

Testimony before the
Subcommittee on Nutrition, Oversight, and Department Operations
Committee on Agriculture
U.S. House of Representatives

Erik Randolph, Director of Research, Georgia Center for Opportunity¹

Virtual Hearing: Examining the SNAP Benefit Cliff

Monday, July 12, 2021

Thank you for inviting me to testify today on this important topic. My name is Erik Randolph, and I am the Director of Research for the Georgia Center for Opportunity (GCO).

Our non-partisan, non-profit organization works to improve the lives of individuals and families by promoting quality education, fulfilling work, and healthy family life. We work directly with targeted populations, collaborate with other non-profit organizations, provide research for public policy, and advocate for changes to improve people's lives, especially at the state level.

While our focus is mainly the state of Georgia, we have been working with similar non-profit organizations to help people find jobs with career ladders and to find common solutions to problems that all states face, especially regarding federal policies that impact the states.

GCO works in the community and collaborates with other non-profit organizations. Our goal is to help people improve their circumstances, become successful in their lives, and flourish as fully-alive human beings. We hear from clients, other community-based non-profits, and employers. Their input influences our programs and activities, especially on what barriers we address to help people. Benefit cliffs are one of the barriers we hear about all the time from clients, other non-profits, and employers.

Today is the second time I am testifying before this subcommittee on this topic. This first time was on June 25, 2015, when this subcommittee was known simply as the Subcommittee on Nutrition, and the hearing was jointly held with the Subcommittee on Human Resources of the Committee on Ways and Means.

¹ Opinions stated within belong to the witness and are not necessarily those of the Georgia Center for Opportunity

An Anecdote and an Overview

To begin, I would like to share a real story about the impact of benefit cliffs. We have made a video of her story that is available on our website.²

A young woman by the name of Joyelle moved to Georgia to escape a physically abusive partner. While looking for work, she received housing benefits to help her weather the transition. While she was elated when she received a job offer from a state agency, she was devastated to learn that taking this higher paying job would cause her to lose her housing assistance, pushing her into homelessness once again.

This anecdote is not an isolated story. We have heard many more. In fact, the Georgia State Legislature took testimony from business leaders who encountered similar situations.

From an analytical perspective, the story makes perfect sense given the manner by which our social safety net system has grown over the decades to include a vast web of more than 80 programs designed to help people struggling to make ends meet.

Without a doubt, the safety net system has helped and continues to help millions of people during times of need, as the programs were intended. Unfortunately, the very same system has the unintended consequences, known as benefit cliffs. Quite simply, a benefit cliff is when gains in earnings do not offset the loss in net income and benefits. When encountered, the benefit cliffs discourage and can prevent individuals from leaving the system—by punishing them for earning more money or deciding to marry, essentially imposing on them a life of lower income and making the climb up the income ladder to a higher standard of living more difficult.

Depending on the circumstances and where they are along the earnings ladder, many recipients of safety-net programs may not encounter a cliff. However, others do, and the cliffs can be severe. As a matter of legislative and regulatory design, the system itself allows for benefit cliffs, which can be encountered at several places along the earnings ladder. When they do happen, the severity and extent of these benefit cliffs vary from mild to severe, based on many factors, such as family size, where they are on the earnings scale, which programs they qualify for and receive, and even geography. When they are mild, they can be overcome as individuals climb up the income ladder. When severe, they can be a hard and sobering stoppage to personal financial progress.

In general, the more programs a person qualifies for, the greater the likelihood they will encounter a cliff as they work up the earnings ladder.

On the other hand, marriage penalties are more pervasive and can be more severe.

²<https://georgiaopportunity.org/story-joyelle-got-an-education-a-job-and-a-promotion-she-never-expected-her-success-would-mean-this/>

Today, in response to the parameters of this hearing, I will focus my comments on the role of the Supplemental Nutrition Assistance Program (SNAP) in regard to benefit cliffs and marriage penalties, but keep in mind there is much interplay among the various programs that can alter what SNAP benefits a household will receive. In fact, SNAP is one of the more complicated programs to understand when it comes to benefit cliffs.

What is the Computational Safety-Net Program Benefits Cliff Model?

The GCO Safety-Net Program Benefits Cliff Model is a computational model that allows policy analysts and others to understand and visualize what benefits a family can receive from fourteen major safety-net programs and how earned income can impact benefit levels.

It is not a statistical model. Instead, it is a computational model that converts statutory and regulatory tax and safety net program rules into algorithms to tell us exactly what programs and how much in benefits a family can receive based on inputted characteristics of the family. It gives those results over a range of earnings that enable us to see where benefit cliffs might and do occur.

