

A Multi-Pronged Strategy to Help Families Get Out of Poverty

September 2006
Poverty Policy Brief #1



Janet and Nathan Swenson have two young daughters, thankfully both healthy and without medical problems. They have worked out a schedule where Nathan works a night shift making \$8.50 per hour and can be at home from noon to five, when Janet works as a clerk at a local hardware store making \$6.00 an hour. Neither has health insurance through their employers, but they have their children enrolled on the state hawk-i program and gladly pay the \$20 per month. When she gets her paycheck, Janet immediately purchases two rolls of quarters to do laundry at the local Laundromat, and puts aside \$20 to make a payment on a \$700 emergency room visit for treatment of a urinary tract infection six months ago. At the end of each month, the Swensons still sometimes have to make decisions of how much they can afford to pay on their utility and telephone bills and are fearful that an illness or a break-down of their 180,000 mile car could put them in real trouble.

Like many Iowa families, the Swensons work hard and try to balance their work and family life in raising their children. Still, they struggle to get by, and they don't have anything to spare to invest in getting ahead. They would like their children to be involved in some recreational programs, but they are over the income limit for free tuition and simply cannot afford them.

In 2005, over 45,000 Iowa families and 92,000 children lived below the federal poverty level, the majority of which are working families. The official federal poverty level represents an income level at which most families struggle to get by and experience significant hardships when faced with special economic demands. Getting above the federal poverty level, however, is hardly enough to ensure that families can get by and get ahead. The Swenson's income, for instance, is more than fifty percent above this official federal poverty line.

Numerous studies have shown that the federal poverty level fails to reflect what families need to be economically self-sufficient – and that families at least up to 185% of poverty are likely to be economically vulnerable both in getting by and getting ahead. The figures at the right show the current federal poverty level and 185% of the poverty level for different family sizes. In 2005, 108,000 Iowa families with children (28.7% of all families with children) were living below 185% of the federal poverty level, facing many of the issues the Swensons face. These families work hard and take responsibility for raising their children, but often face tough choices in what necessity to put first.

Iowans as a whole recognize what it takes to raise children and support families. An Iowa Fiscal Partnership 2004 poll asked Iowa voters what amount of income a family our four needed "to make ends meet." Only 5% responded that a family needed less than \$25,000, while 29% indicated between

2005 Federal Poverty Thresholds		
Family Size	Poverty Threshold	185% Poverty
1	\$ 9,973	\$ 18,450
2	12,755	23,597
3	15,577	28,817
4	19,971	36,946
5	23,613	43,684
6	26,683	49,364
7	30,249	55,961
8	33,610	62,179
9+	40,288	74,533

\$25,000 and \$35,000, 34% between \$35,000 and \$45,000, and 32% more than \$45,000. The median response of between \$35,000 and \$45,000 is equivalent to 200% of poverty or above. A large majority of Iowa voters also indicated that government should provide those families with the tools and opportunities to get by and get ahead, particularly health care, housing assistance, and child care support.

There is no single, silver bullet to provide families with the tools and opportunities to get by and get ahead. Different families have different needs, circumstances, and potentials and bear the primary responsibility for providing for themselves and raising their children. At the same time, however, there are multiple policies, taken together, that can assist and support families, particularly as they work to get by and get ahead.

The following are practical and proven, fair-minded Iowa policies that can lead to this result. These need to be high on the agenda for dialogue and action at the community,

state, and federal levels. They are summarized here under five important categories, where government can play a positive role.

Making Work Pay

Today, one in five jobs in Iowa pays less than \$9.00 per hour – before taxes. That is not enough to lift a family out of poverty, let alone to allow investment in the future. Most of these jobs are ones many Iowans see and depend upon every day – child care providers and home health care aides, maintenance workers, food preparation workers, cashiers, and waiters and waitresses. These jobs are essential Iowa jobs, ones that cannot be exported out-of-state or overseas.

Raising the minimum wage is a small step that will help lift some Iowa families above poverty. No job should pay less than \$7.25 per hour, which would get the minimum wage back to where it was (in inflation-adjusted dollars) in 1993.

Improving Iowa's earned income tax credit (EITC) is a second important way to help Iowa families who work in lower-wage jobs – needed jobs that will not pay enough to support a family. While raising the minimum wage will improve some wages, many jobs are in industry sectors that simply will not provide the type of pay to lift families out of poverty, let alone into self-sufficiency. Iowa's tax system needs to support lower-income working families at least to the degree the federal income tax system does. Currently, Iowa starts taxing a working Iowa

four-person family with \$18,250 in income, while the federal government doesn't start its tax on that same family until the family earns nearly twice that amount.

Both **raising the minimum wage** and **expanding the Iowa earned income tax credit** are ways of increasing tax-home pay for lower-wage working families and helping them get by.

Providing Needed Work Supports

Working families have different challenges they confront and address everyday, such as meeting child care needs and paying for necessary health costs. When children are young, most working families need child care in order to work. While Iowa leads the nation in the proportion of families where both parents work when their children are very young, Iowa's child care subsidy program ranks 46th among states in providing assistance in paying those child care costs. Expanding Iowa's child care subsidy is a critical work support that can enable families – particularly those with young children who are most likely to be in lower-wage jobs – get by and get ahead.

All families need health insurance coverage, even if their employer does not provide it. Health insurance costs represent the biggest challenge to economic security that many working families – as well as their employers – face. Iowa's Medicaid and child health insurance program (hawk-I) cover children up to 200% of poverty, but parents of those children still may be left out. Both employers and working uninsured parents

would benefit if Iowa provided health care coverage for parents at least up to 150% of the poverty level.

