

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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What is the Benefits Cliff of government programs?

For decades, Puerto Rico has consistently faced high poverty rates. The most recent data from the 2024 US Census shows that 40% of the population and 52% of children in Puerto Rico live below the federal poverty line. The median household income is \$27,200, and labor force participation remains at 45%, both being the lowest among all U.S. jurisdictions. Given this context, a significant proportion of households rely on public assistance programs to cover basic needs.

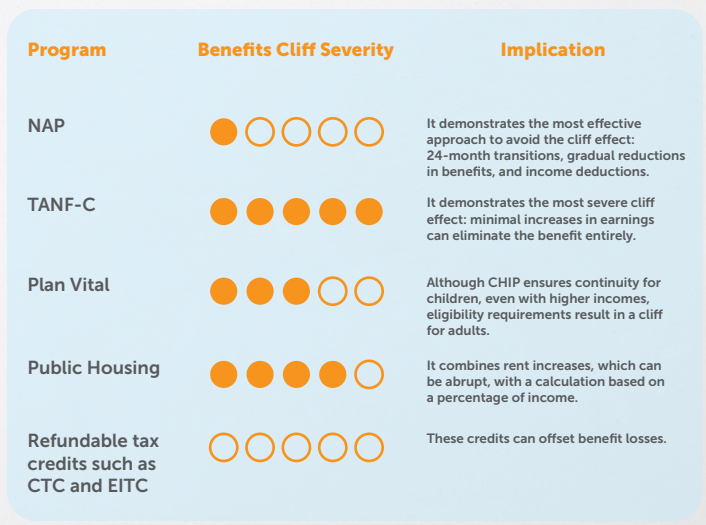
While these programs have been instrumental in mitigating poverty, their design can have unintended consequences that limit economic mobility. The phenomenon known as the **benefits cliff (cliff effect)**, that is, the abrupt decrease or loss in public benefits resulting from a small increase in earnings, can be a deterrent to formal work, trapping families in a cycle that compromises their economic mobility.

How does the Benefits Cliff occur within Puerto Rico's assistance programs?

The benefits cliff is a reality for families in Puerto Rico, evidenced by our research. Focus groups and interviews with families and program employees reveal that the different rules among programs force individuals to navigate a complex mental map of eligibility requirements, recertifications, and economic consequences. Additionally, the potential loss of benefits, especially public housing and nutritional assistance, generates

fear and anxiety. This, in turn, forces families to make difficult decisions, such as resigning from formal jobs or resorting to informal work, to avoid losing their stability. Families make these decisions amid uncertainty and with limited information. On the other hand, given the unique circumstances of each family, some program staff are reluctant to share eligibility criteria with families for fear of causing confusion.

A review of program regulations and state plans for the Nutrition Assistance Program (NAP), Medicaid – Plan Vital, Public Housing, and the Temporary Assistance for Needy Families (TANF) reveals significant differences in each program's approach to helping families transition to employment. The graph below illustrates the magnitude of the benefits cliff in these programs with respect to increased earnings. The loss of benefits is more severe when there are more filled-in circles per program.¹



Public policy recommendations

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 economic mobility for families.** To this end, 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.

- Provide clear, standardized, and proactive information on how employment affects benefits.
- Develop an interagency benefit simulation tool.

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

- Develop service standards and provide training to all program eligibility staff, and conduct surveys on service quality to ensure continuous improvement.
- Train staff on how to incorporate evidence-based practices grounded on behavioral economics' principles during participant interviews.
- Listen to and integrate the voices of those affected by changes in public assistance programs.

3 Optimize existing programs

- Promote existing programs that support families during their transition to employment, such as HUD's Family Self-Sufficiency and Moving to Work programs.
- Transform ACUDEN's 2Gen Centers into centers of economic mobility for families.

Programmatic design adjustments (12 to 36 months)

1 Implement clear and well-communicated grace periods (6 to 12 months) to prevent an immediate loss of benefits when starting employment, particularly for public housing program participants.

2 Review the TANF program design by adjusting deductions and the benefits structure to prevent total loss when there are marginal increases in income.

3 Established phased transitions in programs (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 Establish temporary and/or staggered ceilings on rent increases for families in public housing who begin to work.

5 Institutionalize a family-centered case management 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 Identify local recurring funds to compensate for the loss of benefits when families start employment.

2 Ensure that families have the necessary support to begin employment and remain employed.

3 Adopt the two-generation model (2Gen) as the standard for all agencies that serve families and children.

4 Develop formal interagency coordination across public assistance programs.



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