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Benefits Cliffs and Career Choice:

Understanding the Financial Incentives for
Career Advancement

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The views expressed are those of the presenters and do not necessarily reflect the views of the Federal Reserve Bank of Atlanta or the Federal Reserve System.

Workforce Development:

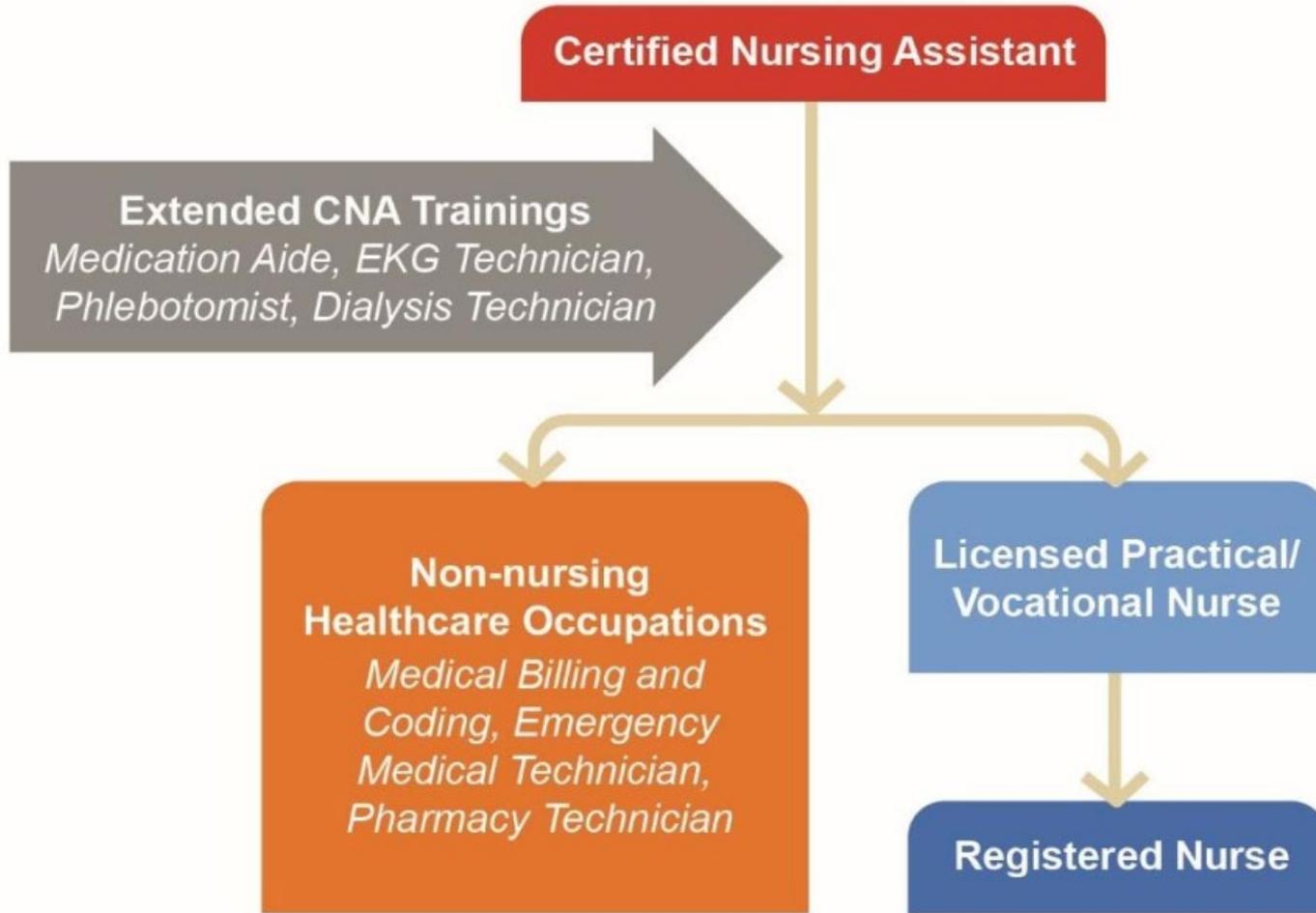
Strategies for Businesses and Workers

Two broad goals of workforce development:

1. Meet business demand for a skilled workforce
2. Help low-income individuals obtain in-demand occupations and advance to higher-paying occupations over time

Career Pathways in Health Care

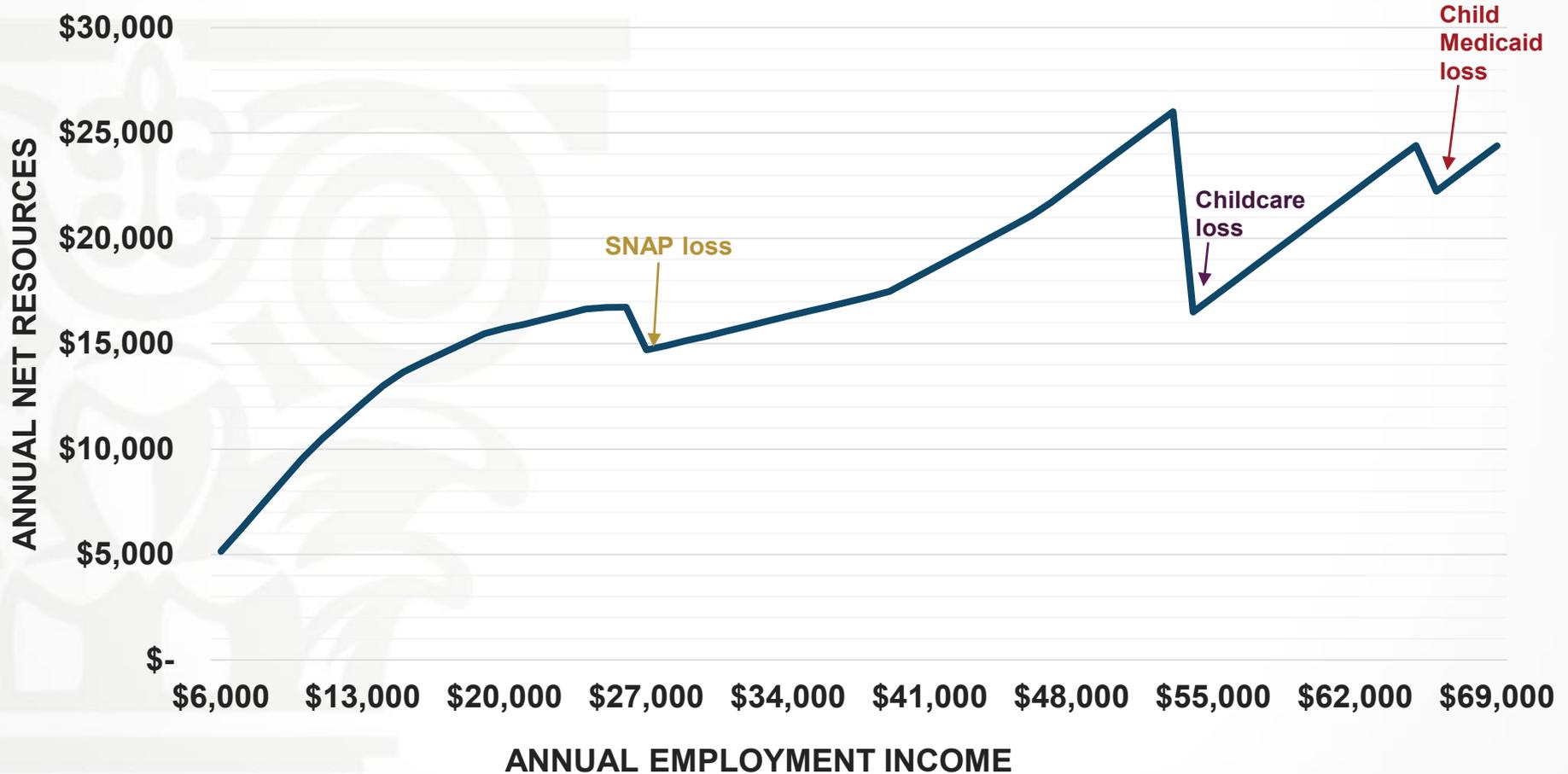
Example career pathway



Source: Pamela Loprest and Nathan Sick. August 2018. *Career Prospects for Certified Nursing Assistants: Insights for Training Programs and Policymakers from the Health Profession Opportunity Grants (HPOG) Program*. Report to the Office of Planning, Research, and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services.

