Getting Workers off the Sidelines and Back to Work

January 2024

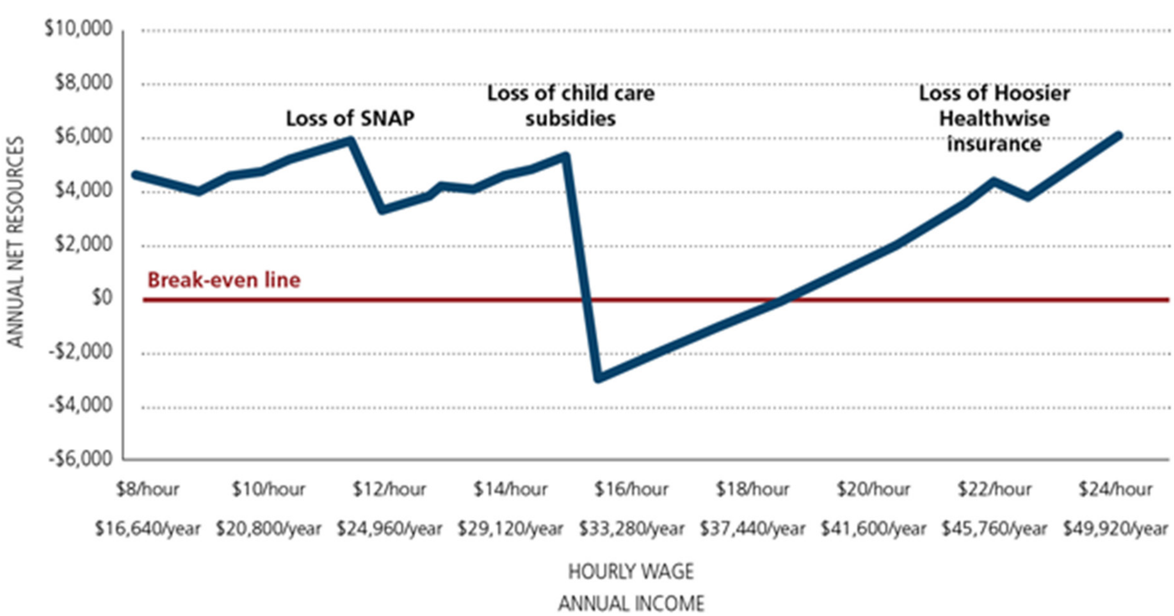
Oklahoma's labor force participation rate is 61.8% (August 2023), lagging the national rate of 62.8%. The labor force participation rate measures the share of non-incarcerated adults working or seeking work. To put the importance of this figure in context, consider that Oklahoma has approximately 100,000 jobs available for which there are not workers to fill them. If Oklahoma's labor force participation rate were merely at the national average, 40,000 additional workers would be available. That is, achieving just the average labor force participation rate would halve Oklahoma's labor shortage.

To increase labor force participation, Oklahoma can seek to remove barriers to work. One such barrier is disincentives to work created by the structure of certain government benefit programs.

Many government benefits programs unintentionally embed a disincentive to work within their structures through what has become known as "benefits cliffs." A benefits cliff is the phenomenon created by a hard income cut-off for eligibility into a program providing social safety net services; when a recipient's income rises, even by a small amount, past the income cut-off, the entire benefit is lost. For certain income ranges just over the cut-off, the individual is actually financially better off remaining on the benefit than pursuing work that raises their income. That individuals in this circumstance often choose to turn down work in order to keep their eligibility for social programs like SNAP, Medicaid, TANF, childcare, and the like, is unsurprising.

Benefits cliffs keep otherwise able and willing workers on the sidelines of the labor market or cause them to forego opportunities to upskill and progress into higher income roles. In addition to limiting the available workforce, benefits cliffs encourage long-term government dependency and limit individual career advancement.

By restructuring benefits to include gradual phase-outs as income rises, states can ensure that benefits recipients are always financially better off increasing their income through work than foregoing work to keep full benefit eligibility. To illustrate, consider the Indiana's actual benefit cliffs and a hypothetical program below:



Source: National Center for Children in Poverty's Family Resource Simulator, Indiana 2011

The wage at which an individual is ineligible for each benefit and the cost to cover the lost benefit. The gap between the new wages and the cost to cover the old benefit is the concern. For example, if a worker earns $10 per hour and is enrolled in childcare benefits, SNAP and Medicaid gets promoted to a job making $15 per hour and loses childcare benefits. The worker must make up for that benefit by paying childcare out of pocket, which the wages needed to do so equate to $18 per hour. It is the $3 per hour gap that policymakers should be concerned by.

Virtually all of Oklahoma's safety net programs are established and funded by federal law and simply administered by the state, so the state has little discretion to alter the programs. Medicaid and SNAP, however, do allow states to apply for various waivers to innovate in the structuring of their programs. Medicaid permits what is called a Section 1115 waiver, which allows states to modify much of the program's administration and some eligibility requirements. SNAP has specific waivers spanning a broad range of topics.

Examples of States Addressing Benefit Cliffs

For the past decade, several states have implemented stair-stepped benefits to eliminate cliffs in their programs. Each conducted a study and evaluated the benefit cliffs in their states. Vermont has implemented a state TANF program, Reach Up, which allows extended transitional benefits and does not consider part of the new income per month for eligibility purposes so that families are able to retain benefits while beginning a new job. Once the recipient's time on Reach Up ends, Reach Ahead, a limited pilot program, provides job retention incentives like childcare. Massachusetts has a similar approach, disregarding some assets and income from eligibility determinations for a period of time to ensure recipients maintain an incentive to work.

In the past couple years, 16 states enacted legislation addressing benefit cliffs. There were five categories of bills: Bills studying benefit cliffs to identify opportunities for reforms, program adjustments, tax credits, work or training requirements, and awareness.

Studies: Kentucky, Louisiana, Maine, and Montana

Program adjustments: Colorado, Illinois, Indiana, Maine, Massachusetts, Nebraska, Nevada, New Jersey, Virginia, and Washington

Tax credits: Utah

Work or Training requirements: California and Texas

Awareness: California

Program adjustment legislation has focused on eligibility requirements and continuity of benefits.

Colorado, Maine, Massachusetts and Nebraska raised or eliminated the asset cap for consideration in the application for SNAP or TANF—meaning applicants could earn more and still qualify for the program.

Indiana created a standard deduction mechanism where $15,000 of the applicant income is not considered.

Similarly, Nebraska negated some educational scholarships and assets to be excluded from consideration for program benefits.

All of these types of efforts do not necessarily blunt the benefit cliff, but they do allow participants the ability to earn greater income before exiting the program.

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