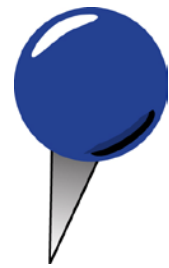




# Iowa Policy Project

## A Roadmap for Opportunity



### Child Care Assistance needs a boost in Iowa

Child Care Assistance (CCA) is a vital work support program that provides subsidies for child care to qualified low-income families. CCA subsidizes care through licensed care centers, registered child development homes, licensed before and after school programs, nonregistered child care homes, and care provided in the family’s home. Both state and federal dollars support Iowa’s CCA program: In FY2017, 70 percent of the \$131 million came from federal funds, 30 percent state.<sup>1</sup>

Child care costs keep rising while wages have stagnated. From 2012 to 2017, the average cost of child care in a licensed home in Iowa increased 14 percent, while the cost of care in a licensed child care center rose 27 percent.<sup>2</sup> In that time, the median wage rose only 13 percent.<sup>3</sup> Iowa’s spending on child care assistance was cut by nearly \$4 million between 2015 and 2016.<sup>4</sup>

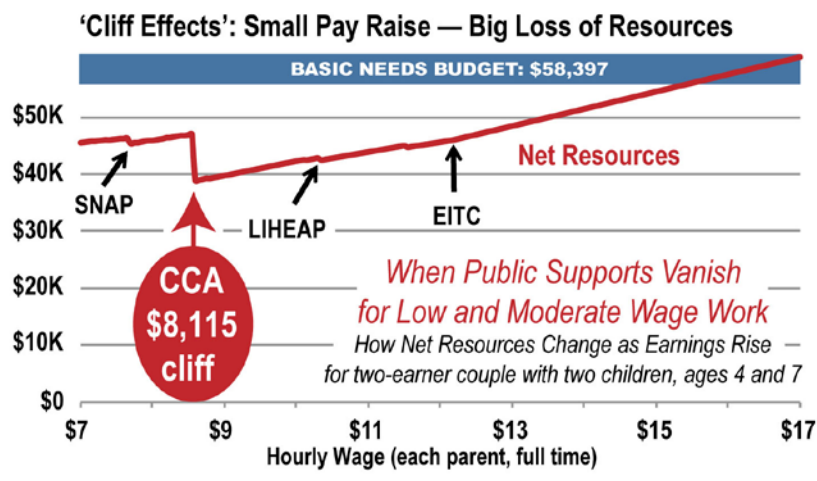
A two-earner family in Iowa with one preschooler and one child age 6-11 would spend on average \$905 monthly on child care in a licensed home, more in a child care center. This family would be ineligible for CCA with a household income of \$37,650, or 150 percent of poverty, but at that income level, child care would consume 28 percent of family income. Child care is the second most expensive non-health cost for the household, exceeded only by transportation.

Iowa’s CCA falls short of fully supporting workers and child development due to low eligibility, cliff effects, and inadequate reimbursement rates to providers. Iowa has one of the lowest eligibility ceilings in the country — a family loses CCA once income exceeds 145 percent of the federal poverty level. IPP’s Cost of Living 2018 edition showed that families receiving CCA face a large cliff effect in Iowa. Cliff effects occur when a small wage increase makes a household ineligible for assistance, resulting in a net loss of resources. For a two-earner couple with two children, CCA disappears once each earner’s hourly wage exceeds \$8.60, resulting in an \$8,115 reduction in resources.<sup>5</sup>

**Destination:**

**Better access to quality child care** for low-wage working families that:

- **Reduces child care costs** as a share of household budgets.
- **Makes work pay** by eliminating “cliff effects” that erase benefits with a smaller increase in income, producing a net loss of resources.



