



SUTHERLAND INSTITUTE STATEMENT FOR THE RECORD

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Examining the Burden of Federal Benefits Cliffs on Small Businesses and Workers

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Senator Ernst, Senator Markey, and members of the Committee, thank you for the opportunity to submit this statement for the record regarding the critical economic and social friction point of federal benefits cliffs.

I. Introduction: The Aspirational Intent of Welfare vs. The Status Quo

America's long-running war on poverty was originally conceptualized around the goal of work-based independence. The social welfare system was intended to provide needed, temporary stabilization alongside skill development and work experiences while actively assisting individuals as they move back into stable employment and long-term self-reliance. However, our national policy framework has yet to fully live up to this foundational purpose. Today's safety net too often does not help struggling people build the personal and professional capacity to achieve independence. This shortcoming not only limits the capacity of American families to achieve work-based independence, it also constrains our nation's economy by adding to workforce challenges employers face.

The core issue facing American workers and small business employers is not a lack of good intent among lawmakers or administrators; rather, it is a profound failure of system design. The current safety net is not a cohesive, coordinated system. Instead, it is a sprawling, unnavigable patchwork of well over 80 individual programs, administered across multiple federal and state agencies, operating with insufficient cross-program vision.¹ Collectively, federal and state governments spend well over a trillion dollars annually on these

¹ Angela Rachidi, Matt Weidinger, Joshua Bandoch, Nic Dunn, Leslie Ford, Erik Randolph, et al., *Stranded by the Safety Net: How to Fix the Benefit Cliff Problem* (Washington, DC: American Enterprise Institute, December 2, 2025), <https://www.aei.org/research-products/report/stranded-by-the-safety-net-how-to-fix-the-benefit-cliff-problem/>



initiatives.² In addition to operating in institutional silos, these programs inadvertently create structural barriers—most notably, *benefit cliffs*—that can actively penalize work, stall business growth, and trap aspirational families in government dependence.³

For too many families, the rigid rules of the modern safety net make it *economically rational* to turn down opportunities to earn more, forcing them to choose either a short-term loss of vital household stability or long-term economic stagnation. This statement outlines the dual crises of benefit cliffs and safety net fragmentation, highlights how these cliffs artificially restrict the small business labor supply, and proposes a solution through federalism and state-led innovation via the Upward Mobility Act.

II. The Structural Flaws: How Benefit Cliffs and Fragmentation Form Poverty Traps

A. The Mechanics of the Benefit Cliff

A benefit cliff occurs when a low-income individual or family enrolled in public assistance programs (such as SNAP, Medicaid, housing vouchers, or TANF cash assistance) experiences an increase in their earned income. Rather than experiencing a gradual, predictable phase-out of assistance that rewards their increased labor, the household can experience sudden, catastrophic reductions in assistance from one or more programs. This abrupt loss of public benefits frequently cancels out or entirely exceeds the new market earnings, leaving the family financially worse off or stuck in the exact same place despite working harder.

The economic data surrounding this phenomenon demonstrates that benefit cliffs are not isolated anomalies; they are widespread, systemic features of the contemporary welfare state:

- **The National Worker Disincentive:** According to a nationally representative survey conducted by the Washington University Center for Social Development, roughly 22% of low-wage workers across the United States on public assistance programs have intentionally limited their earnings—by refusing raises, turning down

² Rachidi, Angela, Matt Weidinger, and Joshua Bandoch. 2025. Stranded by the Safety Net: How to Fix the Benefit Cliff Problem. American Enterprise Institute. December 2, 2025. <https://www.aei.org/research-products/report/stranded-by-the-safety-net-how-to-fix-the-benefit-cliff-problem/>.

³ Nic Dunn, *Tinker or Transform: The New Welfare Reform Movement* (Salt Lake City, UT: Sutherland Institute, June 2026), accessed June 2, 2026, <https://sutherlandinstitute.org/wp-content/uploads/2026/06/Tinker-or-transform-The-new-welfare-reform-movement-June-2026.pdf>



promotions, or voluntarily reducing their hours—specifically to avoid triggering a benefit cliff.⁴