Geographical and Family Structure Inputs

The current model uses the following inputs:

- State and county
- “Mom”: age, pregnancy status, marital status
- “Dad” or husband (when present): age, marital status
- Children (up to 4 children can be modeled): age, sex, disability status, in school, childcare setting, and childcare rating category

The eight states and their counties—totaling 888—currently modeled are:

- Alabama
- Florida
- Georgia
- Louisiana
- Mississippi
- North Carolina
- Tennessee
- Texas

Tax and Welfare Programs Modeled

Based on our calculation, the modeled programs account for 95% of all federal spending in the assistance areas of cash, nutrition, health, childcare subsidies, and rental housing, or 80% of all federal welfare spending. Education assistance programs are not included in the model.

Nine federal agencies oversee the modeled programs, but four of those agencies are under the U.S. Department of Health and Human Services. The number of state agencies varies by state. In Georgia, it involves seven state agencies plus public housing authorities and schools.

The following taxes and programs are modeled:

- FICA payroll taxes (social security & Medicare)
- federal income taxes (other than refundable tax credits)
- state income taxes, Earned Income Tax Credit
- state matches to the Earned Income Tax Credit
- Additional Child Tax Credit (i.e., the refundable portion of the Child Tax Credit)
- Temporary Assistance for Needy Families (TANF) cash grants
- Supplemental Security Income (SSI)
- Supplemental Nutrition Assistance Program (SNAP, a.k.a. food stamps)
- National School Lunch Program
- School Breakfast Program
- Special Supplemental Nutrition Program of the Women, Infants, and Children (WIC) program
- Medicaid
- Children's Health Insurance Program
- Premium Tax Credit of the Affordable Care Act
- Childcare program subsidies
- Section 8 rental assistance.

Range of Earnings Modeled

For each inputted family structure, the model calculates the taxes and benefits for 201 earning levels, starting with no earnings and increasing in annual increments of \$500 up to \$100,000. An annual \$500 increase is roughly a 24¢ increase in an hourly wage

Output Matrix and Flexibility for Analyst

The output of the model is flexible. The model gives a matrix of net earnings and benefits for the inputted family structure for the range of earnings from \$0 to \$100,000 for each program. The model also simplifies the output by categorizing the assistance programs, such as combining all the nutrition assistance programs into a single category. The results can be viewed as charts or tables.

Additionally, the model allows researchers to view the outputs by any combination of the tax and benefit programs. For example, the user might want to see the impact of just the food stamp program, or the food stamp program in combination with Medicaid. There are 17 categories currently available that the user can toggle on or off. The total combinations that can be studied calculate to 131,017.

Structure of the Model

The model stores each program's factors and coefficients separately in structured tables as databases. For example, the phase-in thresholds for the Earned Income Tax Credits, which are revised every year, are stored in a database table. In almost every case, the coefficients and factors are precisely the same ones used by the agencies administering the programs. In a few cases when the coefficients are not yet available, they are extrapolated based on historical values using standard statistical or other widely acceptable methods.

The calculation of eligibility and benefit amounts are performed separately from the storage of the database values. The calculation engine pulls up the proper coefficients and factors from the databases for each program based on the inputs, e.g., the characteristics of family structure, running them through an algorithm to determine eligibility and, if eligible, the precise benefit amount.

Defaults

In some cases, the model must use default values for the calculation to be completed. For example, the food stamp rules allow for an excess shelter deduction in determining the amount of the food stamp benefit. The model assumes the fair market rent as published by the U.S. Department of Housing and Urban Affairs. The size of the apartment is based on established rules for the Section 8 rental assistance program. In a few cases, the default value can be overridden. For example, it is assumed that a child starts school at age 5. However, this default can be overridden by inputting a different value.

Current Enhancements and Upgrades

Currently, GCO is upgrading the model to enhance performance and flexibility. The model will allow more flexibility with the family structure, such as adding a grandparent, a benefits calculator to compare a precise wage with another wage, the outputs to include time frames other than calendar year, and greater flexibility to override default values. For example, it will allow inputting actual rental costs as opposed to assuming the fair market rent for SNAP. Additionally, we will be adding more states to the eight states we currently have modeled. In fact, we are halfway through adding South Carolina.

Website and Workbook

Currently, the model is available on our website <https://www.benefitscliffs.org/>, which has 2020 data. In about one month, the website will be updated with 2021 data. Anyone can access this website to explore or perform analysis. The website allows users to download the data into CSV files for further analysis and to create their own tables and charts.

We also have made an Excel workbook available for academic researchers who want greater granularity and analytical flexibility, provided they sign a non-disclosure agreement.

Collaboration with Researchers

Currently, we are aware of two academic researchers using our model for analysis. We are actively looking for ways to collaborate with others.

