



The Benefits Cliff and the Role of Economic Development

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The benefits cliff occurs when a big increase in earned income causes an abrupt loss of public assistance, leaving individuals and families financially worse off despite working more or earning higher wages. This capstone examines the benefits cliff through a case illustration of a single mother in rural Tennessee and analyzes the issue using an economic development framework. The paper explores how job quality, workforce development, childcare infrastructure, and policy alignment contribute to or mitigate the benefits cliff. Attention is given to Tennessee's workforce system, including the Tennessee College of Applied Technology (TCAT), and its role in creating sustainable career pathways. The paper concludes with a reflective analysis of how economic development coursework shaped the author's understanding of the benefits cliff as a systemic economic issue rather than an individual failure.

Introduction

Economic mobility is often presented as a natural outcome of employment and wage growth. However, for many low-income families, increased earnings do not always lead to improved financial stability. One of the most significant barriers to upward mobility is the benefits cliff. The benefits cliff occurs when a small increase in income results in the sudden loss of public benefits such as Supplemental Nutrition Assistance Program (SNAP), TennCare, or childcare assistance. When benefits are removed faster than wages increase, families may experience a net loss of resources, discouraging advancement and workforce participation (Urban Institute, 2022).

This issue is particularly pronounced in rural communities, where wages are often lower, employment options are limited, and access to childcare and transportation is constrained. In Tennessee, many rural residents rely on public assistance to meet basic needs while working full-

time. When income thresholds are crossed, even slightly, families may lose essential support that far exceeds the value of their wage increase.

This paper examines the benefits cliff through the lens of economic development, arguing that the issue is not solely a social service problem but a structural economic challenge. Using a case-based narrative, the paper analyzes how economic development strategies—such as job quality improvement, workforce training, childcare investment, and policy coordination—can reduce the negative impacts of the benefits cliff and promote long-term self-sufficiency.

Literature Review: Understanding the Benefits Cliff

Research on the benefits cliff consistently shows that abrupt benefit cutoffs create disincentives to work and advance. According to the Urban Institute (2022), families experiencing the benefits cliff may lose thousands of dollars in annual resources due to modest income gains. This loss often occurs at income levels well below what is required to meet basic household needs.

Public assistance programs are designed independently, each with its own eligibility thresholds. As income rises, benefits are often reduced or eliminated without coordination across programs. This lack of alignment results in compounded losses when multiple benefits are removed simultaneously. Studies indicate that childcare assistance and healthcare benefits are among the most impactful losses, as they directly affect a parent's ability to remain employed (Urban Institute, 2022).

From an economic development perspective, the benefits cliff contributes to labor market inefficiencies. Workers may decline promotions, reduce hours, or exit the workforce entirely to retain benefits. Employers, particularly in rural areas, experience higher turnover and difficulty

retaining experienced employees. These outcomes weaken local economies and undermine workforce stability.

Case Illustration: The Benefits Cliff in Practice

Sally, a single mother of three living in a small Tennessee town, works full-time as a city clerk at the local water department. She earns nine dollars an hour and has maintained steady employment for ten years. Sally receives SNAP benefits to help feed her children, TennCare health coverage for all three, and partial childcare assistance that allows her to work full-time.

After a decade of service, Sally is offered a one-dollar-per-hour raise. While the raise appears positive, it pushes her income just above eligibility thresholds for multiple assistance programs. As a result, she risks losing SNAP benefits, TennCare coverage, and childcare support. The combined value of these benefits far exceeds the additional income from the raise.

Faced with reduced household stability and increased expenses, Sally ultimately leaves her job to protect her family's access to essential resources. Her situation illustrates how the benefits cliff penalizes work, discourages advancement, and results in the loss of skilled and experienced workers from the local labor force.

Table 1: Comparison of Income, Benefits, and Stability

Category	Before Raise After \$1/Hour Raise	
Hourly Wage	\$9.00	\$10.00
Monthly Gross Income	~\$1,560	~\$1,733
SNAP Benefits	\$400	\$0
TennCare Coverage	Yes	At Risk
Childcare Assistance	Partial	At Risk
Net Household Stability	Stable	Decreased

Note. Table 1 demonstrates how a modest wage increase can result in a significant net loss of household resources.

