LOW-INCOME FAMILIES AND THE COST OF CHILD CARE

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

Sarah Minton and Christin Durham, The Urban Institute
Presentation for NAWRS Annual Conference
August 19, 2013

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

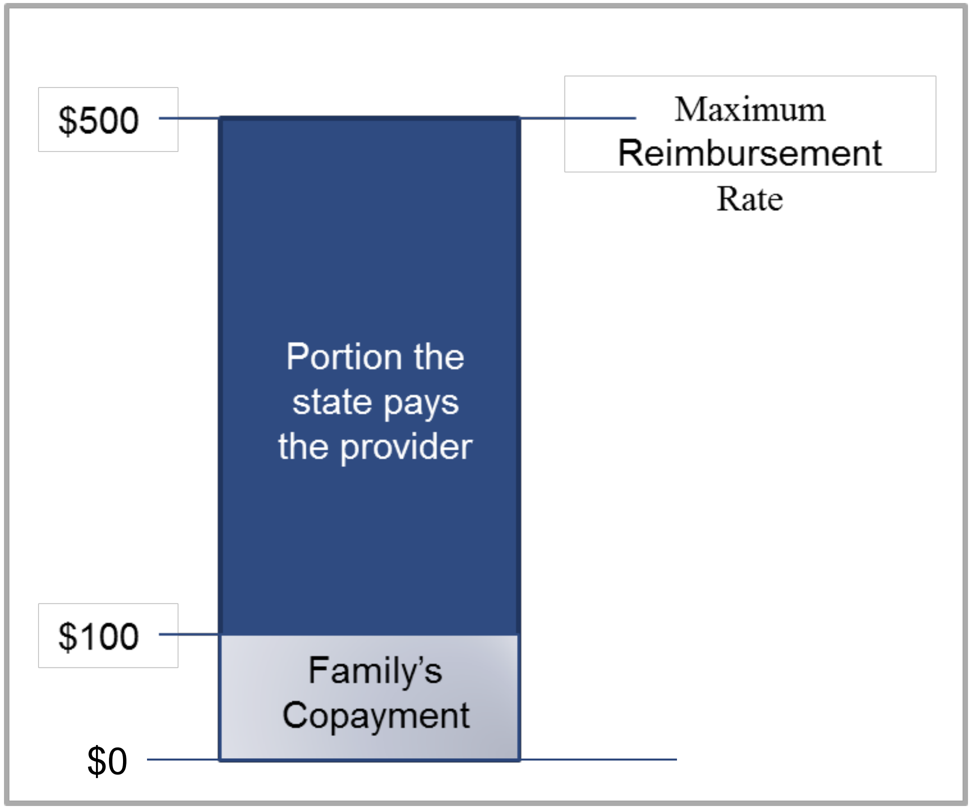