Observations on General Causes of the Cliffs

In general, below are some general causes of benefit cliffs. Some of these are technical.

1. Hard Cut-offs that Do Not Taper—Primary Cause

The most common cause of benefit cliffs is when the benefit program fails to adequately taper benefit levels before the recipient is cut off from the program. This causes the situation where the loss in benefits exceeds any reasonable increase in earnings.

2. Stacking of Benefits One on Top of the Other—Primary Cause

Sometimes the amount of the loss from a program is not sufficient to disincentivize a recipient from accepting higher earnings. However, when programs are stacked upon each other and the recipients stand to lose benefits from more than one program, this combination can cause a cliff.

3. Benefit Levels that Start Too High—Secondary Cause

When benefit levels start too high, it can cause cliffs in two ways. First, high levels of benefits make it difficult to taper the program adequately *without breaking the bank*. The required slope for these programs to properly taper would reach into high income brackets. This is called a secondary cause because it enables the primary cause of hard cut-offs that do not taper.

Second, when benefit levels start high, it exacerbates the stacking of benefits problem.

4. Exceptions to Eligibility Rules, e.g., Income Disregards—Secondary Cause

When too many exceptions are made with income disregards, it can allow recipients to receive higher benefits that can create a hard cut off.

5. Unfavorable Factors for Married Couples

Program factors, especially in the U.S. Tax Code, treat married couples differently than non-married couples in a way that can skew the benefits in favor of non-married couples.

6. Program Disincentives to be Married

Conversely, programs can disincentivize couples from marrying because they do the opposite of the U.S. Tax Code by not accounting for marriage adequately.

SNAP Benefit Cliffs

Pre-Pandemic Program

Prior to the Covid-19 pandemic, the question of whether SNAP had benefit cliffs depended on three basic factors.

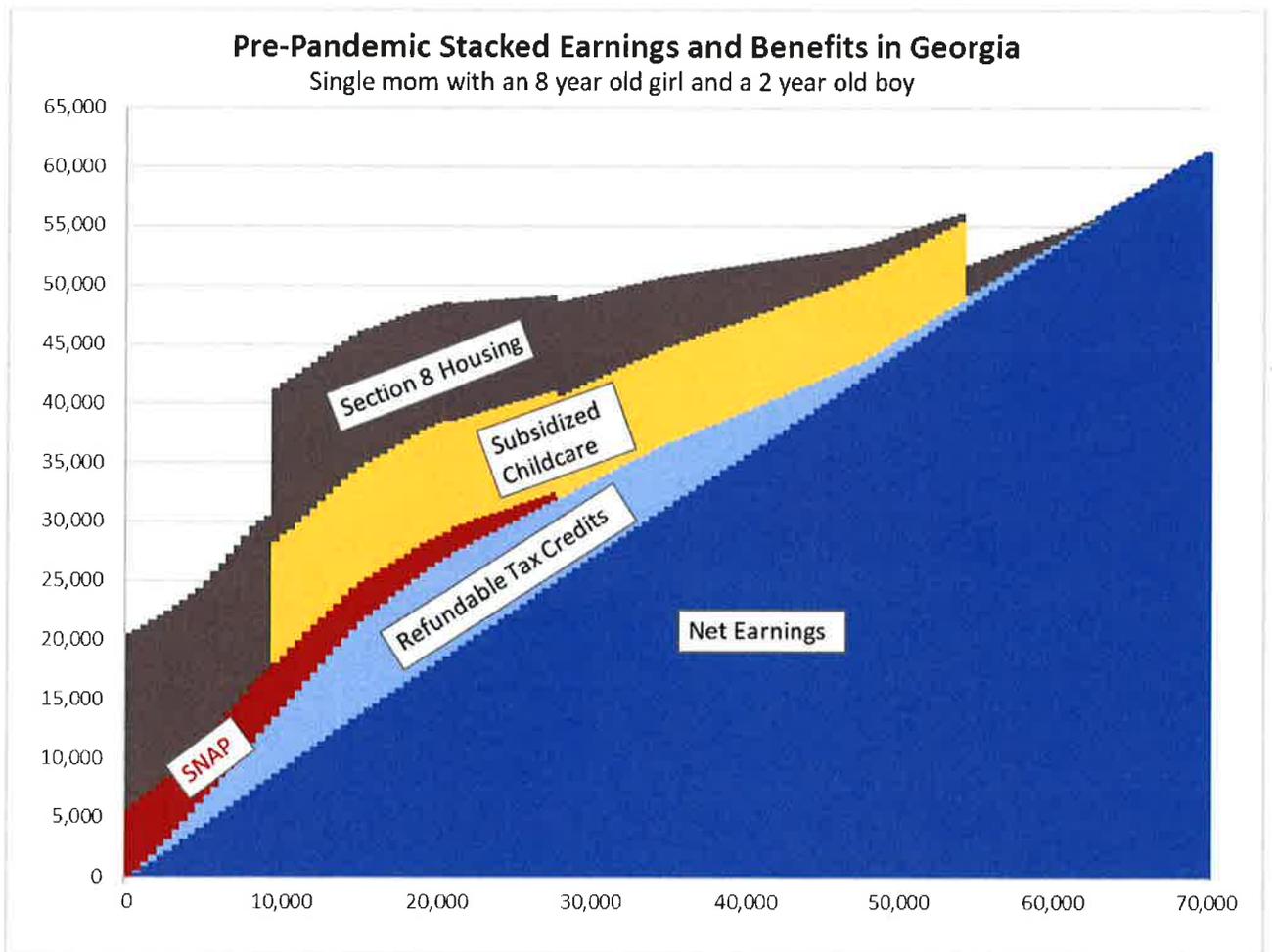
- If the household had no member who was disabled
- If the household could claim a deduction for housing
- If the household had childcare expenditures

