

Benefits Cliff Pilot Cost Analysis



Prepared by Social Finance for Connecticut's Two Generational Initiative (2Gen) in consultation with stakeholders from the 2Gen's working groups: Family Economic Mobility & Parent Engagement.

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EXECUTIVE SUMMARY

A pilot to eliminate benefits cliffs will help Connecticut overcome one of the most daunting obstacles families encounter when trying to climb the economic ladder. Results from the pilot will inform a comprehensive approach to tackling benefits cliffs for all Connecticut families who experience them, providing data and insights on what workers need to transition completely from benefits.

In late 2023, Connecticut’s 2Gen Initiative engaged Social Finance, a national non-profit, to explore the feasibility and costs of a benefits cliff pilot. The goal of the pilot is to demonstrate over three years how mitigating the effects of benefit cliffs can open economic mobility for families, recognizing how critical benefit cliffs are to economic decision-making for families and how benefits cliffs impact their employment decisions. Concurrently, the Legislature began exploring the feasibility of a benefits cliff pilot, resulting in the passage of legislation in June 2024 requiring a study.

A team that includes senior staff of the Office of Workforce Strategy, the Department of Social Services, the Office of Early Childhood, and the Department of Housing have met over the past six months to inform the analysis undertaken by Social Finance. These agencies and Social Finance have concluded that a benefit cliffs pilot would be a promising opportunity in Connecticut and nationally, and that a pilot will contribute especially significant findings to the growing body of knowledge on how benefit cliffs limit occupational mobility for parents and workers, which in turn may contribute to worker shortages. A draft of the feasibility study was reviewed by 2Gen Parent Leaders and revised based on their input and comments.

2Gen and its partner agencies’ aims by conducting this pilot are to enhance family stability, improve access to higher-paying career pathways, and strengthen the workforce while addressing the challenges of benefits cliffs. By supporting upward economic mobility for participant families, the pilot intends to gather data that will inform broader policies aimed at reducing reliance on public assistance. It innovatively uses existing benefits to create stability as families advance their skills and wages, ultimately working towards exiting most or all benefits. And critically, state agencies will use this pilot to inform long-term policy design: participating state agencies believe the pilot will make a meaningful difference in the lives of participant families, but above all, the pilot’s results will give participating agencies the insights they need to design more comprehensive benefits cliff mitigation strategies for all affected Connecticut families.

The result of this work is a model to estimate the costs of a benefits cliffs pilot and this accompanying report. The financial model estimated costs for the benefits cliffs pilot under the following design scenarios.

Scenario	Description
Scenario 1A: Benefits Lost	Participants will receive up to \$10,000 during their participation in the pilot to cover the loss of benefits caused by an increase in income.
Scenario 1B: Resources Lost	Participants will receive up to \$10,000 during their participation in the pilot to cover the net loss of financial resources caused by an increase in income
Scenario 2: Stable Benefit	Participants will be assured a stable level of resources over the term of the pilot and will not lose benefits due to an increase in income.

Assuming 200 families are enrolled and a maximum project cost of \$7 million, Social Finance developed cost estimates for each of the design scenarios:

	Scenario 1A: Benefits Lost		Scenario 1B: Resources Lost		Scenario 2: Stable Benefit	
	3-Year Total	4-Year Total	3-Year Total	4-Year Total	3-Year Total	4-Year Total
Cost per Household (Program)	\$7,369	\$8,189	\$5,017	\$6,690	\$15,525	\$20,700
Cost per Household (Total)	\$17,204	\$21,273	\$14,852	\$19,773	\$25,360	\$33,783
Total Program Costs	\$1,473,798	\$1,637,998	\$1,003,446	\$1,337,928	\$3,150,000	\$4,140,000
Total Costs	\$3,440,737	\$4,254,625	\$2,970,385	\$3,954,555	\$5,071,939	\$6,756,627

Based on the analysis in this report, feedback from 2Gen parent leaders, and the client experience of families who have experienced benefits cliffs, Social Finance finds that **Scenario 2 best meets the pilot's stated goals within the project cost guidelines.**

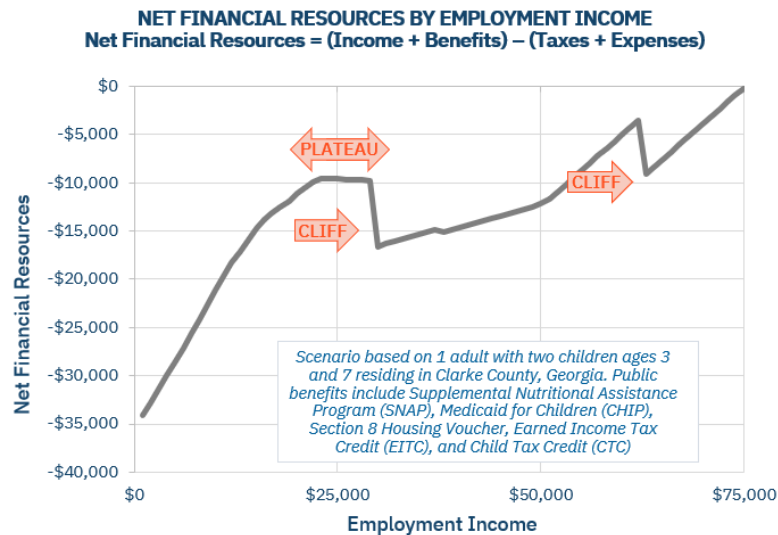
“There are just so many layers here that I really hope we get to peel back and dive deep into them and really flesh them out so that some of these problems could truly, truly, truly be eradicated.”

Caroline Austin, parent leader on the CT 2 Gen Advisory Board

BACKGROUND ON BENEFITS CLIFFS

For some families, an increase in wages puts the household above the eligibility limits for public assistance programs. This sudden loss of benefits can create a “benefits cliff” – where a family is financially worse off following an increase in employment income.¹

This example provided by the Federal Reserve Bank of Atlanta highlights the effects of benefits cliffs in Georgia.



This scenario features the instance of a single parent with two children. As the family’s employment income climbs from \$27,000 to \$29,000, their net financial resources – or the total of their earnings and the value of benefits they receive, less their anticipated expenses – drops by about \$6,000. Therefore a \$2,000 increase in income triggers a net loss of \$6,000 in total resources.

Connecticut families face similar cliff challenges depending on the benefits they receive and their wages. Not only do these cliffs cause direct financial harm to families, but the complexity of public assistance eligibility rules creates uncertainty as to when these cliffs may happen. These factors create a significant barrier for individuals to embark on career paths that lead to long-term increases in income and economic security. Ultimately, the negative short-term financial impact of benefits cliffs can disincentivize households from achieving long-term economic security.

