

INCOME

Achieving Economic Self-Sufficiency

Strategies to improve the capacity to earn income and meet family economic needs



United Way
of Central Iowa

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Setting the Context

United Way of Central Iowa wants its donors, volunteers, partners and supporters to support research based strategies that can help move the needle on income. This *Research Overview*, based on national research, is designed to highlight the broader picture in the area of income. It is NOT designed to serve as the *all-in-all* in the field of income research or substitute strategies based on local conditions. This overview is more like a list of best ingredients versus a detailed recipe.

I. Introduction

In 2011, approximately one out of every three families¹ in Central Iowa² had incomes that barely covered basic household and work-related expenses (2009-2011 ACS³). Iowa ranks third in the nation in the percent of children under 6 years of age with all parents in the labor force. Yet, low wages force many families to go without, or to go into debt (Ditsler et al 2008, P2). In today's economy, families require income to cover rising costs of food, housing, health care, transportation, child care and clothing. The amount of income required to fulfill basic needs depends on the family size and geographic location. The dynamic relationship of families in distress with daily basic needs expenses, unfortunately, is not captured by the official poverty measure.

The official poverty threshold levels that the Census calculates have been proven by many studies as woefully inadequate to reflect the struggling condition of distressed families. For example, a National Report by Economic Policy Institute states "The most common definition in American income analysis uses the official poverty line of the U.S. government. While there is some value to this measure...it is widely considered to be an inadequate measure of the concept of poverty" (The State of Working America Exec Summary p11). Per the *Cost of Living* Report (p3), Federal Poverty Level (FPL) assumes families spend one-third of their income on food and two-thirds on basic needs. But in today's reality, food only accounts for one-sixth with other costs consuming a larger proportion. The FPL undermines this reality and completely excludes the cost of child care.

In summary, the Census thresholds were originally calculated in 1963 and ever since have been updated for price changes using the Consumer Price Index. The threshold

- Is based on cost of a single item – food
- Assumes a fixed ratio between food costs and all other family costs
- Is universal for all states and does not provide for local variations

Today, working families spend money for various reasons beyond food just to meet basic needs. Basic needs for a family, therefore, have to include costs for housing, healthcare, transportation, child care and taxes. Seeing the urgent need to create a safety net for families falling through the economic cracks, and seeing the gap in definition of federal poverty level, United Way of Central Iowa has expanded the official definition of poverty to a standard of economic self-sufficiency⁴ and has taken a ten year initiative to tackle the ever growing family economic crisis.

This paper addresses some key strategies necessary to move certain sections of the population to increase household income and financial resources ultimately leading towards UWCI's standard of economic self-sufficiency.

¹ Appendix I

² Central Iowa includes Polk, Dallas and Warren counties

³ American Community Survey

⁴ Economic Self-sufficiency per UWCI is 2.50 time poverty income or 250% poverty.

According to United Way's brief report on *Income Strategies and Approaches* (p1), there are two basic elements needed to achieve financial stability.

They are;

- Increase Income
- Adequate Financial Resources

II. Increase Income

The singular variable that can change the face of struggling families is Income. Family Income is the core building block of American living standards. It is with Income that families can fulfill their material needs and aspirations. Income not consumed flows into wealth, enabling families into longer term investments like a home or increased savings ultimately ending in sustained and stable financial condition (The State of Working America Exec Summary p2).

In order to have stable adequate income, one must possess family sustaining full-time employment. If we want to create strategies to improve employment opportunities, it is necessary to understand the population we are dealing with. According to a study done by Abt Associates for Department of Health and Human Services in April 2009, indicate three overlapping population groups that require special attention on the path to self-sufficiency.