Who is Eligible for Assistance

- 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

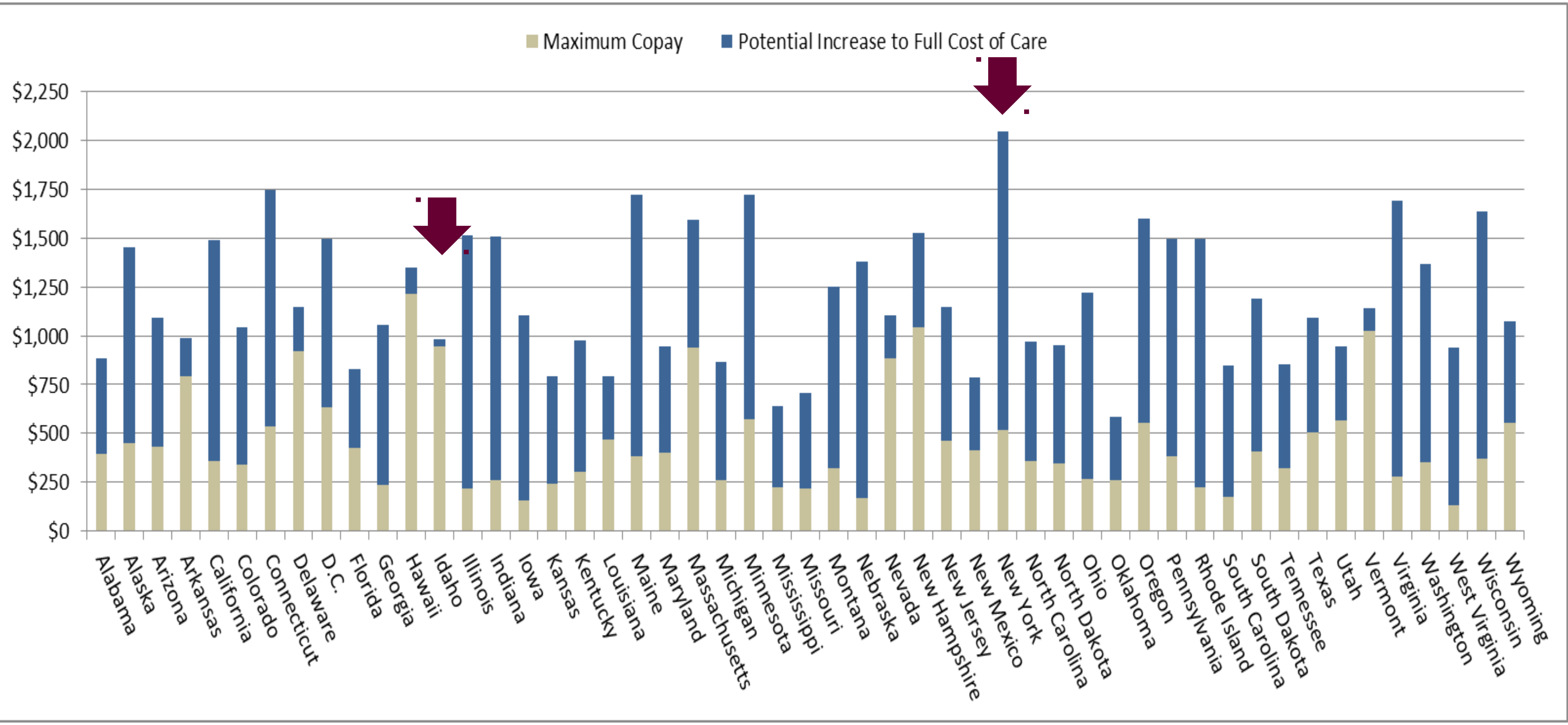
The Full Cost of Child Care

- 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: Families' Out-of-Pocket Expenses for 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

