Plateaus and Cliff Effects in Oklahoma

Understanding how public supports and income interact for low-income Oklahomans

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By Paul Shinn and Kenneth Kickham
Executive Summary

This report 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.

Chapter 1 provides 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. Key points from Chapter 1 include:

- One out of six Oklahomans (16 percent) lives in poverty. The poverty rate is higher for children, women, and people of color. Poverty is closely related to education and employment, but neither education nor employment is an antidote to poverty.
- Oklahomans may qualify for a number of direct assistance programs and tax benefits that are designed to support households in and near poverty. These programs include cash assistance programs, non-cash assistance programs that meet specific needs such as food, housing, and health care, and federal and state tax credits.
- The programs serve from 24,000 to 1.2 million Oklahomans, and provide average benefits ranging from $40 to over $15,000 per person per year. Most have maximum income eligibility ranging from $25,000 to $75,000 for a family of four, though some have lower limits and others have higher limits or are universal.
- Individually, many of these programs have a direct and ongoing effect on poverty. Collectively, they reduce poverty by about half and have dramatically reduced poverty over the last 40 years.
- Assistance programs, however, are not perfect. One particularly troubling feature is the “cliff effect,” which occurs when participants’ income increases enough that reduced benefits can offset much or all of the increased income, leaving the family little better off or even worse off. Even when programs are designed with a benefit “slope” rather than a cliff, families may experience a “plateau” where available resources vary little even with significant increases in earnings.
Chapter 2 uses a household-level simulator that is specific to Oklahoma tax law and assistance programs to show the 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.

Key takeaways from Chapter 2 include:

- 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.

Chapter 3 describes 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.
Key points of Chapter 3 include:

- Cliffs can be replaced by slopes so that families never see a drop in total resources as their income increases. However, when families participate in multiple programs, as most do, they may see less gain in resources when multiple benefits slope down at the same time. This effect can be reduced by making sure no program slopes faster than a $.25 benefit reduction for each additional $1.00 earned.

- Cliff effects can also be mitigated by:
  - Extending the period a family remains eligible for the benefit so they keep assistance longer and can plan for the coming resource reduction;
  - Disregarding some income so that families can keep the benefit and a share of their increased earnings, and
  - Making benefits universal regardless of income.

- Other states have made Temporary Assistance to Needy Family (TANF) benefits more stable for families by disregarding some or all earned income and child support payments received.

- Oklahoma voters have approved expanding Medicaid to cover low-income residents, but the state has not yet implemented expansion. While residents still face a cliff when Medicaid coverage ends, the cliff happens at a higher income level in expansion states when compared with non-expansion states.

- Oklahoma and most other states have adopted categorical eligibility for the Supplemental Nutrition Assistance Program (SNAP). This state option extends benefits to some families as their income grows and encourages families to build savings and other assets. The federal administration has proposed ending this option.

- Many Oklahoma school districts have taken advantage of Community Eligibility for school nutrition programs. This local option allows all children in eligible districts to receive free meals regardless of income. Oklahoma’s participation rate lags behind that of leading states.

Chapter 4 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. Bearing that reality in mind, the recommendations address priorities in this order:

- 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.
- Improving plateaus so that families’ total resources grow as their earnings grow.
Recommendations from Chapter 4 are:

- Apply for a Summer EBT demonstration at the next available opportunity,
- Increase the earned income disregard for TANF families,
- Disregard and pass through child support to TANF families,
- Implement Medicaid expansion for adults as soon as possible,
- Increase the maximum income level for Medicaid for children,
- Advocate to maintain categorical eligibility for 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, and
- Increase the state Sales Tax Relief Credit and add a gradual phase-down to eliminate a cliff.

If all of these 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 Oklahoma’s income tax.

About the Authors and Acknowledgements

The report authors are Paul Shinn, Budget and Tax Senior Policy Analyst with the Oklahoma Policy Institute, and Kenneth Kickham, Professor of Political Science with the University of Central Oklahoma.

This work is based on a benefits model originally developed by Mickey Hefner of Austin Peay State University.

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Chapter 1: Poverty, Programs, and Cliff Effects

Introduction

This report describes the most important assistance programs and tax credits that Oklahoma uses to support low- and moderate-income families and to encourage work. The report is designed primarily to help those who create and implement state policy — as well as those who advocate for families needing our assistance — to understand both the importance and limitations of our current assistance system. The report identifies and illustrates needed improvements by showing the impacts of assistance on representative households and by building on successful policy changes made in other states.

This chapter provides an overview of poverty and low-income families in Oklahoma. It then describes the major programs that provide direct assistance to these families, along with federal and state tax credits that support families. Many of the programs are designed to encourage work; most of them reward work by reducing assistance slowly as earnings grow.

This chapter further describes how the design of individual programs and their interaction at the family level create two types of unintended consequences. First, some programs present a “cliff effect,” in which a family goes from receiving a substantial benefit to no benefit at all when earnings increase by a small amount. Second, programs can work together to create a “plateau effect,” in which the decline in benefits as earnings grow cancels out much of the increased earnings. Families may see little growth in their total resources (combined earnings and assistance) even with substantial increases in earnings.

Oklahoma’s Low-Income Population

Many Oklahomans live in or near poverty. The federal poverty level (FPL) is $21,720 for a family of three in 2020. In 2018, Oklahoma ranked 9th highest among states in percentage of the population in poverty, at 15.6 percent. Figure 1 shows how poverty compares by age and by sex in Oklahoma and the United States as a whole. More than one in five Oklahoma children (21.3 percent) lived in poverty, ranking our state 11th. Seniors in Oklahoma fare better, with 8.7 percent living in poverty, ranking 26th.¹ As in the country as a whole, more Oklahoma females are in poverty than males.

Figure 1. Poverty by Age and Sex, Oklahoma and United States.


Figure 2 shows that poverty is significantly related to race, with whites and Asians having the lowest rates, and people of color much more likely to live in poverty. Oklahoma poverty rates are higher than the national average for every racial and ethnic grouping except American Indians/Alaska Natives (AIAN). However, one in five Oklahoma Native Americans lives in poverty. While whites are the least likely to experience poverty, more than half (55 percent) of poor households in Oklahoma are white.

Figure 2. Poverty Rate by Race and Ethnicity, Oklahoma and United States.

Poverty in Oklahoma is closely related to education and employment. Residents with less than a high school education are 6.5 times as likely to live in poverty as those with a bachelor’s degree or higher. Unemployed Oklahomans are nearly five times as likely to be in poverty as their neighbors with jobs. However, having a job — even a full-time, full-year one — is not a guarantee against poverty. Eight percent of employed Oklahomans live in poverty. Among those working full-time for the entire year, 5 percent remain in poverty. Of those working part-time (defined as not working full-time for the full year), 47 percent are poor in Oklahoma, compared to 37 percent nationally.

Figure 3. Poverty Rate by Education and Employment, Oklahoma and United States.

Poverty keeps Oklahomans from realizing their full potential, and it exacts avoidable costs on the state as a whole. Many children who grow up poor have negative effects on their brain development, which can affect their education, employment prospects, and their health throughout their lives.2

Being over the poverty line, however, does not mean a household is thriving. The Self-Sufficiency Standard is one tool that that provides a more realistic view of the resources that are needed for a working family to stand on its own. The Self-Sufficiency Standard estimates income needed to meet all basic needs when all adults in the family are working full-time. The Self-Sufficiency Standard varies based on cost of living at the county level.

When last updated for Oklahoma in 2009, the Self-Sufficiency Standard exceeded 150 percent of the FPL for every family type in every county in Oklahoma and was

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more than double the poverty level in the major metropolitan areas. In Tulsa, for,
example, the Self-Sufficiency Standard was 240 percent of the FPL for a single,
childless adult, 218 percent for a single parent of two children, and 213 percent for
two adults and two children.\(^3\) Updating to 2019, these families would not meet
basic needs until every adult is working full-time and making $13.71 hourly (for the
two-adult household) to $23.25 hourly (for the single adult with two children).
Because full-time work is not always possible or available — and because wages are
often well below these thresholds — many working families need public support.

Oklahoma and the nation have long valued work as the primary means of
supporting a family. Indeed, public policy toward low-income families is inextricably
tied to supporting work and to buttressing the American belief in upward mobility.
As such, policy and programs must be evaluated in consideration of the work
environment facing low- and moderate-income families.

While Oklahoma’s economy recovered from the recession of 2008-09, growth in
jobs did not keep up with growth in the population. As a result, employment
opportunities are fewer now than in 2008.\(^4\) Worse, many jobs in Oklahoma are not
good jobs. In the Tulsa area, for example, 57.1 percent of jobs are neither quality
jobs — those paying the median wage and offering benefits — nor promising jobs —
those that could lead to a quality job within 10 years.\(^5\) As a result, between 38 and
45 percent of workers in both Tulsa and Oklahoma City are low-wage workers
making less than two-thirds of the median wage. Nationally, 30 percent of low-wage
workers live at or below 150 percent of the federal poverty level.\(^6\) Many are stuck in
these jobs. One study showed that only 5 percent got better jobs in one year.\(^7\)
Further, jobs are increasingly unpredictable and unreliable. Nearly one in five
American workers works either on-call or irregular shifts or they work split or
rotating shifts. Unpredictable work such as this falls disproportionately on those
making $22,500 or less.\(^8\)

\(^3\) Diana Pierce, The Self-Sufficiency Standard for Oklahoma 2009 (Seattle, WA: University of Washington
\(^4\) Courtney Cullison, “Finding Work (Part 1 of 3)” Oklahoma City, OK: Oklahoma Policy Institute, 2019);
Final.pdf?x22444.
\(^5\) Chad Shearer and Isha Shaw, Opportunity Industries: Exploring the Industries that Concentrate Good and
Promising Jobs in Metropolitan America (Washington, D.C.; The Brookings Institution, 2018); accessed
\(^6\) Martha Ross and Nicole Bateman, Meet the Low-Wage Worker (Washington, D.C.: The Brookings
Institution, 2019) accessed Dec. 2, 2019 at https://www.brookings.edu/wp-
\(^7\) Todd Gabe, Jaison R. Abel, and Richard Florida, “Can Low-Wage Workers Find Better Jobs?” (New York:
Federal Reserve Bank of NY, 2018); accessed Dec. 2, 2019 at
https://www.newyorkfed.org/research/staff_reports/sr846.
Programs That Support Low- and Moderate-Income Oklahomans

The United States has long provided direct assistance and tax relief to provide a more adequate living for those in and near poverty. The public benefits provide essential goods and services like food, housing, child care, health care, help with energy bills, and cash payments. Programs are generally targeted toward a specific need and many households benefit from multiple programs. Most programs are designed and funded by the federal government but administered and funded in part by state governments. Low-income families and the agencies that help them often must navigate through a series of overlapping and sometimes conflicting requirements. Most programs have somewhat differing eligibility requirements, where recipients must meet income eligibility and other financial requirements as well as meet specific circumstances and even behavioral requirements. While programs are often considered temporary assistance, many participants need assistance for long periods of time, as our economy does not guarantee enough good-paying jobs for all families to reach self-sufficiency.

