

## **Child's Play: Creating a Path to the Middle Class** *Improving Child Care Assistance Can Facilitate Parent Education*

*By Lily French and Peter Fisher*

The surest pathway into the middle class is post-secondary education. Both the individual and state government reap substantial benefits whenever a low-wage worker is able to complete further education and move into a higher-paying, self-supporting job. Yet there are significant barriers in the way of a low-wage worker seeking to attend school to earn credentials or a degree. Chief among these is the high cost of child care. This report examines Iowa's Child Care Assistance program and how it could be reformed to better facilitate educational attainment among parents.

In 2012, the average annual tuition in Iowa for a 2-year-old in a child care center reached \$7,061, higher than the annual tuition at one of Iowa's Regents institutions.<sup>1</sup> While difficult for most low-income families to pay, it is considerably more challenging when one parent is in school and is not bringing in any income. On a national level, 13 percent of all undergraduates are low-income parents, and the majority of these are single parents.<sup>2</sup>

For some of the reforms identified in this report that will subsidize child care for Iowa parents receiving public cash assistance while pursuing higher education, we can estimate the state's return on investment. To the extent that the reform results in more young people acquiring post-secondary education, that increased education will lead to higher future earnings, and the state will gain by paying less in public assistance and by collecting more in taxes. Children of more educated parents are less likely to grow up in poverty, to rely on public assistance or to be incarcerated as adults, and tend to earn more.

Other states have developed successful programs using federal funds for Temporary Assistance to Needy Families (TANF) to pay for child care assistance to help parents attend college. Iowa could see substantial fiscal returns and improvements in children's well-being with a similar program.

In this report, we describe the relationship between child care and parental higher education, review research on programs from other states that use TANF to pay for child care while the parents complete their education, look at Iowa's child care assistance policies, and calculate the state financial returns to an investment in child care for low-income student parents. We conclude with policy recommendations that encompass Iowa's TANF program.

### ***Child Care and Education***

Iowa wages have been virtually stagnant since 2000; the median wage (adjusted for inflation) was \$15.86 per hour at the start of 2000, but by January 2012 had actually fallen slightly to \$15.62.<sup>3</sup> Making ends meet has been getting more and more difficult for those with no post-secondary credentials. The state has been losing well-paying manufacturing, information and wholesale jobs;

these jobs have been replaced with low-wage jobs that depress the earning power of low-education workers even more.<sup>4</sup>

Post-secondary education is the surest way out of poverty for many adults, and in particular single mothers.<sup>5</sup> Iowans with just a high school degree can expect to earn \$23,000 to \$27,000 in the early stages of their career, and even in their prime earning years — age 40 to 54 — to earn no more than about \$35,000.<sup>6</sup> This is not sufficient to support a family with more than one child at a basic standard of living, according to the most recent study of the cost of living in Iowa.<sup>7</sup> Today, some form of post-secondary training is the surest way out of low-wage jobs for those who are financially struggling. According to a recent report from Georgetown University, “Postsecondary education has become the threshold requirement for a middle-class family income.”<sup>8</sup>

Studies have found that concerns around child care are a major obstacle to low-income parents’ ability to complete their post-secondary studies.<sup>9</sup> In one study on community college enrollment and attendance, participants repeatedly cited child care issues as a hindrance to college enrollment and as a cause of dropping out of college once enrolled. The researchers conducted multiple focus groups, and in every one of them child care topped the list of factors affecting the decision to attend college.<sup>10</sup>

### **TANF and Higher Education**

Though TANF\* regulations can make it difficult to pursue higher education, it is definitely possible, as evidenced by states that utilize TANF dollars to help low-income parents attend college.<sup>11</sup>

\* **TANF**, or “Temporary Assistance to Needy Families,” is a federal block grant, which in Iowa includes Family Investment Program (FIP) cash assistance and other programs.

Federal program rules require states to achieve a work participation rate of 50 percent for all families and 90 percent for two-parent families.<sup>12</sup> Additionally, through the early years of welfare reform, states with work participation rates much higher than the minimums received financial bonuses from the federal government. The combination of fiscal rewards and penalties produced an administrative culture of “work first” within many states, Iowa included, emphasizing rapid job placement over training as a pathway to self-sufficiency.

To meet work participation requirements and receive cash assistance for their families, TANF participants must engage in an *approved* work activity at least 20 hours per week if they are single or 30 hours per week for two-parent families. Work activities may include job search, employment (subsidized or unsubsidized), unpaid work experience or community service, on-the-job training, GED completion (only for individuals under 20 years of age), vocational education, and other job readiness activities. However, to qualify, an activity must meet specific guidelines and be approved by the federal TANF agency — in Iowa, the Department of Human Services.<sup>13</sup>

Though TANF funds are available to all eligible parents who choose to enroll in a higher education program at least up to 24 months, utilization of this option has been low in many states. In fiscal year 2011, Iowa TANF support (federal and state) of education and training totaled \$168,181, less than 1 percent of the total going to all work-related expenditures in the Iowa TANF program.<sup>14</sup> Still, of the average 12,838 active participants in Promise Jobs\*\* (PJ) during Fiscal Year

\*\* **PROMISE JOBS**, or “Promoting Independence and Self Sufficiency through Employment, Job Opportunities and Basic Skills,” is an Iowa program for TANF recipients. Participants develop individualized agreements that outline steps to leave public assistance. (<http://www.iowaworkforce.com/region2/promisejobs.htm>)

