

LOW-INCOME FAMILIES AND THE COST OF CHILD CARE

State Child Care Subsidies, Out-of-Pocket Expenses, and the Cliff Effect

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Child Care Subsidies and Low-Income Families

- The high cost of child care can make it difficult for a low-income family to access quality child care.
- Child care subsidies help these families afford care, but only up to a certain income level.
- A small increase in hourly pay or number of work hours can have a major impact on the cost of child care if the increase in income causes the family to lose eligibility for child care assistance.



The Cliff Effect

- Once the family no longer qualifies for assistance, the family becomes responsible for the full cost of care.
- This can lead to significant increases in the family's out-of-pocket child care expenses, depending on the state.
- The jump to the full cost of care, with the loss of benefits, may not be proportional to the increase in the family's income.



Overview of this Presentation

- Brief overview of CCDF
- Variations in the cliff effect across states
- Selected examples of families' expenses
- Data used in this presentation come from the CCDF Policies Database.



The Child Care and Development Fund

- Largest source of child care subsidies for low-income families
- Part of a federal block grant and funded with both federal and state matching funding
- Authorized in 1996 under the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA)
- Not an entitlement program



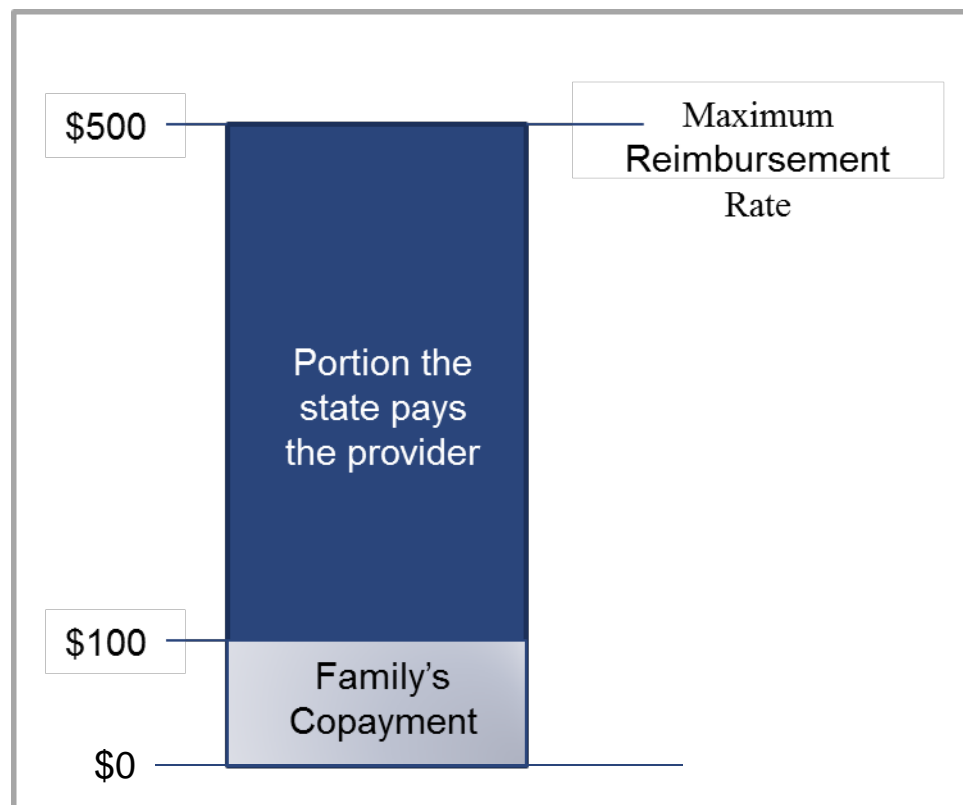
Who is Eligible for Assistance

- Federal Guidelines
 - **Family Income** – below 85 percent SMI
 - **Children's Age** – under age 13 or have special needs
 - **Reason for Care** – parents working or have other need for care
- States establish several policies within the broad guidelines



How CCDF Generally Works for Eligible Families

- States set maximum rates they will reimburse providers
- Families locate child care
- Families pay a copayment (a portion of the cost of care)
- States pay the remainder of the cost of care to the provider, up to the maximum reimbursement rate



What Subsidized Families Pay

- Family copayment
 - A portion of the full cost of care (state pays remainder of cost)
 - Varies by income
 - Varies by family size
- State policies vary
 - Copayment may be calculated as a flat dollar amount, percent of income, or percent of cost or maximum rate
 - May vary by number of children in care
 - May be adjusted for part-time care