Program Participation

Figure 4 shows both the variety and the magnitude of assistance programs in Oklahoma. For comparison purposes, the left bar shows the number of Oklahomans (1.376 million residents) who are below 200 percent of the federal poverty level, which can serve as a measure of need. Many programs serve more people because those programs have higher eligibility levels that recognize that needs extend well up the income schedule. The number of individuals assisted by each program represents the number of people participating during the year, which differs from the number receiving assistance at a point in time.
Figure 4. Oklahomans Participating in Assistance Programs, 2018.

The orange bars show five programs that provide direct cash assistance to participants, which are:

- Social Security, a social insurance program consisting of retirement, disability, and survivor benefits, that has been instrumental in reducing poverty among older Americans;
- Social Security Disability Insurance (SSDI), which provides assistance to Social Security participants who cannot work;
- Supplemental Security Income (SSI), a program for low-income disabled adults and children;
- Temporary Assistance to Needy Families (TANF), which provides cash assistance, other benefits, and work supports for very low-income families; and
- Unemployment Assistance, which provides temporary support for adults who have lost jobs.

This portion of the chart shows that direct cash assistance is mostly limited to older and disabled Oklahomans, not to the working families who are the prime concern of this report. In 2018, just 24,000 Oklahomans — mainly children — received TANF assistance, and 35,000 adults received unemployment insurance for six months or less.

Source: Agency data, Kaiser Family Foundation, Center on Budget and Policy Priorities
Notes: * number of individuals estimated by OK Policy based on household, case or tax return counts
+ data are for 2016.
The gray bars show eight federal and state programs that provide non-cash assistance. These programs pay some or all of the costs of specific services. To access these programs, participants must enroll in the program and meet income, asset, and other requirements. Key programs in this group include:

- Medicare, a health insurance program offered by the federal government for older Americans and Americans with disabilities;
- Medicaid (branded SoonerCare in Oklahoma), the second largest program of public assistance to Oklahomans, which combines state and federal funds to pay for medical services for low-income families, mainly children, as well as aged, blind, and disabled adults;
- The Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps), which provides a monthly food benefit for low-income families;
- Child Care Subsidy, which provides vouchers for some or all of the cost of child care when parents work or are in approved education and training programs;
- The Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC), which provides a small monthly allotment to families with pregnant women and/or young children to purchase specific healthy foods;
- The National School Lunch Program (NSLP), which provides free or reduced-priced school lunches for children in low-income families;
- Housing assistance, which pays some or all of participants’ rent, either through vouchers for private housing or placement in publicly-owned housing; and
- The Premium Tax Credit (PTC), which subsidizes costs of health insurance available under the Affordable Care Act; while technically a tax credit, the PTC is classified as non-cash assistance since it is not received in cash and can only be applied to insurance premiums.

The green bars show two federal income tax credits that provide cash assistance to low-income families by reducing taxes dollar for dollar by the credit amount. These are:

- The Earned Income Tax Credit (EITC), which is available to low-income families with earned income; benefits are greatest for families with children; this credit is refundable if it exceeds the amount of tax owed by the family; and
- The Child Tax Credit (CTC), which provides a tax credit of $2,000 per child in families across a broad income range, provided they have a minimal amount of earned income; this credit is partially refundable.

The blue bars show the three most important state tax credits for low-income Oklahomans. These are:

- The state EITC, a non-refundable credit that is 5 percent of the amount the family claims on the federal EITC;
- The state Child/Child Care Tax Credit (C/CCTC), a refundable credit that allows a taxpayer to claim a percentage of either the federal Child Tax Credit or the Child Care Tax Credit; and
- The Sales Tax Relief Credit (STRC), a refundable credit that in the amount of $40 per household member for families below the maximum income eligibility.

The red bar shows the number of adults paying child support to families that receive or formerly received public assistance, including foster care assistance. Child support is not a public assistance program but a legal obligation of the parent who does not have custody of the child. It is shown here and considered in this report because child support interacts with Child Care Subsidy, TANF, and other assistance programs to affect the resources available to participating families.

**Program Benefits**

These programs vary in the amount of benefits they pay. Figure 5 shows the average annual benefit *per person* (not per household) for each program. This average is calculated by dividing Oklahoma program spending by the average number of people served. Benefits actually received by a given household depend on income, location, and other family circumstances. Eight programs pay an average of less than $1,000 per year, including all three Oklahoma tax credits, both federal tax credits, WIC, the school lunch program, and TANF. Four programs pay an average of more than $5,000 per year: Social Security, Social Security Disability Insurance, SSI, Medicare, and Medicaid. The other four programs (SNAP, Child Care Subsidy, Housing Assistance, and the Premium Tax Credit) pay an average of $1,000 to $5,000 per person per year.

**Figure 5. Average Annual Benefit from Assistance Programs in Oklahoma, 2018.**

<table>
<thead>
<tr>
<th>Program</th>
<th>Average Annual Benefit (per person)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security</td>
<td>$15,250</td>
</tr>
<tr>
<td>SNAP</td>
<td>$6,489</td>
</tr>
<tr>
<td>TANF</td>
<td>$13,206</td>
</tr>
<tr>
<td>Unemployment</td>
<td>$5,550</td>
</tr>
<tr>
<td>Medicare</td>
<td>$9,335</td>
</tr>
<tr>
<td>SSI</td>
<td>$13,206</td>
</tr>
<tr>
<td>Medicare</td>
<td>$5,550</td>
</tr>
<tr>
<td>Child Care Subsidy</td>
<td>$5,200</td>
</tr>
<tr>
<td>WIC</td>
<td>$1,023</td>
</tr>
<tr>
<td>National School Lunch Program</td>
<td>$2,857</td>
</tr>
<tr>
<td>Housing Assistance</td>
<td>$3,295</td>
</tr>
<tr>
<td>TANF</td>
<td>$3,431</td>
</tr>
<tr>
<td>Federal EITC*</td>
<td>$3,783</td>
</tr>
<tr>
<td>State EITC*</td>
<td>$992</td>
</tr>
<tr>
<td>Federal Child Care Tax Credit**</td>
<td>$496</td>
</tr>
<tr>
<td>State Child Care Tax Credit**</td>
<td>$210</td>
</tr>
<tr>
<td>Child Support*</td>
<td>$190</td>
</tr>
<tr>
<td>+ data are for 2016.</td>
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</tbody>
</table>

Source: Agency data, Kaiser Family Foundation, Center on Budget and Policy Priorities
Notes: * number of individuals estimated by OK Policy based on household, case or tax return counts + data are for 2016.
Program Summary

The first three columns of Table 1 restate the program participation and benefit levels shown in Figures 4 and 5 and adds income eligibility, as well as how they are treated in this report and the accompanying Benefits Simulator.

The fourth column of the table shows the maximum income a family of four can have and still qualify for each program. Assistance programs have different goals and address different populations, so they have varying eligibility levels ranging from below $25,000 annual income for a family of four (SSI and TANF) to $400,000 annually for the federal Child Tax Credit. Most of the income-tested programs have maximum income levels of between $30,000 and $60,000 for a family of four. Social Security, Disability Insurance, and Medicare, are nearly universal and have no maximum income guidelines. Participation and benefits for these programs depend on whether and how much participants contributed in payroll taxes during their working years.

The fifth column of the table identifies the eight programs that form the core of the analysis and recommendations of this report. These are selected because state policy can influence the design of the programs and thus may be used to improve the programs. This excludes purely the universal federal programs, SSI, housing assistance, and federal tax credits. The table’s final column shows the 15 programs that are included in the Benefit Simulator that is described in Chapter 2. Generally, programs are excluded if eligibility cannot be calculated simply and/or if they are not targeted at working families.
Table 1: Oklahoma Assistance Programs and Tax Credits.

<table>
<thead>
<tr>
<th>Program</th>
<th>Number Served (000s) (2018)</th>
<th>Average Annual Payment per Person (2018)</th>
<th>Maximum Annual Income (family of 4)(1)</th>
<th>Included in analysis and recommendations</th>
<th>Included in Simulator</th>
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<td><strong>Cash Assistance Programs</strong></td>
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<td></td>
<td></td>
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<td>Social Security</td>
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<td>$15,250</td>
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<td>Universal (2)</td>
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<td>Supplemental Security Income</td>
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<tr>
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<td>Universal</td>
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<td>Yes</td>
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<td>$47,638 (4)</td>
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<td>$59,050 (5)</td>
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<td><strong>Federal Tax Credits</strong></td>
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<tr>
<td>Earned Income Tax Credit</td>
<td>866</td>
<td>$992</td>
<td>$52,493</td>
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<td>$400,000</td>
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<td>Earned Income Tax Credit</td>
<td>751</td>
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<td>$3,783</td>
<td>No limit</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**Notes**

(1) Many programs have multiple income tests and some have asset tests. For such programs, gross income eligibility limit is indicated. Some programs include or exclude certain types of income. All income is assumed to be earned in this table.

(2) No income limit. Benefits depend on lifetime earnings.

(3) Limit shown is for covering children. Limit for adult coverage is $11,340.

(4) Limit shown is for reduced price meals. Limit for free meals is $33,475.

(5) Income limits vary by county depending on county income levels. Limit shown is for Oklahoma County.

(6) Limit is federal adjusted gross income, which may differ from household income.

(7) Case and cost data is only for cases where family does or has received public assistance.

**Sources:** OK Policy calculations from agencies administering programs, Center on Budget and Policy Priorities, Kaiser Family Foundation.
Effectiveness of Assistance Programs

Assistance programs make a difference in the lives of many low-income Americans. Individual programs contribute significantly to reducing poverty. The U.S. Bureau of the Census determined that in 2018, Social Security raised 27 million Americans out of poverty. Refundable tax credits, SNAP, SSI, and housing assistance each raised millions above the poverty line as well. The Congressional Research Service estimated that the federal EITC significantly reduced the share of families both in poverty and in deep poverty (below half of the federal poverty level), with the largest effect being on single-parent families.

More important than the effects of individual programs is their combined impact on poverty. There is broad agreement across the ideological spectrum that assistance programs have reduced poverty in our country. This effect is documented by analyzing the Supplemental Poverty Measure (SPM), which expands on the official poverty measure to include assistance received and the impact of taxes. It then compares these resources to a more realistic (and higher) measure of poverty that includes food, clothing, housing, and utilities costs. The progressive Center on Budget and Policy Priorities calculates from the SPM that direct assistance and targeted tax credits together lifted 37 million Americans above the poverty level in 2018; and that poverty would be nearly double without these programs. The conservative American Enterprise Institute calculates from the SPM that the lowest 20 percent of Americans by income have seen a 79 percent increase in income since 1980. This increase is greater than for the middle 60 percent. The authors conclude that “(t)he combination of the safety net and economic growth has meant that many fewer people experience material deprivation than in the past.”

