

MAKING WORK PAY IN IOWA

Policy Options to Help Working Families Make Ends Meet

Stagnating wages and family incomes, declining job-based benefits, and growing costs of basic household necessities (such as housing, health care and child care) together leave many Iowans struggling paycheck to paycheck. While the economic challenges are immense, some policy options could make a real difference to help families respond, and to build longer-term prosperity and security.

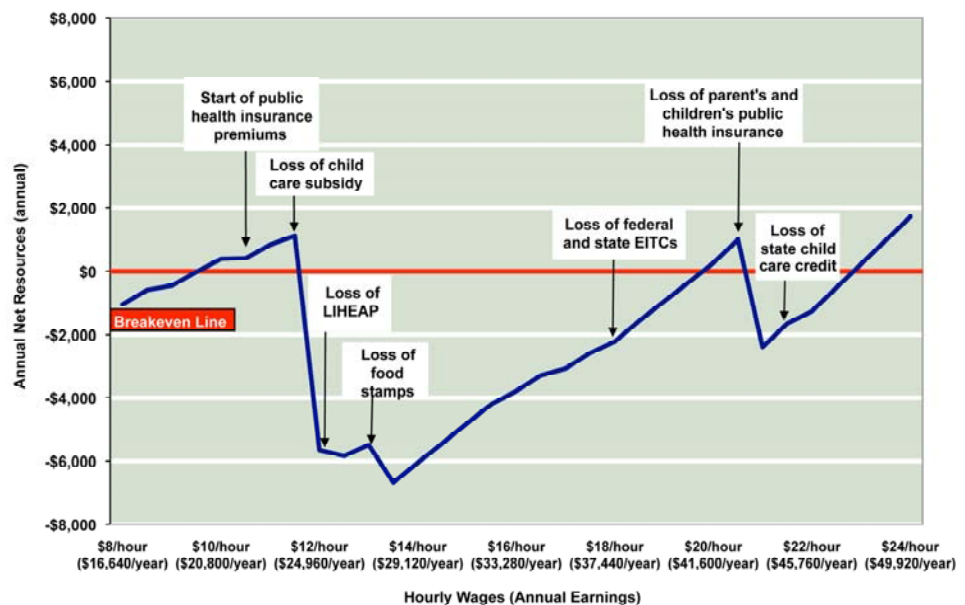
Investments to improve skills for low-wage workers and policies to ensure that economic development funds generate better-paying jobs with benefits are among those tools. Until Iowa's wages rise enough to meet our state's cost of living, reforms are needed to better support and reward work. Iowa's Child Care Assistance program and the state's Earned Income Tax Credit are key places to start.

Child care, in particular, is a big expense and losing a subsidy for it causes a large economic "cliff" for low-income families, as shown below. While Iowa ranks second nationally for its rate of mothers in the full-time workforce, it ranks 45th in eligibility for federal Child Care Assistance. Low eligibility rates for Child Care Assistance in Iowa offer a disincentive for work and professional advancement for low-wage parents. Families with the opportunity to work extra hours or to change jobs for a small pay increase can find themselves losing thousands of dollars in child care assistance.

The graph at right illustrates how work-support policies phase in and out as earnings increase and how this affects a typical family's ability to meet basic living expenses. The break even line indicates the level of resources needed by a family of three to meet basic necessary expenses, given the cost of living in their community — in this case, Des Moines. The loss of child care assistance as earnings

As Pay Increases, Net Resources Fluctuate for Des Moines Family

Single parent, working full time with two children, ages 2 and 6



Source: National Center for Children in Poverty'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, SNAP/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. Calculation includes updated food assistance eligibility as of January 2011.

approach \$12 an hour has the most dramatic effect on a family's resources, pushing them over a benefit cliff that leaves them worse off – by over \$6,000 annually. Parents will then have to increase their wages above \$20 an hour to regain the same level of resources they had before losing child care assistance and are once again able to pay for their family's basic daily needs.

