

# Making Work Pay for Iowa's Families

Sarah Fass | Kinsey Alden Dinan | Nancy K. Cauthen | Jessica Purmort

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The National Center for Children in Poverty (NCCP) is the nation’s leading public policy center dedicated to promoting the economic security, health, and well-being of America’s low-income families and children. Using research to inform policy and practice, NCCP seeks to advance family-oriented solutions and the strategic use of public resources at the state and national levels to ensure positive outcomes for the next generation. Founded in 1989 as a division of the Mailman School of Public Health at Columbia University, NCCP is a nonpartisan, public interest research organization.

#### MAKING WORK PAY FOR IOWA’S FAMILIES

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This report analyzes the effectiveness of Iowa’s “work support” policies – benefits such as earned income tax credits, public health insurance, child care assistance, and food stamps. When families receive the benefits for which they are eligible, Iowa’s work supports can help families close the gap between low earnings and basic expenses. Rewarding progress in the workforce, however, remains a challenge. Small increases in family income can trigger sharp reductions in benefits, leaving families no better off – or even worse off – than before.

#### AUTHORS

Sarah Fass, MPH, is a policy associate at NCCP. Her research focuses on child poverty and policies that promote the economic security and well-being of low-income families, including federal and state family and medical leave policies.

Kinsey Alden Dinan, MA, is a senior policy associate at NCCP. She manages the Making Work Supports *Work* initiative, in which NCCP assesses state and federal work support policies and identifies and promotes policy reforms. She also plays a central role in the Center’s work on immigrant families.

Nancy K. Cauthen, PhD, is deputy director at NCCP, where she directs the Center’s research and policy work on family economic security. She has written extensively on low-wage work, work supports, and child poverty in the United States. A major goal of her research is to illuminate the connections between family economic status and children’s chances for success.

Jessica Purmort is a research assistant at NCCP, where her research focuses on federal and state programs that assist low-income working families.

#### ACKNOWLEDGMENTS

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Almost a third of Iowa's children live in low-income families struggling to make ends meet.<sup>1</sup> The majority of these children have a parent who works full-time – 58% of low-income children in Iowa have a parent who works full-time, year round.<sup>2</sup> But in Iowa, as in other parts of the country, parents who earn low wages, even while working full-time, can find that they are unable to support their family.

“Work supports” – such as earned income tax credits, public health insurance, and child care assistance – can help families close the gap between low wages and the cost of basic necessities. But few families receive all of the benefits for which they are financially eligible. And most work supports are means-tested so as earnings increase above the

poverty level, families begin to lose their benefits. Small increases in family earnings can trigger steep reductions in benefits, leaving families worse off. This report examines the effectiveness of Iowa's work support policies.

Work supports should be part of a comprehensive system that accomplishes two goals:

◆ **Provide adequate family resources.**

If parents work full-time, their earnings, combined with work supports, should provide the resources necessary to cover basic family expenses.

◆ **Reward advancement in the workforce.**

When parents' earnings increase, their families should always be better off.

## The Family Resource Simulator: A Policy Analysis Tool

This report uses results from NCCP's Family Resource Simulator – an innovative, web-based policy analysis tool designed for policymakers, administrators, advocates, and researchers – along with family budget estimates from the Iowa Policy Project's report, *The Cost of Living in Iowa*.<sup>3</sup>

The Family Resource Simulator illustrates:

- ◆ The impact of federal and state work supports on the budgets of low- to moderate-income families.
- ◆ How a hypothetical family's resources and expenses change as earnings increase, taking public benefits into account.

NCCP also uses this tool to model potential policy reforms. Family Resource Simulators are currently available, or under development, for 20 states and more than 100 localities. In Iowa, the Simulator includes: Cedar Rapids, Des Moines, Mason City, Ottumwa, Sioux City, and a rural area (Decatur, Lucas, and Wayne counties).

The Family Resource Simulator is available on NCCP's website: [www.nccp.org/tools/frs](http://www.nccp.org/tools/frs).

Iowa has recently taken a number of steps to strengthen its work support policies. In 2007, Iowa increased the state earned income tax credit and made it refundable, so that families whose incomes are so low that they do not owe taxes can benefit from the credit. Iowa also increased funding for child care subsidies in order to continue to serve all applicant families and avoid creating a waiting list for assistance. In addition, Iowa increased the state minimum wage to \$7.25 an hour. This is higher than the current federal minimum wage (\$6.55), though in July 2009, the federal minimum wage will be increased to the same level.

This report uses the Family Resource Simulator, a policy analysis tool developed by the National Center for Children in Poverty (see box), to demonstrate the importance of work supports for low-income families struggling to get by. With the help of multiple work supports, Iowa's low-wage workers can make ends meet. However, Iowa's policies do not always reward workers' progress in the workforce: small increases in earnings can create substantial benefit “cliffs,” which can penalize workers for working more hours or for getting a raise.

## A Low-Wage Job Is Not Enough to Make Ends Meet

In Iowa, it takes far more than a low-wage job to pay for even the most basic necessities: rent, food, child care, transportation, health care, payroll and income taxes, and other necessities. A single parent with two children living in Des Moines needs to earn over \$38,000 a year, or \$19 an hour, just to make ends meet (see Figure 1). That's more than double the state minimum wage and far more than the state median wage of \$13.77 an hour.

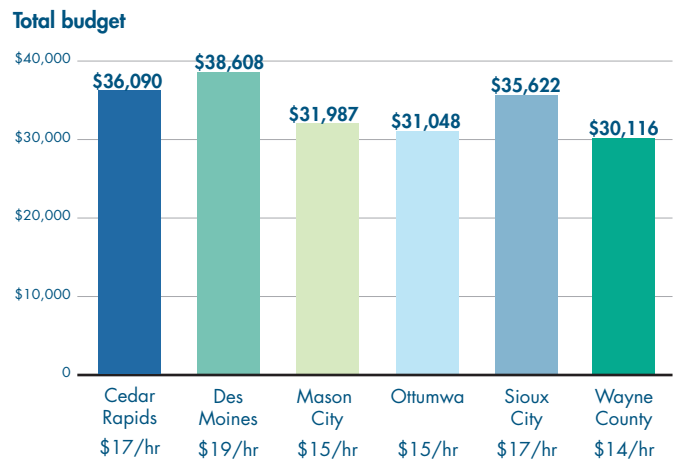
It is important to note that this is a bare-bones budget that includes only the most basic daily living expenses. It does not contain savings for a home, children's education, or retirement. Nor does it include money for leisure activities or enrichment activities for the children that improve the family's quality of life. And it does not provide any resources to pay off a debt or a cushion to withstand a family crisis, such as a layoff or serious illness.