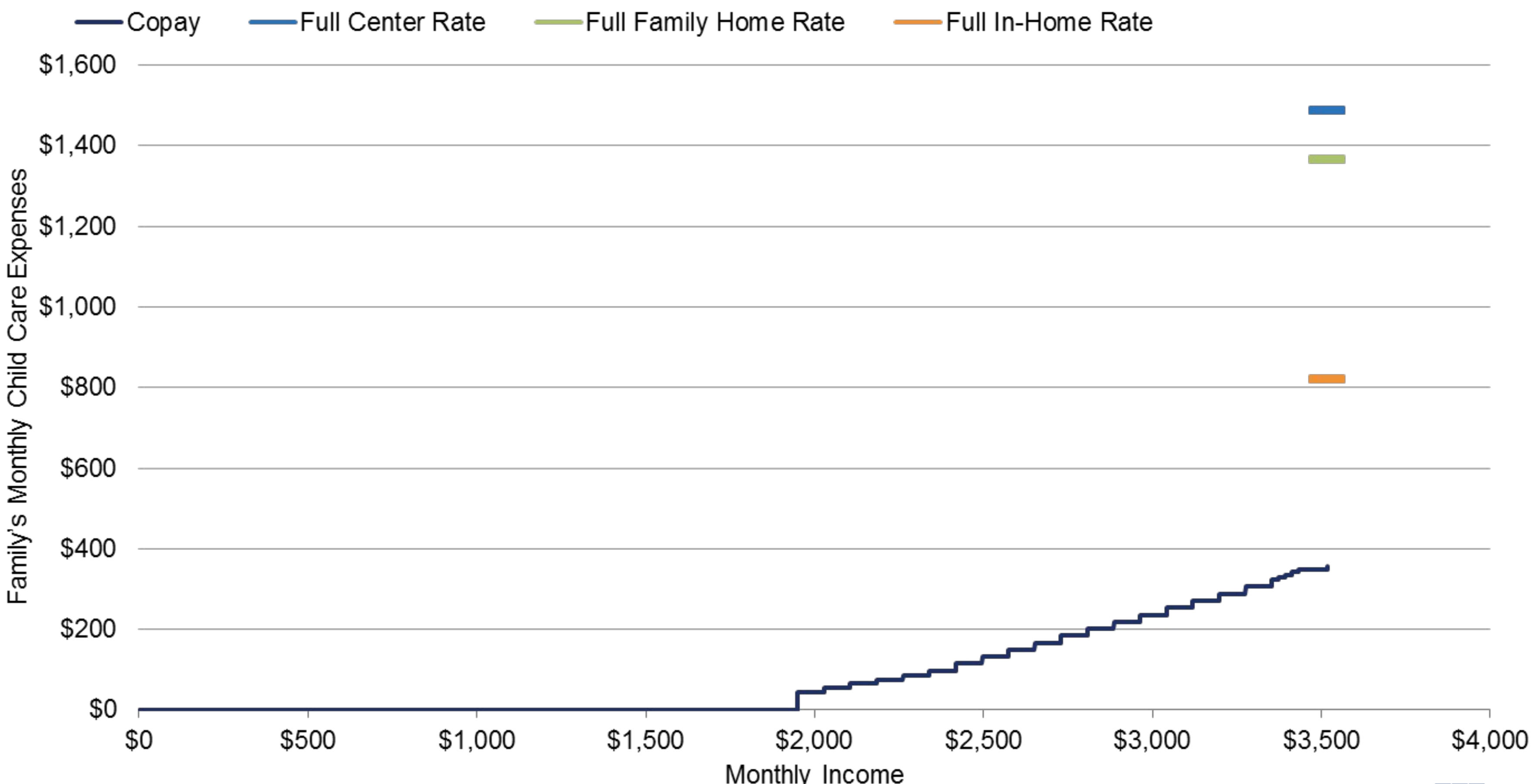
Selected State Policies

- States selected based on variation in copayment policies

- States selected for in-depth review:
  - California
  - Georgia
  - New Jersey
  - Idaho
  - New Hampshire
  - Washington