Addressing the Benefit Cliff and Filling in the Gap Left by Low Wages

■ ***Expand Child Care Assistance***

Raising the income eligibility from 145 percent to 200 percent FPL and introducing a more graduated copayment schedule would allow the state to serve more families with greater cost-sharing between parents and the CCA program. This change would also allow more families to retain sufficient earnings to meet a basic family budget as they work more or receive wage increases.

To ensure families can access child care in order to work, Iowa should also update the provider reimbursement rate. Due to outdated and significantly below-market rates, child care providers increasingly are unable to accept the state's subsidy payments and therefore the children of low-wage working families.

■ ***Increase Iowa's Earned Income Tax Credit***

Increasing the state's EITC would supplement Iowa's low wages, adding a greater financial reward to the work efforts of low-income Iowans and allowing families to meet a greater share of their day-to-day living expenses. This change would increase work participation among single parents and significantly reduce childhood poverty, improving the future for thousands of Iowa's children. Raising the state EITC from 7 percent to 15 percent of the federal tax credit would lift 4,000 children out of poverty, while raising it to 30 percent would lift 10,500 children out of poverty.

Raising Iowa's Wages

■ ***Adopt more ambitious wage and benefit standards for economic development programs.***

Iowa runs a wide variety of economic development and business incentive programs intended to attract new business investment. While some of these programs do have modest wage standards, all incentives should be modified to strengthen the focus on higher wages and job quality, ensuring that Iowa is investing in the creation of jobs that working families can live on and that raise the state's median wage rather than simply continue the downward trend of Iowa's wages.

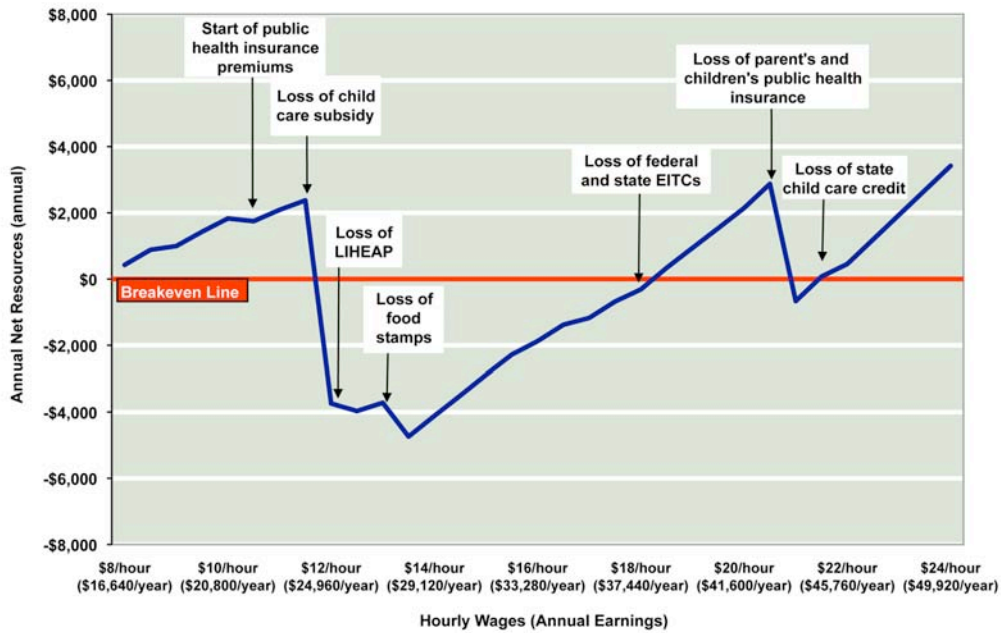
■ ***Invest in education for low-wage workers***

Offering tuition scholarships to low-wage workers for completion of an associate's or bachelor's degree would improve the earning potential our existing workforce, attract higher-wage jobs, and generate more than double the program investment in tax revenue back to the state budget.

