PERSPECTIVES ON LOW-INCOME WORKING FAMILIES

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Toward a New Child Care Policy

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Child care policy in the United States has focused primarily on helping working families (or parents preparing to enter the workforce) afford child care. As box 1 illustrates, a large portion of mothers, including mothers of the youngest children, were in the labor force in 2003. Those children experienced a wide range of child care settings, of widely varying quality.

Support to help parents afford child care is delivered through two major programs: the Child Care and Development Fund (CCDF), a block grant to states primarily designed to provide child care subsidies to low-income working families, and the Dependent Care Tax Credit, designed to give tax breaks to middle-class families to help them afford child care. This brief focuses primarily on the child care subsidy program.

A significant portion of child care policymaking has become the responsibility of the state governments rather than the federal government. Federal block grants to states with federal guidelines, rules, and earmarks have delegated substantial authority and decisionmaking to the states. However, the federal government remains a key player in two ways: it provides the majority of overall funding and it sets the major policy parameters for child care funding.

Funding for child care subsidies has grown dramatically since welfare reform efforts in the late 1990s, with increases in CCDF funding boosted by state discretionary use of Temporary Assistance for Needy Families (TANF) funds for child care. Most states have operated their child care programs primarily within the policy and funding levels set for CCDF and TANF. Typically, states spend about 91 percent of state and federal funding on child care subsidies and about 9 percent on quality improvement, mainly because of federal priorities set in the block grants (U.S. Department of Health and Human Services [HHS] 2003). A large number of children—1.75 million a month—are served through the child care subsidy system. Table 1 summarizes major facts about the ages of children served and the settings in which they receive care.

At federal and state levels, child care has generally been treated separately from other early care and education programs, such as Head Start, pre-kindergarten programs, and intervention programs for children with disabilities, although innovative collaborative planning is emerging.

Primary Components of the Child Care Subsidy System

The primary focus of the child care subsidy program, where most CCDF and TANF funds are allocated, is to support work for low-income families in order to promote self-sufficiency and prevent welfare dependency. The annual funding level is $11 billion, counting federal CCDF and TANF funds as well as state maintenance-of-effort and matching funds.[1] CCDF and TANF are both “block grants” that give states broad flexibility in setting policies but also contain significant federal requirements, earmarks, and mandates.

Federal funding and guidelines combined with state flexibility have produced widely varying state child care policies and programs. Within federal requirements, each state sets key policies on eligibility, waiting lists, payment levels, parent

Box 1. Key Related Child Care Data

- In 2003, 64 percent of single mothers with children under age 6 and 77 percent of mothers with children ages 6 to 17 were in the labor force.
- In 2003, 54 percent of mothers with infants (children less than 1 year old) were in the labor force.
- Federal and state spending on child care subsidies tripled between 1996 and 2001.
- Of preschool children under age 5 in early care and education settings (out-of-home settings by non-relatives), an estimated 58 percent are in child care settings, while approximately 22 percent are in Head Start and 20 percent in public preschool (pre-kindergarten) programs. (These are broad estimates because the data come from multiple sources—it is difficult to get an unduplicated count.)
- The most comprehensive studies of child care quality in the United State find that the majority of child care center settings are "fair" to "mediocre," around 10 percent of settings are rated "poor" or "inadequate," and a modest proportion (24–39 percent) of settings are rated "good" or "excellent." Settings rated good or excellent have stimulating environments and educational features that optimize the healthy growth and development of children.

Sources: U.S. Department of Labor (2004), table 4; Mezey (2003); Edie et al. (2004), table 2; Cost, Quality, and Child Outcomes Study Team (1995); Peth-Pierce (2001).

co-payment requirements, and regulation of child care programs.

Eligibility: States have broad discretion in setting eligibility levels. Under federal regulations, the family income eligibility ceiling must be set at or below 85 percent of state median income (SMI).