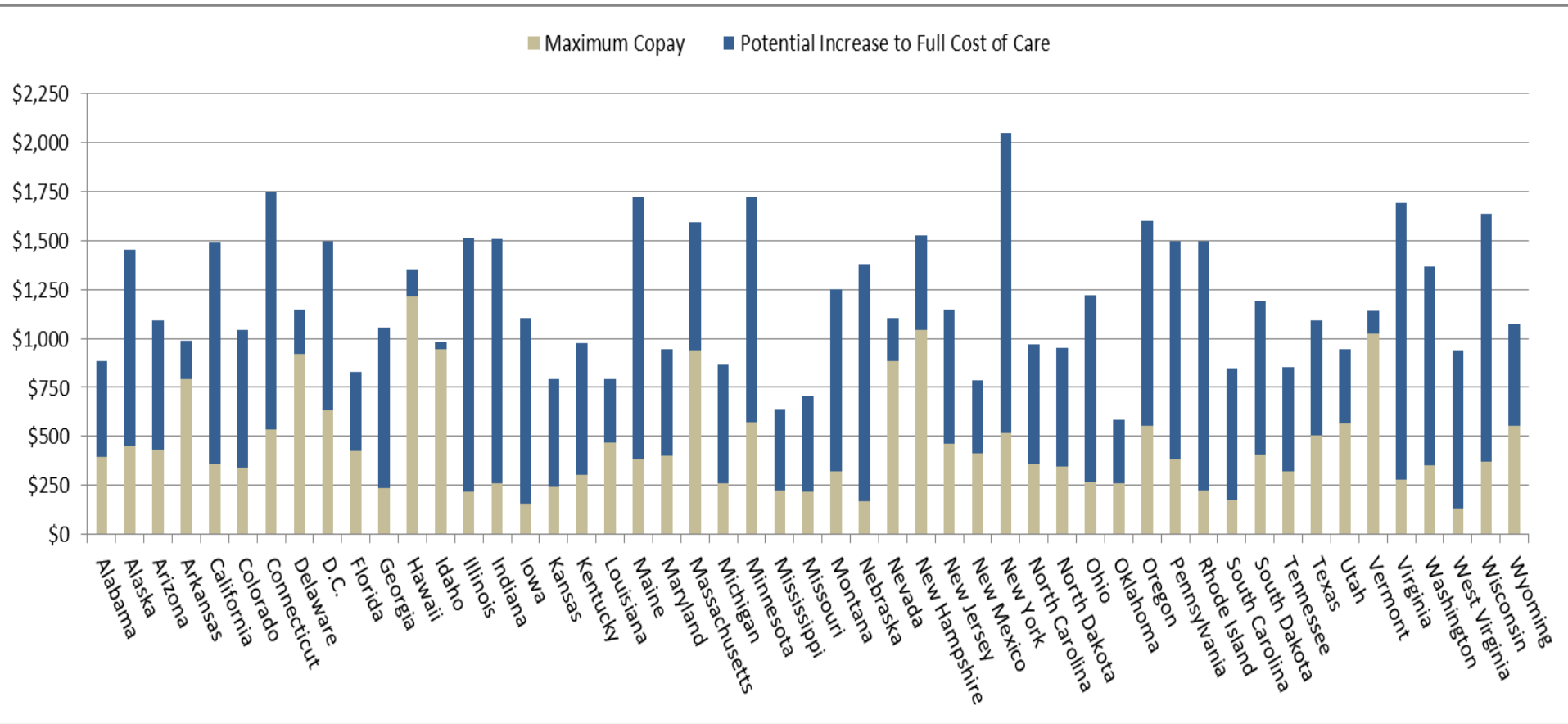


The Full Cost of Child Care

- In reality, the cost of care will vary from family to family
- The full cost of care varies based on several factors, including:
 - Type of provider
 - Area of the state
 - Age of the child
- For our analysis, we use the maximum reimbursement rate in each state



The Cliff Effect: Center Care



Costs Rise with Income

- As family income rises, child care costs also rise
- How much costs rise can depend on the state's copayment policies



Selected State Policies

- States selected based on variation in copayment policies
- States selected for in-depth review:
 - California
 - Georgia
 - New Jersey
 - Idaho
 - New Hampshire
 - Washington
- Family of three, single parent with a two-year-old child and a four-year-old child in center care

