A Roadmap to Avoiding the Public Benefits Cliff in DC

Public benefit programs – such as income, food, housing, childcare or healthcare assistance – provide vital resources to support the economic security of households with low incomes. These programs are essential given that too many jobs do not pay enough to make ends meet, and many people are not able to work due to age, disability, the need to care for others, or a lack of job opportunities for their skills.

These essential benefit programs can become a challenge, however, when a household's income rises due to improved employment or other reasons. That's because means-tested public benefits often phase out quickly – usually *well before* families have enough income to fully meet their basic needs – and because the combined phaseout of multiple programs can *offset* a large share of an increase in income, leaving households barely better off. This is known as a "benefits cliff."

Understanding and addressing the benefits cliff is important to improving the economic security of District of Columbia residents.

- **Most public benefits phase out entirely *well before* families have enough income to meet their basic needs.** For example, a family of three receiving income assistance from TANF (Temporary Assistance to Needy Families) loses eligibility completely when their monthly income reaches just $2,400 a month.

- **Benefit reductions act like a substantial tax on added income.** If a DC family receiving TANF and SNAP (Supplemental Nutrition Assistance Program) benefits increases their earned income from $1,500 to $3,000 a month, the combined impact of payroll taxes and the loss of SNAP and TANF leaves the family just $250 better off despite $1,500 in new earnings. The rapid phaseout of public benefits impedes efforts to support economic mobility.

- **Some programs result in sudden losses of eligibility when income rises.** A DC parent remains eligible for Medicaid until their income equals 227% of the federal poverty line, or about $59,000 for a family of three. Once a parent's income rises above 227% of poverty, they can get health insurance through DC Health Link, but even with subsidies, that health insurance can mean suddenly facing thousands of dollars of expenses for premiums and out-of-pocket expenses – 6% or more of income. That means a family with a modest increase in income could face a big jump in health expenses.

Some aspects of the benefits cliff stem from federal policies that the District cannot control. But there are many steps the District can take to re-shape policies and reduce the impact of the benefits cliff, including:

- Taking advantage of options within federal programs
- Modifying DC programs that contribute to the benefits cliff
- Implementing policies to intentionally offset the federal policies that affect the benefits cliff

- Supporting initiatives that provide additional money in the hands of low- and moderate-income families in ways that do not phase out at low income levels, such as the newly passed DC Child Tax Credit
- Expanding access to economic mobility coaching using methods proven to help families

These are discussed in more detail below.

Examples of the Benefits Cliff in DC

Consider a parent with two children who is unemployed and receives TANF cash assistance and SNAP food assistance. If the parent finds a job earning $1,500 a month (close to half-time at the minimum wage), they will face a reduction in TANF and SNAP benefits and also pay payroll tax on their earnings. However, the new earnings also make the family eligible for the federal and DC Earned Income Tax Credit, a tax benefit for workers with low incomes, and the

TABLE 1:
The DC Benefits Cliff for a Parent Getting a Part-Time Job

Monthly Income	Before Getting a Job	After Getting a Job	Change
Earnings	$0	$1,500	$1,500
TANF	$751	$305	-$446
SNAP	$766	$476	-$290
Earned Income Tax Credit: DC & Federal	$0	$936	$936
Federal Child Tax Credit	$0	$194	$194
Federal Payroll Tax	$0	$115	-$115
Net Income	$1,517	$3,295	$1,778

*Calculations for FY2024 by UPO. Assumes family receives SNAP and TANF.

federal Child Tax Credit. The combined effect would leave the family with $1,778 more. The family retains all of the impact of their higher earnings because the new tax benefits are larger than the reductions in TANF and SNAP benefits.[i]

However, if the same parent moves from earning $1,500 a month to $3,000, the family's net income after taxes and benefits rises just $251, because they face $1,249 in new taxes and reduced SNAP, TANF, and EIC benefits. If the family had a child young enough to be in childcare, the earnings increase also would have led to a childcare co-pay requirement.