The Iowa Policy Project's research reveals that in Iowa, on average across the state, a single parent with two children needs to earn \$16.90 an hour to afford basic necessities. Yet most workers in Iowa earn far less than that – 65 percent of jobs in Iowa pay less than \$16.90 an hour.<sup>4</sup> Looking at specific localities across the state, Figure 1 shows that a single-parent family with two children needs to earn about \$14 to \$19 an hour to afford just the basics

– in almost every case, more than double the state's minimum wage.

When families face a gap between their resources and daily expenses, they are forced to make tough choices. Should they rely on cheaper, but potentially lower quality, child care? Should they live in a less safe neighborhood or in substandard housing to cope with the high cost of housing? Or should they choose between buying food or needed medicine?

**Figure 1. Basic Needs Budgets Across Iowa**  
Single parent with two children, ages 2 and 6



Source: NCCP's Basic Needs Budget Calculator, Iowa 2008 <[www.nccp.org/tools/budget](http://www.nccp.org/tools/budget)> using expense values from the Iowa Policy Project's *The Cost of Living in Iowa*.

## How Work Supports Can Help

For workers who earn low wages, there are a number of federal and state work support benefits that can help close the gap between wages and the cost of basic necessities. These benefits include child care assistance, federal and state tax credits, and public health insurance. For a detailed summary of the Iowa work supports considered in this report, see Figure 2.

Work supports can make a tremendous difference for the families who receive them. Unfortunately, there are many potential barriers to participation and few families receive all of the benefits for which

they are financially eligible. Such barriers include inadequate funding, lack of information, lengthy and cumbersome application procedures, and the stigma associated with seeking public assistance.<sup>5</sup>

Yet, for the families who receive multiple work supports, these benefits can make it easier to make ends meet. Consider the example of a single parent living in Des Moines with two children (ages 2 and 6) who works full-time (40 hours per week, 52 weeks per year) and earns \$9 an hour. Without work supports, this family faces a gap of \$18,000 between earnings and the cost of basic necessities (see the first

**Figure 2. Work Support Policies in Iowa (as of January 2008)**

Work support program	Benefit	Income eligibility limits	Limits set at the national or state level	All eligible applicants served?
Federal Earned Income Tax Credit (EITC)	Tax refund (up to \$2,917/year for 1 child; up to \$4,824/year for 2 or more children)	\$33,995-\$41,646 a year depending on family structure and number of children	National	Yes
State EITC	Tax refund (up to \$204/year for 1 child; up to \$338/year for 2 or more children)	\$33,995-\$41,646 a year depending on family structure and number of children	State	Yes
Federal Child and Dependent Care Tax Credit	Tax refund (up to \$1,050/year for 1 child; up to \$2,100/year for 2 or more children)	No limit	National	Yes
State Child and Dependent Care Tax Credit	Tax refund (up to \$788/year for 1 child; up to \$1,575/year for 2 or more children)	\$45,000 for both single-parent and two-parent households	State	Yes
Food Stamps	Food subsidies (at point of purchase)  (up to \$426/month for a family of 3; up to \$542/month for a family of 4)	130% FPL* before subtracting deductions from income  100% FPL* after subtracting deductions from income	National, with some state options	Yes
Medicaid	Subsidized health insurance for parents and children	\$18,848/year for a family of 3; \$21,889/year for a family of 4  133% FPL* after subtracting deductions from income for children	State	Yes
hawk-i	Subsidized health insurance for children	200% FPL* after subtracting deductions from income	State	Yes
IowaCare	Subsidized health insurance with limited benefits	200% FPL* after subtracting deductions from income	State	Yes
Child Care Assistance	Child care subsidy	\$24,900/year for a family of 3; \$29,952/year for a family of 4	State	Yes
Section 8 Housing Vouchers	Rental assistance	50% of area median income	National	No
Low Income Home Energy Assistance Program (LIHEAP)	Credit applied to heating bill	150% FPL*	State	Yes

Iowa also has a state minimum wage of \$7.25/hour (as compared to the federal minimum wage of \$6.55/hour).

\*FPL: Federal poverty level in 2008 was \$17,600 for a family of 3; \$21,200 for family of 4.

column of Figure 3). But with the help of multiple supports – including federal and state tax credits, food stamps, child care assistance, public health insurance, and Low Income Home Energy Assistance Program (LIHEAP) benefits – this family is just barely able to get by (see the last column in Figure 3). After accounting for basic expenses the family has a small amount left over – about \$3,000 – that could go toward the family’s savings or paying down debt.

Comparing the last column of Figure 3 to the column next to it shows how much child care assistance helps families who receive it. Without

child care assistance, this family faces a shortfall of over \$3,000 annually, despite working full-time and receiving a number of other benefits. Child care is critical to both parents and children: parents need access to stable care to be able to find and maintain employment, and high-quality care is critical for children’s healthy development. In Iowa, as in other states, child care expenses for two children (of any age) exceed median rent costs.<sup>6</sup> Food stamps, LIHEAP, and public health insurance also make an important difference. Without these benefits – but with federal and state tax credits – the family’s shortfall increases to \$11,000 a year.



**Figure 3. Impact of Work Supports: Des Moines, IA**

Single parent with two children, ages 2 and 6 (assumes full-time employment at \$9/hour)

	Employment alone (no benefits; no tax credits)	Employment <i>plus</i> • federal tax credits • state tax credits	Employment <i>plus</i> • federal tax credits • state tax credits • food stamps • LIHEAP • public health insurance	Employment <i>plus</i> • federal tax credits • state tax credits • food stamps • LIHEAP • public health insurance • child care subsidy
<b>Annual Resources (cash and near-cash)</b>				
Earnings	\$18,720	\$18,720	\$18,720	\$18,720
Federal EITC	\$0	\$4,015	\$4,015	\$4,015
Federal Child Tax Credit	\$0	\$1,046	\$1,046	\$1,046
Federal Child and Dependent Care Tax Credit	\$0	\$67	\$67	\$67
State EITC	\$0	\$281	\$281	\$281
State child care tax credit	\$0	\$1,287	\$1,287	\$134
Food stamps	\$0	\$0	\$3,913	\$2,840
Low Income Home Energy Assistance Program (LIHEAP)	\$0	\$0	\$350	\$350
<b>Total Resources</b>	<b>\$18,720</b>	<b>\$25,416</b>	<b>\$29,679</b>	<b>\$27,453</b>
<b>Annual Expenses</b>				
Housing	\$8,028	\$8,028	\$8,028	\$8,028
Food	\$4,884	\$4,884	\$4,884	\$4,884
Child care	\$9,840	\$9,840	\$9,840	\$624
Health care	\$4,248	\$4,248	\$0	\$0
Transportation	\$5,460	\$5,460	\$5,460	\$5,460
Other necessities	\$3,228	\$3,228	\$3,228	\$3,228
Payroll taxes	\$1,432	\$1,432	\$1,432	\$1,432
Income taxes (excluding credits)	\$67	\$67	\$438	\$438
<b>Total Expenses</b>	<b>\$37,187</b>	<b>\$37,187</b>	<b>\$33,310</b>	<b>\$24,094</b>
<b>Net Resources (resources - expenses)</b>	<b>-\$18,467</b>	<b>-\$11,771</b>	<b>-\$3,631</b>	<b>\$3,359</b>
<small>Source: NCCP's Family Resource Simulator, Iowa 2008 &lt;www.nccp.org/tools/frs/&gt;. Budget numbers are from the Iowa Policy Project's <i>The Cost of Living in Iowa</i>.</small>				