For example, if there is a disabled member in the household, there is no SNAP benefit cliff due to earning more money. The reason is that the gross income limit does not apply, allowing the household income to taper off slowly without hitting a hard cut-off limit.

However, for all other households, there can be a cliff, but not always.

If the non-disabled household receives Section 8 housing and childcare services, then the SNAP benefit cliff is negligible and easily made up with extra earnings. See chart 1 for an illustration.

Chart 1



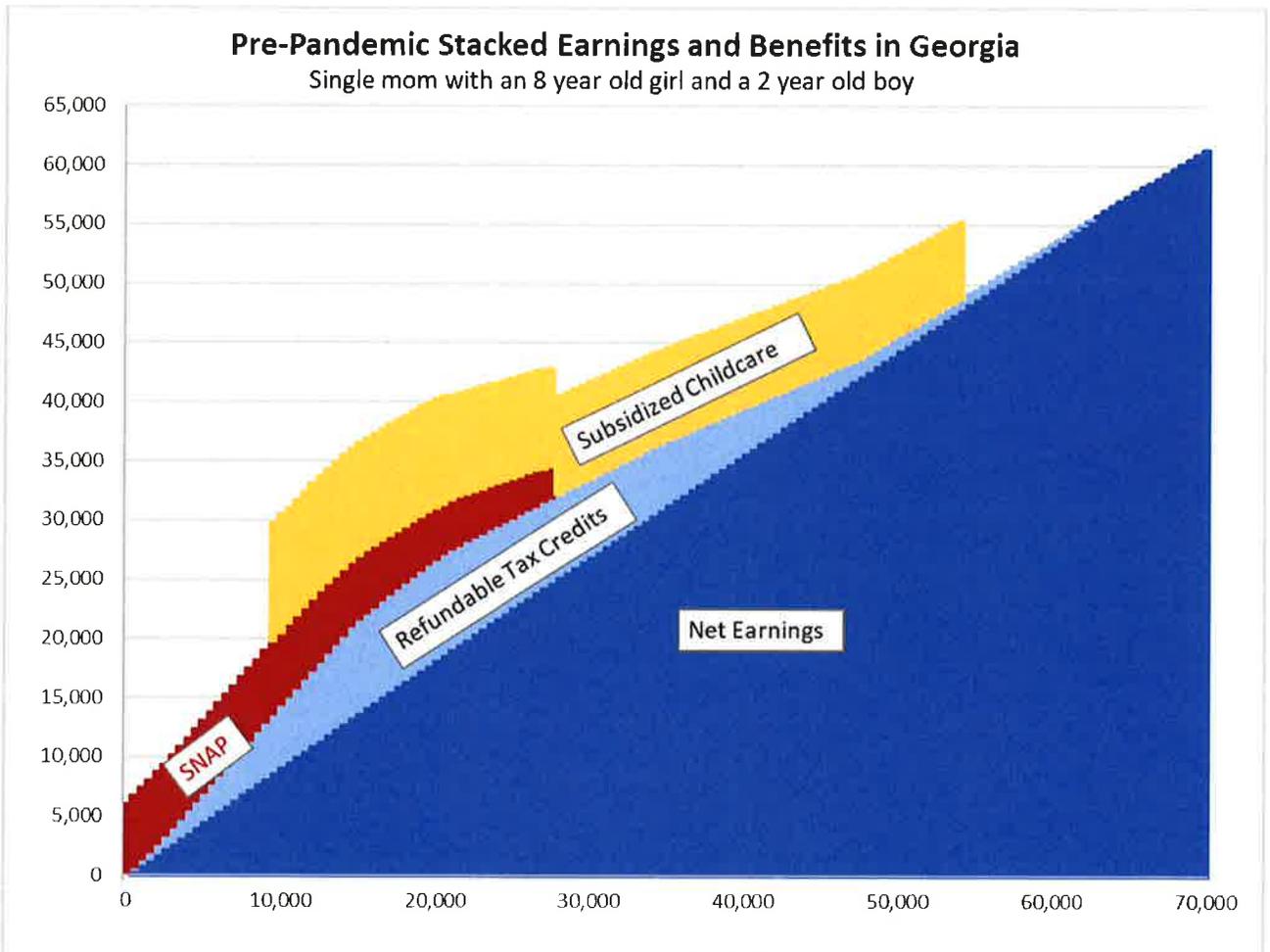
However, if the person does not receive Section 8 Housing and must rent their own apartment assuming the fair market rent per the U.S. Department of Housing and Development, then there will be a cliff. In the scenario used in Chart 2, the monthly loss would be \$219, requiring at least a pay raise of 9.6% to make up for the loss.