The cumulative effect of benefits cliffs on household economic stability and career growth contributes to the workforce shortage as fewer workers are adequately trained for middle-skill jobs. This creates an untapped workforce of individuals that are not able to complete workforce training or gain the on-the-job experience needed to move up the career ladder. Thus, benefits cliffs may limit economic growth as

¹ [What Are Benefits Cliffs? - Federal Reserve Bank of Atlanta \(atlantafed.org\)](https://atlantafed.org/what-are-benefits-cliffs/)

businesses are unable to meet their hiring needs and families are disincentivized from moving up the income ladder.

With this challenge in mind, Connecticut's Two Generational Initiative (2Gen) partnered with the Federal Reserve Bank of Atlanta to build a [suite of tools](#) called the Career Ladder Identifier and Financial Forecaster (CLIFF). The CLIFF Tool calculates when benefits cliffs will occur for families based on their household composition and income. This visualization allows individuals, policymakers, and program administrators to evaluate and understand where benefits cliffs exist for specific family compositions and employment scenarios. In addition, Connecticut has experimented with using this tool to allow career counselors to work with families to help them understand the impact that a career change may have on their eligibility for public assistance – reducing the uncertainty of a career change.

PILOTING AN APPROACH TO MITIGATE BENEFITS CLIFFS

Following the creation of these tools, 2Gen began initial design work for a pilot initiative to explore ways the impact of benefits cliffs can be mitigated for families in Connecticut. The purpose of the pilot is to show how limiting the impacts of benefits cliffs will incentivize families to earn more, helping them to climb the economic ladder, break from cycles of intergenerational poverty, and ultimately reduce the need for public assistance. Moreover, a pilot will offer key insights on how to mitigate benefits cliffs for more families because:

- it will inform strategies for reaching families whose economic mobility is hindered by benefits cliffs;
- it will help understand how limiting the effects of benefits cliffs will change families’ financial decision making; and
- it will help understand how mitigating benefits cliffs can impact or even alleviate labor shortages.

This report is intended to help designers of the benefits cliffs pilot understand the pilot’s cost under different design parameters and to provide them with a framework for analyzing the trade-offs of different design approaches.

The cost estimates for pilot operations all share the same basic set of assumptions detailed in the table below. Final costs will ultimately depend on family composition, the mix of benefits received, family success in moving up the income ladder, and other unexpected costs.

Design Element	Parameters
Participants	<ul style="list-style-type: none"> • 200 families • 50% of households have one adult and two children • 50% of households have two adults and two children
Timeline	<ul style="list-style-type: none"> • 3 or 4 years
Projected Cost	<ul style="list-style-type: none"> • \$3-\$7 million
Staffing	<ul style="list-style-type: none"> • Benefits Counselors: \$60,000 salary • 60 families per counselor for a total staff count of 3-3.5 • Project Manager: \$100,000 salary • Fringe: 25%; Administrative overhead: 15% of labor costs
Other Costs	<ul style="list-style-type: none"> • Reserves: 5% of operations costs • Evaluation: \$150,000/year • Marketing: \$100,000

Structure: The pilot is expected to last 3 or 4 years at the discretion of the State and cost between \$3 million and \$7 million. The plan is to enroll 200 families: 100 households with one adult and two children, and 100 households with two adults and two children.

Timeframe: The 3- to 4-year length of the pilot follows the same logic for benefit cliff mitigation pilots in other places. Participant families will very likely need more than one year, and perhaps more than two, to realize durable income gains and employment advancement. Participants will need time to complete education and training programs made possible by enrollment in the pilot. Also, income and employment status can change significantly – in some cases, multiple times over the course of a year – meaning that strong data about family economic decision-making may not be robust enough for informing future policy after just one year.

Staffing: The pilot will have one project manager providing oversight and approximately three benefits counselors supporting families in benefits and career navigation. In addition, we assume that oversight from government agencies will add 15% to labor costs.

Benefits cliff pilot coaches will support participants in numerous ways, including:

1. identifying career paths using the Federal Reserve Bank of Atlanta CLIFF Tools, so that the chosen path results in leaving benefits after the pilot;
2. referring participants to appropriate training, education, and financial capability programs, and supporting their retention and employment once training is completed;
3. liaising with state agency benefit departments to ensure compliance with those benefits as they relate to the pilot;
4. supporting parents in understanding tax implications of their increased revenue from employment; and
5. supporting participants to prepare for the transition at the end of the pilot, including budget and further career planning.

While pilot participants will receive extensive support from coaches to ensure a smooth transition once the pilot's supports end, we expect that participants will have significantly higher earnings to more than offset new costs caused by exceeding benefit eligibility thresholds.

Supplemental Education and Training Funds: Some participants may enter the pilot having considered options for increasing their earnings (for instance some participants may have considered accepting a promotion with their current employer). For many, however, the pilot could provide the opportunity to pivot into new careers, supported by training and education. Pilot coaches will be networked with a range of workforce development programs and will connect participants with these programs based on mutual discussion. Workforce Innovation and Opportunity Act- and Jobs First Employment Services-funded programs may support these training needs. Counselors will also help identify tuition-free higher education options and apprenticeship programs. Costs for training and education are not included in the pilot budget, but we expect that participants would be otherwise eligible for these programs under their current rules.

Other Costs: The pilot will also include an evaluation – estimated to cost \$150,000 per year, a marketing budget of \$100,000, and a 5% reserve to cover cost overruns.

Using these inputs, the three- or four-year operations cost models are detailed in the table below.

	Year 0	Year 1	Year 2	Year 3	Year 4	3-Year Total	4-Year Total
Direct Labor Costs							
Direct Labor (Wages)		\$200,000	\$200,000	\$200,000	\$200,000	\$600,000	\$800,000
Direct Labor (Fringe)		\$50,000	\$50,000	\$50,000	\$50,000	\$150,000	\$200,000
Total Direct Labor		\$250,000	\$250,000	\$250,000	\$250,000	\$750,000	\$1,000,000
Other Operating Expenses							
Project Manager	\$62,500	\$125,000	\$125,000	\$125,000	\$125,000	\$437,500	\$562,500
Marketing	\$30,000	\$50,000	\$20,000			\$100,000	\$100,000
Evaluation		\$112,500	\$150,000	\$187,500	\$150,000	\$450,000	\$600,000
Gov. Oversight	\$9,375	\$65,625	\$65,625	\$65,625	\$65,625	\$206,250	\$271,875
Cost Overrun Contingency		\$29,688	\$30,063	\$29,063	\$30,938	\$88,814	\$119,752
Total Operations Expenses	\$101,875	\$632,813	\$640,688	\$657,188	\$621,563	\$2,032,564	\$2,654,127

Across all three scenarios, the expected operating costs are approximately \$2.03M over three years and \$2.65M over four years. These costs are driven primarily by direct labor, project management, and evaluation expenses. Prior to the launch of the pilot, there will be some initial costs for project management and marketing.