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Assistance programs also have impacts well beyond poverty. Both SNAP and the federal EITC are associated with improved health and education outcomes for children in participating families. SNAP reduces child and adult obesity and improves mental health outcomes. Housing vouchers reduce homelessness and overcrowding, while also reducing the number of moves families must make to secure housing. Vouchers also support families in moving to better neighborhoods, which has positive lifetime effects for children. Medicaid improves members’ health by providing better access to care, removing cost as a barrier to seeing the doctor, reducing infant and child mortality, and improving income, education, and disability status when children served by Medicaid become adults.

While the remainder of this report describes shortcomings in assistance programs, it is important for the reader to remember that these programs effectively reduce poverty and encourage work and have significant health, housing, education, and nutrition impacts that far outlive the time that a family receives assistance. Shortcomings should be considered opportunities for improvement and not reasons to reduce programs or discourage those who need them from participating in them. Mitigating the negative impacts of these programs is not charity but making an essential societal investment more effective in fighting poverty, encouraging work, and improving our state’s future.

Cliff Effects in Assistance Programs

Benefits may create a “cliff effect,” so named because the amount of benefit falls precipitously at a given level of income. At the cliff, additional earnings reduce benefits so much that families are little better off — or even worse off — than they would be had they not earned more. Since many families receive benefits from more than one program, they may face multiple cliffs as their income increases. Many families receiving assistance are not aware until too late that their overall level of support may fall even as they earn more.

Those who are aware may choose to decline or avoid opportunities to earn more by working more hours, working overtime, or accepting a promotion. Refusing to work more or declining advancement may set back career growth or even cause the worker to lose their current job. The cliff effect not only hurts families, it hurts

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15 Food Research and Action Center, “The Role of the Supplemental Nutrition Assistance Program in Improving Health and Well-being, p. 6-10.


businesses by preventing them from rewarding successful employees.\textsuperscript{18} It can also hurt the overall economy by discouraging workers from pursuing education and credentials. Workers may hesitate to invest in their careers in the short run, as additional earnings can provide little in additional resources. In the long run, both the worker and the economy are better off if the worker pursues higher credentials, but this path may not look like the best one in the short run.\textsuperscript{19}

It is important to remember in any discussion that cliff effects only impact households with earnings and that are receiving some public support.

**Impacts of Cliff Effects**

Cliff effects have several negative impacts, both for participants and for the larger community. First, they discourage participants from working — the very behavior we wish to encourage. Second, cliff effects may reduce or eliminate vital support to families before their earned income has risen and stabilized at a level that will allow them to meet their basic needs, leaving them worse off than when they received assistance. A recent study of working parents in Minnesota indicated benefits often declined before they could pay their bills without assistance. This was even more difficult for the many workers whose wages fluctuated due to the fluid and undependable nature of low-paying jobs.\textsuperscript{20}

Experts agree that program improvements have reduced the severity of the cliff effect. Among these improvements have been a significant expansion of the federal EITC in the 1990s, state actions to maintain continuity of SNAP benefits in the 2000s, Medicaid expansion under the Affordable Care Act in 2014, and reauthorization of the Child Care and Development Block Grant in 2014. These changes are credited with a dramatic increase in work participation among single mothers and with softening the impact of the Great Recession on low-income families.\textsuperscript{21} However, cliff effects still impact low-income families with the size of the effect depending on the individual program and actions of states.

\begin{footnotes}
\end{footnotes}
Conclusion

America’s federal and state governments have partnered in providing an evolving combination of spending and tax-based programs to meet some of the most basic needs of low-income households. Programs vary widely regarding the people they intend to serve, the service they provide, and the impact on households who benefit from them.

Assistance programs have significant positive impacts on Oklahoma families, particularly those with children. Many families continue to need assistance, because their income does not grow. Some families who do experience income growth may not see a net gain in their financial resources. In fact, benefit cliffs mean families could even see a net loss. The federal government has taken several steps recently to reduce the severity of cliffs or even eliminate them, particularly in the areas of child care and health care.
Chapter 2: Plateaus and Cliffs: Simulating the Effects of Tax and Transfer Policies in Oklahoma

Introduction

It is possible for many families to understand and anticipate how a change in their circumstances would affect their costs and benefits from a single assistance program. However, few families participate in just one program. Programs interact in ways that cannot be predicted except by detailed illustration. This chapter shows how a family-level simulator can increase our understanding of how assistance programs and tax benefits for low- and moderate-income families interact. It can help policy makers, advocates, and families who want to understand how assistance supports affect family lives and decisions. Just as important, it can help advocates and policy makers identify and test ways to improve programs to provide support for low- and moderate-income families that is adequate, predictable, and supports upward mobility.

This chapter is based on a household-level simulator that is specific to Oklahoma tax law and assistance programs. The simulator is an automated Excel spreadsheet originally created in 2001 by Mickey Hepner, now a Professor of Economics at Austin Peay State University. OK Policy with the assistance of Kenneth Kickham, Professor of Political Science at the University of Central Oklahoma, updated the simulator to use 2019 eligibility and benefit levels for all programs and to add new programs such as Affordable Care Act subsidies for health insurance. OK Policy will update the simulator regularly as programs change. An appendix with all relevant tables for this chapter can be found online at okpolicy.org.

Further, the simulator and report show a less-publicized impact of assistance programs that could be called a “plateau” effect. This effect occurs when income grows but assistance falls nearly as fast, so that a family has only slightly more resources as wages or hours increase. A plateau doesn’t make a family worse off as its income increases; it just keeps the family from gaining most of the value of the increased earnings.
Understanding the Simulations

The simulator allows us to adjust variables related to household characteristics, benefits received, and earned income to better understand instances in which cliffs occur. Figure 6 below shows the input screen allowing the user to enter information on family status and composition, wages and hours worked, participation in tax and assistance programs, and other income, including child support.

**Figure 6. Inputs for a Single-Parent Household Scenario**

<table>
<thead>
<tr>
<th>Marital Status:</th>
<th>Single</th>
</tr>
</thead>
<tbody>
<tr>
<td>County</td>
<td>Oklahoma</td>
</tr>
<tr>
<td>No. of Bedrooms</td>
<td>2</td>
</tr>
<tr>
<td>Adult 1 Hourly Wage:</td>
<td>$10.00</td>
</tr>
<tr>
<td>Adult 2 Hourly Wage:</td>
<td>$0.00</td>
</tr>
<tr>
<td>Hours Worked Per Week:</td>
<td></td>
</tr>
<tr>
<td>Adult 1</td>
<td>30</td>
</tr>
<tr>
<td>Adult 2</td>
<td>0</td>
</tr>
<tr>
<td>Benefits Received (enter Y or N for each):</td>
<td></td>
</tr>
<tr>
<td>TANF</td>
<td>n</td>
</tr>
<tr>
<td>Foodstamps</td>
<td>y</td>
</tr>
<tr>
<td>EITC</td>
<td>y</td>
</tr>
<tr>
<td>CCTC</td>
<td>y</td>
</tr>
<tr>
<td>Housing Aest.</td>
<td>y</td>
</tr>
<tr>
<td>Medicaid</td>
<td>y</td>
</tr>
<tr>
<td>Child Care Subsidy</td>
<td>n</td>
</tr>
<tr>
<td>Child Tax Credit</td>
<td>y</td>
</tr>
<tr>
<td>Unearned Income</td>
<td>y</td>
</tr>
<tr>
<td>Unemployment</td>
<td>y</td>
</tr>
<tr>
<td>Child Support</td>
<td>y</td>
</tr>
<tr>
<td>Other Income: (enter monthly amt)</td>
<td></td>
</tr>
<tr>
<td>Child Support</td>
<td>n</td>
</tr>
<tr>
<td>Age &amp; Sex of Family Members:</td>
<td></td>
</tr>
<tr>
<td>Member</td>
<td>Sex</td>
</tr>
<tr>
<td>--------</td>
<td>-----</td>
</tr>
<tr>
<td>Adult 1</td>
<td>f</td>
</tr>
<tr>
<td>Adult 2</td>
<td>m</td>
</tr>
<tr>
<td>Child 1</td>
<td>0</td>
</tr>
<tr>
<td>Child 2</td>
<td>0</td>
</tr>
<tr>
<td>Child 3</td>
<td>0</td>
</tr>
<tr>
<td>Child 4</td>
<td>0</td>
</tr>
</tbody>
</table>

The simulator graphs the relationship between earnings and total resources and automatically generates six graphs. These graphs cover three household types - single, married, and cohabiting. In each type, one graph shows how wage increases affect assistance and resources and the other shows how working more hours changes the results.
This figure shows a parent of one who works 40 hours a week, with all assumptions shown in Figure 6. The family receives all program assistance and tax credits for which they are eligible. This graph is designed to help the reader understand the simulator’s output rather than to analyze the results for this scenario. Each major output feature is described as follows:

- As the graph moves from left to right, the parent’s hourly wage increases. (The simulator has an alternate graph, shown in figures 8 and 9, in which the wage is constant but hours worked increase.)

- The green line, with white data labels, is monthly earnings.

- The orange bar, at the bottom of the graph and labelled in black, is the after tax income resulting from earnings at each level. After-tax income includes earnings, child support, and any other unearned income, less federal and state income and FICA taxes. This also grows with each wage increase since taxes take only part of each additional dollar earned. Child support income also gradually reduces as the custodial parent earns more.

- The six bars above the orange one show assistance and tax credits the family receives and are keyed to the legend. In this case, housing assistance is the largest amount, followed by Medicaid, the Earned Income Tax Credit, SNAP, and Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC). Assistance starts out high at the lowest wage level and tapers off with income increases.

- The blue line at the top of the bars, labelled in the yellow box, shows the total resources available to the household, including earnings after taxes, cash assistance and tax credits, and the value of non-cash assistance (e.g. Medicaid coverage for the children).
A policy that is designed to minimize plateaus and cliffs would result in a graph with these four key features:

1. Total resources (blue line) will be higher than monthly income (green line) as long as the family cannot support itself on that income. Figure 7 meets this test.

2. Total resources (blue) will grow steadily with each increase in monthly income (green). Total resources do not need to grow as fast as monthly income but should increase sufficiently that the family keeps a sizable share of each new dollar it earns. Figure 7 only meets this test up to an hourly wage of $11, after which resources grow much slower than earnings grow.

3. Total resources will never fall as income grows. This constitutes a cliff, where the family is worse off even as it earns more. Figure 7 meets this test up to a wage level of $18 per hour.

4. When a family is no longer eligible for assistance, its total resources (blue line) will equal its after-tax income (orange bar). In Figure 7, the household reaches that point at a wage of $20 per hour.