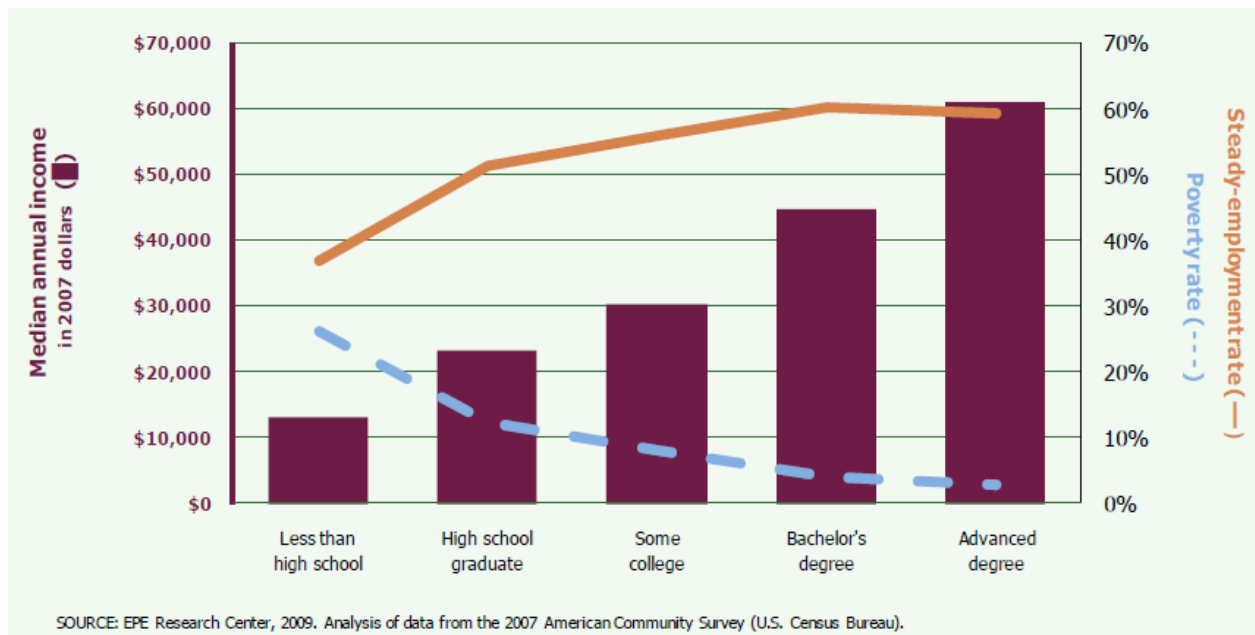
They are

- A. Disconnected young adults
- B. Working Poor
- C. Families facing serious or multiple challenges to employment

A. Disconnected young adults

In Central Iowa, an estimated 17,656 (28%) young adults' ages 16-24 were unemployed and not seeking active employment (2009-2011 ACS). In other words, they are not part of the labor force and are disconnected from the mainstream economic system. In a related statistic, in Central Iowa, an estimated 19,872 (41%) young adults' 18-24 have only a high school diploma or less (2009-2011 ACS). Most likely the disconnected youth not in the labor force will have lower educational levels.

It is apparent from the numbers that the 19,872 young adults in Central Iowa (if working) are most likely earning anywhere from \$12,000 to \$22,000 per annum (see chart below). This barely goes beyond federal poverty levels let alone self-sufficiency. The situation gets worse if it's a two or three person household with children. As the levels of education advances, rates of poverty go down and employment becomes steady increasing the probability of financial stability.



Therefore, the primary step towards self sufficiency for these disconnected young adults is to reenroll for high school diploma or obtain a GED. These disconnected youth need strategies to help them cross the education barrier before they can progress in a career ladder. According to United Way of Greater Cincinnati Community Impact report (p80), five factors have been identified as deterrents to pursuing a high school diploma/GED; they are low self-confidence; social disapproval; negative attitude towards education; low personal priority and situational barriers such as time, resources, child care, transportation and lack of other educational requirements. Below are strategies addressing those issues.

Strategies⁵

1. Reenroll students into credit recovery programs.
2. High school equivalency test programs to prepare students for an alternative credential.
3. Computer-based instruction, such as distance learning programs.
4. In-school programs that provide academic or social and emotional support for students who reenroll after dropping out.
5. Promote opportunities to access career and technical education programs, apprenticeships, internships and school-to-work programs.
6. Remove barriers to participation in education and training programs by promoting flexible class hours, use of modularized curricula, and provision of transportation and childcare subsidies.
7. Connect disengaged youth (18-24) to a series of education and training programs and support services that enables them to pursue careers in specific local industries, aligning training with the local job demands.
8. Basic Adult Education and English as a Second Language (ESL) – trains young adults and older adults to secure employment that requires a basic skill level or to enter a post-secondary education program. The strategy includes adult literacy tutoring and training