Benefits Cliffs: A Basic Introduction

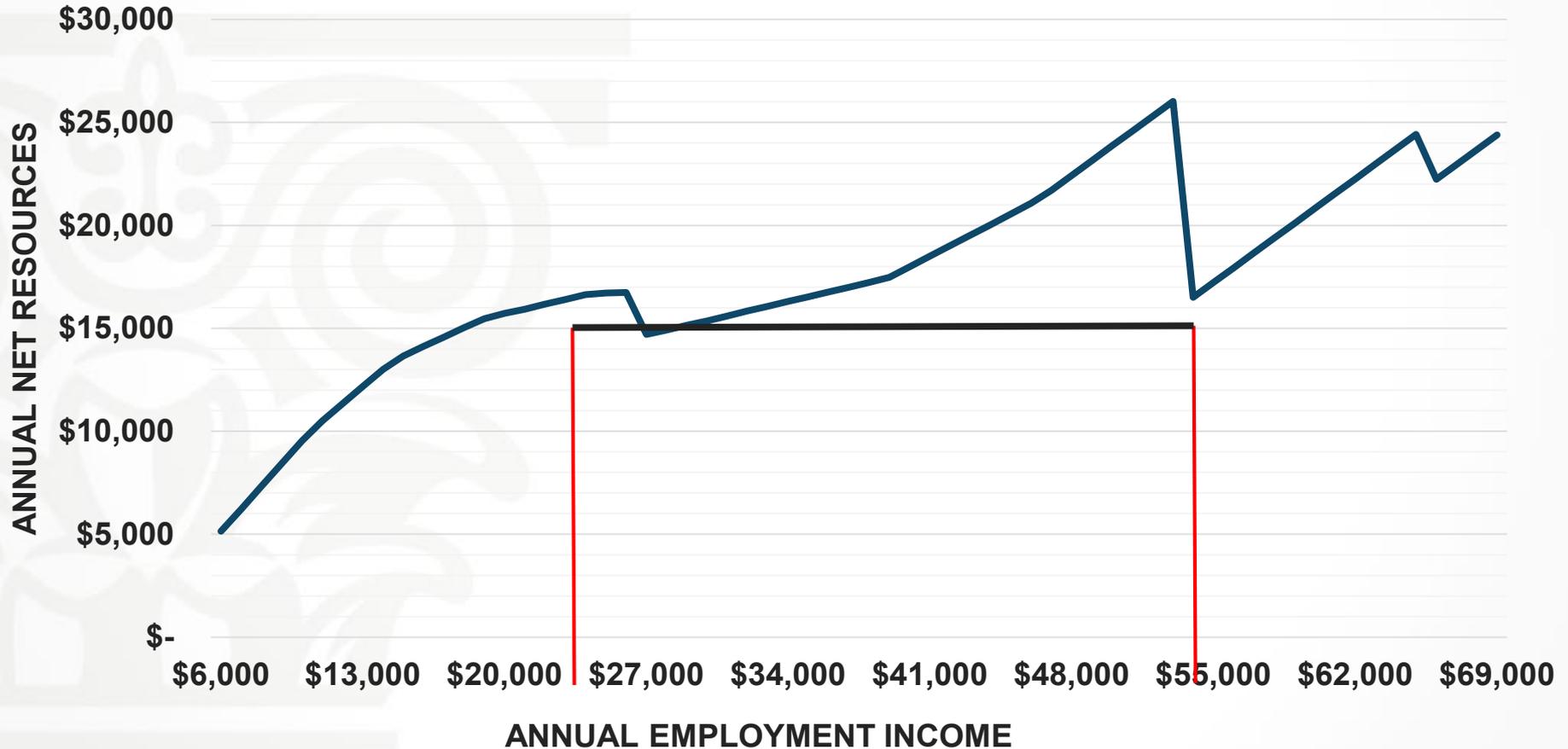
$$\text{Net Financial Resources} = (\text{Income} + \text{Benefits}) - (\text{Taxes} + \text{Expenses})$$



Source: FRB Atlanta analysis and the Fiscal Analyzer. See kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf.

Benefits Cliffs: A Basic Introduction

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Factoring in public benefit phaseouts, the marginal tax rates faced by lower-wealth individuals are relatively high.

Current Year Net Marginal Tax Rates in Alabama, Ages 30-39

Wealth Percentile	Median Net Marginal Tax Rate
Lowest Quintile	39%
Second Quintile	40%
Third Quintile	35%
Fourth Quintile	38%
Highest Quintile	36%

Benefits Cliffs as a Barrier to Economic Mobility

1. Individuals decline to work more hours or invest in human capital.

- Benefits cliffs reduce the financial incentive to earn more or advance through credential attainment.

2. Investments in human capital do not “pay off” as expected.

- Individuals may only learn about these cliffs **after** they occur.
- This delay results in “frustration,” “disbelief,” and a sense of being “persecuted for getting a raise” (Romich 2006).
- “People can become dissatisfied with their choice because they did not obtain the expected benefits or because their interests or circumstances changed” (NSFL 2013).

A Specific Case: Meet Leia

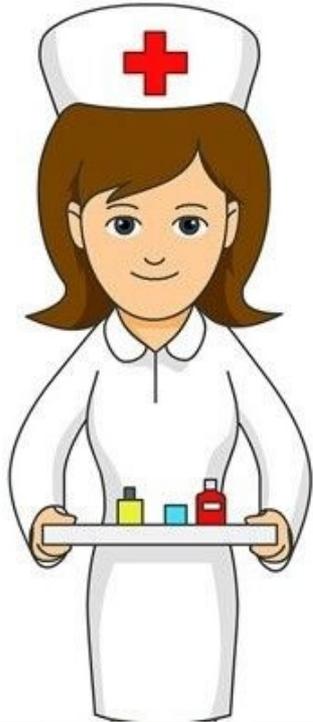


Leia is a 25-year-old single mother of two children, ages four and six, living in Montgomery, Alabama.

She works full-time earning about \$8 an hour.

As a low-income working mother, Leia receives public benefits and tax credits that are necessary to support herself and her family: **food stamps, Medicaid for her children, Affordable Care Act subsidies, housing vouchers, childcare subsidies, the Child Tax Credit, and the Earned Income Tax Credit.**

A Specific Case: Meet Leia



Leia has decided to become a certified nursing assistant (CNA).

Her question: Should she continue along the pathway to become a licensed practical nurse (LPN) or registered nurse (RN)?

