ALLIANCE FOR OPPORTUNITY

EXHIBIT C3

Overcoming Benefit Cliffs

Policy Options for Arkansas's Safety Net

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THE PROBLEM

What Is a Benefit Cliff?

A benefit cliff occurs when a raise, a promotion, or more hours triggers an **abrupt loss of government benefits that outweighs the additional earnings** — leaving the family no better off, or worse off, for working more.

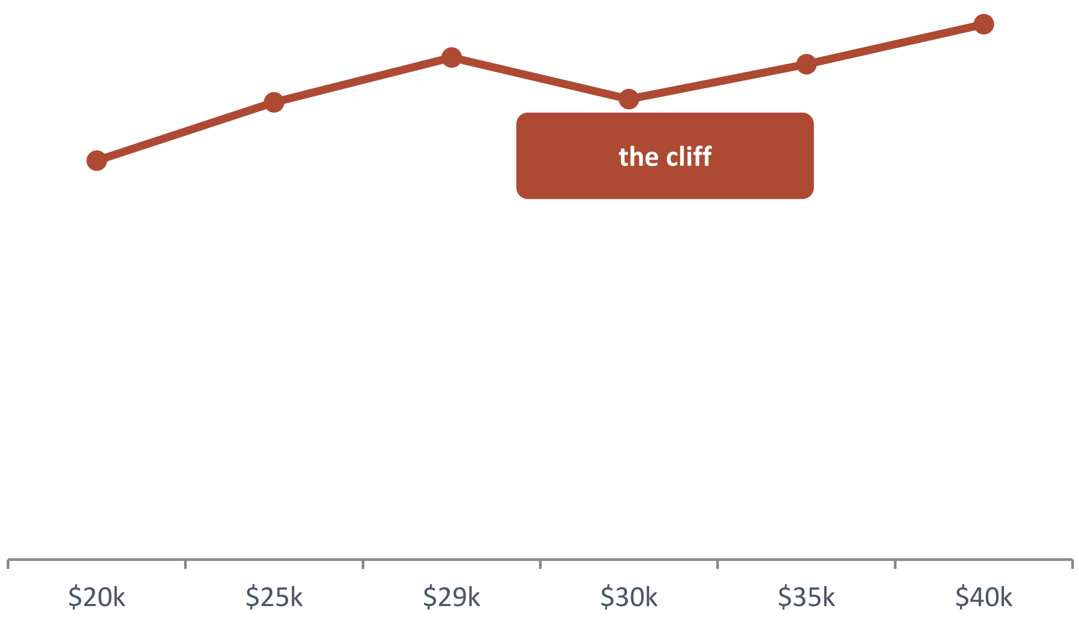
1,170,254

Arkansans (~38% of the state) on Medicaid or CHIP

377,312

Arkansans (~12% of the state) on SNAP

Illustrative: Net Resources as Earnings Rise



THE PROBLEM

The Math Behind the Cliff

WASHINGTON, D.C.

$65,000

in earnings before a single parent, one child, sees any real financial gain

A hypothetical single parent with a three-year-old saw virtually no increase in net resources as earnings climbed from $11,000 all the way to $65,000 — a 6x jump in wages with no reward.

Federal Reserve Bank of Atlanta, 2023

COOK COUNTY, IL

- $25,481

lost for a $1,000 raise

A modeled family lost its child-care subsidy after just a $1,000 increase in annual earnings — wiping out far more than the raise itself.

University of Chicago Inclusive Economy Lab, 2022

FOCUS: SNAP

SNAP's Benefit Cliff Problem

SNAP is designed to phase out gradually — 30 cents for every additional dollar earned. But deductions push out where that phase-out begins, **keeping benefits artificially high until a family hits the income limit and loses the rest all at once**.

Statutory phase-out rate	**30¢**	lost per additional dollar earned, by design
Actual effective rate	**24%–45%**	deductions for earnings, child care, and shelter swing the real reduction rate this wide
A family of four	**$500**	in monthly SNAP benefits lost entirely once a raise pushes gross income from $3,348 to $3,848/month — over the limit

Household of four at 125% FPL, 2025 rules. Rachidi, Weidinger, Bandoch, Dunn, Ford, and Randolph, "Stranded by the Safety Net," AEI, December 2025.

WHY THE CLIFF HAPPENS

Deductions for earnings, child care, and shelter expenses push the phase-out point higher — so the benefit stays high right up until a family crosses the income limit, then disappears all at once.

Even where states raise the income limit through broad-based categorical eligibility, the cliff doesn't disappear — it just moves further up the income scale.

