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## Key State TANF Policies Affecting Microenterprise: Iowa

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The Charles Stewart Mott Foundation microenterprise grantee in Iowa is the Institute for Social and Economic Development (ISED), headquartered in Iowa City.

Iowa has a history of support for microenterprise as a welfare-to-work option predating its Temporary Assistance for Needy Families (TANF) program. Beginning in 1988, the state had a Self-Employment Investment Demonstration (SEID) pilot program, which provided self-employment assistance for AFDC clients. Iowa's restructured welfare program, the Family Investment Program (FIP), was implemented beginning in 1993 under waivers of federal Aid to Families with Dependent Children (AFDC) rules. After the enactment of the 1996 federal welfare reform legislation, Iowa chose to terminate its waivers. FIP was implemented as a TANF block grant program in January 1997.

Iowa's average cash assistance caseload was approximately 20,195 families in fiscal year 2001. The state caseload declined by 45 percent between fiscal years 1995 and 2001, compared to a 56-percent decline in the national caseload.

<b>Iowa TANF Funding and Spending</b> (in millions)	
Annual TANF block grant, FY 98-02	\$131.5
Welfare-to-Work formula grant, FY 99	\$8.3
80% MOE obligation, FY 00 <sup>1</sup>	\$66.1
75% MOE obligation, FY 00	\$62.0
State MOE spending (% of obligation), FY 00	\$62.0 (75%)
Unobligated TANF funds (FY 97 – FY 00 combined)	\$41.6

Source: U.S. Department of Health and Human Services, Administration for Children and Families

<sup>1</sup>In order to receive its full federal TANF grant, a state must meet a maintenance of effort (MOE) obligation. A broad range of spending for needy families, in and outside of the TANF cash assistance program, can count toward MOE. The MOE obligation is based on state expenditures for AFDC and a set of related programs in FY 1994. It is set at 80 percent of those expenditures, and is reduced to 75 percent if the state meets federal work participation rates.

Iowa's maximum monthly cash benefit level for single-parent families with two children is \$426.<sup>2</sup> The state has the 23<sup>rd</sup> highest TANF cash grant among the 50 states and DC; the national average is \$414 for a family of three. In 2001 Iowa had the sixth lowest poverty rate among the states at 7.7 percent, compared to 11.6 percent for the U.S. as a whole. Median household income in Iowa in 2001 was the 26th highest at \$42,255; the national median was \$42,873.<sup>3</sup>

### **TANF Spending to Support Microenterprise**

Iowa uses a combination of TANF and MOE funds to provide technical advice and business training to FIP participants. The state has earmarked funds for a contract with the Institute for Social and Economic Development to provide entrepreneurial training to FIP recipients.

### **Initial Participation Requirements**

Iowa, like most states, elected to opt out of the federal two-month community service requirement.<sup>4</sup> Adults who are not exempt from the work requirements must enter into a Family Investment Agreement in order to receive FIP. The Iowa TANF Plan states that all persons participating in a Family Investment Agreement are considered to be "engaged in work."<sup>5</sup> Family Investment Agreements require participation in specific activities including education, training, and activities designed to overcome barriers to employment.

Many states require applicants for cash assistance and/or participants in work activities to pursue an initial job search. Iowa does not require an initial job search and does not impose a fixed sequence of work activities.

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<sup>2</sup> Source: Burke, Vee. (2002). *TANF Benefits and Earnings Limits, January 2002*. Washington, DC: Congressional Research Service.

<sup>3</sup> Poverty rates and median income are three-year averages for 1999-2001. Source: U.S. Census Bureau, *Current Population Survey, 2000, 2001, and 2002 Annual Demographic Supplements*. This represents the most recent data available.

<sup>4</sup> A federal TANF provision requires adults to participate in community service employment after receiving assistance for two months unless the state opts out of the requirement.

<sup>5</sup> The federal TANF statute requires all adults receiving assistance to be "engaged in work" after they have received assistance for 24 months. States have broad discretion to define what counts as being "engaged in work" for purposes of the 24-month requirement.

## Countable Activities<sup>6</sup>

A principal way in which participation in microenterprise training could count toward the federal participation rates is as vocational educational training.<sup>7</sup> Iowa defines vocational educational training as “any academic or vocational training course of study which prepares the individual for a specific professional or vocational area of employment.” The state does not impose a cap on the number or proportion of participants in vocational educational training; participation is open to persons who “demonstrate capability and who express a desire to participate.” Entrepreneurial training, defined as “technical advice and business training with contracted providers for participants pursuing self-employment as a route to self-sufficiency,” is an allowed activity, and is countable toward the work participation rates as vocational educational training. Training may last for 15 to 18 months, followed by up to six months of technical assistance with operating the business.

Iowa allows self-employment<sup>8</sup> as a work activity. A person is considered self-employed if he or she: (1) is not required to report to an office regularly; (2) establishes her/his own working hours, territory, and methods of work; and (3) files quarterly earnings reports and withholding payments with the IRS.