Most single moms do not have Section 8 housing vouchers. Therefore, this scenario is more likely.

This benefits cliff can disincentivize someone, but it is not as formidable as the benefit cliffs due to Medicaid or subsidized childcare. However, it is unnecessary for the SNAP program also to create such a cliff.

However, if we add the National School Lunch Program into the mix, her eight year old in this scenario would no longer qualify for a free school lunch but would qualify for a reduced-price lunch, compounding the SNAP benefit cliff.

Chart 2



Finally, if the single mom pays for childcare, then the benefits cliff could double. However, it is not clear how often this would happen due to the high cost of childcare.

P-SNAP Waivers

The Families First Coronavirus Response Act (P.L. 116-127) has a provision allowing states to request waivers to give recipients the maximum allotment for SNAP. Extended by the Continuing Appropriations Act for 2021 (P.L. 116-159), the pandemic-SNAP waiver—P-SNAP for short—means all households of the same size receive the exact same food stamp allotment.

For example, an eligible single mom with one child who lives in one of the 48 contiguous states or the District of Columbia currently receives \$430 a month in food stamp benefits. It does not matter if the single mom has no income or makes \$22,400 annually, which is below the gross income limit. She will receive \$430 each month.

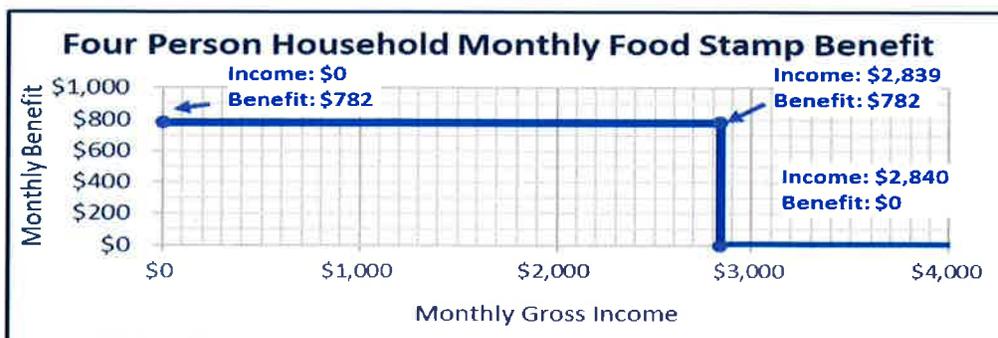
Clearly, the single mom with \$22,400 annual income is benefiting more than the single mom with no income. It seems unfair to the much poorer family that the family earning much greater income is drawing the same benefits.

We can do the same comparison for the other families, such as the eligible four-person household who currently receives \$782 each month no matter if the household has no income or \$34,000 in income.

At some point, families just under the gross income limit will have opportunities to earn more money, and they will face the potential cliff. Even where state agencies are reluctant to terminate benefits because the Food and Nutrition Service waived the states' agencies responsibility to do so under pandemic rules, the decision is essentially the same. Accepting the opportunity will eventually cause a significant loss of benefits.

For example, consider the size of the potential benefits cliff in Chart 3. A family of four just under the income threshold is getting \$782 a month, which equals \$9,384 on an annual basis. The breadwinner would need to receive a pay raise of more than 27.5% to avoid a SNAP benefit cliff.