TABLE 2: The DC Benefits Cliff for a Parent Moving from Part-Time to Full-Time Work

Monthly Income	**Part-Time**	**Full-Time Job**	**Change**
Earnings	$1,500	$3,000	$1,500
TANF	$305	$0	-$305
SNAP	$476	$123	-$353
Earned Income Tax Credit: DC & Federal	$936	$505	-$431
Federal Child Tax Credit	$194	$333	$139
Federal Payroll Tax	$115	$230	-$115
DC & Federal Income Tax	$0	$186	-$186
Net Income	$3,295	$3,546	$251

*Calculations for FY2024 by UPO. Assumes parent earns minimum wage and family receives SNAP and TANF.

If families receive more benefits – particularly if they are in subsidized housing – the combined impact of the phaseout can be more extreme. If the family described above also received housing assistance, the move from $1,500 in monthly earnings to $3,000 would result in a *$44 reduction in net income* after taxes, reduced benefits, and higher rent. The new taxes and loss of benefits would leave the family worse off than before their earnings increased.

TABLE 3: The DC Benefits Cliff for a Family Receiving Multiple Public Benefits			
Monthly Income	**Part-Time**	**Full-Time Job**	**Change**
Earnings	$1,500	$3,000	$1,500
TANF	$305	$0	-$305
SNAP	$476	$123	-$353
Subsidized housing rent	$517	$862	-345
Earned Income Tax Credit: DC & Federal	$936	$505	-$431
Federal Child Tax Credit	$194	$333	$139
Federal Payroll Tax	$115	$230	-$115
DC & Federal Income Tax	$0	$186	-$186
Net Income, after rent	$2,674	$2,632	-$44

*Calculations for FY2024 by UPO. Assumes parent earns minimum wage and family receives SNAP, TANF, and housing assistance.

These examples are common experiences, and they highlight the importance of understanding the eligibility rules and benefit formulas in key public benefits and how they affect recipients.

Most Public Benefit Programs Phase Out Before Families Have Enough to Support Themselves

Public benefits are intended to support the economic security of people with low incomes, and it makes sense that a program's benefits phase out at some point as a household's income increases from earnings and other sources. However, most assistance programs phase out *before* families have enough to support themselves.

The "household survival budget" from United for ALICE (Asset Limited. Income Constrained, Employed), a project led by the United Way of Northern New Jersey, offers one estimate of the income a family needs: They estimate that a single parent with two school-aged children in DC needs $87,000 to cover basic expenses.[ii] By contrast, the 2024 federal poverty guideline for a family of three is $25,800. That means a DC family of three needs an income close to 350% of poverty to cover basic needs.

Yet nearly all means-tested programs phase out well before that level.

- DC TANF eligibility in 2024 phases out at $2,413 in monthly earnings, or $29,000 annual income.[iii]

- SNAP eligibility in DC ends when a family reaches 200% of the federal poverty line, or $51,860 annual income in 2024.[iv]

- Medicaid eligibility for parents in DC is 227% of the federal line ($58,600 annually); children with income are eligible below 335% of poverty ($86,500 annually).[v]

- The Earned Income Tax Credit for a family with two children phases out when earnings reach $52,900 in tax year 2023 (with benefits claimed in 2024).[vi]

- Families in DC generally must have very low incomes to qualify for a housing voucher, and they often must wait years after applying to receive one. Once a family receives a voucher, they contribute 30% of their income towards rent, and eligibility tends to end when a family's calculated rent contribution equals the market rent. For example, a family of three with a voucher in DC can rent a two-bedroom apartment with costs up to $3,437. Their rent contribution would rise as their income rises, but they would continue to receive some help paying the rent until their income reached $138,000.[vii]

- A DC family of three must have income below $77,500 to qualify for childcare assistance, or 300% of poverty. Once a family becomes eligible for subsidized childcare, they remain eligible until their income reaches 400% of poverty, or $107,000.[viii]

DC Benefits Often Phase Out Quickly as Earnings Rise

The phase out of public benefits at relatively modest income levels often reflects a benefit formula that reduces benefits quickly as earnings rise. Researchers sometimes refer to the phaseout as an "effective marginal tax rate," because the loss of benefits tied to an increase in income has the same effect as an income tax. For example, federal SNAP benefits phase out at a rate of between 24% and 36% of earnings.[ix] This means that an extra $100 in earnings would result in a $24-$36 reduction in SNAP benefits. This is the same as if the income were subjected to an income tax rate of 24%-36%.

