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: 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

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Georgia: Changes in Family Copayments as Income Increases

Source: The CCDF Policies Database, 2011 Data

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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

Chart showing changes in family copayments as monthly income increases.

Source: The CCDF Policies Database, 2011 Data

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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.
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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.