

**CIRCLES**USA  
*Thriving Families, Thriving Communities*

## THE CLIFF EFFECT

Circles USA has chapters in more than 20 states that bring community volunteers into partnership with families who are committed to getting out of poverty. In 2014, the Circles network was asked what is the biggest barrier to getting out of poverty. The answer was unequivocally the Cliff Effect that is built into assistance programs. The Cliff Effect occurs when assistance programs like childcare subsidies and Medicaid remove benefits faster than people can earn enough income to replace them. By not pro-rating the exit ramp to these programs, the government creates a financial crisis for people as they earn more income.

### **America's Phantom Workforce**

The Cliff Effect create an enormous *phantom workforce* in our communities across the nation--people who could work, need to work, and want to work but won't because they can't afford to lose benefits for childcare and health insurance. Employers will struggle trying to recruit from a "phantom workforce" that will resist entry and middle-skill work opportunities until the cliff effect in benefit programs are eliminated.

Communities that are struggling with fewer economic base jobs--those jobs that bring money into a community and generate on average two local service jobs--must mine their own local talent from the unqualified labor pool. Due to the lack of benefit calculators and government employees who can easily show people the results of taking new earned income, there will be a level of resistance from even the perceived changes in benefits, whether or not these are real and accurate changes.

We at Circles USA think having information is in everyone's best interest. The better the tools we have, the better we can solve problems. So wouldn't better tools to understand the cliff effect that can occur when people move off assistance programs be good? Wouldn't we be better able to plan for the future?

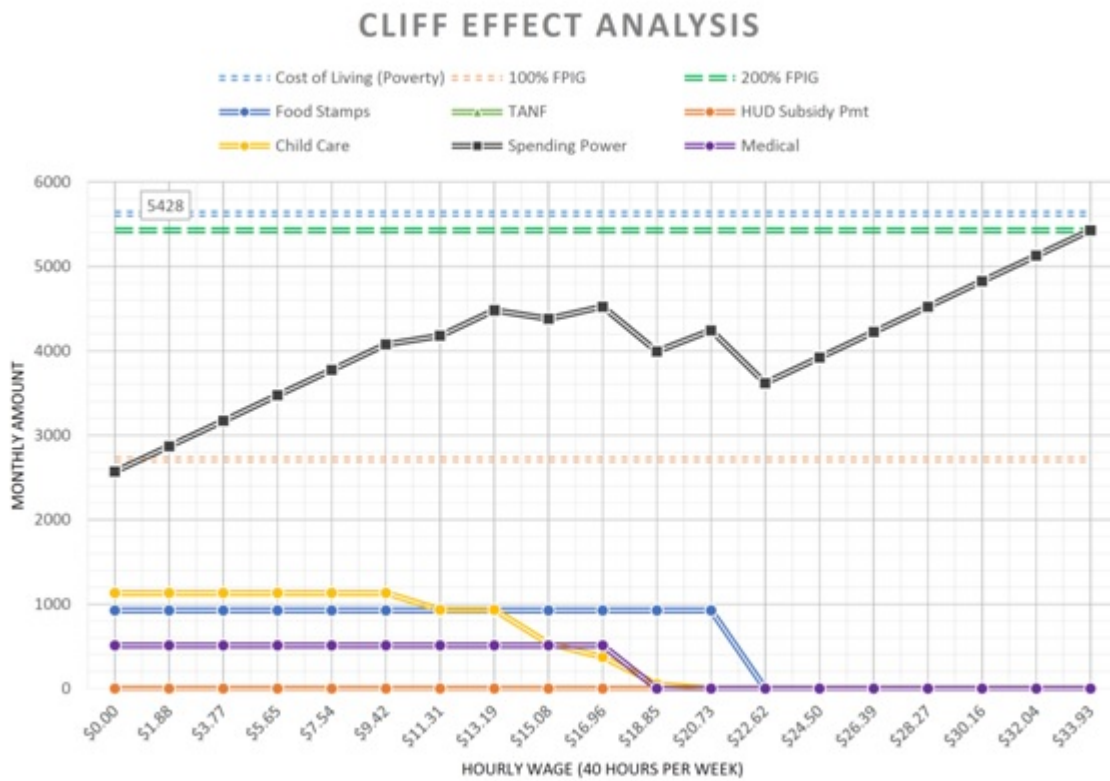
### **Planning Tools While We Wait for the Fix in Benefits**

Assistance programs use complex formulas, making it virtually impossible for a family with low income, or a community volunteer, or even most human service staff, to determine in advance how much assistance people will have once they earn more income. This is a problem because as people earn more income, they disproportionately lose work supports like childcare assistance, health insurance, etc., which undermines progress out of poverty.

The result dismantles the survival budget while people are trying to move closer to their stability budget.

We need to take the mystery out of the equation so that people can adequately plan for losses in subsidies as they generate more earned income. (Just as important, of course, the cliff effect must be removed and replaced with prorated schedules that provide smooth exit ramps off work-support assistance programs. Circles works on this front, too.)

A Circles USA volunteer Advisor from Connellsville, PA, David Priemer, has built a prototype-planning tool calibrated for all counties in 10 states that will predict losses in each of the 5 major programs for 18 different levels of income. Circles Leaders and volunteers can fill out asset, demographic info and where they live and the calculator instantly lets them know how they rate on each of 7 tests for the 5 different benefits. The calculator examines subsidies as Leaders move between their current income and expected income, up to 200% of the federal poverty level. The chart illustrates what the resulting analysis looks like.



People cannot focus on future plans if they are in immediate danger of meeting basic needs. Therefore, an up-to-date cliff effect calculator must be made available to everyone in order to make responsible plans out of poverty. This tool can help people understand when subsidies will drop off. In some cases, the drop off will be less of a problem than they think, in other cases more. But isn't it better that people know? So they can plan? Information is always better.

## ADDITIONAL RESOURCES

The following resources can be found at Circles USA/Circles Solutions.

1. **EXAMPLES OF CLIFF EFFECT:** Julie Carmichael, Director of Programs, Amethyst Place, a transitional housing program in Kansas City for women and their children provides 10 examples of clients that are negatively impacted by the Cliff Effect once they begin to earn more income.
2. **LEGISLATIVE ACTION SUMMARY:** A report done for the Women's Fund of The Greater Cincinnati Foundation provides an inventory of legislative actions taken to address the Cliff Effect. There are no examples of comprehensive plans that accomplish the following necessary objectives:
  - a. Pro-rated exist plans for childcare assistance Medicaid programs
  - b. User-friendly application for supports in order to allow people to focus their time and effort on employment goals
  - c. On-line planning tools to understand changes in benefits when new income is earned.
3. **MEDIA REPORTS:** because the Cliff Effect are so detrimental to the economic goals of our nation, the media has run several stories.