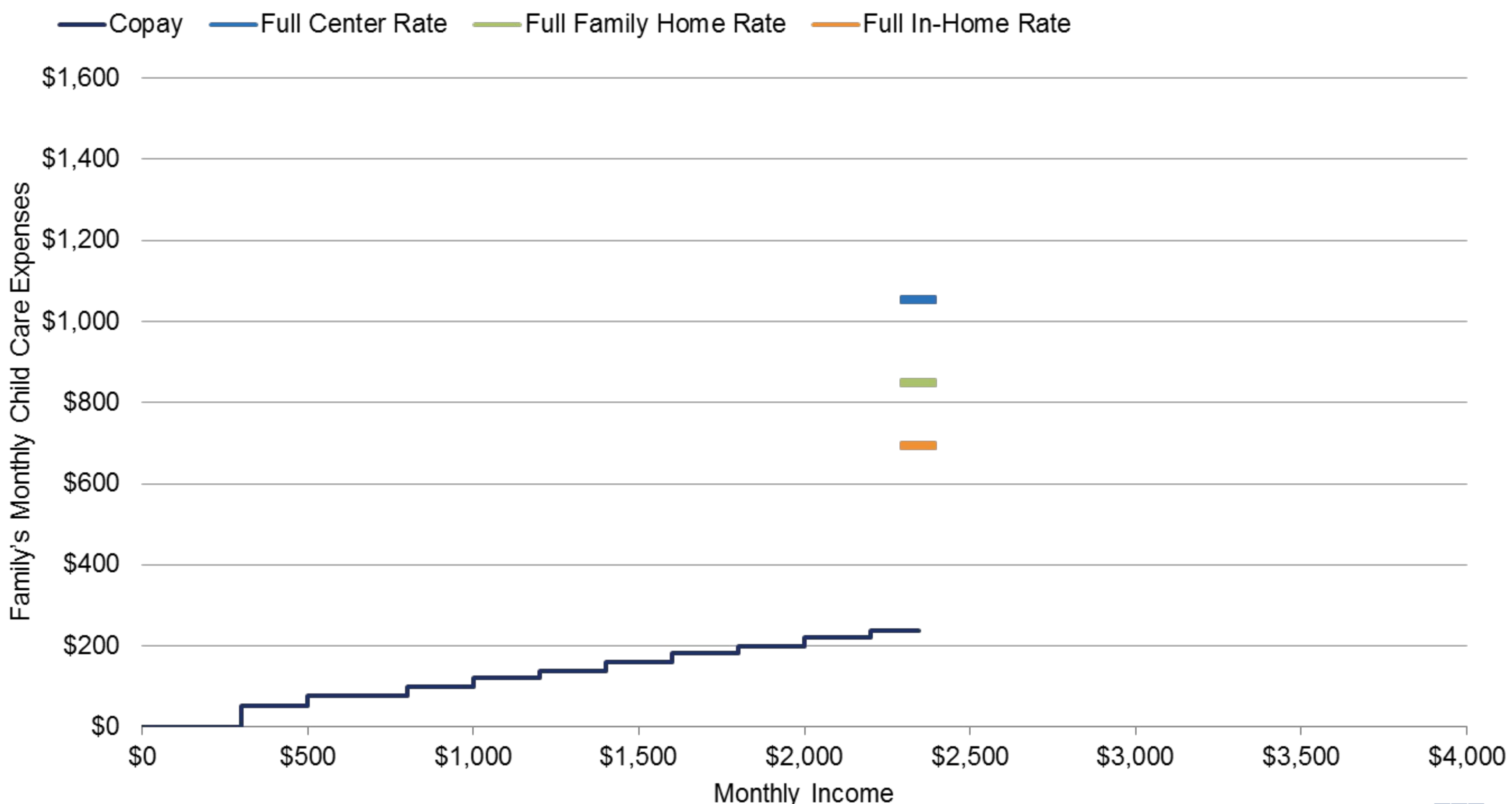
- Family of three, single parent with a two-year-old child and a four-year-old child in center care

