



Statement before the U.S. Senate Committee on Small Business and Entrepreneurship hearing titled “Examining the Burden of Federal Benefits Cliffs on Small Businesses and Workers”

## **Stranded by the Safety Net: Addressing Benefit Cliffs to Assist Families and Businesses**

**Angela Rachidi**

Senior Fellow and Rowe Scholar in Opportunity and Mobility Studies  
American Enterprise Institute

June 3, 2026

Angela Rachidi, PHD  
Senior Fellow and Rowe Scholar in Poverty Studies  
American Enterprise Institute

Chairman Ernst, Ranking Member Markey, and members of the Small Business Committee. Thank you for the opportunity to testify. My name is Angela Rachidi, and I am a Senior Fellow in poverty studies at the American Enterprise Institute. I have spent much of the past 20 years researching U.S. safety net programs for low-income families. I worked for the New York City Department of Social Services in various positions from 2002 through 2015, ending my time as the Deputy Commissioner for policy research. Since 2015 I have continued this work for the American Enterprise Institute or AEI.

Over the past two years, I have led a working group of policy experts and researchers focused on policy solutions to benefit cliffs. I use the term benefit cliffs to broadly describe situations where even a small increase in earnings or hours worked can trigger an abrupt loss of government assistance for working families. In some cases, the loss of government assistance can completely offset new earnings, making a family possibly worse off than before. Other times, the loss may only partially offset new earnings, but in both scenarios, the loss of benefits can influence people's employment decisions. Some workers may rationally choose to work less than they otherwise would in the absence of government assistance. This harms both families by limiting their upward mobility and employers who rely on these employees.

I want to cover three key points in my testimony: **First**, benefit cliffs exist despite individual program rules that appear to phase benefits out as participant income rises. **Second**, the problem of benefit cliffs compound when families receive multiple benefits, which is the most common situation among low-income families. And **Third**, research shows that the potential of hitting a benefit cliff influences people's behavior, resulting in an unwillingness to accept higher-paying jobs for fear of losing benefits.

### **What are Benefit Cliffs?**

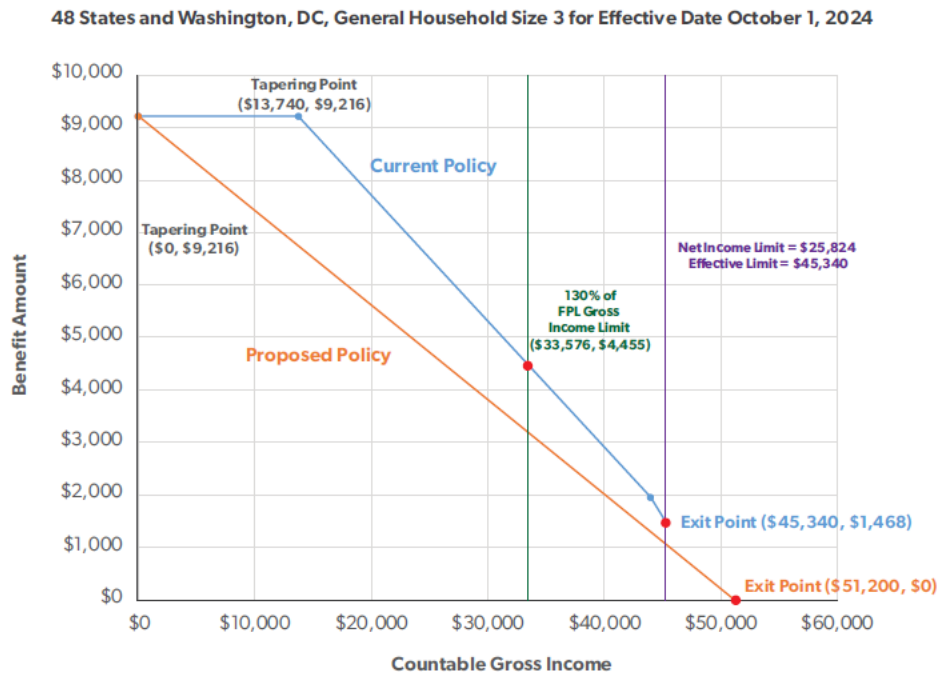
Safety net programs in the U.S. are targeted toward those with the least income. This allows programs to provide sufficient resources to meet a low-income family's basic material needs, but also ensures public funds are used efficiently. By targeting assistance to those most in need, program rules require benefits to phase out as family income rises. This is how most of our safety net programs work.

