Cash assistance	In 2022, income limit at 74% of the FPL for individuals and 82% for couples; Resource limit of $2,000 for individuals and $3,000 for couples
Temporary Assistance to Needy Families (TANF)	Families with children (parents working or in approved activities)	Cash and noncash (childcare, transporta-tion, etc.) assistance	Gross income must be less than 185% of the FPL; Countable income cannot be higher than the payment standard for family size
Public or Subsidized Housing	Families, seniors, and individuals with disabilities	Assistance paying for houses	At or below 50% of the median income for the county or metropolitan area
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	Infants; children up to age 5; women who are pregnant, breastfeeding, or postpartum	Food, nutrition, education and counseling, referrals for other social services	At or below 185% of the FPL or currently receiving Medicaid, TANF, or SNAP
Child Care and Development Fund (CCDF)	Families with children under age 13; families with children under 18 with special needs	Assistance paying for childcare	At or below 85% of the state median income (SMI) for a family of a given size
Earned Income Tax Credit (EITC)	Low- to moderate- income workers with or without children	Refundable tax credit that reduces the amount of federal income tax owed	Set by federal government and depends on number of children; Maximum adjusted gross income is $57,414 for the 2021 tax season
Child Tax Credit (CTC)	Low- to moderate- income workers with children	Refundable tax credit that reduces the amount of federal income tax owed	Set by federal government and depends on number of children; Families will qualify for full credit if their income is below $75,000 for single filers and $150,000 for married filing jointly

Source: Urban Institute; Florida TaxWatch Analysis of Different Florida Eligibility Requirements. Note: The table only considers means-tested public assistance programs since the report focuses on the loss of benefits as income rises. The American Rescue Plan Act of 2021 made several changes to the eligibility rules and benefit amounts for the EITC and CTC; however, some changes are set to expire for the 2022 tax year.

Due to varying eligibility criteria and constantly changing economic conditions, participation rates across the U.S. have historically varied. According to a U.S. Department of Health and Human Services analysis, the EITC led all other programs in terms of participation, yielding a national participation rate of 78 percent (See Table 2).[23] Although Medicaid/CHIP had the second highest participation rate of 75 percent, it had the largest number of eligible individuals (77.0 million) and number of beneficiaries (57.8 million). Rounding out the top three most used programs, SNAP had a participation rate of 63 percent with 64.4 million eligible individuals and 40.9 million beneficiaries around the U.S. Notably, CCDF, which provides financial assistance for low-income families to access childcare, had the lowest number of beneficiaries (2.2 million) and participation rate (15 percent) of all the analyzed programs.

23 U.S. Department of Health and Human Services, "Participation in the U.S. Social Safety Net: Coverage of Low-Income Families, 2018," Nov. 2021. Note: In the referenced report, data are lagged and represent national figures for 2018.

There is also considerable overlap in participation across programs due to the conjoining goals to assist low-income populations. One study found, for example, among single-mother families with a family member enrolled in Medicaid, 63 percent also received SNAP, 21 percent also received SSI or TANF transfers, and 61 percent were eligible for refundable tax credits.[24] Furthermore, about 92 percent of children who receive SNAP benefits also receive at least one other form of public assistance, and nearly a third of children who receive SNAP also participate in two or more additional programs.[25]

Table 2. Eligible and Beneficiary Populations by Program, U.S.

Program	Eligible (in millions)	Beneficiaries (in millions)	Participation Rate
EITC	48.4	37.8	78%
Medicaid/CHIP	77.0	57.8	75%
SNAP	64.4	40.9	63%
SSI	11.8	6.9	59%
WIC	9.6	5.1	53%
TANF	10.0	2.8	28%
Housing Support	51.1	11.0	22%
CCDF	14.4	2.2	15%

Source: U.S. Department of Health and Human Services (2021)

Between a mix of cash assistance and in-kind benefits, the U.S. social safety net has been shown to directly reduce the impact of poverty. A joint report from the American Enterprise Institute and Brookings Institute finds total social safety net resources reduced national child poverty from 25 percent to 15 percent in 2018, lifting some 7.4 million children out of poverty around the U.S.[26] As the study further notes, there are "positive long-run benefits of having additional resources in childhood, with lasting improvements in both health and economic productivity in adulthood."[27] Tax credits are also effective poverty-reducing tools. The EITC has been deemed the single most effective means-tested antipoverty program for working-age households since the program rewards work and supplements earnings. In 2018, the EITC was solely responsible for lifting 5.6 million people out of poverty around the nation.[28]

Operating as automatic stabilizers, the U.S. social safety net is designed to be countercyclical to broader economic conditions. In other words, public assistance programs should conceivably expand to serve more affected individuals during recessions and contract when economic conditions rebound.[29] In reality, this stabilizing design often encounters many practical difficulties and may not respond to shifting conditions in a timely manner. Funding for TANF and housing assistance, for example, is often fixed and does not rapidly rise to meet the sudden increase in demand, as was the case during the COVID-19 pandemic. Some research posits that only unemployment insurance and food assistance (SNAP) have efficiently responded to protracted employment issues over the past two decades.[30]

The observed increase in participation during seemingly strong periods of economic growth is another perplexing aspect of the intended countercyclical design. To illustrate this finding, the analysis considers Medicaid and SNAP enrollment in Florida from 2006 to 2021 (See Figure 3).[31] After the Great Recession officially ended in June 2009, Florida's SNAP and Medicaid caseload continued to climb until early 2016 and 2017, respectively, before tapering down until the COVID-19 pandemic began.

24 National Bureau of Economic Research (NBER), "Safety Net Program Interactions and Impacts on Low-Income Families," Dec. 2021.

25 U.S. Census Bureau, "Nearly a Third of Children Who Receive SNAP Participate in Two or More Additional Programs," Jun. 30, 2021.

26 American Enterprise Institute (AEI) and Brookings Institute, Rebalancing Child First: A Report of the AEI-Brookings Working Group on Childhood in the United States, Feb. 8, 2022.

27 American Enterprise Institute (AEI) and Brookings Institute, Rebalancing Child First: A Report of the AEI-Brookings Working Group on Childhood in the United States, Feb. 8, 2022.

28 Tax Policy Center, "Key Elements of the U.S. Tax System," May 2020; and Center on Budget and Policy Priorities (CBPP), "Policy Basics: The Earned Income Tax Credit," Dec. 10, 2019.

29 Brookings Institute, The Social Insurance System in the U.S: Policies to Protect Workers and Families, Jun. 23, 2021.

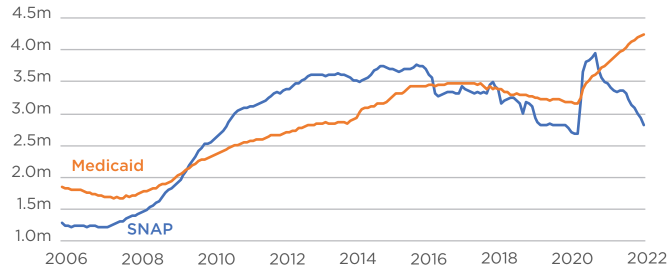
30 University of Wisconsin-Madison Institute for Research on Poverty, "Making the U.S. Safety Net More Responsive to Economic Downturns," Apr. 2021.

31 The study period—2006 to 2021—is chosen because it contains both the Great Recession and the COVID-19 pandemic. Of particular interest, the period after the Great Recession to the start of the COVID-19 pandemic represents a period of relative economic growth for the state of Florida. Only SNAP and Medicaid are included due to higher caseload amounts relative to other programs and because of their generally higher participation rates (See Table 2).