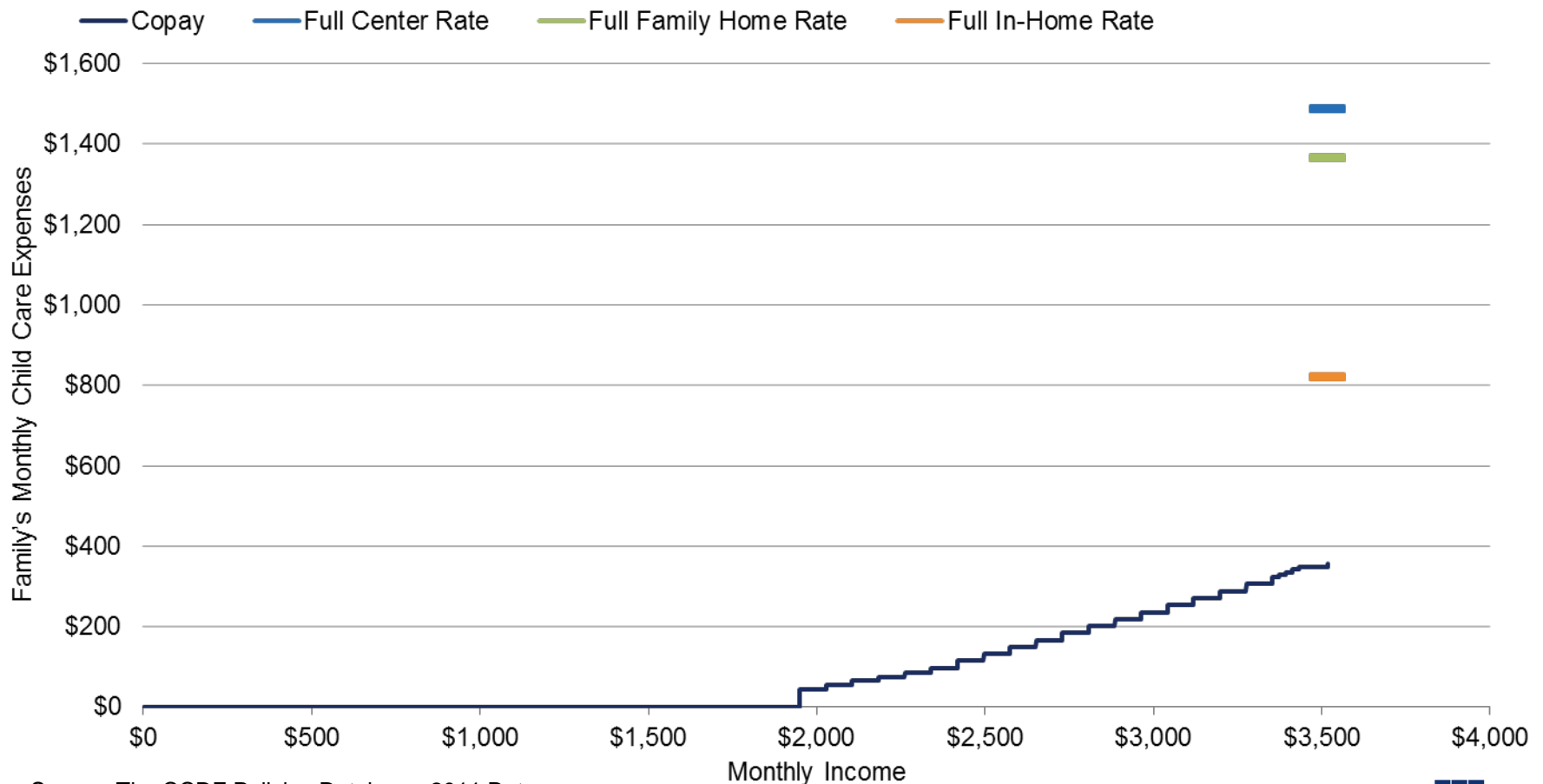


California's Copayment Policies

- Copayments are specific dollar amounts pre-set according to specific income ranges
- Copayment does not vary based on number of children in care
- Relatively small increases in copayment at regular intervals
- 318 percent increase in out-of-pocket expenses once family is no longer eligible for the subsidy