## As Earnings Increase, Benefit Losses Result in “Cliffs”

Eligibility for work support programs is typically based on income, so as families increase their earnings, particularly above the official poverty level (in 2008, \$17,600 a year for a family of three), they begin to lose eligibility for benefits. In some cases, even a very small increase in earnings due to working more hours or getting a raise can lead to a substantial loss of benefits, which is often known as a benefit “cliff.” The result is that parents can work and earn more with no financial gain for their families.

Returning to the example of a single-parent family with two children in Des Moines, Figure 4 shows what happens to this family’s net resources (their resources after subtracting their basic expenses) when the parent’s wages increase beyond \$9 an hour. Figure 4 assumes that the family receives multiple work supports when eligible, including child care assistance, food stamps, tax credits, LIHEAP, and public health insurance.

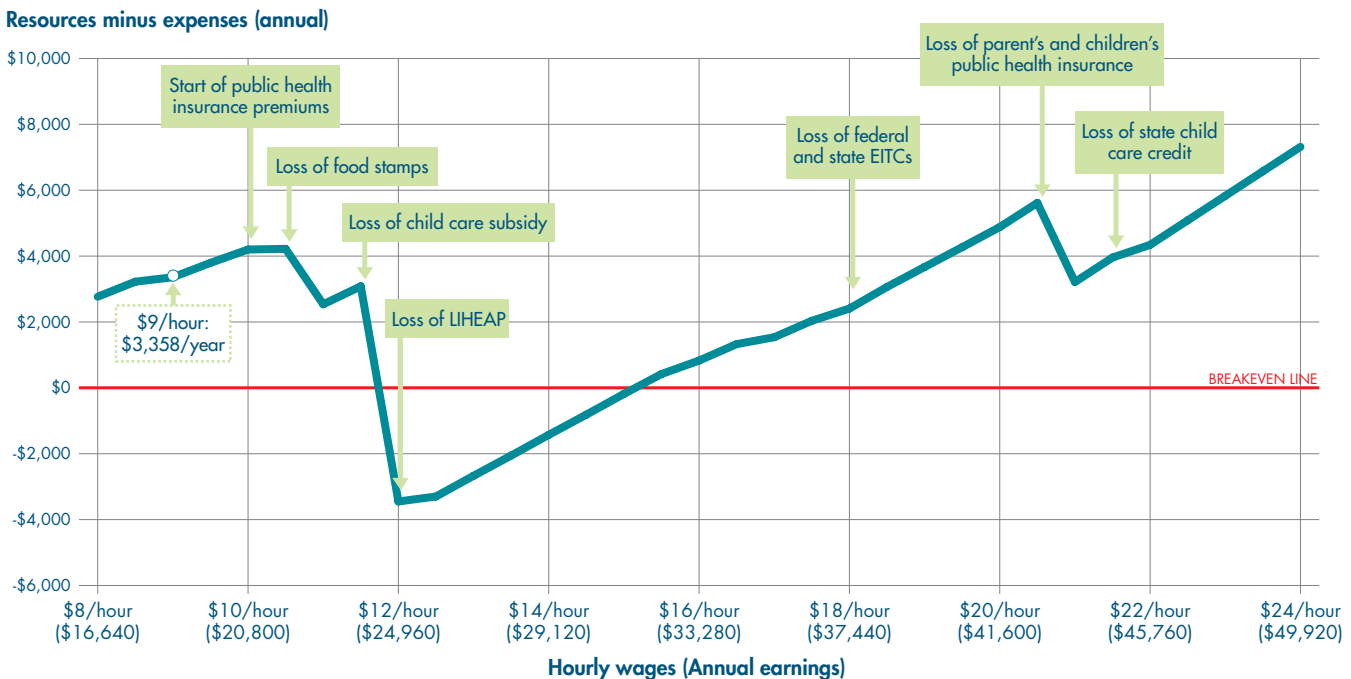
At \$9 an hour, the family can get by with a small amount left over after accounting for basic expenses. Looking at Figure 4, we see that at this wage, the family's net resources are above the "breakeven line" – that is, the point at which the family's total resources equal their basic expenses. However, as the parent's wages increase, the family is not always better off. The family's bottom line suffers when they lose eligibility for critical supports, like food stamps and child care subsidies, and when significant cost-sharing phases in for the public health insurance programs. The end result is that as the parent's earnings increase from about \$10 an hour to about \$16 an hour, the family is unable to get ahead.

Figure 4 shows that this family faces two substantial cliffs when their earnings increase from about \$10 to \$12 an hour. First, the family loses eligibility for food stamps when wages reach \$11 an hour. Under federal rules, families are ineligible for food stamps if their total income exceeds 130 percent of the federal poverty level. A small increase in earnings above this amount leads to a loss of over \$2,000 in annual food stamp assistance for this family.

The most dramatic cliff then occurs when wages rise just slightly higher to \$12 an hour, and the family loses eligibility for child care assistance. Child care is one of the biggest expenses that families face. For the low-income families who receive it, child care assistance can make high-quality child care more affordable. But in Iowa, the cutoff for child care assistance is 145 percent of the federal poverty level – one of the lowest limits in the country – and when families lose eligibility, the high cost of child care sends them far below the breakeven line. Just after the family loses child care assistance, they are hit by the loss of LIHEAP benefits.

The family does not breakeven again until wages reach about \$15.50 an hour, or over \$32,000 a year. The family then experiences a final cliff when a raise to \$21 an hour brings the children and parents above the eligibility limit for public health insurance. Soon after, the family loses eligibility for the state child care tax credit. However, as with the loss of the federal and state earned income tax credits (at about \$18 an hour), this does not create a cliff because the benefit phases out so gradually.