The Health Care Services Career Pathway

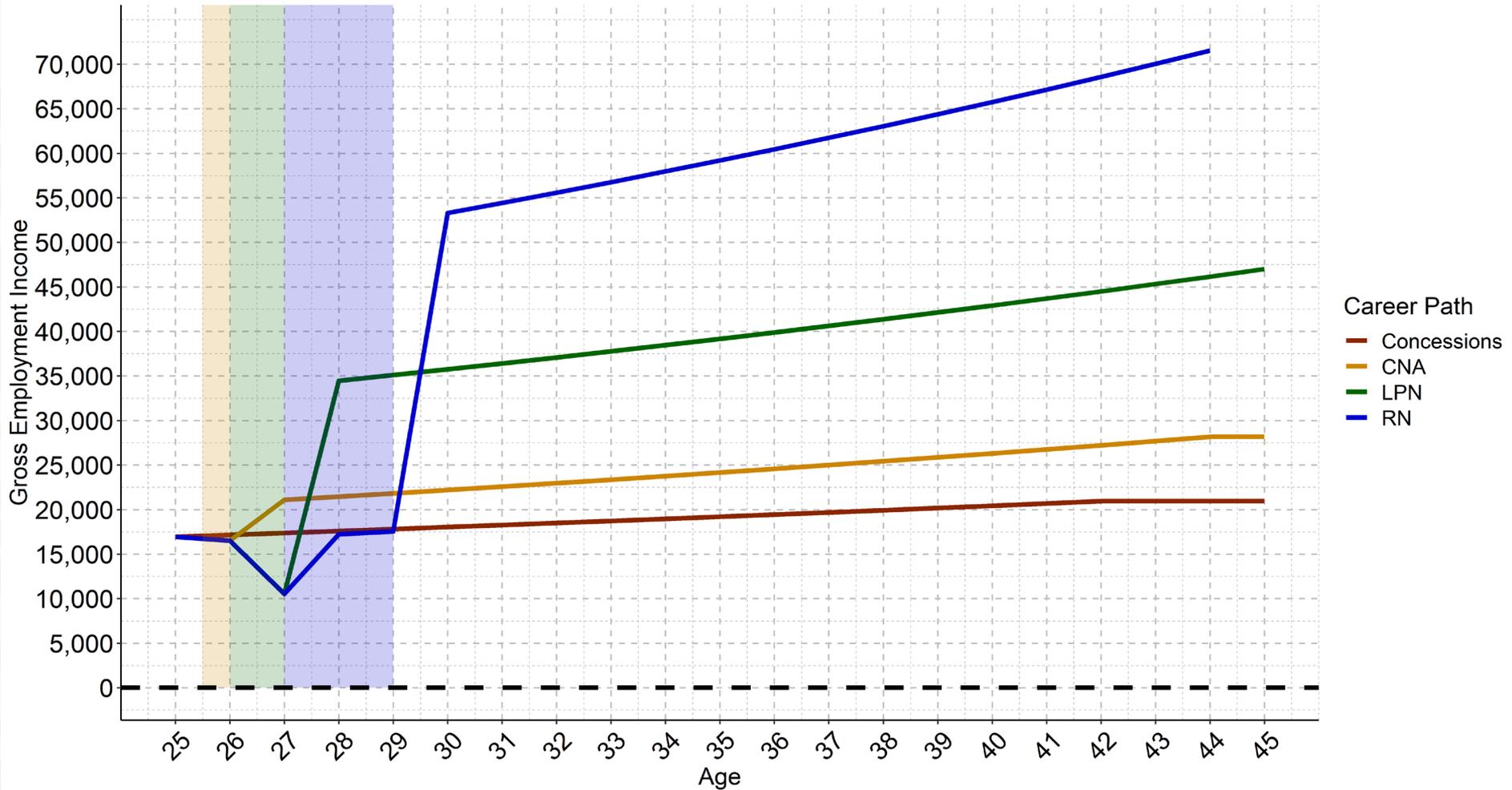
A typical career guide shows a clear financial benefit to career advancement.

