backgrounder
The Iowa Policy Project

November 2016

FIXING THE CLIFF EFFECTS

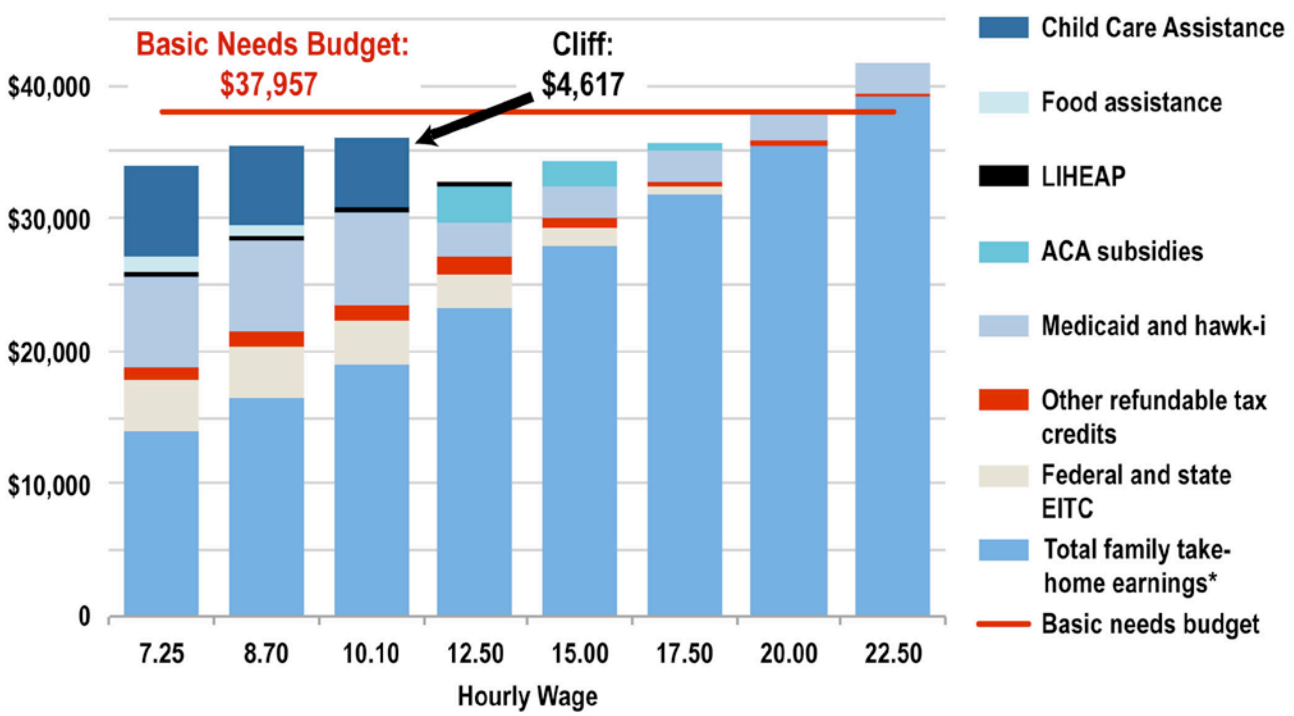
How Iowa turns a child care solution into a problem

With half the jobs in Iowa paying less than what many families need to meet a basic needs budget, how do those families get by? Some do without health insurance, and then risk medical indigency or bankruptcy. Some rely on friends or relatives for child care. Some simply do without. Many use work support programs that augment incomes with food, home energy, health insurance and other support. One critical support is the state's Child Care Assistance (CCA) program, but access is severely restricted by constraints on eligibility, tied to income.

As Figure 1 below illustrates, for a single parent with one child at various hourly wages, the maximum benefit from most work supports tapers off gradually as the full-time worker moves from a minimum-wage job to work at higher pay. **The exception: Child Care Assistance.**

Figure 1. How Work Supports Decline as the Hourly Wage Rises

Single parent working full time, one child, age 3-5, statewide average



Source: Iowa Policy Project: The Cost of Living in Iowa 2016, Part 3 "Strengthening Pathways to the Middle Class: The Role of Work Supports"