**Figure 4. Net Family Resources as Earnings Increase: Des Moines, IA**  
Single parent with two children, ages 2 and 6

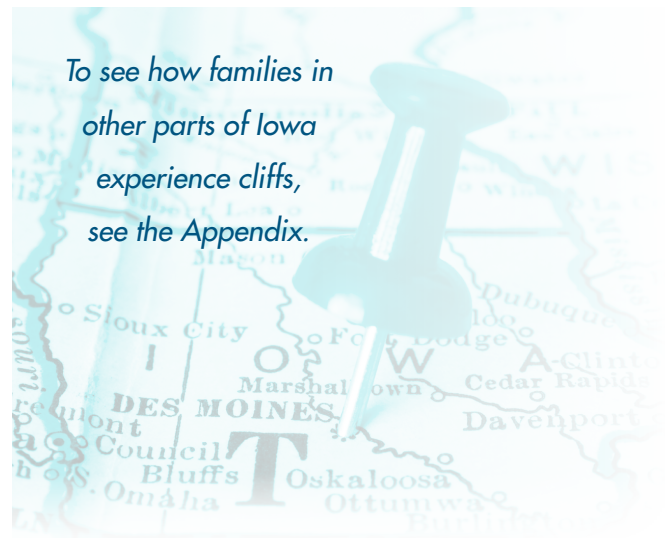


Source: NCCP's Family Resource Simulator, Iowa 2008 <[www.nccp.org/tools/frs](http://www.nccp.org/tools/frs)>. When eligible, the family receives the following work supports: federal and state tax credits, food stamps, LIHEAP, public health insurance, and a child care subsidy. Budget numbers are from the Iowa Policy Project's *The Cost of Living in Iowa*.

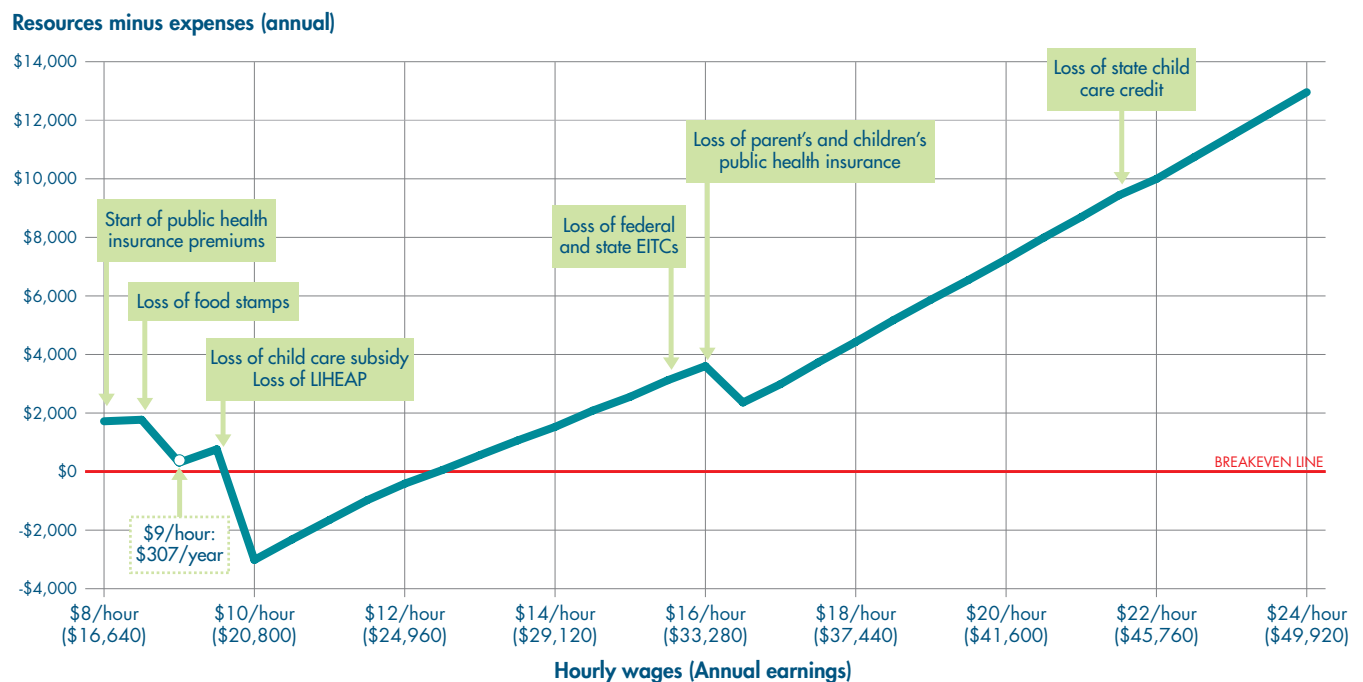
## Similar Patterns Found Throughout the State

Families across the state experience benefit cliffs. Consider the example of a single-parent family with one child, age 2, in Cedar Rapids (see Figure 5). With the help of multiple work supports, including child care assistance, food stamps, tax credits, LIHEAP, and public health insurance, the family is able to meet their basic needs with a full-time job paying \$8 or \$9 an hour.

However, as with the family in Des Moines, this family experiences significant cliffs as they lose eligibility for work supports, particularly food stamps and child care. Moreover, at \$10 an hour, the cliff that the family experiences is compounded by the loss of LIHEAP benefits. The family faces another cliff at about \$16.50 an hour as the parents and children lose their public health insurance coverage and the federal and state earned income tax credits end. Increased earnings do not always pay off for families in Iowa.



**Figure 5. Net Family Resources as Earnings Increase: Cedar Rapids, IA**  
Single parent with one child, age 2



Source: NCCP's Family Resource Simulator, Iowa 2008 <[www.nccp.org/tools/frs](http://www.nccp.org/tools/frs)>. When eligible, the family receives the following work supports: federal and state tax credits, food stamps, LIHEAP, public health insurance, and a child care subsidy. Budget numbers are from the Iowa Policy Project's *The Cost of Living in Iowa*.