- **The Utah Baseline:** Localized research corroborates these national figures. Past research conducted by the Sutherland Institute revealed that 62% of safety net participants in Utah felt functionally "stuck" in a low-income job, believing that earning more would trigger a cliff that would negate their career progress. Furthermore, 43% of Utah safety net participants admitted they had intentionally limited their earnings due to the explicit fear of triggering a cliff.⁵
- **The Single-Parent Penalty:** The financial impact of these cliffs is severe for single-parent households striving for economic mobility. For example, in Georgia, a single parent with one child whose annual income increases by a mere \$1,000 (moving from \$23,000 to \$24,000) can suddenly lose more than \$500 a month in SNAP benefits.⁶
- **The Childcare Collapse:** In Illinois, a modest \$1,000 wage increase from \$54,000 to \$55,000 triggers a catastrophic cliff, resulting in a working family losing over \$25,000 in childcare benefits.⁷
- **The Glass Ceiling of Welfare:** In Washington, D.C., a single parent with one child would see no net improvement in her household's financial well-being even if her market income increased dramatically from \$11,000 to \$65,000, entirely due to the compounding effect of multi-program benefit cliffs.⁸

B. The Compounding Burden of Safety Net Silos

This systemic dysfunction is exacerbated by the fragmented oversight of the safety net. The major programs that low-income Americans rely on were created at different times, to

⁴ Roll, Stephen, Selina Miller, and Mathieu Despard. The Impact of Benefits Cliffs and Asset Limits on Low-Wage Workers: New Evidence from a Nationally Representative Survey. CSD Research Brief No. 25-07, Washington University, Center for Social Development, May 2025, doi.org/10.7936/5ykn-5z34

⁵ Sutherland Institute. 2024. Strengthening the American Dream: Addressing benefits cliffs to empower safety net participants to pursue work and opportunity. November 2024.

<https://sutherlandinstitute.org/reports/strengthening-the-american-dream/>.

⁶ Federal Reserve Bank of Atlanta. n.d. "CLIFF Snapshot (Demo Version)." Web app. Accessed June 2, 2026.

https://emar-data-tools.shinyapps.io/cliff_snapshot_demo/.

⁷ Blackwood, Janelle, Elias Ilin, and Misuzu Schexnider. "Exploring Benefits Cliffs in Illinois: CCAP as a Case Study." Advancing Careers Initiative Policy Brief, University of Chicago Inclusive Economy Lab and Federal Reserve Bank of Atlanta, 2021.

https://urbanlabs.uchicago.edu/attachments/14265904df0a33358c29a1c99642f480015e8548/store/6dbbcf726529cc71b3e8ff72cb9c75a30cd0913444f0f9635f9894fa8c13/IEL_AFRB_Cliffs+Report+_vFinal_wAuthors.pdf.

⁸ Ilin, Elias, and Alvaro Sanchez. 2023. "Mitigating Benefits Cliffs for Low-Income Families: District of Columbia Career Mobility Action Plan as a Case Study." Community and Economic Development Discussion Paper No. 23-1. Federal Reserve Bank of Atlanta. <https://doi.org/10.29338/dp2023-01>.



serve different immediate purposes, and today report to different Congressional committees. Consequently, administrative authority is severely siloed across multiple federal entities:

- **SNAP (Food Assistance):** Overseen and regulated by the U.S. Department of Agriculture (USDA).
- **TANF and Childcare Subsidies:** Overseen by the Administration for Children and Families (ACF) within the Department of Health and Human Services (HHS).
- **Housing Assistance (Section 8):** Overseen and regulated by the Department of Housing and Urban Development (HUD).

This institutional fragmentation means that federal policymakers typically must evaluate problems or potential reforms in the existing system distinctly, one program at a time. Yet, families do not experience the safety net in a silo; they experience it holistically. Data from the U.S. Department of Health and Human Services indicates that participation in multiple programs is the norm rather than the exception. “Over half of all safety net participants—including two-thirds of children—receive benefits from more than one program simultaneously.”⁹

When individual program rules are layered on top of one another without cross-program coordination, navigating the safety net becomes an exhausting, time-consuming endeavor. As the HHS report (referenced above) noted, working parents view these fragmented rules as highly complicated, and the rigid structures are fundamentally not designed to support upward economic mobility.

III. The Economic Ripple Effect: The Burden on Small Businesses

While benefit cliffs present an immediate financial disincentive to working families, they simultaneously inflict a severe structural burden on America's small business community. Small businesses are essential engines of local job creation, yet federal safety net policies inadvertently undermine their ability to manage, reward, and retain talent.

When 22% of low-wage workers on public assistance nationwide are actively incentivized to limit their hours or decline salary increases, small business owners are forced to absorb the operational consequences. This dynamic manifests in several distinct burdens:

⁹ Macartney, Suzanne, and Robin Ghertner. 2023. "Participation in the U.S. Social Safety Net: Multiple Programs, 2019." Issue Brief. Washington, DC: Office of the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services, April.
<https://aspe.hhs.gov/sites/default/files/documents/620afec437712c87613c4b77efd1d9c3/multiple-programs-safety-net-program-2019.pdf>.