In many cases, the phaseout rates of public benefit programs are far higher than federal income tax rates. For example, a single parent faces a federal income tax rate of 12% for income between $36,500 and $85,000. The DC income tax rate is 6% for a single parent with income above $31,000.

By contrast, public assistance programs in DC often phase out in ways that create much higher effective tax rates.

- In DC, the formula for TANF phases out benefits at a rate of $1 for every $3 of earnings above $160 a month. For families with earnings in the phaseout range, that is a 33% rate.[x]

- Federal SNAP rules allow recipients to keep the maximum benefit as income rises, in part based on whether they have expenses such as childcare that can be deducted from their countable income. Once income reaches the phaseout point, SNAP benefits phase out at either 24% or 36% of earnings. (The rate depends on whether the recipient is able to claim a deduction for high housing costs.)

- The Earned Income Tax Credit benefit formula is more complex. Families with no earnings do not qualify for any EITC benefit. Then as their earnings rise, the EITC equals a specified percentage of earnings – such as 40% of earnings for a family with two children. A parent with two children who has no earnings and moves to a part-time job paying $10,000 a year would qualify for $4,000 EITC benefit, which would be provided as a tax refund. This is a rare instance where a means-tested benefit gets *larger* as earnings rise, rather than phasing down.

  As earnings continue to rise, the EITC starts to phase out at a specified level. For a family with two children, the federal EITC for tax year 2023 (and claims the benefit when filing taxes in 2024) equals 40% of earnings from $0 to $16,510 of earnings, resulting in a maximum credit of $6,604. A family with two children remains eligible for the maximum credit until earnings reach $21,560, and then the credit amount phases out at a rate of 21% of earnings above that. For families with earnings in the phaseout range, this is the same as a 21% income tax rate.[xi]

- DC has an Earned Income Tax Credit that is being expanded over the next few years, when it will be 100% of the federal EITC. For the 2024 tax filing season, the DC EITC equaled 70% of the federal credit. While this provides an important benefit, it also means that the federal and DC EITC alone result in a 36% loss of benefits as earnings rise in the phaseout range.

- In subsidized housing programs for residents with very low incomes, their rental contribution is set at 30% of their income. This means that a $100 increase in income results in a $30 rent increase. This is the same as a 30% phaseout of the housing subsidy, or a 30 percent tax rate.

- The DC childcare subsidy program charges a co-pay on a sliding scale fee. For example, a parent with two children in care pays about $25 a month if their income is just above 100% of poverty, and $125 a month if their income is just above 200% of poverty. The increase in co-pay between these two income levels equals roughly 5% of the earnings increase between 100% and 200% of poverty.[xii]

This suggests that the phaseout rate of multiple programs – TANF, SNAP, housing, and the EITC – is higher than the income tax rate a family at the same income level would pay. When families receive multiple benefits that have notable benefit phaseout rates, the full impact of the benefits cliff is devastating.

Some DC Programs Have Sudden Drops in Eligibility

In some cases, families receiving public benefits can lose benefits in a substantial way when income reaches a certain threshold, rather than phasing out slowly. This is truly a benefit "cliff," while benefit phaseouts are often a steep slope.