⁵ Source: UWCI Education Framework (strategies 1-4; p10); United Way's Income Strategies and Approaches (strategies 5-6;p4-5) ; United Way Metrics Pilot Project (strategies 7-8; p24 & p27); Innovative Strategies for Increasing Self-Sufficiency Project(strategy 9;p6)

as well as education designed to help an individual prepare for and take the GED. It is often referred to as remedial education. ESL training is designed to help non-English speakers improve their competency in English, and it is sometimes provided in the context of a job skills training program so that the worker learns job-specific skills while improving their English skills.

9. Post-secondary skills – Innovative “bridge” programs at community colleges providing contextualized basic skills and supports to connect young adults to regular college programs; customized short-term training for specific occupations; a variety of innovations in instructional formats and technologies designed to facilitate learning, program retention and subsequent spells of schooling; and new forms of financial and other supports for students.

B. Working poor

Working poor are individuals/families who are trying to move from low class income to middle class income. In this increasing global economy with money shifting across borders, more and more existing middle class is shifting back to lower class especially with less and less resources available for running a household. Most likely these families fall below the self-sufficiency line but hover at or above the Federal Poverty line. They are the folks who are underemployed and “stuck” in jobs that pay poorly, have few or no benefits and have unpredictable work hours (Abt Associates 2009, p3).

People of this group are hard-working individuals holding multiple jobs to make ends meet. They have the desire and passion to economically succeed but need help. They, most likely, have the minimum skills to work but need more to sustain and advance in their career ladder. Strategies need to be in place for such stakeholders for job advancement or more stable employment. Majority of UWCI work has to be focused on targeting this population group as they occupy significant proportion of all working families in Central Iowa thus significantly impacting the self-sufficiency curve,

In Central Iowa, approximately one out of every three (estimated 48,103) family is living below the self-sufficiency line (250% of Poverty). The American Community Survey, however, does not have rich information of families at the 250% level but has information at the 185% level. Although 185% poverty is way below UWCI self-sufficiency standard, still the numbers look significantly higher to handle. One can only imagine, at the 250% level this picture will be more alarming.

According to the 2009-2011 ACS (B17022) in the Des Moines-West Des Moines metro region, of the *families with children who are at or below 185% of poverty*, half (50%) are single mothers⁶ and 37% are married couples⁷. The remaining are single fathers. Assuming all single mothers in Central Iowa have one child only and are exactly at 185% of poverty (not below), then, according to the 2011 Census Poverty Threshold, these mothers are receiving income of \$13.79 per hour⁸ to run their household. However, per the *Cost of Living* report

⁶ Number of single mothers = 10,314

⁷ Number of married couples with children = 7,615

⁸ Per hour is calculated based on 40hrs a week at 52 weeks a year (2080 hrs per year)

done by Iowa Policy Project, the same family demographic (single mothers with one child) require median hourly wage of \$17.02⁹ to survive in Central Iowa just to fulfill basic needs¹⁰. The gap of \$3.23 per hour translates to approximately \$559 of income deficit per month. This gap deficit of \$559 per month is a conservative estimate.

If we do the same analysis for married couples, assuming both parents are working full time (least vulnerable family composition) and are exactly at 185% of poverty (not below), then, these families are earning \$16.10 per hour. However, it requires \$20.76¹¹ just to cover basic needs per the Cost of Living report. There is a gap of \$4.66 per hour which translates to an estimate of \$807 per month.

In summary, these numbers point to one conclusion that more than half of single mothers and one third of married couples with children in Central Iowa at or below 185% of poverty have to constantly make choices between just fulfilling basic needs and typical day-to-day expenditures that normally are taken for granted.

Two broad strategies are critical in progressing working poor families' towards economic self-sufficiency. They are workforce development and increasing income/work supports.

B1. Workforce development

Strategies:¹²

Workforce readiness certifications

Awarded to workers who have completed a soft skills training programs or who have demonstrated a basic competency level through testing such as the Career Readiness Certificate (NCRC). They are intended to help employees demonstrate work readiness and assist employers to identify workers with appropriate skill sets.