At each level of education beyond high school, Iowans work and earn more. For example, those with a bachelor's degree earn on average \$7.26 more an hour than those with only a high school diploma. Furthermore, states with higher wages are connected to the proportion of college-educated workers the state has. An educated workforce is the basis for attracting and keeping higher wage jobs. Tax credits just aren't enough to attract high-paying employers without a skilled workforce. Our return-on-investment analysis also indicates that investments here show up not only a worker's pocket, but in state revenue and growth as well. Investing in a tuition program for low-income workers would return \$3.70 for every dollar invested in an Associate's degree and \$2.40 for every dollar invested in a Bachelor's degree.

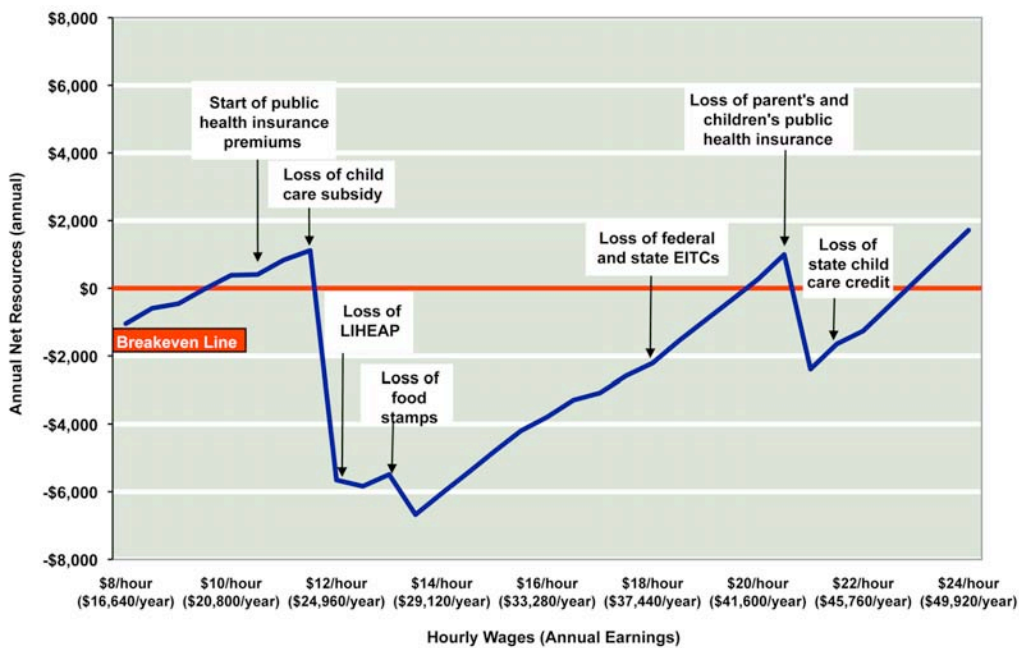
Appendix — Six Iowa local areas

As Pay Increases, Net Resources Fluctuate for Cedar Rapids Family Single parent, working full time with two children, ages 2 and 6



Source: National Center for Children in Poverty'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, SNAP/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. Calculation includes updated food assistance eligibility as of January 2011.

