



# Plateaus and Cliff Effects in Oklahoma: Understanding how public supports and income interact for low-income Oklahomans

## Executive Summary

The latest report from the Oklahoma Policy Institute studies programs that provide low-income Oklahoma families with assistance to meet their food, housing, child care, and other basic needs. It shows how programs interact to make resources available to families, but also how they can make the path from assistance to self-sufficiency complicated and unpredictable. The report identifies steps other states have taken to address imperfections in assistance programs and offers recommendations for improving Oklahoma's programs. It can help Oklahomans who make, carry out, and seek to influence policies that help low-income households better understand how those policies affect families.

The report addresses the following major topics areas:

- An overview of poverty in Oklahoma and an introduction to the key programs that aim to reduce poverty. It illustrates the wide variation in program penetration, level of benefits, and eligibility requirements. It also introduces the reader to "cliff effects" and "plateau effects," which can leave program participants little better off, or even worse off, when their earnings increase.

## RECOMMENDATIONS

- Apply for a Summer EBT demonstration at the next available opportunity
- Increase the earned income disregard for Temporary Assistance for Needy Families (TANF) families
- Disregard and pass through child support to TANF families
- Implement Medicaid expansion for adults
- Increase the maximum income level for Medicaid for children
- Advocate to maintain categorical eligibility for Supplemental Nutrition Assistance Program (SNAP)
- Encourage broader adoption of Community Eligibility for school nutrition programs
- Engage the Department of Human Services in an evaluation of opportunities to reduce the cliff effect in child care subsidy
- Restore refundability of the state Earned Income Tax Credit (EITC) and increase the amount of the credit
- Increase the state Sales Tax Relief Credit and add a gradual phase-down to eliminate a cliff



- Using a household-level simulator that is specific to Oklahoma tax law and assistance programs, the report shows how they interact as it relates to after-tax resources available to families as their earnings increase. The simulator shows how representative families gain resources from assistance and tax credit programs and then gradually replace assistance with earned income. It also shows the wage level at which different families experience benefit cliffs and plateaus and what circumstances lead to these effects.
- Provides options available to mitigate the cliff effect generally and then provides examples of steps other states have taken to better support families as their income grows.
- Describes and illustrates impacts of specific recommendations to address cliffs and plateaus and to better support working families in Oklahoma. In reviewing and evaluating these recommendations, it is important to understand that cliffs and plateaus can be difficult or even impossible to eliminate entirely. The recommendations address these areas: increasing household resources at all income levels; mitigating or eliminating benefit cliffs where possible; extending cliffs so that, if they are necessary, families do not reach them until they are closer to self-sufficiency; and improving plateaus so that families' total resources grow as their earnings grow.

If all of the report's recommendations were adopted, households would have more resources at low income levels. Existing cliffs for TANF and Medicaid for children would affect families at higher income levels than they do now. State tax credits would be more generous and would allow families to keep more of their earnings as their income grows. However, most families participating in many programs would still face cliffs. Plateaus would continue to exist but most families would have greater resources at all wage levels. While it is outside the scope of this research, Oklahoma can explore options that could reduce, but not eliminate, the plateau effect. Doing so would require comprehensive reform of the state income tax.

## KEY FINDINGS

- Benefits are essential to supporting low-income Oklahoma families, both those who are able to move toward self-sufficiency and those who are not. Cliffs and plateaus must be understood as issues to be recognized and minimized, and not as reasons to reduce supports for families at any income level.
- The first cliff affects only very low-income families with one part-time worker. In this case, even 15 hours of work weekly will end TANF assistance and Medicaid coverage for the adult, even though after tax income is only \$677 monthly.
- Families participating in TANF and receiving child support may lose assistance and be worse off with child support than without it.
- Cliffs can discourage people from working more hours. A single parent of one child who increases hours from 20 to 40 per week would earn an additional \$833 monthly, but resources available to the family would increase by just \$580 per month.
- Plateaus affect households receiving assistance only when their incomes rise. Single parents fare best, but in total even they keep only one-third to one-half of each dollar they earn when their hourly wage rises from minimum wage to \$15.
- These plateaus and cliffs interact so that many families have fewer resources at high wage rates than at low ones, for example:
  - A single parent of one child, working full-time, would have fewer resources earning \$16 per hour than earning \$12 per hour.
  - A single parent of two children, working full-time, would have fewer total resources earning \$20 per hour than earning \$11 per hour.
  - A married couple with two children, both working full-time, would lose \$541 in total resources if one received a \$6 hourly pay raise.
- Most families in the simulation see little overall gain as they earn more. Effectively, low-income families see a tax rate of 75 to 78 percent (in the form of reduced assistance and higher taxes) as their income grows and replaces assistance and tax credits.