



Making Work Pay for Iowa's Families

Sarah Fass | Kinsey Alden Dinan | Nancy K. Cauthen | Jessica Purmort

Almost a third of Iowa's children live in low-income families struggling to make ends meet. "Work supports" – such as earned income tax credits (EITCs), public health insurance, and child care assistance – can help such families close the gap between low wages and the cost of basic necessities. But most work supports are means-tested, so as earnings increase above the poverty level, families begin to lose critical benefits. Unfortunately in some cases, the increase in earnings is not enough to replace the lost benefits. In fact, small increases in family earnings can trigger steep reduc-

tions in benefits, leaving families worse off financially.

This report uses the Family Resource Simulator, a policy analysis tool developed by the National Center for Children in Poverty to analyze work supports in Iowa. It shows that with the help of multiple work supports, Iowa's low-wage workers can make ends meet. However, Iowa's policies do not always reward workers' progress in the workforce: often, substantial benefit "cliffs" penalize workers for working more hours or for getting a raise.

Key Findings

- ◆ A single parent with two children (ages 2 and 6) living in Des Moines needs to earn over \$38,000 a year, or \$19 an hour working full-time, to pay for even the most basic necessities: rent, food, child care, transportation, health care, payroll and income taxes, and other daily necessities. Across six different localities in Iowa, the same parent would need to earn about \$14 to \$19 an hour working full-time to afford just the basics – in almost every case, more than double the state minimum wage.
- ◆ If the single parent with two children (ages 2 and 6) in Des Moines works full-time but earns only \$9 an hour, her family faces a gap of \$18,000 a year between earnings and the cost of basic necessities.
- ◆ With the help of multiple supports – federal and state tax credits, food stamps, Low Income Home Energy Assistance Program (LIHEAP) benefits, public health insurance, and child care assistance – the Des Moines family is just able to get by, with about \$3,000 left over

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Mailman School of Public Health
Columbia University

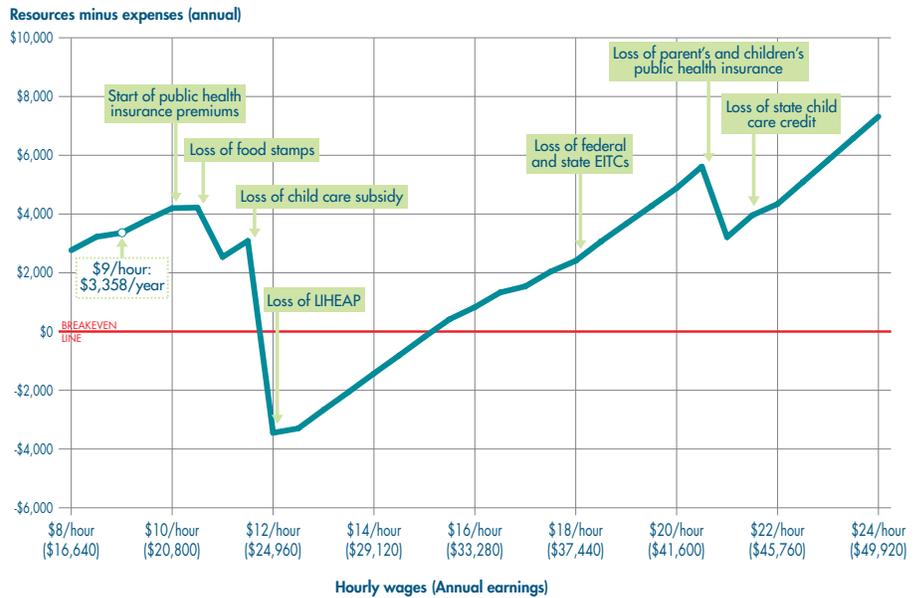
215 W. 125th Street, 3rd Floor
New York, NY 10027-4426
Ph. 646-284-9600

www.nccp.org

after accounting for basic annual expenses that could go toward savings or paying down debt.