As the rest of this chapter indicates, few families enjoy a path that is free of both cliffs and plateaus. However, all of these families are better off than they would be without assistance due to the relatively high value of their benefits.
Simulations of Benefits and Assistance for Hypothetical Families

In the six scenarios that follow, assumptions are set so that each family receives all of the benefits and tax credits for which they may qualify. This helps show the interaction between programs, and shows the impact of tax and transfer policy. It is important to remember, however, that few families receive all the assistance for which they may qualify due to scarcity of resources, particularly in housing assistance.

When considering scenarios, it is important to note families may choose not to fully participate in benefits for many reasons, including:

- The application process is complex and most programs require a separate application made to one of several agencies that operate programs. Oklahoma has taken preliminary steps toward a combined application. The Oklahoma Department of Humans Services’ OKDHSLive program allows online and telephone applications for SNAP, Medicaid, and TANF, as well as online renewals for SNAP, TANF, and child care assistance. Only Minnesota appears to have a similarly comprehensive benefit application. Other states, including Texas and Kentucky, offer online benefit screeners that are not applications but rather tools families can use to determine eligibility for certain programs. Oklahoma should provide a comprehensive benefit screener so that more families who need assistance become aware and can access the appropriate programs.22

- Families may be unwilling to comply with program requirements, such as cooperating with child support enforcement.

- Many families are prevented from using assistance by reason of immigration status, criminal history, program sanctions, or other factors.

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Situation 1: Single Parent Entering the Work Force, with One Child

Situation 1 shows the path a family follows when a non-working adult begins to work. This single parent of one child, age 5, gradually enters the work force, adding a few hours of work each month. This graph shows what happens as hours increase, assuming a fixed hourly wage of $10.

Figure 8. Change in Resources as Working Parent’s Hours Increase at a Constant Wage.

If the parent does not work at all, the family has $2,775 in monthly resources, from Medicaid, housing assistance, SNAP, and TANF. Total resources increase due to earnings, but only until the mother works 10 hours per week. At 15 hours, earning only $650 per month, the family loses $788 in monthly resources when compared with working 10 hours per week. Since TANF ends at this point, so does Medicaid coverage for the adult. The loss of two important sources of support is only partly made up for by the growth in earnings and a higher EITC. TANF is far from a permanent solution for this or any family because benefits are low, conditions including drug testing, work requirements, and regular reporting can be onerous, and participation is time-limited. However, many families would be better off if they retained TANF benefits for a longer time period. After reaching this cliff, total resources grow until well over 40 hours of work a week. However, the family still has fewer resources when the adult works 35 hours than when she works 10 hours a week. A second cliff is shown going from 65 to 70 hours, but this is a highly unlikely occurrence for a single parent.
The next graph, Figure 9, shows that this family’s situation dramatically worsens if they receive child support. To qualify for TANF, the custodial parent must agree to cooperate with child support enforcement. However, child support counts as income for TANF, so it can quickly end TANF benefits and thus end Medicaid coverage for the adult in the household. In fact, Figure 9 shows that the family would not qualify for TANF, even with no earnings. If the non-working adult receives child support, the family would have $1,880 in resources.

Figure 9. Change in Resources as Part-time Working Parent’s Hours Increase at a Constant Wage, while Receiving Child Support.

Without child support the family would have TANF and adult Medicaid coverage, increasing the available resources to $2,775, as shown in Figure 8. In fact, a single parent is better off without child support than with it when working few hours and is little better off regardless of the hours worked. In the unlikely event that the parent works more than 60 hours each week, the end of Medicaid coverage for the child and the loss of housing benefits would result in a $180 monthly loss of resources, even as the adult earned $211 more each month.
Situation 2: Single Parent Working Full-time, with One Child

In Situation 2, the adult in Situation 1 works full time; Figure 10 shows how family resources change as hourly wages increase. As in Situation 1, the parent has one child, age 5, and receives child support.

The parent’s earnings increase as her wage increases. Total resources are well above these earnings at low wages. With low wages, housing assistance gives the family the largest boost, followed by the Medicaid coverage for the children, and the EITC. As wages grow to $15 per hour, assistance falls gradually, but not as fast as income rises. As a result, the family’s total resources grow to this point. The rise is gradual, however, and the family is only $196 per month better off at $15 per hour than at $11 per hour, despite $669 more in monthly earnings.

Moving from $15 to $16 per hour, the family reaches a cliff. At $15 per hour, the parent works 40 weekly hours, earns $2,600 monthly, and receives $239 for child support. This amounts to $2,839 in monthly income. Assistance and tax credits add $706 monthly to reach $3,545 in total monthly resources. At $16 per hour, however, total monthly resources decrease by $191 to $3,354. That is, higher hourly earnings result in a net loss in total monthly resources. The graph shows that Medicaid assistance for the child (green bar) ends between $15 and $16 per hour. While Medicaid is partially replaced by an increase in the Premium Tax Credit (insurance subsidy) under the Affordable Care Act, every scenario has a cliff when moving from Medicaid to the Premium Tax Credit.
More striking than the cliff effect, perhaps, is the way the cliff interacts with the plateau effect. When the wage grows from $11 to $16 per hour, earned income increases by $867 monthly, but total resources only increase $6 per month. Assistance and tax supports, then, can not only create cliffs, but they can keep families from becoming better off as they earn more. This “plateau effect” is contrary to the goals of support programs, which are designed to encourage work and support upward economic mobility.

However, it is important to note that even at $16 per hour, this household has more monthly resources after taxes and program assistance ($3,354) than it would have with earnings alone ($2,773). One can conclude from this scenario that assistance programs provide essential, if imperfect, supports for work and upward economic mobility.

Situation 3: Single Parent Working Full-time, with Two Children

Figure 11. Single Parent, 40 Hours/week, 2 Children, Receiving Child Support, Varying Wage Rate ($7 to $21 per hour).

In this scenario, the family has two children, one age five and one age three. The additional child increases the poverty level, which in turn extends eligibility for several programs to a higher income level. As in Situations 1 and 2, assistance and tax credits significantly increase the family’s total resources at the lowest wage levels. From there, total resources grow modestly as earnings increase and various benefits phase down. As in the two prior scenarios, assistance and tax credits fall as earnings grow, so that the family’s total resources do not grow as fast as earnings rise. The family is still marginally better off as earnings increase.
In Situation 2, a cliff arose between $15 and $16 in hourly wages. In Situation 3, because of the second child, that cliff comes later — between $19 per hour and $20 per hour — but it is steeper. The family loses $425 (9 percent of its total resources) each month with the $1 hourly wage increase, much more than the 5 percent decrease in resources in the one-child scenario. As in Situation 2, the end of Medicaid coverage for the children is the primary cause of the cliff, which comes later because the Medicaid eligibility threshold is higher with more children.23

The next increase in hourly wage rate, from $20 to $21, exemplifies how resources stay flat after a pay raise at higher wage levels. The $168 increase in monthly earnings ($3,790 to $3,958) results in a $124 increase in after-tax income, but just a $35 increase in net monthly resources. Increased FICA and state income taxes combines with reductions in the EITC and housing assistance, which results in the family keeping just one-fifth of the parent’s higher earnings.

Situation 4: Married Couple, Both Working Full-time, with Two Children

This situation adds a spouse to the previous family of three. The scenario holds the spouse at $10 per hour for a 40-hour-week. The chart shows what happens as the other spouse’s hourly wage increases.

Tax and assistance patterns are dramatically different for married couples, particularly if both partners work. As with the addition of a second child, adding a working spouse increases the income at which the cliff effect occurs, but that cliff is more dramatic. Total resources reflect more of a plateau effect for married couples than single parents, thanks to impacts of higher income from the second worker.

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23 At a lower earnings level ($3,120), the $32 loss of WIC contributes to a tiny cliff of $3.
For married couples with children, Figure 12 shows that the cliff occurs when one parent’s hourly wage increases from $15 to $16 (at which point the family is worse off than when that parent earned just $7 per hour), compared with an hourly wage of $19 to $20 for the single parent. As with the single parent, this cliff results from loss of Medicaid for the children. The married couple experiences a second cliff when one adult’s wage increases from $17 to $18 hourly. At this point, the family reaches the maximum income for child care subsidy, and their cost for child care goes from a $328 monthly copay to the full $1,007 monthly cost of care for their two children. The single parent would eventually face this cliff as well, but not until their wage reached $24 per hour.

Figure 12 shows that low- and moderate-income married couples see little payoff if their wages increase. There is a relatively flat line for total resources as one parent’s monthly earnings increase from $2,947 ($7 per hour) to $3,987 ($15 per hour). Over this range, total monthly resources increase from $5,122 to $5,354 — a change of just $232, compared to the earnings increase of $1,386. This difference results from both increased taxes and lower assistance. For a married couple who both work, federal, state, and FICA taxes take a larger share of earnings than for single people. The higher household earnings also speed up the phase-out of housing assistance, the EITC, and child care subsidy.

After one adult reaches an hourly wage of $16, the family’s monthly resources are less than when that same adult was making $7 hourly. Indeed, even when this person earns $21 per hour, total resources are $309 per month less than when they were making minimum wage.

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24 Results would be the same if the spouse’s income increased by the same amount, or if an increase of this size was split between two earners.
Situation 5: Cohabitating Couple, Both Working Full-time with Two Children

This situation involves the same single parent of two children as Situation 3. Now, however, an unrelated adult lives with them. Figure 13 below includes both adults’ earnings and resources. Figures 12 and 13 thus show two households with identical income scenarios, except in Figure 12 the adults are married and in Figure 13 they are not. In this cohabiting scenario, like the married couple, one adult is assumed to earn $10 per hourly working full-time, while the other adult works full-time and the hourly wage varies.

Figure 13. Cohabiting Couple, 2 Children.

As with the married couple scenario, the graph shows a cliff when moving from $15 to $16 per hour. Here, total resources decrease by $381 per month, even though they earn $173 more. As in previous scenarios, the loss of Medicaid ($668) is primarily responsible. Also like the married couple, this household loses child care subsidy — and thus $679 in resources — when the hourly wage increases from $17 to $18. While the married couple has fewer resources at a $21 hourly wage than at minimum wage, the cohabiting couple has $35 more per month at $21 per hour than at $7 per hour. Differences in household types are discussed in detail in the next section.
Situation 6: Single, Childless Adult Working Full-time

This situation demonstrates the differences in tax and program policy for households with and without children. This household consists of a single adult, age 20, working full-time. At minimum wage, this person would earn $1,213 monthly, but have after-tax income of only $1,088. Unlike a household with children, a single-adult household owes both federal and state income tax as well as FICA, even at this comparatively low income level. Housing assistance ($325), SNAP ($47), and the and Earned Income tax credits ($80) add $452 monthly to after-tax income. It is important to remember in this and other scenarios that limited federal funding for the housing assistance means many who would qualify will not receive the assistance.