Despite a relatively stronger Florida economy in the mid-2010s, public assistance usage continued to increase. The finding seems to conflict with the countercyclical design of both programs, which should ideally contract when the economy improves.

Fig. 3. Despite A Stronger Economy In The Years Following the Great Recession, Medicaid and SNAP Enrollment Continued to Climb in Florida

Caseloads from 2020 to 2022



Source: U.S. Bureau of Labor Statistics

Although various reasons exist for why enrollment lagged behind broader macroeconomic conditions, the findings yield important insights for Florida's future beyond the pandemic. Since public assistance usage can lag behind economic recovery, enrollment in major public programs like Medicaid may continue despite a positive rebound from the COVID-19 recession. This ongoing trend may lead to higher Medicaid and social services expenditures for the state of Florida over time, which were already expected to occur due to impending demographic changes (e.g., the rapidly aging population).

Based on official estimates from the Florida Social Services Estimating Conference, the state's total Medicaid expenditures are expected to reach $37.8 billion in FY 2026-2027—a 29 percent increase from spending levels in FY 2020-2021.[32] The state's share of Medicaid spending is also projected to reach $15.2 billion in FY 2026-2027—a 58.5 percent increase from FY 2020-2021.[33] Over the next two fiscal years (FY 22-23 and FY 23-24), Florida's Medicaid program will drive a critical need for $1.2 billion in additional general revenue.[34] Due to continued Medicaid caseload growth and resulting expenditures, Florida's budget will face increasing constraints as the economy moves on from the pandemic.[35]

Demonstrated thus far, there is an economic and fiscal imperative for the state of Florida to address growing public assistance usage. Not only does continued caseload growth require more general revenue (i.e., due to state matching requirements) to fund expenditures, but safety net programs can also impact workforce outcomes when earners approach an income eligibility limit. Research on the social safety net system has evolved over time, moving past a frequent focus on the potential negative disincentives from overly generous benefits to a more nuanced perspective on positive long-term benefits accruing to families, especially children.[36]

Of growing research interest in recent years and central to this current analysis, public assistance benefits cliffs can greatly influence incentives and resulting workforce outcomes. The potential for higher wages—either from a new job, salary increase, or promotion—can be eclipsed by the prospect of suddenly losing benefits. Public assistance programs, therefore, can serve as a major disincentive to workforce participation not because beneficiaries are taking advantage of outsized benefits, but because income thresholds can force a trade-off between advancement and loss of net resources.

32 Florida Social Services Estimating Conference, Long-Term Medicaid Services and Expenditures Forecast: FY 2021-22 through FY 2026-2027, Jan. 10, 2022.

33 Florida Social Services Estimating Conference, Long-Term Medicaid Services and Expenditures Forecast: FY 2021-22 through FY 2026-2027, Jan. 10, 2022.

34 Florida Legislative Budget Commission, State of Florida Long-Range Financial Outlook for Fiscal Years 2022-23 Through 2024-25, Sept. 3, 2021.

35 The future projections focus on Medicaid specifically since it is jointly funded by the state and federal government and represents the largest category of public assistance spending for Florida. SNAP is funded by the federal government and TANF spending constitutes a small portion of Florida's overall budget relative to Medicaid.

36 National Bureau of Economic Research (NBER), "Children and the US Social Safety Net: Balancing Disincentives for Adults and Benefits for Children," Feb. 2022.

What are Benefits Cliffs?

> *"Some working families experience financial barriers to economic mobility. One significant barrier occurs when career advancement puts a family above the income eligibility threshold for public assistance programs. Due to the loss of these programs, career advancement opportunities can result in the family being financially worse off (a benefits cliff) or no better off (a benefits plateau) than before the wage increase."*
>
> — Federal Reserve Bank of Atlanta[37]

A "benefits cliff" is any situation where a small increase in earnings results in the sudden loss of benefits for a particular public assistance program or collection of programs. The often unexpected result may be a total or partial reduction in public benefits, making the family worse off than before the earnings change and serving as a severe financial shock.[38] Such a scenario occurs because means-tested public assistance programs have varying income eligibility thresholds, beyond which point benefits disappear (see Table 2). As a basic example, suppose a mother receives a $1,000 annual raise but loses more than $8,000 in benefits because her income is above the threshold to receive childcare subsidies—the outcome is a substantial benefits cliff and net loss in resources.

More formally, benefits cliffs can be discussed in terms of effective marginal tax rates—the amount given back to the government on the next $1 in earned income.[39] Less often realized, marginal tax rates do not only include payments to the government (e.g., income taxes), but also the loss of benefits received from the government (e.g., SNAP benefits). Applying this idea to benefits cliffs, when an earnings increase triggers a sudden and sizable loss of public benefits, the affected individual experiences a high marginal tax rate, oftentimes resulting in a cliff effect.[40] The implication of this finding is considerable: those at the lower end of the wealth distribution, who are more likely to receive various forms of public assistance, may face extremely high marginal tax rates despite making relatively little in income.

Typically, benefits cliffs and their corresponding marginal tax rates are expressed in terms of percentages: for every additional $1 in earned income, what percentage is lost through a benefit reduction or tax increase? For example, suppose a family earns $1,000 in additional income. The higher earnings are taxed (-$200) and there is a loss of benefits (-$200). Considered together, the higher taxes and lower benefits yield a marginal tax rate of 40 percent—the extra earnings of $1,000 results in a net resource increase of only $600.[41]

Incorporating national data, a U.S. Department of Health and Human Services study found that among households with children just above the poverty line, the median marginal tax rate was high, around 51 percent.[42] The rate remained rather elevated, never dropping below 42 percent, even as family income approached 200 percent of the FPL. Once families exceeded twice the poverty threshold, the marginal tax rate gradually declined to a range between 20 and 30 percent. When comparing household characteristics, the study found a large proportion of low-income households with children had marginal tax rates between 20 and 59 percent, whereas low-income households

37 Federal Reserve Bank of Atlanta, "What Are Benefits Cliffs?", Accessed on Mar. 2, 2022.

38 Federal Reserve Bank of Atlanta, "What Are Benefits Cliffs?", Accessed on Mar. 2, 2022.

39 Past research on public assistance programs and marginal tax rates is quite extensive, spanning several decades. For example, Besley and Coate (1995) discussed in their article—"The Design of Income Maintenance Programmes"—how to optimize benefit programs to ensure each individual attains a target minimum income. The authors introduce idea of "workfare," where recipients receive assistance conditional on work. Due to practical limitations, the theoretical workfare the authors discuss precipitate challenges with benefits cliffs. The authors' research is itself an extension of previous work by Milton Friedman in the 1960s on negative marginal income taxes—reducing benefits by less than a dollar for every dollar of additional earned income. See Moffitt (2003), "The Negative Income Tax and The Evolution of U.S. Welfare Policy," for a more comprehensive review of past research.

40 Federal Reserve Bank of Atlanta, "A Different Type of Tax Reform," Mar. 22, 2019; and National Bureau of Economic Research (NBER), "Marginal Net Taxation of Americans' Labor Supply," May 2020.

41 Marginal Tax Rate = (Reduced Benefits + Taxes Owed) / Additional Earnings. For this example, Marginal Tax Rate = ($200 + $200) / $1000 = ($400) / $1000 = 40%.

42 U.S. Department of Health and Human Services, "What Happens When People Increase Their Earnings? Effective Marginal Tax Rates for Low-Income Households," Mar. 2019. Brief #2 in the ASPE Marginal Tax Rate Series.

without children had marginal tax rates between zero and 29 percent.[43] These findings suggest that even among low-income households, the potential cliff effects can differ considerably based on children.