TABLE 1. Child Care Subsidy Facts

Average children served a month, FFY 2003	1,751,300
Children served by characteristic (percent):	
Age of child	
0–< 3 years	27
3–< 6 years	36
6–< 13 years	35
Child care setting	
child care center	59
family child care	33
child's home	7
Regulated versus non-regulated settings	
regulated	74
non-regulated	26

Source: U.S. Department of Health and Human Services (2005), tables 1, 3, and 4.

Only one state actually sets the eligibility threshold at 85 percent of SMI as of 2004. On average, states set eligibility limits at 58 percent of SMI. Sixteen states set income eligibility limits below 50 percent. From 2001 to 2003, 25 states *lowered* their income limits, according to their state plans. A family earning just above 150 percent of the federal poverty level (FPL) in 2004, $23,500 for a family of three, would not quality for child care assistance in 13 states (Schulman and Blank 2004).

States set priorities for services if funding is insufficient, sometimes based on income. Most give priority to TANF recipients preparing for work, often at the expense of working low-income families.

Waiting lists: About half of states (24) had waiting lists or had frozen intake altogether in 2004, despite efforts by many of these states to restrict the pool of eligible families by lowering eligibility limits (Schulman and Blank 2004).

Payment levels: States have significant discretion in setting payment (reimbursement) levels. Under federal regulations, states must certify that payment rates are sufficient to ensure equal access of subsidized families to child care services comparable to those provided to non-subsidized families. Rates must be based on a market survey conducted within the past two years. While federal guidelines recommend that states set reimbursement rates at the 75th percentile of current market rates (the rate that would allow families access to 75 percent of providers in their communities), states are not bound to that standard.

In 2004, nearly three-quarters of states (37) set rates below the 75th percentile or based their rates on outdated market rate surveys. The number of states not meeting that standard increased from 2001, when 29 states set rates lower than the recommended level (Schulman and Blank 2004).

Family co-payment requirements: States are required to establish a sliding fee scale that provides cost sharing (co-pays) by families. The co-pays must take into account family income and size. While federal guidelines encourage co-payment requirements that do not exceed 10 percent of family income, states are not bound by that guideline. On average, families pay 7 percent of their income toward child care. In about half of states, co-payments *increased* as a percent of income from 2001 to 2004. In at least 12 states, families with incomes at 150 percent of the federal poverty level were required to pay more than 10 percent of income in 2004 (Schulman and Blank 2004).

Regulation of child care programs: Under federal regulations, child care programs receiving subsidy payments must meet applicable licensing and local regulatory requirements. States can set more stringent standards than licensing to programs receiving payments. However, state laws typically exempt many child care providers from licensing rules, particularly smaller family child care providers, relatives, and neighbors. The federal regulations permit child care subsidy funds to go to these smaller settings that are legally exempt from regulation. All providers, whether licensed or not, excluding relatives, must meet a few minimum health and safety requirements under federal rules.

Overall, however, states have great latitude in setting regulatory policies, and they vary significantly in the regulations and standards they apply to child care providers participating in the subsidy program. In 2003, about 74 percent of children served nationwide were in licensed or regulated settings, while 26 percent were served in non-regulated settings. States exhibit dramatic variation in the percentage of children served in regulated settings, from 26 percent of children in Hawaii to 100 percent of children in Arkansas, Ohio, and Wisconsin (HHS 2005).

Principles for Child Care Policy

To be most effective, child care policy should have two primary, complementary goals:

- **work support,** to help families—particularly low-income families—afford child care so they can work or enter the workforce, and
- **education of young children,** to increase the likelihood that children from low-income families can succeed in school and prepare for life.

Research has clarified that learning occurs from birth onward, wherever the child is, including where the child is cared for while parents are at work (Shonkoff and Phillips 2000). So for children and families, it is not sensible to separate out education/school readiness effort from parent work supports. School readiness efforts (Head Start, pre-kindergarten) have tended to be delivered in part-day programs, at a time when the vast majority of mothers are in the workforce and many children need more than part-day care. Finding a way to integrate work support goals and education goals into a coherent public policy for children and families is a worthy goal for U.S. policy.