2012, there were 2,162, or 16.9 percent, in some kind of post-secondary education program.<sup>15</sup> Community college students in one study described to researchers negative experiences in attending college while participating in TANF. While given information about pursuing higher education through TANF, they were required to complete a job search process before being allowed to use funds to attend college while continuing to seek employment. In some states, as soon as they found work, they lost their eligibility for education assistance.<sup>16</sup>

While some states have not made it easy for TANF parents to enroll in college, others have been more successful. One such program, Maine's Parents as Scholars, encourages TANF recipients and TANF-eligible parents to attend school while they qualify for the TANF support services, including child care.<sup>17</sup> Another good example is California's CalWORKS. The program covers only community college attendance, and will provide benefits for up to 24 months, requiring a minimum of 32-35 education hours per week depending on family type. The program sponsors child care even after the participant finds work and leaves TANF. After participation, CalWORKS students were twice as likely to work year-round, and earned considerably more.<sup>18</sup>

### ***Barriers to Education within Iowa's TANF Program***

Iowa's TANF program, called FIP (Family Investment Program), is designed as a temporary cash assistance program for very low-income Iowa families with children. The program has a lifetime limit of five years, as prescribed by federal law. Eligibility is limited to households with gross monthly incomes below \$1,330.15 for a single-parent family with one child and \$1,824.10 for a family of four. The eligibility limit rises at a rate of about \$320/month for each additional child.<sup>19</sup> The program may also replace unemployment insurance for non-working Iowans whose unemployment benefits have run out.

As a condition of receiving FIP cash assistance, parents must participate in the Promise Jobs work placement and occupational training program noted above. Upon entering the program, participants develop an official agreement with the state, delineating the steps they will follow in order to leave FIP; failure to meet these steps results in the loss of cash assistance. This is where PJ caseworkers will approve the "countable work activities" for each individual participant, ranging from unpaid community service to job search to training. Herein arises the first significant challenge — caseworker discretion.

#### ***Discretion of Each Individual Promise Jobs Caseworker***

The system relies heavily on caseworker discretion about who should pursue further education; caseworkers have been found to differ greatly and to use subjective criteria in decisions.<sup>20</sup> PJ caseworkers have individual discretion in determining the range of allowable work activities, screening processes for education preparedness, and the nature of an approved educational program. Interviews with PJ staff uncovered tremendous variation in a caseworker's willingness to even consider including post-secondary education in a family's agreement, citing that "education is on a case-by-case basis and that refers to the client as well as their PJ worker." Most notably, newer PJ staff, having been trained differently than long-term caseworkers, tend to be more restrictive in their use of educational allowance for families — that is, less inclined to allow school to count as a work activity. As one worker sums it up, "Promise Jobs has a certain set of parameters, but we have a lot of discretion within those guidelines to decide what clients are ready for or able to complete." Caseworker discretion is intertwined with the second and more significant challenge — an administrative system that rewards employment over training.

## *Welfare System Rewards Work Over Pathways to Self-Sufficiency*

With the passage of federal welfare reform legislation in 1996, the newly named TANF cash assistance program heavily emphasized workforce participation and included a series of fiscal incentives and penalties for states administering the program. Each state is evaluated on its ability to meet federally established work participation goals. In turn, PJ staff are evaluated on the work success of their caseloads and are less likely to risk not meeting work participation goals by approving education, particularly in a depressed economy when securing employment is difficult for clients. One caseworker commented, “Our program wants us to get them off FIP as fast as possible; that is the unspoken mandate.” Another PJ staffer elaborated: “The purpose of Promise Jobs is to get them off FIP as quickly as possible. We don’t get many requests for college and the feds don’t help as much with education because they are pushing work requirements, so we don’t offer much anymore. We are judged on our participation rates so [most] PJ workers around here don’t allow them to go beyond a year [with education], but I’ll take the participation hit.”

The third significant challenge is a series of program requirements that limit time and opportunities for completing higher education.

### *Time Restrictions, Competing Work Requirements, and Program Limitations Block Education*

When higher education is approved by a caseworker, fulfilling the weekly time requirement is achievable for full-time students who can count class hours and supervised homework hours (office hours, study groups, etc.) without engaging in additional activities for one year. TANF regulations limit vocational education, which includes higher education, to one 12-month period. Within the federal reporting scheme, students who have not completed their associate degree after 12 months can still receive TANF and be counted toward Iowa’s work participation rate if their caseworker categorizes their higher education program as “job skills training” instead of “vocational education.” However, participating in job skills training requires participants to work 20 hours/week in addition to their educational training.

This additional work component can be problematic, not only because of the increased time commitment for a student trying to balance work, school and family responsibilities, but also because consistent part-time employment is difficult to maintain. Part-time jobs tend to be more unpredictable in hours and challenging to fit around an inflexible classroom schedule. Work-study jobs, designed to be more accommodating to a student’s class schedule, are quite limited in Iowa and do not provide opportunities to work during student breaks.<sup>21</sup> If students are able to find work that is flexible enough to blend with their course requirements, any deficit in hours worked below the required 20 hours — including time over student breaks, as is the case with work study positions — results in the loss of benefits.

In essence, Iowa’s FIP participants pursuing higher education receive one year of cash assistance and support services by being full-time students without having to work, and then for a second year by working at least half-time while pursuing education, if education is approved by their caseworker.<sup>22</sup> The state’s 24-month lifetime limit on education-based eligibility may not be enough time to complete an AA degree and is obviously not adequate time to complete a BA. Only one PJ caseworker interviewed indicated that, when clients have an interest in completing a bachelor’s degree, he encourages them to start the program on their own and then use the 24 months of educational support during the last two years because their coursework will be harder then. The remaining PJ staff interviewed indicated that a bachelor’s degree is not an option for anyone who has not already started college.