Apprenticeships

Paid, on-the-job training completed with the guidance of an employer or experienced trainer in a skilled trade. It often involves a combination of work and education.

Post- Secondary Education

Includes both vocational training and higher education. This is education and training that occurs after high school completion and results in a degree and/or certification. Research has shown that investment in post-secondary education makes a significant difference in the earning capacity of individuals, making education and training a highly effective strategy to increase financial stability. Research conducted by Education Testing Services and the Center for Law and Social Policy found that each year of higher education increases an individual's annual earning capacity by \$10,000.

⁹ \$17.02/hr is the median wage between Polk, Dallas, and Warren counties.

¹⁰ Basic needs, per the Cost of Living report, covers food, housing, health care, transportation, child care, clothing/misc, and income taxes

¹¹ \$20.76/hr is the median wage between Polk, Dallas, and Warren counties.

¹² Source: United Way Metrics Pilot Project (p24-26); Innovative Strategies for Increasing Self-Sufficiency Project (p6)

Employer driven soft skills training

On the Job Training (OJT) is developed with and by employers; more intensive/longer job readiness programs; approaches involving instructors with varying levels of training and skill focused approaches such as Nurse Family Partnership Program.

Career counseling, coaching, workforce navigation

One-on-one guidance and support to workers who seek targeted skills training and/or employment opportunities. Job Developers/coaching/workforce navigation is typically offered by service providers, including those at public workforce development agencies, community-based organizations and community colleges. Certified Job Developers have completed a skill-based curriculum. This workforce navigation includes an assessment of an individual's existing skill set and career goals, materials and application preparation with referral to appropriate education/training and employment opportunities. Job Developers and coaches also help workers address barriers that prevent them from completing training programs and/or maintaining employment. They can also provide assistance around career advancement.

Sector wide approach

A systems approach to workforce development- typically on behalf of low-income individuals. It's a collaborative approach between community-based organizations, business and industry groups, community and technical colleges, workforce investment boards, labor unions, and others. Practitioners work with specific industries and employers to develop appropriate training programs to build career pathways to help low-wage workers advance into better jobs. Sector- based approaches design programs and strategies to specifically address the needs of in-demand, high-growth employers. Aligning workforce development with the economic trends and needs of employers increases the likelihood of job placement, retention, and advancement.

A dual-customer, sector-wide approach

Workforce partnerships are dual-customer; sectoral intermediaries that engage employers and other partners to identify workforce needs, align funding, and provide or brokers services to address the needs of the workforce. Workforce partnerships are typically comprised of a coalition of employers, service providers, educational institutions, and other organizations with the expertise and capacity to address the hiring, retention, and advancement challenges of low-skilled individuals and their employers. The coalition may be led by a variety of organizations, including community colleges, public workforce agencies, unions, business groups, community-based organizations, and faith-based organizations. Partnerships are structured with a governance body, a management team including the lead organization, and a number of partners and vendors. The pivotal outcome is systems change to align programs and funding sources to address barriers and regulatory constraints that impede worker advancement within the workforce development system.

B2. Increasing income/work supports

The working poor earn well below the self-sufficiency standard that they need additional income supports to balance their household budget. Public and private income benefits go a long way in helping these households stay afloat. Covering basic needs costs such as food, affordable housing, and child care can elevate these families above poverty and towards self-sufficiency. However, providing supplemental income to poor families is not a permanent fix to self-sufficiency. It is a temporary strategy to provide support while the families pursue the best pathway to financial stability and earn their way off these work supports.

A challenge of the system is that as hourly wages of low-income, working families' increase, their public income benefits decrease and eventually cease. This is called "benefit cliff"³. The result is that they end up financially worse off than when they had less income. The significance of private basic needs supports (like United Way dollars who are not subjected to federal guidelines) can go a long way in helping families survive these "benefit cliffs".

While the cliff effect is a broader policy issue, the goal of the Income supports is to obtain every benefit to which the client is entitled so as to bring client income (earnings plus supports) as close to a self-sufficiency wage as possible thus bridging the self-sufficiency gap and making them more financially stable. This also implies that not all are receiving their eligible benefits. Below is a table done by Iowa Policy Project.