In another study considering a representative set of households in Florida, marginal tax rates for lower wealth quintiles were larger than those in higher wealth quintiles.[44] Among those in the lowest and second-lowest quintiles, families experienced a median marginal tax rate of 44 percent and 43 percent, respectively (See Table 3). For comparison, those in the higher quintiles witnessed median marginal tax rates ranging from 32 percent to 35 percent. In the analysis, the authors confirm the reduction in public benefits is the source of the higher marginal tax rate for lower quintiles; however, due to differences in family size, state laws, and income levels, the effects are disparate and cannot be easily distinguished.[45]

To provide a more concrete example of how benefits cliffs can affect a family in Florida, the current analysis uses the Federal Reserve Bank of Atlanta's Policy Rules Dashboard (PRD), which simulates the change in a family's net financial resources as earnings rise and public benefits diminish.[46] The PRD first requires specifications for location, family size (ages of children included), and public assistance programs. For this example, Florida TaxWatch considers a single-mother household with two children, ages three and seven, living in Miami, Florida, and receiving the following public assistance programs:[47]

- Medicaid for Adults;
- Medicaid for Children/CHIP;
- Supplemental Nutrition Assistance Program (SNAP);
- Women, Infants, and Children Nutrition Program (WIC);
- Child Care Subsidy (CCDF); and
- Section 8 Housing Voucher.

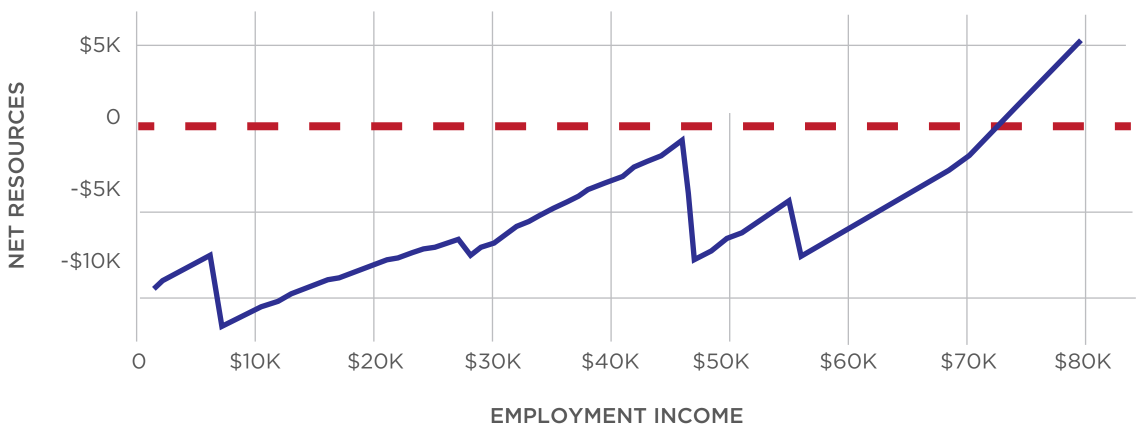
Table 3. Median Marginal Tax Rates in Florida by Wealth Percentile

Wealth Percentile	Median Marginal Tax Rate
Lowest quintile	44%
Second quintile	43%
Third quintile	32%
Fourth quintile	33%
Highest quintile	35%

Source: Federal Reserve Bank of Atlanta

Figure 4. As Employment Income Rises, The Family Faces Several Distinct Benefits Cliffs, More than Offsetting Wage Gains At Different Points

Net Financial Resources (Income + Public Assistance – Taxes – Expenses) for a Single Mother of Two



Source: Florida TaxWatch; Federal Reserve Bank of Atlanta's Policy Rules Database

43 Ibid.

44 Federal Reserve Bank of Atlanta, "A Different Type of Tax Reform," Mar. 22, 2019. Note: In the study, the authors analyze a representative set of Florida households with household heads between 30-39 years old.

45 Federal Reserve Bank of Atlanta, "A Different Type of Tax Reform," Mar. 22, 2019.

46 Federal Reserve Bank of Atlanta, Policy Rules Database (PRD), Accessed on Mar. 3, 2022. For a more detailed description of the PRD, please visit the Atlanta Fed's website. https://emar-data-tools.shinyapps.io/prd_dashboard/

47 Based on data from the U.S. Census Bureau's American Community Survey (ACS), this specification is the most common for families in poverty in Florida: a female householder with no husband present and a family size between 3 and 4 people. Also reference The Florida Legislature Office of Economic and Demographic Research (EDR), "Florida's Families and Children Below the Federal Poverty Level," Feb. 17, 2016.

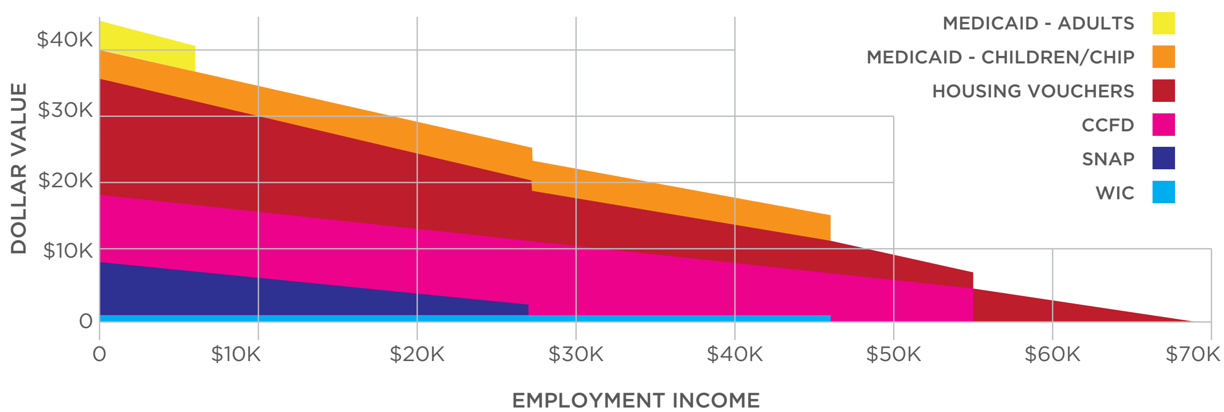
Based on the specified conditions, Figure 4 presents the change in the family's net financial resources as employment income rises. Immediately, it becomes apparent there are several benefits cliffs encountered along the way. First, as the mother's annual income rises from $6,000 to $7,000, there is an associated net resource reduction equating to $4,151 as she no longer qualifies for Florida's adult Medicaid. From that point on, as employment income gradually rises to $46,000, there is a steady increase in net resources except for a brief dip around $28,000 as SNAP benefits taper off.

Beyond $46,000 in income, however, the family faces its most severe benefits cliff as the children become ineligible for children's Medicaid (CHIP) and net resources fall to -$7,714. In terms of net resources, the mother is about as financially well off earning $47,000 per year as she was earning $21,000 per year. Lastly, another benefits cliff occurs at approximately $56,000 in employment income when the family loses childcare assistance. It is not until income rises above $73,000, in this example, that the family breaks even and starts to receive positive net resources, more than offsetting any reduction in public benefits or expenses.

To give a better sense of the different interactions between public programs and the points when benefits go away, Figure 5 follows the same scenario—a single mother of two living in Miami-Dade—but this time shows the dollar value and composition of public assistance at different income levels. As the figure reveals, Medicaid for adults is the first major public benefit to disappear at around $6,000 in employment income—this corresponds to the first cliff observed in Figure 4. Around $46,000 in income, the benefits for Children's Medicaid go to $0, consistent with the biggest cliff in the previous figure. The last cliff, around $56,000, deals with the loss of the CCDF subsidy. For some programs, such as the SNAP, WIC, and the Section 8 housing voucher, public assistance gradually phases out in this example.