Housing and the Benefits Cliff Pilot

Because states often have a limited role in administering federal housing benefits, **housing benefits are not included** in this benefits cliffs pilot cost analysis. A strategy for including housing benefits in the cost analysis may be to incorporate the Federal Department of Housing and Urban Development’s **Family Self-Sufficiency (FSS) Program**, which helps residents of qualifying subsidized units to build earnings through coordinated services. Under the FSS program, tenants and lessors make a five-year plan to help build the tenant’s pathway to economic security. Any rent increases on the tenant’s unit are credited to an escrow account that is available for the tenant’s use upon completion of the program.

“It's harder to get benefits than it is to lose them. Maybe not touching the benefits at all just so that it gives people room. Like being employed, there's a 90-day probationary period, right so we need to give them a chance to be completely secure where they are.”

Anonymous, parent leader on the CT 2Gen Advisory Board

DESIGN SCENARIOS

This report explores two different approaches to mitigating benefits cliffs. The first approach distributes cash support when a benefit cliff occurs to mitigate the cliff's impact. This approach is modeled on other benefits cliffs pilots already in operation in Tennessee, the District of Columbia and other places.

The second approach – which has not been used in other benefits cliffs pilots – assures participants that they will not lose access to, or the value of, any public benefits they receive even if their income rises above a benefit program's eligibility threshold.

Scenario 1: Cash Support Pilot Concept

When participants experience a benefits cliff due to an increase in income, they will work with a counselor to access funds to cover some or all the combined financial value of benefits lost due to a benefits cliff. This includes funds to compensate for the additional amount of tax due that results from the increase in income. Each participating family can access up to \$10,000 over their participation in the pilot to cover this loss in financial resources. Within this approach, there are two different types of cash support described further here.

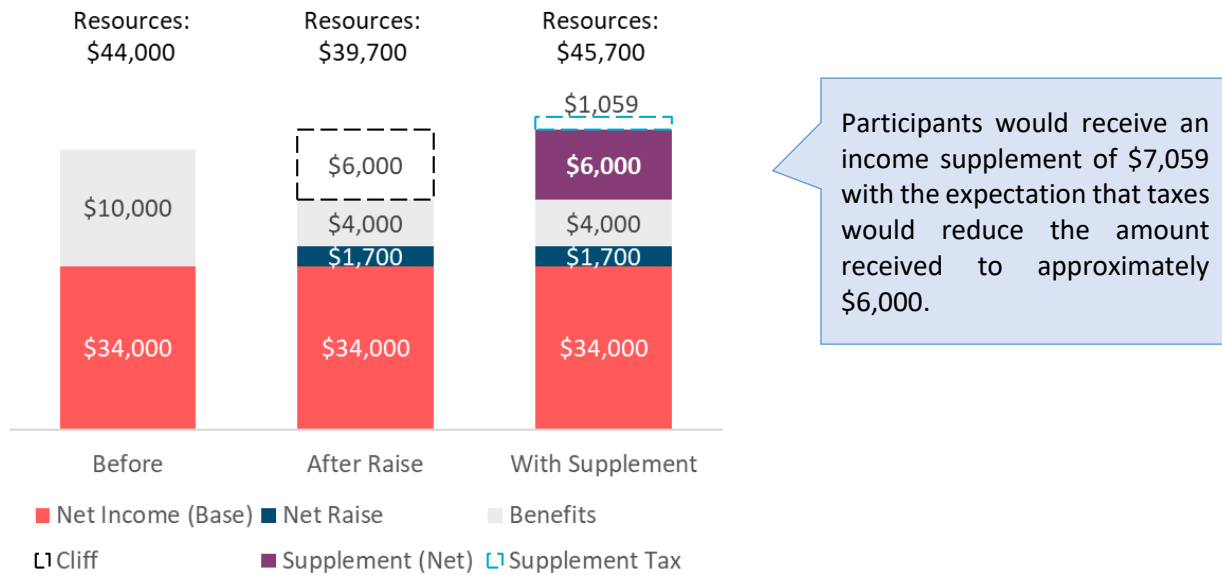
The \$10,000 participant benefit amount is based on a few considerations. First, the amount needs to be high enough to cover the costs of benefits lost in the scenarios detailed below, which will be different based on the benefits families are receiving when enrolled in the pilot. Using the Atlanta Federal Reserve calculator, setting a benefit maximum of \$10,000 will sufficiently cover foregone benefit value for the vast majority of families who might enroll. Also, the amount needs to reflect a reasonable assumption of the right amount for a “significant income gain” to make participation in the pilot truly worthwhile. For this reason, other pilots have set benefit ceilings at or near \$10,000.

“Knowing they're going to have to pay taxes on something that's supposed to be an incentive is going to cause people to be like, I don't really know about that.”

Stephan Palmer, parent leader on the CT 2Gen Advisory Board

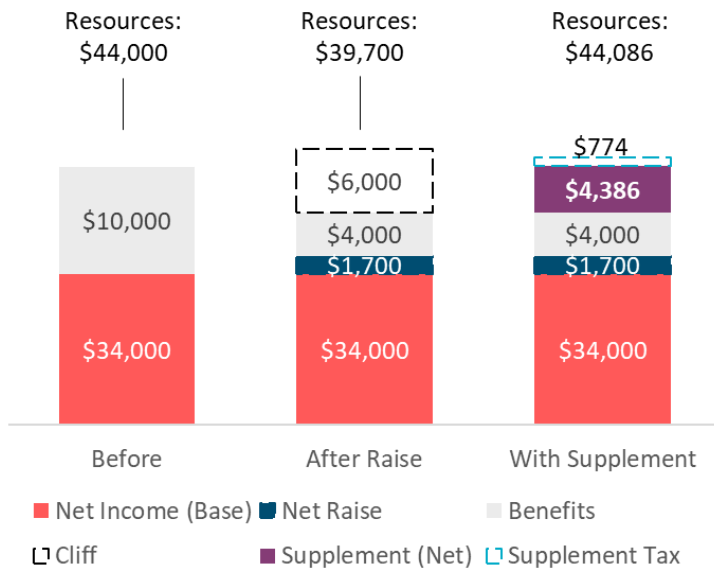
Scenario 1A: Cash for Value of Benefits Lost

Participants will receive up to \$10,000 during their participation in the pilot to cover the loss of benefits caused by an increase in income. A household earning \$40,000 in wages and receiving \$10,000 in public assistance has total financial resources of \$44,000 (assuming a tax burden of ~15%). For this example, this household receives a \$2,000 gross raise/\$1,700 net raise in annual wages causing a loss in benefits of \$6,000. In Scenario 1A, the pilot program would then provide \$7,059 in cash support to cover this loss in public assistance – including the value of the benefits lost (\$6,000) and a supplement to cover the approximate increase in taxes resulting from the additional cash support (\$1,059).