Public Benefits	Share of Population eligible	Number of eligible Iowans	Average Monthly recipients
child care (children under age 13)	11.1%	56,509	17,900 (31.7%)
EITC (tax filers)	14.6%	190,966	168,361 (88.2%)
Food Stamps (persons)	10.7%	318,053	206,696 (65.0%)
Housing (households)	7.4%	96,432	24,790 (25.7%)
TANF (persons)	4.1%	120,449	42,000 (34.9%)

source: *Bridging the Gap in Iowa* June 2007 (P2)

According to a study done for National Center for Children Poverty (NCCP), for every dollar earned, 33cents that is one-third come from income supports. This clearly illustrates the significance of income supports to a working poor family. Below is a chart from the study showing the significance of income supports for a single mother with two children (ages 2 and 6) living in Des Moines, IA.

¹³ Appendix II

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
Annual Resources (cash and near-cash)				
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
Total Resources	\$18,720	\$25,416	\$29,679	\$27,453
Annual Expenses				
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
Total Expenses	\$37,187	\$37,187	\$33,310	\$24,094
Net Resources (resources - expenses)	-\$18,467	-\$11,771	-\$3,631	\$3,359

Source: Making Work Pay for Iowa's Families Sept 2008 (p6)

Thus, federal and state “work supports”— such as the Earned Income Tax Credit (EITC), child care, Food Stamps, health insurance, Temporary Assistance for Needy Families (TANF), and child support — have become increasingly important in the national effort to encourage and support employment and to help low-earning families make ends meet (Patel et al 2002, p1).

Strategies¹⁴

1. Enroll more eligible families to Income supports such as EITC; Child Care Assistance; Supplemental Assistance Nutrition Program (SNAP); Section 8/Public Housing; and Temporary Assistance to Needy Families (TANF) by providing convenient (location and time) community and neighborhood-based settings that can be easily accessed e.g., employer-based services, child care and school sites, or retail stores etc.
2. Strategically tie Basic Needs supports (provided by United Way dollars) with workforce development, savings and asset building strategies.
3. Tackle at the policy level the “cliff” that clients encounter whereby they cannot afford incremental wage increases that cause them to lose more than the equivalent in public benefits, thereby keeping them in a perpetual state of financial instability.

¹⁴ United Way Strategies and Metrics Pilot Project (p30)

C. Families facing serious or multiple challenges to employment

Families with multiple challenges are the hardest-to-employ. This is because these individuals face multiple barriers at the same time. According to Abt Associates (p3), (1)previously incarcerated low-income minority adults; (2)single mothers with multiple issues such as substance abuse; mental/physical health issues; learning disabilities; victim of domestic violence etc; and (3)unemployed single parents not receiving TANF assistance and with the above health & social problems are typology for hardest-to-employ population. In general, any individual with no work history and no benefits and with the above mentioned problems fit into this category. The homeless population also fits into this category of hard-to-employ.

The census defines labor force as non-institutional population 16 and above who was either employed or unemployed but actively seeking employment. All other civilian population 16 and above who are not employed and are not actively seeking jobs are not part of the labor force. Majority of the high-risk hard-to-employ individuals do not actively seek employment and hence most likely will not be part of the labor force data. This is one way to assess the number of people needing help.

According to the 2009-2011 ACS (S2301), in Central Iowa, approximately 17% (62,200) of the adult population (16-64) did not participate in the labor force for various reasons (multiple barriers to employment could be one). This is a significant amount.

In order to help these population groups move towards self-sufficiency requires specialized, intensive and comprehensive focus on a one-on-one basis. Wrap around health & social services are required on an on-going basis before they can even be job-ready. Strategies should be comprehensive, cross-agency efforts and holistic to have any impact (bundling of services).

Strategies¹⁵

Connecting individuals to existing public benefits and supports

Identify disabilities among existing TANF recipients, determine whether those disabilities qualified them for SSI, and then develop improved strategies for moving those eligible to SSI. Provide more appropriate treatments and work activities for those remaining on TANF.

Supported employment

Strategies that provided supported work in more protected settings for extended periods in conjunction with treatment for problems (such as depression, substance abuse and for domestic violence). On the Job Training (OJT) and Apprenticeships provide specific and targeted employment training and experience.