Figure 5. Rising Employment Income Leads to an Abrupt Loss of Public Benefits for Medicaid, CHIP, and Childcare Assistance but Gradual Losses for Other Programs

Public Assistance by Employment Income



Source: Florida TaxWatch; Federal Reserve Bank of Atlanta's Policy Rules Database

The previous two figures describe the negative impacts that a loss of benefits can have on a family's financial condition even as employment income grows. The hypothetical example assumes the family is eligible for and receives the listed programs; however, in reality, a family may not receive all the public assistance they are eligible for due to limited availability or other challenges with applying to programs.[48] Prior research has also found lower participation rates in programs supplying housing and childcare assistance.[49] Another restriction of the PRD simulation is that the program does not account for factors relating to the passage of time, such as long-term career programs and older children.

48 Federal Reserve Bank of Atlanta, "Benefits Cliffs and the Financial Incentives for Career Advancement: A Case Study of a Health Care Career Pathway," Jan. 2020 (Revised Feb. 2021).

49 U.S. Department of Health and Human Services, Participation in the U.S. Social Safety Net: Coverage of Low-Income Families, Nov. 2021.

Due to these limitations and other variations between families, the findings of this specific example have limited applicability to the rest of the population and should be viewed with caution. Each family's unique experience may yield different benefits cliffs at different points on the income ladder. Nevertheless, benefits cliffs pose a significant stumbling block and produce a clear disincentive for individual advancement as benefit reductions more than offset any wage gains. When these experiences are aggregated across the economy, the economic and fiscal consequences can be tremendous.

The Economic and Fiscal Impacts of Benefits Cliffs

> *"In our day-to-day work helping government administer public benefit programs, we see individuals and families make rational choices associated with program eligibility – as people are smart enough avoiding economic pain created by benefits cliffs – we've seen people turn down promotions or avoid obtaining additional skills because making more money is offset by losing more in benefits. Eliminating these cliffs will change these choices and improve outcomes for recipients, our society, and the future economy. Considering the current economic environment, now is the time to fix the system."*
>
> — David Casey, MAXIMUS [50]

ECONOMIC IMPACTS

Benefits cliffs have a discernible and detrimental impact on families who must navigate a complex web of eligibility requirements and earnings changes. Most notably, sizeable benefits cliffs can be severe enough that low-income workers may be temporarily better off not advancing in their career path, even though long-term economic gains are inevitable. The effects of this perverse disincentive extend well beyond the family experience, ultimately affecting employment for local businesses and labor force participation in the broader economy.

The adverse consequences of the benefits cliff on employment decisions and workforce participation are well-documented. In a 2019 study examining the decisions of working mothers receiving childcare assistance in Colorado, families whose earnings approached the upper limit of programs' income eligibility guidelines turned down extra work hours to avoid losing childcare subsidies. Specifically, participants were 2.8 times more likely to reduce work hours or earnings to lessen the burden of the benefits cliff—in this case, the loss of childcare assistance.[51] In another empirical study focused on outcomes in New Hampshire, 81 percent of single adult households with children would face stiff childcare cliffs by entering the workforce, evidencing a cost-prohibitive barrier to labor force entry.[52]

Similar challenges emerge when considering the potential effects of childcare cliffs in Florida. According to a Federal Reserve Bank of Atlanta analysis on Florida's Child Care and Development Fund (CCDF), across the state, only three percent of the population live in areas where a family of two adults and two children can afford childcare at the CCDF threshold without having to sacrifice other basic expenses.[53] Regional variation within Florida is significant since the CCDF eligibility structure is based on 85 percent of the state median income (SMI) rather than the local cost of living. For counties with a higher cost of living, the presence of a childcare cliff can be even more damaging since the full cost of unsubsidized childcare may be more expensive in those areas.

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50 Personal correspondence from Mr. Casey to Florida TaxWatch.

51 Connecticut Association for Human Services, "Pushed Over the Edge with Nowhere to Land; Summarizing Key Qualitative Findings Concerning the Benefit Cliff Effect in Connecticut," Mar. 2019.

52 Econsult Solutions Inc. and National Center for Children in Poverty (Submitted to The State of New Hampshire), Constraints on New Hampshire's Workforce Recovery: Impacts from COVID-19, Child Care and Benefit Program Design on Household Labor Market Decisions, Feb. 18, 2021.

53 Federal Reserve Bank of Atlanta, Restructuring the Eligibility Policies of the Child Care and Development Fund to Address Benefit Cliffs and Affordability: Florida as a Case Study, Jun. 2021.

The point at which families lose childcare assistance may be well below the level needed for economic self-sufficiency, leading some parents to opt-out of the labor force.[54]

Especially during a time when the economy is still recovering from the pandemic, these labor force impacts cannot be underscored enough. So far, the aforementioned studies have focused on one particular type of benefits cliff—the childcare cliff—and for good reason. Discussed earlier in the report, some 170,000 women remain out of Florida's workforce for reasons such as increased caregiving responsibilities and fewer childcare options.[55] The economic cost of lackluster labor force participation among women is undeniable; however, by addressing benefits cliffs and bolstering employment, Florida can benefit from the increased engagement and earnings.

Benefits cliffs can also pose a serious barrier to career advancement by limiting long-term education and training ambitions. Using a health care example, the hourly wage differential between a Registered Nurse (RN) and a Certified Nursing Assistant (CNA) can be considerable. Ideally, an RN would be expected to make more in lifetime earnings over a CNA due to higher wages, but once benefits cliffs are factored in, the long-term financial picture becomes more complicated. In a study simulating this exact scenario, the Atlanta Fed found the financial incentive for career advancement for an aspiring nurse narrows considerably once factoring in the potential loss of public benefits.[56] From a financial standpoint, the individual is better off staying as a CNA in the short and medium-term rather than seeking higher credentials.

These career advancement disincentives can severely affect in-demand fields, such as healthcare. For Florida, projections suggest the state will experience a shortfall of 59,100 nurses by 2035.[57] This finding is particularly troubling as the state responds to COVID-19 healthcare needs and anticipates an aging population. The labor difficulties due to benefits cliffs can easily be extended to other critical industries, such as education, manufacturing, business, and information technologies. With these occupation-specific challenges in mind, the Atlanta Fed created the Career Ladder Identifier and Financial Forecaster (CLIFF) tool to help individuals visualize their unique benefits cliffs, tax increases, and income changes due to training.[58] By informing individuals of potential challenges before they arise, the CLIFF tool can help workers better prepare for financial fluctuations.

Overall, workforce education is a pillar of Florida's long-term economic growth strategy, and efforts in recent years to achieve these goals have focused on high-value credentialing to align local workforce demands and fill high-demand jobs. As this discussion has shown though, pursuing a career, vocational, or technical education can sometimes run into a roadblock when loss of public benefits are factored in. At a time when there are more than 650,000 job openings around the state and continual workforce churn, considering the complex intersection between benefits cliffs and workforce outcomes will be essential to Florida's economic prosperity.[59]

FISCAL IMPACTS

Public assistance programs are funded by taxpayer contributions, and as such, any respective changes to program utilization would affect costs. When participation rates rise, public costs rise in tandem—as the COVID-19 pandemic has repeatedly shown. Conversely, when participation declines, the cost to the government and taxpayers should fall. Although the social safety net seeks to provide a basic level of economic stability while families seek economic advancement, the presence of benefits cliffs can work at odds with this intended design. When work disincentives preclude individuals from participating in the workforce, reliance on public programs continues and taxpayer costs

54 Federal Reserve Bank of Atlanta, Restructuring the Eligibility Policies of the Child Care and Development Fund to Address Benefit Cliffs and Affordability: Florida as a Case Study, Jun. 2021.

