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The Benefits Cliff: When A Higher Minimum Wage Results In Lost Benefits

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Proponents of a federal $15 minimum wage hope that higher pay can help more workers climb out of poverty and into the middle class. Earning $15 per hour (or $600 for a 40-hour work week) would make it easier for people to move into their own place, or even buy a home, many argue. Not only that, but a $15 minimum wage would be closer to a "living" wage — or the amount of money that should *theoretically* be enough to provide food, shelter, and other basic needs for an individual and their family.

Unfortunately, higher wages often force individuals out on a ledge known as the "benefits cliff." This cliff comes into play when higher wages result in lost benefits that cost more than the original pay increase. And sadly, the $13 to $17 per hour range is when potential benefit cliffs are most dangerous.

There are still plenty of advantages to be had when workers get paid more for their work, and this is especially true in areas where the cost of living is high. Still, many experts worry about the benefits cliff and how it might leave many hardworking families living with less in the end.

How Does The Benefits Cliff Work?

Peter C. Earle, research fellow at the American Institute for Economic Research, says it's true workers experiencing an increase in their wages might find themselves "earning out" of food, housing, tuition, and other aid programs.

Earle says higher wages can lead to a loss of benefits in two ways. First, as private firm payrolls increase, newer employees may receive smaller benefits packages than longer term employees as overall compensation costs rise. Second, he says, the structure of public assistance packages "may result in individuals who had formerly been receiving aid receiving less or none as their wages increase."

"An increase in the federal minimum wage may account for either or both of those to occur," he says.

How does the benefits cliff work in the real world? Consider this example:

A family of four who earns less than $33,480 in the state of Indiana could qualify for Supplemental Nutrition Assistance Program (SNAP) benefits of up to $646 per month. If two members of the household work 30 hours per week and earn $10 per hour, they would earn well below that threshold ($31,200 per year) and retain their SNAP benefits. In the meantime, this family could be receiving a subsidized housing benefit that could easily be worth $500 or more per month.

However, if their income is boosted to $15 per hour, they suddenly earn $46,800 per year. At this threshold, they lose access to SNAP benefits as well as any other housing assistance they might receive.

If this family was receiving the full $646 per month in SNAP benefits, $7,752 of their increase in pay would disappear. When you add in any housing assistance received as well as a higher income tax bill, it's easy to see how boosting hourly wages can have little effect, no effect, or a negative effect on the person originally meant to be helped.

Other Problems With A Higher Minimum Wage

Dr. Wayne Winegarden, a free market economist and senior fellow in business and economics with the Pacific Research Institute, says that a boost to the federal minimum wage would also lead to a cost on businesses that must be financed somehow.

Some businesses might increase consumer prices, yet others might decide to reduce costs elsewhere.

"These cost reductions can take many forms, including laying people off, canceling planned pay increases to other workers, or reducing worker benefit programs," says Winegarden. "What all these economizing actions have in common is that they hurt many of the same workers the policy is designed to help."

John Boyd of The Boyd Company, a top authority on government policy, says the childcare industry is one where a higher minimum wage could also create a ripple effect. This is due to the fact that childcare centers have rigid staffing level requirements, and a $15 minimum wage would inevitably push up the cost of payroll.

"These increased costs are passed down to parents," says Boyd. "This of course becomes a larger burden for middle class and lower income families."

Nicole Anderson, CEO of Florida human resources company MEND, also agrees that businesses forced to pay higher wages could cut benefits to compensate.

"Most businesses include benefits in their total compensation to have solid financial data to project and plan," she says.

According to Anderson, employee benefits frequently lost tend to be fringe ones like tuition assistance and help with childcare. These perks may not matter at all to some, but they could be financially essential for those on the lower end of the income scale.

How To Help Workers Avoid The Benefit Cliff

Anderson points out that the problem with the benefits cliff is that those who earn the least could be harmed the most. With that in mind, states may need to adjust their program qualifications to meet this need.

In the meantime, Anderson says employers may have to get creative. "If the employer cannot afford to give everyone the money for childcare, it might be cheaper to hire a staff member and open a childcare facility within the company," she says.

Anderson suggests that employers should be proactive when it comes talking to their workers about which benefits they truly need. That way, money can be funneled to the programs and assistance employees rely on.

Ultimately, the crux of the problem could be the fact that aid programs weren't necessarily created to last forever. Earle says the vast majority of aid programs at the county, state, or federal level were built to "bridge temporary hardship gaps" and not to sustain individuals and families indefinitely.

With that in mind, Earle says it's crucial that agencies make aid recipients fully aware of any potential loss in benefits as early as possible.

"It may also be worthwhile to help recipients about to lose coverage to plan new budgets in anticipation of shifts in earnings," he says.

Since some government aid programs taper off over a period of months instead of overnight, helping aid recipients learn to budget and plan accordingly could help them avoid financial disaster.