¹⁵ Innovative Strategies for Increasing Self-Sufficiency Project (p7)

III. Adequate Financial Resources

Long-term financial stability cannot happen unless there are strategies to prevent fallbacks and improve wealth generation. Dr Flora from Iowa State University states that a family that achieves self-sufficiency wage may or may not escape multi-generational poverty. It can do so only if wealth generation accompanies income generation (Flora et al 2004, p3). Adequate financial resources such as (a) savings and (b) affordable housing can help cement a family beyond poverty thresholds and towards stable sources of income.

A. Build Savings

Savings is the bridge that helps individuals and families move from a short-term focus on paying bills and decreasing debt to a longer-term focus on financial wellbeing. Savings is especially critical for low- and moderate-income families who often have no assets or access to credit and thus have difficulty remaining financially stable during fluctuations in income such as those precipitated by illness, job loss, divorce or other events (United Way Metrics report, p15). Providing low-income working families with targeted financial education; appropriate financial products, and easy, low-cost opportunities to save, combined with strategies and approaches to reduce their debt and expenses, will help them to build a financial foundation that lends itself to savings and asset accumulation (United Way Income Strategies and Approaches, p3).

Several surveys have examined the socioeconomic characteristics of the approximately ten million households that do not have bank accounts. The surveys find that the unbanked are disproportionately represented among lower-income households, among households headed by African-Americans and Hispanics, among households headed by young adults, and among households that rent their homes (Caskey, J 2002, p3; Kennickell et al, p1-29). One of the main and significant reasons that these low-income households do not save is because they live from paycheck to paycheck that they do not have excess to save (Caskey, J 2002 p3; Booz-Allen, 1997). This same sentiment is also echoed by the Vice President of Business Development for CareerBuilder.com wherein he states that a national survey indicates that half of the workers live paycheck to paycheck just to make ends meet. Of the people who save, 34% save less than \$100 per month (Living Paycheck to Paycheck CNN.com editorial).

The report done for The Brookings Institution and Harvard University (p4) state that paycheck to paycheck living with no financial margin of safety increases the risk of missing scheduled payments such as credit cards, rent etc thus repairing credit history and increasing debt burden. When these households need short-term loans for emergencies, they get roped into predatory lending practices.

Therefore, “Build savings” strategy plays crucial role for low-income households to stay afloat during the times of financial crisis. Partnerships with banks and other mainstream financial institutions can help address this issue. For the purpose of UWCI, Build Savings strategies can play a supportive role to “Increase Income” strategies as part of bundled service delivery.

Strategies¹⁶

1. Increase awareness of and access to effective financial education
2. Promote savings and credit repair.
3. Guide individuals and families to safe financial products.
4. Partner with mainstream financial institutions such as banks and credit unions and other stakeholders to design strategies to improve low-income banking.
5. Promote use of tax credits such as Earned Income Tax or Child Tax Credit.
6. Connect low-income working families with creating matched savings account (IDAs)

B. Affordable Housing

More than 4 million working families spend more than half their income for rent and/or mortgages, leaving them particularly vulnerable to eviction or foreclosure if their income is interrupted. Safe and decent housing is a basic need every family requires to fulfill if they want to surpass the self-sufficiency standards. There can be a family moving from homelessness to transitional housing. There can be a family having stable employment but requires help in purchasing an affordable home. There can be a family who is renting and requires help from getting evicted. There can be multiple scenarios related to housing that if not met at the right time can push a family back into poverty and distress. Strategies need to be in place to help families face these multiple situations as they are pursuing the best path to self-sufficiency.

Strategies¹⁷

1. Connect low-income working families/individuals with permanent, supportive housing to decrease homelessness
2. Connect low-income working families with safe and stable, affordable housing. Assist families in the purchase of a home or to obtain rental housing.
3. Prevent low-income working families from losing affordable housing

IV. Conclusion

United Way can play a critical role in bringing the community together to create a shared vision around these ideas, develop clear strategies with mutual accountability, generate financial and other resources aligned toward this work, execute as a united community and communicate stories of progress over time so that energy for the work is sustained (United Way Income Strategies and Approaches, p8).

