The Iowa Policy Project

Reducing Cliff Effects in Iowa Child Care Assistance

APPENDIX
How the Structure of Co-pays Determines Cliff Effects

How Co-pays Work under Current Law

Under Iowa's current Child Care Assistance (CCA) program, once a family's income reaches 100 percent of Federal Poverty Guidelines (FPG), a co-pay schedule takes effect where families begin to pay part of the cost of child care. The family contribution is based on the number of "units" of child care, with one unit equal to a half day. Recognizing the burden that is placed on families with more than one child in care, the fee is based only on the units of child care used for the child spending the most time in care. A child in full-time care year round would be using 520 units of care: two units (half-days) per day times five days per week times 52 weeks. Additional children using full-time care or less would not add to the units of child care subject to the fee.

To determine the family's contribution to the cost of child care, the units are multiplied by a "unit fee." The unit fee, and hence the family contribution, increases as household income increases. For a married couple with two children and total income at 125 percent of poverty, for example, the fee would be $2.20 for one child in care. There is a small addition to costs for families with more than one child in care because the unit fee increases by 25 cents for each additional child, up to three. If both children in our example were in child care, then, the family would pay a unit fee of $2.45. The number of units for the child receiving the most hours of care is multiplied by the unit fee to determine the total cost to the family. There are unit fee tables for each family size, since size determines the income brackets based on FPG. The current unit fee schedule for a family of four is shown in Table 1.

Table 1. Unit Fee Schedules for a Family of Four

Monthly Income		Current Law			Increment raised to 80 Cents			Federal Poverty Guideline Percentage
Equal to or above:	*But less than:*	*Number of Children in Care*			*Number of Children in Care*			
		1	2	3	1	2	3	
	$1,963	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	
$1,963	$2,018	$0.20	$0.45	$0.70	$0.20	$0.45	$0.70	**100%**
$2,018	$2,073	$0.45	$0.70	$0.95	$0.45	$0.70	$0.95	
$2,073	$2,131	$0.70	$0.95	$1.20	$0.70	$0.95	$1.20	
$2,131	$2,189	$0.95	$1.20	$1.45	$0.95	$1.20	$1.45	
$2,189	$2,250	$1.20	$1.45	$1.70	$1.20	$1.45	$1.70	
$2,250	$2,312	$1.45	$1.70	$1.95	$1.45	$1.70	$1.95	
$2,312	$2,376	$1.70	$1.95	$2.20	$1.70	$1.95	$2.20	
$2,376	$2,441	$1.95	$2.20	$2.45	$1.95	$2.20	$2.45	
$2,441	$2,509	$2.20	$2.45	$2.70	$2.20	$2.45	$2.70	**125%**
$2,509	$2,578	$2.45	$2.70	$2.95	$2.45	$2.70	$2.95	
$2,578	$2,650	$2.70	$2.95	$3.20	$2.70	$2.95	$3.20	
$2,650	$2,722	$2.95	$3.20	$3.45	$2.95	$3.20	$3.45	
$2,722	$2,798	$3.20	$3.45	$3.70	$3.20	$3.45	$3.70	
$2,798	$2,875	$3.45	$3.70	$3.95	$3.45	$3.70	$3.95	
$2,875	$2,955	$3.70	$3.95	$4.20	$4.25	$4.50	$4.75	**145%**
$2,955	$3,036	$3.95	$4.20	$4.45	$5.05	$5.30	$5.55	
$3,036	$3,121	$4.20	$4.45	$4.70	$5.85	$6.10	$6.35	
$3,121	$3,205	$4.45	$4.70	$4.95	$6.65	$6.90	$7.15	
$3,205	$3,295	$4.70	$4.95	$5.20	$7.45	$7.70	$7.95	
$3,295	$3,385	$4.95	$5.20	$5.45	$8.25	$8.50	$8.75	
$3,385	$3,480	$5.20	$5.45	$5.70	$9.05	$9.30	$9.55	**175%**
$3,480	$3,575	$5.45	$5.70	$5.95	$9.85	$10.10	$10.35	
$3,575	$3,675	$5.70	$5.95	$6.20	$10.65	$10.90	$11.15	
$3,675	$3,775	$5.95	$6.20	$6.45	$11.45	$11.70	$11.95	
$3,775	$3,880	$6.20	$6.45	$6.70	$12.25	$12.50	$12.75	
$3,880	$3,986	$6.45	$6.70	$6.95	$13.05	$13.30	$13.55	
$3,986	$3,986	$6.70	$6.95	$7.20	$13.85	$14.10	$14.35	**200%**