California: Changes in Family Copayments as Income Increases



Source: The CCDF Policies Database, 2011 Data

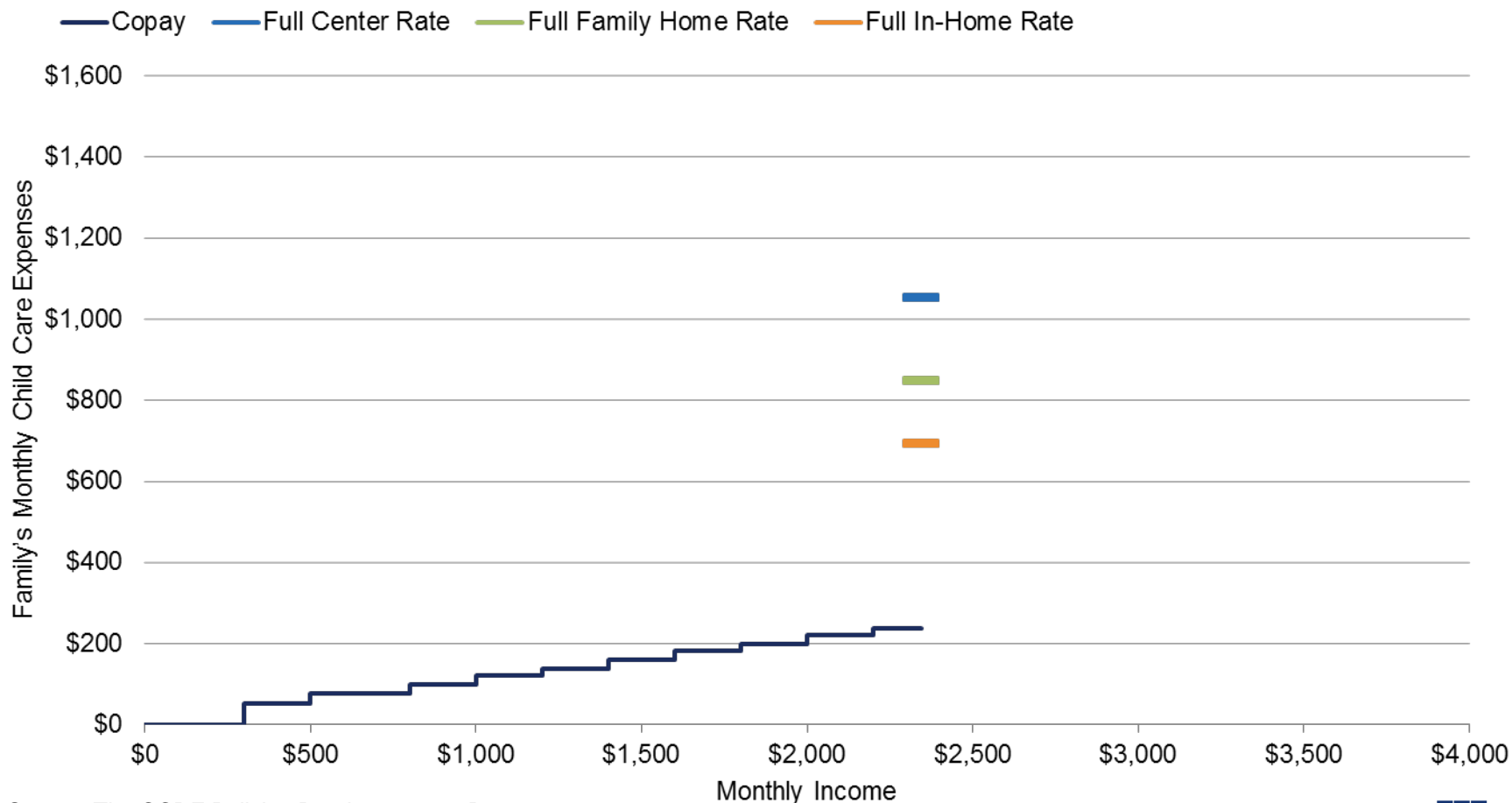


Georgia's Copayment Policies

- Copayments are specific dollar amounts pre-set according to specific income ranges
- Copayments adjusted for families with more than one child in care using separate copayment schedules
- Small increases in copayment at somewhat regular intervals
- 342 percent increase in out-of-pocket expenses once family is no longer eligible for the subsidy