Scenario 1B: Cash for Value of Resources Lost

Participants will receive up to \$10,000 during their participation in the pilot to cover the net loss of financial resources caused by an increase in income. Using the same example, following the \$2,000 gross raise/\$1,700 net raise, the household will experience a loss in financial resources of \$4,300 (from \$44,000 to \$39,700). In Scenario 1B the household would then receive a cash supplement that covers the loss in financial resources and the increase in taxes expected from the income gain.

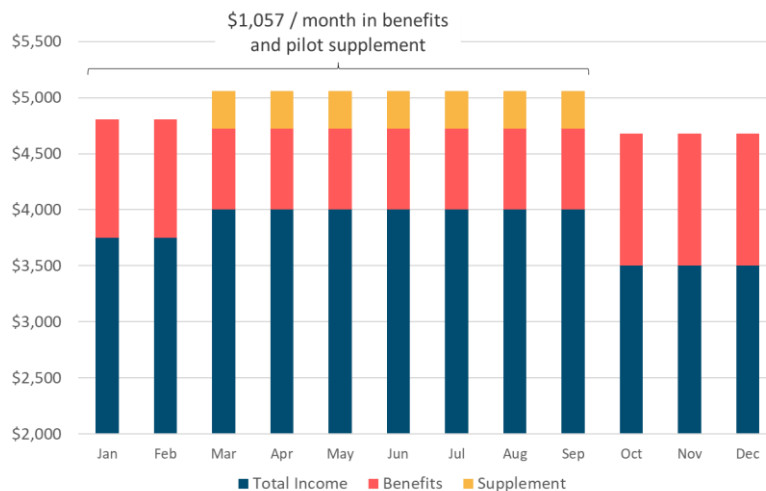


Participants would receive an income supplement of \$5,160 with the expectation that taxes would reduce the amount received to approximately \$4,386.

Scenario 2: Stable Benefits Pilot Concept

Participants will be assured a stable level of benefits over the three years of the pilot and will not lose benefits due to an increase in income. A set of benefits would be locked in for a period of three years, effectively limiting their role as a factor in family economic decision-making.

In practice, this would mean that participants' benefits levels would be "frozen" during the pilot. For instance, a household in Connecticut earning \$45,000 and receiving benefits at a value totaling \$1,057 per month would continue to receive benefits at a value totaling \$1,057 per month regardless of changes to their income. Without the pilot, if that household receives a raise of ~\$1.50 an hour, they would earn about \$250 more per month but lose the value of \$332 per month in public assistance. With the pilot, this family's equivalent benefits hold at \$1,057 per month while the family receives an increase in income. In the chart below, we can see that the pilot would account for the equivalent of a \$332/month supplement for the household to offset the benefits loss that would otherwise have been caused by the raise.



At the end of the fiscal year, the pilot will reimburse any overspend on federal benefits, to the extent required by federal program partners. For example, if a pilot enrollee increases their income during the three years, reducing or even eliminating the size of the SNAP benefit normally available to them without the pilot’s support, the federal government may require that some or all its share of funding contributed to SNAP for some or all participants in the pilot be reimbursed to them as though the SNAP benefit provided to the participant were not authorized.

Since wages can fluctuate significantly over a year (indicated by a decrease in earnings in October in the chart above), reconciling SNAP benefits used or “overpaid” on an annual basis would be more accurate than doing so on a more frequent basis. The pilot would employ a similar mechanism for other federal benefits.

Career Pathway Example (CNA to LPN)

The examples in the cost model use assumptions about the average wage gain and benefit cliffs effect across enrollees in the pilot. While these estimates are helpful for cost calculations, they are not helpful in showing how an individual may experience a career pathways progression as a participant in the pilot. The table below shows the example of an individual in a two adult and two child household progressing from a CNA to an LPN and then an RN. In this table, we can see how the loss in total resources caused by eligibility changes from rising income causes a cliff and then a plateau in resources while the individual is an LPN. In fact, the individual doesn’t meaningfully improve their total resources above the CNA level until they are an RN.

Employment	Net Income (after taxes)	Transfers	Total Resources	Resources lost (Scenario 1B)	Benefits Lost (Scenario 1A)
CNA	\$28,254	\$45,223	\$73,477	\$0	\$0
LPN Year 1	\$45,968	\$29,984	\$75,952*	\$0	\$0
LPN Year 2	\$47,615	\$18,054	\$65,669*	\$10,283	\$11,930
LPN Year 3	\$48,684	\$17,963	\$66,647	\$9,305	\$12,021
LPN Year 4	\$49,441	\$17,898	\$67,339	\$8,613	\$12,086
RN	\$64,458	\$22,853	\$87,311	\$0	\$0

****Signifies cliff***

The total cost to the pilot for helping an individual pass through the above career pathway is ~\$36,000 in scenario 1A and ~\$28,000 under scenario 1B. While these costs are not small, using the Federal Reserve Bank of Atlanta CLIFF Tools estimate of lifetime taxpayer’s savings we expect that the state of Connecticut would receive an additional \$1.1M in lifetime net taxes (taxes received minus cost of expected public assistance disbursements) for each individual that progresses from a CNA to a registered nurse.

COST MODEL RESULTS

To calculate the program cost, Social Finance developed three- and four-year cost models for each of the scenarios. Developing these cost models required the following steps:

- Identify a target population
- Develop assumptions on the size of prospective wage gains and subsequent benefits cliffs
- Calculate the per family annual cost of the scenario
- Add in expected operational expenses as detailed in the operations section

These assumptions led to developing an “average benefit” projection as a way of establishing “benefits lost” share of the pilot’s cost. To help guard against the risk that the “average benefit” under anticipates the total direct benefit costs of the pilot (i.e., the share of the pilot’s costs that will be used as substitute for benefits lost), we strongly recommend that each scenario make some provision for a “benefits reserve.” This reserve would offer a buffer if the average benefit cost per participant exceeds the average we calculated for this analysis.

Scenario 1A: Cash for Value of Total Benefits Lost

The cost estimate for the benefits lost scenario includes the following assumptions.

Income bracket \$33-55k		
Household Composition	One Adult and Two Children	Two Adults and Two Children
Avg. wage gain - year 1	\$5,000	\$7,000
Avg. wage gain - year 2	\$1,250	\$1,750
Avg. wage gain - year 3	\$2,500	\$3,500
Avg. wage gain - year 4	\$625	\$875
Benefit loss rate*	51.45%	49.90%
Benefits lost - year 1	\$2,572	\$3,493
Benefits lost - year 2	\$643	\$873
Benefits lost - year 3	\$1,286	\$1,747
Benefits lost - year 4	\$322	\$437

* The benefits loss rate is calculated using the Federal Reserve Bank of Atlanta CLIFF Tool - Dashboard with the settings: any CT county, no household members with disabilities, "All benefits."

