

Between a
Rock
and a **Hard Place**



The **Benefits Cliff** of
Government Programs
and the **Economic
Mobility** of Families in
Puerto Rico

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EXTENDED SUMMARY

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Background

Puerto Rico faces persistent high rates of poverty and economic vulnerability. According to the 2024 U.S. Census data, 40% of the population lives below the federal poverty line. For children, this rate is even higher: 52% of children experience poverty. Moreover, the median household income in Puerto Rico is \$27,200, nearly \$32,000 less than the lowest median among U.S. jurisdictions. These conditions are further compounded by a labor force participation rate of 45%, the lowest recorded among U.S. jurisdictions.

In this context, a significant proportion of households rely on public assistance programs designed to ensure access to food, health, and housing. These programs are essential to mitigate the effects of poverty and to provide stability for low-income families. Yet, poverty persists.

The design of some assistance programs can have unintended effects. When an individual becomes employed or experiences a slight increase in income, the reduction in benefits may exceed the income received by the household, putting their financial security at risk. This phenomenon, known as the benefits cliff or “cliff effect”, leaves many families caught between a rock and a hard place, as advancing in the job market can result in the loss of essential support even before reaching economic stability. Thus, keeping families in poverty.

Although most of Puerto Rico’s public assistance programs are funded and regulated by the federal government, some are structured in ways that provide flexibility to the local government to determine important aspects of their design. This flexibility creates opportunities to establish parameters or practices that can reduce the benefits

cliff and support the economic mobility of families. In fact, several U.S. jurisdictions have already adopted measures to address this phenomenon. These measures include introducing legislation, establishing task forces, conducting pilot studies, temporarily suspending rent increases when earnings increase, and developing benefit calculators, among other strategies.

Previous studies

Studies have shown that the benefits cliff is experienced by low-income families in similar ways as a high tax rate, which can disincentivize employment. Moreover, they demonstrate that families often make employment and benefits decisions with limited or incomplete information. However, evidence suggests that certain public policy mechanisms can mitigate these effects. Some of these mechanisms include income tax credits and staggered benefit reductions, which have proven to be effective strategies for easing the transition from public assistance programs to higher earnings.

Similarly, evidence shows the positive effects of providing coaching to families focused on helping them navigate the benefits cliff and finding job placements. These interventions often apply behavioral economics principles and include elements such as clearly communicating the benefits cliff, providing benefit calculators, and offering personalized counseling. Recognizing the complexity of employment decisions for low-income families, particularly those that have been program participants for many years, is crucial to lay the groundwork for economic mobility.

Loss of benefits in four key programs as income increases

Eligibility rules and benefits for the Nutritional Assistance Program (NAP), Medicaid or Plan Vital, the Temporary Assistance for Needy Families (TANF) program, and public housing were reviewed by looking at regulations, state plans, internal memos, and interviews with eligibility technicians.

Below, we provide a summary of the findings from this analysis.

- **NAP** is the best example of how programs can be designed to reduce the benefits cliff and incentivize employment. The program employs three strategies to achieve this:
 - (1) a 24-month transition process to encourage beneficiaries to enter the workforce;
 - (2) staggered benefit reductions as income increases so that more employed families can receive benefits; and
 - (3) higher income deductions, which allow more families to qualify.
- **TANF - Category C (TANF-C)** is the component of the TANF program that assists families with children. This is a temporary assistance program that provides support for up to five years. Under this program, a small increase in income can result in an immediate and complete loss of benefits, which is the clearest example of the benefits cliff effect.
- As for **Plan Vital**, the option to keep children covered under the Children's Health Insurance Program (CHIP) reduces the cliff effect by allowing families to earn a higher income before their children lose eligibility. However, adults in the household continue to experience the benefits cliff.
- The **public housing** program reveals a mixed scenario regarding this issue. On the one hand, there is a benefits cliff, as additional earnings immediately trigger a recalculation of rent. Rental assistance benefits are terminated the moment the maximum income threshold is reached. In fact, a family can go from not paying rent to paying 30% of their net income without a phased transition period in place. However, because rent is calculated based on either 30% of net income or 10% of gross income, it increases progressively as household income rises.



Simulations conducted for this study show that lost benefits can be offset by refundable tax credits such as the Child Tax Credit (CTC) and the Earned Income Tax Credit (EITC).

Perspectives from program participants, agency staff, and the community

Three focus groups were conducted, with parents who participate in at least one of the four target programs, for a total of 21 participants. At the same time, 19 employees from the agencies that administer the target programs were interviewed. Additionally, a multisectoral group of community members organized by the Instituto del Desarrollo de la Juventud known as the Community Advisory Council (CAC) reviewed the preliminary results and offered feedback. Recurring themes were identified and then integrated to ensure that the findings reflect all of these perspectives.