There are other restrictions for students pursuing higher education specifically through the Promise Jobs program. PJ will pay tuition costs only for non-credit certifications, not for credit-bearing education, which makes affording college coursework a significant barrier. Additionally, education can only be written into the family's agreement once. Hence, if a student starts out in one area of education and either is not successful or does not like the career path, it is considered a "false start" that forfeits the one and only opportunity. Because of this limit, several PJ caseworkers were hesitant to offer training as an option for anyone who did not have a clearly demonstrated understanding of a desired career and commitment to degree completion.

Even though PJ will not cover tuition for any credit courses, FIP cash assistance and financial supports for transportation and child care are crucial for low-income parents who are interested in completing their education. For those who can access it,<sup>23</sup> financial aid in the form of Pell and Federal Supplemental Educational Opportunity grants will cover more than half of their tuition.<sup>24</sup> The maximum amount of a Pell Grant award in 2013 is \$5,550 per year, with an average award of \$3,685 — which is dependent upon the price of attendance, the family's size and financial situation, and whether a student is attending full or part-time.<sup>25</sup> Students who qualify for the Pell Grant generally also qualify for Federal Supplemental Educational Opportunity grants in addition to other qualifiers; the average award is \$736 with a maximum of \$4,000.<sup>26</sup>

Even with the help of grants, significant financial barriers remain for low-income parents who do not have the funds to cover the remainder of tuition and other education related expenses, such as student fees and child care. For example, attending Kirkwood Community College full time starting in the fall of 2013 cost over \$4,000 a year for tuition and, on average, \$400 per semester on books. An entire program, which is two years of study, will cost approximately \$8,680 in addition to the cost of books.<sup>27</sup> However, student loan debt could be more than the tuition assumed here; median debt for the 48 percent of associate degree recipients who borrowed was \$8,500 in 2010.<sup>28</sup>

### ***Using Child Care Assistance to Pursue Higher Education***

Iowa's Child Care Assistance (CCA) program supports low-income families with working parents, parents gaining work skills, or parents going to school. More specifically, CCA provides financial assistance for children under age 13 in either (1) families where parents work at least 28 hours per week or are in school full time and have incomes below 145 percent of the federal poverty level (or with incomes up to 200 percent of the federal poverty for children with special needs), or (2) families receiving FIP and participating in Promise Jobs.

Parents who are full-time college students receive child care assistance as long as the household's monthly income does not exceed the income guidelines set by the DHS, which as of 2012 was \$27,864 annual gross wages for a family of three.<sup>29</sup> In 2012, an average of 544 households received CCA for educational programs during the school year, only 5 percent of the monthly average of 11,101 households in Iowa receiving CCA. When school wasn't in session a monthly average of only 180 households received CCA for education programs. Still, this represents an improvement; since 2001, the rate of those receiving CCA for education in Iowa has more than doubled.<sup>30</sup> However, DHS projects a fairly significant decline (6 percent to 12 percent) in Promise Jobs child care cases (children) in FY13. Also, the FIP caseload continues to decline at a very slow but steady pace, most likely contributing to the decline in Promise Jobs child care. DHS projects a very slight decline of 1 percent in Promise Jobs child care cases in SFY14.<sup>31</sup>

One reason why such a small fraction of families use child care assistance to pursue full-time education is the strain of being unable to provide financially for basic family living expenses while

the parent attends school. A single parent in Iowa with two children would need to make \$48,111 before taxes and cash assistance just to be able to afford a no-frills basic family budget. This figure jumps to \$56,586 for two-parent families who are both working and have two children.<sup>32</sup> If an individual is not a full-time student, he or she is required to work a minimum of 28 hours per week to be eligible for CCA, and must participate in classes beyond their work commitments. Community college navigators, positioned to support low-income students in their educational pursuits, recommend adapting the eligibility rules for CCA to allow for a more realistic combination of part-time work and part-time school.<sup>33</sup>

Promise Job participants using CCA also experience limitations within the program that weigh against academic success and degree completion. First, clients face a lifetime limit of 24 months.<sup>34</sup> This is not nearly enough to complete a BA and makes AA completion difficult if any academic remediation is needed before beginning college coursework, as is often the case for PJ clients.

Second, the program pays for child care only from 30 minutes before the first class until 30 minutes after the last class each day, allowing for a half-hour of travel time between school and the child care provider. Interviews with PJ caseworkers and community college navigators alike indicate this is not an adequate amount of transportation time for students, particularly those relying on public transportation. CCA is also not allowed for off-campus study; however, a few PJ caseworkers have been creative in addressing this need by encouraging students to create blocks of time for study on-campus. This is problematic, though, as different caseworkers advise clients differently about class scheduling — while some advise students to space their courses as much as possible and thus maximize their CCA hours, others advise students to do the opposite, in order to minimize the strain on the child care system.

Lastly, in the region where Promise Jobs staff were interviewed, not enough child care providers would accept CCA payments because the state's reimbursement rates for child care are substantially below the federally recommended level of the 75th percentile of market rates, designed to give families access to 75 percent of providers in their community.<sup>35</sup> Even after a 4 percent increase starting July 1, 2013, the CCA reimbursement rates are still a little short of the 75th percentile of rates based on a 2006 market survey, and well short of the market rates in 2013. As a result, providers are increasingly unlikely to accept state payments and parents encounter waiting lists. Between waiting lists and the lack of child care providers offering care for evening classes, students are turned to friends and family — a less reliable option over the extended time necessary for college completion.