**The Cliff Effect**

	Wage Where Benefit Vanishes	Reduction in Net Resources
SNAP	\$ 7.70	\$ 936
CCA	\$ 8.60	\$ 8,115
LIHEAP	\$10.35	\$ 348
EITC	\$12.20	none

Source: Iowa Policy Project, The Cost of Living in Iowa 2018 Edition, Part 3

Iowa's CCA program reimburses providers at a fixed rate for the care of children who qualify under the program; if the reimbursement is below what the provider normally charges, they can refuse to accept CCA children. Iowa's monthly reimbursement rate for center care for a 4-year-old was \$595 in 2016, which was \$175 below the 75th percentile of current market rates for this type of care.<sup>6</sup> Because of the low reimbursement rates, 1 in 4 Iowa child care programs did not accept subsidized children in 2017.<sup>7</sup> This makes it hard to find a provider in some parts of the state. The Iowa Legislature has since agreed to increase provider rates for toddlers and infants to the 75th percentile of the 2014 market rate (as opposed to 75th percentile of the 2004 market rate currently in effect) for providers who participate in the Quality Rating System.<sup>8</sup> Rate increases will take effect in January of 2019.

### ***Child Care Assistance tied to work stability, child development, and return on investment***

Research has shown that child care subsidies are tied to improved employment outcomes for parents including stability of employment; these improvements in turn improve the family's economic standing and a child's social and emotional wellbeing.<sup>9</sup> Improving Iowa's investment in child care assistance stands to benefit low-income workers and their children, and provide a return on investment to the state. That is, CCA helps Iowa workers sustain employment, earn more income, and rely less on social safety net programs. Costs associated with providing child care assistance are recouped by reduced state spending and by increased tax revenue.<sup>10</sup>

### ***Policy Alternatives: Options to enhance the reach and effectiveness of Child Care Assistance***

- Raise the income eligibility from 145 percent to 200 percent of the federal poverty level, to make it financially possible for low-wage parents to accept small raises or seek better jobs.
- Establish a sliding scale to raise the share of costs borne by the parents as income increases from 145 to 200 percent of poverty to minimize the cliff effect when eligibility is lost.
- Set reimbursement at least to the federal recommended 75th percentile of current market rates for care of all ages, to make participation more attractive to quality care providers.

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<sup>1</sup> Iowa Department of Human Services. "Improve Iowan's (sic) Employment and Economic Security."

[https://dhs.iowa.gov/sites/default/files/6\\_Improve\\_lowans\\_Employment\\_Econ\\_Security\\_2.pdf](https://dhs.iowa.gov/sites/default/files/6_Improve_lowans_Employment_Econ_Security_2.pdf)

<sup>2</sup> Statewide average child care rates from Iowa Child Care Resource and Referral, State of Iowa Data Sheets for July 2012 and July 2017.

<https://iowaccrr.org/resources/files/Data/FY17/Iowa%20State%20FY17.pdf>

The percentage increases in rates for infants, toddlers, two year olds, three year olds, and four and five year olds were averaged.

<sup>3</sup> Bureau of Labor Statistics, "Occupational Employment Statistics." Percent change calculated from 2012 and 2017 median wage.

<https://www.bls.gov/oes/#data>

<sup>4</sup> Center for Law and Social Policy, "Child Care Assistance Spending and Participation in 2016." June 2018.

<https://www.clasp.org/sites/default/files/publications/2018/06/Child%20Care%20Assistance%20and%20Participation%20in%202016.pdf>

<sup>5</sup> Peter Fisher and Natalie Veldhouse, "The Cost of Living in Iowa: The Role of Work Supports." September 2018.

<sup>6</sup> National Women's Law Center, "State Child Care Assistance Policies: Iowa." March 2017. <https://nwlcl.org/wp-content/uploads/2017/04/iowa-childcare-subsidy2016.pdf>

<sup>7</sup> Iowa Child Care Resource & Referral. "State of Iowa Data Sheet." <https://iowaccrr.org/resources/files/Data/FY17/Iowa%20State%20FY17.pdf>

<sup>8</sup> A voluntary state rating system designed to raise quality of care and inform parents. <https://dhs.iowa.gov/iqrs>

<sup>9</sup> Center for Law and Social Policy, "Child Care Assistance: A Vital Support for Working Families." June 2015.

<https://www.clasp.org/sites/default/files/publications/2017/04/CCDBG-Advocacy-Fact-Sheet.pdf>

<sup>10</sup> Lily French and Peter Fisher. "Strengthening Child Care Assistance in Iowa: Benefits of Rewarding Work and Improving Child Development." September 2009. <https://www.iowapolicyproject.org/2009docs/090909-CCROI-xs-rev.pdf>