California: Changes in Family Copayments as Income Increases



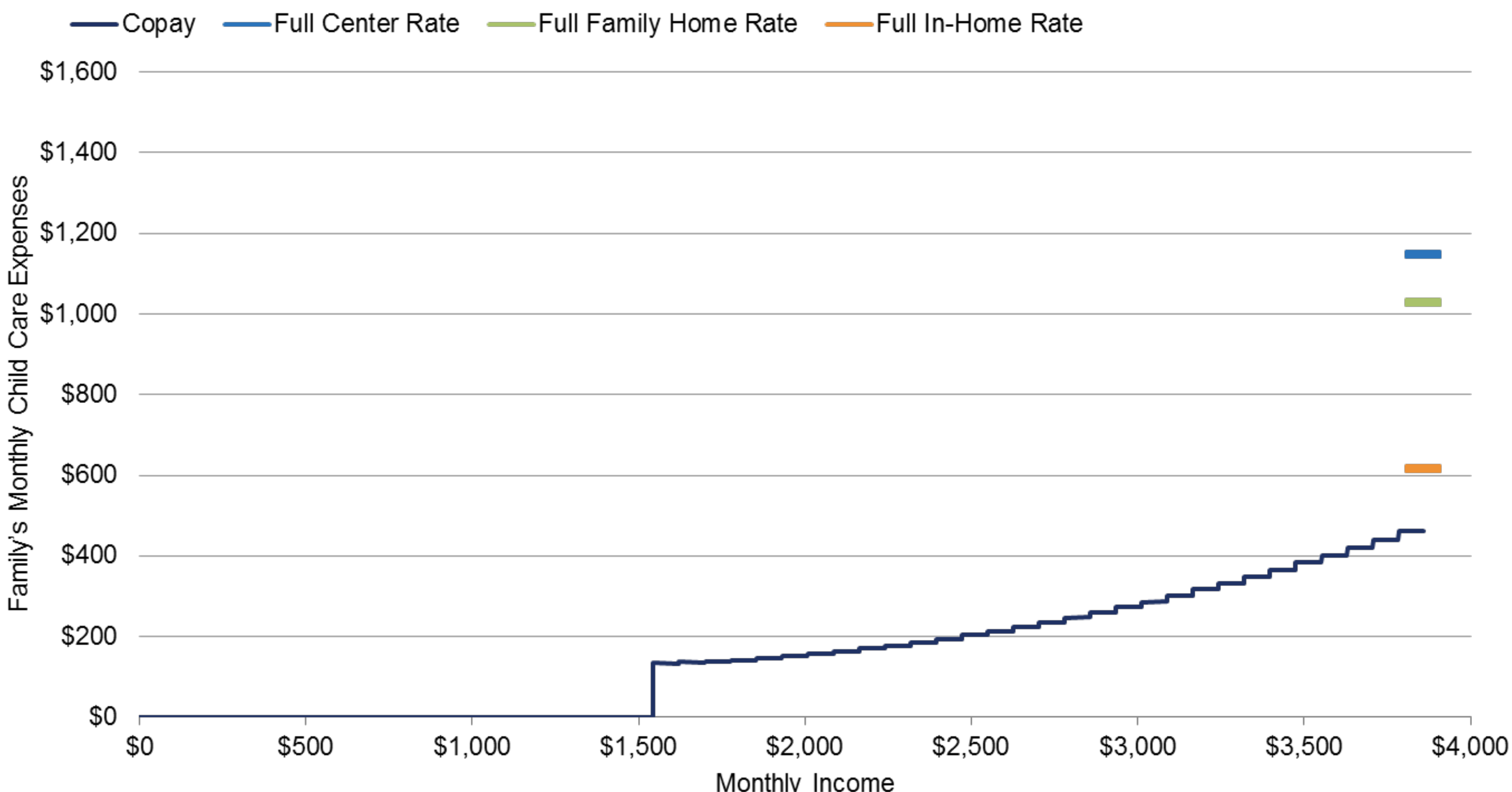
Source: The CCDF Policies Database, 2011 Data