### ***The State's Return on Child Care Assistance for Education***

Whenever the state's child care assistance program makes it possible for individuals to further their education, the state receives a long-term payoff in a variety of forms. As a result of attaining post-secondary degree, an individual will have greater lifetime earnings, pay more state taxes, and rely less on state income supports. The children of that individual in turn will be less likely to be raised in poverty, and as a result will have improved earnings potential and will be less reliant on public assistance as an adult. Some of these payoffs are estimated below.

## Education raises earnings

Those with more education start their working lives at a higher income level. Table 1 shows what Iowans earned per year on average at the start of their working lives, when education presumably has been completed.

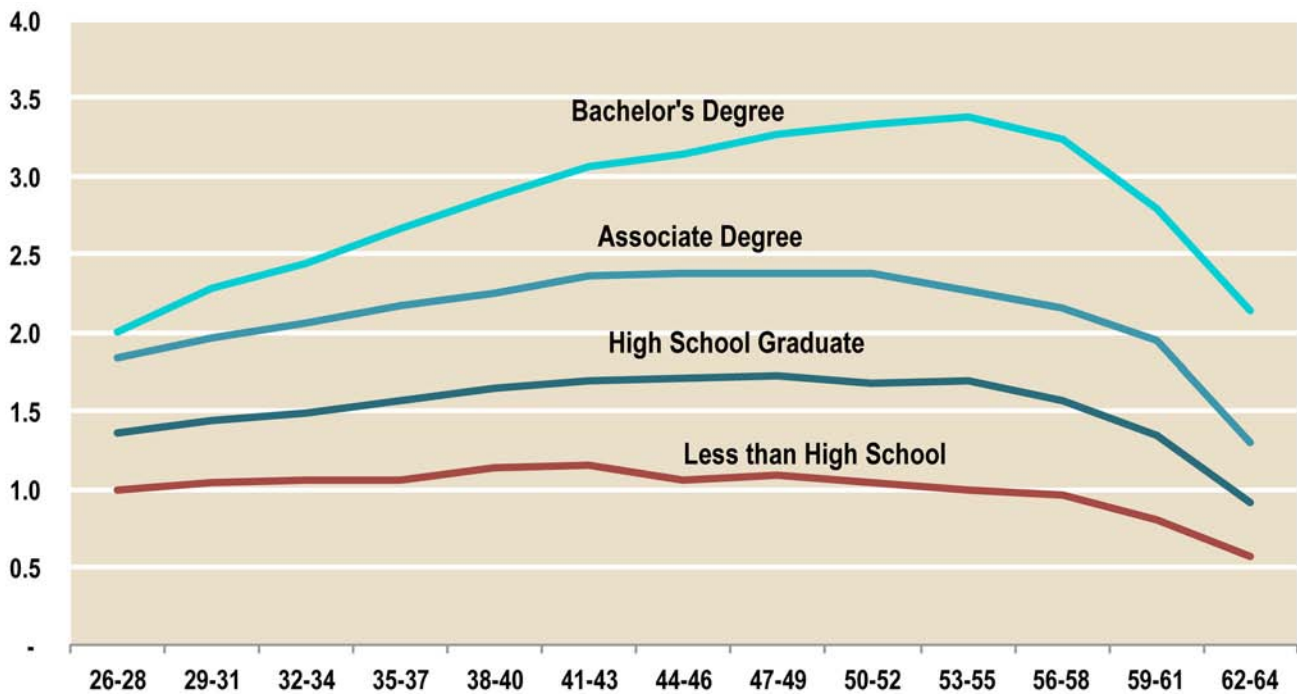
Those with more education also experience greater income gains through the peak earning years. Figure 1 shows how earnings rise and fall over one's working years depending on education. In this chart, all earnings are relative to those with less than a high school education at age 26-28. Someone with an associate degree starts out at nearly twice the earnings of one without a high school diploma, and rises to 2.4 times during the peak earning years of 40-55. For those with a bachelor's the rise in earnings is much steeper; the gap between their earnings and those with less education widens over time. The fall in earnings after age 55 reflects reduced hours or retirement rather than lower hourly pay, since these figures are calculated for all adults, not just those currently employed.

**Table 1. Higher Education Raises Starting Pay**  
Average Earnings of Iowans at Age 25-29, in 2011 dollars

Less than high school	17,224
High school diploma	23,519
Associate degree	31,551
Bachelor's degree	34,469

Source: Authors' analysis of data from the American Community Survey, 2007-2011

**Figure 1. How Earnings Change Over One's Working Lifetime**



Source: Author's calculations based on data on earnings and education by age cohort in the Current Population Surveys of 1992 through 2011.

The pattern of lifetime earnings represented in Figure 1 can be applied to the average earnings of Iowans as they start their careers as shown in Table 1. In this way, we can project average annual earnings for each three-year period of a person's working life, assuming education is completed by age 25. The results are shown in Table 2.