The benefits cliff is a reality for many families, and it is experienced with multiple programs.

Each program has its own rules. This means that families must keep track of the eligibility requirements for each program and remember the various recertification dates, further complicating the process of managing their benefits. Even more so, families participating in multiple programs may experience the loss of several benefits as their participation in the workforce increases.

A mother spoke about the benefit reduction in the Nutrition Assistance Program (NAP) commonly referred to as food stamps: *“The drop (in food stamps) is steep”*.

Meanwhile, another mother shared: *“...then you get a salary increase, but they raise your rent, lower NAP [benefits], and they then make it worse because what you earn, they take away from you”*.

Nonetheless, the fear of losing housing assistance benefits dominates the conversation among participants, especially among those living in public housing.

This is how a service provider summarized it: *“It’s housing, it’s always going to be housing. As they say, food will come, but I cannot live under a bridge with my children because they’ll be taken from me. There needs to be a roof over our heads”*.

The benefits cliff discourages formal work.

Program participants and agency staff shared multiple accounts of how the loss of benefits discourages participation in the workforce.

An agency employee put it this way: *“But if we are going to penalize people for working, then people will choose not to work”*.

Having to sort out the specifics of benefits when entering the workforce can also be overwhelming and places a mental burden that is difficult to manage for those who are already stretched to their limits.

One mother described it as follows: *“...I had to resign from my last job two months ago. I worked as a security guard. The company was great and provided a really comfortable schedule, but I found myself facing the same problems again and again. The rent, and they want to take my benefits away. I said to myself, ‘Well, I’m not going to work anymore’”*.

Informal work emerges as an alternative for avoiding the benefits cliff in a system that penalizes formal employment.

One participating mother stated the following: *“I find that most [people] are working, but they don’t report it”*.

After many years of participating in public assistance programs, people value the stability they offer and some express fear of leaving the programs. They see it as a heavy loss and make decisions from a place of fear and confusion.

This was evident in statements such as: *“And so, it’s also scary that you might end up in an even more unstable situation than you already are with the government assistance”*.

The benefits cliff stagnates families and slows down their aspirations.

The fear of losing benefits forces families to face impossible dilemmas: they want to break with the long-term use of public assistance to build a better future, but the system design limits their options to change their current situation. Many mothers say they feel “stuck”.

A focus group participant shared the following: *“I’ve been stuck and I have no reason to lie [...] it’s bad,*

awful, you get depressed [...] I want to work, I want to move forward, to improve myself, to make some progress, to have my own home, not to live in public housing for much longer. I currently feel stuck”.

Providing better information to families may help reduce what the benefits cliff entails.

One of the focus group’s most frequent topics was how agencies provide very little information about the programs. Findings show how participants were often misinformed about the following: (1) they believed that an immediate reduction of NAP benefits would take place; (2) they thought that their Plan Vital coverage would be eliminated, even for children; and (3) they did not know how rent increases are determined or how child support income is taken into account. This lack of accurate and complete information limits participants’ ability to make informed decisions about employment and income, and to plan their future.

Conversely, agency staff expressed reservations about providing information about eligibility criteria.

An agency employee suggested the complexity of determining eligibility as the reason for not providing income eligibility tables: *“What happens is that this is a little more complicated than showing a table to a participant. You see, many people come and question: ‘What do you mean that I don’t qualify when my co-worker earns the same as me and he qualifies?’ That would be very confusing”.*

Communication challenges between customers and technicians represent a barrier to helping families with their economic mobility

Testimonials from program participants and staff suggest that the relationship between participating families and eligibility staff is, at times, marked by tension and mutual distrust. Several participants said they experienced disrespectful treatment and lack of

empathy, resulting in situations that can influence how families navigate and rely on programs. Some families saw the eligibility staff as people who were mainly dedicated to imposing sanctions and removing them from their programs. However, some exceptions were noted. Staff, in turn, perceived themselves as responsible for strictly adhering to the rules. Some also believed that families had little desire to improve their lives and were comprised of dishonest individuals. This dynamic hinders effective communication, weakens trust, and limits the ability of programs to support families’ economic stability and mobility.

The process for serving participants does not appear to be standardized.

This leads to widely varying experiences, depending on the staff member assigned. As one CAC member explained, *“In many cases, the technician stifles you. In others, there is someone who is empathetic and will help you”.*

The system itself is considered to be a major obstacle towards breaking the prolonged reliance on programs.