55 Florida TaxWatch, "Working Paper: Where are the Women?" Jan. 21, 2022.

56 Federal Reserve Bank of Atlanta, Benefits Cliffs and the Financial Incentives for Career Advancement: A Case Study of a Health Care Career Pathway, Jan. 2020 (Revised Feb. 2021).

57 Florida Hospital Association, "Report: Florida Faces Shortfall of 59,100 Nurses by 2035," Sept. 30, 2021.

58 Federal Reserve Bank of Atlanta, Career Ladder Identifier and Financial Forecaster (CLIFF), Accessed Mar. 3, 2022.

59 U.S. Bureau of Labor Statistics (BLS), State Job Openings and Labor Turnover – December 2021," Feb. 17, 2022.

endure, all else equal. For the state of Florida, which will already see rising costs over the coming decades (e.g., Medicaid growth), addressing the factors that perpetuate program participation and taxpayer costs must be a priority.

The direct relationship between benefits cliffs and public assistance spending is one fiscal consideration; however, just as consequential are other secondary, indirect effects. For children receiving SNAP, for example, the sudden loss of benefits can have long-term impacts on food security, cognitive development, and lifetime achievement. In one analysis, compared to young children whose families consistently received SNAP, young children in households who lost their SNAP benefits due to cliff effects were:

- 16 percent more likely to be in fair or poor health;
- 77 percent more likely to be at risk of developmental delays;
- 78 percent more likely to be child food insecure; and
- 68 percent more likely to have had to forego needed health care because the family could not afford it.[60]

Accounting for the incidence of chronic diseases and higher healthcare costs, the research report goes on to estimate the long-term, health-related costs are around $160.1 billion in the U.S.[61] In other words, taxpayers bear a cost when poor childhood outcomes translate into downstream difficulties with higher healthcare utilization.

Not all indirect fiscal impacts relating to benefits cliffs are negative, however. When benefits cliffs are mitigated or overcome, families that experience higher earnings, receive a workforce credential, or experience another advancement can spur more local economic activity and taxpayer benefits. Previous work by Florida TaxWatch has confirmed that higher levels of education, training, and workforce engagement promote more tax revenue and reduced public assistance usage.[62] The discounted lifetime savings to taxpayers from reduced social services range anywhere from $10,800 to $26,500 per person, and higher spending levels prompt more tax revenue for local governments. Over time, reduced reliance on public assistance would accrue even more financial savings to the state of Florida.[63]

Worth acknowledging, benefits cliff impacts are often researched in terms of workforce participation or economic outcomes. Consequently, there is a lack of empirical studies specifically studying fiscal impacts for state or local governments. This limitation makes it difficult to provide a precise quantification for the fiscal impact on Florida's statewide economy or regional areas. Future research should complement the analysis of workforce-level effects with longer-term fiscal outcomes.

60 Federal Reserve Bank of Boston, "Cliff Effects and the Supplemental Nutrition Assistance Program," Jan. 17, 2017.

61 Federal Reserve Bank of Boston, "Cliff Effects and the Supplemental Nutrition Assistance Program," Jan. 17, 2017.

62 Florida TaxWatch, An Independent Assessment of the Value of Broward UP, Apr. 2021.

63 Florida TaxWatch, An Independent Assessment of the Value of Broward UP, Apr. 2021. Note: These estimated fiscal benefits depend on many state, local, and individual-level factors that cannot be easily controlled. As such, any figure should be viewed as a conservative estimates

State's Initiatives to Address Benefits Cliffs

Developing policy solutions to address benefits cliffs is a difficult task given the various federal and state-level rules regarding eligibility requirements for public assistance programs. More than just studying the problem in great detail, some states have made significant strides in mitigating these benefits cliff risks, a few of which are highlighted in this section. Even though methods have varied from more holistic strategies to more tailored approaches, the initiatives share common goals: to reduce the cliff burden on low-income families, enhance workforce participation, and magnify economic growth.

COLORADO

In Colorado, the state government passed legislation in 2012 establishing the Colorado Cliff Effect Pilot Program (CEPP). Subsequently updated in 2016, the legislation sought to remedy the cliff effect by making it into a more gradual "slope." To accomplish this, the program helped low-income families whose incomes exceeded the childcare assistance eligibility limit by slowly decreasing families' subsidies rather than allowing an abrupt end to subsidized payments.[64] The pilot program operates in 15 of the state's 64 county-administered departments of human services and encourages community collaboration between community partners, early childhood experts, and families. A core goal of the program is to develop a revenue-neutral approach as families receive higher incomes.[65]

Based on a post-evaluation study, the CEPP served nearly 20,000 parents and 33,600 children—nearly 60 percent of children served were five years or younger. Of participating families, 87 percent made below 165 percent of the FPL, and 87.2 percent were single-parent families.[66] Survey and anecdotal evidence suggests the program enabled some families to achieve greater economic mobility. Furthermore, parents and CEPP administrators expressed high praise for the program because it provided "extra breathing room" when families made above the income limit. Despite these advances, the report found low levels of familiarity with the program and implementation challenges between counties due to insufficient guidance. Overall the report recommended providing program information to families sooner, linking copays to household income, and encouraging county-to-county implementation consistency.[67]

OHIO

Similar to some initiatives in other states, Ohio redesigned its childcare program to address the benefits cliff effect. To qualify for the subsidized childcare assistance, new applicants must have gross monthly incomes below 130 percent of the FPL. But even when income exceeds this eligibility threshold, families can continue to receive childcare up to 300 percent of the FPL. The copayments that families pay rise in tandem with income rises, and the continuing childcare is not time-restricted.[68]

Through another state effort, the Ohio Department of Job and Family Services partnered with six local county partners to create the Benefits Bridge pilot program to "better engage, prepare, and support [the] most vulnerable Ohioans for long-term economic independence."[69] The 18-month incentive program takes a tiered approach, offering up to $3,000 in cash paid out at the end of the program contingent on continued employment. The cash incentive acts as a savings account, designed not only to encourage participation in the program but also to cushion the loss of public benefits. The 18-month program also offers ancillary services to support vocational training, financial literacy, and job coaching. There is also emergency aid available throughout the program for stable housing, consistent transportation, and unexpected expenses—common barriers to employment.[70]

64 Aspen Institute, "Reducing the Cliff Effect to Support Working Families," Apr. 23, 2018.

65 Aspen Institute, "Reducing the Cliff Effect to Support Working Families," Apr. 23, 2018.

66 The Bell Policy Center, "A Look Past the Cliff: Understanding Colorado's Cliff Effect Pilot Program," Mar. 29, 2018.

67 The Bell Policy Center, "A Look Past the Cliff: Understanding Colorado's Cliff Effect Pilot Program," Mar. 29, 2018.

68 The Center for Community Solutions, "Ohio Working Families Face Benefit Cliffs and Plateaus," Oct. 26, 2020.

69 Ohio Department of Job and Family Services, "FAPL 92 (Pilot Benefit bridge: Fiscal Administrative Procedure Letter No. 92," Jul. 21, 2021.