# Toward a Work Support System that Works

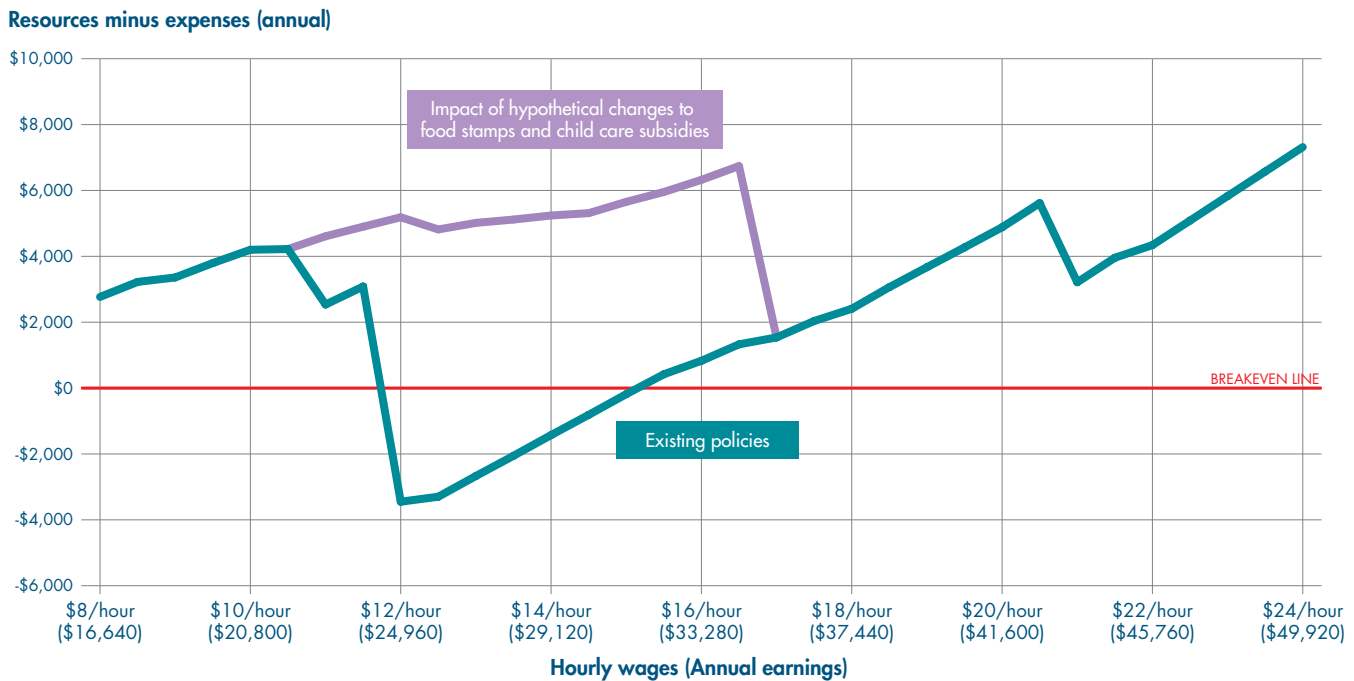
This analysis reveals the tremendous difference work supports can make for families who receive them. To help families close the gap between low earnings and the cost of basic necessities, policymakers need to ensure that families receive the benefits for which they are financially eligible. With the help of multiple work supports, Iowa's low-wage workers can provide for their families. But families who make progress in the workforce may find that working more does not always pay as critical supports are lost.

There are a number of policy options available to states who want to strengthen their work support system and improve family economic security.<sup>7</sup> In Iowa, recent policy decisions – such as expanding the state earned income tax credit and increasing the state minimum wage – reveal that Iowa's policymakers are willing to invest in supports for low-income working families.

To build on these efforts, policymakers could consider addressing the child care and food stamp cliffs identified in this analysis (see Figure 6). Child care is one of the greatest expenses that families face. As the analysis in this brief shows, for the families who receive child care subsidies, the loss of assistance when income exceeds 145 percent of the federal poverty level can be devastating.

The effects of the child care cliff could be reduced if the state raised the income limit for assistance. Figure 6 shows the impact of extending the child care subsidy income limit to 200 percent of the federal poverty level (\$35,200 a year for a family of three). In this example, copayments continue to increase with income, reflecting the existing schedule for children with special needs in Iowa (special needs children are already eligible for child care subsidies up to this higher limit). With this change, the child care cliff is smaller, and families

**Figure 6. Impact of Hypothetical Policy Reforms: Des Moines, IA**  
Single parent with two children, ages 2 and 6



Source: NCCP's Family Resource Simulator, Iowa 2008 <[www.nccp.org/tools/frs](http://www.nccp.org/tools/frs)>. When eligible, the family receives the following work supports: federal and state tax credits, food stamps, LIHEAP, public health insurance, and a child care subsidy. Budget numbers are from the Iowa Policy Project's *The Cost of Living in Iowa*.

experience it when they are above the breakeven line and better equipped to cope with the benefit loss. Additional expansions of eligibility could reduce the cliff even further.

Iowa could also explore options in federal programs. For instance, Iowa could take advantage of the federal food stamp option that allows states to use categorical eligibility to expand access to food

stamps for working families with income somewhat above the federal gross income limit. This would eliminate the food stamp cliff without additional cost to the state.<sup>8</sup> Figure 6 also shows the impact of this change to food stamps.

These strategies would help to ensure that Iowa's work support policies reward hard work and better meet the needs of the state's low-income families.

### Helping Policymakers Find Solutions

In the Making Work Supports Work project, NCCP works with state level partners to identify policy solutions to ensure that low-wage workers who work full-time can meet their families' basic needs. In Iowa, NCCP works with the Iowa Fiscal Partnership, a collaborative effort between the Iowa Policy Project and the Child and Family Policy Center.

## Endnotes

1. Families and children are defined as low-income if family income is less than twice the official poverty threshold, or about \$35,000 for a family of three in 2008. For more information about low-income families in Iowa, see NCCP's state profiles: <http://nccp.org/profiles/>

Source: NCCP analysis based on the U.S. Current Population Survey, Annual Social and Economic Supplements, March 2006, 2007, 2008 representing information from calendar years 2005, 2006, 2007.

2. NCCP analysis based on the U.S. Current Population Survey, Annual Social and Economic Supplements, March 2006, 2007, 2008 representing information from calendar years 2005, 2006, 2007.

3. All budget estimates in this report are from the Iowa Policy Project's report, *The Cost of Living in Iowa*, with the exception of payroll and income tax estimates and tax credits, which are derived from NCCP's Basic Needs Budget Calculator (<http://nccp.org/tools/frs/budget.php>).

Ditsler, Elaine; Pearson, Beth. 2008. *The Cost of Living in Iowa*. Mount Vernon, IA: Iowa Policy Project.

4. Ditsler, Elaine; Pearson, Beth. 2008. *The Cost of Living in Iowa*. Mount Vernon, IA: Iowa Policy Project.

5. Cauthen, Nancy K. 2007. *Improving Work Supports: Closing the Financial Gap for Low-Wage Workers and Their Families*. Commissioned by the Economic Policy Institute's Agenda for Shared Prosperity.