Georgia: Changes in Family Copayments as Income Increases



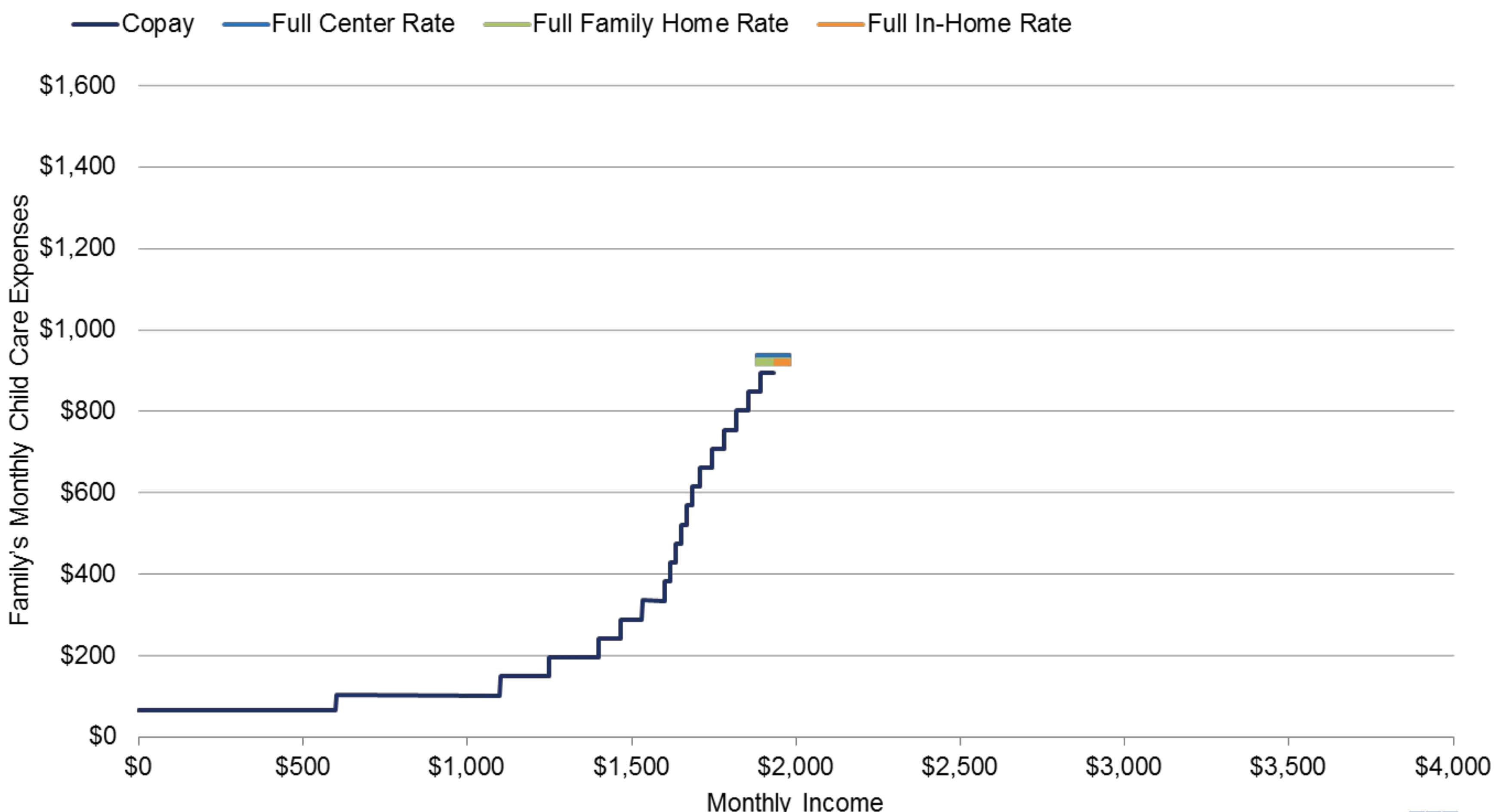
Source: The CCDF Policies Database, 2011 Data