In most programs, the maximum amount of assistance is provided for those with no income, and the benefit amount slowly decreases as income rises. Ideally, this benefit reduction is small enough that it does not affect decisions around employment, such as taking on more hours or accepting a pay raise. Furthermore, the benefits should eventually phase out to zero once a family crosses a certain income or asset line. When the maximum benefit, the reduction rate, and income exit point work in tandem, individuals are less likely to change their behavior based on the loss of government assistance.

However, many program rules do not align and recipients oftentimes experience an abrupt drop in benefits when a slight increase of earnings or assets pushes them across the line. The figure below shows an example from the Supplemental Nutrition Assistance Program or SNAP. The blue line

shows the current program rules where benefits decrease at a reasonable rate. However, the gross and net income eligibility limits (the green and purple lines) prevent the benefit from phasing out to zero. The result is that a SNAP participant in this scenario will experience a loss of approximately \$1400 per year in SNAP benefits when they cross over \$45,340 per year.<sup>1</sup> This dynamic encourages the participant to keep their income just below the income eligibility limit. SNAP is just one example; many state-led child care assistance programs and some TANF programs operate this way too. Medicaid adds to this complexity by requiring a change in coverage once income levels reach a certain limit rather than phasing out like other programs.

**Figure 1: SNAP Benefits (Household Size of Three): Hypothetical vs. Current Policy**



Source: Authors' calculations.

Note: Current policy calculations assume the national average BBCE gross income limits of 181.3 percent of the FPL, that all income comes from earnings, and a weighted average for shelter costs using Fair Market Rents as published by the US Department of Housing and Urban Development.

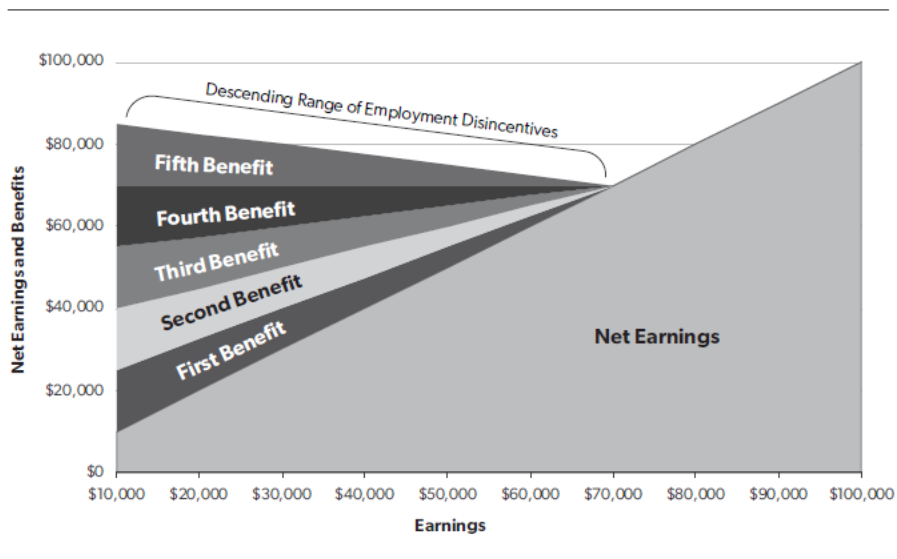
Source: Angela Rachidi and Erik Randolph, *Eliminating the Benefit Cliff and Achieving Savings for Taxpayers: A Reform Proposal for the Supplemental Nutrition Assistance Program* (Washington, DC: American Enterprise Institute, 2025). <https://www.aei.org/wp-content/uploads/2025/01/Eliminating-the-Benefit-Cliff-and-Achieving-Savings-for-Taxpayers.pdf?x97961>

Importantly, some individual program phase out rates align with exit points — meaning they phase out to zero as income rises, such as housing assistance, the EITC, and CTC. However, when families receive multiple benefits, the phaseout rates stack on top of each other and create a compounding effect that result in high effective marginal tax rates. Consider a hypothetical example: A family receives \$100 in benefits each from the EITC, CTC, and SNAP for a total of \$300 in benefits. Each program phases out at 20 percent for each additional dollar earned. If this household can increase earnings by \$100, they will lose \$20 in benefits from each of the EITC, the CTC, and