Figure 14. Single Adult, No Children.

This person does not face any cliffs as earnings rise, since the programs that provide assistance all reduce benefits through slopes rather than cliffs. Similarly, there are no plateaus. While the person earns $533 per month more at $11 per hour than at minimum wage, resources increase by $260. At $12 hourly and above, this household consistently has lower resources than earned income, as assistance ends and taxes take an increasing share.

Comparing Assistance by Family Type

This section compares similar assumptions for three family scenarios — a single parent, married, or cohabitating — as well as a single, childless adult. In the first three cases, the household has two children and Adult 1 works full-time. In the married and cohabitating situations, a second adult earns $10 per hour and works full-time. The households do not receive child support in any of the scenarios. In the
childless adult case, there is no second adult in the household. These families are the same as in Situations 3 through 6, except the child support is removed from Situation 3 so the three scenarios are more comparable.

Figure 15 shows total resources with a solid line, with the single-parent household in blue, the married household in orange, the cohabiting household in green, and the single adult in purple. The single households’ earnings (for the single-parent and single adult) are shown in black triangles. The couple households’ earnings (married and cohabiting households) are shown only once on the chart, in black squares. Both have the same earnings, with one earner working full-time at $10 per hour and the other working full time at a growing hourly wage.

Taxes, direct benefits, and tax credits make up the difference between the earnings (markers) and total resources (lines). Taxes and assistance make the biggest different for the single-parent household, particularly at low wage levels. Cohabiting households receive higher assistance and more favorable tax treatment than otherwise identical married couples, particularly in the middle of the income range. Single, childless adults get the least benefit from taxes, direct assistance, and tax credits, to the extent that their total resources are less than their earnings starting at a wage of $12 per hour. This point occurs at $18 per hour for married couples and beyond $21 per hour for the single-parent and cohabitating adult households.

Figure 15. After-tax Income and Total Resources for Different Family Structures.
The difference between earnings and total resources is determined by each household’s tax liability and by the assistance programs in which it participates. Figure 16 shows the impact of taxes and Figure 17 shows the impact of assistance on the four household types. For this analysis, the EITC and the Premium Tax Credit are treated as assistance programs rather than tax credits. Taxes may be negative, because tax credits for children and child care at the federal level and sales tax relief at the state level may result in tax refunds even when little or no taxes are owed. This is the case for the single parent, until they earn $17 per hour. In contrast, the childless single adult — earning the same as the single parent — has higher taxes that increase constantly as earnings increase.

The married couple consistently pays higher taxes than the cohabiting one, even though their earnings are identical. This results from the married couple’s incomes being combined for federal and state income tax purposes and thus facing higher tax rates at many wage levels. In comparing these tax impacts, recall that many households may also receive the Premium Tax Credit and EITC, which results in lower overall taxes.

Figure 16. Taxes for Different Family Structures.
Figure 17 compares assistance from programs (including the EITC and PTC) for the four household types. Assistance is consistently highest for the single-parent household. Along with tax policy, assistance policy favors the single parent and nearly makes up for the lack of a second earner. As with tax policy, assistance and tax credits somewhat favor the cohabitating household when compared to the married one. As one would expect, assistance falls continuously as income grows in all cases. In both the married and cohabiting households, assistance drops dramatically when Adult 1’s hourly wage increases from $15 to $16. As discussed previously, this is the income level at which children no longer qualify for Medicaid. The single-parent household faces this same cliff, but when not until the wage reaches $21.54 per hour, just beyond the end of this graph. A single, childless adult receives the least assistance, as most assistance programs are geared toward supporting children.

Figure 17. Assistance and Tax Credits for Different Family Structures.
Assessing Tax and Assistance Policies

Tax and assistance policies designed to help low-income families have two purposes: 1) to provide adequate support for the family until its income makes it able to support itself, and 2) to encourage work and movement toward self-sufficiency by increasing total resources as earnings increase.

What do these simulations tell us about how well Oklahoma’s programs meet these purposes? Recall that the simulations have assumed families receive all the benefit for which they qualify, which is not always the case. For those that do, though, the simulations provide ample evidence that our tax and transfer policies do fulfill their first purpose, which is to provide adequate support to families. This is made clear by reviewing Figure 15. It shows that, even at minimum wage, total resources are over $4,500 monthly for a family of three and $5,400 for a family of four. In both cases, these exceed 2.5 times the federal poverty level, when after-tax income alone would provide just 1.25 times the poverty level.

Unfortunately, the simulations show that tax and transfer policies do not consistently meet their second purpose, which is to encourage work and movement toward self-sufficiency. Figure 15 shows that each of the three families with children faces long plateaus, in which they see little overall gain as they earn more. Figure 18 below shows how erratic life is within these plateaus and cliffs. This graph shows how many dollars the family gains in total resources (after-tax income plus assistance and tax credits) for each additional dollar it earns.

Figure 18. Gain in Resources per $1 Increase in Earnings for Different Family Structures.
The single parent, shown in the blue line, initially sees gains of 50 cents per dollar earned. The gain falls when hourly wages move from $9 to $10 as a child care copay begins, then increases at $11 per hour when the Affordable Care Act Premium Tax Credit begins. After that, this household sees a gain of 1 to 22 cents of each new dollar earned up to an $18 hourly rate. However, gains are erratic and difficult to predict. In contrast, the childless single adult sees higher gains from each dollar earned, since this household receives less assistance to start.

Cohabitating families (gray line), with two full-time working adults, gain more of each dollar of earnings than single-parent-headed families, while married families (orange line), also with two full-time workers, gain less. The cohabiting family generally sees more of increased earnings when one adult’s wages grow. Compared to the cohabiting family, the married family generally sees less of each additional dollar earned. It sees real gains of less than 21 cents of each additional dollar one adult earns until that person reaches $15 per hour. For both the cohabiting and married family, gains are punctuated by cliffs at hourly wages of $16 and $18. The dip at $16 per hour occurs when children lose Medicaid coverage, while the second dip at $18 per hour results from the end of child care subsidy.

Figure 19 shows how increased earnings affect total resources as one adult’s hourly wage rate climbs from $7 to $21. Each household earns $2,427 more per month with the wage increase. For the single-parent household, total resources grow by $603 per month, meaning the family sees 25 percent of the increased earnings. The married couple’s total resources decline by $277 (11 cents per additional dollar earned). The cohabiting household’s resources grow by just $34 of the $2,427 additional earnings. The childless adult gains $1,241 per month, or 51 percent of their additional earnings.

Figure 19. Change in Earnings and Total Resources as Hourly Wage Increases from $7 to $21.
Chapter 3: Strategies for Reducing the Cliff Effect

Introduction

This chapter describes the general strategies for reducing cliffs, how well those strategies are incorporated into current programs, and what states — including Oklahoma — have done to reduce the cliff effect.

General Strategies for Mitigating the Cliff Effect

Programs can be designed to minimize benefit cliffs, and governments have several avenues available to lessen the likelihood that families will experience a sharp drop in benefits as income increases. Research shows that such program designs better support work and stabilize family life.25

The most effective way to reduce cliff effects is to reduce benefits gradually as income grows. Effectively, this replaces a cliff with a slope. For example, the Earned Income Tax Credit (EITC) and the Supplemental Nutrition Assistance Program (SNAP) both incorporate this feature. In SNAP, for instance, households lose only 24 to 36 cents in benefits for each additional dollar earned.26

The slope approach has several advantages for families. First, benefit slopes can allow families to have a net income gain by reducing the benefit more slowly when income is increasing. Second, it allows them to understand in advance how benefits will reduce as income grows. Third, when they reach the maximum income, they are not faced with a sudden or unexpected loss of benefits.

As shown in Chapter 2, however, slopes can contribute to “plateau effects,” where slopes accumulate and offset earnings by reducing several benefits at once. Nancy Cauthen explains how this affects families:

Since eligibility and phase-out rules for different programs are typically designed independently from one another, they can have a cumulative effect far more severe than policymakers likely intended. For example, if three benefits each phase out at a rate of $.30 for

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each $1 of earnings, the cumulative effect could be that an additional dollar of earnings results in a loss of $.90 in benefits, leaving only a $.10 gain. This is the equivalent of a 90 percent “marginal tax rate.” Although not really a tax, the concept of a marginal tax rate is useful because it conveys the net value of additional earnings.27

Clearly, a 90 percent effective tax rate does not encourage work, or support upward mobility. Further, Cauthen’s analysis does not consider that the family faces a payroll tax and possibly federal and state income taxes that take a share of each dollar as well. The payroll tax for Social Security alone would take 7.65 percent of the additional earnings, making the true marginal tax rate in her example nearly 98 percent.

There is no rule of thumb to determine the appropriate steepness of a benefit slope. However, a benefit reduction of no greater than $0.25 per additional dollar earned (a 25 percent marginal tax rate) is an appropriate target. This would reduce, though not eliminate, the cumulative effect noted by Cauthen above. It would also be a modest improvement over existing program slopes for SNAP, housing assistance and the EITC. Income and payroll tax rates provide another way to validate the 25 percent target for a slope. A family with income twice the federal poverty level would likely pay 13 cents per dollar in federal income tax, 5 cents per dollar in state income tax, and eight cents per dollar in FICA, for a total marginal tax rate of 23 percent.

Extending the certification or redetermination period, during which families maintain the same benefit regardless of income changes, also reduces cliff effects. In some cases, income growth does not affect the benefit during the certification period. In these cases, extending the benefit period allows the family to retain more income with no short-term loss of benefits and perhaps to better prepare for the loss of benefits. The 2014 federal reauthorization of the Child Care and Development Fund mandated such an extension, so that states must certify child care subsidy benefits for 12 months.28 During this period, an income increase does not result in a higher copay for child care, and results in a loss of assistance only if the income exceeds the maximum allowed under federal law.

Cliff effects can also be mitigated through income disregards. Disregards are most commonly applied to earned income; a fixed dollar amount and/or a percentage of earned income is simply not counted (disregarded) as income. This allows a family to earn more without losing a benefit entirely. Families are encouraged to earn more and are more likely to be able to withstand the reduction or loss of benefits as their income grows. Research indicates that earnings disregards have some positive

impact in reducing deep poverty.\(^29\) SNAP disregards 20 percent of earned income.\(^30\) Supplemental Security Income (SSI), SNAP, Temporary Assistance to Needy Families (TANF), and housing assistance programs all feature earned income disregards.

Child support disregards are also used by some states, but not Oklahoma. Child support disregards are most common in the TANF program, where there are determined at the state level. Child support is disregarded for Medicaid and the Premium Tax Credit by federal law.

The state can increase or eliminate some asset tests, which can disqualify families from receiving assistance even if their income has not grown enough to support themselves. While assets often rise with income, sometimes the asset precedes the income, such as when a family purchases a car that is needed to get to a new job. Raising or removing asset limits can thus extend the time that families can rely on assistance.