70 Lima Ohio News, "Allen County's Model to End the Benefit Cliff is Expanding in Ohio," Jul. 30, 2021.

MASSACHUSETTS

Throughout the past few years, Massachusetts has been reforming its TANF program to simplify program rules and better incentivize employment. In 2018, the state implemented an earned income disregard (i.e., income is not counted toward income eligibility determination) of 100 percent for the first six months of employment while receiving TANF, as long as the family's income did not exceed 200 percent of the FPL.[71] The state also raised the asset limit from $2,000 to $5,000 for TANF, smoothing out transitions to work. Massachusetts' Learn to Earn Initiative seeks to supplement these legislative changes by providing unemployed and underemployed parents receiving public assistance the skills, credentials, and support needed for gainful employment. State agencies that administer public benefits must use CommonCalc, a benefits calculator to help beneficiaries understand the impact of earnings changes and plan for their exits from public benefits. To reinforce self-determination, the staff coaches assist clients to maximize opportunities rather than just maximizing benefit payouts.[72]

MARYLAND

Recognizing the relationship between benefits cliffs and family self-sufficiency, Maryland's governor created the Two-Generation Family Economic Security Commission and Pilot Program in 2017. The executive order established a two-generational approach that provided more transitional supports for families new to employment, alignment of community supports, and services for vulnerable children.[73] Since implementation began, the pilot program has provided the following:

- Childcare voucher expansions;
- Child support pass-throughs (up to $100 per child);
- Transitional cash benefit for TANF families for three months following employment;
- Increased Earned Income Tax Credit;
- Joint service delivery between TANF and the workforce development programs; and
- Interagency pilots for special populations.[74]

MAINE

Maine's Whole Families Working Group undertook a stepwise research project in 2018 to assess the current benefits cliff landscape. The study analyzed 13 state and federal programs, concluding that childcare and health benefits had the most extreme cliffs.[75] The study also articulated that cliffs do not exist in isolation from external factors, such as the cost of healthcare or childcare in different communities. Offsetting the cliff effect, the report noted how the federal Earned Income Tax Credit was an effective policy lever to ease the benefit losses.

Beyond the comprehensive study, Maine has also taken substantive legislative steps to tackle the issue. The state's Department of Health and Human Services raised the monthly food supplement for working families from $15 to $50 per month by redirecting some $7 million in TANF funding to support SNAP benefits.[76] In 2019, Maine enacted several pieces of bipartisan legislation that eliminated the gross income test for TANF, invested $2 million in pilot programs, and increased the income disregard for TANF supports. In the future, the state also plans to increase access to transitional Medicaid for low-income families entering the workforce.[77]

71 National Conference of State Legislatures (NCSL), "Helping Families Climb the Economic Ladder by Addressing Benefits Cliffs," Accessed Mar. 4, 2022.

72 National Conference of State Legislatures (NCSL), Moving on Up: Helping families Climb the Economic Ladder by Addressing Benefits Cliffs," Jul. 2019.

73 The State of Maryland Executive Department, Executive Order: Two Generation Family Economic Security Commission and Pilot Program, Jan.1, 2017.

74 Maryland Department of Human Services, "Maryland's Two-Generation Approach to Mitigating the Benefits Cliff," Jun. 2019.

75 John T. Gorman Foundation, Policy Brief: Benefits Cliffs, May 10. 2018.

76 National Conference of State Legislatures (NCSL), Moving on Up: Helping families Climb the Economic Ladder by Addressing Benefits Cliffs," Jul. 2019.

77 National Conference of State Legislatures (NCSL), Moving on Up: Helping families Climb the Economic Ladder by Addressing Benefits Cliffs," Jul. 2019.

VERMONT

Efforts to deal with benefits cliffs stretch back almost a decade in Vermont. Dealing specifically with TANF, in 2013, the state raised the earned income disregard from $200 and 25 percent of remaining earnings to $250 and 25 percent of remaining earnings to alleviate the loss of TANF benefits while families sought additional work. Vermont also maintains a "Reach Ahead" program that provides families with transitional food benefits after they exit TANF and the state's postsecondary education program. In 2017, the state established a study committee to analyze how proposals to increase the state's minimum wage would affect public benefits for low-income families. The committee recommended coupling the eligibility limit for the state's childcare subsidy to the minimum wage increase to reduce the sudden loss of childcare assistance. In 2018, Vermont increased the asset limits for TANF from $2,000 to $9,000 and excluded deposits into child savings accounts and retirement accounts. The new statute also removed children's higher education savings accounts from asset limits when determining eligibility.[78]

FLORIDA

The Families' Ascent to Economic Security (FATES) program is a pilot study in Florida targeting parents who are at or near the childcare subsidy benefits cliff in Florida. The benefits cliff would go into effect once a family exceeded 85 percent of the state median income. The goal of FATES is to reduce this risk by phasing out the childcare subsidy gradually after parents enroll in education and training, obtain a higher paying occupation, and cross the childcare eligibility threshold.[79] Under a simulated exercise, a Federal Reserve analysis found that inclusion of the FATES subsidy phase-out would nullify any disincentives and provide a clear pathway to career advancement. Instead of experiencing declining net resources, an individual with the FATES subsidy would be more likely to see positive net returns to earned income as higher credentials are achieved.[80] Even though the program's aggregate empirical findings are unclear at the moment, FATES has already achieved community collaboration between Florida's Children's Council, CareerSource Florida, and numerous Early Learning Coalitions. Together, the organizations seek to use FATES to better integrate workforce outcomes and early learning services for low-income families.[81]

78 National Conference of State Legislatures (NCSL), Moving on Up: Helping families Climb the Economic Ladder by Addressing Benefits Cliffs," Jul. 2019.

79 Federal Reserve Bank of Atlanta, Benefits Cliffs and the Financial Incentives for Career Advancement: A Case Study of a Health Care Career Pathway, Jan. 2020 (Revised Feb. 2021).

80 Federal Reserve Bank of Atlanta, Benefits Cliffs and the Financial Incentives for Career Advancement: A Case Study of a Health Care Career Pathway, Jan. 2020 (Revised Feb. 2021).

81 Florida Children and Youth Cabinet: Technology Workgroup, FATES Overview Brief, Apr. 20, 2018.

Looking Ahead

Florida's economic recovery is a tale of two trends. On one front, positive job growth across sectors has persisted alongside a declining unemployment rate. Yet in other ways, the economy has struggled with lower labor force participation than pre-pandemic, rising inflation, and consistent churn due to amplified quit rates. Although the exact course of the post-pandemic economy is uncharted, Florida's workforce is poised to undergo significant changes in the coming years. Impending retirements among the Baby Boomer population will increase the demand for labor in Florida's economy and create other concerns for Florida's worker pipeline. Further, the degree to which women re-enter and engage in the workforce remains a key consideration going forward.

Benefits cliffs will remain a critical concern as Florida families wrestle with financial fluctuations and elevated public assistance caseloads endure across the state, especially for Medicaid. Of particular concern, since many public assistance programs contain eligibility rules set in statute (both federal and state), they may be inflexible to rapidly changing economic conditions. Wage growth, for example, has been exceptional across the U.S. and Florida due to a tight labor market. Across the nation, wages and salaries have grown 5.0 percent from December 2020 to December 2021.[82] In Florida, some sectors like the Accommodation and Food Services sector have seen average weekly earnings grow a staggering 28.4 percent during the pandemic.[83] Robust wage growth benefits workers; however, if rising wages exceed income eligibility limits too quickly, many Floridians may suddenly lose their public benefits.

Relating to wage hikes, one future concern deals with Florida's multi-year minimum wage increase. In 2020, Florida voters approved a constitutional amendment to gradually raise the state's minimum wage each year until reaching $15 per hour in September 2026.[84] Once again, if the minimum wage forces family incomes to rise above income thresholds for different public assistance program, public benefits may suddenly go away. By some accounts, the $13 to $17 per hour range is when potential cliffs are most threatening.[85] Whether minimum wage changes will affect benefit reductions is still inconclusive and warrants further analysis, but research in other states point to the need to adjust eligibility thresholds accordingly to stave off a widespread benefits cliff problem.[86]

Another uncertainty relates to the Public Health Emergency (PHE) mentioned earlier in the report. Currently, the PHE is set to expire on July 15, 2022, unless the U.S. Department of Health and Human Services extends the date by another 90 days.[87] Under the PHE declaration, states have received a 6.2 percentage point bump in the federal share of Medicaid funding contingent on states ensuring continuous eligibility for Medicaid recipients. When the PHE declaration eventually expires—either in mid-July 2022 or later depending on potential extensions—states will be allowed to start processing renewals and redetermine eligibility for current recipients. Whether this resumption leads to a sizeable drop in Florida's Medicaid enrollment remains to be seen. For many families, any lapse in health insurance coverage could adversely affect health and economic well-being.[88] These difficulties would likely magnify the financial challenges of navigating benefits cliffs and other social safety net programs.