The following table shows TANF work participation data that the state reported for FY 98, FY 99, and FY 00. The caseload reduction credit reduced the required overall participation rate to 9.1 percent in FY 98, 4.7 percent in FY 99 and 0.8% in FY 00. In both FY 98 and FY99 the state could have fully satisfied its required overall participation rate simply because a sufficient number of families were participating in unsubsidized employment. Thus, Iowa could have allowed more families to participate in microenterprise training outside the rates. In FY 00, the state had an effective participation rate of close to 0 percent, and therefore, could have allowed additional families to participate in microenterprise training without being concerned about counting them toward a federal participation rate. (See row six.)

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<sup>6</sup> Under the federal TANF statute, a state may be penalized if it fails to meet overall and two-parent TANF participation rates. The law specifies the number of weekly hours required to be a countable participant and the permissible activities that can count toward participation. States can authorize and fund activities that are not countable toward the federal participation rate.

<sup>7</sup> Under the federal TANF statute, only certain activities are countable toward TANF participation rates. Vocational educational training provides the principal category in which participation in education or training can count toward TANF participation rates. States can set their own reasonable definitions of what counts as vocational educational training, but countable participation is limited to 12 months per individual. No more than 30 percent of those counted toward the work participation rate can be in vocational educational training. Effective in FY 2000, the 30 percent limit applied to the combination of individuals in vocational educational training and parents under age 20 engaged in school completion. A state is free to allow individuals to participate in vocational educational training for more than 12 months, but only 12 months will be countable toward participation rates.

<sup>8</sup> For federal purposes, hours participating in unsubsidized employment are countable toward TANF participation rates. The federal law does not define unsubsidized employment or require a minimum amount of earnings, and states are permitted to develop their own reasonable definitions.

<b>Reported TANF Work Participation in Iowa</b>			
	<b>FY 98</b>	<b>FY 99</b>	<b>FY 00</b>
Families in overall participation rate <sup>9</sup>	18,616	15,689	15,126
Families counting toward work participation rate	10,585	8,608	6,314
Overall participation rate achieved <sup>10</sup>	56.9%	54.8%	41.8%
Overall participation rate required (30% for FY 98, 35% for FY 99, and 40% for FY 00; adjusted downward for caseload reduction credit)	9.1%	4.7%	0.8%
Families engaged in vocational educational training (as a % of participating families needed to meet overall rate) <sup>11</sup>	1,530 (90%)	1,136 (154.1%)	669 (552.9%)
Families engaged in unsubsidized employment (as a % of participating families needed to meet overall rate) <sup>11</sup>	9,848 (581%)	8,088 (1096.9%)	5,979 (4941.0%)
Number of participating families needed to meet overall participation rate required (adjusted downward for caseload reduction credit)	1,694	737	121

Source: U.S. Department of Health and Human Services, Administration for Children and Families

### **Sanctions for Failing to Comply with Work Requirements**

The sanction for failing to sign or comply with a Family Investment Agreement (FIA) is called the Limited Benefit Plan. For a first occurrence, the FIP grant is terminated indefinitely until the individual reapplies for FIP and signs an FIA. For any subsequent occurrence, the family's grant is terminated for a minimum of six months, and the individual must re-apply for FIP, sign an FIA, and complete 20 hours of an approvable work or training activity in order to reestablish eligibility.

### **Time Limit**

Iowa has a 60-month lifetime time limit. For those subject to the time limit, assistance to the entire family is terminated after 60 cumulative months of FIP receipt. Months of assistance began counting toward the time limit in January 1997. Months of assistance do not count toward the time limit for "child-only" cases, defined as a child living with a non-parental caretaker or a parent receiving Supplemental Security Income, or when all assistance to a family is reimbursed by child support collected or overpayment recovery. As of April 2001, the state had not yet developed its

<sup>9</sup> This figure is smaller than the total number of families receiving assistance because some families are not included in this participation rate denominator.

<sup>10</sup> The overall participation rates provided in the third row represent the average of monthly participation rates for the year.

<sup>11</sup> These figures are calculated by multiplying the required overall participation rate by the number of families in the rate, and then dividing the number of families reported as engaged in each activity by the product.

policy on circumstances under which assistance could be extended for families that reach the time limit or on benefits or services that will be provided to families who reach the time limit and are not granted an extension of benefits. The time limit clock runs while clients are participating in microenterprise training or operating a microenterprise.

### **Treatment of Income**

For determining both eligibility and benefit amount, the following disregards are applied to monthly earned income: 20 percent for work expenses and 50 percent of remaining earnings. A single-parent family with two children remains eligible for FIP in Iowa as long as the parent's monthly earnings are less than \$1,065.