1. **Artificial Labor and Productivity Constraints:** Small businesses can face frequent staffing shortages, particularly in entry-level, customer-facing, or technical roles. When qualified, experienced employees ask to have their weekly hours capped (the most common behavior in the Washington University research cited above) or turn down additional shifts specifically to maintain public assistance eligibility, businesses are artificially constrained in their operational capacity.¹⁰
2. **The Promotion Bottleneck:** A healthy business benefits from upward internal mobility—moving entry-level workers into supervisory or management roles as they gain experience. When a federal benefit cliff makes a promotion economically irrational for an employee, small business owners are blocked from elevating their best internal candidates. This forces businesses to incur the high costs of external recruiting and onboarding, while simultaneously trapping the existing worker in a lower-wage bracket.¹¹
3. **Wasted Training and Capital Inefficiencies:** Small businesses invest significant time and capital into training their workforce. When an employee is forced to exit the labor market entirely or switch to part-time work because a small, merit-based raise would strip them of thousands of dollars in childcare or healthcare subsidies, the small business loses its return on that training investment.

The current federal framework effectively penalizes small businesses for doing exactly what society wants them to do: offer raises, provide career advancement, and foster economic independence among their workforce.

IV. Moving Beyond Tinkering: The Power of State-Led Innovation

A. The Limits of Incremental Reform

Historically, federal welfare reform has focused on incremental adjustments within existing programmatic silos. For example, the 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) successfully replaced Aid to Families with Dependent Children (AFDC) with Temporary Assistance for Needy Families (TANF) to introduce work requirements. More recently, the 2025 One Big Beautiful Bill added work requirements in Medicaid and expanded them within SNAP.

¹⁰ Ohio Chamber of Commerce Research Foundation. *Addressing the “Benefit Cliff” in Ohio*. Columbus, OH: Ohio Chamber of Commerce Research Foundation, June 13, 2019. Accessed June 2, 2026. <https://ohiochamberfoundation.com/wp-content/uploads/Report-Addressing-the-Benefit-Cliff-in-Ohio-1.pdf>

¹¹ Florida Chamber Foundation. *Less Poverty, More Prosperity: The Florida Fiscal Cliffs Report*. Tallahassee, FL: Florida Chamber Foundation, 2017. Accessed June 2, 2026. https://www.flchamber.com/wp-content/uploads/2017/04/LessPovertyMoreProsperity_FLFiscalCliffsReport_Web.pdf



While these incremental changes are positive, they are not transformational improvements. Because oversight remains fragmented across multiple federal entities, traditional reform efforts are forced to ask a narrow question: *"How do we make program X slightly better to solve problem Y?"*

To truly solve the benefit cliff crisis, we must shift our perspective and ask a more aspirational, holistic question: *"If we were designing this system from scratch, with the explicit goal of providing temporary help while aiding families toward work-based independence, what would it look like?"*

B. States as the Laboratories of Welfare Reform

Fortunately, a growing movement of state leaders, practitioners, and policymakers across the political spectrum is already exploring how to fix this system-wide fragmentation. Because states directly administer these jointly funded federal programs, they are uniquely positioned to serve as laboratories of innovation—provided the federal government grants them the flexibility to do so.

Several states have already taken proactive steps within the narrow confines of current law¹²:

- **Utah's Integrated Model and TANF Pilot:** For decades, Utah has operated an integrated model where social welfare and workforce development resources coexist within a single state agency. Building on this foundation, the Utah Legislature in 2025 created and funded a \$6 million TANF pilot program. This initiative utilizes non-profit partners and community coaching to provide financial planning resources designed specifically to ease the transition from public assistance to work, helping participants navigate the cliff-effect. The pilot is intentionally designed to gather real-time administrative data on income, program utilization, and household composition to inform future structural reforms.
- **The Louisiana "One Door to Work" Model:** Louisiana has taken concrete steps toward consolidating fragmented safety net and workforce programs under an initiative known as *Louisiana Works*. This framework envisions a "one door to work" model, utilizing a single location and a comprehensive approach to eliminate administrative barriers, accelerate employment outcomes, and support holistic human flourishing rather than merely sustaining individuals in dependence.