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Challenges for U.S. Policy

The primary policy approach to child care funding in the United States has been through the child care subsidy system, which operates mainly through vouchers or certificates that low-income parents can use at any of a wide range of providers in the private market. The subsidy system is facing two serious challenges: meeting the work support needs of families and improving the quality of child care settings to meet educational goals for the children in care. States are struggling to meet both goals, with limited success.

States Cannot Meet Demand for Services by Low-Income Families

Faced with increased fiscal constraints, nearly all states have adjusted policies to keep child care subsidy expenses within available funds. States are using five primary policy levers to control expenses, with potentially negative effects on low-income families:

- *Eligibility limits*—States are reducing the pool of eligible families by tightening eligibility limits (ranging from 127 percent of FPL to about 250 percent of FPL), often making affordable child care out of reach for families with marginal incomes.
- *Waiting lists*—States are denying services to eligible families, leaving them with limited child care options or dramatically higher child care expenses.
- *Payment rates*—States are setting reimbursement rates lower than federally recommended levels, often adversely affecting the number of child care programs that will accept subsidized children and the quality of care children receive.
- *Family co-payments*—States are increasing family co-pay levels, reducing the disposable income available to families for other necessities.
- *Provider regulation*—Some states serve a large share of children in non-regulated settings, whether due to policy decisions or parent choice, generally resulting in dramatically lower costs per child and lower quality of care.

Despite substantial growth in federal funds available to states for child care, it is fair to conclude that nationwide the child care subsidy program is not keeping pace with the demand of low-income families, and most states are unable to meet a set of reasonable benchmarks for a solid subsidy system. In 2004, only three states (Rhode Island, Wisconsin, and Wyoming) met all four of the following benchmarks: (1) eligibility limits at 175 percent of FPL, (2) reimbursement payment rates at or above the 75th percentile of market rates surveyed as recently as 2002, (3) family co-pays at or below 10 percent of income for a family with income at 150 percent of FPL, and (4) no waiting lists (or frozen intake) for service.

Federal funding for child care is not designed to adjust with changes in the number of eligible families, unlike funding for other social programs (such as the earned income tax credit, food stamps, and Medicaid). The primary federal funding streams for child care are block grants with set levels of funding that leave states struggling to meet demands for child care. In the current political and fiscal climate, there are signs that federal and state child care funding may be eroding or, at best, stagnating, putting further strain on states' ability to meet the child care needs of low-income working families.

Low-Income Children Often Cannot Access Quality Settings

Research suggests many child care settings used by low-income children do not meet quality standards that most early childhood experts believe optimize growth and development (Adams, Zaslow, and Tout forthcoming). Low-income parents, even if they receive a subsidy, usually cannot afford what it costs to deliver child care that meets reasonable educational standards for child development and school readiness. Research indicates that high-quality child care and education for low-income children can make a significant difference. Several longitudinal studies of high-quality early care and education interventions with low-income populations have shown dramatic long-term positive effects on school achievement and employment along with reductions in arrests for violent crimes and drug crimes (Schweinhart et al. 2005).

The child care market may be an efficient economic system for meeting families' needs for basic child care so parents can work, but it is not a system that produces a high-quality product for children, primarily because of economic pressures. A further challenge is that the work schedules of a significant percentage of low-income workers do not fit the hours of service of the more structured child care programs, making care difficult to find, less reliable, and often of lower quality (Waters Boots 2004).

Quality and access issues may also be problematic for families with infants, toddlers, school-age children, and children with disabilities. Infants and toddlers are expensive to serve, primarily because of the strict adult-to-child ratios required. As a result, private child care markets often fail to develop sufficient slots to meet demand, and low quality of settings is a concern. School-age care is often difficult to find, and parents seem hesitant to pay for it after years of paying child care costs before their children enter school.

Challenges in Context

Under the current funding system, many states cannot meet the demand for basic child care subsidies, and research suggests that the subsidized child care arrangements states are able to afford generally do not meet even modest quality standards for developmental, educational child care, much less the higher quality that research suggests lower-income children need for school readiness (Adams et al. forthcoming; Schulman and Blank 2004). Many state child care administrators find themselves making painful decisions between quality and quantity. Do they reduce quality investments in order to serve more families on their waiting lists? Or do they invest more for quality improvement and leave more needy families unserved?

