



## Policy Solutions to Kentucky's Benefits Cliff Challenges

Benefits cliffs present unique challenges to Kentucky employers. Some employers report, for example, workers being hesitant to accept wage increases due to fears of how a higher income could affect their eligibility for public benefit programs. In other instances, employers report workers being hesitant to accept offers for additional paid hours or a transition from part-time employment to full-time employment due to these same concerns. These dynamics create significant staffing challenges for employers, particularly during periods of exceptional labor market tightness like what Kentucky has been experiencing since the onset of the COVID-19 pandemic. Equally as troubling, benefits cliffs limit upward mobility and trap Kentucky families in cycles of poverty and government dependence. The benefits cliff issue is a key concern of Kentucky's business community. Addressing the issue was a top policy recommendation in the Kentucky Chamber Foundation's report on Kentucky workforce crisis in September 2021.

To help alleviate challenges related to benefits cliffs, the Chamber recommends the following policy concepts.

### 1. Bridge the information gap

- To ensure that low-income workers receiving public benefits are able to make as fully-informed decisions as possible when presented with opportunities for upward mobility and earnings increases, the state should make available an accessible, user-friendly benefits cliff tool.
- This tool should allow users to weigh the pros and cons of upward mobility and benefit eligibility and understand how changes to earnings affect both program eligibility and long-term financial stability.
- User-friendliness and accuracy should be focal points of this tool, and it should be integrated into CHFS outreach and support efforts and into online platforms frequently utilized by benefit recipients.

### 2. Leverage public-private partnerships

- Partnerships between the public and private sectors could help reduce the impacts of benefits cliffs in certain circumstances.
- The Employee Child Care Assistance Partnership is a key example. House Bill 499, passed in the 2022 legislative session, created a new partnership program in which employers and the state collaborate to help workers afford the cost of quality child care. This program can provide financial relief for families whose incomes may make them ineligible for child care subsidies.
- Using the Employee Child Care Assistance Partnership as a model, the state should consider developing similar partnership programs to address other types of benefits cliffs in other types of scenarios.

### 3. Increase uptake of the federal Earned Income Tax Credit among eligible Kentuckians

- The federal Earned Income Tax Credit (EITC) is an effective tool for supporting workforce participation and upward mobility. It is available exclusively for low-income workers. It phases in as a worker increases their earnings and gradually phases out as they continue climbing the economic ladder. The gradual phase-out process built into the EITC helps workers overcome any potential loss of benefit eligibility.
- The federal EITC suffers from two key drawbacks: 1) it is administered solely through the federal tax code, which means an eligible individual can only receive it if they file a federal tax return; and 2) there is some evidence that EITC recipients do not fully understand how the credit phases in and phases out based on income levels and how it functions to supplement their earned income. This may effectively blunt some of its pro-work impacts.
- To address these drawbacks in Kentucky, lawmakers should focus on increasing the uptake of the federal EITC and help more eligible Kentuckians understand how the program can increase their overall income levels and help them overcome benefits cliffs.
- Based on the most recent available data, [79.9 percent](#) of Kentuckians who were eligible for EITC in 2018 actually claimed it. This resulted in approximately \$235 million in unclaimed credits, dollars that could have flowed into Kentucky households and into the state's economy. Kentucky's EITC uptake rate was roughly in line with most other states, though some states reached uptake rates as high as 82 or 83 percent in 2018.
- To help increase EITC uptake among Kentucky families, the state should consider ways to reduce the number of "non-filers" – individuals who fail to submit a federal tax return. Researchers have identified non-filing – particularly among very low-income earners – as a key reason why EITCs go unclaimed. Increasing the number of federal filers through outreach and tax filing support programs could significantly increase EITC uptake.
- To help increase awareness of how EITC rewards work and supports upward mobility, policymakers should consider encouraging CHFS and DOR to partner together on an outreach program targeted at Kentuckians who might be eligible for EITC.
- Finally, lawmakers should consider establishing a state-level EITC to supplement the federal EITC. This would have the effect of making the federal EITC more attractive and further reward work and support upward mobility. 28 states currently offer state-level EITC programs.

#### Additional Resources:

"Child Care Policy Recommendations by the Kentucky Chamber of Commerce," submitted to the Early Childhood Education Task Force on August 5, 2022

["20 Years in the Making: Kentucky's Workforce Crisis,"](#) published by the Kentucky Chamber of Commerce Foundation in September 2021