The Iowa Policy Project

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The Cost of Living in Iowa — 2014 Edition, Part 3
Work Supports Leave Gaps in Path to Middle Class

IOWA CITY, Iowa (Oct. 29, 2014) — Iowa families could find a clearer path to the middle class if work-support policies were better designed to "make work pay," Iowa researchers said today.

"When we know earnings fall short for 1 in 6 families, it is important to understand that our public policies sometimes fall short and could do more to help families to prosper," said Peter Fisher, research director for the nonpartisan Iowa Policy Project (IPP) and co-author of a new report.
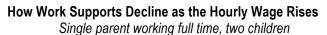
In "Strengthening Pathways to the Middle Class: The Role of Work Supports," Fisher and IPP Senior Policy Consultant Lily French said some policies create "cliff effects" that can mean even a higher-paying job can result in fewer resources in the household budgets of low- and moderate-income families. The report is available at www.iowapolicyproject.org.
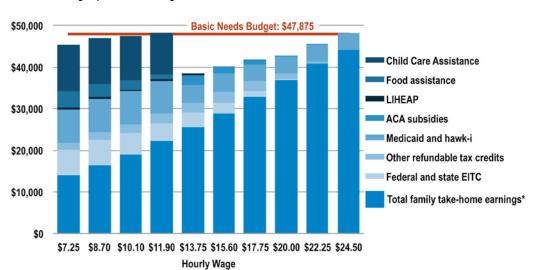
"It's like falling off a cliff," French said. "You can look for a better job, or a few more hours, or even a second job — and then find out you have less to make ends meet.

"This is readily apparent with Child Care Assistance, which addresses a big cost item in a household budget. Eligibility vanishes when you make just 145 percent of the federal poverty level — which is very low. If you get a job paying $13.65 an hour, suddenly your child care assistance is gone and you're $9,000 in the hole.

"If our goal is to encourage people to seek better jobs, and education to get better jobs, support programs need to be set up for them to succeed."

The report is the final part in a three-part series of IPP's *Cost of Living in Iowa* series for 2014.

How Work Supports Decline as the Hourly Wage Rises
Single parent working full time, two children

Basic Needs Budget: $47,875

Legend:
- Child Care Assistance
- Food assistance
- LIHEAP
- ACA subsidies
- Medicaid and hawk-i
- Other refundable tax credits
- Federal and state EITC
- Total family take-home earnings*

Hourly Wage: $7.25 $8.70 $10.10 $11.90 $13.75 $15.60 $17.75 $20.00 $22.25 $24.50

The research illustrates:

- A basic-needs cost of living is between two and three times higher than the federal poverty guidelines on which public work supports are based.
- Work supports are critical to helping low-income families put together a household budget that brings them closer to a basic-needs level — but poorly targeted supports can miss families who then find it harder to seek education and better jobs to reach the middle class.
- "Cliff effects" emerge when households gain income but lose a greater amount in work supports, creating an abrupt net loss of resources.
- Work supports can be structured to ease those cliff effects and to make work pay.

Fisher and French cited examples of current supports that ease or erase cliff effects: Iowa's Earned Income Tax Credit has done so for many years by phasing out benefits as incomes rise, along with the more recent example Iowa's recent Medicaid expansion and Affordable Care Act subsidies.

They recommend reforms to build on those examples:

- Improving access to Iowa's Child Care Assistance program with eligibility at 200 percent of the poverty level, plus a copay schedule that eases people off the program as income rises.
- Expanding the Earned Income Tax Credit from 15 percent to 29 percent of the federal credit; making it comparable to the ratio of state to federal tax liability.
- Increasing the Child and Dependent Care Credit to cushion the loss of Child Care Assistance and better reflect the cost to families of raising children.

Fisher and French said the reforms should be combined with education policies that ensure future generations of Iowans receive a quality and affordable education, from preschool through post-secondary institutions.

"This means we need to expand the universal preschool program, support K-12 education through adequate funding of state foundation aid, and continue efforts to make post-secondary education more affordable by restraining tuition growth," Fisher said.

The Iowa Policy Project is a nonpartisan, nonprofit public policy analysis and research organization based in Iowa City. Reports are at www.iowapolicyproject.org.