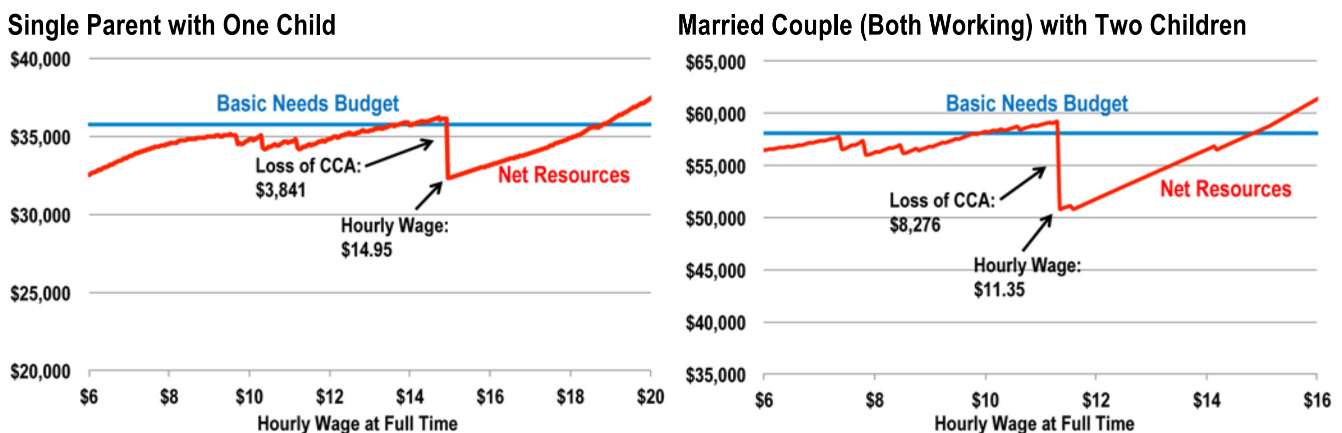
The family at 125 percent of poverty ($2,455 per month income, or $29,460 per year) would pay $1,144 a year toward child care, if they had one child in care full time, year round ($2.20 times 520). With a second child in care, the unit fee increases to $2.45, so the total cost to the family rises to $1,274 ($2.45 times 520). The child care assistance program pays the remaining $9,757 of the total cost of child care for the two children: $11,031.

At just under the 145 percent eligibility ceiling, the unit fee will have risen to $3.70, because the fee increases by 25 cents for each $36 to $89 increase in monthly income.[1] The family's total cost increases to $1,924, though the state will still be picking up over 82 percent of the cost. But if the family earns a few dollars more, the state share disappears all at once.

Now consider an increase in the eligibility ceiling for CCA to 155 percent of poverty level income, or to any other higher level up to 200 percent. The simplest way to implement co-pays would be to use the existing unit fee schedule that kicks in at 100 percent of poverty and continue it up to the new eligibility ceiling. That schedule already exists in the Iowa code for children with special needs, who are eligible up to 200 percent of poverty. As income increases above 145 percent of poverty by $50 to $123 per month, the unit fee increases 25 cents. This is shown for a family of four in Table 1, the columns labeled "Current Law."

The main report showed the effects of raising eligibility to 175 percent of poverty and relying on the existing co-pay schedule. Here we show that even raising the ceiling to 200 percent of poverty would leave a very sizable cliff. For the married couple with two children the hourly wage can now rise to $11.35 before losing eligibility, a 38 percent increase over the wage where benefits cease under current law. But the family sees a loss of $8,276 in net resources as income rises to 200 percent of FPG. The existing unit fee schedule results in a series of little "bumps in the road" as income increases, with net resources continuing to rise until the eligibility ceiling is reached. But then resources fall of a cliff, albeit a smaller one.

Figure 1. The Cliff Effect: How Net Resources Change as Earnings Increase, Statewide Average
Eligibility Ceiling Raised to 200 Percent of Poverty, with Existing Co-pay Schedule