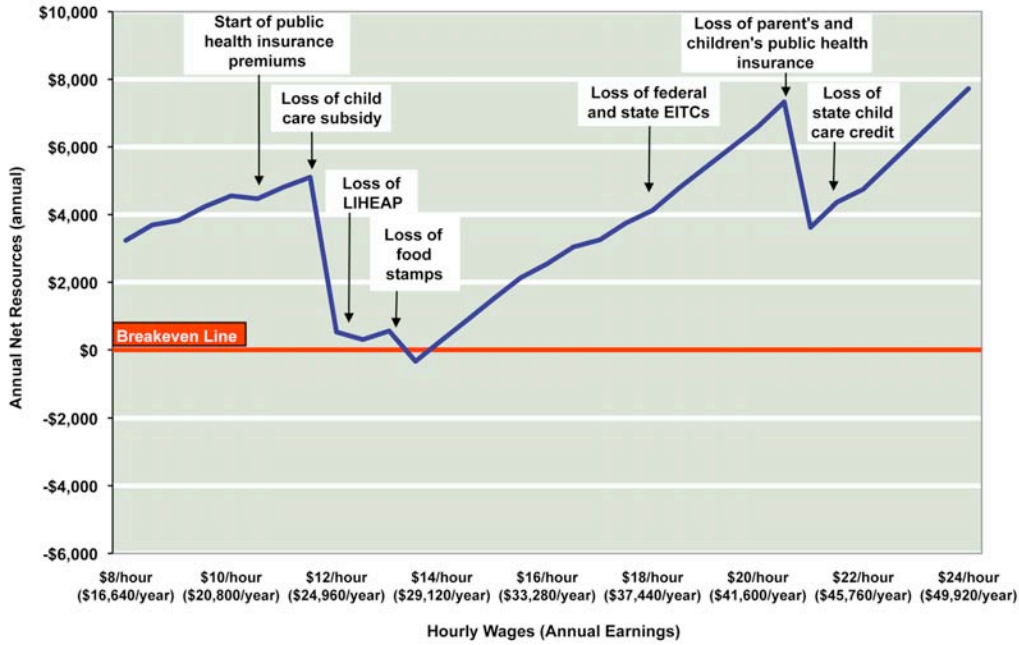
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As Pay Increases, Net Resources Fluctuate for Mason City Family

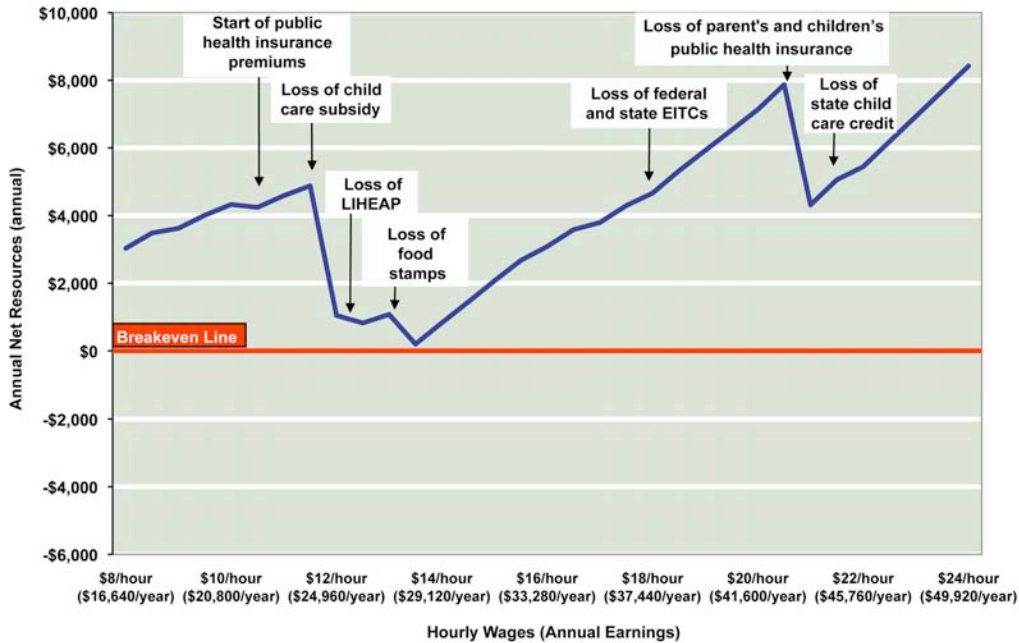
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As Pay Increases, Net Resources Fluctuate for Ottumwa Family