Economic Development and Job Quality

Economic development has traditionally focused on job creation and business attraction. However, modern economic development increasingly emphasizes job quality as a critical factor in community stability and growth. Job quality includes wages, benefits, predictable schedules, and opportunities for advancement.

In rural Tennessee, many available jobs pay near minimum wage and offer limited upward mobility. Workers remain close to benefit eligibility thresholds, making them vulnerable to the benefits cliff. Incremental wage increases, such as Sally's one-dollar raise, are insufficient to replace lost benefits.

Economic developers can address this issue by prioritizing employers who offer living wages and career advancement opportunities. Incentive agreements and recruitment strategies can include wage standards, benefit offerings, and workforce development commitments. By promoting higher-quality employment, economic development efforts can help workers transition off public assistance without financial harm.

Workforce Development and Alignment with TCAT

Workforce development is a central component of economic development and a key strategy for reducing the benefits cliff. Tennessee's workforce system includes the Tennessee College of Applied Technology (TCAT), which provides short-term, employer-aligned training programs designed to lead directly to employment.

TCAT programs are particularly well-suited for rural and low-income populations because they are affordable, accessible, and focused on in-demand skills. Economic developers can partner with TCAT campuses to create career pathways that allow workers to move from low-wage positions into skilled occupations with higher earning potential.

By increasing wages substantially rather than incrementally, workforce development reduces the risk that workers will experience a net loss of resources. Collaboration among TCAT, workforce boards, and employers also enables the provision of wraparound supports such as transportation assistance, flexible scheduling, and career coaching. These supports are essential for single parents and working adults seeking advancement.

Childcare as Economic Development Infrastructure

Access to affordable childcare is essential for workforce participation and economic mobility. In rural Tennessee, childcare shortages and high costs create significant barriers for working parents. When childcare assistance is lost due to small income increases, families may be forced to reduce work hours or leave employment altogether.

Economic development strategies increasingly recognize childcare as a form of workforce infrastructure. Investments in childcare facilities, support for childcare providers, and employer-sponsored childcare programs can stabilize the labor force and reduce employee turnover. Treating childcare as infrastructure aligns workforce needs with family stability and supports long-term economic growth.

The Benefits that Clay County contains

Clay County's economic development potential has become increasingly evident through coursework and research. Economic developers can attract new jobs by addressing the specific needs of companies and strategically highlighting the strengths of Clay County. The county offers abundant water resources, fiber-optic infrastructure, a 99% high school graduation rate, and a significant number of students earning associate degrees prior to graduation. Tourism assets, including Dale Hollow Lake and other Upper Cumberland attractions, further strengthen the county's economic position and growth opportunities. Cumberland River attractions draw retirees and visitors, which supports the local economy.



All parts of the system must work together. Economic developers, workforce boards, educational institutions, social service agencies, and policymakers each have a role to play. Solutions to the benefits cliff require collaboration across all these sectors. Many principles applied in a professional experience at the Clay County Chamber. The system allows unemployed individuals to complete a one-page application that is shared with Chamber businesses and workforce partners. It also schedules monthly appointments with a workforce development representative. Many people have obtained jobs, received financial support, or gained training through this approach. These local systems demonstrate how coordination between organizations can produce real results in the community.

Courses on resilience were particularly meaningful because of what has been seen in Clay County. When the largest garment employer, OshKosh B'gosh, closed and three factories moved overseas, many families lost their primary source of income. Unemployment rose sharply, and people had to adjust quickly, traveling farther for work and finding new ways to support their families. Many families faced similar challenges personally when life events temporarily disrupted their family's income. These experiences helped to understand why workforce support,

economic development programs, and public benefits are so critical—they allow families to recover, adapt, and regain stability.

