Good Child Care Assistance Policies Help Low-Income Working Families Afford Quality Care and Help Children Succeed

Child care is an integral part of American families’ lives, as parents rely on child care to ensure the safety and well-being of their children while they work and to help their children succeed in school. Child care takes many different forms—it may be a child care center, a family child care home, in-home care, a relative caring for the children while parents work, or an after-school program in a school or at a neighborhood community organization. Regardless of the particular type of care a family prefers to use, strong child care assistance policies play a critical role in helping low-income working parents to afford good quality care. Funding for child care assistance or subsidies is provided by federal, state, and local governments. Child care policies are primarily set at the state level, with local communities playing an increasingly significant role in some states. Decisions about investment levels and policies determine whether families who need help paying for child care are able to get it and whether families are able to choose the good quality early learning and after-school experiences they want for their children that will enable them to succeed in school.

Child care, early education, and school-age care are a necessity for the majority of American families. Millions of children of all income levels are cared for by someone other than their parents every day.

- Each day, an estimated 12 million children under age six—including children with mothers who work outside the home and those who do not—spend some or all of their day being cared for by someone other than their parents.¹ Many of these children enter nonparental care by 11 weeks of age, they are in care for 30 hours a week or more, and they often stay in some form of child care until they enter school.² Millions more school-age children are in after-school and summer activities, and over 7 million children are left home alone on a regular basis while their parents work.³

- In 2001, three out of five (61 percent) children from birth to age six—including both those with working mothers and those with mothers who were not working—were in some form of nonparental care. This includes over half (52 percent) of infants and toddlers, from birth through age two, and nearly three-quarters (74 percent) of preschool-age children, from ages three through six.⁴

- Many families with mothers who are not working use child care or early education for their children. In 2001, one-third (32 percent) of children younger than age six (and not yet in kindergarten) whose mothers were not in the labor force were in some kind of child care or early education arrangement.⁵ According to 2000 school enrollment data, nearly one-half of children between ages three and five (and not yet in kindergarten) whose mothers were not in the labor force were enrolled in prekindergarten.⁶

- Many children are in care for several hours or more a day. Two out of five young children with employed mothers (41 percent) were in child care for 35 hours or more a week in 1997, according to the Urban Institute.⁷
■ Sixty-five percent of mothers with children under age six, and 79 percent of mothers with children ages six to 13 are in the labor force.8

■ In 2001, 85 percent of children from birth to age six with mothers who were working full time (35 hours or more per week) were cared for by someone other than their parents on a regular basis, including 42 percent who were cared for in a center-based program. Among children of mothers working part time, 71 percent were in nonparental care, including 36 percent who were in center-based care.9

■ Children continue to need good child care when they reach school-age. Half of children in kindergarten through eighth grade are in nonparental care before and after school on a regular basis.10 This is about 19 million children in home-based care, center-based care, or self-care.11

**Quality child care helps shape children’s futures and is critical to school readiness.**

■ The research is clear that the quality of child care has a lasting impact on children’s well-being and ability to learn.12 Children in poor quality child care have been found to be delayed in language and reading skills, and display more aggression toward other children and adults.13

■ A major study found that children in high quality child care demonstrated greater mathematical ability, greater thinking and attention skills, and fewer behavioral problems. These differences held true for children from a range of family backgrounds, with particularly significant effects for children at risk.14

**Child care enables parents to work and support their families, while ensuring that their children are in safe, nurturing environments.**

■ In 2001, just one-quarter of all families with children younger than six—and only one-third of married-couple families with young children—had one parent working and one parent who stayed at home.15

■ The proportion of single mothers with children under six who were employed increased steadily throughout the mid- to late 1990s, reaching 65 percent in 2000, after having declined from 48 percent in 1990 to 44 percent in 1992.16 Employment among low-income single mothers with young children increased from 44 percent in 1996 to 59 percent in 2000.17

■ For many families, women must work out of economic necessity. The majority (55 percent) of working women in the U.S. bring home half or more of their family’s earnings.18 Six million young children live in single-parent families where working is essential to avoid dependence on welfare.19

■ Child care assistance helps low-income families work. The U.S. General Accounting Office (GAO) found that increasing the availability of child care subsidies would increase poor mothers’ work participation rates from 29 percent to 44 percent, and near-poor mothers’ rates from 43 percent to 57 percent.20

■ A child care subsidy of 50 cents an hour—or about $1,000 a year—would increase labor force participation rates among women with children under 13 by 8 percentage points, according to an analysis of data on child care costs and female labor participation rates.21
Yet families struggle to find and afford quality child care and school-age programs.