Funding for child care is further complicated by the confusing morass of categorical funding, often exacerbated by state funding policies. While states get CCDF and TANF funding in block grants (a significant improvement over earlier multiple funding streams), Head Start funding goes directly from the federal government to local grantees, and public school funding for No Child Left Behind and for special education services comes in additional funding silos. Attention on school readiness and early education usually focuses on Head Start and pre-kindergarten efforts, even though the majority of children are in child care settings.

Much of the policy focus in recent years has been on 4-year-olds (a primary age group served by Head Start and public school pre-kindergarten programs), while child care subsidy programs serve a much broader age group (infants to 12-year-olds). Unfortunately, when the policy focus is on early learning and school readiness, child care is often left out of the political equation. As a result, low-income working families frequently find few affordable child care choices that fit their work schedules *and* provide quality learning opportunities for their children from infancy through elementary school years.

Further, child care is delivered through a diverse array of private businesses, ranging from small family child care settings to large centers, with thousands of individual child care programs in every state. Policymakers are traditionally cautious about interfering in private markets. While it is feasible to control quality elements in public schools and Head Start programs by setting standards and adjusting funding, changing the quality of an enormous private market is difficult. Policymakers who believe government intervention in the child care market is warranted for the public good are often stymied in their efforts to determine how to proceed operationally, particularly when the child care used includes a high percentage of informal, unregulated settings.

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Opportunities

There are a number of encouraging signs for the future of U.S. child care policy. There has been increased study and policy emphasis on children's early development. Scientific findings on early brain development have led to growing awareness of the importance of the early years, and evidence from longitudinal studies (including the Perry Preschool Study, Abecedarian Project, and Chicago Child-Parent Center Program) has demonstrated that early intervention with at-risk children and families can have dramatic, long-term positive effects. In addition, economists are focusing on the economic impact of child care services in communities and on the cost-effectiveness of investments in comprehensive early care and education programs.

In the past decade, bipartisan agreement about the importance of early education has increased. The president, state governors, and political leaders across the country are focusing on early education as a way to improve public school success rates. The number of pre-kindergarten programs has increased significantly in the past five years. Twenty-one states have formed high-level "children's cabinets" or other overarching mechanisms to ensure coordination between the child care and the early education systems.

At least 10 states are looking to improve child care through a system of quality standards and fiscal incentives. These "quality rating systems" provide multiple tiers or steps for child care programs to progress to higher quality. While these efforts are relatively new and may require substantial additional funding to be effective, they offer a promising road map to quality that may attract both public and private funding.

There may also be lessons to learn from other countries' experience. Most European countries and many other countries worldwide have developed public early care and education systems for all families, with concern for quality and a particular focus on education of 3- to 5-year-old children. The European model may not be easily transferable to the United States, given the differing political histories and values about the role of government. However, it is undeniable that American families, particularly low-income families, often can afford only mediocre care, at a higher cost, and delivered by a poorly paid workforce with dramatically lower qualifications than in European child care settings (Gornick and Meyers 2004).

While the United States has a history of programs focused on school readiness and support for low-income working families, public policy has been strongly influenced by a belief that families are responsible for their own children and that government should be minimally involved.

Questions for Consideration

Keeping in mind the dual goals of work support for families and education for young children, the following five questions come to mind:

1. Through what strategies can federal or state government improve the quality and availability of child care for low-income families, given American values about the role of government and the role of families?
2. If child care is to remain primarily a private market, what policies can help meet the dual goals of work support for adults and education of young children, with particular focus on low-income families?
3. Should public schools take over child care and education for 3- to 5-year-olds, creating a system similar to the European model of early care and education?
4. How can public policies address the particular needs of infants, toddlers, and school-age children? These groups are often left out of policy discussions on early care and education.
5. How can state governments most effectively create overarching early care and education systems?

Note

1. Child care funding estimates calculated from CCDF allocations and TANF financial reports by the Center for Law and Social Policy.

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