Chart 3



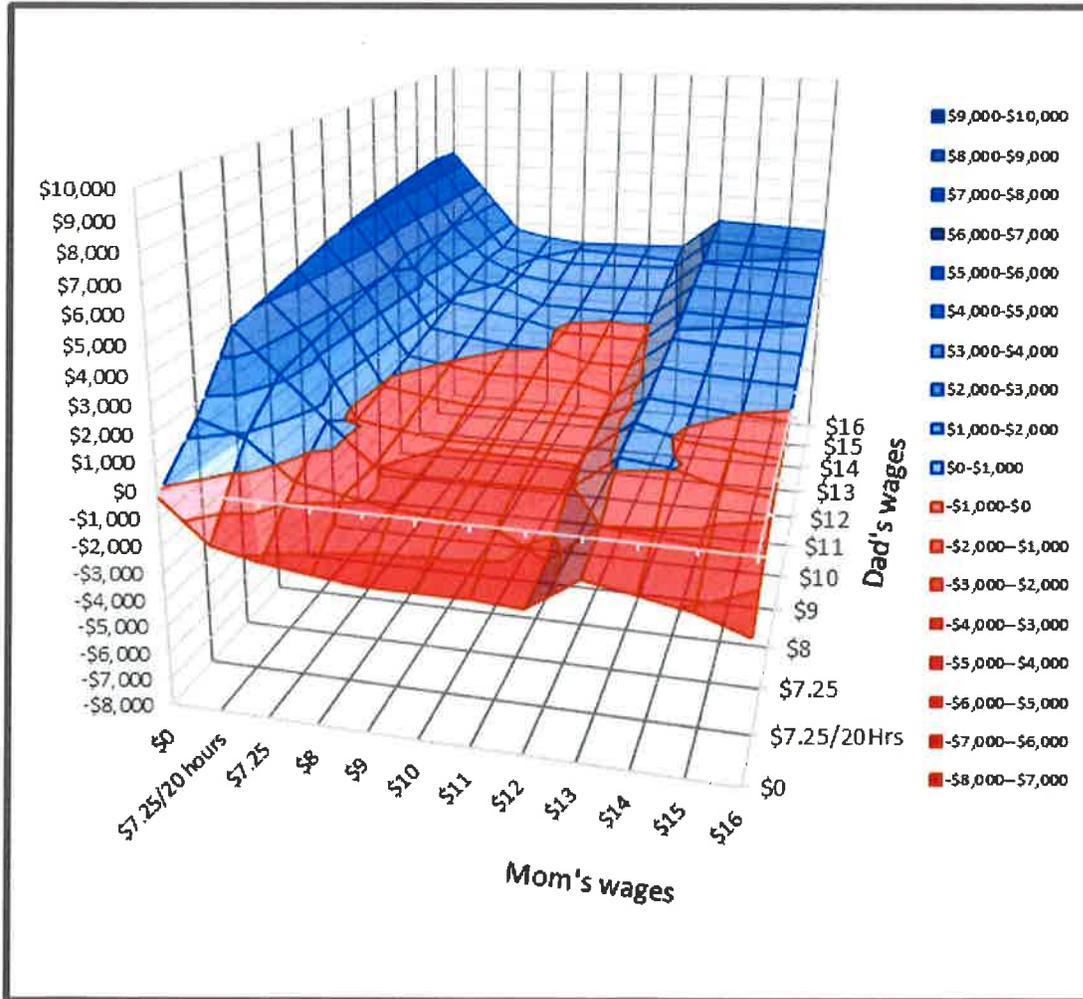
Marriage Penalties

We developed a computational model to test for marriage penalties. Overall, the tax and welfare system has severe marriage penalties, and they were far worse than we expected. The fundamental rule is that the more safety net programs a person receives, the greater the extent and more severe are the marriage penalties.

We did not test specifically for the SNAP by itself, but we included SNAP in with safety net programs commonly received by SNAP recipients, which include refundable tax credits and the school lunch and breakfast program.