Georgia: Changes in Family Copayments as Income Increases



Source: The CCDF Policies Database, 2011 Data

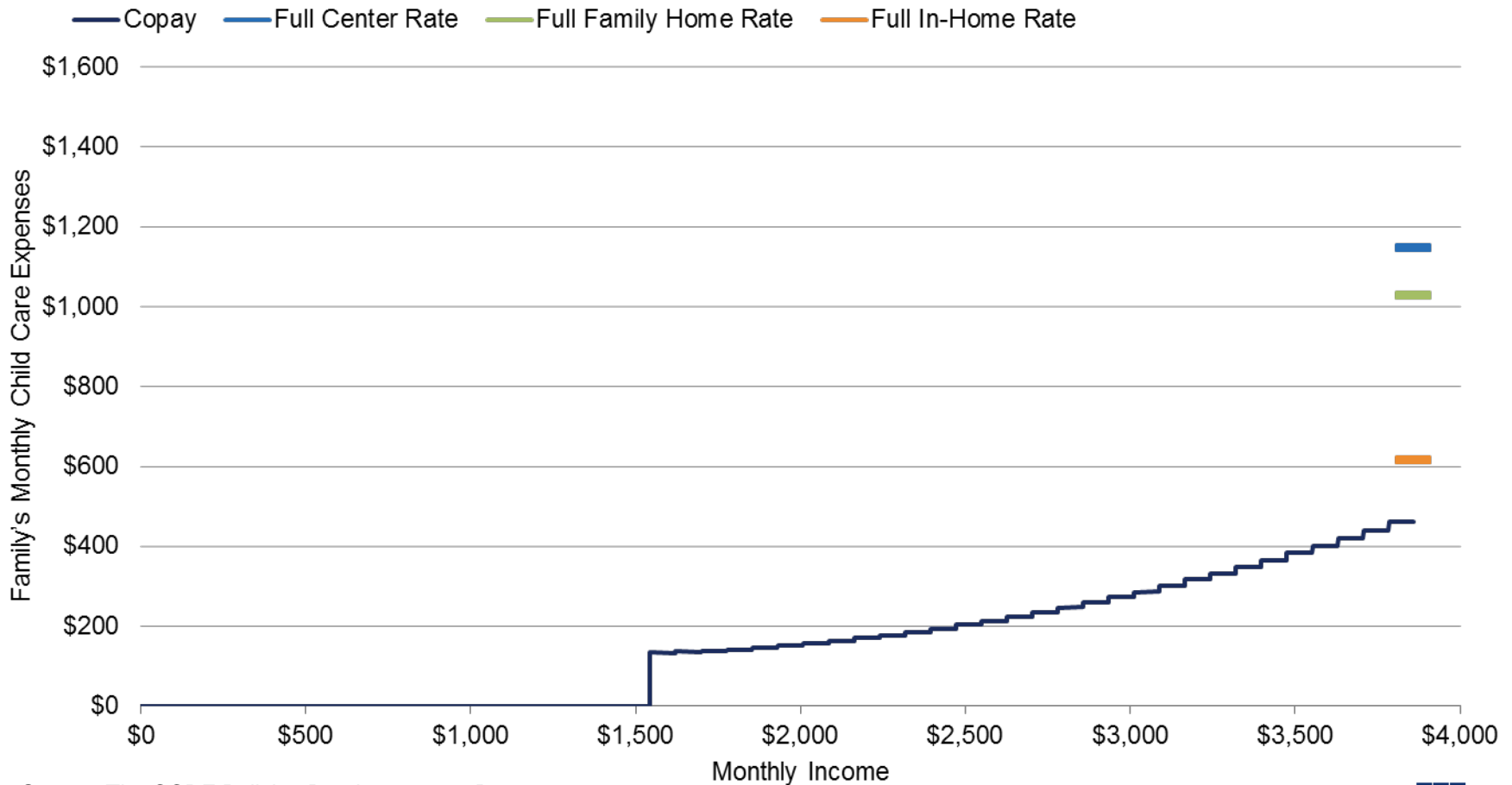


New Jersey's Copayment Policies

- Copayments are specific dollar amounts pre-set according to specific income ranges
- Copayments adjusted for families with more than one child, based on percentage of the copayment for one child (cost for second child is 75 percent of cost of first child)
- Copayment gradually increases as family income rises
- 148 percent increase in out-of-pocket expenses once family is no longer eligible for the subsidy