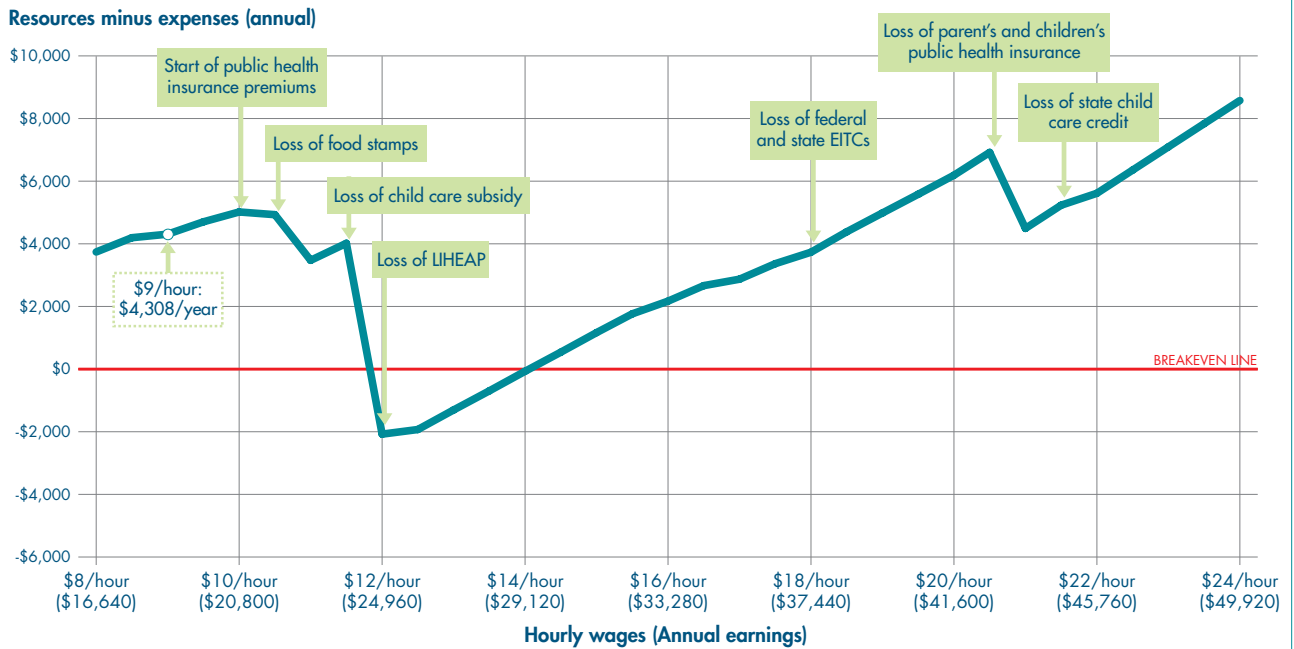
6. *Breaking the Piggy-Bank: Parents and the High Price of Child Care*. 2006. Arlington, VA: National Association of Child Care Resource and Referral Agencies.

7. Fass, Sarah; Briggs, Jodie; Cauthen, Nancy K. 2008. *Staying Afloat in Tough Times: What States Are and Are Not Doing to Promote Family Economic Security*. New York, NY: National Center for Children in Poverty, Columbia University, Mailman School of Public Health.

8. Food stamps are available to families whose "gross" income is below 130 percent of the federal poverty level if their "net" income (i.e. after subtracting deductions for certain necessities, such as housing and child care) is below poverty. Families experience a cliff when their gross income exceeds 130 percent of poverty before their net income reaches the poverty level. A federal option allows states the ability to waive the gross income limit under certain circumstances.

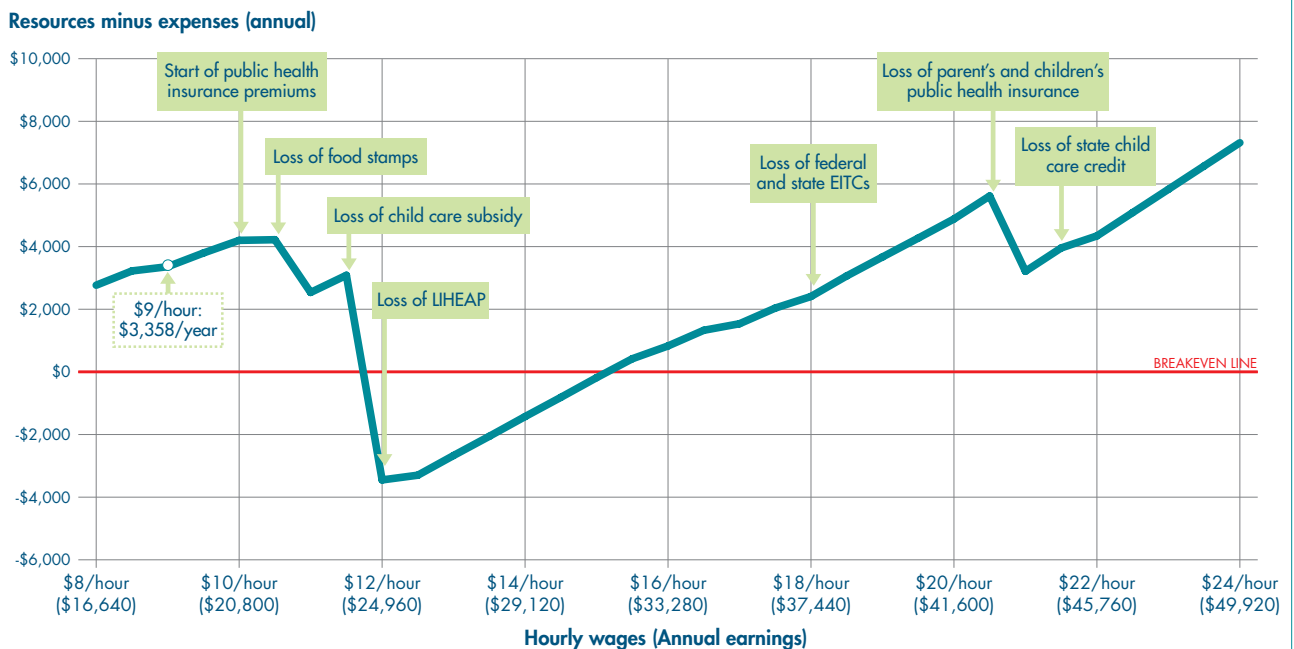
## *Appendix:* Charting Cliffs Across Iowa

**Figure 1. Net Family Resources as Earnings Increase: Cedar Rapids, IA**  
Single parent with two children, ages 2 and 6