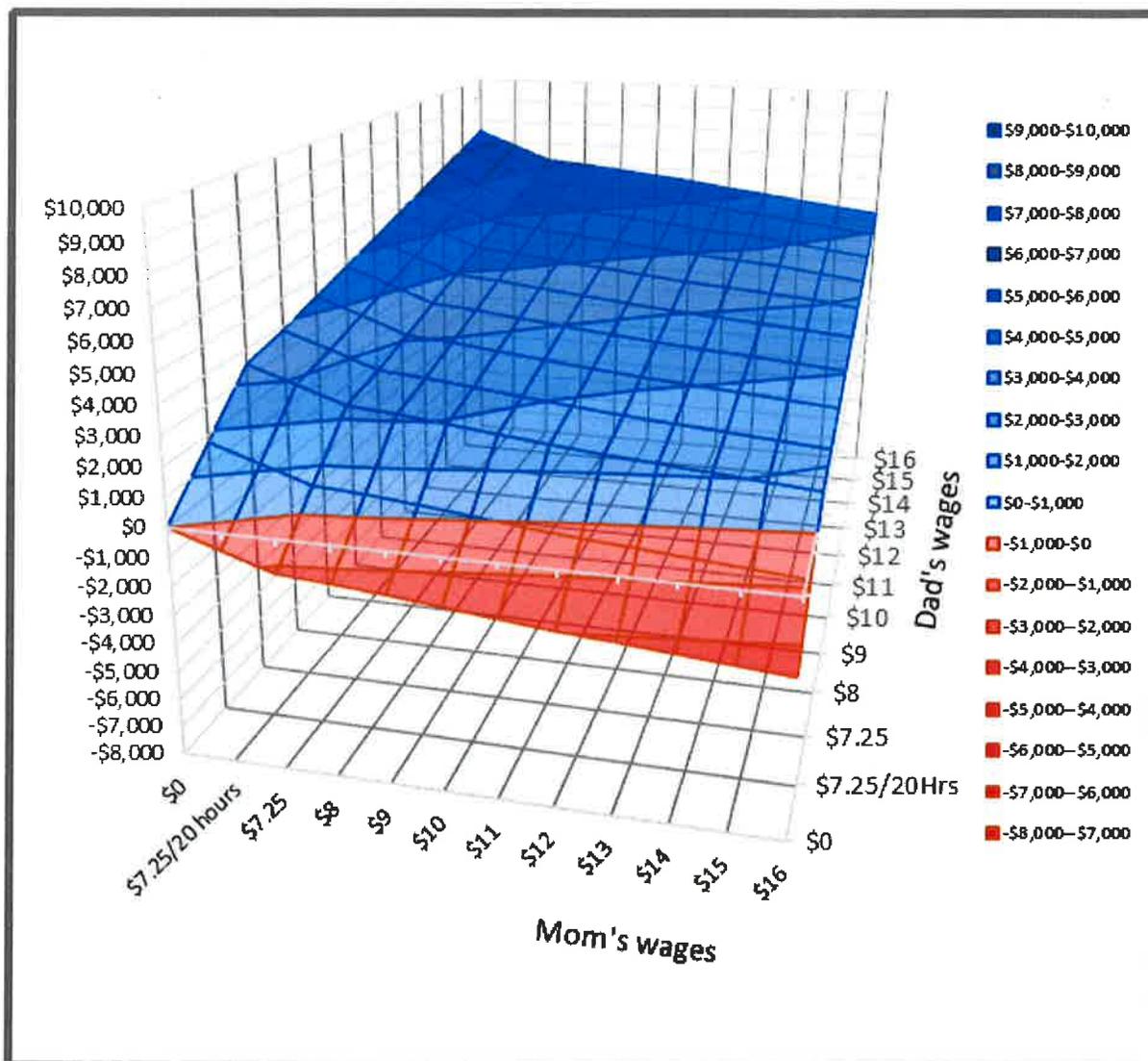
Chart 4 was produced by our computational model. It is a three dimensional chart using 2016 data that shows the combination of those basic benefits with SNAP on a matrix of earning levels of a mom and a dad with two children. The areas in red show marriage penalties, and the areas in blue are marriage bonuses.

Chart 4



Absent taxes and this small set of safety-net programs, the chart would be mostly blue as shown in Chart 5. . In other words, there is naturally a financial incentive for marriage, which is undermined by tax and safety net programs.

Chart 5



Although we did not isolate the SNAP program when we ran the analysis, we do know that the structure of the maximum allotment tables allows for a penalty. Table 1 gives the maximum monthly allotments along with the marginal benefit by adding each person to the household.

With the exception of the sixth person, note that as the household size expands, the marginal benefit decreases. The first person in the household is worth an allotment of \$234 per month, the second \$196, the third person \$186, and so on.

This provides a disincentive for marriage that adds to the effect we see in Chart 4. A married couple with two children has a maximum allotment of \$782. However, the couple is incentivized to be unmarried and claim separate SNAP households where their allotment would be \$850.

While this amount by itself may not be significant enough to disincentivize marriage, in combination with the many other disincentives in the tax and welfare system, it adds to the problem. The goal should be to make it neutral or even incentivize marriage.

Although this is an unrelated issue, note that the marginal benefit for the sixth person in the household increases to \$185 instead of decreasing. This is clearly a mathematical error, and it is being carried over year to year, that should be corrected.