Families also need safe and affordable housing, and opportunities to build equity through home ownership. This requires housing assistance and, in some case, subsidies to ensure that families have safe and affordable housing.

Raising the child care subsidy eligibility level, expanding health insurance eligibility for working adults, and expanding affordable housing options would provide needed work supports that support families in their efforts to work, get by and get ahead.

Investing in Education, Skill Development, and Entrepreneurship

Education and higher skills are the key to higher wage-jobs and Iowa's economic growth depends upon an educated, skilled, and entrepreneurial workforce. Statistics show, however, that Iowa faces a major "skilled worker shortage." While Iowa leads the nation in high school graduation rates, Iowa ranks 38th among states in the proportion of adults (persons over 25) with college degrees. While 28.6% of the country's working age population (25–64 population) have college degrees, only 24.8% of Iowans do. Closing that gap would require that 56,211 more Iowans from the current 25–64 population obtain undergraduate degrees.

To address Iowa's skilled worker shortage requires multiple strategies, including ensuring that Iowa's community colleges and public and private universities are affordable. Investing in higher education – both for college-age youth and for adults – is needed to retain quality, provide scholarships and loans, and establish affordable tuition. At the same time, investments in adult education, training, and professional development opportunities also are key for working Iowans to obtain the skills needed to move up career ladders into higher skilled and better-paying jobs.

Finally, providing opportunities for people to develop their own businesses – through savings and through entrepreneurship and micro-enterprise development – adds additional opportunities to grow Iowa's economy and provides additional opportunities for families to support themselves and build careers.

Particularly for current working families, **improving Iowa's adult education and training system and expanding entrepreneurship and micro-enterprise development** opportunities are needed to build skills and career opportunities leading to family economic self-sufficiency and state economic growth.

Promoting Savings and Addressing Debt

Working families need to be able to invest in themselves and their children to get by and to get ahead. This includes investing in education, home ownership, and other things that can help families get ahead. It

means saving to meet emergency needs and avoid going into debt.

Today, lower income families can find that they have no good place to turn to when faced with an economic emergency. Predatory lenders – payday and car title loan companies and abusive subprime mortgage lenders – become lenders of last resort who annually strip \$100 million in income and savings from working and retired Iowans. Inability to pay medical bills is the leading reason for bankruptcy and bad credit ratings that puts families at the mercy of these subprime lenders.

Iowa policies need to curtail abusive lending practices by putting a reasonable ceiling on rates and fees that payday and car title lenders can charge. Iowa needs to prohibit deceptive mortgage lending practices and support the responsible lending community in providing credit.

In addition, Iowa needs to strengthen provisions that enable lower-wage workers and families to build savings – through individual development accounts and other means. Iowa needs to address the problem of medical debt both by expanding health coverage and by working with the medical community to resolve unpaid bills in ways that families do not confront a financial hole from which they cannot escape.

In short, **curbing abusive and predatory lending, supporting savings through individual development accounts, and preventing medical debt from crippling**

families represent key strategies to support families in both getting by and getting ahead.

Welcoming New Workers

Iowa is becoming a more diverse state, and minority families with children are leading the way. Hispanics alone accounted for one-third of Iowa's entire population growth in the 1990's, and an even higher percentage of the growth in younger workers and families who will become the backbone of the Iowa workforce in the next fifty years.

Iowa policies must ensure that these families are welcomed and supported as they work and raise their children. The "Dream Act" that would help ensure higher educational opportunities for children of immigrants represents one core strategy that can provide this opportunity. In addition, Iowa's health and human services programs should be extended to serve undocumented children, even when federal funding is limited in these respects.

In addition to immigrant and refugee families coming into Iowa, there remains a significant "untapped workforce" of Iowans that can help meet Iowa's workforce needs for additional workers at both the skilled and entry-level position. This includes persons with disabilities, young adults (18-26) who are disconnected from either the work force or the educational system, and

persons in the adult correctional system coming back into the community. In some instances, existing policies pose unnecessary barriers for their entry into the workforce and into programs that can help them get employment, and these policies need to be reviewed and modified.

Both **enacting the Dream Act** and **addressing employment barriers for Iowa's untapped workforce** help ensure that all Iowans have opportunities to work and participate in the state's economic growth and overall vitality.

The policy agenda needed to reduce poverty and support Iowa families to get by and get ahead is a big one. It cannot be accomplished overnight.

At the same time, it also is essential and fundamental to Iowa's growth and vitality. Iowans are ready for the task.

Each element of the agenda is based upon fundamental Iowa values and beliefs – fairness, responsibility, and opportunity. Building such an agenda – through dialogue and action at the community, state, and even national, level – can help unify, rather than divide, us. In the end, this agenda benefits all Iowans and helps secure both individual family self-sufficiency and Iowa's security and vitality.

**Policies to Provide the Tools and Opportunities
for Families to Get By and Get Ahead**

Making Work Pay

- Raise the minimum wage
- Improve Iowa earned income tax credit

Providing Needed Work Supports

- Raise child care subsidy level
- Cover parents under Medicaid/hawk-I
- Expand affordable housing programs and financing

Investing in Education, Skill Development, and Entrepreneurship

- Make community college and university education more affordable
- Expand job training and adult education
- Support entrepreneurship and micro-enterprise development

Promoting Savings and Addressing Debt

- Curb abusive lending practices
- Support responsible credit options
- Address medical debt

Welcoming New Workers

- Enact the Dream Act
- Address barriers to employment for untapped workers.