**Table 2. Projected Annual Earnings of Iowans Age 25-29 in Working Life, by Education Level (2011 dollars)**

Age:	26-28	29-31	32-34	35-37	38-40	41-43	44-46	47-49	50-52	53-55	56-58	59-61	62-64
Less than high school	17,224	17,805	18,233	18,260	19,492	19,719	18,197	18,765	17,819	17,046	16,463	13,907	9,762
High school diploma	23,519	24,824	25,647	26,942	28,279	29,186	29,390	29,747	29,010	29,021	26,832	22,985	15,641
Associate degree	31,551	33,688	35,548	37,431	38,878	40,687	40,995	40,862	40,946	38,983	37,183	33,499	22,335
Bachelor's degree	34,469	39,236	42,018	45,967	49,347	52,634	54,122	56,360	57,497	58,208	55,661	47,953	36,947

Source: Table 1 and Authors' analysis of national data on age, education and earnings from the Current Population Survey, 1991-2011.

An examination of our earnings estimates shows we are assuming that, on average over all ages, those with an associate degree earn about 39 percent more than those with a high school diploma. Those with a bachelor's degree earn about 85 percent more than a high school grad earns, and about 33 percent more than those with an associate degree.

*Greater earnings increase state and local tax payments*

Higher earnings translate into higher taxes, mostly because there is simply more income and spending to tax. In Table 3 we see how the annual earnings at each age and education level shown in Table 2 translate into state tax payments.<sup>36</sup> For example, between the ages of 38 and 40, a high school grad on average earns \$28,279 dollars per year, and pays 6.5 percent of that in sales and income taxes to the state of Iowa, which comes to \$1,838 per year.

**Table 3. Annual Direct State Taxes Paid in Iowa, by Education and Age (2011 dollars)**

Education	26-28	29-31	32-34	35-37	38-40	41-43	44-46	47-49	50-52	53-55	56-58	59-61	62-64
Less than high school	\$947	\$979	\$1,003	\$1,004	\$1,072	\$1,085	\$1,001	\$1,032	\$980	\$938	\$905	\$765	\$537
High school diploma	\$1,529	\$1,614	\$1,667	\$1,751	\$1,838	\$1,897	\$1,910	\$1,934	\$1,886	\$1,886	\$1,744	\$1,494	\$860
Associate degree	\$2,051	\$2,190	\$2,311	\$2,433	\$2,527	\$2,645	\$2,665	\$2,656	\$2,662	\$2,534	\$2,417	\$2,177	\$1,452
Bachelor's degree	\$2,240	\$2,550	\$2,731	\$2,988	\$3,208	\$3,421	\$3,518	\$3,663	\$3,737	\$3,784	\$3,618	\$3,117	\$2,402

Source: Table 2 and Institute on Taxation and Economic Policy, *Who Pays: A Distributional Analysis of the Tax Systems in All Fifty States*, 2013.

More education means more state taxes. Table 4 shows how much more revenue the state would receive from an individual with an associate or bachelor's degree, compared to the revenue received from one with a high school diploma. From the total additional taxes paid from age 26 onward (we assume education is completed by that time) we deduct earnings lost during the two or four years required to obtain the degree. For example, we assume the individual earning an associate degree gives up about two years' worth of earnings (at the rate for one with a high school diploma) while earning the degree. This deduction yields the net tax gain to the state.

**Table 4. Total Increase in State Taxes Over 40 Years of Working Life as a Result of Further Education**

Education	Total Age 25-64	Lost taxes during education	Net tax gain
Associate degree vs. HS only	26,124	3,057	23,067
Bachelor's degree vs. HS only	56,902	6,115	50,787
Bachelor's degree vs. AA degree	30,778	4,102	26,676

Source: Authors' calculations.



Over the course of a person’s working life, additional education results in about \$23,000 to \$50,000 in additional state taxes. A program of enhanced child care assistance will thus return substantial revenues to the state in the long run, to the extent that the program results in more adults with post-secondary education who then remain in Iowa for a substantial portion of their working lives.

*Reduced reliance on safety net programs*

Education raises earnings, and thereby reduces reliance on federal and state economic assistance programs, including those with a significant state cost: Medicaid and TANF. Research covering the period 1980 to 1992 found that between 4.1 and 5.6 percent of those with just a high school education received public assistance, while just 0.2 to 0.5 percent of those with four or more years of college did so.<sup>37</sup> Another study found that every additional high school graduate in Iowa saves the state \$11,187 in Medicaid costs, compared to costs for the average adult with less than a high school education, and saves an additional \$1,038 in health care costs for the uninsured.<sup>38</sup>

*Reduced poverty rate among children of the direct beneficiaries of the program*

The higher lifetime earnings of those enabled to attain post-secondary education because of child care assistance translate into reduced poverty rates, compared to those who never advance beyond a high school diploma. This in turn means that fewer children in Iowa will grow up in a poor household. Table 5 shows, for the U.S., how poverty rates fall with increased education.

**Table 5. Poverty Rates Decline with Education**  
*U.S. adults age 25 to 64, 2006-2010 average poverty rate*

Education level	Poverty Rate	Reduction in Rate*
High school graduate	12.9%	
Associate degree	6.6%	6.3%
Bachelor's degree	4.3%	8.6%

*\*Reduction in incidence of poverty as a result of attaining post-secondary education, compared to having only a high school diploma  
 Source: Current Population Survey*

If Iowa graduates of post-secondary education follow the national pattern, then we can estimate how many children escape poverty through the parent’s educational advancement. For every 1,000 high school graduates who go on to get an associate

degree, there will be 63 fewer who are poor as adults (66 will be poor instead of 129). If we assume that 75 percent of those grads will remain in Iowa, and that there are on average 1.0 children per adult, this means that there will be 47 fewer children growing up poor in Iowa.<sup>39</sup> Similarly, for every 1,000 high school graduates who go on to get a four-year degree (or more), there will be 86 fewer who are poor. If we assume that half of them remain in Iowa, and again an average number of children per adult of 1.0, this implies 43 fewer children growing up poor.