¹⁶ Source: Financial Literacy and Education Commission, National Strategy for Financial Literacy 2011

¹⁷ Source: UWCI Income Performance Measure document

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Appendix I

Calculation of Total Families at or Below 250% of Poverty

Ratio of total population to total families in Polk, Dallas and Warren

$$\frac{\text{Total Population}^{18}}{\text{Total Families}^{19}} = \frac{534,471}{141,988} = 3.76$$

For every family in Polk, Dallas and Warren, there are an estimated 3.78 individuals.

Total population at or below 199% of poverty = 137,263

Total population between 200% and 299% of poverty = 87,212

Estimated population between 200% and 250% of poverty = $\frac{87,212}{2} = 43,606$

Total population at or below 250% of poverty = 180,869 (137,263 + 87,212)

Dividing 180,869 by 3.76 = 48,103

Total estimated families in Central Iowa at or below 250% of poverty = 48,103

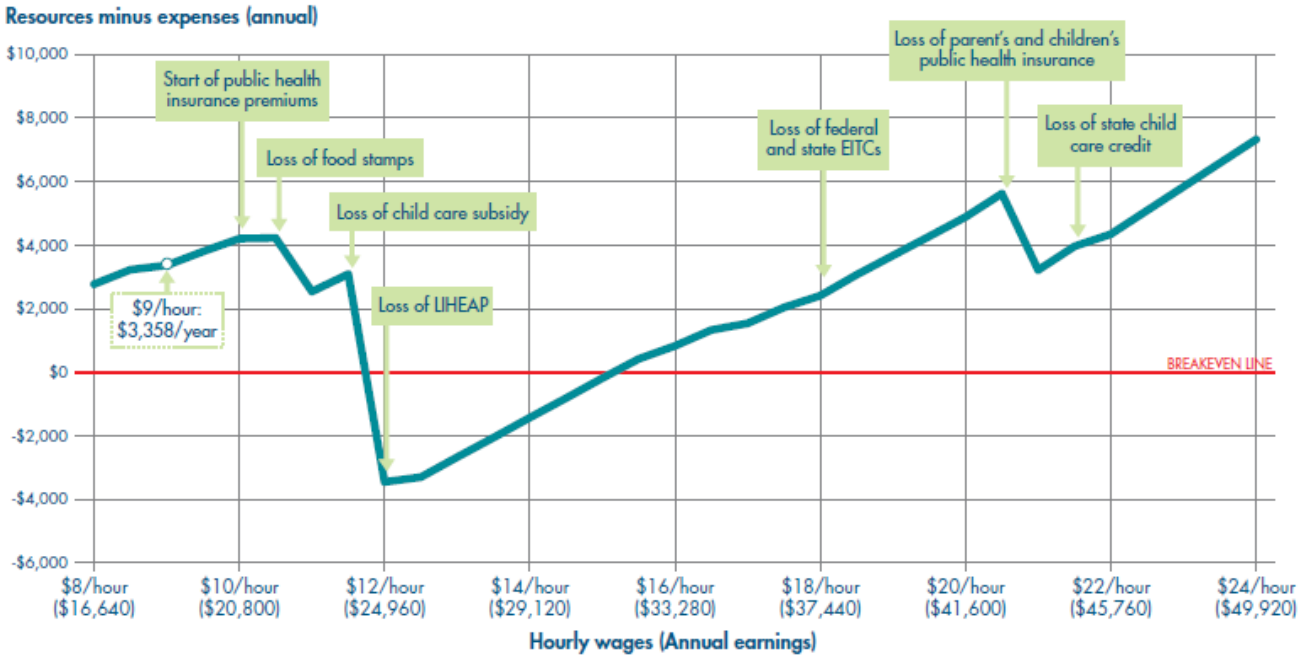
¹⁸ 2009-2011 American Community Survey Table: B17002

¹⁹ 2009-2011 American Community Survey Table: C17022

Appendix II

Benefit “cliff” effect (policy option)

Single parent with two children, ages 2 and 6 (Des Moines, IA)



Source: NCCP's Family Resource Simulator, Iowa 2008 <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*.

Source: Making Work Pay for Iowa's Families Sept 2008 (p7)