Finally, cliff effects can be eliminated by making benefits universal, that is, available to all regardless of income. These programs do not create cliffs because benefits never decline. Social Security, Medicare, and personal exemptions and standard deductions to federal and state income taxes are the most common examples. School meals can be made universal through a program known as Community Eligibility in school districts where 40 percent or more of students qualify for free meals. Under Community Eligibility, children receive meals free even when family income rises above the maximum for free or reduced-price meals.\(^31\)


\(^{30}\) Wolkomir and Cai, p. 2.

How State Policies Have Mitigated Cliff Effects in Assistance Programs

Cash Assistance Programs

TANF

TANF cash assistance is generally available to the very neediest among us. Perhaps not coincidentally, it is the hardest benefit for which to qualify and maintain. Cliff effects are common with TANF and they occur at very low income levels.

States have several options for reducing cliff effects in TANF. First, states can raise the maximum income level, which currently varies from $268 to $2,243 monthly for a family of three. Only two states, Hawaii and Minnesota, have limits exceeding the poverty level. Oklahoma’s maximum income level for new applicants is $823 monthly.32

States can encourage adults in TANF households to work by disregarding some of the income they earn, meaning part of earned income does not count against the maximum income eligibility amount for TANF. Nearly every state grants an income disregard. Disregards are normally a base dollar amount, with a percentage of income above that base amount disregarded as well. The highest base amount is $250 in Virginia and the highest percentage amount is 75 percent in Illinois and Indiana. Oklahoma disregards all earned income in the first three months, then $240 plus half the amount over $240 in later months.33

Child support payments also can reduce or end TANF benefits for families. Federal law requires that families receiving TANF cooperate with child support enforcement as a condition of receiving TANF, and that they assign child support they receive to the state. In this case, the state retains the child support payment but count it as income for the family receiving TANF.

States have taken two steps to reduce the impact of child support payments on TANF recipients. First, 11 states disregard small amounts — $50 to $200 monthly — from income calculations. Second, 16 states allow families to keep some of the support payment, with amounts transferred to the family ranging from $50 to $200.34 Finally, Colorado in 2017 became the first state to disregard and pass through all child support received by TANF participants. This dramatically increased collections received by TANF families, from $300 million in 2017 to more than $500 million in 2018. The share of TANF families with a child support case who received

32 Tran, et al., p. 105-6.
33 Tran, et al., p. 113-4.
support grew from 38.2 percent to 42.2 percent in two years.\textsuperscript{35} Oklahoma does not disregard any child support receipts from income for TANF recipients. As a result, a household that receives child support will receive lower TANF benefits than one without child support.

Non-Cash Assistance Programs

Medicaid

Medicaid, which provides health insurance for low-income adults and children, is an example of the harshest form of cliff effect. Recipients are eligible for the same package of benefits as long as they remain below the maximum income eligibility level. Once they exceed that level, they are faced with the choice of going without insurance or paying for private insurance. Both options can prove to be very expensive for families with modest incomes.

States can forestall the impact of the cliff by increasing the maximum income to maintain eligibility. The most common way to do this is to expand Medicaid under the Affordable Care Act (ACA); 38 states and the District of Columbia adopted Medicaid expansion. Expansion makes non-elderly adults eligible if their income is less than 133 percent of the federal poverty level (or $32,248 for a family of four). Once a family reaches that level, they are eligible for subsidized private coverage under the ACA. In expansion states, families experience a smaller cliff in the transition from Medicaid to subsidized coverage, while in states that have not expanded coverage, the cliffs “remain steep and grim.”\textsuperscript{36}

Oklahoma voters agreed to expand Medicaid via the State Question 802 ballot initiative in June 2020, with a July 1, 2021 deadline for implementation. Before implementation, Oklahoma covers adults only for families with dependent children where family income is less than 42 percent of the federal poverty level ($10,739 for a family of four). Eligibility levels are higher for pregnant women and for children; neither level is affected by Medicaid expansion, which affects non-pregnant, working-age adults only.\textsuperscript{37}


\textsuperscript{36} Welton, p. 2.

SNAP

Under federal law, states have an option for reducing, but not eliminating, the cliff effect for families receiving food assistance through SNAP. Forty-two states, including Oklahoma, have adopted categorical eligibility, which helps participants in three ways.

1. States can waive the asset test, and Oklahoma has done so. Keeping assets such as a car or a savings account while continuing to have help with food increases the likelihood the family will eventually be able to make ends meet without SNAP.

2. Some participants can keep benefits longer when their income rises. Categorical eligibility allows states to raise the gross income limit. As a result, some families keep a benefit that can be $100-$200 monthly for a longer time.

3. Families with children also benefit from SNAP categorical eligibility because it allows their children to be directly certified for free meals without needing to complete a separate application through the school.

The current Administration has proposed a rule to eliminate categorical eligibility. An estimated 3.1 million households nationally (8,500 in Oklahoma) would lose food benefits sooner than they do with categorical eligibility should the rule take effect, which would probably be in 2020. That means some families would reach a cliff where they would lose SNAP food benefits and need to re-apply for school meals. All SNAP applicants and recipients could face delays in starting and keeping benefits because states will have to divert staff to reinstate asset tests.

Categorical eligibility may soften the cliff effect for some families participating in SNAP, but it does not eliminate it. Regardless of the waiver of the asset test or an increase in the gross income limit, all SNAP households lose food assistance once their net income exceeds the poverty level.

39 Wolkomir and Cai, p. 5.
Child Care Subsidy

The Child Care and Development Block Grant (CCDBG) funds state programs to subsidize child care for parents who work or are in education or training. The high cost of child care means that losing a child care subsidy can cause a significant disruption in the life of a low-income family. Child care could require one-fourth of the income of a single mother with an infant when her income exceeds the maximum subsidy income level.

CCDBG has always given states flexibility to set program income eligibility, participation requirements, copayments and certification periods. The 2014 reauthorization, however, made dramatic changes that require states to reduce the cliff effect. The most important was to mandate a 12-month certification period, in which income increases cannot end subsidy unless the income reaches the maximum allowable under federal law. Further, states are required to continue subsidies for care for a 90-day job search period after a parent completes training or has to leave their job. Oklahoma implemented these changes in 2017. At the same time, Oklahoma implemented a new policy, not required by CCDBG, that copays cannot increase even if income increases during the 12-month period.

Federal law allows states to set eligibility levels up the federal maximum of 85 percent of state median income ($52,250 in Oklahoma). They can raise the maximum income during the 12-month redetermination period and into following redetermination periods. Oklahoma recently raised its income limits to the 85 percent level both for initial and ongoing eligibility. This change allows families to keep receiving subsidies as their income grows. Even with this flexibility, in Oklahoma as in most states, families still face a significant cliff when they reach the maximum income because copayments rise gradually as income rises. A single mother with one infant child would see her costs grow from a $223 copay to an $827 monthly bill for child care when she earns enough to lose subsidy coverage.

Some states have tried to smooth this cliff by increasing copays faster as income grows. Idaho, for example, keeps copays fairly low until family income reaches $1,200 monthly, then increases them quickly to the maximum income of $1,600 monthly. After the family reaches that maximum, they would not face a significant increase in costs on the unsubsidized private market. New Hampshire takes a somewhat different approach by breaking the cliff into more, shorter cliffs. Copays are low until the family income reaches about $1,500. After that point, copays increase in steps until the family reaches $3,000 in monthly income, when the copay increases by nearly $400 a month before rising slowly again to the maximum income level.

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States must consider tradeoffs in this decision though. These two states and others like them have the smallest cliff effects. However, they also require the highest copays from moderate-income families on subsidy. States have to decide if their participants are best served by a steep early rise that eliminates the cliff or a gradual rise that keeps money for other needs while subsidy continues.43

National School Lunch Program

The National School Lunch Program was created in 1946. Since that time, school meals have been available free (presently to children whose family income is less than 130 percent of the federal poverty level), at a reduced price (up to 185 percent of poverty), or paid by the family. The Community Eligibility Provision, which became available nationwide in the 2014-15 school year, allows schools and school districts to make meals free to all students when 40 percent of the students are identified as eligible for free meals.

When eligible schools and districts adopt Community Eligibility, the school meal benefit becomes universal; no families face a loss of food benefits when their income exceeds the maximum. In the 2018-19 school year, 64.4 percent of eligible schools nationally adopted Community Eligibility. Oklahoma’s adoption rate for Community Eligibility, 75.6 percent, is above that average and trails 15 states.44

States can provide more resources to parents with children in school by participating in the U.S. Department of Agriculture’s Summer Electronic Benefits Transfer (Summer EBT) pilot program. This program takes into account the fact that many low-income children depend on school meals for basic nutritional needs but cannot get school meals during the summer. Some families in participating states receive a debit card with a fixed dollar amount to purchase groceries in the summer; other families received a monthly package of age-appropriate food. An evaluation showed that families were eager to participate in the program and that children’s nutrition and food security improved.45

Federal funding for Summer EBT is limited and temporary, and it is available only through multi-year demonstrations. Eight states, which does not include Oklahoma, are participating, as are two Oklahoma tribes, the Cherokee and Chickasaw nations.46

44 Pickren.
State Tax Credits

Earned Income Tax Credit

The federal Earned Income Tax Credit (EITC) is available to low-income families with earned income. The amount of EITC first grows at a fixed percentage of earnings, then levels off until a “phase-out amount.” As the family’s income increases past the phase-out amount, the credit declines by a fixed percentage of earnings, which ranges from 7 to 21 percent of each additional hour earned, depending on the number of children in the home, so no cliff effect is present.\(^47\)

The federal Child Tax Credit (CTC), which also requires families to have a minimum amount of earned income, is partially refundable, and now provides benefits to families with income over $400,000, also has a gradual phase-out rate.\(^48\) Many states have state tax credits that incorporate some or all aspects of the EITC and the CTC. Oklahoma’s EITC is 5 percent of the federal credit and Oklahoma offers a child/child care tax credit that is the larger of 5 percent of the federal CTC or 20 percent of the federal Child and Dependent Care Tax Credit (CDCTC). However, unlike most states, Oklahoma’s credits are not refundable, which creates a cliff effect for many taxpayers. For approximately 200,000 Oklahoma taxpayers, claiming the full amount of the EITC erases all state income tax liability. If the EITC and the child/child care tax credit are larger than the tax liability, the taxpayer loses some of the benefit of the credit because the excess cannot be refunded to the tax payer. This creates a cliff in which one dollar of additional income can erase more than $100 in tax benefits.\(^49\)

Of the 29 states with a state EITC, 25 make the credit refundable, which eliminates cliff effects.\(^50\) Of the six states with state CTCs, including Oklahoma, two make them refundable so that there is no cliff, though other features in these states may create cliffs at higher income levels.\(^51\) This impact is significant in Oklahoma because it is one of just 13 states applying the sales tax to groceries.\(^52\)

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\(^51\) Tax Credits for Workers and Their Families, “State Tax Credits,” accessed Sept. 5, 2019 at http://www.taxcreditsforworkersandfamilies.org/state-tax-credits/#1468434105770-44f9c6c5-52e0.