Research has shown that eliminating poverty for a child under the age of 6 will increase earnings as an adult by about 29 percent per year.<sup>40</sup> Other studies have found that female children who were raised in poor families when they were under age six on average received \$1,200 per year more in TANF benefits as an adult than their non-poor counterparts.<sup>41</sup> Thus reducing child poverty will in the long run generate additional state income and sales tax revenue as a result of higher lifetime earnings for those children who remain in Iowa. Additionally, Iowa will see reduced spending on Food Stamps and TANF benefits for those children as adults.

Research shows that children of more educated parents exhibit a higher level of academic school readiness and a lower level of academic problems.<sup>42</sup> They will also earn more as adults, be less likely to be incarcerated, and will be more likely to earn college degrees themselves.<sup>43</sup> This will

reduce the state public assistance payments even further, and will save money for the state in special education expenses and correctional costs.

### ***Policy Options for Iowa***

What can the state do to increase the share of TANF recipients and other low-income Iowans who pursue further education and attain a two- or four-year post-secondary degree? Here we present three policy options aimed at increasing the number who enter a post-secondary education program and at increasing the share of those in such a program who complete it with a degree.

#### ***Option I: Cancel the 24-month limit***

We suggest canceling the 24-month limit. A student with one child using CCA in 2013 costs the state \$2,400 to \$2,700.<sup>44</sup> Adding two years to the 24-month limit, so students could realistically complete a BA, would double the cost — \$4,800 to \$5,400. But if just 1 in 9 recipients of the extended subsidy completed the BA program and remained in Iowa through age 65, the state would recoup all the costs, because that one individual could be expected to pay \$50,787 in additional state taxes over the course of a working life, sufficient to cover the extra two years of subsidized child care for that family as well as for eight others who dropped out or left the state. In fact, census migration data suggest that over half of college graduates are still residing in Iowa in their 30s and 40s.<sup>45</sup>

#### ***Option II: Increase payment rate***

One of the problems facing potential users of CCA can be the difficulty in finding a child care provider in the vicinity who is willing to accept the low reimbursement rate allowed by the state. The state maximum reimbursement rates effective July 1, 2013, though higher than in previous years, are not only below the 75<sup>th</sup> percentile of costs but still below the statewide average cost.<sup>46</sup> We suggest increasing the state's CCA maximum payment rate to the federally recommended 75<sup>th</sup> percentile of current costs, which should make most of the local child care providers willing to accept the child (space permitting). In 2012-13, 23 percent of the child care programs across the state did not accept DHS Child Care Assistance funded children.<sup>47</sup> How much this would cost the state depends on how many additional persons take advantage of CCA to attend school because they can now find a provider when previously they could not, and how many current users of CCA use a more expensive provider than they would have otherwise. It is not possible to estimate either effect, though clearly state costs would increase because the higher payment rates affect all users of CCA, not just those attending school.

#### ***Option III: Expand hours allowed***

Attainment of post-secondary education would be facilitated by allowing students additional child care blocks of time to account for transportation from home to the child care provider to school and back, and to allow for off-campus study time. This could approach allowing full-time CCA to full-time students. Full-time care (10 hours/day, five days/week) would be about twice the average cost of the level of child care assistance currently provided. This would increase the cost of CCA to the state, but would also allow more individuals to pursue education and would increase the likelihood of success and graduation for those who are working toward a degree. As with Option I, every additional person able to complete a four-year degree because of the improvement in child care assistance will return future tax revenue to the state that will offset at least part of the state's investment in that person's education.

### *Option IV: Combine School and Work Hours*

Someone who has skills appropriate only for low-wage jobs but who wants to pursue post-secondary education will typically need to work part time and attend school part time. But such a person, if not in the FIP program, would be required to work 28 hours per week in addition to class and out-of-class schooling hours. We recommend that the classroom hours be allowed to count toward the 28-hour requirement; the more classes attended the lower the work requirement. This would place more realistic demands on a person's time and allow more individuals to pursue education by not forcing a choice between work and school.

### **Conclusions**

Our analysis of Iowa's child care assistance policies reveals several potential obstacles to a successful and effective program, and the potential gains to the state from measures that increase the number of low-wage, low-education Iowans who attain post-secondary education.

- For most TANF participants and low-wage workers generally in Iowa, education is the surest way to attain self-sufficiency and a job that can support a family at or above a level that just meets basic needs.
- The TANF and CCA programs are geared toward maximizing work, at any wage, rather than encouraging participants to further their education and make it possible to achieve self-sufficiency and an adequate standard of living.
- The figures clearly show a problem of underuse of Iowa's child care assistance program for non-welfare parents who are pursuing higher education. To encourage greater rates of post-secondary enrollment among Iowa parents, the state should engage in active outreach to non-FIP parents and inform them that child care funds are available. Without public awareness, the funds go unspent, at the same time struggling parents forgo higher education.
- Iowa's reimbursement rate should not be lower than the federally recommended level of the 75th percentile of current market rates. For a child care assistance program to be effective, the state should ensure that every parent in every locale can use the reimbursement money at a local and convenient child care location. Not meeting at least the 75th percentile of market rate reduces the odds of parents finding a close-by provider that will agree to charge no more than the government payment and that will have a part-time opening. To encourage parents to pursue further education, the reimbursement should be high enough for them to use it with ease.
- It should be Iowa Department of Human Services policy and practice to encourage Promise Jobs caseworkers to explore education and child care options with their clients, and the training and evaluation of caseworkers should reflect a policy of rewarding the approval of education plans instead of encouraging only a work-first approach.
- Any change in the state child care assistance program that results in more people attaining an associate or bachelor's degree will produce a substantial long-term return to the state in the form of higher income and sales taxes as a result of the higher lifetime incomes of those with post-secondary education. The increased taxes paid over 40 years of working life by someone with an associate degree is about \$23,000 over the amount paid by the average person with a high school diploma but no post-secondary degree. For someone attaining a bachelor's degree, the additional lifetime tax payments amount to nearly \$51,000.