¹² Nic Dunn, *Tinker or Transform: The New Welfare Reform Movement* (Salt Lake City, UT: Sutherland Institute, June 2026), accessed June 2, 2026, <https://sutherlandinstitute.org/wp-content/uploads/2026/06/Tinker-or-transform-The-new-welfare-reform-movement-June-2026.pdf>



- **Bipartisan State Legislative Momentum:** In 2026, the Utah Legislature passed and Governor Spencer Cox signed a concurrent resolution calling on the federal government to grant additional flexibility and autonomy to states to experiment with innovative pilot programs to eliminate work disincentives while protecting budget neutrality. Similarly, the Kentucky House of Representatives passed a resolution in 2026 urging the federal government to expand waiver and demonstration authority to support earned income advancement. Delaware legislators passed a bipartisan resolution in 2025 recognizing that benefit cliffs undermine upward mobility by making it economically rational for families to remain at lower income levels, directing their state health and social services agency to identify structural reforms.

V. Legislative Solution: The Upward Mobility Act

While state momentum is robust, governors and state legislators inevitably hit a wall of rigid federal statutory restrictions. To allow these innovations to scale and effectively dismantle the benefit cliffs harming workers and small businesses, federal leaders must respond by expanding state authority.

The most effective, immediate mechanism to achieve this is the **Upward Mobility Act**, introduced this year by Senator Jon Husted of Ohio and Representative Blake Moore of Utah¹³.

A. Core Mechanisms of the Act

The Upward Mobility Act directly addresses both the benefit cliff disincentive and the systemic fragmentation problem by leveraging the inherent flexibility of federalism. The bill allows five states to voluntarily opt in to a pilot program where they can blend funding streams from up to 10 different federal public assistance programs—including SNAP, TANF, Section 8 housing vouchers, and childcare subsidies.

By blending these historically isolated funding streams, pilot states can completely redesign the intake, administration, and benefit phase-out schedules for low-income families. Instead of a participant interacting with multiple uncoordinated agencies—each maintaining separate eligibility systems, vendors, and distinct cliff thresholds—the state can establish a single, streamlined pathway. This allows states to smooth out the benefit phase-out curves, ensuring that every dollar an individual earns through employment results in a net financial gain for their household, eliminating the perverse incentives caused by benefit cliffs.

¹³ Nic Dunn, *The Upward Mobility Act: A State Solutions Framework for Benefit Cliffs* (Salt Lake City, UT: Sutherland Institute, March 2026), accessed June 2, 2026, <https://sutherlandinstitute.org/wp-content/uploads/2026/03/The-Upward-Mobility-Act-A-state-solutions-framework-for-benefits-cliffs.pdf>



B. Strict Guardrails and Accountability

The Upward Mobility Act is not a blank check to states; rather, it is a highly structured, accountable framework that pairs robust flexibility with rigorous evaluation. The bill contains vital guardrails to protect taxpayers and ensure the integrity of public funds:

- **Strict Budget Neutrality:** Funding for the state pilot programs is strictly capped at prior-year levels, with adjustments allowed only for inflation. This ensures that states must innovate through administrative efficiency and improved work outcomes rather than requesting additional federal funding.
- **Federal Oversight and Pre-Approval:** Participating states are required to produce highly detailed, comprehensive evaluation plans that must be reviewed and approved by the Administration for Children and Families (ACF).
- **Independent, Third-Party Evaluation:** To prevent self-reporting bias, the bill mandates independent, third-party evaluations of each state pilot program to measure empirical success.
- **Outcome-Based Metrics:** The success of the state pilots is explicitly tied to measurable, pro-work outcomes: namely, the demonstrable reduction of benefit cliffs and a verified increase in participant work participation and market earnings.

By utilizing state-led pilots under the Upward Mobility Act, Congress can establish a clear proof of concept. The real-time data and results generated by these five states can safely inform the next stage of comprehensive, national safety net modernization, mirroring the successful state-to-federal dynamic that drove the 1996 welfare reforms.

VI. Conclusion: An Aspirational Vision for the American Dream

The United States social welfare system stands at a critical crossroads. For decades, federal policy has settled for incremental tinkering—making minor adjustments to individual programs while leaving a fragmented, siloed structure intact. The cost of this collective inaction is paid daily by low-wage workers who are penalized for working harder, and by small business owners who are denied the stable, ambitious workforce they need to grow.

We must transition to an aspirational vision of social welfare—one that explores fundamentally new ways to conceptualize support, such as empowerment accounts that envision a single, unified temporary assistance program explicitly tied to the goal of work and independence.



Our nation's social safety net should ultimately be measured not by how many families it successfully sustains in a state of government dependence, but by how many families it successfully empowers to move into work-based self-reliance. Benefit cliffs represent an artificial, policy-driven barrier to the American Dream. By passing the Upward Mobility Act, Congress can untie the hands of state innovators, remove the structural burdens stifling small businesses and workers, and transform public assistance into a true springboard for permanent upward mobility.

Thank you for the opportunity to submit this statement for the record.