<sup>1</sup> Angela Rachidi and Erik Randolph, *Eliminating the Benefit Cliff and Achieving Savings for Taxpayers: A Reform Proposal for the Supplemental Nutrition Assistance Program* (Washington, DC: American Enterprise Institute, 2025). <https://www.aei.org/wp-content/uploads/2025/01/Eliminating-the-Benefit-Cliff-and-Achieving-Savings-for-Taxpayers.pdf?x97961>

SNAP for a total of \$60 lost in benefits. The result is a 60 percent effective marginal tax rate, meaning that the family would only gain \$40 from their \$100 pay raise. Thus, we can see how this could negatively affect this family’s decision to accept the higher pay. Figure 2 demonstrates this exact dynamic at play when the benefits are not coordinated across programs.

**Figure 2: An Example of the Stacking Effect of Hypothetical Safety Net Benefits**



Source: Erik Randolph, Georgia Center for Opportunity.

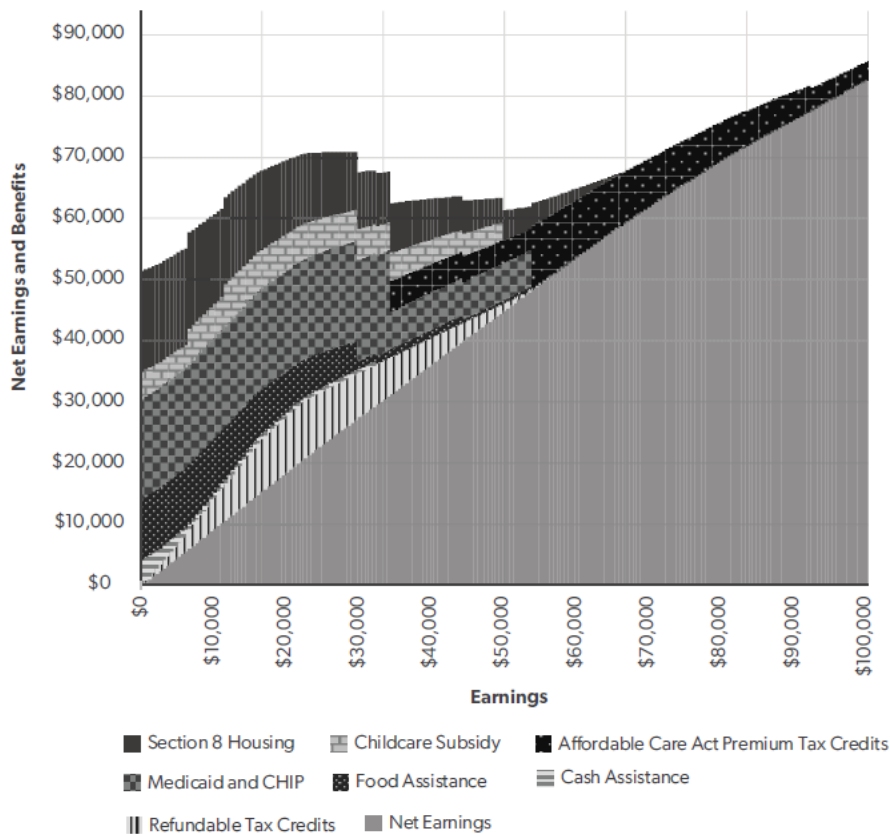
Note: This figure reflects the receipt of hypothetical benefits for the purposes of illustrating the “stacking” effect.

Source: Angela Rachidi, Matt Weidinger, Joshua Bandoch, Nic Dunn, Leslie Ford, and Erik Randolph, *Stranded by the Safety Net: How to Fix the Benefit Cliff Problem* (Washington, DC: [American Enterprise Institute](https://www.americanenterprise.org/), 2025).