New Jersey: Changes in Family Copayments as Income Increases



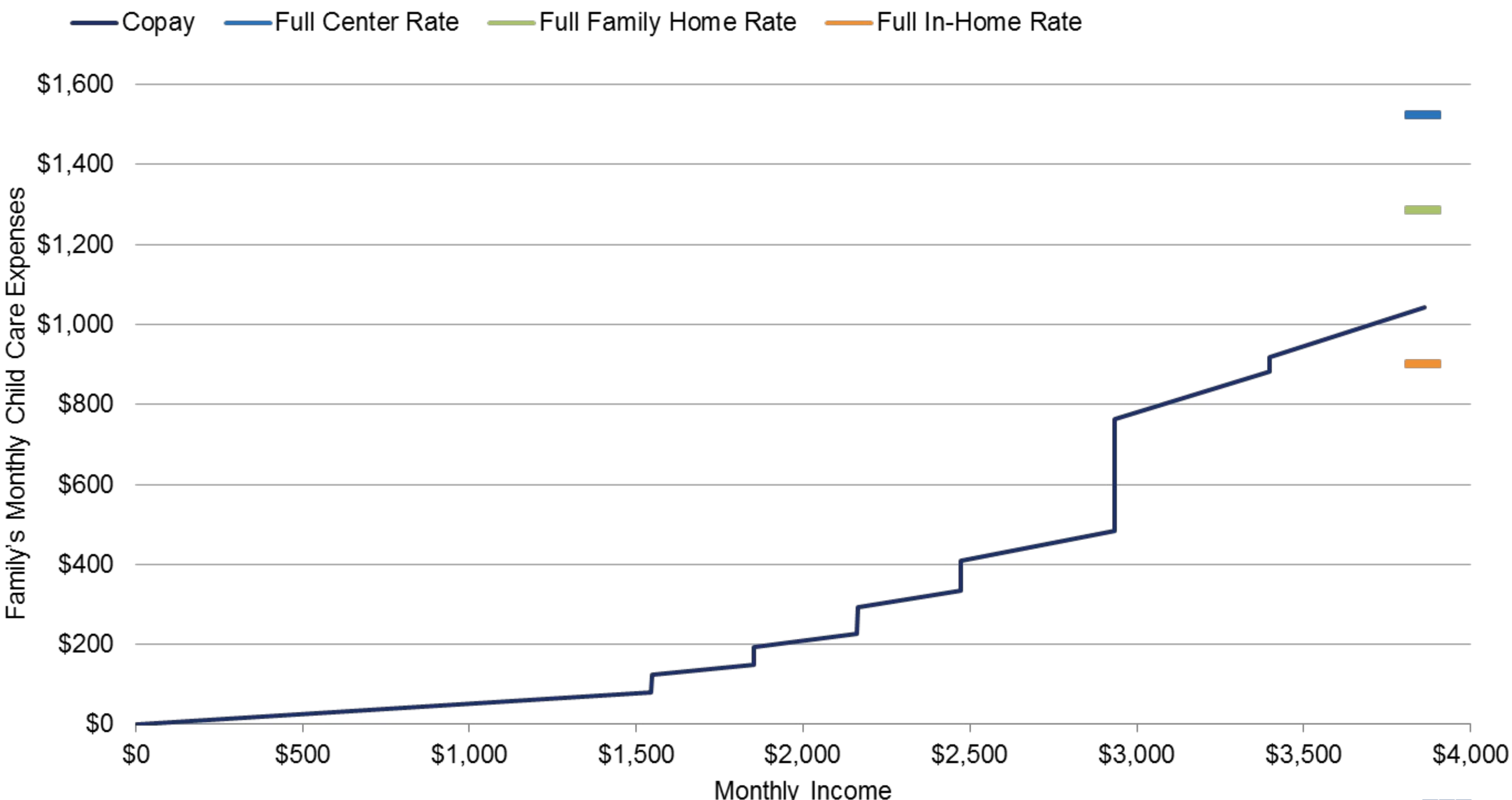
Source: The CCDF Policies Database, 2011 Data

