

## PATHWAYS TO THE MIDDLE CLASS

### *Cost of Living in Iowa 2019 Supplement: The Role of Work Supports*

**W**orking full time, year round does not guarantee a middle-class standard of living. About 1 in 5 working Iowa families, in fact, do not earn enough to meet basic needs. A number of policies could help such families move into the middle class and improve the labor market. On the demand side, we need more middle-class jobs with decent wages and benefits. On the supply side, more workers need the education and skills to qualify for most good-paying jobs.

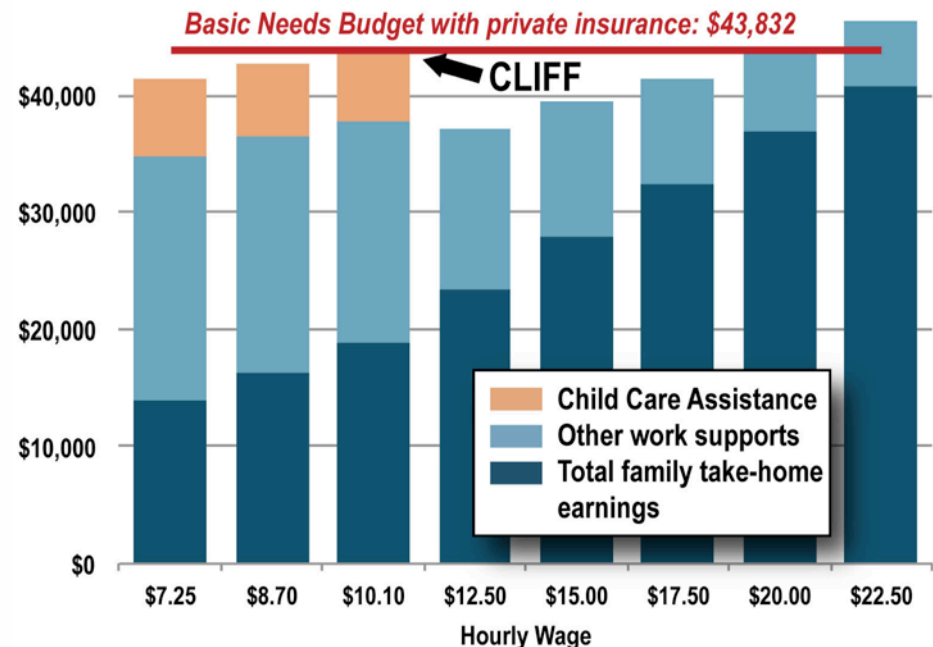
Here we focus on a set of “work support” policies that help low-wage working families survive, keep their children out of poverty, and provide a pathway to a better education and a better job.

- Food assistance or SNAP
- The Low Income Home Energy Assistance Program (LIHEAP)
- Child Care Assistance (CCA)
- Public health insurance: Medicaid and hawk-i (Iowa’s child health insurance program)
- Subsidies for the purchase of health insurance through the Affordable Care Act (ACA)
- Tax credits: state and federal Earned Income Tax Credits (EITC), state and federal Child and Dependent Care Credits (CDCC), and the federal Additional Child Tax Credit.

These are two major problems with these work supports: First, it makes sense that as you earn more, work supports are reduced. But most work support programs fall to zero well before a family earns enough to meet basic needs on their own.

The second problem: The issue of what is known as a “cliff effect.” See the graph at right and table below. (Find a more detailed graph in the full report, “Strengthening Pathways to the Middle Class,” on the IPP website.)

**Child Care Assistance Produces a Large Cliff Effect — Loss of Benefits**  
*Net resources change as earnings rise for single parent with one preschool-age child*



That example stresses the abrupt “cliff effect” in Child Care Assistance (CCA), which stands in stark contrast to programs such as the EITC that gradually phase out benefits. In CCA and also in adult Medicaid, a modest raise takes a family to a “cliff,” resulting in a large loss of benefits and a net loss of resources. As shown in the table below, a single parent with a preschool-age child loses \$3,100 in adult Medicaid benefits when reaching \$11.25 per hour in wages. When the wage rises a little more, the parent loses another \$4,600 in CCA benefits that the parent needs to work at all.

**Where Cliff Effects Hit as Wages Rise for a Single Parent with One Preschool-age Child in Iowa**

	SNAP	Adult Medicaid	CCA	LIHEAP	EITC	hawk-i
<b>Wage Level at which Benefit Disappears</b>	\$ 10.30	\$ 11.25	\$ 11.80	\$ 14.25	\$ 19.40	\$ 24.60
<b>Cliff (reduction in net resources)</b>	\$ (806)	\$ (3,106)	\$ (4,622)	\$ (323)	none	\$ (1,578)

**Where Cliff Effects Hit as Wages Rise for a Two-Earner Couple with Two Children Ages 4 and 7**

	SNAP	Adult Medicaid	CCA	LIHEAP	EITC	hawk-i
<b>Wage Level at which Benefit Disappears</b>	\$ 7.85	\$ 8.55	\$ 9.00	\$ 10.85	\$ 12.40	\$ 18.70
<b>Cliff (reduction in net resources)</b>	\$ (828)	\$ (6,169)	\$ (8,292)	\$ (279)	none	\$ (2,937)

We lay out a set of policies to strengthen these pathways to the middle class:

- **Reform Iowa’s Child Care Assistance** program to eliminate a huge disincentive called the cliff and to make it more effective as a help to parents trying to improve their skills and raise their wage level.
- **Expand the Earned Income Tax Credit** to provide even stronger support to low-wage workers, encourage more work effort, and keep children out of poverty.
- **Expand the Child and Dependent Care Credit** to cushion the loss of Child Care Assistance.

***Did you know?***

*Families need to earn more than twice the poverty level, in some cases nearly three times, to be able to cover a basic needs family budget. But SNAP, Medicaid, CCA, and LIHEAP benefits all end at 1.3 to 1.75 times the poverty level.*

These 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. These policies would require:

- **Expansion of the universal preschool program.**
- **Support of K-12 education through adequate funding of supplemental state aid,** which has been held at about 1.7 percent per-pupil spending growth, well below the increased costs of operating schools, and which would demonstrate a commitment to young people choosing whether to teach or go into another line of work.
- **Stronger efforts to make post-secondary education more affordable** by restraining tuition growth, inevitably requiring better state support of the community colleges and regents institutions.

**See the full report by IPP’s Peter Fisher and Natalie Veldhouse at [www.iowapolicyproject.org](http://www.iowapolicyproject.org).**