The Georgia Center for Opportunity and the Federal Reserve Bank of Atlanta, among others, have reviewed program rules in various states and simulated what happens to benefit amounts in actual scenarios when income rises.<sup>2</sup> Figure 3, below, shows the benefit schedule for a single mother with two children in North Carolina. This figure shows that the benefit phase out does not present a problem when considering only earnings and refundable tax credits, but as soon as this single mother also receives SNAP and Medicaid — a common occurrence—she faces a cliff as her earnings cross into \$30,000 to \$35,000 per year. In this scenario, she would need to increase her annual earnings from \$30,000 per year to \$60,000 per year to completely overcome her loss in benefits.

<sup>2</sup> See Georgia Center for Opportunity, <https://foropportunity.org/benefitcliffs/> and Federal Reserve Bank of Atlanta, <https://www.atlantafed.org/what-we-study/workforce-development/advancing-careers-for-low-income-families/what-are-benefits-cliffs>.

**Figure 3: Safety-Net Benefits Based on North Carolina Policies: A Single Mother with Two Children**



Source: Erik Randolph, “The NC Benefits Cliffs Problem—and It’s Worse Than You Think” (working paper, Georgia Center for Opportunity, October 4, 2023), <https://foropportunity.org/wp-content/uploads/2023/10/SNAP-Cliffs-Solution-v1.9.pdf>.

Note: The calculations use 2023 data for a single mother in North Carolina with an eight-year-old girl and a two-year-old boy. They assume that no one in the family has a disability. The calculations assume low excess resources that qualify the family for benefits and a complete benefits package, including Section 8 housing vouchers. The calculations use precise eligibility rules to calculate benefits and do not assume any unusual circumstances. Hidden cliffs are when outside factors create a cliff but are not shown in the modeling.

The situations I have described are not simply an academic exercise. The misalignment of program rules affect behavior and discourage safety net program participants from increasing their work effort and income. At a time when many businesses across the country are struggling to find workers, these dynamics also create a drag on local economies.

Survey and focus group research confirm these behavioral influences. For example, researchers for the U.S. Department of Health and Human Services conducted a survey of low-wage workers in 2024. They found that when workers were presented with a scenario that included a high effective marginal tax rate, they reported being less likely to take a higher-paying job. Specifically, more than one-third of respondents said that they would not accept a higher-paying job if they faced a 69 percent marginal tax rate – that is, if they lost 69 percent of their additional earnings to benefit losses

they would turn down a pay raise.<sup>3</sup> The Sutherland Institute in Utah conducted a representative survey of Utah residents in 2024 and found similar results: Nearly 60 percent of past safety net program participants somewhat or strongly agreed that they were concerned that earning extra income would result in a loss of benefits that would make them overall worse off.<sup>4</sup> This sentiment translated into behavior changes. According to the survey, nearly 30 percent of past program participants said they had previously decided not to look for a new job, raise, or promotion because they believed it would make their family financially worse off.<sup>5</sup>

## Conclusion

The safety net for low-income families should offer a path out of poverty toward opportunity. But as I have argued, our federal safety net policies instead contain benefit cliffs that discourage more work and higher pay, a problem that compounds when families receive multiple benefits. Furthermore, these problematic design features negatively affect employment—related behavior, harming individual workers and the employers who rely on them.

The benefit cliff workgroup I led, proposed several administrative and legislative reforms to address benefit cliffs.<sup>6</sup> Table 1 summarizes the recommendations from our report. Specifically, we proposed administrative reforms to individual programs by states and federal agencies: States should use the discretion they have to alter individual program rules, and federal agencies should allow states to utilize administrative waivers to address cliffs. Additionally, we proposed several legislative reforms for Congress: First, Congress should legislate individual program changes to better align benefit rules, such as in SNAP, and second, Congress should legislate additional flexibility at the state level to allow cross-program reforms. Notably, Senator Husted (R-OH) of Ohio has introduced the Upward Mobility Act, which would allow states to pilot test the consolidation of federal programs designed to address benefit cliffs.<sup>7</sup> Finally, we proposed several comprehensive legislative reforms to the safety net, such as consolidating programs and standardizing program rules. These reforms would address benefit cliffs, as well as other longstanding problems with the overall safety net for low-income families in the U.S.

Low-income working individuals deserve a safety net that helps them escape poverty, rather than one that traps them in government dependency and stagnation. Employers across the country also deserve a flexible labor market free from government disincentives to work. To achieve these ideals, our safety net programs need reform to eliminate benefit cliffs.

