

Iowa Fiscal Partnership *news release*

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CONTACT: Mike Owen, (319) 338-0773, ipp@Lcom.net, Morris Ardoin (646) 284-9616, ardoin@nccp.org

Mapping ‘Cliff’ Hazards, Family by Family New Tool Can Illustrate, Improve Support of Working Families

MOUNT VERNON, Iowa (April 2, 2008) – Working families could benefit if policy makers and advocates use a new tool to analyze policy impacts on family budgets.

The nonpartisan Iowa Fiscal Partnership (IFP) announced the new Iowa Family Resource Simulator today in partnership with the National Center for Children in Poverty (NCCP), a research center at Columbia University.

The Iowa Family Resource Simulator, publicly available at <http://www.nccp.org/tools/frs/>, is one of 19 simulators on the NCCP website. The tool allows users to create customized graphs that illustrate how family resources and expenses change as earnings increase, taking public benefits into account.

“The Simulator will be an invaluable tool for policymakers wanting to see how Iowa’s work supports — such as child-care assistance and public health insurance — impact family budgets,” said David Osterberg, executive director of the Iowa Policy Project (IPP) in Mount Vernon/Iowa City.



In particular, the tool sniffs out “cliff effects,” points where small increases in a family’s resources can suddenly make them ineligible for key forms of support. This is because eligibility for public benefit programs is determined by the level of a family’s earnings and assets. Both IPP and its Iowa Fiscal Partnership partner, the Child & Family Policy Center, have examined such effects.

“So-called ‘cliff effects’ can be a major barrier to promoting self-sufficiency for low-income Iowa families,” explained Peter Fisher, IPP research director. “Using the Simulator, you can really tell when Iowa families step off those cliffs, which will hopefully make it easier to undertake necessary policy reforms.”

For instance, the Simulator illustrates how a single parent with two young children faces sudden ineligibility of public support programs once the family is earning more than \$24,000 a year, causing a major decrease in family resources. It is not until the family is earning approximately \$40,000 a year that it is able to break even.

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The Iowa Policy Project

120 N. Dubuque St. #208

Iowa City, IA 52245

(319) 338-0773 • www.iowapolicyproject.org

CHILD & FAMILY POLICY CENTER

1021 Fleming Building • 218 Sixth Ave.

Des Moines, IA 50309

(515) 280-9027 • www.cfpciowa.org

Previously, the Child & Family Policy Center (CFPC) has provided information on two key cliff effects working families with children face – when family income exceeds 145 percent of poverty and the family loses eligibility for child-care assistance, and when family income exceeds 250 percent of poverty the family loses eligibility for *hawk-i* health-care benefits.

In both instances, the family faces a “cliff” in benefits loss in the thousands of dollars, which means that a pay raise can actually make the family much worse off. The simulator enables users to examine such cliff effects for a variety of families.

“We want to make sure that our work-support policies help working families in Iowa transition out of poverty,” Fisher said. “It’s hard for families to make that transition when they’re worried about a sudden shock to the pocketbook if they start earning a little more.”

Osterberg agreed, adding, “It should be a good thing for a family when they increase their earnings. We have to structure our eligibility guidelines so that they support work rather than penalize families for doing better.”

CFPC Executive Director Charles Bruner said the key to that is to provide “sliding fee” schedules — rather than cutoffs from service — that increase a family’s responsibility to participate financially in programs as their income and ability to pay increases.

“The General Assembly is looking at taking a first step with child health insurance coverage by extending the eligibility level for *hawk-i* to 300 percent of poverty, but there will still be a significant cliff at that level,” Bruner said.

“Both child care and child health insurance coverage need to be affordable to working families with children and therefore state subsidies need to be structured on an ability to pay basis.”

The Iowa Fiscal Partnership (IFP) is a tax and budget policy analysis initiative of two nonpartisan, Iowa-based organizations — the IPP in Iowa City/Mount Vernon and CFPC in Des Moines. IFP reports are available on the web at <http://www.iowafiscal.org>.

CLIFF EFFECT EXAMPLE: CHILD-CARE SUBSIDY

To illustrate how various programs hold “cliffs” that drop recipients from coverage, leaving them worse off if they make more money, consider this hypothetical example.

A single mother working full time in Linn County receives a 25-cent raise, not realizing it would actually cost her family. Moving from \$ 9.20 to \$ 9.55 per hour raises her overall income above the eligibility limit for the child-care subsidy she had been receiving for her 3-year old daughter. Immediately, she is responsible for the entire cost of her daughter’s care, which averages \$578 per month for family child care in Linn County, leaving her worse off than before her raise.