Example Career Pathway for Certified Nursing Assistant

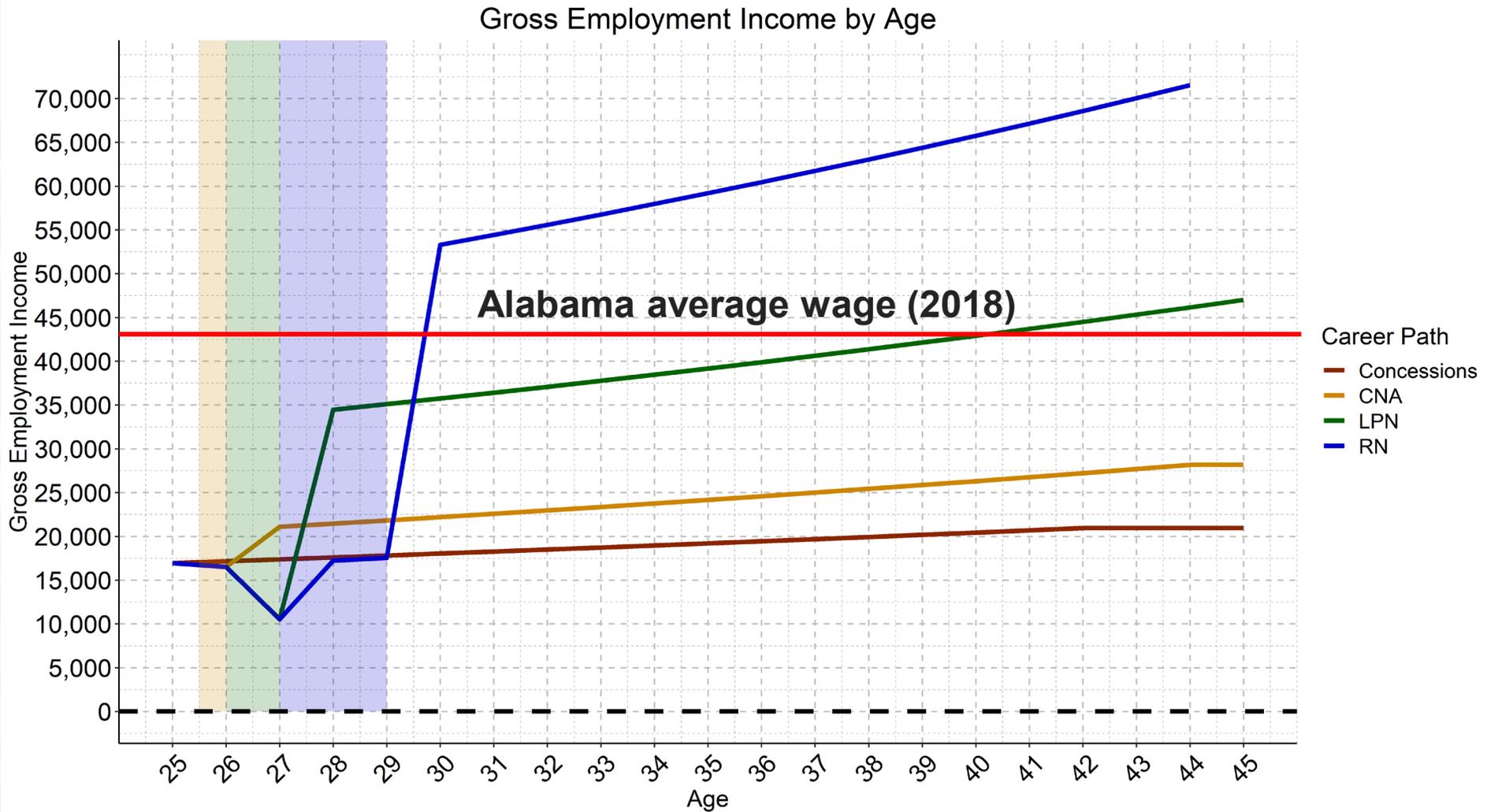


Income from Employment: A Clear Incentive

Gross Employment Income by Age

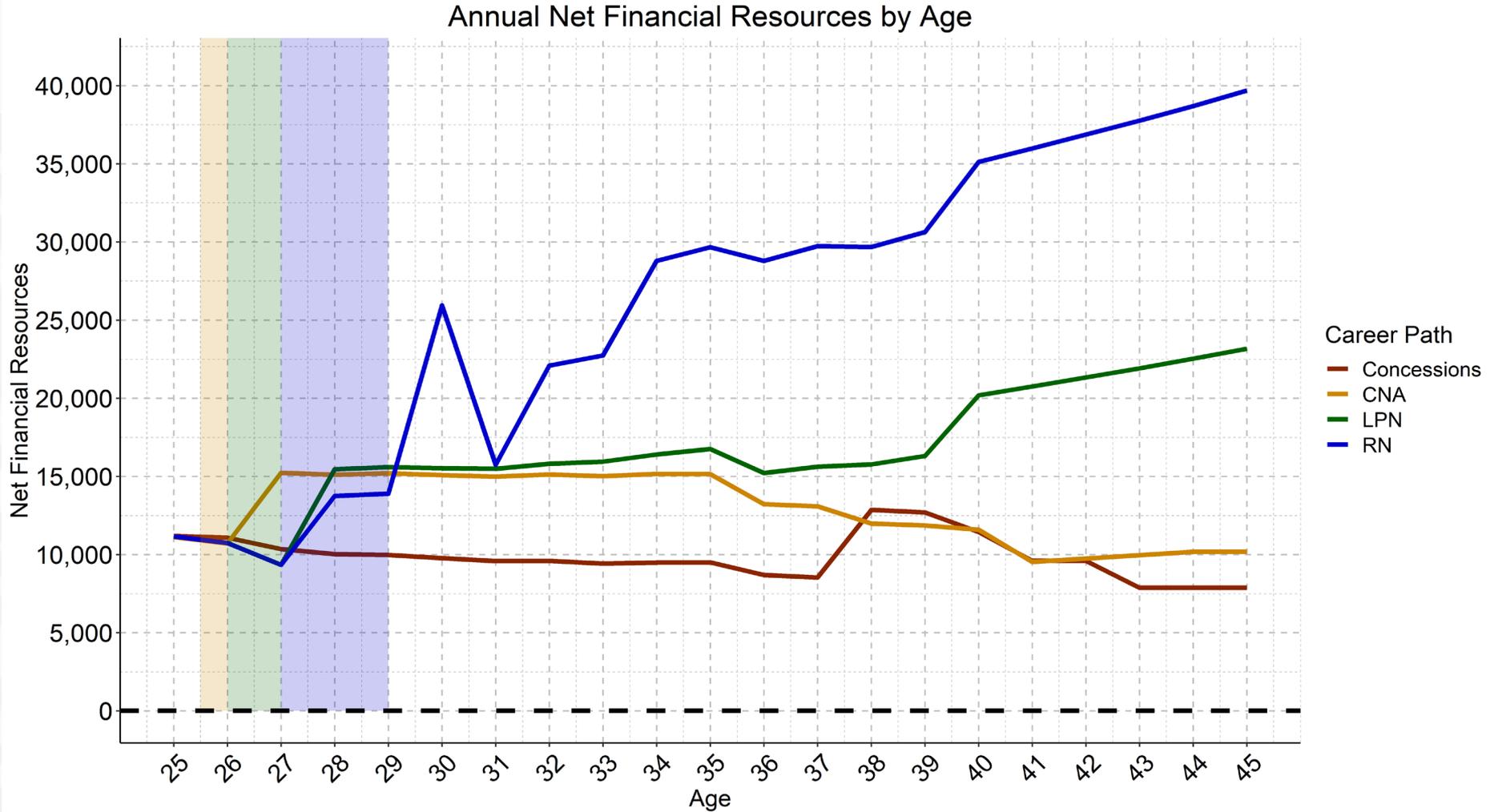


Income from Employment: A Clear Incentive

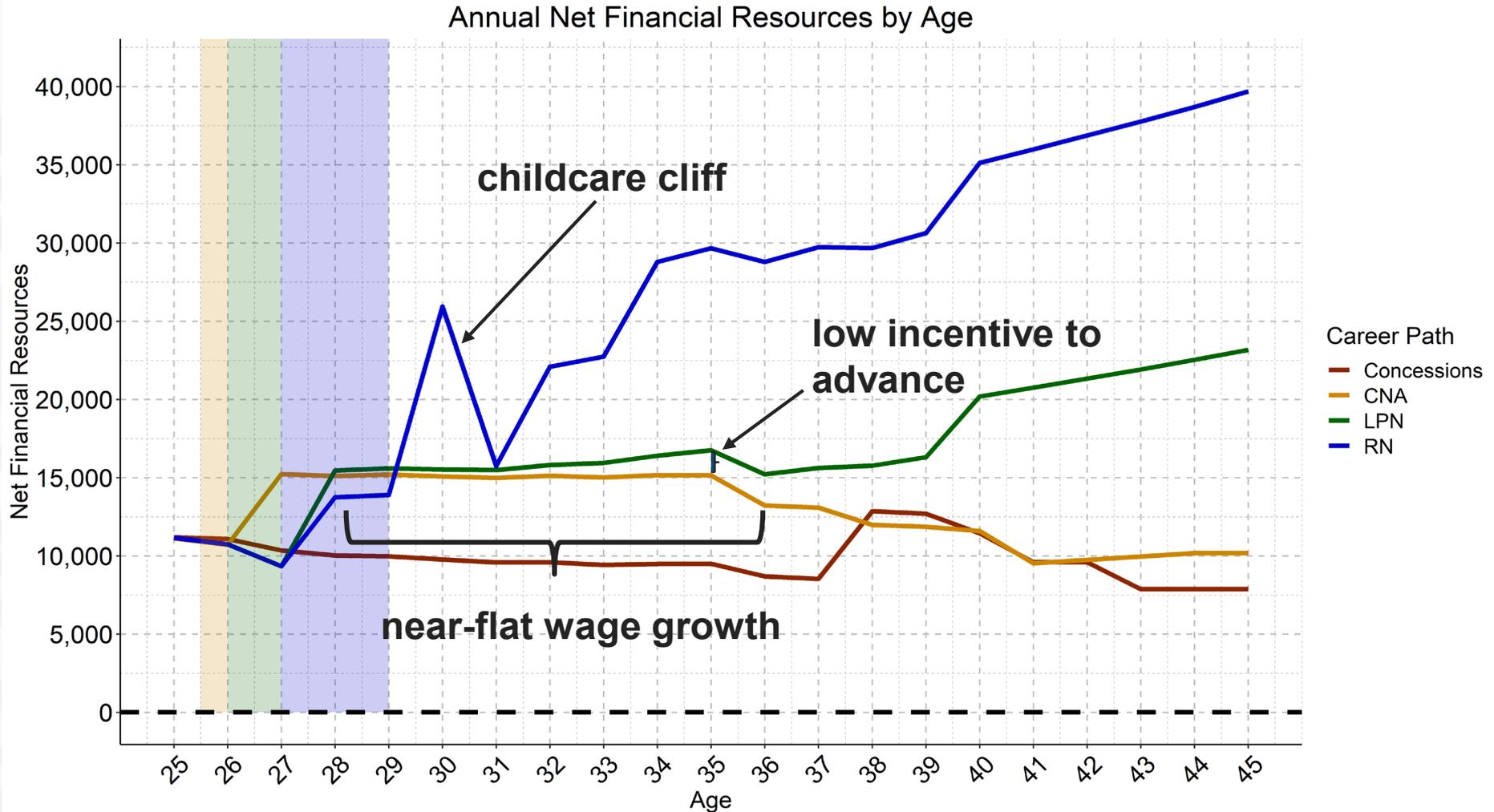


Source: FRB Atlanta and U.S. Bureau of Labor Statistics 2018 Occupational Employment and Wage Estimates