- **Medicaid**: This cliff effect happens most notably under Medicaid. When DC residents are eligible for Medicaid, they receive free health insurance and have no co-pays or other expenses for their health care. When their income rises above the eligibility threshold – 227% of poverty for parents, for example – they lose their health insurance entirely. At that point, they can seek health insurance through DC Health Link, the healthcare exchange, and they can qualify for financial assistance for both premiums and co-pays or deductibles, but the subsidies do not fully cover those costs. Nationally, the tax credits and cost-sharing are intended to limit health expenses to 6% of income for people with incomes near 300% of poverty.[xiii] In the District, the DC Health Link cost calculator suggests that a parent with two children and income of $72,000 would pay $3,130 in premiums and $5,750 in total health expenses with deductibles and co-pays, or 8% of income. While DC Health Link provides substantial help, it still means that families can face a sudden transition from having no health expenses to having health insurance expenses that take up a notable share of their budget. For a family of three, this affects parents when income rises above $59,000.

- **SNAP**: In DC, SNAP eligibility ends at 200% of poverty. (This is the highest possible level under federal law.) For many families, SNAP benefits would phase down to zero by this income level. However, for some families with large housing or childcare expenses, which are deducted from income when counting income for SNAP benefit determinations, they can still be eligible for SNAP at income just below 200% of poverty. They lose all of their benefits if their income rises above 200% of poverty.

- **Childcare**: Families in DC do not lose eligibility for childcare until their income reaches $107,000 for a family of three, more than four times the poverty line. At that point, a family would go from paying $125 a week for childcare to paying a full market rate that is likely to be much higher. It is worth noting that this happens after a family's income is above the "household survival budget" amount, suggesting that families at this income level are better suited to deal with this cliff than the cliffs that happen in other programs.

The Timing Cliff: Tax Credits Help Offset the Loss in Public Benefits But Often Are Not Available until Months after They Are Needed

Most public benefits are provided in an ongoing way – such as monthly – at the time that a family is eligible and in need. Tax credits, on the other hand, are paid out when a family files a tax return in the next year. For example, families eligible for the EITC based on their 2024 income will get the benefit in 2025 when they file a tax return. This means that tax credits are not fully able to offset the loss of other public benefits, such as SNAP, that can happen fairly quickly after a family's income rises. At that point, they receive their federal 2024 benefit in one refund payment, and they can receive their DC refund in a lump, sum or have it spread out over the following 12 months. In either case, the EITC is not immediately available when a family's earnings rises and other benefits start to phase out. The newly passed Child Tax Credit, which will provide $420 per child for eligible families, faces the same issue.

What DC Can Do to Address the Benefits Cliff

The benefits cliff reflects the combined impact of multiple benefit programs, some defined entirely by the federal government and some under control of the DC government. And as described above, most public benefit programs were designed to phase out entirely at income levels when families are still not able to meet their basic needs on their own. These create challenges for addressing the benefits cliff.

The District already has taken many steps to reduce the impact of the benefits cliff and support the economic security of families with low incomes.

- The District has eliminated asset limits in SNAP, which means families cannot be cut off simply because they have a modest amount of savings.

- Within SNAP, DC has taken options that enable recipients to be eligible until their income exceeds 200% of poverty (in some states, SNAP eligibility ends when income exceeds 130% of poverty). DC also has taken the federal SNAP option to extend a family's benefits for 5 months – with no reduction – when they leave TANF due to higher earnings.

- DC's Medicaid eligibility is high – 227% of poverty for adults and 335% of poverty for children and people who are pregnant, the highest in the nation.

- As noted, the childcare subsidy program is open to families with income below 300% of poverty, and families remain eligible until their income reaches over 400% of poverty.

Further Steps DC Can Take to Address the Benefits Cliff

TANF: The District has broad latitude to set the benefit level and phaseout formula in TANF. Currently, DC's TANF program disregards the first $160 in earned income and then 1/3 of earnings above that. This results In TANF benefits phasing out for a family of three with monthly earnings of $2,400.

- DC could modify the TANF program to disregard more than $160 of earnings, and to reduce the phaseout rate to something lower than 33%.

- DC could provide a transitional period after a parent starts working where there is no reduction in benefits. The transition period could be up to a year to enable parents to adjust to their job before facing a loss of benefits.

- The District could use TANF to provide periodic payments to all families, such as an annual payment in July or August for back-to-school expenses. These one-time payments are not counted as income toward other benefits. The District has done that in the past but does not currently do so. These one-time payments would not specifically address a benefits cliff, but they would support the overall well-being of TANF families, including those whose basic benefits are falling due to higher employment income.

