



Fed explores 'benefits cliff,' which can stifle workers' mobility and deepen financial hardships

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Kansas City Fed Senior Community Development Advisor Steven Shepelwich discusses some of the initiatives underway to raise awareness about and find solutions for a problem during the pandemic known as the "benefits cliff."

The severe economic effects of the coronavirus have shed light on many financial difficulties facing workers and households. One dilemma that has been increasingly problematic during the pandemic is known as the "benefits cliff."

Federal Reserve Banks are working to raise awareness of this situation and find solutions in partnership with community organizations and government entities that are involved with workforce development.

Kansas City Fed Senior [Community Development](#) Advisor [Steven Shepelwich](#) is helping lead these efforts in the Tenth District and is part of a broader Federal Reserve System team. Recently he provided some background on the issue and outlined some of the initiatives underway.

Q: What is the "benefits cliff?"

A: This situation is a financial barrier to economic mobility, and it can occur when career advancement - getting a new job with higher pay, for example - puts family income above eligibility requirements for public benefits programs. As a result of losing that assistance, the family can actually become financially worse off—facing a "benefits cliff"—or no better off, which can be called a "benefits plateau."

While a new job could provide much greater long-term income, the immediate shortfall might make it too risky to pursue higher-paying work. Research by the Federal Reserve Bank of Atlanta shows that the severity of benefits cliffs and plateaus can depend on factors such as a worker's family composition and geographical location.

Q: Which broader problems can result from these situations?

A: Getting a higher-wage job doesn't necessarily mean that a person's new income will cover all household expenses. Losing access to public benefits that help with expenses—such as medical insurance or child care—in many cases means that workers have a financial disincentive to invest in their upward movement from lower-wage jobs.

The eligibility and structure of financial assistance programs meant to help families become financial independent all too often have the unintended consequence of making that goal more difficult to obtain. Appropriate benefits and work supports are often needed after an individual begins to move up in a job. By looking more closely at these situations and their effects, policies can be better designed to provide equitable outcomes that will positively impact families and the economy.

Q: Why are the Reserve Banks and partners involved, and how are they working toward solutions?

A: Ensuring that every family has the opportunity to participate in and benefit from the economy is a key part of the Federal Reserve's mission. Putting a spotlight on the benefit cliffs can help individuals make better decisions; businesses will better understand the realities faced by many of their workers; and policymakers can make changes supported by evidence. Together, this can make a significant difference in both individual families and regional economies.

We have worked with the Oklahoma Office of Workforce Development and the Atlanta Fed on developing a tool that shows the expected cliffs faced by workers as they train to meet Oklahoma's most in-demand jobs. We are now starting pilot programs to show its usefulness for training specialists, employers and job seekers as we move into recovery from the pandemic. The Atlanta and Richmond Feds are working with other states on similar initiatives that will collectively provide powerful insights on how benefit cliffs can be transformed to on-ramps toward economic mobility.

Q: How can the public participate or get more information on this topic?

A: The Atlanta Fed has developed robust research and practical tools to both understand and address this issue at the state and regional level. The bank's Advancing Careers for Low-Income Families initiative provides a comprehensive introduction to this work for policymakers, workforce professionals, researchers and employers.

The Kansas City Fed is talking with stakeholders across our district to develop new partnerships in addition to our work with the Oklahoma Office of [Workforce Development](#).

Further Resources

The public can learn more about Federal Reserve research and initiatives to improve workers' mobility and find solutions for families facing the benefits cliff at the [Federal Reserve Bank of Atlanta's website](#).