Sales Tax Relief Credit

States also use a number of other tax credits to support low-income families. Oklahoma, for example is one of seven states offering a tax credit that is designed to reduce the disproportionate impact that sales taxes have on low-income taxpayers. Sales taxes on groceries have a disproportionately negative impact on low-income families because they spend a relatively higher share of their income on food.

Oklahoma’s Sales Tax Relief Credit falls from $40 per person to $0 when the household reaches the maximum income limit ($20,000 for an individual and $50,000 for families with dependents or individuals over age 65). This creates a $160 cliff for a family of four going from $50,000 to $50,001 in income. Two states eliminate the cliff by phasing their credit out as income grows; reductions begin at $5,000 of income in Hawaii and at $40,000 in Maine. As with child care copays, states must trade off the negative impact of cliffs with the positive impact of providing meaningful levels of support to a wider range of low-income households.

Conclusion

Several options are available to mitigate the cliff effect. The federal government paves the way for reducing cliffs by giving states discretion to adapt programs to continue to be supportive to families as their income increases. Many states have taken advantage of this discretion to expand Medicaid, extend the times families can receive food aid and child care subsidies without a penalty for income growth, and smooth out benefits with an off-ramp instead of a cliff. Oklahoma has taken advantage of some opportunities, but not others. Chapter 4 recommends steps Oklahoma can take to incorporate ideas from other states and to specifically tailor assistance to better support families and encourage work.


Chapter 4: Recommendations for Oklahoma

Introduction

Our analysis indicates that families face cliff effects both for individual programs and through the interaction of programs. Chapter 2 also indicates that most families face plateau effects, when once the adult(s) work full-time, increased earnings do not result in significant increases in overall resources available to the household.

This chapter proceeds in two parts. The first part provides program-specific recommendations. It is organized by the type of program as defined in Chapter 1 and then by individual program. The second part shows how the recommendations in total would change the circumstances of hypothetical households described in Chapter 2.

In reviewing and evaluating these recommendations, it is important to understand that cliffs and plateaus can be difficult or even impossible to eliminate entirely. Bearing that reality in mind, the recommendations address priorities in this order:

1. increasing household resources at all income levels,
2. mitigating or eliminating benefit cliffs where possible,
3. extending cliffs so that, if they are necessary, families do not reach them until they are closer to self-sufficiency, and
4. improving plateaus so that families’ total resources grow as their earnings grow.

Recommendations to reduce cliff effects of individual programs

OK Policy’s recommendations address cash transfers, non-cash assistance, and state tax credits. Federal tax credits are created by Congress and uniformly administered across the nation; Oklahoma cannot change these credits, therefore OK Policy has no recommendations.

Cash Transfer Programs

Three of the four cash transfer programs — Social Security, Disability Insurance, and Supplemental Security Income — are federal programs uniformly administered across the country and not subject to state policy action. The fourth cash transfer program, Temporary Assistance for Needy Families (TANF), gives Oklahoma broad discretion to provide better benefits and to ease cliff effects. OK Policy recommends two such changes below. These are important not just for their impact on cash available to TANF families, but because the adult in a TANF household keeps Medicaid coverage as long as the household receives TANF.
1. **Increase the earned income disregard for TANF families**: Recall that in Situation 1, a single mother making $10 hourly reaches the TANF maximum income at only 15 weekly hours of work. Her income at this level, about $650 monthly, falls far short of the amount needed to support her and her child. Oklahoma’s earned income disregard — which allows the family to keep a share of increased earnings without losing TANF — is reasonably generous in comparison to other states. However, even with this disregard, most families reach the maximum TANF income level and lose benefits while still working part-time. Oklahoma should consider alternatives of disregarding the first $600 in monthly income (practiced in Wyoming), disregarding 75 percent of income (as seen in Indiana), or disregarding all income until the family reaches the poverty level (as practiced in Connecticut).

Because Oklahoma’s maximum income level for TANF is comparatively low, OK Policy recommends disregarding all earned income up to the federal poverty level (FPL) and then gradually reducing the disregard until ending it at 150 percent of FPL. As shown in Figure 20, this alternative still results in a cliff when both TANF and adult Medicaid end, but the cliff comes at a time the mother is working full-time and the family is somewhat less vulnerable.

**Figure 20. Impact of a Higher Earned Income Disregard for TANF.**

2. **Disregard and pass through child support to TANF families**: Disregarding child support payments means the payments do not count as income and thus do not reduce or eliminate the TANF benefit. Passing through child support payments means that the family receives some of the support rather than having it all intercepted by the state. Both provide the family with more resources and raise the income level at which they lose TANF benefits.
OK Policy recommends that the state disregard and pass through child support up to $100 per month for one child and $200 per month for two or more children. Increasing the child support pass-through has numerous benefits for the state as a whole, by increasing compliance with child support, establishing paternity, and potentially reducing child maltreatment.\(^5\)

Figure 21 shows the combined impact of the earned income and child support disregards and pass-through for the same mother of one child, now working full time (Situation 2 from Chapter 2). The two disregards make the family eligible for TANF, and thus the mother eligible for Medicaid, up through a wage of $10 per hour. While this creates a new cliff for the family, the additional resources at the lower wages may make the cliff more manageable.

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Non-Cash Assistance

Non-cash assistance programs provide specific goods or services to families rather than direct cash assistance. Of the seven programs described in Chapter 1, three — Medicare, Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC), and housing assistance — cannot be varied by state policy. However, Oklahoma can make or consider improvements in the other four — Medicaid, child care subsidy, school nutrition, and Supplemental Nutrition Assistance Program (SNAP) — in order to alleviate cliff effects while providing adequate resources to the families served by these programs. Recommendations are discussed below.

1. **Implement full Medicaid expansion expeditiously**: As discussed previously, Medicaid has been expanded in 38 states and the District of Columbia, resulting in increased insurance coverage and improved health outcomes for both children and adults. Oklahoma voters approved Medicaid expansion in June 2020, with implementation in place by July 1, 2021. By doing so, Oklahoma will mitigate a cliff that affects many low-income Oklahoma families and dramatically increase resources for many others. Figure 22 shows that this recommendation would provide health insurance for a single, childless adult who works full-time until reaching an hourly wage of $10, which is 138 percent of the poverty level for a household of one. Most families whose income is too high to qualify for expanded Medicaid can obtain insurance and financial assistance to pay premiums under the Affordable Care Act.

Figure 22. Impact of Expanding Medicaid for Adults.
2. *Increase the maximum income level for Medicaid for children:* Every situation described in Chapter 2 showed an abrupt drop in resources once family income reaches 210 percent of federal poverty level (FPL), the current Oklahoma maximum for covering children under Medicaid. Oklahoma can help low- and moderate families keep their children insured into higher income levels, at which time they are more likely to afford the transition to the Affordable Care Act Marketplace or have access to affordable insurance options through employers. Accordingly, OK Policy recommends that the maximum eligibility income for children in Medicaid be increased to 255 percent of FPL. That level is the median of the seven states in Oklahoma’s region.

Figures 23 shows the difference in resources for a single mother of one child (Situation 2) if the income eligibility is increased for Medicaid coverage for children. At the current eligibility level, the family loses Medicaid coverage at a $16 per hour wage. This results in a net loss of $234 in monthly resources. At the higher eligibility level of 255 percent of FPL, the family keeps the Medicaid coverage until the adult reaches a wage of $22 per hour.

Figure 23. Impact of Increasing Medicaid Eligibility for Children, Single Parent.
Similarly, in the situation shown in Figure 24 for a married couple with two children, the loss of Medicaid comes when Adult 1 makes $22 per hour rather than at $16 per hour. With two children, extending Medicaid eligibility provides an additional $470 in monthly resources in between those two wage levels.

**Figure 24. Impact of increasing Medicaid eligibility for children, married couple.**

3. **Advocate to maintain categorical eligibility for SNAP:** As described earlier, the federal administration has proposed administrative rules that would end categorical eligibility for SNAP. Categorical eligibility for SNAP allows some families who are over the gross income limit to continue benefits if their income after allowed deductions remains below the poverty level. This not only lets them keep benefits but keeps the family’s school children automatically eligible for free meals. Categorical eligibility also eliminates asset tests, which can penalize a family for saving or purchasing a vehicle for commuting. The Urban Institute estimates that ending categorical eligibility could deprive 4,800 Oklahoma households from receiving a total of $14.5 million in food assistance annually.56 Most children losing the free meal benefit probably qualify for reduced price meals but would have to submit a separate application.57 OK Policy recommends that the state take all necessary steps to protect these families.

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possible actions to continue categorical eligibility, including joining court actions and considering developing a state-funded supplemental nutrition program. Several states have created state-funded programs to provide food assistance to individuals who cannot participate in SNAP under federal law.58

4. **Encourage broader adoption of Community Eligibility for school nutrition programs:** Community Eligibility for school nutrition programs allows all children to receive free meals without an application process, if the school or school district has sufficient concentrations of low-income students. While Oklahoma’s participation rate, 75.6 percent of eligible schools, is above the national average, 15 states have higher participation rates, including five with rates greater than 90 percent. The Oklahoma State Department of Education reported in 2017 that 61 percent of Oklahoma children are eligible for free or reduced price meals, and it adopted a goal of having 75 percent of eligible schools participating.59 OK Policy recommends a more aggressive goal, supported by further research, technical assistance, and an exploration of more advantageous means of measuring school poverty levels.

5. **Apply for a Summer EBT demonstration at the next available opportunity.** The U.S. Department of Agriculture’s Summer Food Service Program (SFSP) can help feed children during the summer when school meals are not available. However, just 6.4 percent of Oklahoma children who participated in free and reduced price meals participate in SFSP, ranking the state 51st in the nation.60 Summer EBT offers an alternative with much higher participation rates and at much greater convenience for families. Oklahoma can improve child nutrition in the summer by aggressively pursuing and implementing a Summer EBT demonstration grant.

6. **Engage the Department of Human Services in an evaluation of opportunities to reduce the cliff in child care subsidy:** Chapter 2 and Figure 25 show that families experience a cliff when child care subsidy ends, and they must pay the full cost of child care. Figure 25 shows what families pay for child care, first as a copay until they reach the maximum income for the subsidy program, then the full cost of child care. The cliff is highest for a family with two or more children in care. The married couple with children, for example, goes from a copay of $328 monthly at $17 per hour to the full cost of $1,007 monthly at $18. At a higher wage level (not shown on chart) a single mother with two children will experience an increase from $276 to $1,007 monthly.