Reflection: Economic Development Education and Professional Insight (Faculty Review)

This capstone represents the integration of academic learning, applied analysis, and professional perspective developed through coursework in economic development. Throughout the program, concepts such as labor market dynamics, workforce development systems, inclusive growth, and community sustainability provided the framework necessary to recognize the benefits cliff as a structural economic issue rather than an individual financial failure.

Courses in economic development emphasize that successful development is measured not only by job creation or economic output, but by improved economic mobility and quality of life for residents. This academic foundation made it possible to critically analyze how low-wage labor markets, combined with abrupt public benefit eligibility thresholds, create disincentives for advancement. The case illustration presented in this paper reflects a broader pattern identified through coursework: when wage growth is incremental and benefits are removed abruptly, families are placed in economically vulnerable positions despite continued workforce participation.

Instruction in workforce development and human capital theory highlighted the importance of career pathways, credentialing, and alignment between education and employer demand.

Through this lens, the role of Tennessee's workforce system, particularly the Tennessee College of Applied Technology (TCAT), emerged as a key economic development tool. Coursework

reinforced how coordinated workforce strategies can support meaningful wage progression that allows individuals to transition away from public assistance without experiencing financial harm.

Economic development classes also stressed the necessity of cross-sector collaboration.

Understanding the interconnected roles of economic developers, workforce boards, educational institutions, social service agencies, and policymakers clarified that the benefits cliff cannot be addressed in isolation. From a professional standpoint, economic developers are uniquely positioned to convene stakeholders, align systems, and advocate for policies that support both workforce advancement and family stability.

Empowers Role in Addressing the Benefits Cliff

Empower, a program serving the Upper Cumberland region, plays a critical role in helping individuals and families navigate the challenges of the benefits cliff. Empower provides personalized financial coaching, job training guidance, and access to local resources for those experiencing barriers to economic mobility. By helping families understand how changes in income affect eligibility for programs such as SNAP, TennCare, and childcare assistance, Empower reduces the risk of abrupt financial losses.

In practice, Empower works with residents to identify career pathways that provide a meaningful wage increase while ensuring that support services remain in place during transitions. This includes connecting participants to training opportunities through TCAT, workforce development programs, and local employers, ensuring that skill development leads to tangible employment outcomes. Additionally, Empower offers workshops and one-on-one consultations

to help participants plan for gradual income growth, mitigating the sharp drop-off in resources that characterizes the benefits cliff.

Empower also partners with local economic development organizations, such as the Clay County Chamber, to align workforce initiatives with employer needs. For example, a participant in Empower may receive assistance in job placement while also being guided on maintaining benefits eligibility until they reach a stable financial position. This holistic approach demonstrates how coordinated programs can reduce the disincentives created by the benefits cliff, supporting both family stability and local workforce development.

Governments could reduce the impact of the benefits cliff by standardizing income eligibility across assistance programs, since current systems like the Federal Poverty Level (FPL) and Median Family Income (MFI/AMI) create inconsistencies and geographic inequities. If full standardization is not feasible, a middle-ground solution would guarantee that increased wages never result in a loss of net income. Transitional support could prevent families from losing more in benefits than they gain in earnings. In the East Tennessee example, modestly increasing SNAP benefits instead of eliminating them would allow the government to save money overall while helping a working mother maintain financial stability. This approach would reduce disincentives to work, support long-term self-sufficiency, and potentially lower government expenditures over time.

Conclusion

The benefits cliff represents a significant barrier to economic mobility in rural Tennessee. When modest income gains result in the loss of essential support, families are discouraged from advancement and communities lose experienced workers. This issue undermines workforce stability and local economic growth.

Economic development strategies that prioritize job quality, workforce training, childcare infrastructure, and policy alignment can reduce the negative impacts of the benefits cliff. By leveraging Tennessee's workforce system, including TCAT, and promoting inclusive growth, economic developers can help transform the benefits cliff from a barrier into a bridge toward self-sufficiency. Addressing this issue is essential to creating resilient communities and sustainable economic development.

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