Net Financial Resources: A Much Different Set of Incentives

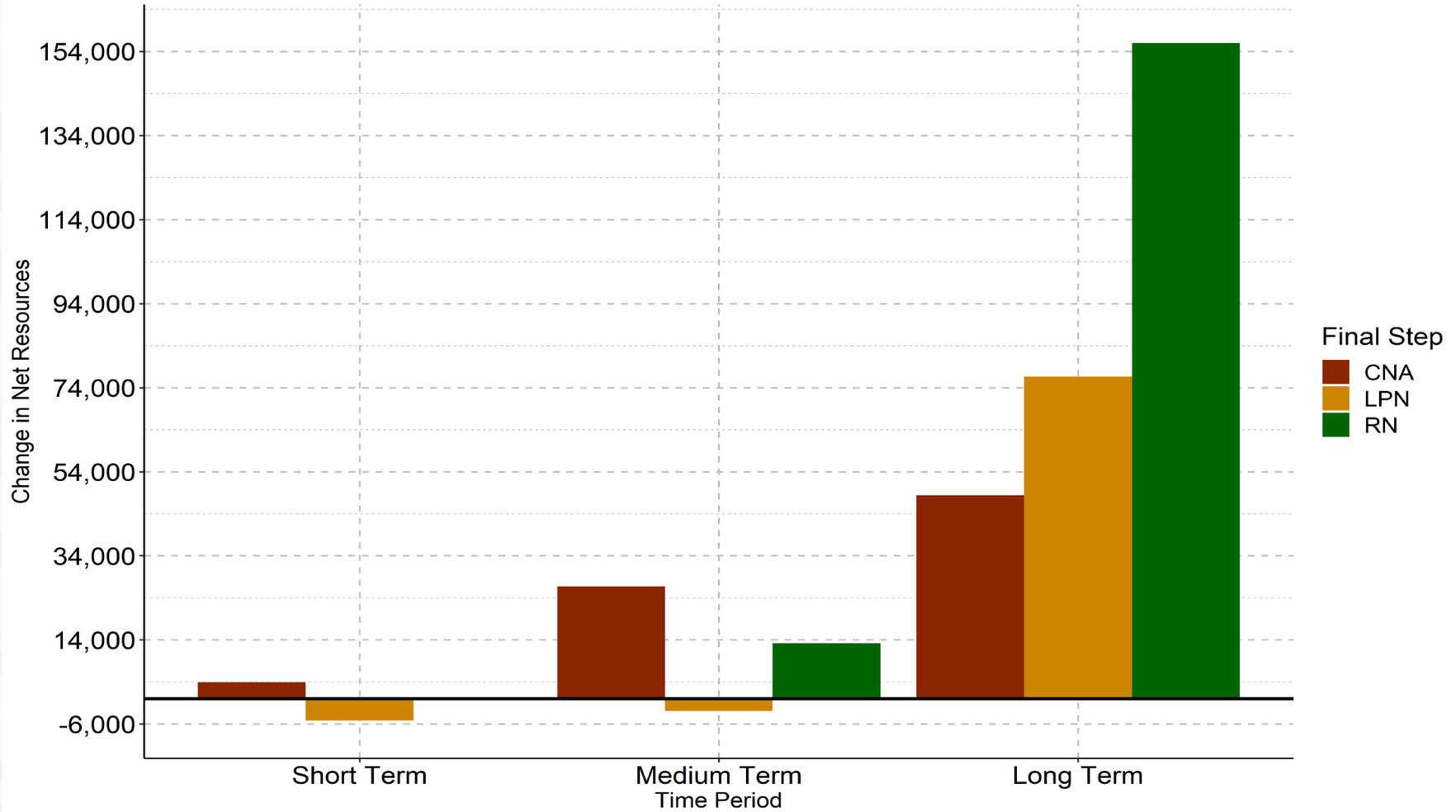


Net Financial Resources: A Much Different Set of Incentives



Significant Long-Term Gains to Career Advancement

Net Individual Gains to Career Advancement

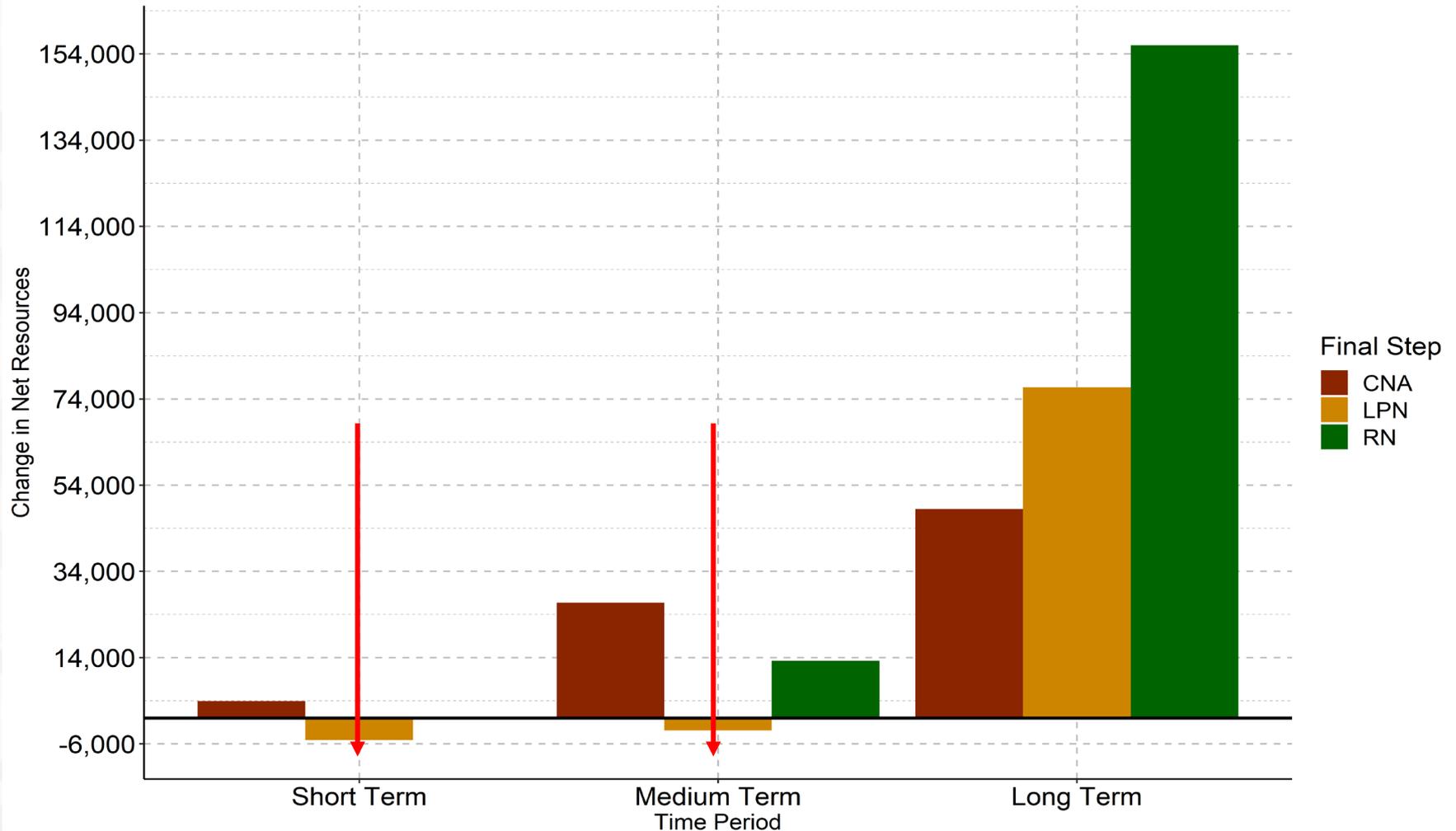


Notes: Short term: two years; medium term: nine years; long term: lifetime

Source: FRB Atlanta analysis and the Fiscal Analyzer. See kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf

Significant Long-Term Gains to Career Advancement

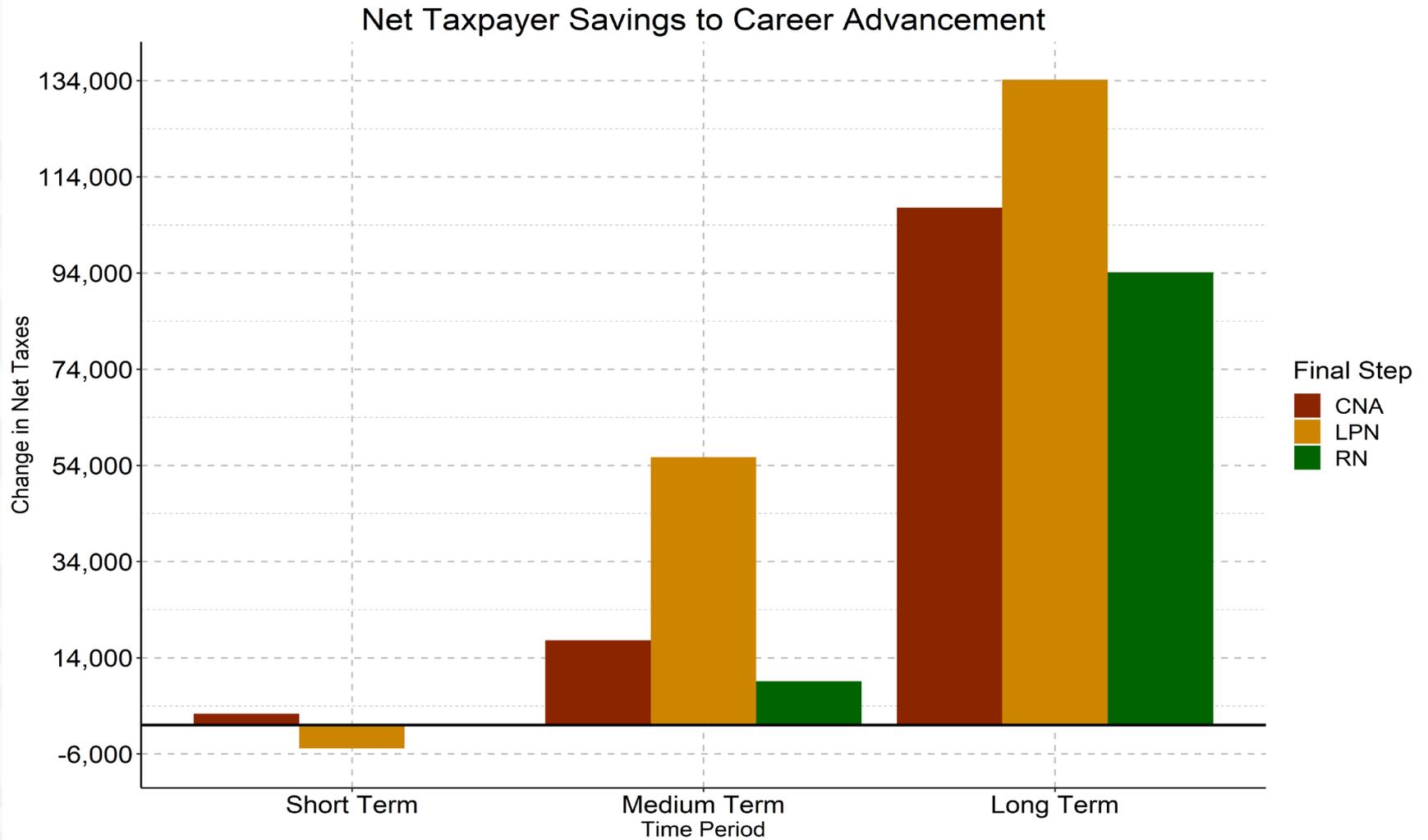
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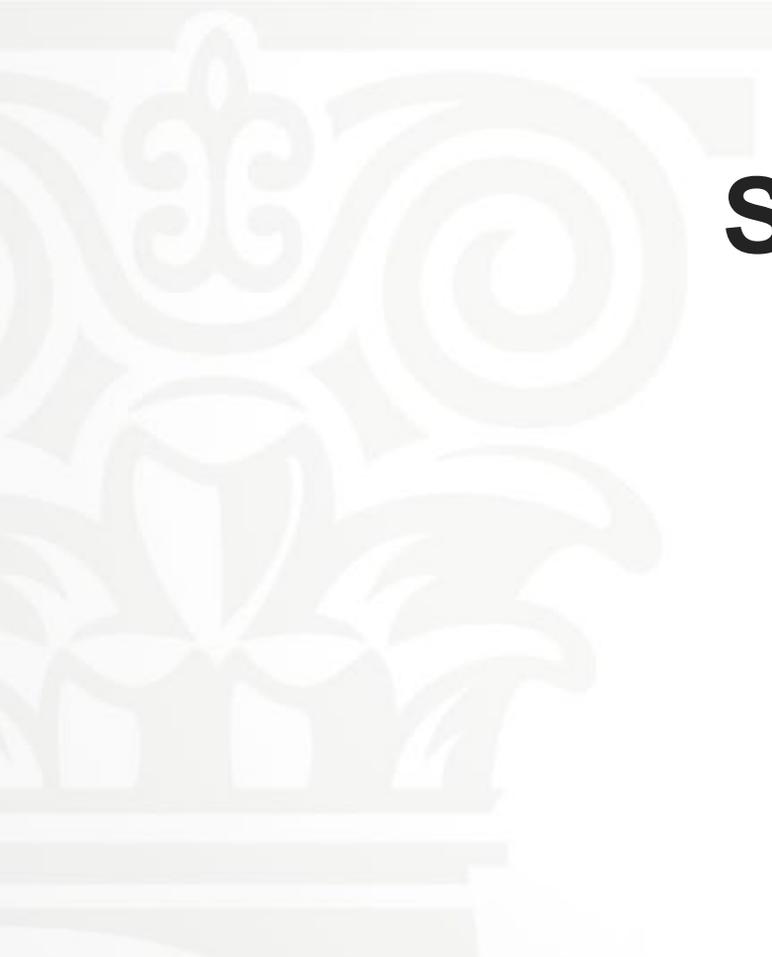
Source: FRB Atlanta analysis and the Fiscal Analyzer. See kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf

For the Taxpayer, Career Advancement Is a Large Net Gain



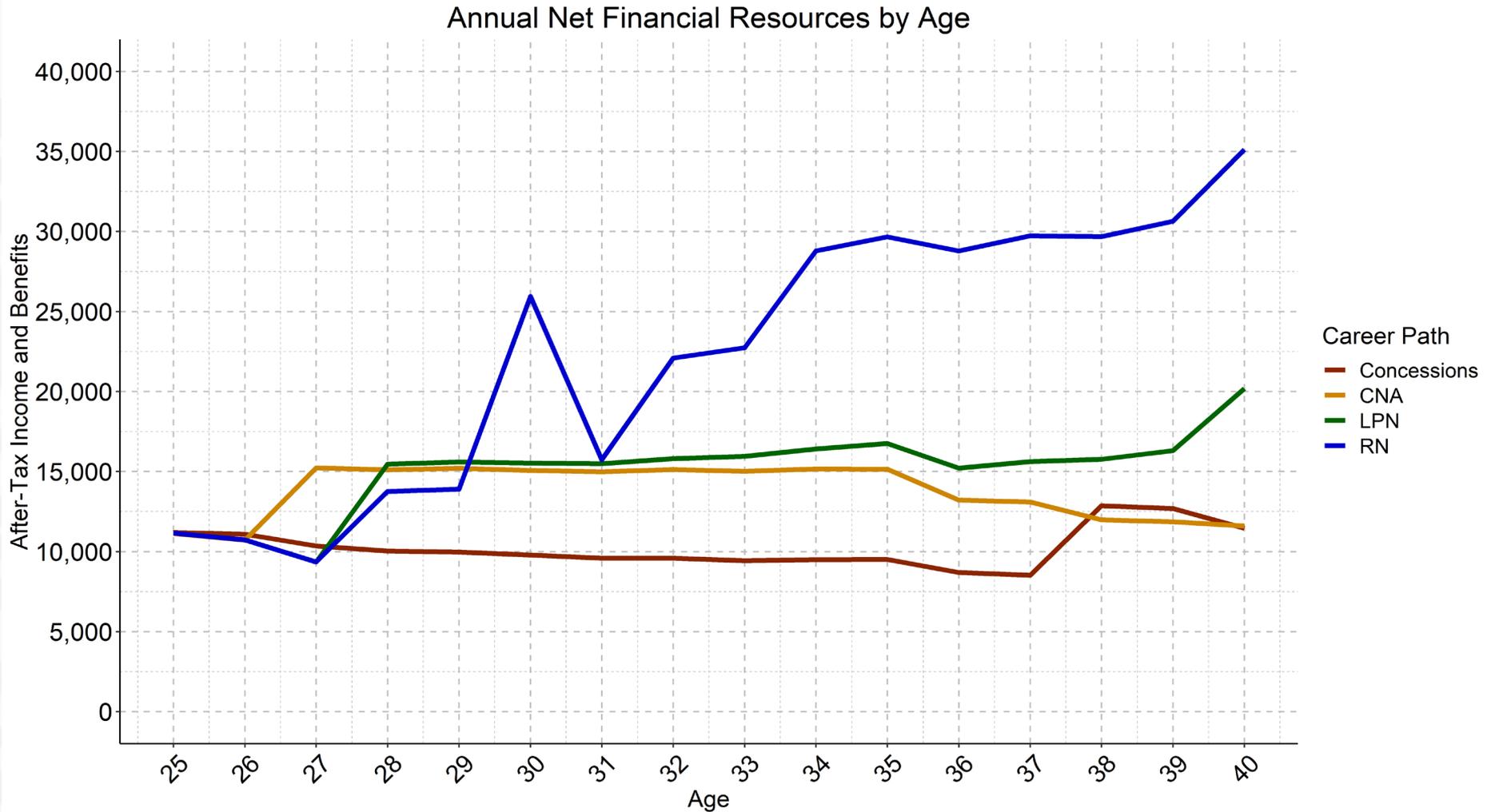
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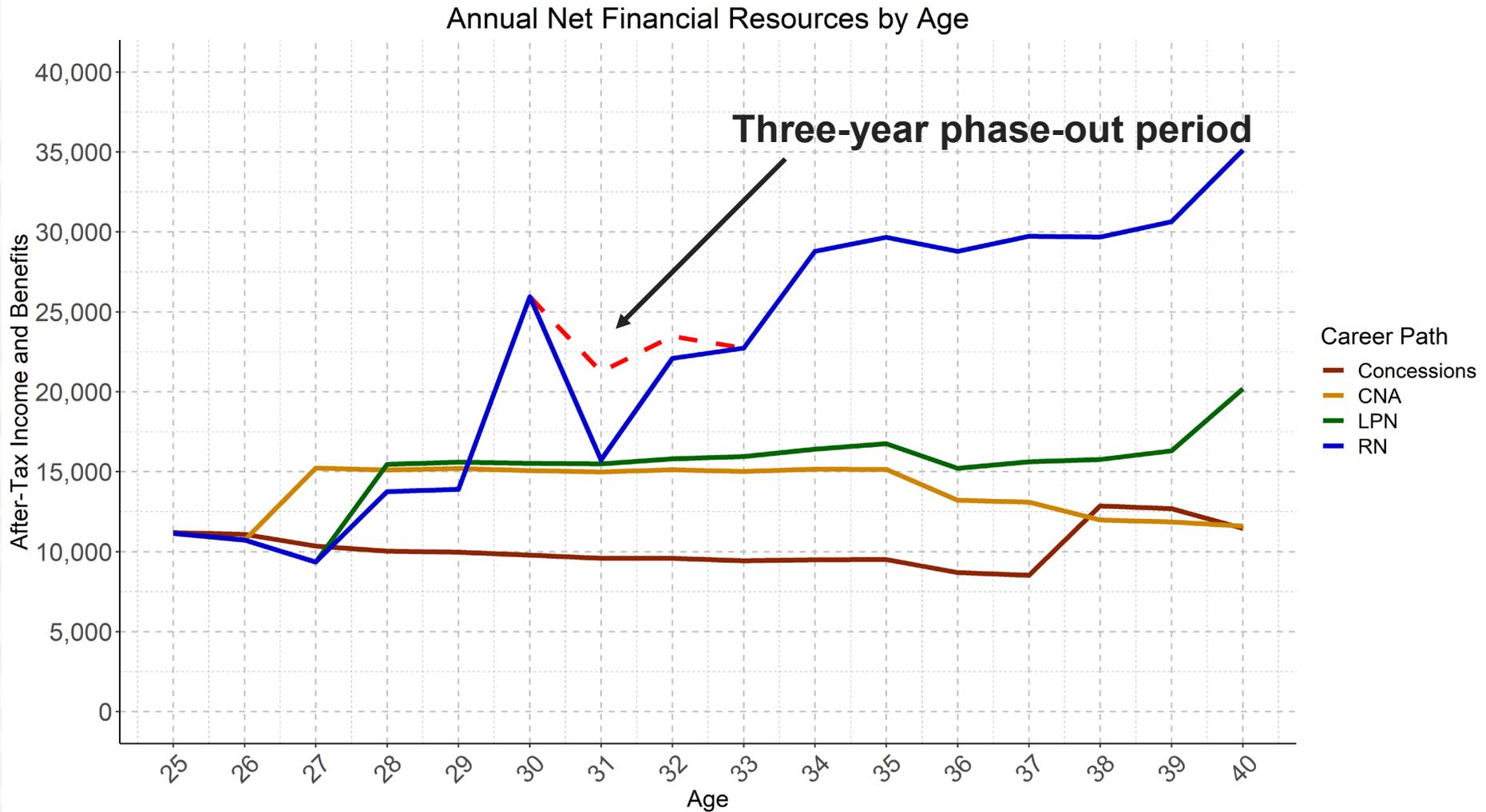
A decorative architectural element, possibly a column capital, rendered in a light gray color. It features intricate scrollwork, a central fleur-de-lis-like motif, and a spiral design. The element is positioned on the left side of the slide, partially overlapping the white background and the blue header.