The fix isn't a higher income limit. It's aligning the benefit level, the phase-out rate, and the exit point so SNAP reaches zero before a family hits the limit — not after.

FOCUS: MEDICAID

The Medicaid's Cliff

Unlike SNAP's gradual phase-out, Medicaid ends all at once at the income limit — a family loses the entire health benefit the moment they cross the line. **In Arkansas, 1,170,254 people — roughly 38% of the state — are on Medicaid or CHIP**, making the design of that exit ramp a statewide concern.

One child	**$2,523**	lost at $29,000–$30,000 in earnings
Two children	**$3,659**	lost at $37,000–$38,000 in earnings
Three children	**$4,014–$4,314**	lost at $45,000–$46,000 in earnings

Adult Medicaid/WIC loss at exit, offset only partly by ACA premium tax credits — illustrative state modeling, 2026.

THE HIDDEN CLIFF: MARRIAGE PENALTIES

Medicaid eligibility is tied to federal tax-filing rules. Because two incomes combine at marriage, couples can lose coverage the moment they legally wed — even if their combined household need hasn't changed.

Nearly every safety-net program treats unmarried partners as separate households but married couples as one — creating a built-in disincentive to marry.

Children raised by married parents see stronger educational and economic outcomes — making marriage penalties a family-stability issue, not just a budget one.

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FOCUS: ARKANSAS

Arkansas's Programs Operate in Silos

Site visits across Arkansas found a system where work-capable adults on public assistance have no direct line to the main workforce supports. Programs are administratively separate, physically separate, and data separate, so **almost no one is routed from a benefit office to a job.**

SNAP Employment & Training	**0.68%**	of SNAP recipients connected to work supports in FY2024
One-Stop Centers	**UI-Focused**	funded primarily through WIOA and Wagner-Peyser — the typical customer is an unemployment claimant, not a benefits recipient
Referrals Between Agencies	**Informal**	at best; site visits found no consistent tracking of what happens to a customer after referral

WHAT SITE VISITS FOUND

SNAP clients potentially eligible for voluntary Employment and Training services often show little to no interest in participating — and front-line workers do not typically ask clients about a plan for work.

Even as work requirements expand, state agencies are addressing them program-by-program instead of through one coordinated system.

RISK: Without a comprehensive, coordinated system, work-capable Arkansans stay disconnected from the very supports meant to help them get ahead.

Findings from A4O site visits and interviews across 3 DHS county offices and 3 workforce offices, 2026.

SOLUTIONS

Two Paths Forward for Arkansas

PATH A

Immediate Reforms, State by State

Within the safety net's existing structure, target the worst individual cliffs directly: smooth Medicaid's exit with premium assistance and savings bridges, phase down child care and energy assistance gradually, and correct marriage penalties one program at a time through federal waivers.

PATH B

Comprehensive Reform: an Integrated RISE Pilot

Reconfigure the entire system: consolidate SNAP, TANF, WIC, LIHEAP, CCDF, EITC, and the Child Tax Credit into one trackable, flexible benefit that phases down smoothly — paired with case management and a work requirement — so no family loses more than it gains.

This mirrors the two-pronged strategy in Rachidi, Weidinger, Bandoch, Dunn, Ford, and Randolph, "Stranded by the Safety Net" (AEI, 2025): pair immediate, program-level fixes with comprehensive reform of the whole system.

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PATH A

Fixing SNAP, Child Care & TANF Cliffs

SNAP

Smooth the Food-Assistance Cliff

Submit a SNAP demonstration waiver

Apply a flat 24-cent reduction per dollar earned for up to 15% of SNAP cases, replacing complex deductions with one predictable phase-out.

Set a reasonable asset limit

Let working families keep up to $5,000 (single) or $10,000 (married) in savings without losing eligibility, so an emergency fund doesn't trigger a cliff.

CHILD CARE

Smooth the CCDF Cliff

Phase down the subsidy gradually

Replace the abrupt cutoff with a continuous phase-down tied to verified monthly earnings, so no raise costs more in child care than it pays in wages.

Shift toward cash benefits

Move from provider vouchers to direct cash payments families can apply to in-home, relative, or center-based care — the Hawaii model.

TANF

Smooth the Cash-Assistance Cliff

Replace variable disregards with one phase-out

Disregard the first $240 in monthly earnings, then reduce the grant at one constant rate that reaches zero exactly at the current eligibility ceiling.

Pay providers only for cliff-jumping outcomes

Tie case-management payments to enrollment, unsubsidized employment, 90-day retention, and a verified net income gain — not flat fees.