Table 1

| Household size | Maximum Monthly Allotment | Marginal Benefit Per Additional Member |
|----------------|---------------------------|--|
| 1 | \$234 | \$234 |
| 2 | \$430 | \$196 |
| 3 | \$616 | \$186 |
| 4 | \$782 | \$166 |
| 5 | \$929 | \$147 |
| 6 | \$1,114 | \$185 |

Specific SNAP Recommendations and Conclusions

As a matter of general policy, I recommend adopting the goal of making sure SNAP does not contribute to benefit cliffs or marriage penalties—either as a standalone program or in combination with other programs. This goal recognizes that safety net programs do not operate in isolation but interact with each other where the combination of these programs can create more severe disincentives and penalties, although some individual programs, such as Medicaid and subsidized childcare, have severe disincentives all by themselves.

An important step forward would be to work on consolidating and simplifying safety net programs. The more exceptions there are to the rules, the more difficult the analysis is for legislators, their staff, and policy wonks, like me. Similarly, the more complex the rules are, the greater the likelihood that states will mismanage the program. Additionally, higher complexity is associated with loopholes for individuals to abuse the system.

The simplification of safety net programs will help with the coordination with other programs. This is not only important for the agencies administering the program, but, more importantly, it will make life easier for people who need to negotiate the complex systems to obtain benefits.

In this regard, SNAP should not be used as a tool to subsidize childcare costs or housing. These needs should be addressed by programs specifically designed for assistance in those areas. Therefore, the SNAP income disregards for housing and childcare should be eliminated. This simplification will go a long way to restoring the tapering of benefits to avoid cliffs.

Giving everyone the same allotment regardless of income should not be attempted again. Benefit amounts should be based on need, and those on the bottom need the most help. Clearly, it is unfair to those families on the bottom to get the same amount that a family just under the income threshold receives. We need to use our limited resources wisely, and by overcompensating, we expend more public resources, make the benefit cliffs more severe and difficult to be overcome by the families, and make it more difficult for legislators to roll benefit levels. The sooner this can be restored, the sooner it will be fairer, fiscally more prudent, and SNAP benefit cliffs eliminated.

As far as adopting a thrifty food plan, it is important to realize that benefit amounts that start out too high pose difficulties in preventing benefit cliffs. If this subcommittee wants to increase the level of the basic food plan, I suggest first consolidating other food benefit programs into SNAP. This consolidation would be a great benefit, and we have some ideas on how to do it.

I recommend reworking the SNAP allotment tables to eliminate marriage penalties. A good way to approach this would be to create two tables: one for married couples, and another for other households, making sure that there is no marriage penalty because of SNAP. While this may break new ground for SNAP, it is common with tax law.

As an alternative approach, or perhaps in conjunction with making the changes outlined above, I recommend that Congress reinforces 7 U.S. Code § 2026 (Research, demonstration, and evaluations) to make it clear to the Secretary of Agriculture that demonstration projects to test innovative welfare reform strategies include projects to address the SNAP benefit cliff. Making it easier for states to test solutions to the benefit cliff in demonstration projections, and even requiring the Secretary to solicit such demonstration projects, would provide experience-based evidence to know what policies and practices would work best.

I have one final observation on SNAP I would like to share. GCO works directly with unemployed workers to help them connect with employers for well-paying jobs that put these workers on a career ladder for financial stability and growth. We collaborate with other non-profits and work with employers to engage individuals in this effort and work to remove barriers to employment. Related to identifying those barriers, we have spent time

researching why the labor participation rate has been declining among prime-working age individuals, which was a major concern of the Council of Economic Advisors to President Barack Obama as well as leaders of the administration of President Donald Trump. This is clearly an area where we can have bipartisan cooperation. SNAP is one of the big three safety-net programs that reaches a significant proportion of the U.S. population. We believe it would make good public policy and be in the public interest to reinvigorate the SNAP work requirements and education/training components. Not only will SNAP enrollees and their families benefit, but the more individuals reengage in the workforce, the stronger and more productive the U.S. economy will become. It grows the pie bigger, making everyone and society wealthier.

General Conclusions

Benefit cliffs and marriage penalties are real. Our computational models demonstrate that this is so, which complements anecdotal evidence.

Economic incentives matter. This is backed up with economic reasoning and empirical evidence. Therefore, safety-net programs need to be designed in ways that do not disincentivize individuals from self-improvement. Economic incentives need to be aligned with safety-net policy.

The anticipated benefits are many. These include greater participation in the labor force, an expanded economy making society wealthier, less poverty, more potential tax revenue for state and local governments without raising rates, more economic opportunities for individuals, and happier citizens.

Thank you for allowing me the opportunity to share our modeling work, observations, and recommendations. I will do my best to answer any of your questions, and I will be happy to provide you with any additional information you may need or get back to you on any questions I cannot answer.