It is expected that the key enrollment target will be families that are most likely to face a benefits cliff—earning \$33,000 to \$55,000 per year. Using the projections from the *Federal Reserve Bank of Atlanta CLIFF Tool - Dashboard*, the expected benefits loss rate is 51.5% for households with one adult and two children. Therefore a \$5,000 increase in earnings would lead to a loss of \$2,572 in benefits. In this scenario, the pilot would then distribute \$2,572 plus an extra 15% for taxes to the family to cover these lost benefits.

Using these inputs the project’s three- and four-year cost models for this scenario are:

Cash for Value of Total Benefits Lost Scenario: Three- and Four-Year Cost Models							
	Year 0	Year 1	Year 2	Year 3	Year 4	3-Year Total	4-Year Total
1 adult 2 children	-	\$302,620	\$75,655	\$151,310	\$37,828	\$529,585	\$567,413
2 adults 2 children	-	\$410,979	\$102,745	\$205,489	\$51,372	\$719,213	\$770,585
Benefit Reserve	-	\$75,000	\$75,000	\$75,000	\$75,000	\$225,000	\$300,000
Total Program Costs²	-	\$788,599	\$253,400	\$431,799	\$164,200	\$1,473,798	\$1,637,998
Operations	\$101,875	\$623,438	\$631,313	\$610,313	\$649,688	\$1,966,939	\$2,616,627
Total	\$101,875	\$1,412,037	\$884,713	\$1,042,112	\$813,888	\$3,440,737	\$4,254,625

Scenario 1B: Cash for Value of Total Resources Lost

Scenario 1B requires estimating the loss of net financial resources (benefits lost minus gain in income) for families at a cliff. Compared to scenario 1A the financial support for families will be less as the pilot will only replace lost benefits enough to bring a family up to their initial level of earnings plus a percentage. The cost estimate for the resources lost scenario includes the following assumptions.

Average net income loss due to benefits cliff		
	One adult two children	Two adults two children
Income gain at cliff	\$1,000	\$1,000
Income gain post-cliff	\$1,000	\$1,300
Benefits loss from cliff	\$3,490	\$3,595
Estimated benefits lost	\$3,937	\$3,739
Net loss	\$1,937	\$1,739
% of Net Loss recovered	120%	120%
Average annual disbursement per family	\$2,735	\$2,455

* The benefits loss rate is calculated using the Federal Reserve Bank of Atlanta CLIFF Tool - Dashboard with the settings: any CT county, no household members with disabilities, "All benefits."

It is expected that the key enrollment target will be families that are most likely to face a benefits cliff. Taking the example of a family with one adult and two children earning \$45,000 - \$50,000 per year, a \$2,000 increase in earnings would lead to a loss of \$3,937 in benefits and a \$1,937 loss in net financial resources according to the *Federal Reserve Bank of Atlanta CLIFF Tool - Dashboard*. Under the resources lost scenario, the pilot would distribute 120% of resources lost to impacted families plus an extra 15% to cover taxes on the supplement – totaling \$2,735. The model assumes that each family is enrolled for four years and experiences a benefits cliff twice over the course of the pilot.

² Program costs are distinguished from operational costs: program costs are the costs of providing cash payments or the value of benefits provided to pilot participants; operational costs are costs related to the staffing and administration of the pilot.

Using these inputs, the project’s three- and four-year cost models for this scenario are:

Resources Lost Scenario: Three- and Four-Year Cost Models							
	Year 0	Year 1	Year 2	Year 3	Year 4	3-Year Total	4-Year Total
1 adult 2 children	-	\$136,729	\$136,729	\$136,729	\$136,729	\$410,187	\$546,916
2 adults 2 children	-	\$122,753	\$122,753	\$122,753	\$122,753	\$368,259	\$491,012
Benefit Reserve	-	\$75,000	\$75,000	\$75,000	\$75,000	\$225,000	\$300,000
Total Program Costs	-	\$334,482	\$334,482	\$334,482	\$334,482	\$1,003,446	\$1,337,928
Operations	\$101,875	\$623,438	\$631,313	\$610,313	\$649,688	\$1,966,939	\$2,616,627
Total	\$101,875	\$957,920	\$965,795	\$944,795	\$984,170	\$2,970,385	\$3,954,555

Scenario 2: Stable Benefit for Pilot Duration

In Scenario 2, participating families are ensured a stable benefit for the duration of the pilot that does not change even if their income does. This contrasts to Scenario 1, where a cash payment is triggered only by a family’s experience of a benefits cliff regardless of the specific benefit being lost; Scenario 2 imagines that any family enrolled would maintain access to the same benefit level for the duration of the pilot.

To determine a pilot cost under this scenario, a reasonable assumption is needed to determine the total cost of the “stable benefit.” This is needed so the pilot can bear any costs of benefits above the “average” (reduced) benefit coverage participants would otherwise be expected to receive if benefits declined or ended due to increases in income. In other words, the pilot needs to carry the costs of the benefits that pilot participants will not be eligible for after their incomes rise so that participants’ access to these benefits will not be interrupted.

This difference – between the cost of benefits participants would have received if no increase in their income had occurred, and the cost of benefits they are expected to receive because participation in the pilot allows them to accept increases in income – is the “average cost of benefits gap.” Using data from the *Federal Reserve Bank of Atlanta* PRD calculator, the estimated average benefit gap between the cost of benefits received without increases to income and the cost of benefits pilot families would be expected to receive after their incomes increase is estimated as follows:

Average net income loss due to benefits cliff		
	One Adult Two Children	Two Adults Two Children
Cost of benefits w/o income increase	\$15,000	\$22,000
Cost of benefits after income increase	\$10,000	\$15,000
Average cost of benefits gap	\$5,000	\$7,000

Finally, we assume that the number of families served per year changes over time with 60% of families participating in year one, 80% in year two, 100% in year three, and 80% in year 4. Using these inputs the project’s three- and four-year cost models for this scenario are:

Stable Benefit Scenario: Three- and Four-Year Cost Models							
	Year 0	Year 1	Year 2	Year 3	Year 4	3-Year Total	4-Year Total
1 adult 2 children	-	\$300,000	\$400,000	\$500,000	\$400,000	\$1,200,000	\$1,600,000
2 adults 2 children	-	\$420,000	\$560,000	\$700,000	\$560,000	\$1,680,000	\$2,240,000
Benefit Reserve	-	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 225,000	\$ 300,000
Total Program Costs	-	\$795,000	\$1,035,000	\$1,275,000	\$1,035,000	\$3,105,000	\$4,140,000
Operations	\$101,875	\$623,438	\$631,313	\$610,313	\$649,688	\$1,966,939	\$2,616,627
Total	\$101,875	\$1,418,438	\$1,666,313	\$1,885,313	\$1,684,688	\$5,071,939	\$6,756,627

This scenario cost model assumes that the state will need to repay the federal government for the full cost of federal funds attributable to the “average cost of benefits gap” the pilot covers: because pilot enrollees would not be eligible for certain benefits after accepting increases in income, the pilot will need to assume these costs in full. However, two possible outcomes with payments to the federal government may reduce the pilot’s costs. First, the state could seek waivers from federal agencies that oversee key benefit programs where allowable. Waivers could grant the state the ability to continue accessing federal funds for pilot enrollee benefits. Also, the federal government may not require that an amount equivalent to the *full* share of federal funds be repaid; they may require only a percentage of the federal share be repaid.