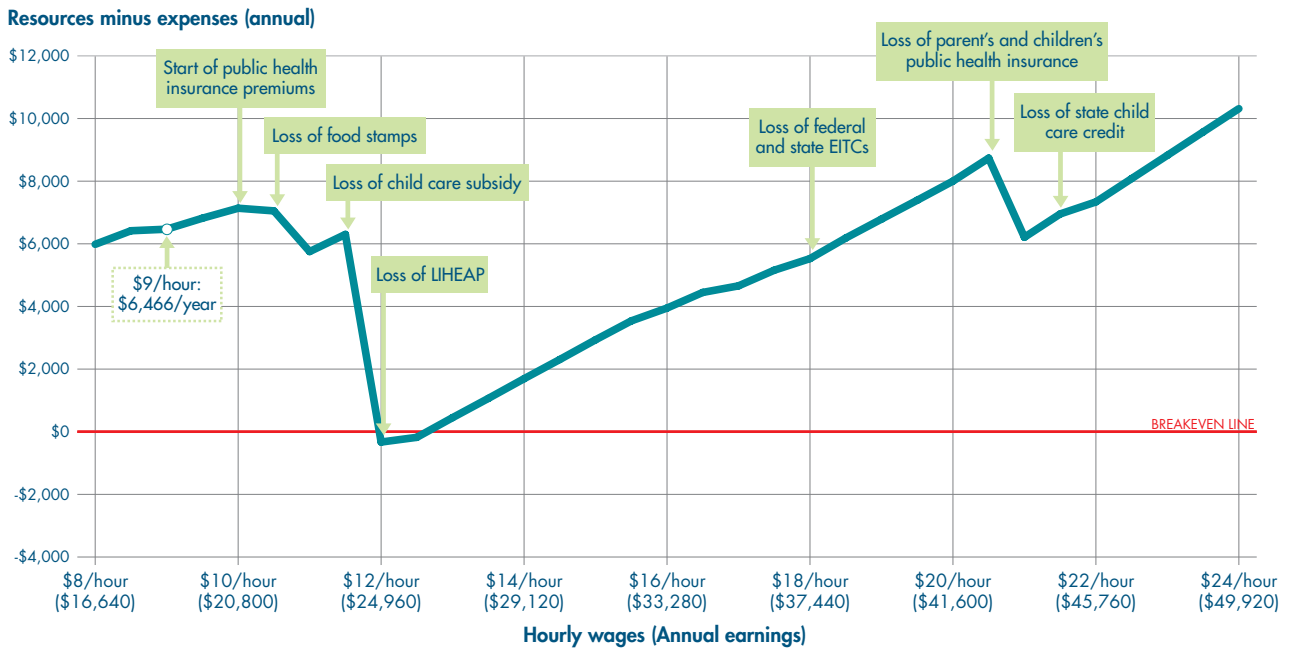
Source: NCCP's Family Resource Simulator, Iowa 2008 <[www.nccp.org/tools/frs](http://www.nccp.org/tools/frs)>. When eligible, the family receives the following work supports: federal and state tax credits, food stamps, LIHEAP, public health insurance, and a child care subsidy. Budget numbers are from the Iowa Policy Project's *The Cost of Living in Iowa*.

**Figure 2. Net Family Resources as Earnings Increase: Des Moines, IA**  
Single parent with two children, ages 2 and 6



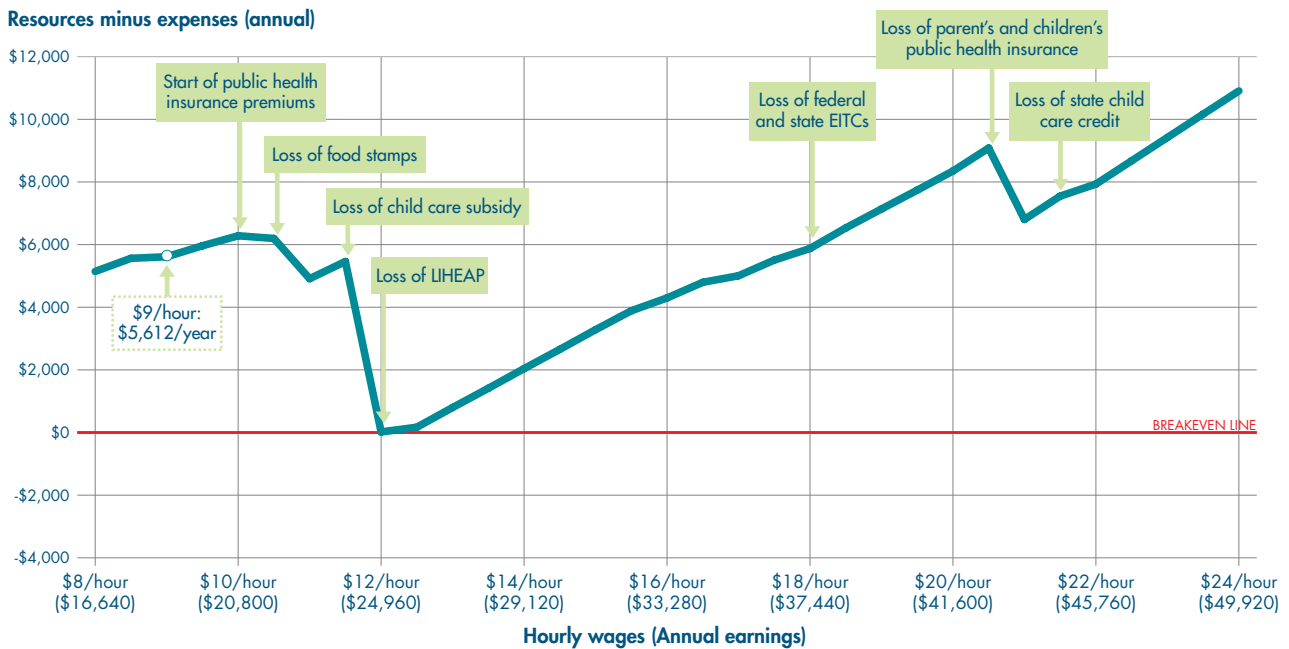
Source: NCCP's Family Resource Simulator, Iowa 2008 <[www.nccp.org/tools/frs](http://www.nccp.org/tools/frs)>. When eligible, the family receives the following work supports: federal and state tax credits, food stamps, LIHEAP, public health insurance, and a child care subsidy. Budget numbers are from the Iowa Policy Project's *The Cost of Living in Iowa*.

**Figure 3. Net Family Resources as Earnings Increase: Mason City, IA**  
Single parent with two children, ages 2 and 6



Source: NCCP's Family Resource Simulator, Iowa 2008 <[www.nccp.org/tools/frs](http://www.nccp.org/tools/frs)>. When eligible, the family receives the following work supports: federal and state tax credits, food stamps, LIHEAP, public health insurance, and a child care subsidy. Budget numbers are from the Iowa Policy Project's *The Cost of Living in Iowa*.