New Jersey: Changes in Family Copayments as Income Increases



Source: The CCDF Policies Database, 2011 Data

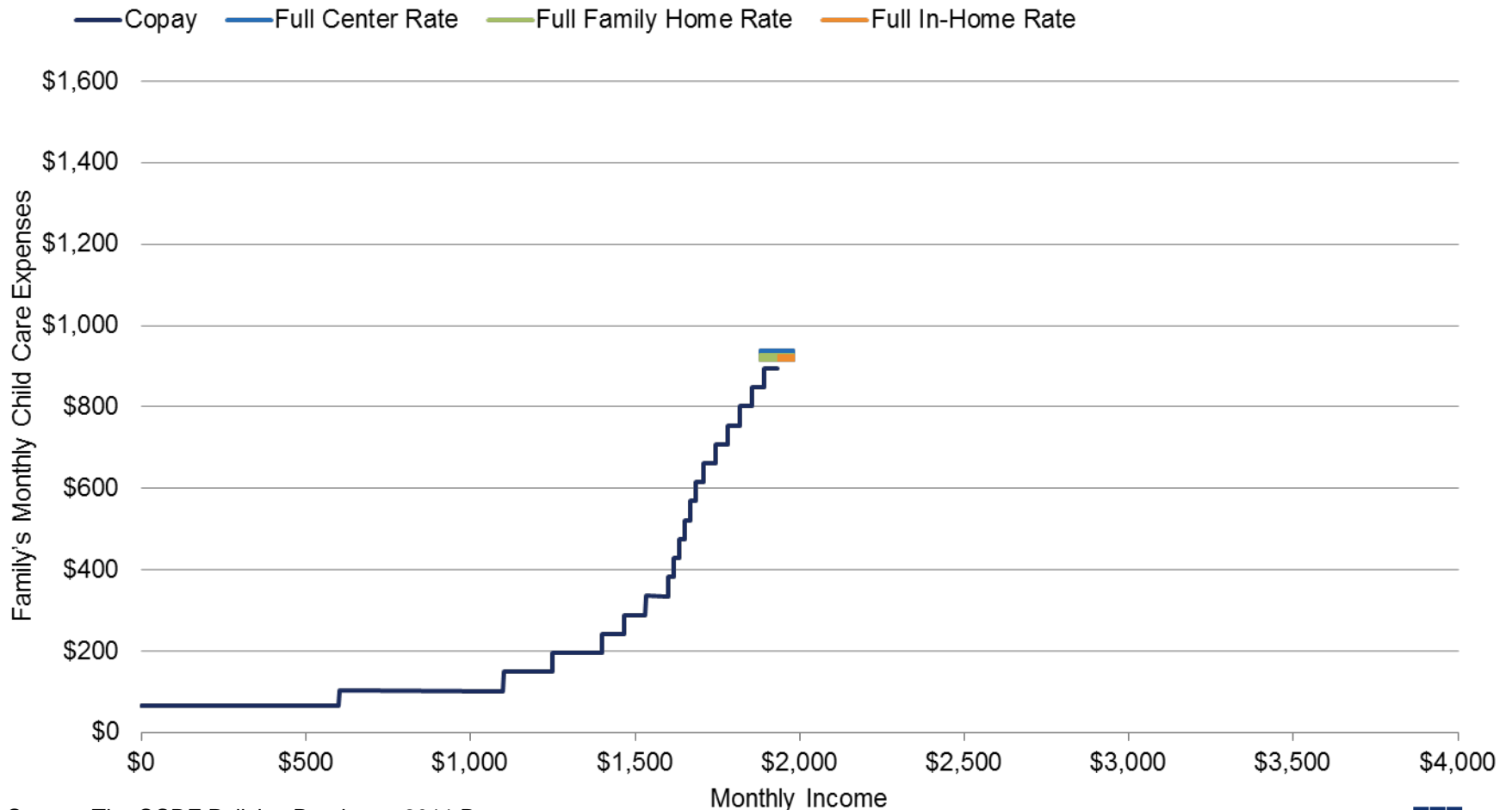


Idaho's Copayment Policies

- Copayments are a percentage of full cost of care; with higher percentages at higher income levels
- Because copayment is based on cost of care, families with more than one child in care pay more
- Cost of care increases rapidly between the 1500- and 2000-dollar monthly income ranges
- 4 percent increase in out-of-pocket expenses once family is no longer eligible for the subsidy