This is demonstrated through expressions such as: *“Unfortunately, the system does not offer you options to improve your situation..., [the system] does not give you viable strategies to be able to leave it”*, or as one focus group participant put it: *“[...] it is not that we become dependent on the government, oftentimes it is the system that makes us dependent on the government”.*

The lack of communication between the agencies that serve families further limits the options or pathways that service providers can offer when participants face a potential benefits cliff. This fragmentation is further exacerbated by the lack of case managers. The programs most commonly relied on by families currently have eligibility technicians but not case managers. Having a case manager available could help beneficiaries connect to different systems, providing a clearer picture of how their benefits are affected.



What government actions can reduce the benefits cliff and its impacts?



A key recommendation emerges from this study: **the main government assistance programs should look for options to reduce the benefits cliff and mitigate its effects.**

To promote this general recommendation, we propose measures that can be implemented immediately or within the next three years.

Immediate administrative adjustments (0 to 12 months)

1 Promote transparency in eligibility information and provide mandatory guidance to participants

- a. **Provide clear, standardized, and proactive information** on how employment affects benefits. This information should be provided to applicants via written materials during interviews with agency staff. It must also be available on the agencies' websites.
- b. **Develop an interagency benefit simulation tool.** This tool would serve as an official calculator for Puerto Rico, allowing families to estimate their income, benefits, and tax credits based on different scenarios.

2 Improve customer service and standardize its quality to establish better relationships between program staff and participants

- a. **Standardized the quality of services.** Develop service standards and train the eligibility personnel to follow them. Surveys on service quality should also be conducted to ensure continuous improvement.
- b. **Incorporate a behavioral lens into customer service.** Recognize that cognitive load, fear of loss, and risk aversion can influence participants' employment decisions and attitudes toward using their benefits. Train staff on how to incorporate evidence-based practices during participant interviews.
- c. **Listen to and include the voices of those affected by program changes.** Program beneficiaries strongly desire to have their voices heard and to play a greater role in the design of programs that directly impact their lives. Ensuring that participants are given spaces for dialogue and feedback will make it possible to identify and address the problems they face more effectively. In turn, this will further help take into account their needs and the support required in the programs' design.

3 Optimize existing programs

- a. **Promote existing programs that facilitate the transition to employment.** Examples of existing programs that offer mechanisms that reduce the cliff effect that comes along with increased earnings include NAP's transition to employment, CHIP health coverage for minors, and HUD's Family Self-Sufficiency (FSS) and Moving to Work programs. Agencies should actively coordinate, integrate, and promote these programs to ensure more stable transitions to employment that promote families' success.
- b. **Transform ACUDEN's 2Gen Centers into centers of economic mobility for families.** The 2Gen Centers that are located throughout Puerto Rico have the potential to become spaces to educate people about the benefits cliff and promote the economic mobility of families participating in programs. To ensure their effectiveness, these centers need to implement programs that adhere to the key principles of whole-family (or two-generation) models that address the needs of adults and children in an articulated and integrated way.



Programmatic design adjustments (12 to 36 months)

- 1 Establish grace periods for job placements.** Implement clear and well-communicated grace periods (6 to 12 months) to prevent an immediate loss of benefits when starting work, particularly for public housing program participants.
- 2 Review the TANF program's design.** TANF is a unique program because it is the only one that offers cash assistance to families and is designed to support families in transitioning to employment. The recommendation is to adjust TANF's deductions and benefit structure to eliminate the total loss in the face of marginal increases in income.
- 3 Establish phased transitions in programs.** Emulate the NAP model (gradual reductions and income deductions) in TANF, Plan Vital (adults), and public housing assistance. These transitions prevent "all-or-nothing" designs that lead to the cliff effect.
- 4 Initial protection against rent increases.** Establish temporary and/or staggered ceilings on rent increases for families in public housing who are starting to work.
- 5 Institutionalize case management in agencies.** It is recommended that case management be institutionalized with a family-centered approach, where the main task is to work closely with families to determine their needs and resources, and thereby develop individualized plans for economic mobility and family well-being.

Fiscal and systemic measures (24 to 36 months)

- 1 Allocate state funds for supplementary aid.** Local recurring funds should be identified to offset, at least partially and in stages, the loss of benefits when families start working, particularly to mitigate increases in rent.
- 2 Strengthen support for job placements.** This means ensuring families have the necessary support to find work and remain employed. To accomplish this, services such as access to affordable childcare, consistent school schedules, after-school programs, and workforce development programs that lead to industry-recognized credentials, allowing families to enter the labor force, must be expanded and coordinated.
- 3 Adopt the two-generational model (2Gen) as the standard in all agencies that serve families and children.** This model considers the entire family, integrates services, and provides personalized follow-up to promote economic mobility.
- 4 Develop formal interagency coordination among benefit programs.** Permanent interagency coordination mechanisms are needed to reduce inconsistencies in income definitions, recertifications, and eligibility rules. This should include shared processes and information systems that avoid duplication of forms and documents.





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