Child Care: The co-pays that DC requires parents to pay are low relative to the cost of childcare, but for a parent going to work, they can take up to 5% of their new earnings. At a time when other public benefits are phasing out, and when overall family income is still too low to meet all basic needs, DC could eliminate co-pays for families. The co-pays currently start when a family's income exceeds 100% of poverty, a very low level.

Health care: One of the largest cliffs in DC is when a parent transitions from Medicaid to DC Health Link due to higher earnings, with families going from no health care expenses to expenses that equal thousands of dollars annually. The District could consider subsidies to help cover health care costs for people who lose Medicaid eligibility – covering the gap between federal subsidies available to people in this situation and the full costs of health insurance – and it actually has a recent model for doing so. In 2024, the District used funds for its childcare Pay Equity Fund to cover the health insurance premium costs for employees of licensed childcare providers who are not eligible for Medicaid due to income. (Some childcare teachers became ineligible for Medicaid when they received a pay boost from the Pay Equity Fund.)[xiv]

- The District could apply this approach as a time-limited transitional benefit when parents lose Medicaid.
- The District could also maintain this as a permanent subsidy for families with incomes above Medicaid eligibility – 227% of poverty – until they reach an income level that is sufficient to meet a family's basic expenses.

Tax Credit re-design: Currently, the DC Earned Income Tax Credit is administered as a match of the federal EITC. (It equals 70% of the DC EITC for tax year 2023.) This makes it easy for the DC EITC to be administered, but it also means that the phase-out rate for the EITC becomes 36% when the DC and federal EITC are considered. To address this, the District could re-design its EITC so that the DC credit starts phasing out only after the federal credit has fully phased out.

Expand Child Tax Credit (CTC): The District adopted a $420 per-child credit for children under age 6, for up to three children, that will be implemented in 2025. The credit can help families meet the needs of their children, and the new credit will be fully available to families with incomes up to $160,000 (for single-parent families). This means that the CTC will not contribute to the benefits cliff because it only starts to phase out after families have reached an income level where they can meet their basic needs. The District could expand the CTC by covering older children, extending the credit to all children rather than the first three, or increasing the size of the credit.[xv]

Child Support: Under current law, if a family currently receives TANF assistance – or has received it in the past – any child support they receive is kept by the District and federal governments to effectively repay any TANF benefits the family receives. In the District, a family can keep $150 of monthly child support, but only if it is paid in the month it is due.[xvi] Beyond that, the IRS captures tax refunds for any tax filer who has child support debt, but rather than passing it on to families, the tax refund is returned to the District and federal government for families currently or previously on TANF.

Some states are taking a different approach. For example, Illinois recently adopted legislation to ensure that 100% of child support payments and tax refunds intercepted for child support debt are passed on to families.[xvii] The District could also adopt this approach. While this reform does not address how a public benefit phases out, it is a rule change that helps families keep more of their benefits.

Economic Mobility Coaching: The District should consider expanding access to economic mobility coaching for residents with low incomes who want it. Career Map has piloted a coaching approach to address the benefits cliff with promising results. Research finds that coaching can have benefits on specific financial outcomes.[xviii] LIFT's coaching program, for example, has been demonstrated to increase income by an average of $6,000 yearly, increase savings, increase progress toward educational goals, and support meaningful progress towards economic security.[xix] Coaching can help residents navigate changes in their benefits as their incomes rise and have positive impact on communities to support sustained economic mobility.

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[i] These reflect UPO calculations of benefits using fiscal year 2023 parameters.