Thank you and I look forward to answering your questions.

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<sup>3</sup> Spitzer, Ariella, Jesse Chandler, Bernadette Hicks, and Daniel Thal (2024). *Understanding Economic Risk for Low Income Families: Economic Security, Program Benefits, and Decisions about Work*. OPRE Report #2024-324, Washington, DC; Office of the Assistant Secretary for Planning and Evaluation; and Office of Planning, Research, and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services.

<sup>4</sup> Nic Dunn, “Strengthening the American Dream: Addressing benefits cliffs to empower safety net participants to pursue work and opportunity”, Sutherland Institute Report, November 9 2024, <https://sutherlandinstitute.org/strengthening-the-american-dream/>.

<sup>5</sup> Ibid.

<sup>6</sup> Angela Rachidi, Matt Weidinger, Joshua Bandoch, Nic Dunn, Leslie Ford, and Erik Randolph, *Stranded by the Safety Net: How to Fix the Benefit Cliff Problem* (Washington, DC: [American Enterprise Institute](#), 2025).

<sup>7</sup> See legislative text for the Upward Mobility Act, <https://www.congress.gov/bill/119th-congress/senate-bill/3583/text>.

<b>Table 1. Immediate and Comprehensive Reforms to Address Benefit Cliffs</b>	
<b>Immediate Reforms</b>	
<b>Individual Program Administrative Reforms</b>	States have some existing administrative authority to reduce benefit cliffs in individual programs. They often can make administrative decisions, such as frequency of benefit reauthorizations that can make benefit cliffs better or worse. They also have existing authority to request waivers of federal rules, which can be used to lessen benefit cliffs. We outline several key steps states can take to use their existing administrative authority to offer immediate relief to families at risk of a benefit cliff.
<b>Individual Program Legislative Reforms</b>	Where states do not have existing administrative flexibility, Congress should legislate changes to individual program rules to lessen benefit cliffs. We offer one example for the Supplemental Nutrition Assistance Program (SNAP), recommending that Congress statutorily change SNAP’s benefit level, deductions, and eligibility limit to address benefit cliffs. This can serve as a model for other program reforms.
<b>Cross-Program Administrative Reforms</b>	While individual program reforms are important, benefit cliffs are worse when households receive multiple benefits. We outline how federal agencies, through existing waiver authorities, can guide states on soliciting federal approval for demonstration projects aimed at reducing cross-program benefit cliffs. We also identify ways federal agencies can revise rules and regulations to make it easier for states to address cross-program benefit cliffs, such as coordinating how states claim costs across programs.
<b>Cross-Program Legislative Reforms</b>	Where existing waiver authority falls short, Congress should legislate a “superwaiver,” which would allow states to consolidate and coordinate multiple safety-net programs while maintaining federal accountability for results. This would allow states to innovate and test processes for consolidating programs to improve delivery and efficiency. The results would help inform comprehensive reforms.
<b>Comprehensive Reforms</b>	
<b>Consolidate Programs and Reduce Redundancy</b>	Congress should legislatively combine safety-net programs and coordinate administrative functions in several key areas. This would improve efficiency, eliminate overlapping services, and yield long-term taxpayer savings. We recommend that Congress establish select committees to oversee this approach and use “superwaiver” demonstration projects to inform this effort.
<b>Standardize Eligibility Rules and Benefit Phaseouts Across Programs</b>	Congress should standardize eligibility rules across programs. This would involve aligning benefit levels and taper rates and creating program exit thresholds across programs so that families experience a consistent, predictable phaseout of government assistance.
<b>Streamline Delivery Systems Across Programs</b>	Congress should also streamline administrative systems by giving all states the ability to adopt the “One Door” approach that Utah uses under specialized authority from the federal government. A One Door approach creates a more efficient and effective system by allowing participants to seamlessly access benefits and connect to employment

	and job training. It helps address benefit cliffs by better coordinating benefits and informing participants of program rules and regulations.
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Source: Angela Rachidi, Matt Weidinger, Joshua Bandoch, Nic Dunn, Leslie Ford, and Erik Randolph, *Stranded by the Safety Net: How to Fix the Benefit Cliff Problem* (Washington, DC: [American Enterprise Institute](#), 2025).