- <sup>1</sup> Child care costs from: Iowa Child Care Resource and Referral, Statewide Report, July 2012.  
<http://www.iowaccrr.org/resources/files/State%20Data%20Sheet/FY12%20Iowa%20Summary%20Report.pdf> . Resident tuition for academic year 2012-13 at the University of Iowa was \$6,678, at ISU and UNI, \$6,648; this does not include mandatory fees.
- <sup>2</sup> Kevin Miller, Barbara Gault and Abby Thorman. *Improving Child Care Access to Promote Postsecondary Success Among Low-Income Parents*. Institute for Women's Policy Research, 2011.
- <sup>3</sup> *The State of Working Iowa 2012*. <http://stateofworkingiowa.org/the-bigger-picture/>
- <sup>4</sup> *The State of Working Iowa 2011*.
- <sup>5</sup> Adair, V. C. (2001). Poverty and the (broken) promise of higher education. *Harvard Educational Review*, 71(2), 217-239  
<http://www.history.ucsb.edu/projects/labor/documents/AdairHarvardEducationalReviewArticle.pdf>
- <sup>6</sup> Authors' calculations based on the American Community Survey, 2006-2010, and the Current Population Survey, various years.
- <sup>7</sup> Lily French, Peter Fisher and Noga O'Connor, *The Cost of Living in Iowa, 2011 Edition*. Iowa Policy Project, May 2012.
- <sup>8</sup> Anthony P. Carnevale, Nicole Smith and Jeff Strohl. *Help Wanted: Projections of Jobs and Education Requirements Through 2018*. Georgetown University Center on Education and the Workforce, June, 2010.
- <sup>9</sup> See, for example, Adair, V. C. (2001). "Poverty and the (broken) promise of higher education." *Harvard Educational Review*, 71(2), 217-239  
<http://www.history.ucsb.edu/projects/labor/documents/AdairHarvardEducationalReviewArticle.pdf>
- Thompson, J. (1993). "Women, welfare and college: The impact of higher education on economic well-being." *Affilia*, 8(4), 425-441.
- <sup>10</sup> <http://www.mdrc.org/publications/260/full.pdf>
- <sup>11</sup> See, for example, <http://www.wsipp.wa.gov/rptfiles/FTHEUnderTANF.pdf>
- <sup>12</sup> To qualify as meeting the work requirement, a minimum number of hours per week must be devoted to "core activities" such as employment or on-the-job training (20 hours for a single parent, 30 hours combined for two-parent households), plus additional hours that can be core activities, or "non-core activities" such as basic education or GED classes, or vocational education, under certain circumstances (bringing total hours to 30 for a single parent with no child under 6, or 35 combined for a two-parent household). Only the first 12 months of post-secondary education count as a core activity; after that it is non-core.
- <sup>13</sup> [http://www.dhs.state.ia.us/Partners/Reports/PeriodicReports/Supplemental\\_TANF/Supplemental\\_TANF\\_\\_2011/Countable%20Activities.html](http://www.dhs.state.ia.us/Partners/Reports/PeriodicReports/Supplemental_TANF/Supplemental_TANF__2011/Countable%20Activities.html)
- <sup>14</sup> Table "E.4.d.: Expenditures on Non-Assistance Sub Categories using TANF in Separate State Programs in FY 2011", from spreadsheet *2011\_TANF-data\_with\_states.xls* from U.S. Department of Health and Human Services website.
- <sup>15</sup> State of Iowa, Promise Jobs program, Component Activity Reports for the months of July 2011 through May 2012, at <http://www.dhs.state.ia.us/Partners/Reports/PeriodicReports/PromiseJobs/PJ2012.html>
- <sup>16</sup> <http://www.mdrc.org/publications/260/full.pdf>
- <sup>17</sup> <http://www.mejp.org/PaSeduworks.htm>
- <sup>18</sup> <http://www.facc.org/research/Careers.pdf>
- <sup>19</sup> <http://www.dhs.state.ia.us/docs/DRAFT%20State%20Plan.pdf>
- <sup>20</sup> Based on IPP interviews with Iowa Workforce Development Promise Job caseworkers, August 2011.
- <sup>21</sup> Iowa College Student Aid Commission, *Federal and State Work-Study and Status*. Iowa College Student Aid Commission, January 2008.  
[https://www.legis.iowa.gov/DOCS/LSA/SC\\_MaterialsDist/2008/SDMDF031.PDF](https://www.legis.iowa.gov/DOCS/LSA/SC_MaterialsDist/2008/SDMDF031.PDF)
- <sup>22</sup> <http://www.clasp.org/admin/site/publications/files/0406.pdf>
- <sup>23</sup> You are ineligible if you have previously defaulted student loans, unpaid government fees or taxes, felony drug charges, past criminal events, etc. .
- <sup>24</sup> Lily French and Peter S. Fisher, *Education Pays in Iowa: The State's Return on Investment in Workforce Education*. Iowa Policy Project, May 2009.
- <sup>25</sup> <http://studentaid.ed.gov/types/grants-scholarships/pell>
- <sup>26</sup> <http://www.fseog.com/>
- <sup>27</sup> <http://www.kirkwood.edu/site/index.php?p=27878>
- <sup>28</sup> Sandy Baum, Jennifer Ma and Kathleen Payea, *Education Pays 2010: The Benefits of Higher Education for Individuals and Society*. College Board Advocacy and Policy Center, 2010.  
<http://trends.collegeboard.org/sites/default/files/education-pays-2010-full-report.pdf>
- <sup>29</sup> See Iowa Department of Human Services, Child Care Assistance,  
[http://www.dhs.state.ia.us/uploads/Improve\\_Iowans\\_Employment\\_and\\_Economic\\_Security.pdf](http://www.dhs.state.ia.us/uploads/Improve_Iowans_Employment_and_Economic_Security.pdf)
- <sup>30</sup> Personal correspondence with Jennifer Davis Harbison, Iowa DHS. 9.2.2011.
- <sup>31</sup> Tammi Christ, DHS, ACFS/Child Care Bureau.
- <sup>32</sup> Lily French, Peter S. Fisher, and Noga O'Connor, *The Cost of Living in Iowa: 2011 Edition*. Iowa Policy Project, May 2012.  
<http://www.iowapolicyproject.org/2012docs/120531-COL.pdf>
- <sup>33</sup> Interviews with Melissa Carstens and Mialisa Wright, Kirkwood Community College KPACE Navigators, October 2012.  
[http://www.dhs.state.ia.us/dhs/dhs\\_homepage/docs/DRAFT%20State%20Plan.pdf](http://www.dhs.state.ia.us/dhs/dhs_homepage/docs/DRAFT%20State%20Plan.pdf)
- <sup>34</sup> <http://www.nwlc.org/resource/state-child-care-assistance-policies-2010-iowa>
- <sup>35</sup> <http://www.nwlc.org/resource/state-child-care-assistance-policies-2010-iowa>
- <sup>36</sup> Computation based on effective tax rates from Institute on Taxation and Economic Policy, *Who Pays: A Distributional Analysis of the Tax Systems in All Fifty States*, Fourth edition, 2013.
- <sup>37</sup> U.S. Department of Education, National Center for Education Statistics, Indicator of the Month: "Welfare Reciprocity, by Educational Attainment." July, 1995.
- <sup>38</sup> Alliance for Education, *Healthier and Wealthier: Decreasing Health Care Costs by Increasing Educational Attainment*. Issue Brief, November 2006. Washington, D.C.
- <sup>39</sup> On average, U.S. families have about 1 child per adult, according to data from the Current Population Survey. This is an average across single-parent and two-parent families.
- <sup>40</sup> Greg Duncan, Ariel Kaill, and Kathleen Ziol-Guest, *Economic Costs of Early Childhood Poverty*. Washington, D.C.: Partnership for America's Economic Success, February, 2008.
- <sup>41</sup> Ibid.