Idaho: Changes in Family Copayments as Income Increases



Source: The CCDF Policies Database, 2011 Data

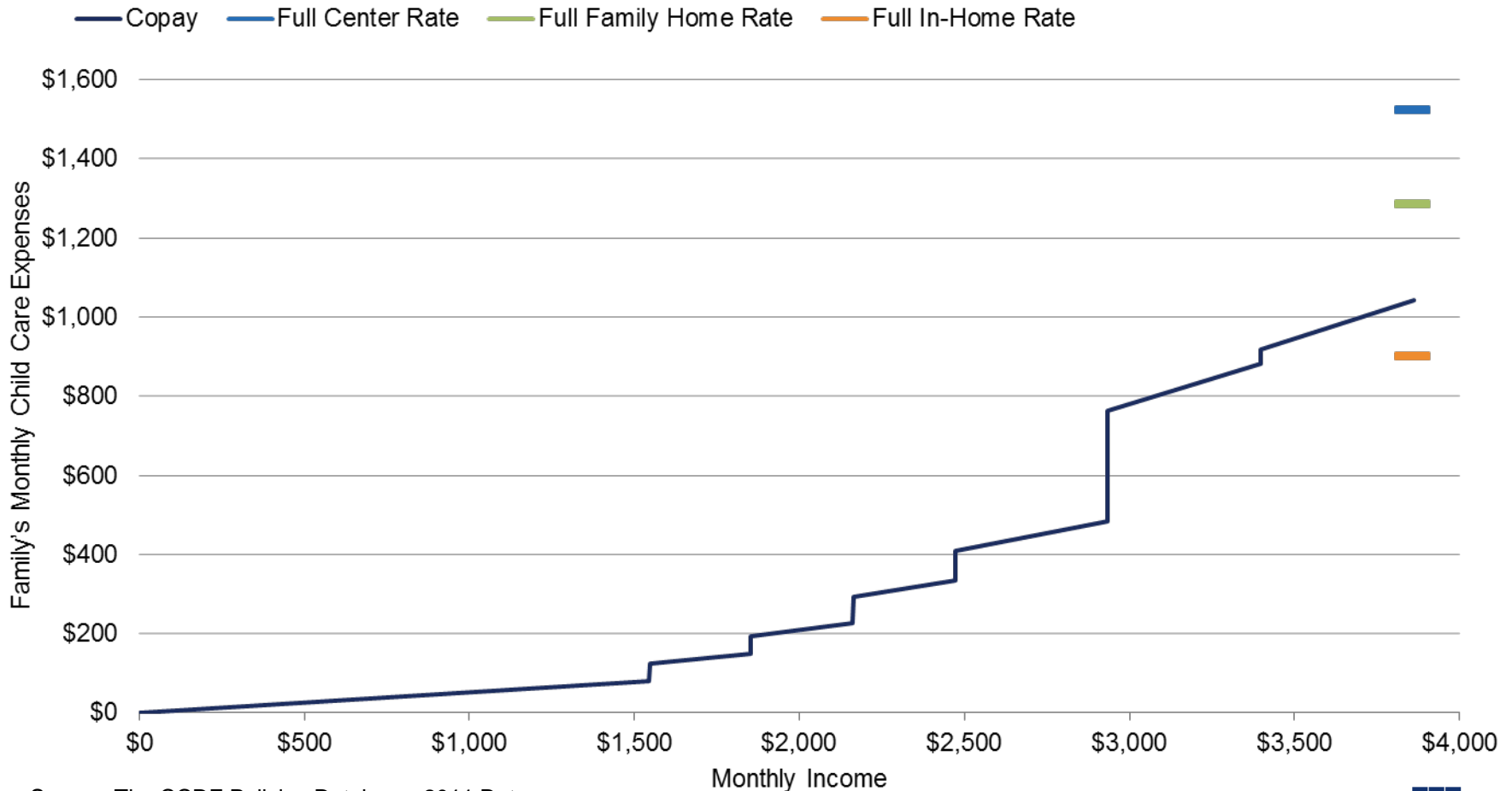


New Hampshire's Copayment Policies

- Copayments are based on a percentage of income that varies across income ranges
- Copayment does not vary based on number of children in care
- Copayment amounts remain low until after 1500 dollar monthly income mark, with a substantial jump at the 3000 dollar mark
- 46 percent increase in out-of-pocket expenses once family is no longer eligible for subsidy
- Unlike most other states, market cost of in-home care is lower than the maximum copayment for center care