- Even though some assistance is available to help low-income families afford child care, funds are severely limited. Currently, no state serves all families eligible under federal guidelines. Nationally, only one out of seven children eligible for child care assistance under federal law receives help.22

- Full-day child care easily costs $4,000 to $10,000 per year—at least as much as college tuition at a public university.23 Yet, one out of four families with young children earns less than $25,000 a year,24 and a family with both parents working full time at the minimum wage earns only $21,400 a year. Approximately 16 million children under age 13 live in families with incomes below 200 percent of poverty where someone works and no one receives welfare.25

- Families pay the bulk of child care costs (60 percent), with government (federal, state, and local) paying 39 percent, and the private sector (business and philanthropy) contributing less than one percent. In contrast, families pay only about 23 percent of the cost of a public college education, with government and the private sector paying the rest.26

- Case studies of low-income families waiting for child care assistance in several communities—including Hennepin27 and Ramsey28 Counties in Minnesota, Santa Clara County in California,29 New York City,30 Philadelphia,31 and Houston32—and one state, North Carolina,33 illustrate the multiple problems that low-income children and families face when they cannot get help paying for their child care. These families find it more difficult to work, are forced to place their children in potentially unsafe safe situations, and must confront financial difficulties.

- Good care is hard to find. Recent studies have found that much of the child care in the U.S. is poor to mediocre. One four-state study found fully 40 percent of the rooms serving infants in child care centers to be of such poor quality as to jeopardize children’s health, safety, or development.34

- Good after-school options for children and teens are unavailable in many communities. Over 7 million children are home alone on a regular basis,35 often during the afternoon hours when juvenile crime peaks.36 A 1999 study that examined the effects of self-care among urban children in low-income families found that children who spent more time home alone in third grade displayed more behavior problems both in third grade and later when they reached fifth grade.37

Child care assistance can help families afford quality care. The major source of funding for child care assistance is the federal Child Care and Development Block Grant (CCDBG). States, which are required to provide matching funds, can use these resources to help low-income families gain access to quality, affordable child care and after-school programs.

- The CCDBG provides funding to states to help parents pay for the care of their choice, whether in a family child care home, with a relative or a friend, or in a child care center.

- Much of federal child care funding was merged under the CCDBG as part of the 1996 Welfare Act, or the Personal Responsibility and Work Opportunity Reconciliation Act (P.L. 104-193), giving states the ability to create a single consolidated child care program for families. States have tremendous flexibility
to design policies and determine eligibility guidelines, service priorities, provider reimbursement rates, and family co-payment amounts, in conformance with broad guidelines specified by federal rules and regulations.

Federal funding for the CCDBG rose to $4.817 billion in FY 2002. This funding includes two components: mandatory/capped entitlement funds and discretionary funds.

*Mandatory/capped entitlement funding* was $2.717 billion in FY 2002. This funding stream itself includes two parts—mandatory funds and matching funds:

Mandatory funding is the base funding amount that is automatically available to states each year. The amount each state receives is determined by the total amount it had been receiving through the three separate federal child care programs (AFDC child care, Transitional Child Care, and the At-Risk Program) prior to their consolidation into the CCDBG.

Matching funds are funds above the base funding amount that are allocated according to the number of children under age 13 in each state. In order to receive the federal matching funds, states must meet several requirements. First, states must continue to expend a “maintenance-of-effort” level of state funding for child care based on the amount spent in FY 1994 or FY 1995, whichever is greater. Second, states must obligate for expenditure all of their current year mandatory funds. Third, states must put up state matching funds to draw down the federal dollars. The match rate is similar to the Medicaid match rate.

*Discretionary funds* totaled $2.1 billion in FY 2002. Congress must appropriate these funds each year. The funds are available to states without a match requirement, which means that states can receive their share of the money without having to put up any state funds.

In addition to the funds available for child care under the CCDBG, states are allowed to use funds from the Temporary Assistance for Needy Families (TANF) block grant—the welfare program—to help pay for child care assistance. States may transfer up to 30 percent of TANF funds to the CCDBG or use TANF funds for child care within the TANF block grant. In FY 2001, states spent approximately $3.65 billion of their TANF funds on child care, including $1.99 billion in transferred funds and $1.66 billion in direct spending.37

While states have a great deal of flexibility in determining their child care assistance policies, the federal government has established some parameters:

States may use CCDBG funds to serve families earning up to 85 percent of state median income.

States must spend a minimum of 4 percent of their total CCDBG funds on improving quality, expanding supply, and providing consumer education.

States must require all providers (except certain relatives) who receive CCDBG funds to meet minimum health and safety standards.

States must set reimbursement rates for child care that ensure that eligible children have access to child care equal to the access available to children who are not receiving subsidies and must conduct a market rate survey every two years (although the states are not required to update rates based on the survey).
Child care subsidy policies should be designed to ensure that all families who need it have access to assistance.

- **An investment of sufficient funds** is necessary for making help available to all families who need it. States should:
  
  Meet the federal maintenance-of-effort spending requirement—which is set at the state’s spending level for child care in FY 1994 or FY 1995, whichever is greater—so that they are able to qualify for federal matching child care funds.
  
  Provide matching funds necessary to secure their full share of federal matching child care funds.
  
  Allocate state funds above matching fund requirements.
  
  Take advantage of unspent federal funds that can be reallocated to other states.
  
  Transfer the maximum allowable amount of TANF block grant funds to the CCDBG, when available, and use additional TANF funds for child care.
  