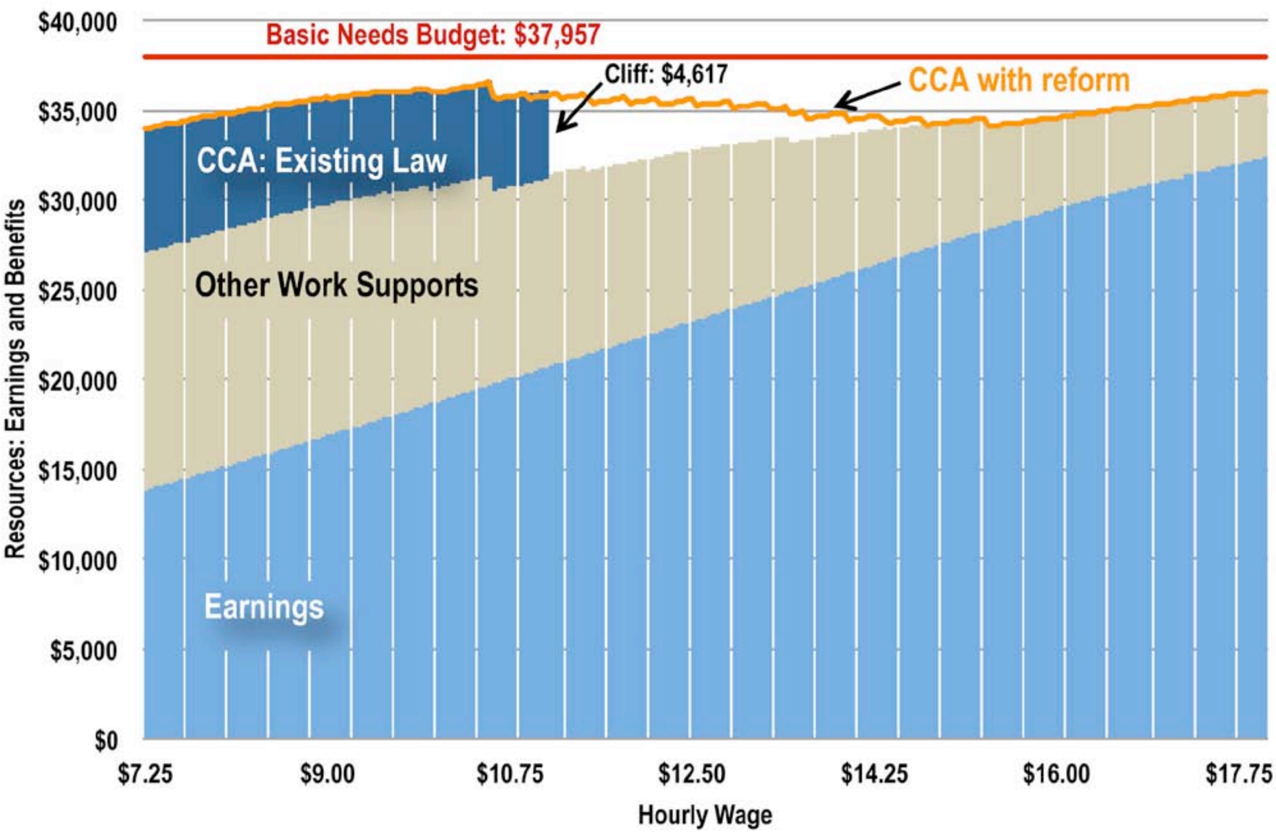
If we consider all work support programs except Child Care Assistance, Figure 1 shows the family's total resources are always higher the higher the wage. **It always pays to get a better job,**

or to work more hours. Most striking, however, is the abrupt loss of CCA — the support that permits a single parent to work outside the home. For this family, CCA disappears at a wage of $11.15, as net family resources — earnings plus program benefits — drop by a little over $4,600. **This is known as the "cliff effect."**

Most work supports end well below income needed to meet basic needs. **Iowa has one of the lowest eligibility ceilings in the country for CCA.** As of 2015, only 10 states cut off CCA eligibility at an income level below 145 percent of poverty. In 28 states, the threshold was over 170 percent — including 17 states with a ceiling of 197 to 306 percent. **Iowa eliminates child care assistance at an income well below what a family needs to get by**, which is two to three times the poverty level. Iowa's CCA cliff leaves a parent looking for more pay or more work hours with a dilemma: The higher earnings could push her over the cliff. A better job would make her family worse off.

Figure 2. A Solution: Phase Out the CCA Benefit as Income Rises

Single parent with one child: Effect of raising eligibility to 200 percent of poverty and adopting higher co-pays



The orange line in Figure 2 shows one way that cliff could be eliminated. First, eligibility is raised, in this example, to 200 percent of poverty. Second, co-pays rise once family income exceeds the current ceiling at 145 percent of poverty.[1] The family must cover 18 percent of child care costs at 145 percent of poverty (an hourly wage of $11.15). This share rises to 79 percent at $15.30 per hour (just below 200 percent of poverty). At $15.35, CCA ends, though federal and state child and dependent care credits remain, leaving the family to cover 83 percent of costs.

Moderating the cliff effect in the CCA program is an important policy reform to ensure that working families in Iowa do not face a severe disincentive to a better job or working more hours.

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[1] In this example, the "unit fee" required increases by 70 cents with each new income bracket, instead of the 25 cents under current law. A unit is a half day of child care, and the fee is multiplied by the total units of care used.