

## Eliminating the Child Care Subsidy Income Cliff

September 2006  
Poverty Policy Brief #2



*When Jan Murray got a twenty-cent raise in her job as a nurse assistant, she didn't realize it would actually cost her family. Moving from \$ 9.10 to \$ 9.30 per hour raised Jan's overall income above 145% of poverty and she lost her eligibility for the child care subsidy she had been receiving for her three-year old daughter, Brittany. Immediately, her child care costs skyrocketed from \$32 a week to \$87 a week, leaving Jan worse off than before her raise.*

Like other states, Iowa has a number of “safety net” programs and subsidies designed to help individuals and families meet basic needs. These include child care subsidies, child health insurance coverage under Medicaid and hawk-i, food stamps, and home energy assistance. Almost all of these are “means tested,” meaning that individuals qualify on the basis of their income. Some gradually phase out, but others, like Iowa’s child care subsidy, go from providing substantial support to providing nothing, producing the type of “cliff effect” experienced by Jan Murray.

Federal and state welfare reform enacted in the 1990’s eliminated the option for mothers like Jan Murray to choose to stay at home with their young children and receive welfare benefits – and thousands of families like the Murray’s have gone to work, as a result. Iowa’s welfare rolls have declined by more than fifty percent. The flip side of welfare reform is that many of these families now need child care while they work – and cannot afford to pay the full costs (averaging \$4,500 per year for one child) and still come out ahead.

Iowa’s child care subsidy program has grown with enactment of welfare reform,

but it has not kept pace with family need. In fact, Iowa has one of the lowest eligibility cut-offs for child care subsidy in the nation. At 145% of poverty, Iowa eligibility cut-off ranks Iowa 46<sup>th</sup> among states. Iowa is a national leader in the proportion of families where both parents (or the only parent) work while their children are young, but Iowa’s child care subsidy program fails to match their needs and is one of the poorest in the country.

Eliminating the child care cliff effect in Iowa requires raising the child care subsidy eligibility level – at least up to 200% of poverty and ideally up to 225% of poverty<sup>1</sup> – with parents paying a successively greater share of the child care costs as their income increases.

The chart below shows the cliffs that a family like Jan Murray’s faces as its earnings rise. The first and largest cliff is related to child care; the second to child health insurance coverage. The dotted line shows how raising the subsidy eligibility to 185% would eliminate that cliff. While eliminating the child care cliff is essential, in the long-

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<sup>1</sup> See *Poverty Policy Brief # 1: Getting By in Iowa: Meeting Family Needs Means More Than Living Above Poverty.*

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term government also needs to find ways to raise the slope of the overall curve. As the chart shows, when a family moves from earning \$10,000 to \$25,000, their actual available income rises only from \$14,597 per year to \$19,880 per year. Effectively, they are “taxed” on the increased earnings at a 65% rate. Raising the child care subsidy and eliminating the cliff effect is only one needed policy to address working family needs.

### The Challenges of Getting By and Getting Ahead: Addressing Child Care Needs

Different families have different economic needs. In particular, families with young children are faced with extra expenses when their jobs require them to leave their children in the care of others. There simply is a mismatch in the private marketplace between: (1) what most families can afford to pay for this care and make work pay; and (2) what child care providers need to provide safe and quality care environments and themselves earn a decent living.

Helping families with young children to get by and get ahead requires addressing child care needs and/or providing supports for a parent to stay at home and provide that care. (Paid family leave programs and an expanded and refundable Iowa earned income tax credit would make it more economically possible for one parent in two parent families to stay at home when their children are young. Increases in Iowa’s payments to families on public assistance would provide a better safety net for families, single and two parent, who stay

at home to care for their young children rather than work.)

The specific policy proposal needed to eliminate the cliff effect for child care is to:

- **Raise the child care subsidy eligibility to 200% of poverty on a sliding scale basis and fully fund the subsidy program.**

Additionally, there are a large number of child care workers and home care providers who also are working hard but struggling to get ahead. The overall subsidies provided to child care workers and home care providers need to be raised so that they also can economically support their families. Specific policy proposals to achieve these goals are to:

- **Improve overall child care subsidy system to promote quality and to enable persons working as child care providers**