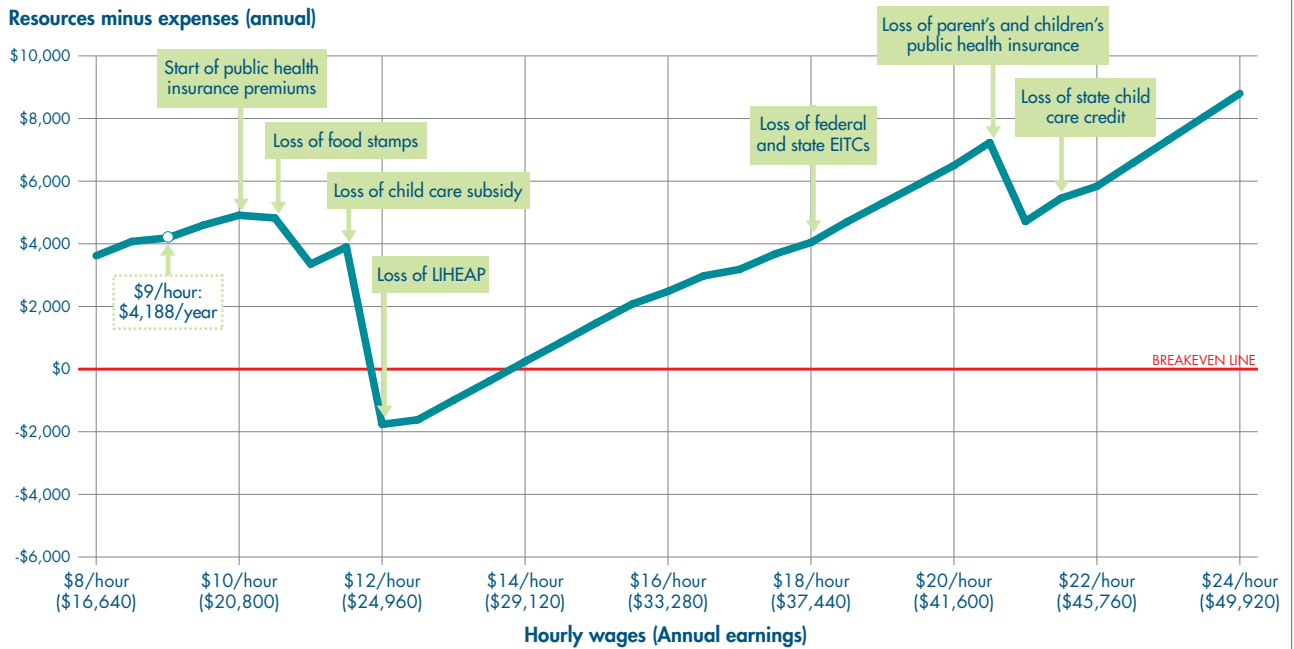
**Figure 4. Net Family Resources as Earnings Increase: Ottumwa, IA**  
Single parent with two children, ages 2 and 6



Source: NCCP's Family Resource Simulator, Iowa 2008 <[www.nccp.org/tools/frs](http://www.nccp.org/tools/frs)>. When eligible, the family receives the following work supports: federal and state tax credits, food stamps, LIHEAP, public health insurance, and a child care subsidy. Budget numbers are from the Iowa Policy Project's *The Cost of Living in Iowa*.

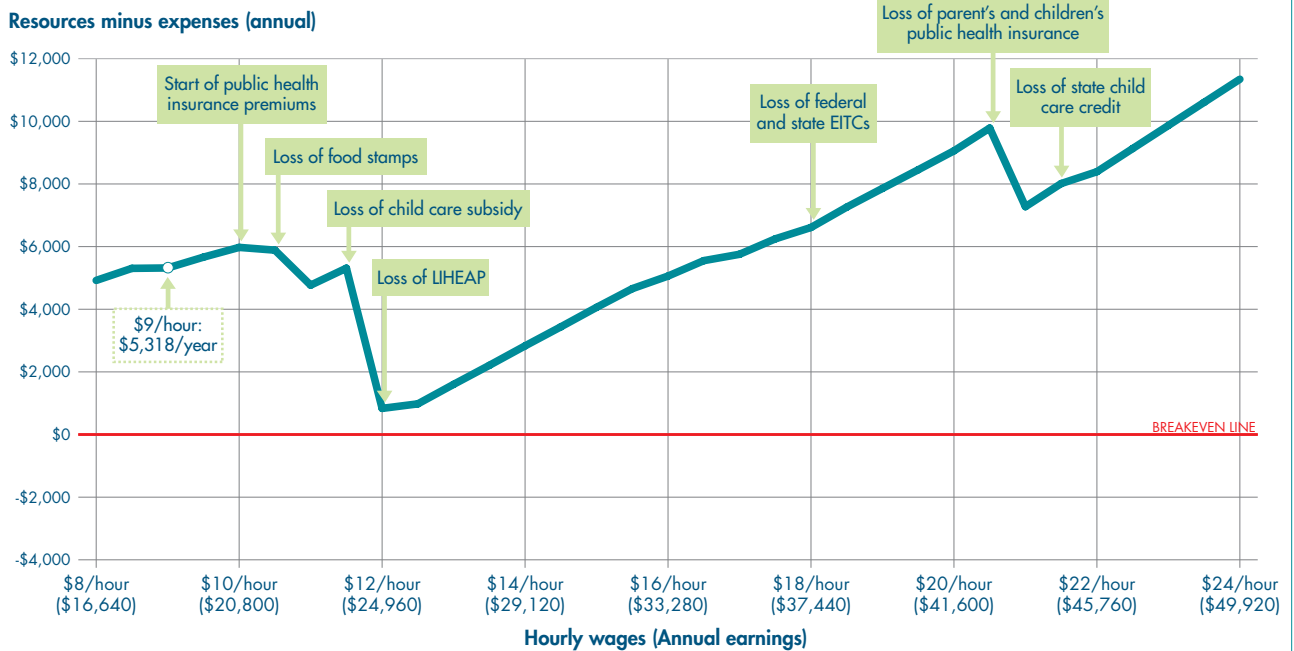


**Figure 5. Net Family Resources as Earnings Increase: Sioux City, IA**  
Single parent with two children, ages 2 and 6



Source: NCCP's Family Resource Simulator, Iowa 2008 <[www.nccp.org/tools/frs](http://www.nccp.org/tools/frs)>. When eligible, the family receives the following work supports: federal and state tax credits, food stamps, LIHEAP, public health insurance, and a child care subsidy. Budget numbers are from the Iowa Policy Project's *The Cost of Living in Iowa*.

**Figure 6. Net Family Resources as Earnings Increase: Wayne County, IA**  
Single parent with two children, ages 2 and 6



Source: NCCP's Family Resource Simulator, Iowa 2008 <[www.nccp.org/tools/frs](http://www.nccp.org/tools/frs)>. When eligible, the family receives the following work supports: federal and state tax credits, food stamps, LIHEAP, public health insurance, and a child care subsidy. Budget numbers are from the Iowa Policy Project's *The Cost of Living in Iowa*.





**National Center for Children in Poverty**  
Mailman School of Public Health  
Columbia University

215 West 125th Street, New York, NY 10027  
TEL 646-284-9600 ■ FAX 646-284-9623  
[www.nccp.org](http://www.nccp.org)