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PATH A

Targeted Medicaid Fixes

1

Expand employer-sponsored insurance premium assistance

Where a Medicaid recipient has access to qualifying employer coverage, direct Medicaid dollars to help pay the employee's share of that plan — keeping families on the same coverage as their coworkers as earnings rise, instead of losing insurance altogether.

2

Build a savings bridge with a combined 1115/1332 waiver

Pair a Section 1115 Medicaid waiver with a Section 1332 ACA waiver to let health savings carry over when a family transitions off Medicaid — modeled on Indiana's Healthy Indiana Plan, where a Workforce Bridge Account lets individuals draw up to $1,000 from their POWER account to cover initial private-coverage costs.

3

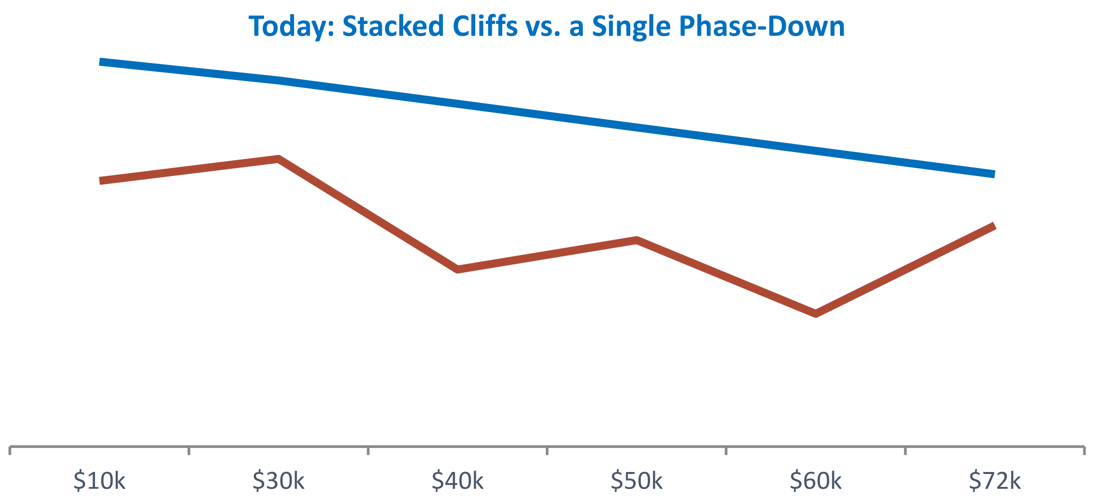
Address the Medicaid marriage penalty

Because Medicaid eligibility is linked to federal tax-household definitions, states have limited direct authority — but Arkansas can pursue an 1115 waiver specifically targeted at reducing the marriage disincentive built into current rules.

PATH B

The RISE Pilot Model

Resources for Independence, Stability, and Employment



Red = today's stacked, unpredictable cliffs • Blue = one transparent RISE phase-down

7 programs → 1 benefit

SNAP, TANF, WIC, LIHEAP, CCDF, EITC, and the Child Tax Credit blend into one trackable monthly payment.

Effective tax rate capped below 50%

Families keep at least half of every additional dollar earned — a clear, guaranteed reward for work.

Paired with case management & work engagement

Weekly case management at first, moving to monthly; 10 hours/week of work, training, or job search.

1,000

households

3-year pilot, funded through existing TANF dollars and federal waivers; evaluated against RCT standards, modeled on Tennessee's Opportunity Act.

RECOMMENDATION

Arkansas Already Has the Foundation

Restore Hope's 100 Families Initiative & HopeHub

Arkansas already runs a coordinated case-management model — connecting families in crisis with a lead case manager across government agencies, courts, nonprofits, and churches, and tracking progress toward stability. This is the exact infrastructure a RISE-style pilot needs, and it echoes the "common case management process, similar to Hope Hub" this same subcommittee has already recommended for workforce integration.

THREE NEXT STEPS FOR THIS SUBCOMMITTEE

1. Task DHS with modeling Arkansas-specific benefit-cliff data — county by county — to identify where cliffs are most severe among the 1.17 million Arkansans on Medicaid/CHIP.
2. Authorize a small-scale RISE pilot, built on Restore Hope's existing case-management network, to test a single consolidated benefit.
3. Direct the Department of Human Services to scope a combined Medicaid 1115/1332 waiver and a 2026 SNAP waiver to address benefit cliffs and marriage penalties.

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Work should always pay more than dependency.

Thank you. I welcome the subcommittee's questions.

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