



# The Iowa Policy Project

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## Reforms Could Reduce Cliff Effects in Child Care Assistance

IOWA CITY, Iowa (March 13, 2014) — Eligibility restrictions in Iowa’s Child Care Assistance program cement roadblocks to self-sufficiency for low-wage working parents, but could be reformed to increase both efficiency and access to child care.

A new report from the nonpartisan Iowa Policy Project (IPP) offers illustrations of how eligibility rules and cost-sharing by families could be adjusted to better meet family needs.

“If the eligibility ceiling is raised and co-pays increase as income rises above the current ceiling, child care assistance can help families who are still well below the income level needed to support basic needs,” said Lily French, co-author of the report with IPP Research Director Peter Fisher.

“Current rules provide a disincentive to families to earn more, because the loss of child care assistance can outweigh the increased income. Our report shows how Iowa could improve assistance to more families who remain at incomes below what is needed to make ends meet.”

The report examines both the income ceiling for eligibility for the CCA benefit, and the co-pay schedule at which families with steadily higher incomes pay a greater share of their child care bill.

“What Iowa policy makers need to recognize is that child care has become a huge expense for working families,” Fisher said. “We need to look at ways that we can reduce what has become a financial ‘cliff’ for families, where the more they make, the further they fall behind because of the staggering cost of child care.”

The report notes that the statewide average cost of care in a licensed center for a 2- to 5-year-old was \$148 per week in 2013. Yet for someone making \$9 per hour — well above minimum wage — weekly pay is only \$360, which means 4 out of every 10 dollars would go to child care.

“For someone working a minimum wage job, or supporting more than one child, the percentage needed for child care is even higher. That is why a strong Child Care Assistance program is so important to low-wage families,” said French, senior policy consultant at IPP and co-author with Fisher of several reports on child care.

To be eligible for Iowa’s Child Care Assistance (CCA) program, household income must not exceed 145 percent of the federal poverty guideline — a guideline that IPP’s *Cost of Living in Iowa* research has demonstrated is artificially low.

Only seven states in 2013 had a more restrictive income limit, or ceiling, while in 30 states (and in parts of three others) the threshold was 165 percent of poverty or higher. In 16 states, the eligibility threshold was at or above 200 percent.

“When parents trying to provide for their families get a better job, a pay raise or more hours that pushes family income above 145 percent of poverty, they find themselves worse off instead of better off. Their total family resources fall off a cliff as the child care assistance disappears and they are suddenly left footing the entire bill with only a minor increase in income,” the report noted.

In previous reports, IPP has shown Iowa’s CCA program creates barriers for low-income parents trying to further education so they can get better jobs and achieve self-sufficiency, and that expanding CCA eligibility would raise earnings and future tax payments — offering a return on the state investment.

The new report builds on analysis in December that showed the so-called “cliff effects,” by offering the illustrations of how various reforms would reduce or eliminate the cliffs that occur when higher income causes a drop in the child care benefit.

“The goal of work support programs should be to make work pay for the individual, which benefits both the family and the taxpayer. That is why reforms in the Child Care Assistance program make so much sense,” Fisher said.

According to the report, families between 145 percent and a higher ceiling would be better off, and the disincentive effect of the cliff reduced. But expanding the eligibility would be paired with an increase in co-pays, severely reducing or even eliminating the cliff effect.

“The gradual phaseout of benefits combined with a higher eligibility ceiling would allow families to continue to receive some benefits from CCA as their income approaches what is needed to support a family at a reasonable but basic level,” Fisher said.

“Furthermore, it would do so at a much lower cost to the state than simply raising eligibility while leaving in place the current co-pay schedule. Raising eligibility to 200 percent of poverty while adopting something like our modified co-pay schedule would be much less expensive than the same eligibility ceiling with no change in the co-pay schedule.”

The Iowa Policy Project is a nonpartisan, nonprofit public policy research and analysis organization based in Iowa City. Reports are at [www.iowapolicyproject.org](http://www.iowapolicyproject.org).