Model Scenario Comparison: Program Costs

Scenarios 1A and 1B have comparable costs, with scenario 1A distributing more money directly to families. Scenario 2 is more costly; however, as noted, the share of reimbursement required could significantly reduce this scenario’s cost. Operations expenses are the same across scenarios at \$2.62M.

	Scenario 1A: Benefits Lost		Scenario 1B: Resources Lost		Scenario 2: Stable Benefit	
	3-Year Total	4-Year Total	3-Year Total	4-Year Total	3-Year Total	4-Year Total
Cost per Household (Non-Op/Program)	\$7,369	\$8,189	\$5,017	\$6,690	\$15,525	\$20,700
Cost per Household (Total incl. Ops Costs)	\$17,204	\$21,273	\$14,852	\$19,773	\$25,360	\$33,783
Total Non-Op Costs	\$1,473,798	\$1,637,998	\$1,003,446	\$1,337,928	\$3,150,000	\$4,140,000
Total Costs	\$3,440,737	\$4,254,625	\$2,970,385	\$3,954,555	\$5,071,939	\$6,756,627

Evaluating the Scenarios

There is a strong desire among participating agencies that the pilot in Connecticut do more than replicate existing benefits cliffs pilots in other states and is able to produce evidence on alternative approaches to tackling benefits cliffs challenges. With this in mind, the stated goals of the benefits cliffs pilot are to:

- Ensure financial stability for participating families;
- Support participating households to enter and continue through family-sustaining career pathways;
- Identify policy changes that mitigate or remove benefits cliffs; and
- Test new or novel approaches to mitigating the impact of benefits cliffs (Scenario 2).

Within these goals and a \$5-\$7 million pilot cost, the stable benefit pilot design appears to be the best fit as this design maximizes support for families over a longer period, with the potential to provide participants with more financial stability. There is strong potential that this scenario offers a more seamless experience for participants, reducing their barriers to continued participation in the pilot and opening up greater opportunities for economic mobility. Further, this new approach may also bring in more federal and philanthropic/research support to help offset costs.

The table below outlines the benefits and challenges of each design scenario across five dimensions.

	Scenario 1A: Benefits Lost	Scenario 1B: Resources Lost	Scenario 2: Stable Benefit
Financial stability	<ul style="list-style-type: none"> • Provides the most cash directly to participants • Improves financial stability, but only at the point of a benefits cliff 	<ul style="list-style-type: none"> • Improves financial stability, but only at the point of a benefits cliff 	<ul style="list-style-type: none"> • Provides most net resources to families overall • Participating agencies believe that uninterrupted support creates the best circumstances for family stability
Career pathways support	<ul style="list-style-type: none"> • Ensures that individuals can earn more without experiencing a benefits cliff 	<ul style="list-style-type: none"> • Ensures that individuals can earn more without experiencing a benefits cliff 	<ul style="list-style-type: none"> • Uninterrupted support creates the best circumstances for career advancement – benefits not a factor in career decision-making
Identify policy changes	<ul style="list-style-type: none"> • The evaluation will be able to see when and how much benefits cliffs impact households • The scope of learning could be limited by enrollment challenges 	<ul style="list-style-type: none"> • The evaluation will be able to see when and how much benefits cliffs impact households • The scope of learning could be limited by enrollment challenges 	<ul style="list-style-type: none"> • The evaluation will be able to see when and how much benefits cliffs impact households • The scope of learning could be limited by enrollment challenges
Operational challenges	<ul style="list-style-type: none"> • It will be a challenge to enroll families most likely to experience a benefits cliff • Issuance of sporadic cash benefits could be operationally challenging and cash value not always equivalent to benefits such as health care 	<ul style="list-style-type: none"> • It will be a challenge to enroll families most likely to experience a benefits cliff • Issuance of sporadic cash benefits could be operationally challenging and cash value not always equivalent to benefits such as health care 	<ul style="list-style-type: none"> • Not all participating families will experience a benefit cliff • Uncertainty in budget because repayments to federal government may vary significantly

There may be challenges in piloting a stable benefit design (Scenario 2), as it is a new and approach to mitigating benefits cliffs that has not yet been tried – at any scale, including at the state level. Nonetheless, one of the primary benefits of the stable benefit design is its simplicity for the participating household, as their benefits level at enrollment will be maintained through their participation in the pilot. Most public benefits programs monitor income (and sometimes assets) on a monthly or periodic basis and modulate the distribution to the family based on changes in income. For the pilot, though, eligibility and benefits amounts will not need to be adjusted due to changes in income or assets – presumably lessening administrative burdens associated with maintaining public assistance benefits and also allowing families to experience the financial advantages of savings accrual to the extent they are able to set aside a portion of increased earnings.

Project Budgeting and Benefit Cost Reduction Estimates

This analysis is part of the pre-feasibility work of designing a benefits cliffs pilot. The result of this analysis is meant to create a high-level estimate of pilot costs across multiple scenarios, and it should not be considered a project budget. Real costs to the state will be affected by factors outside the projected total cost for the pilot under any scenario.