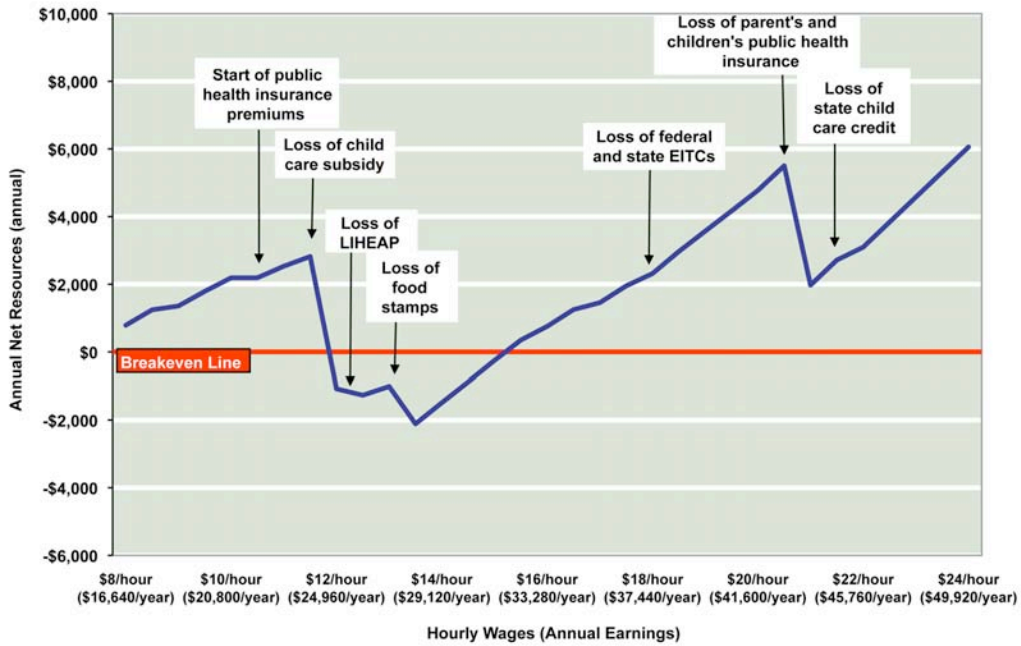
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As Pay Increases, Net Resources Fluctuate for Sioux City Family

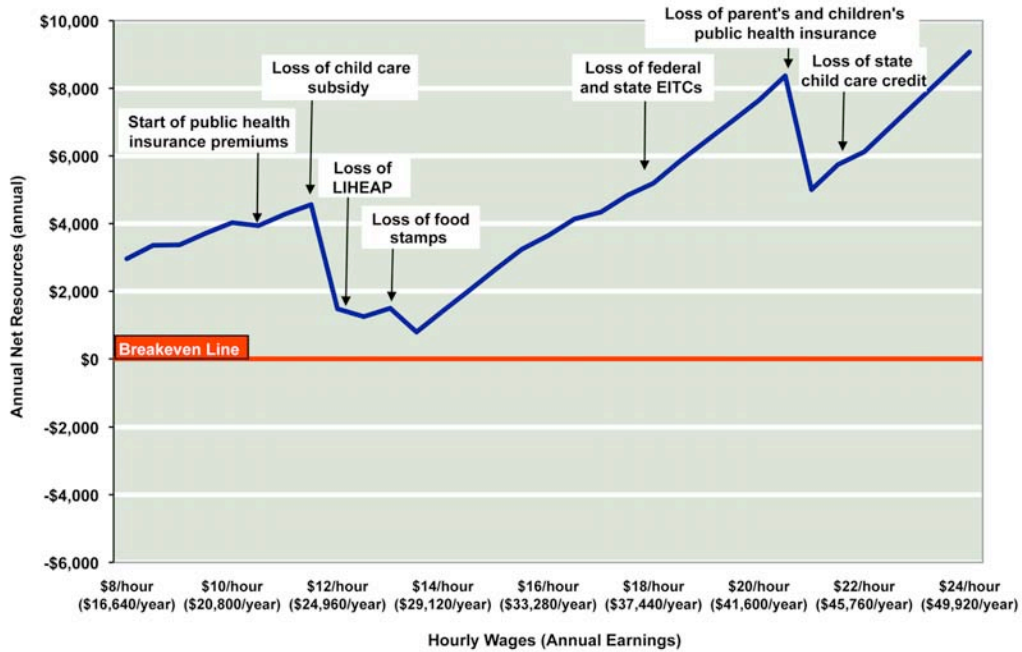
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As Pay Increases, Net Resources Fluctuate for Wayne County Family

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