[ii] United for ALICE, Household Survival Budget Calculator. Retrieved on October 1, 2024 from https://www.unitedforalice.org/household-budgets/dc-metro

[iii] District of Columbia State Plan for Administration of the Block Grant for Temporary Assistance for Needy Families, October 1, 2023. Retrieved on October 1, 2024 from https://dhs.dc.gov/sites/default/files/dc/sites/dhs/service_content/attachments/DC%20TANF%20State%20Plan_Oct-2023.pdf

[iv] The District uses the "Broad-Based Categorical Eligibility" option within SNAP. This allows DC to extend SNAP eligibility to anyone with income under 200% poverty, with no asset limit. Retrieved on October 1, 2024 from https://www.fns.usda.gov/snap/broad-based-categorical-eligibility

[v] Medicaid for parents in DC is 216% of poverty, but 5% of earned income is disregarded. This works out to an effective eligibility level of 227% of poverty. The eligibility level for children is 319% of poverty, which works out to 335% of poverty after the disregard. These eligibility levels were retrieved on October 1, 2024 from https://dhcf.dc.gov/node/892382 and https://dhcf.dc.gov/node/892192

[vi] Congressional Research Service, "The Earned Income Tax Credit (EITC): How it Works and Who Receives It," Updated November 14, 2023. Retrieved on October 1, 2024 from https://crsreports.congress.gov/product/pdf/R/R43805
[vii] The maximum payment standard for a 2-bedroom apartment in DC's Housing Choice Voucher program is $3,437. See https://www.dchousing.org/wordpress/payment-standard/. Under voucher rules, a family that receives a voucher remains eligible until the amount they would pay in rent – 30% of income – equals the payment standard.
[viii] District of Columbia Office of the State Superintendent of Education, "Fiscal Year 2023 (FY23) Slide Fee Scale," retrieved on October 1, 2024 from https://osse.dc.gov/sites/default/files/dc/sites/osse/publication/attachments/FY23%20Sliding%20Fee%20Scale.pdf
[ix] Center on Budget and Policy Priorities, "Policy Basics: The Supplemental Nutrition Assistance program (SNAP," June 2022. Retrieved on October 1, 2024 from https://www.cbpp.org/research/policy-basics-the-supplemental-nutrition-assistance-program-snap
[x]District of Columbia State Plan for Administration of the Block Grant for Temporary Assistance for Needy Families, op. cit.
[xi] CRS, "The Earned Income Tax Credit (EITC): How it Works and Who Receives It," op. cit.
[xii] District of Columbia Office of the State Superintendent of Education, "Fiscal Year 2023 (FY23) Slide Fee Scale," op. cit.
[xiii] Congressional Research Service, "Health Insurance Premium Tax Credits and Cost-Sharing Reductions, February 2024. Retrieved on October 1, 2024 from https://crsreports.congress.gov/product/pdf/R/R44425
[xiv] This program is known as HealthCare4ChildCare. Retrieved on October 1, 2024 from https://www.dchealthlink.com/healthcare4childcare
[xv] DC Fiscal Policy Institute, "What's in the Fiscal Year 2025 Budget?" July 1, 2024. Retrieved on October 1, 2024 from https://www.dcfpi.org/all/whats-in-the-fiscal-year-2025-budget/
[xvi] Child support is administered in DC by the Office of the Attorney General. The $150 pass through is described at https://oag.dc.gov/150-pass-through
[xvii] The Southern Illinoisan, "Child Support pass-through payment rule change now in effect," August 1, 2024. Retrieved on October 1, 2024 from https://thesouthern.com/news/child-support-pass-through-payment-rule-change-now-in-effect/article_75fbf539-d82f-541b-9c50-23f70a8e3fb2.html

[xviii] Brett Theodos, et al, "An Evaluation of the Impacts and Implementation Approaches of Financial Coaching Programs," Urban Institute, October 2015. Retrieved on October 1, 2024 from https://www.urban.org/sites/default/files/2022-04/2000448-an-evaluation-of-the-impacts-and-implementation-approaches-of-financial-coaching-programs.pdf
[xix] Deena Fulton and Raye Dooley, "LIFT's Model and Two-Generation Prevention of Intimate Partner Violence," an evaluation conducted for LIFT, 2022. Retrieved on October 1, 2024 from https://www.whywelift.org/wp-content/uploads/2023/06/National-LIFT-report-designed-6-8-23.pdf