However, there are at least three key budgeting considerations that will affect the final, realized total cost to the state, especially under Scenario 2:

- First, it seems likely that, without the opportunity to participate in the pilot, most of the people enrolled in the pilot would have **continued to receive benefits at about the same level they did before enrolling**. This means that the costs of their benefits and any taxes they pay would hold at a consistent level, and that the benefits costs now assumed under the pilot cost model would have accrued to the state and federal governments to their usual sources regardless.
- Second, it is possible that **participation in the pilot will reduce pilot participants' overall total benefit needs in the long-term**, in turn reducing benefit costs to the state and federal governments and increasing the taxes participants pay. Absent the pilot's intervention, there is a strong chance that families would have continued to forego increases to income that would have reduced the costs of their benefits; the pilot's interventions will allow them to accept increases to income that mean their benefit costs will be lower and their taxes paid will be higher after the pilot concludes. This hypothesis must be validated by the pilot, but extensive anecdotal evidence suggests that the pilot's support could make the difference between accepting gradual increases in income over multiple years and declining those increases in income to maintain benefits. This section includes illustrative examples on how these long-term benefits costs savings may work.
- Also, the **federal government is unlikely to demand a complete repayment of the federal share of costs paid on benefits** that pilot participants are no longer eligible for under traditional eligibility rules. First, waivers from federal authorities overseeing federal funds for benefits programs may obviate the need to plan on repayment for any programs where waivers are in place. For example, CMS has recently approved federal waivers allowing states to test

“continuous eligibility” concepts with much larger groups of participants than the target size of the pilot. Also, federal authorities are unlikely to demand a full claw back for federal funds used on benefits costs. Typically, claw back amounts are partial shares of federal funds expended.

To help explain how longer-term savings could be realized through the pilot, some illustrative examples for how benefits costs would change for families after the pilot concludes are provided in the tables below. If the pilot helps families enrolled bridge a benefit cliff that would otherwise keep them from taking an increase in pay, the overall level of the benefits they receive would decrease or end and corresponding government spending could be reduced (and tax dollars could be gained).

If enrollment in the pilot program allows a family of three with one adult and two children to increase its annual income by \$9,375 over four years (see projections in Scenario 1A), the family’s net annual benefits costs would likely decrease. The chart on page 17, are possible net benefit cost reductions expected by mitigating key benefits cliffs, described in the column on the right.

Gross Annual Income 1 Adult, 2 Children	Total Estimated Value of Selected Benefits per Family	Estimated Net Benefit Cost Reduction per Family	Major Benefit Program Changes
\$23,000/year (pre-pilot)	\$50,412	\$11,094	Income exceeds eligibility for TANF (note: relatively few families access TANF)
\$32,375/year (after pilot)	\$39,318		
\$41,000/year (pre-pilot)	\$34,127	\$10,293	Income exceeds eligibility for Medicaid (adult); enrollment in ACA plan
\$50,375/year (after pilot)	\$23,834		
\$49,000/year (pre-pilot)	\$25,737	\$6,136	Income exceeds eligibility for SNAP
\$58,375/year (after pilot)	\$19,601		

Similarly, if enrollment in the pilot program allows a family of four with two adults and two children to increase its annual income by \$13,125 over four years as projected in Scenario 1A, the following net benefit cost reductions may be possible.

Gross Annual Income 2 Adults, 2 Children	Total Estimated Value of Selected Benefits per Family	Estimated Net Benefit Cost Reduction per Family	Major Benefit Program Changes
\$41,000/year (pre-pilot)	\$38,455	\$12,226	Income exceeds eligibility for Medicaid (adult); enrollment in ACA plan
\$54,125/year (after pilot)	\$26,229		
\$49,000/year (pre-pilot)	\$30,325	\$6,673	Income exceeds eligibility for SNAP
\$62,125/year (after pilot)	\$23,652		

While contingent on several factors that are not possible to know with perfect certainty, these per-family benefits cost reductions suggest the possibility of substantial savings to governments in the long run. Additionally, these estimates do not include increases in tax revenue expected from pilot participants' income gains.

Parent Feedback

Following the completion of the initial cost analysis, the 2Gen team conducted feedback sessions with parents that are impacted by benefits cliffs. Broadly, parents supported option 2 over options 1A and 1B. The stability provided by multiple years of unchanging benefits was preferred to the gap coverage provided by the other options. In addition, parents were concerned about the tax implications of a cash supplement as compared to a fixed benefit such as Medicaid health coverage. Feedback from parents is noted throughout this report.

Limits of Analysis

Enrollment challenges: One of the primary challenges of navigating benefits cliffs is predicting when various public assistance program eligibility criteria overlap to create a benefits cliff. Given this, targeting, and enrolling the population most likely to experience a benefits cliff will be a challenge. If the pilot is unable to reach enrollment targets this could lead to increases in marketing expenses, decreases in disbursement, and reduce the quality of data from the evaluation.

Estimating benefits cliffs amounts: It will be challenging to accurately estimate the size of benefits cliffs. For scenarios 1A and 1B cost estimates for direct distributions to families are based on assumptions as to the size of benefits cliffs experienced by participating families. A significant variance in the size of cliffs experienced by enrolled families will lead to significant changes in pilot costs.

Predicting pilot benefit value: Developing a working theory for the pilot's cost required that several assumptions be made about which benefits participants would be receiving when enrolled. But we expect that participants will enroll while receiving a varied set of benefits that could drive significant deviation from our calculated average. For instance, a pilot participant with two older children, aged 11 and 13, would not receive early childhood education funding, whereas a parent with two young children would be clearly eligible for a subsidy. Moreover, just because a participant might be eligible for a benefit based on their income does not necessarily mean that the participant is receiving that benefit. In fact, data indicate that some program benefits are received only by a small percentage of the people whose incomes may qualify them, such as TANF-funded cash assistance. For this reason, scenario cost projects include a "benefit reserve" to keep the pilot adequately funded.

Predicting claw back: The cost estimates for claw back expenses are highly dependent on assumptions, could be partially or completely offset by federal support, and could vary significantly from estimates.

CONCLUSION

Under 2Gen's leadership, Connecticut has an exciting opportunity to field an innovative strategy for the harms posed by benefits cliffs if it opts for Scenario 2, recognizing that this approach may require nimble planning to overcome challenges to Scenario 2's implementation that we cannot foresee. Pilots that distribute cash to families have provided valuable insights on how benefits cliffs inhibit economic mobility, but it is important to remember that, in many cases, these pilots emerged as an alternative to policymakers' design preference: to obviate families' need to consider benefit cliffs as they work through the formidable obstacles they face to climbing the economic ladder. Advisory Council parents have confirmed that Scenario 2 best sets them up for the income growth that will enable them to secure better futures for themselves and their children.

Further, this pilot will provide the growing field of benefit cliff mitigation with data that promises rich insights about how families respond to the pressures that arise from benefit cliffs. While pilots across the country are helping to build out the picture for ideal design scenarios, Scenario 2 will give this area of research more direct insights about how people make decisions for their future when they are secure that their benefits are guaranteed and uninterrupted.

Social Finance deeply appreciates the ability to support 2Gen and the State of Connecticut as it explores benefits cliffs pilot strategies.

APPENDIX

Methodology

Document purpose: This document describes the methodology behind the pilot model and market sizing model for the Connecticut Benefits Cliff pilot. It is organized by scenario, where each scenario corresponds to one tab in Excel. For each scenario, the methodology behind each variable/input is explained.