82 U.S. Bureau of Labor Statistics (BLS), "Employment Cost Index – December 2021," Jan. 28, 2022.

83 Florida TaxWatch, Wage Growth and Talent Attraction in the Pandemic Labor Market, Feb. 2022.

84 Florida Department of Economic Opportunity (DEO), "Florida's Minimum Wage," Sept. 24, 2021.

85 Forbes, "The Benefits Cliffs: When a Higher Minimum Wage Results in Lost Benefits," Apr. 5, 2021.

86 See Connecticut Voices for Children, Impact of Connecticut's Minimum Wage Increase on Access to Benefits for Working Families, Feb. 2021; and Forbes, "The Benefits Cliffs: When a Higher Minimum Wage Results in Lost Benefits," Apr. 5, 2021.

87 Georgetown University Health Policy Institute, "Secretary Becerra Extends the PHE: What Does This Mean for Medicaid and the Continuous Enrollment Provision?" Jan. 14, 2022. Note: The PHE can only be extended in 90-day increments.

88 Georgetown University Health Policy Institute, Millions of Children May Lose Medicaid: What Can Be Done to Help Prevent Them From Becoming Uninsured? Feb. 17, 2022.

Concluding Insights and Perspectives

Benefits cliffs implicate numerous economic and workforce concerns. Marginally exceeding a public program's income eligibility threshold can lead to a sudden loss of public assistance for recipients, exposing them to severe financial shocks. A sudden reduction in a family's economic well-being would discourage additional career and earnings advancement, further hindering local employment outcomes. Considering these immediate and downstream consequences, benefits cliffs can detract from a social safety net system designed to ensure a base level of stabilization and to provide an avenue for upward mobility.

Florida has a prime opportunity to understand, respond to, and overcome the diverse difficulties associated with benefits cliffs. Various tools exist to model and analyze the incidence of cliff effects among families with varying characteristics. Tools such as the Federal Reserve's Policy Rules Database (PRD) and Career Ladder Identifier and Financial Forecaster (CLIFF) can help local businesses, workforce agencies, and educational institutions assist workers in balancing career advancement with public assistance. Ensuring individuals have access to these tools and clearly understand the outcomes of their career decisions is essential to navigating benefits cliffs. Localizing solutions to lessen cliff effects will further assist in adapting to unique, local business needs and economic conditions.

At a statewide level, policymakers and other key stakeholders serve a crucial role in addressing benefits cliffs. Since cliff effects stem from income eligibility thresholds, identifying which public programs produce the largest cliffs will be pivotal for targeting policy efforts. As demonstrated in the simulation earlier in the analysis, the loss of children's health insurance and childcare assistance constituted the largest cliffs for the family. Across the entire population, these cliffs can limit labor force participation among caregivers and limit lifelong outcomes for vulnerable children. Diminished participation among women is especially consequential in light of the COVID-19 pandemic since childcare needs and other factors have already led many females to exit the workforce. For these reasons, benefits cliff solutions should be two-generational oriented and should bolster workforce reengagement. Learning from other states' policy efforts will be invaluable to recognizing and replicating effective solutions to deal with benefits cliffs.

Florida can lead the nation in developing a public benefits model that optimizes labor market participation and productivity while also reducing or eliminating benefits cliffs. To accomplish this goal, however, will require ongoing research and a recognition of the constantly changing post-pandemic economy. Factors such as rising inflation, wages, and Medicaid enrollment, for example, must be continually considered alongside the state's rapidly aging population. Fundamentally, benefits cliffs encompass issues beyond just the simple transfer and receipt of public assistance—benefits cliffs transform labor market outcomes integral to Florida's long-term economic growth strategy.

Recommendations

Social safety net programs strive for both economic stability and economic advancement. Yet when benefits cliffs create perverse incentives to avoid work or seek higher wages, public assistance programs may be unsuccessful at helping individuals move up the economic ladder, creating long-term implications for families, businesses, and the entire state. Remedies to address benefits cliffs range in scale and approach. No one action will entirely mitigate the cliff; however, by lessening the financial burden (i.e., turning "cliffs" into "slopes"), engaging local partners, reassessing state eligibility rules, and prioritizing programs that incentivize work, tremendous progress can be made. The recommendations below are not an exhaustive list of solutions but rather serve as a foundation to consider future policy changes in Florida.

RECOMMENDATION: For Florida Children's Health Insurance Program (CHIP)—also known as KidCare—for families facing the benefits cliff, increase the income eligibility threshold beyond 200 percent of the FPL and gradually raise the premium amounts families pay until an established level.

Under current Florida law, for Florida families to qualify for subsidized health insurance under KidCare, income must be at or below 200 percent of the FPL. In 2022, this level equates to an annual income of $46,600 for a family of three.[89] Qualified families pay monthly premiums between $15 to $20 depending on the age of their children;[90] however, once income exceeds 200 percent of FPL, monthly premiums can quickly rise to more than $243. The sudden benefits cliff may lead many families to forego health insurance coverage or decline workforce opportunities. Discussed in a previous Florida TaxWatch blog, raising the income eligibility threshold and graduating premium increases can ameliorate sudden price increases, potentially reducing the benefits cliff.[91] As seen in this present analysis, the loss of Medicaid for children/CHIP was the biggest benefits cliff in the hypothetical situation for a single mother and two children. The sizeable drop-off was big enough to disincentivize any earnings advancement. Since children's health outcomes can greatly affect long-term economic and fiscal outcomes, addressing this particular benefits cliff will be essential for Florida to avoid adverse consequences.

RECOMMENDATION: Because the economic burdens vary by community, modify Florida's Child Care and Development Fund (CCDF) eligibility design to provide for an alternative co-pay schedule that takes into account each county's cost of living.

Inability to afford childcare can pose a large enough barrier to workforce participation for many individuals, especially for women in the pandemic-recovering economy. Florida provides subsidies through the CCDF to offset the high cost of childcare for families; however, because the subsidy is pegged to 85 percent of the state's median income rather than the local cost of living, the sudden shock to expenses can be substantial. One practical change would be to modify the CCDF co-payments so that they increase as a fraction of the full unsubsidized childcare costs while also extending benefits until families reach the cost of living for that particular area.[92] Reinforced in a comprehensive report by the Federal Reserve Bank of Atlanta, the resulting smoothed subsidy phase-out would conceptually address the benefits cliff effect, encourage workforce participation, and produce long-term benefits for children.[93]

RECOMMENDATION: Incorporate benefits cliffs visualization tools like the Career Ladder Identifier and Financial Forecaster (CLIFF) and Policy Rules Database (PRD) within workforce development organizations, local businesses, nonprofits, and other agencies.