New Hampshire: Changes in Family Copayments as Income Increases



Source: The CCDF Policies Database, 2011 Data

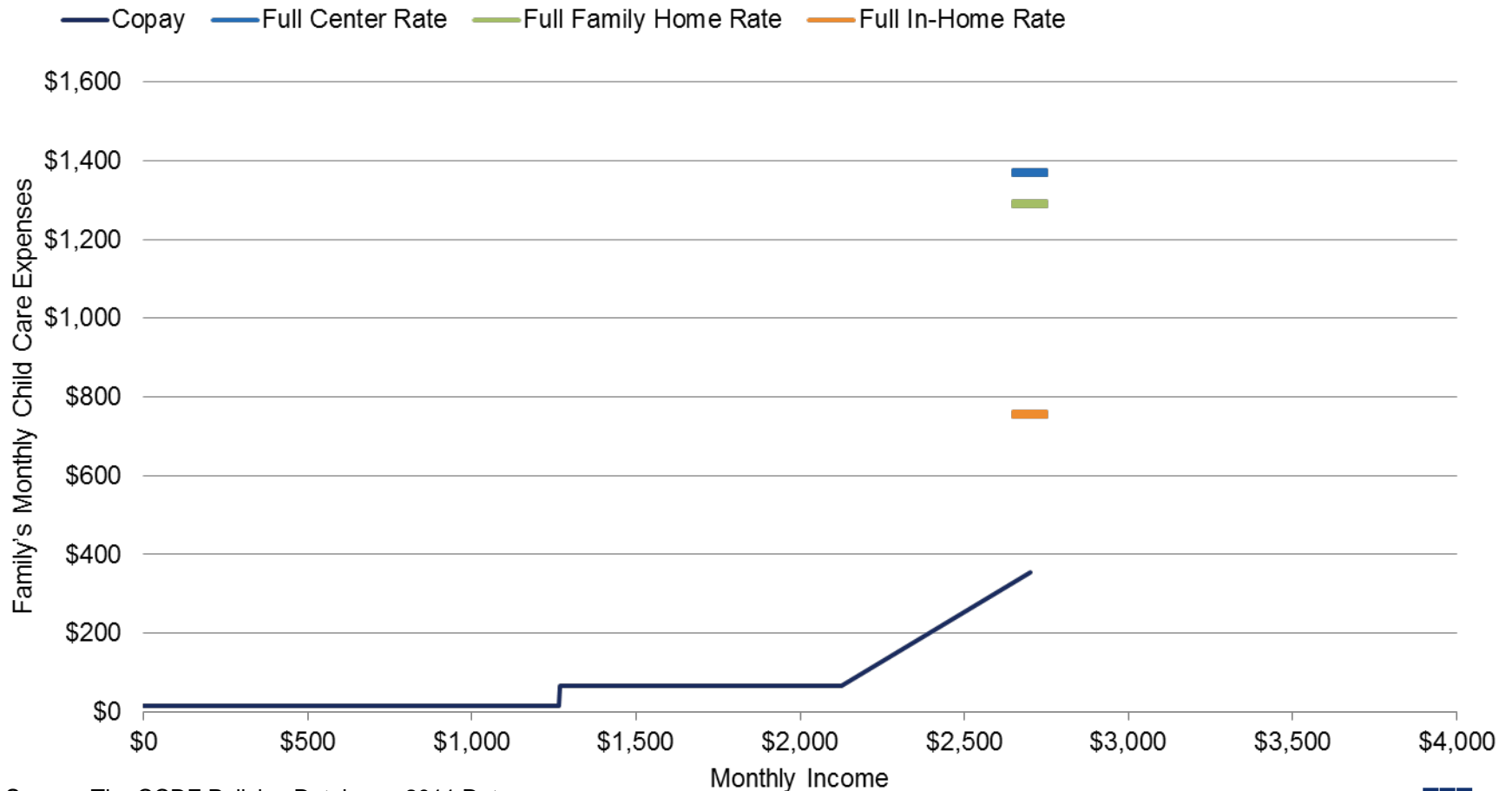


Washington's Copayment Policies

- Families with income below 137.5 percent FPG pay pre-established dollar amounts of either 15 or 65 dollars monthly and
- For families with income above 137.5 percent FPG, a formula is used that gradually increases copayment amount as income increases
- Copayments remain relatively low for families earning less than 2124 dollars monthly, at which point copayments increase slightly for each additional dollar of income
- 286 percent increase in out-of-pocket expenses once family is no longer eligible for subsidy



Washington: Changes in Family Copayments as Income Increases



Source: The CCDF Policies Database, 2011 Data



Summary

— Copay
 — Full Center Rate
 — Full Family Home Rate
 — Full In-Home Rate

California



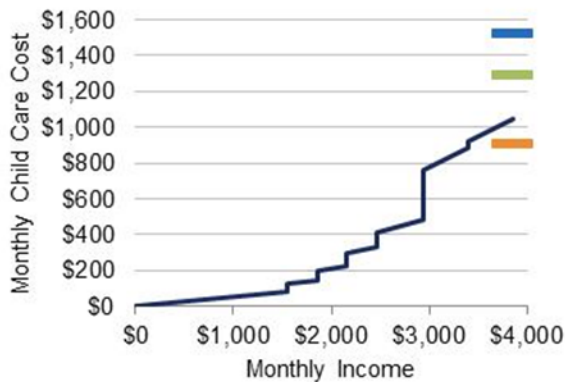
Georgia



Idaho



New Hampshire



New Jersey



Washington



Source: The CCDF Policies Database, 2011 Data



The CCDF Policies Database

- The data used for this analysis comes from the CCDF Policies Database, a project funded by HHS/ACF/OPRE.
- The CCDF Policies Database provides detailed child care subsidy policies over time for the states, territories, and outlying areas.
- The policies are coded from the state caseworker manuals.
- Information about the database, links to data files, reports, and presentations are available at:
<http://www.urban.org/center/ibp/Projects/The-CCDF-Policies-Database.cfm>



Conclusions

- There are trade-offs states must consider in developing copayment policies.
- States might consider the existence and magnitude of cliff effects as they set their policies.



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