Net profit from self-employment is considered earned income, and is defined as gross income from an activity designed to produce a profit, minus the cost of doing business. During the 12-month waiver period for participants in entrepreneurial training, additional income deductions include business expense deductions of up to \$5,000 on capital assets and durable goods, up to \$5,000 for payment of a business loan, and up to \$3,000 for funds deposited into a cash reserve fund used exclusively for business expenses.

### **Treatment of Resources**

The resource limits for FIP are \$2,000 for applicant families and \$5,000 for recipients. The equity value up to \$3,959 (as of July 1, 2001) of each car used by an adult or working teenage child in a family is not counted toward the resource limit. The disregarded equity value is upgraded annually based on the latest increase in the consumer price index for used cars.

Participants in entrepreneurial training are granted waivers of income and resource standards for 12 consecutive months to allow business start-up or expansion. During the waiver period, income-producing property is exempt from consideration as a resource. The waiver also excludes non-homestead property used for the business; vehicles used more than 50 percent of the time for income-producing purposes; up to \$5,000 in a business bank account used exclusively for the business; and up to \$3,000 in a cash reserve fund used exclusively for business expenses.

Iowa has an Individual Development Account (IDA) program, designed and implemented by local community organizations. Up to 10,000 households with incomes at or below 200 percent of the federal poverty level can open IDAs and accumulate savings up to \$50,000 that will be matched with state funds and private contributions. All funds deposited and accruing in IDAs are disregarded in determining FIP eligibility or FIP cash assistance. Waivers to protect IDAs from Food Stamps determination have been submitted for approval. IDA funds can be used to start a microenterprise, for education and job training, and for home purchase or rehabilitation. Currently, Iowa is participating in a five-year federal-state Assets for Independence Act (AFIA) IDA demonstration which will help about 350 IDA participants save \$2 million to acquire their IDA assets.

## Supportive Services

### *Child Care*

Child care assistance is available to FIP recipients who need care for a child under age 13, or up to age 19 if the child has special needs, in order to accept or keep a job or to participate in work activities. FIP participants are deemed eligible for child care without regard to income, hours worked, or waiting lists. Families that leave FIP for employment must meet the eligibility requirements of the subsidized child care program in order to receive child care assistance, but they are not subject to the waiting list.

As of April 2001, and subject to available funding, the state provides subsidized child care for children in families with incomes up to 140 percent of 2001 federal poverty level (\$1,707 per month for a family of three) or for families up to 175 percent of 2001 federal poverty level (\$2,134 per month for a family of three) when the child has special needs. Parents must be in academic or vocational training, employed 28 hours or more per week, looking for employment, or temporarily absent from the home due to hospitalization in order to qualify for subsidized child care assistance. Families must make co-payments on an income-based sliding scale. Co-payments are waived for families with income below the federal poverty level.

### *Medicaid*

There is a joint application for FIP and Medicaid. There is also a simpler application for families applying for Medicaid only.<sup>12</sup> A family may be eligible for Medicaid while not eligible for FIP. Families who cease to be eligible for Section 1931 Medicaid (FMAP) due to increased earnings from employment are guaranteed transitional Medicaid for up to 12 months (if they have received Section 1931 Medicaid for three of the past six months). Iowa extends Medicaid eligibility to children under age 19 in families with incomes below 133 percent of poverty and to children under age one and pregnant women with income below 200 percent of poverty.<sup>13</sup> In April 1998, Iowa passed legislation creating a Children's Health Insurance Program, called Healthy and Well Kids-Iowa (HAWK-I), which covers children under age 19 in families with incomes below 200 percent of the federal poverty level.

### *Transportation and Other Services*

A monthly transportation allowance is available when it is needed for participation in an approved work activity, including entrepreneurial training. The amount of the allowance varies depending on the participant's transportation costs to the work activity and child care sites. Those engaged in

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<sup>12</sup> The 1996 welfare law "delinked" Medicaid from family cash assistance, meaning that TANF recipients are not automatically eligible for Medicaid. The law created new eligibility criteria known as Section 1931, mandating Medicaid eligibility for families that meet a state's AFDC income, resource, and family composition standards in effect on July 16, 1996. States have limited ability to modify these requirements, although a state can broaden Medicaid eligibility by changing its methodology for calculating income or resources for purposes of determining eligibility. Because TANF and Medicaid eligibility rules may no longer be identical, it is possible that some family members could qualify for TANF but not Medicaid, and in many instances family members will qualify for Medicaid but not for TANF.

<sup>13</sup> States are required to provide Medicaid coverage to children under age six with incomes below 133 percent of poverty and children born after September 30, 1993, with incomes below 100 percent of poverty.

unsubsidized employment, including self-employment, do not qualify for a transportation allowance; instead they qualify for a 20-percent earnings disregard for work expenses. Participants in entrepreneurial training can also qualify for a direct education allowance to cover any costs of tuition, fees, books, and basic supplies.