Due to complex state and federal rules surrounding public assistance programs, families may have a difficult time understanding the impact of their workforce decisions. Visualization tools such as the CLIFF and PRD enable individuals to model their income and public assistance changes to better prepare. For organizations that specifically assist individuals with their career ambitions or talent development, incorporating these visualization tools will help to alleviate benefits cliffs. Business owners may be more informed on how to better assist their employees with their career goals without enduring an unintentional benefits cliff. The two Federal Reserve tools have already found great success in helping workforce efforts. In Broward College's Broward UP initiative, for example, the CLIFF tool helps students to make informed career decisions as they pursue credentialing.[94]

89 See Healthcare.gov, Federal Poverty Level (FP) for 2022. For a family of 3, the 2022 FPL level was $23,030. 200% x $23,030 = $46,600.

90 Note: Florida KidCare requires participating families to pay a monthly premium between $15 and $20 dollars, but for children who qualify for Medicaid, the premium amount is $0.

91 Florida TaxWatch, "What Benefits Cliffs Teach Us About Incentives: A Case Study on Florida Children's Health Insurance," Jan. 28, 2022.

92 Federal Reserve Bank of Atlanta, Restructuring the Eligibility Policies of the Child Care and Development Fund to Address Benefit Cliffs and Affordability: Florida as a Case Study, Jun. 2021.

93 Federal Reserve Bank of Atlanta, Restructuring the Eligibility Policies of the Child Care and Development Fund to Address Benefit Cliffs and Affordability: Florida as a Case Study, Jun. 2021.

94 Federal Reserve Bank of Atlanta, "Atlanta Fed Partners with Broward College to Launch Benefits Cliff Tool," Jun. 30, 2021.

RECOMMENDATION: Perform a state-level comprehensive assessment to examine the aggregate economic and fiscal impacts of benefits cliffs on Florida's economy. The assessment should identify the most common combination of public assistance programs, which programs create the biggest cliff effects, and how such difficulties reduce labor force participation and increase state costs.

On a national level, the issue of benefits cliffs is well-known, but a lack of empirical studies makes it difficult to ascertain exact economic or fiscal consequences in Florida. Most studies focus on a hypothetical family meeting certain characteristics, but the findings usually cannot be extrapolated to the entire population. In Florida, little is known about the aggregate costs and implications. Future policy initiatives to address benefits cliffs in Florida should be grounded in empirical evidence to maximize the reforms.

RECOMMENDATION: Encourage participation in the federal Earned Income Tax Credit (EITC) program by supporting local Volunteer Income Tax Assistance (VITA) sites and directing caseworkers to automatically inform eligible families of this service when they apply to state-level public assistance programs like TANF, SNAP, or Medicaid/CHIP.

Even though the EITC is federally funded and administered, the state of Florida directly benefits from the estimated 2.0 million residents that receive the tax credit each year. The EITC refunds totaled $5.1 billion across the state in 2019 and supporting research suggests the credit may produce local economic impacts equivalent to at least twice the EITC dollars received.[95] Florida can support EITC access and participation by supporting VITA sites that provide high-quality tax preparation services to low-income communities at no cost to families. Additionally, the state can inform participants of their potential eligibility to EITC (and other tax credit programs) while applying to other state-administered public assistance programs like TANF or Medicaid/CHIP.

RECOMMENDATION: Support affordable housing efforts around the state of Florida by ensuring adequate levels for the Sadowski affordable housing trust fund and not redirecting targeted funds to other state issues.

Although Section 8 housing vouchers exist for low-income families to support affordable housing, limited supply and access minimize the program's benefits. More generally, Florida should support state affordable housing efforts since housing is typically the largest budget item for most low- and moderate- income families. Due to rapid inflation, rising housing and rental prices have further constrained these populations. When families have greater access to affordable housing options, their budgets may be more resilient to withstand any potential benefits cliffs that may come from other expenses, such as childcare or health insurance.

RECOMMENDATION: Identify potential ways to use Workforce Innovation and Opportunity Act (WIOA) resources and partner programs to alleviate benefits cliffs and incorporate existing benefits cliffs tools.

Signed into federal law in 2014, the WIOA is designed to help job seekers access employment, education, and training opportunities. Under the WIOA, Florida maintains a four-year strategy and operational plan for the state's workforce development system to foster alignment across job training programs and to improve efficient service delivery.[96] Furthermore, the WIOA allows state governors to reserve 15 percent of allocated funds to support innovative projects that bolster opportunities for job seekers facing employment barriers.[97] The state of Florida and relevant workforce development partners should identify ways to support innovative programs aimed at analyzing and alleviating benefits cliffs. Further integrating WIOA programs and resources to address benefits cliffs can advance the state's overall workforce development strategy and better promote family economic success.

95 Prosperity Now Taxpayer Opportunity Network, "The Impact of EITC & VITA in Florida," Accessed on Mar. 7, 2022 from Florida Governor Ron DeSantis' Website (flgov.com).

96 CareerSource Florida, Workforce Innovation and Opportunity Act Unified Plan – State of Florida: July 1, 2020 – June 30, 2024, Sept. 2020

97 CareerSource Florida, Get There Faster WIOA Competitive Grants: Fiscal Year 2021-2022, Accessed Mar. 31, 2022.

Appendix A: Descriptions for Listed Public Assistance Programs

Medicaid/Children's Health Insurance Program (CHIP) – Medicaid and CHIP offer free or low-cost health insurance to low-income families and cover many services, such as hospitalizations, doctor visits, and prescription drugs. In Florida, the CHIP program is known as "KidCare" and includes subsidized and full-pay options based on family income and household size. Qualifying families can pay as little as just $15 or $20 a month for all children in the household.

Supplemental Nutrition Assistance Program (SNAP) – Formally known as "food stamps," the SNAP program provides low-income households with noncash benefits to purchase food. Participating households receive benefits via an Electronic Benefits Transfer card which can be used like a debit card to purchase eligible foods in authorized retail stores.

Supplemental Security Income (SSI) – Administered by the Social Security Administration, the SSI pays monthly benefits to people with limited income and resources who are disabled, blind, or age 65 or older. Blind or disabled children may also qualify for SSI. The cash benefits meet basic needs for food, clothing, and shelter.

Temporary Assistance to Needy Families (TANF) – Formally known as the Aid to Families with Dependent Children (AFDC), the TANF program provides temporary cash assistance to working families with children under the age of 18 or 19 (if the individual is a full-time secondary student). Florida requires all work-eligible participants to register for work or participate in work-related activities.

Housing Assistance (Section 8 Voucher) – The housing voucher program assists low-income families, the elderly, and the disabled in affording decent, safe housing in the private market. Participants are able to search for their own housing, such as apartments, townhouses, or single-family homes. Vouchers are administered locally by local public housing agencies that receive federal funds.

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) – A federally funded nutrition program, WIC provides participating families with the following: healthy foods, nutrition education and counseling, breastfeeding support, and referrals for health care and community services. Similar to SNAP, WIC beneficiaries receive a Electronic Benefits Transfer card to purchase WIC approved foods.

Child Care and Development Fund (CCDF) – The CCDF funds assistance to low-income families who need childcare due to work, work-related training, and/or attending school. Known as the "school readiness program" in Florida, the program provides subsidies for childcare services and early childhood education to low-income families.

Earned Income Tax Credit (EITC) – The EITC is a refundable tax credit that provides income support while promoting work and economic mobility. If the EITC amount exceeds what the individual owes in taxes, the remainder is provided back in the form of a tax refund. Designed to incentivize and reward work, the EITC grows with each additional dollar of earnings until reaching a maximum value and gradually phasing out.

Child Tax Credit (CTC) – The CTC is another refundable tax credit that reduces the federal tax owed based on how many qualifying children there are in a household. The American Rescue Plan Act of 2021 increased the CTC from $2,000 per child to $3,000 per child for children over the age of six and from $2,000 to $3,600 for children under the age of six. The benefit boosts are set to expire for the 2022 tax year. Beyond a specific income threshold set each year, the benefits phaseout at higher income levels.

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