- ◆ But as the parent's wages increase from \$10 to \$14 an hour, the family loses ground. The loss of food stamps, child care subsidies, and LIHEAP creates "cliffs" and the family is no longer able to afford basic necessities despite increased earnings (see Figure 1).
- ◆ Further increases in earnings lead to the loss of public health insurance, the federal and state EITCs, and the state child care tax credit. Unlike other benefits, the loss of tax credits does not create benefit cliffs because benefits phase out gradually.

Figure 1. Net Family Resources as Earnings Increase: Des Moines, IA
Single parent with two children, ages 2 and 6



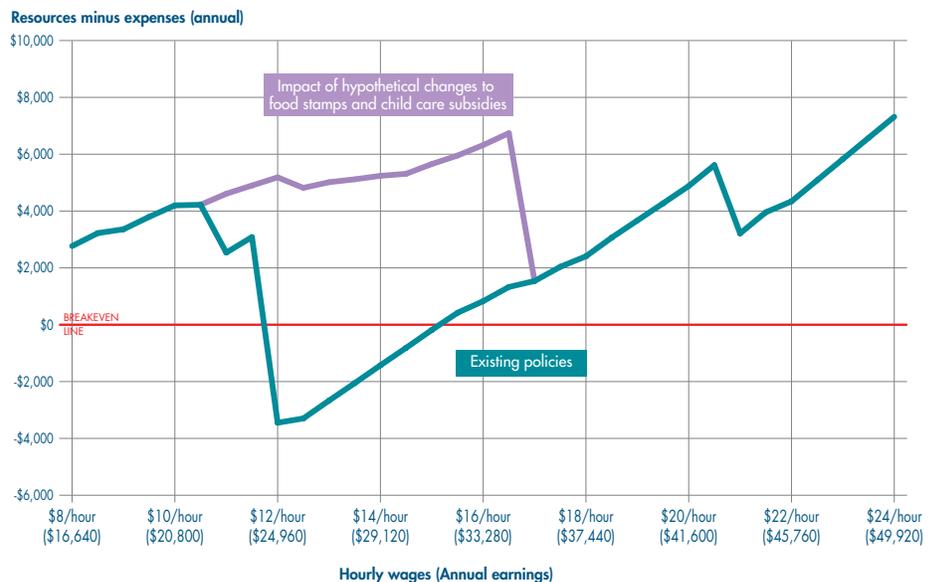
Source: NCCP's Family Resource Simulator, Iowa 2008 <www.nccp.org/tools/frs>. When eligible, the family receives the following work supports: federal and state tax credits, food stamps, LIHEAP, public health insurance, and a child care subsidy. Budget numbers are from the Iowa Policy Project's *The Cost of Living in Iowa*.

Toward a Work Support System that Works

Although this analysis shows the tremendous difference work supports can make for families who receive them, there are a number of policy options available that would strengthen supports for Iowa's working families and build on recent investments made by the Iowa legislature (including expanding the state EITC and increasing funding for child care assistance).

- ◆ Figure 2 shows the impact of extending the child care subsidy income limit from 145 to 200 percent of the federal poverty level (that is, from \$25,520 to \$35,200 for a family of three) which makes the child care cliff smaller, and families experience it when they have more resources to cope with the benefit loss.
- ◆ Iowa also could take advantage of the federal food stamp

Figure 2. Impact of Hypothetical Policy Reforms: Des Moines, IA
Single parent with two children, ages 2 and 6



Source: NCCP's Family Resource Simulator, Iowa 2008 <www.nccp.org/tools/frs>. When eligible, the family receives the following work supports: federal and state tax credits, food stamps, LIHEAP, public health insurance, and a child care subsidy. Budget numbers are from the Iowa Policy Project's *The Cost of Living in Iowa*.

option that allows states to use categorical eligibility to expand access to food stamps for working families with income somewhat above the federal

gross income limit. This would eliminate the food stamp cliff without additional cost to the state.