Idaho: Changes in Family Copayments as Income Increases



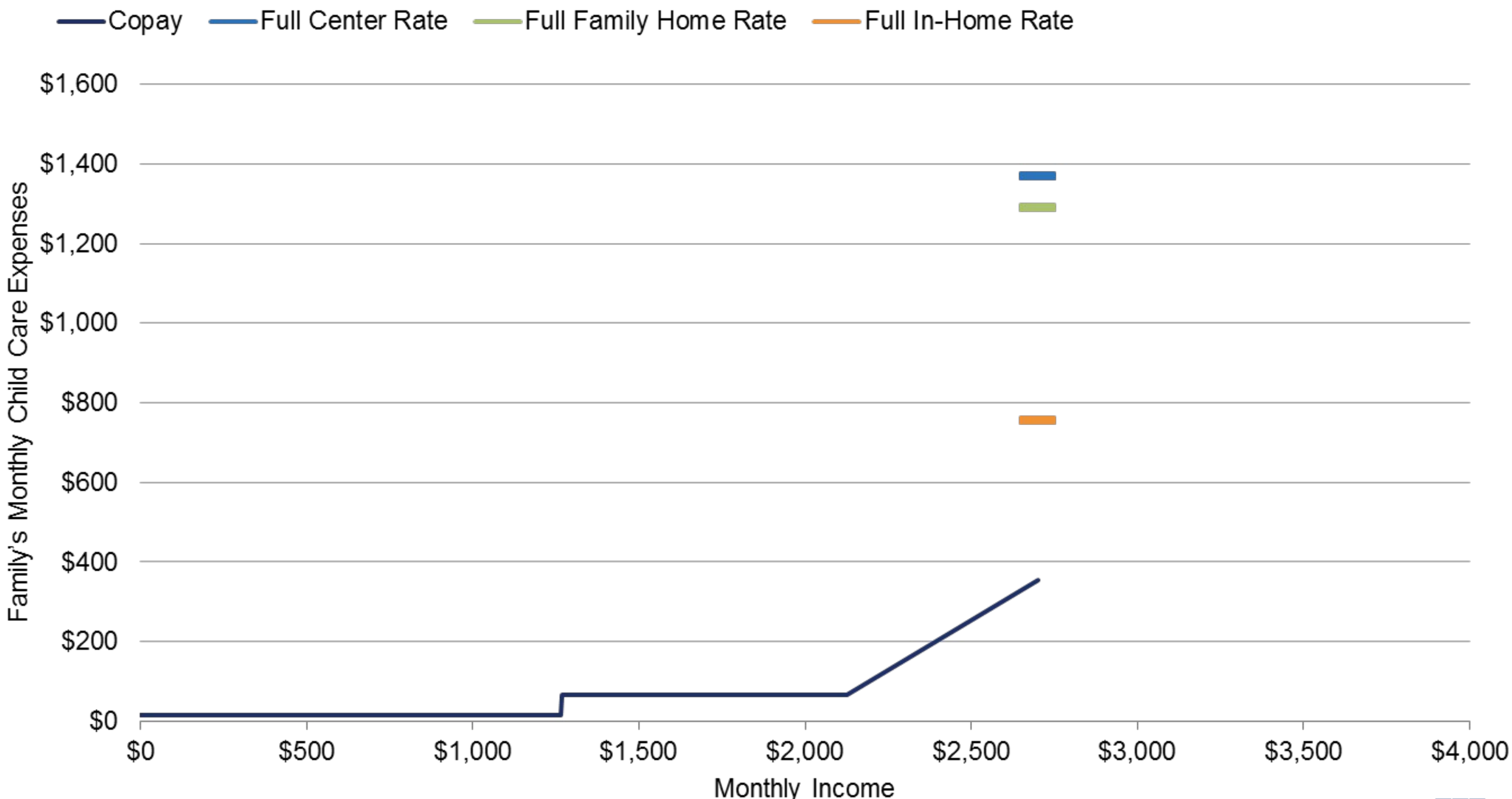
Source: The CCDF Policies Database, 2011 Data

New Hampshire: Changes in Family Copayments as Income Increases



Source: The CCDF Policies Database, 2011 Data

Washington: Changes in Family Copayments as Income Increases



Source: The CCDF Policies Database, 2011 Data

Summary

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.

Contact Us

Sarah Minton
SMinton@urban.org

Christin Durham
Cdurham@urban.org

Disclaimer

The views expressed in this presentation do not necessarily reflect the views or policies of the Office of Planning, Research and Evaluation, the Administration for Children and Families, the U.S. Department of Health and Human Services, the Urban Institute, or the Urban Institute's trustees or funders.

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

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

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

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

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

Washington's Copayment Policies

- Families with income below 137.5 percent FPG pay pre-established dollar amounts of either 15 or 65 dollars monthly
- 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