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<sup>42</sup> Magnuson, K.A. and McGroder, S.M. (2002). *The effect of increasing welfare mothers' education on their young children's academic problems and school readiness*. Joint Center for Poverty Research.

[http://www.northwestern.edu/jpr/jcpr/workingpapers/wpfiles/magnuson\\_mcgroder.pdf](http://www.northwestern.edu/jpr/jcpr/workingpapers/wpfiles/magnuson_mcgroder.pdf)

<sup>43</sup> Paul Attewell and David E. Lavin, *Passing the Torch: Does Higher Education for the Disadvantaged Pay Off Across the Generations?* New York: Russel Sage Foundation, 2007.

<sup>44</sup> This calculation assumes 40 weeks of half-time child care (two 16-week semesters and an 8-week summer session) for a child age 3 to 5 at a registered child development home or a licensed child care center. Costs are based on the statewide average rates in 2012-13 as reported by Iowa Child Care Resource and Referral or the July 1, 2013 maximum state reimbursement rate, whichever is less. In all cases, the state maximum is less than the actual average cost. If the child were an infant or toddler, costs are higher but the state cost would still fall in this range if the child were cared for in a registered home rather than a child care center.

<sup>45</sup> See pages 15-16 in Lily French and Peter S. Fisher, *Education Pays in Iowa: The State's Return on Investment In Workforce Education*, The Iowa Policy Project, May 2009.

<sup>46</sup> Maximum rates ranged from 86 percent to 97 percent of the state average cost of care, depending on the age of the child and the type of child care provider. The state average figures are based on data from the Iowa Child Care Resource and Referral web site.

<sup>47</sup> Iowa Child Care Resource & Referral, State of Iowa data sheet, July, 2013, at [http://www.iowaccrr.org/data\\_publications/](http://www.iowaccrr.org/data_publications/).

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## Iowa Fiscal Partnership

*The Iowa Fiscal Partnership is a joint initiative of the Iowa Policy Project and the Child & Family Policy Center, two nonprofit, nonpartisan Iowa-based organizations that cooperate in analysis of tax policy and budget issues facing Iowans. IFP reports are available at <http://www.iowafiscal.org>.*

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