Benefits Lost

Note: "1A2C" stands for 1 adult and 2 children; "2A2C" stands for 2 adults and 2 children.

Overview: This scenario is intended to compensate participants fully (or close to fully) for benefits lost, using cash as a replacement for benefit value. In other words, the payment amount a participant receives is based on the absolute amount of benefits they lose due to an increase in income.

This scenario imagines focusing on households that are in the phaseout range for benefits, regardless of whether they are experiencing a cliff at the time of enrollment.

Inputs:

- **Average wage gain (years 1-3):** Assumption, toggleable
 - Decreased the wage gains in year 2 and year 3 based on the assumption that most individuals cannot maintain the same rate of wage gains year-over-year.
- **Benefit loss rate:** Calculated using data from the [Federal Reserve Bank of Atlanta CLIFF Tool Policy Rules Database \(PRD\)](#) Dashboard. Method:
 - Dashboard settings:
 - State = Connecticut
 - County = any CT county
 - No household members with disabilities
 - Benefits selected = "All benefits."
 - Used the tool for two family archetypes: 1 adult 2 children, and 2 adults 2 children.
 - Downloaded an Excel extract of results. Created tabs "1A2C" and "2A2C."
 - Created a new Excel column, "Total benefits," that summed all the benefits received. The columns labeled "value.[x]" indicate benefits received.
 - Note: The current model excludes the column "value.aca" from "Total benefits" given 1) households may choose not to pay for healthcare for adults if not able to afford premiums (children can be covered by Medicaid); 2) ACA subsidies are not cash, and amounts (the model by default assumes largest possible amount) would vary substantially across families based on those families' medical costs.
 - Created a column "Change in total benefits" to identify the phase-out range for benefits (the range of income for which the amount of total benefits consistently decreases). This ends up being \$22,000-\$55,000.

- Divided the change in total benefits over the phase-out range by the change in income over the phase-out range to find the average benefits loss rate.
- **Benefits lost, years 1-3:** Calculated by multiplying the benefits loss rate by the wage gain in years 1-3.

Programmatic Toggles:

- **Benefits makeup rate:** This is the % of benefits lost that the program would compensate for.
- **# families served:** This is the number of families receiving payments.

Resources Lost

Overview: This scenario is intended to "make whole" individuals who lose benefits based on an increase in income. The payment amount a participant receives is based on *the difference* between the income gained and the benefits lost.

This scenario attempts to more precisely target households that are experiencing a benefits cliff (vs. experiencing a gradual phaseout of benefits). Therefore, it is assumed that all families in this scenario are "going over" the benefits cliff.

Inputs:

- **Income change at cliff:** This is the change in income that triggers the benefit cliff. It does not represent the actual expected average change in income of participants.
- **Additional income gain after cliff:** This is the actual expected average change in income experienced by program participants, *minus* the income change at cliff (to avoid double-counting).
- **Benefits loss from cliff:** This is the amount of benefits a family loses due to going over the cliff. This figure was derived from the column "Change in total benefits," referenced in the "Benefits Lost" section, and identifying where the largest loss of benefits occurs. That amount is inputted here.
 - Recognizing that the Atlanta Fed PRD Dashboard assumes a household is getting the maximum amount of benefits possible, this figure is possibly an overestimate.
- **Benefits loss rate after the cliff:** This is the rate (%) at which families continue to lose benefits after the cliff. This figure is calculated by using the columns "Change in total benefits" and "Income" in the data tab.
- **Maximum additional benefits lost:** This is the maximum amount of benefits a family can lose.
- **Actual benefits lost:** This is calculated by adding "benefits loss from cliff" to the product of "additional income gain after cliff" and "benefits loss rate after cliff."
 - If the product of "additional income gain after cliff" and "benefits loss rate after cliff" is greater than the maximum additional benefits lost, then use instead the maximum. The MIN function in Excel can be used to accomplish this.
- **Net loss:** Benefits lost minus income change.

Programmatic Toggles:

- **Makeup rate:** This is the % of the net loss the program will compensate for.
- **# families served:** This is the number of families receiving payments.

Stable Benefit

Overview: This scenario ensures that pilot participants have a minimum “benefit floor” for the pilot’s duration, assuring access to a set of benefits regardless of income gains that would otherwise make participants ineligible for benefit programs. The goal is to eliminate the possibility of a benefits cliff by keeping participant family benefit levels constant for a fixed duration. For this scenario, we relied on the Federal Reserve Bank of Atlanta PRD calculator to determine the total costs of key benefits and factored these benefits costs into the pilot cost model. We also assumed a partial “clawback” of costs accrued to the federal government.

Sources

Sources	Variable	Notes
Fed Reserve Bank of Atlanta PRD	Benefit loss rate	Dashboard settings: <ul style="list-style-type: none"> • State = Connecticut • County = any CT county • No household members with disabilities • Benefits selected = "All benefits"

Benefit Cost Reduction Estimates

These benefit cost reduction estimates were developed using the Federal Reserve Bank of Atlanta Career Ladder Identifier and Financial Forecaster CLIFF Tool calculator, using the same dashboard settings as used in Scenarios 1 & 2. The estimates included the value of the following benefits programs at the incomes indicated in the table, per the CLIFF Tool calculator:

- Temporary Assistance for Needy Families (TANF)
- Child Care and Development Funds (CCDF)
- Medicaid for adults and children
- Supplemental Nutrition Assistance Program (SNAP)
- Affordable Care Act (ACA) health insurance marketplace subsidies
- Federal and State Earned Income Tax Credits (EITC)

As in the program scenarios, the State is Connecticut, in any county, and no members of the household have a disability. The Child Tax Credit or Child & Dependent Tax Credit were excluded because they are non-refundable or only partially refundable; others were excluded because of limited expected uptake. Of the benefits listed, Medicaid for adults and children was the benefit of highest value.

This example is meant to be illustrative. Many families’ eligibility for these programs fluctuates with their income over the course of a year, and uptake across these programs varies significantly. Other external policy changes could affect the estimated reduction in benefits costs, including changes to the eligibility thresholds for benefits programs. For example, recent state legislation in Connecticut allows TANF

recipients to keep their cash assistance benefits longer even with some increases in earned income – this cost that is already assumed in state budgetary projections is included as a “benefit cost” in this analysis. Relatedly, some policy changes made at the state level to enhance or limit access to benefits may not be perfectly reflected in the benefits calculator, and some policy changes that affect eligibility may have occurred since this analysis was conducted.

Importantly, these estimates assume continuous enrollment in the programs selected for comparison, including enrollment in a health insurance plan supported by health insurance marketplace subsidies. These estimates do not contemplate that someone would opt for an employer-sponsored health plan if available instead of a marketplace plan.