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Several factors reduce the importance of this cliff, to a limited extent. First, the cliffs occur at relatively high income levels ($49,000 annually for the single parent and $58,000 annually for the married couple), and families may be able to absorb the impact. Second, DHS’ one-year certification period for child care subsidy can give the family some time to prepare for the change. Finally, the cliff is not a large one for a family with one child in care; out-of-pocket costs for this family rise from $223 to $325 at an hourly wage of $18.

In 2017, DHS revised its income guidelines and copay schedules to help most families. Copays were eliminated for families in poverty, and the maximum income eligibility was raised to the highest amount allowed by federal law. Options to make further changes are limited, and will involve tradeoffs for families. The cliff, for example, would be smaller if the copay rose faster than under the current schedule, but then families would have higher costs while on subsidy. Changes should not be considered without sufficient time to evaluate the impact of DHS’ improvements in this program. Any changes to be considered would require evaluation to determine the impacts on families across the income scale. The state can also consider increasing the child/child care tax credit for middle-income families affected by this cliff.

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State Tax Credits

Oklahoma offers three tax credits (the Earned Income Tax Credit, the Child/Child Care Tax Credit, and the Sales Tax Relief Credit) to support low- and moderate-income families. Each of these credits is small in relation to the monthly earnings and to most cash and non-cash assistance and federal tax credits. However, all play an important role in supporting families and all are appropriate given the relatively high share of income these families pay in sales, income, and property taxes. OK Policy recommends increasing each of these tax credits.

1. **Restore refundability of the state Earned Income Tax Credit and increase the amount of the credit**: Oklahoma’s EITC has been five percent of the family’s federal EITC since its inception in 2001. It was refundable, so that families received the full value of the credit, even if it exceeded the state income tax owed by the families, until 2016. Refundability should be restored, and the credit should be increased to provide more robust support for low-income families and better encourage work. Accordingly, OK Policy recommends a three-step plan to improve the EITC:

   - **Step 1: Restore refundability**: The Legislature eliminated refundability during a period of extreme revenue shortfalls. Since that reduction, revenue has grown over $1 billion annually; it’s time to share this growth by restoring support for over 200,000 working Oklahoma families.

   - **Step 2: Increase the credit to ten percent of the federal credit**: Twenty-nine states have earned income tax credits. Oklahoma’s credit is roughly one-third of the median credit offered by the other states. Doubling the credit would make an immediate difference for Oklahoma families.

   - **Step 3: Phase in credits until comparable to other states**: Many states have increased, or are in the process of increasing, their EITC. At this point, the median is a refundable credit of 17 percent of the federal credit. Anticipating other states will increase their EITCs, OK Policy recommends a phased increase to 20 percent of the federal credit to be near the middle of EITC states. For childless adults, however, the credit should be set at five percent of the federal credit for a single adult with one child.
Figure 26 shows how much each phase would increase the annual state EITC for a full-time working parent of one child. Note that Step 1, restoring refundability, increases the credit only for families at the lower end of the income scale. This is true for any family type. Steps 2 and 3, increasing the credit to 10 and 20 percent respectively, increase the credit for all families. Impacts on other families with children are similar in magnitude to those shown in this chart.

Figure 26. Impact of Increasing the State Earned Income Tax Credit for a Single Parent with a Child.

Several bills to restore refundability were introduced or carried forward into the 2020 legislative session, including SB 1161 (Young), HB 1033 and HB 2784 (Walke), HB 1084 (Stone), and HB 3137 (Virgin). SB 1306 (Montgomery) would phase in refundability over two years and would increase the credit to 7.5 percent of the federal credit in the third year, thus approaching Step 2. None of these bills received hearings.
Figure 27 shows the impact of the three-step improvement recommendation for a single, childless adult. Most such households were not affected when refundability was ended, so Step 1 makes no difference to this household. Step 2 increases the credit very modestly while Step 3 provides a credit that is more proportional to the credits for families with children.

Figure 27. Impact of Increasing the State Earned Income Tax Credit for a Childless Adult.

2. **Increase the state Sales Tax Relief Credit and add a gradual phase-down to eliminate a cliff:** According to the Institute on Tax and Economic Policy, low-income Oklahomans pay 9.2 percent of their income in state and local sales and excise taxes. For most of those in the lowest 20 percent by income (up to $19,700 per year), this will amount to more than $1,000 in taxes. The Sales Tax Relief Credit was created in 1990 in partial recognition of the regressive impact of sales and excise taxes, especially the sales tax on groceries. Since that time, the amount of the credit, $40 per family member per year, has not changed; as a result of inflation, the credit has lost half its real value. Further, the credit ends at maximum income levels of $20,000 for an individual and $50,000 for a household with dependents or persons over 65. OK Policy recommends that the credit be tripled to $120 per household member, and that the credit phase out beginning at the current maximum income levels.

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Figure 28 shows the impact of the recommendation for a married couple with two children. The recommendation provides triple the tax relief of the current credit. Further, while the current credit ends abruptly when the mother earns $15 per hour, the recommended credit falls gradually and ends at approximately $23 per hour. Results for other family types are comparable.

Figure 28. Impact of Increasing Sales Tax Relief Credit.

In the 2020 legislative session, one introduced bill, HB 3385 (Sen. Bush/Rep. Dunnington) would have doubled the Sales Tax Relief Credit from $40 to $80 per person, increased the maximum income level by $10,000, and indexed the maximum income level for growth in inflation in the future. That bill did not receive a hearing.
Putting it All Together: Impact of the Recommendations

Chapter 2 showed that programs interact to affect families differently and often unpredictably. Individual program cliffs may or may not be significant in the context of the overall resources available to the family. Well-designed and effective programs that phase out with slopes rather than cliffs can combine to put the family in a plateau where it sees little gain from earning more.

This section shows how the OK Policy recommendations, when combined, would change the resource picture for three representative households.

Single, Childless Adult

This scenario is a young adult living alone without children, working 33 hours weekly, and receiving all assistance and tax credits for which he is eligible.

Figure 30 shows the household’s monthly income and the total resources available under both current programs and OK Policy’s combined recommendations. The chart indicates that this household would have significantly more resources under the recommendations only when the hourly wage is $9 or below; after that, a new cliff is created. The increase and the cliff both result from Medicaid expansion. While the cliff is troubling, the value of having health insurance is well-documented. The increases in the EITC and Sales Tax Relief Credit benefit this household at all income levels, but the maximum impact is a $23 increase in monthly resources.

Figure 30. Impact of All Recommendations for a Childless Adult.
Single Parent with One Child

Figure 31 shows impact of all recommendations on a family with a single parent working full-time and receiving child support, with a five-year-old child. As with the childless adult, OK Policy’s recommendations increase this family’s resources significantly, but only up to a point. TANF disregards for earned income and child support add both TANF benefits and adult Medicaid coverage, increasing resources by over $1,000 monthly. At $12 hourly, however, this increase disappears and the family reaches a tall cliff. However, the cliff going from $15 to $16 hourly is postponed by the recommended increase in the maximum income for Medicaid coverage for children. This family also benefits by up to $63 monthly from increases in tax credits.

Figure 31. Impact of All Recommendations for a Single Parent of One Child.
Married Parents with Two Children

This family consists of two parents, both working full-time. They have two children, ages three and five. The first adult’s wage varies, while the second adult’s wage is frozen at $10 per hour. The family receives Medicaid only until the first adult earns $8 per hour. This constitutes a new cliff, but the family would have received the substantial benefit of health insurance up to that point. As with the single parent, OK Policy’s recommendations postpone the cliff that currently occurs at $16 per hour when the children lose Medicaid coverage. The family also benefits from recommended tax credit increases, in amounts up to $69 monthly.

Figure 32. Impact of All Recommendations for a Married Couple with Two Children.
Limitations and Opportunities

These scenarios suggest that many households will face both cliffs and plateaus as their income grows. Plateaus, where families see half or less of each new dollar earned, are most evident in households with children and most severe for married parents with children. Plateaus result from the design of most programs that maximizes benefits at the lowest incomes and then reduces them, either through cliffs or slopes. This design is generally sound, as it provides assistance when and where it is most needed. In doing so, however, it can discourage work, and it can make families feel as if they will never really get ahead. The plateau effect is smaller and less of a concern for families who participate in fewer programs.

OK Policy’s recommendations cushion some cliffs and address a few plateaus as well. Importantly, the recommendations leave every hypothetical household as well off as they are currently at every income level, and better off at many income levels.

While it is outside the scope of this research, Oklahoma can explore options that could reduce the plateau effect. Doing so would likely require comprehensive reform of the state income tax. Such a reform could reduce plateaus by changing several features of the tax.

- The current tax structure features a “marriage penalty” that results in two-income families paying more tax than they would if the parents were both single and had the same income.\(^63\) Eliminating this penalty would allow families with married parents to keep more of their income as it grows.

- The plateau also affects families with children more than those without. Oklahoma’s income tax includes a $1,000 personal exemption for each person in the household, in recognition that larger households face higher costs for basic needs such as housing and health care. Increasing the exemption would reduce state income taxes for all households, but would make the biggest difference for low- and moderate-income families. Families with children have more exemptions and thus would receive a larger benefit from this change.

- While Oklahoma’s state income tax is like most in that the marginal tax rate (percentage of the next dollar of income that goes to taxes) increases gradually as income increases, Oklahoma taxpayers reach the maximum rate of five percent at a relatively low level, $14,550 for the childless adult, $23,550 for the single mother, and $28,900 for the married couple with children. Tax rates could be adjusted so that they increase at higher income levels. The more gradual increase in state income taxes owed would make resources grow more than under the current rate, thus reducing the plateau effect.

- Existing tax credits could be re-designed to provide higher benefits at the income levels and for the families where plateaus are more evident.

While a study of income tax reform’s impact on low- and moderate-income Oklahomans is warranted, answers will not be simple. Without compensating tax increases, tax cuts reduce public services. Low- and moderate-income families need these services; reductions could hurt these families more than their gain from tax reform. While there are many ways to increase taxes on higher-income households and on businesses, resistance to increases is high, and Oklahoma’s State Question 640 might mean that changes would require approval by either a legislative supermajority or the people as a whole.

Conclusion

Assistance programs and tax credits help provide families with significantly more resources than they would have if they depended only on low-wage benefits. Cliffs and plateaus, while complicated, unpredictable, and frustrating, are a nearly inevitable side effect of a robust package of assistance programs and tax benefits that provide essential support to Oklahoma’s low- and moderate-income families. Families need these programs, which are proven to reduce poverty and have significant non-economic benefits for families and the state as a whole. It is important to remember that the side effects do not justify reducing these household and societal benefits.

OK Policy’s recommendations can increase benefits, mitigate some cliffs while creating new ones, and not make plateaus worse. The state can also explore more global changes to the tax system that can help middle-income families keep more of each dollar they earn, and it can continue to seek innovative ways to reduce cliffs and plateaus through careful program design.