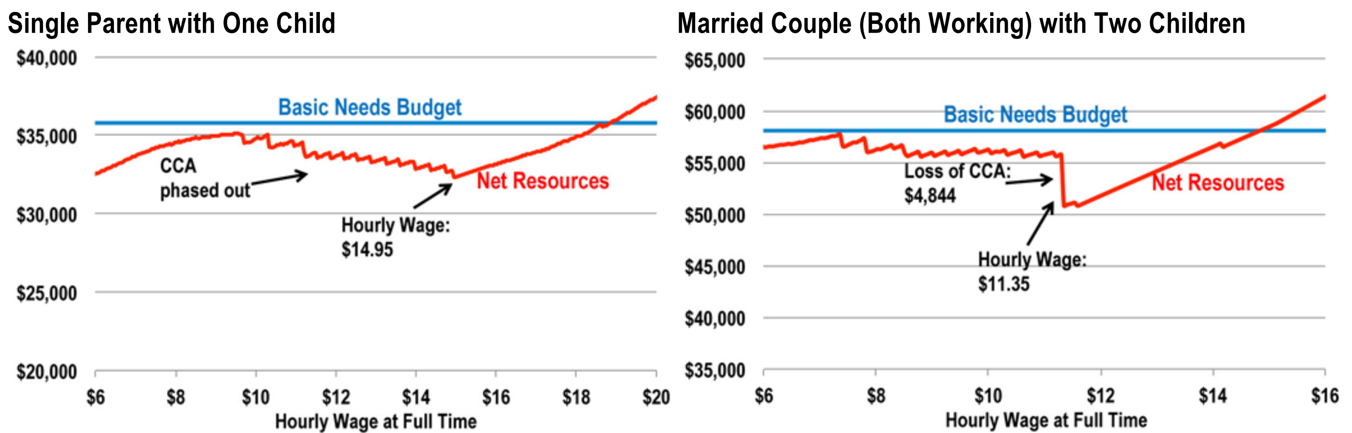
Reducing the Cliff Effect

In order to achieve the more gradual loss of benefits that characterizes other public assistance programs (SNAP, EITC), the co-pay schedule would have to be increased. One approach would be to increase the unit fees for those with income above the current ceiling of 145 percent of poverty. We have simulated a policy change that would raise the eligibility ceiling to 200 percent of poverty

but greatly increase the co-pays, so that the unit fee increases by 80 cents with each higher income bracket instead of the 25 cents under current law. The change in the fee schedule is shown in Table 1.

For wage levels of 145 percent of poverty and above, the family receives lower benefits than under the current unit fee schedule. But now the unit fee increasing in 80 cent increments is sufficient to almost completely phase out CCA benefits as the eligibility ceiling is reached for the single parent with one child (Figure 2). This occurs at an hourly wage of $14.95, a 38 percent increase in the maximum wage compared to current law. In effect, the $5,003 in child care assistance received at 145 percent of poverty is gradually eliminated as the hourly wage rises from $10.82 to $14.95. For this family, net resources actually decline as the more rapid phase-out begins. But the cliff is gone.

Figure 2: The Cliff Effect: How Net Resources Change as Earnings Increase, Statewide Average Eligibility Ceiling Raised to 200 Percent of Poverty, Co-pay Schedule Increased to 80-cent increments



For the married couple with two children the picture looks quite different. From $8.25 to $11.25 the family's net resources remain about the same, with the increased CCA co-pays and the reduced benefits from other programs eating up the increase in earnings. Then net resources drop at a wage of $11.35, but the cliff effect is now reduced to $4,844, from $8,905 under current law.

So why does the same unit fee increase produce a gradual and complete phase-out of benefits for the single parent in our example, but a slower phase out with a much higher cliff for the married couple? The answer lies in the number of children in child care, not in the distinction between a couple and a single parent. Comparisons between a married couple with one pre-schooler and a single parent with a pre-schooler and a 6- to 10-year-old would produce similar results: the single parent with two children would have a sizable cliff when eligibility is lost, while the couple with one child would see the gradual phase-out of benefits.

To understand why it works this way, we must return to the structure of the unit fees. With an additional child, the unit fee increases slightly. However, the number of units to which it applies does not, since it is determined only by how many half days a year is spent in child care for the child with the most use of it. Thus for the two-child family, the increase in unit fees increases their contribution towards costs of the first child, but they were not contributing much to the cost of the second child and are still not doing so under the higher unit fees. So they still have substantial CCA benefits remaining when they lose eligibility.

If CCA is to be gradually phased out as income increases above 145 percent of poverty in such a way that cliff effects are minimized, then total units of child care would have to be taken into account in the fee formula, or the increase in the unit fee for additional children in care would have to be substantially increased. The latter approach could create large inequities, comparing families where additional children are in full time care versus all additional children needing only after-school care, for example. Therefore we chose to simulate the first alternative, with one unit fee based on income multiplied by total units of care for the family. Referring to table 1, we use the alternative unit fee with increments of 80 cents, but only the first column, the fee for one child.

The result for the married couple with two children in care is that a cliff still occurs at an hourly wage of $11.35, but the cliff amounts to $1,581 instead of $4,844 (see Figure 3 in the main report). The altered structure of co-pays is also less favorable to families with more children in care than the current system. As a result, a family at a given income level relative to poverty will be paying much more for child care the more children they have in care. Under the current system, larger families pay only a little more. This is the cost of a policy that seeks to minimize cliffs.

With a lesser increase in the eligibility ceiling, the increment in the unit fees with each increase in monthly income would have to be larger in order to taper benefits to nearer zero as eligibility is reached. And as we pointed out earlier, there is a trade-off here: higher unit fees produce a smaller cliff by reducing benefits more for all those who gain eligibility by the increase in income ceiling.

Other possibilities exist of course. Instead of maintaining the current structure of unit fees while just altering the parameters, such as the size of the fee increase with each change in income bracket, the basic approach to co-pays could be changed. We have not explored other approaches to date.

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[1] The monthly income brackets widen as income increases, so that the next income bracket for a family of two at a little over 100 percent of poverty is just $35 higher, while the next bracket for a family of five near 145 percent of poverty is $89 higher.