Solutions

A Phasing Out Rather Than a Cliff



A Phasing Out Rather Than a Cliff

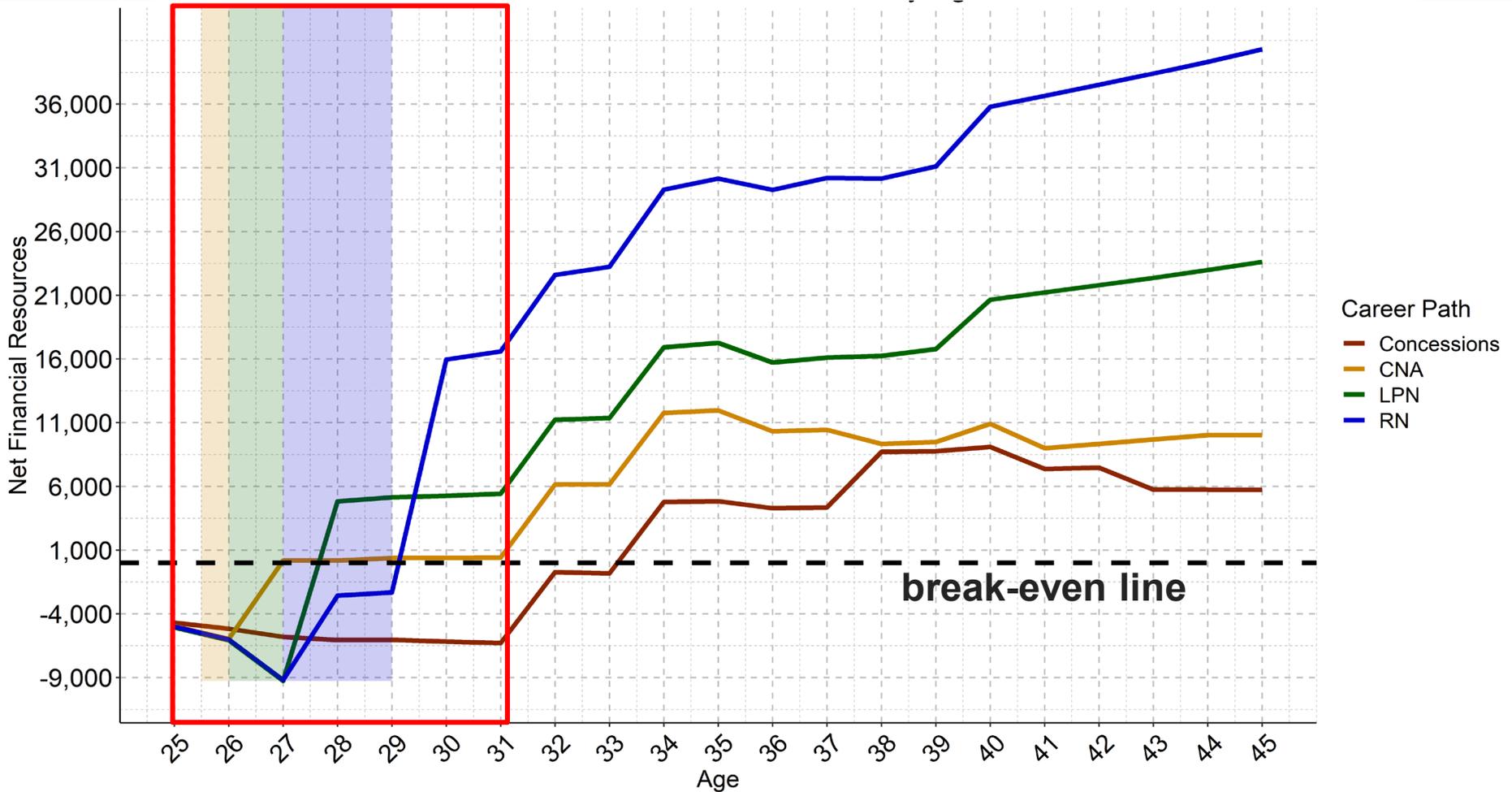


Barriers to Success for Low-Income Families: Results from Interviews

- The cost of basic expenses strains budgets beyond many clients' capacity. Financial instability ensues, which jeopardizes their ability to complete training programs or keep a new job. (Ruder et al. 2020)
- “[R]espondents’ financial situations were already strained before entering the program, and participating in a career pathway program often meant cutting back on work or not working at all.” (Seefeldt 2016)

Wrap-Around Supports and Planning Can Help Leia Manage Financial Challenges

High financial instability period

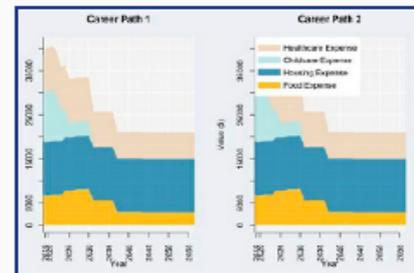


Workforce Development as Financial Planning

CLIFF

Career Ladder Identifier and Financial Forecaster

CLIFF allows users to build and compare customized career paths. The tool shows the financial tradeoffs for different career choices. It includes all potential income sources, including financial assistance, student loans, and government benefits.

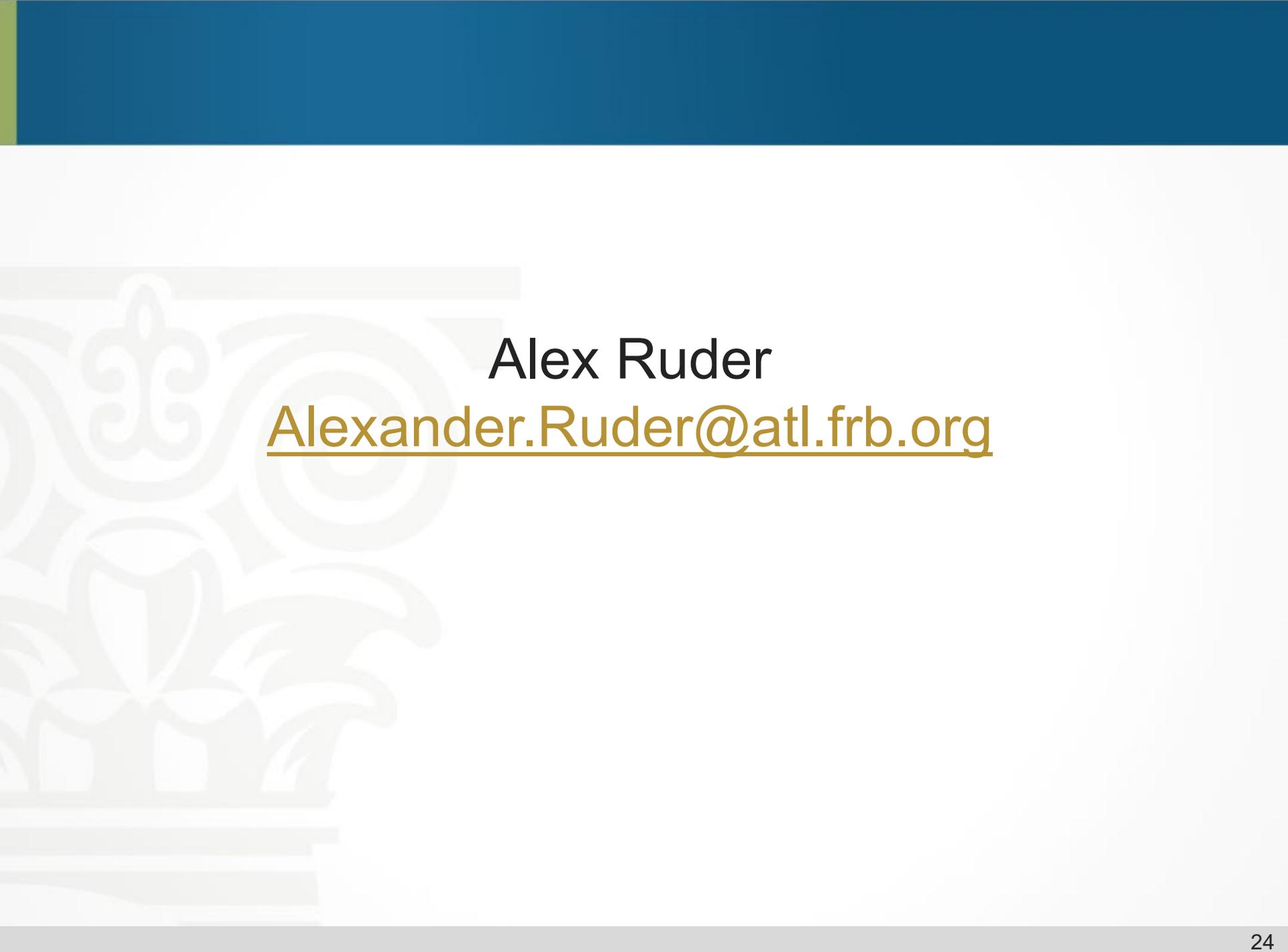


Here's how it works

Part 1: Tell us about you and your family along with your current financial status.

Part 2: Tell us about your current employment and choose career paths that interest you.

Part 3: Compare the financial tradeoffs of different career choices in the short-term, medium-term, and long-term. Choose a career path and create a budget to make it happen!



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