  Seek private sector support and funds for child care.
  
  Coordinate child care programs with Head Start and state prekindergarten initiatives to provide full-day programs that meet the needs of working families and to maximize resources.

- **Eligibility policies** should be set so that all families who need it can qualify for assistance. States should be encouraged to:
  
  Guarantee that both welfare families and low-income working families who are not on welfare are eligible for, and receive, child care help.
  
  Set their income eligibility cutoffs at the maximum level allowed under federal law, 85 percent of state median income.
  
  Provide child care assistance to all children and families who may need it, including children with disabilities or other special needs, children in protective services or foster care, parents searching for a job, parents participating in education or training, and teen parents and their children.

- **The process of applying for assistance** should ensure that parents have easy access to the help they need. States should:
  
  Design the simplest system possible that allows families to move from welfare to job training or education to job search to work without having to reapply for child care assistance.
  
  Simplify the application form for child care assistance as well as other benefits and make sure it is available in languages used in each community.
  
  Make application forms available throughout the community and allow families to apply through the mail and other methods that are convenient for them.
  
  Support an adequate number of staff to handle families’ applications for assistance promptly.
Ensure that staff are adequately trained to help families understand the application process and their child care options; staff or interpreters should be available to communicate in languages used by families in the community.

Consider using resource and referral agencies or other community organizations to administer child care assistance programs.

Allow families to continue receiving assistance for a full year before requiring recertification, regardless of changes in income or other circumstances, and to be recertified through a simple mail-in application.

Provide families with a grace period after the deadline for recertification so that they can continue receiving assistance even if there are delays in the reapplication process.

**Child care assistance policies should be designed to ensure that parents receiving help are able to choose good quality care for their children.**

- **Parent co-payment policies** should enable parents receiving child care assistance to afford and choose good care. In particular, states should:

  - Keep co-payments low for very poor families. Low-income families should not be expected to pay a higher percentage of their income than the average amount spent by families (whether receiving assistance or not)—7 percent\(^{39}\)—and families at or below the poverty line should not be required to pay any fee.
  
  - Avoid basing co-payments on the cost of care, which pressures parents to use the cheapest care possible as they struggle with other financial responsibilities.
  
  - Charge reduced fees for additional children if a family has more than one child in care.
  
  - Gradually phase in any fee increases, rather than changing them abruptly as a family’s income rises.

- **Reimbursement rates and policies** should encourage providers to accept children receiving subsidies and enable the providers to support good quality care. This allows parents to have a choice of providers that meets their individualized needs and supports their children’s successful development. States should:

  - Set reimbursement rates at the 100\(^{th}\) percentile of the current market rate to allow families full access to the providers in their community.
  
  - Maintain separate rates for different types of care, care for children of different ages, and care in different areas or communities to reflect variations in the cost of care.
  
  - Set higher rates for child care programs that provide higher quality care or enriched services, or (for example) meet the accreditation standards of the National Association for the Education of Young Children (NAEYC).
  
  - Pay higher rates for care that is hard to find or more costly to provide, such as care during odd hours (weekends or nights) or special-needs care, to encourage more providers to offer this care.
  
  - Pay higher rates to programs serving large numbers of low-income children, to ensure that the programs have an economic base that allows them to remain viable.
Pay rates that are higher than the market rate in low-income neighborhoods and rural areas where rates are depressed. In these neighborhoods, providers cannot charge higher rates because private-paying parents could not afford them. Yet this keeps providers’ rates far below the level needed to support quality care.

Pay for child care during days when children are absent so providers do not lose expected income and can afford to serve low-income children.

Establish rates for part-time care that provide sufficient incentive for providers to accept children on a part-time basis. Providers often charge more for such care, rather than simply pro-rating the time, and states should recognize this market reality.

Pay providers in advance, rather than on a reimbursement basis, so that they have resources available upfront to support their services.

Offer contracts that enable providers to have a reliable source of income as well as certificates to ensure parent choice.

Policies concerning unregulated care should protect children whose parents choose this type of care. Depending on the state, unregulated or exempt care—child care settings that are not subject to state licensing and regulatory standards—may include certain types of center-based care, some family child care providers, child care by relatives, and in-home care providers. While states are required to establish some minimal health and safety standards for exempt providers (other than certain relatives) who receive public funds, these standards are, for the most part, quite limited. It is important that states go beyond the minimal requirements to establish health and safety protections that truly ensure children’s well-being and to offer intensive support to exempt child care providers.

States should not try to conserve funds by adopting policies that encourage families to use exempt care, even when parents would prefer other options. Such policies include: neglecting to inform families about their full range of child care options, setting low reimbursement rates (which makes it more difficult for more formal caregivers to serve children receiving assistance), basing parent fees on the cost of care (which provides an incentive for families to choose cheaper care), failing to pay providers promptly, and expanding the definition of exempt providers. It is essential that parents not be pressured to use exempt child care options, because many parents do not wish to rely on exempt care. Some parents do prefer less formal care, especially for their younger children, but evidence suggests that parents generally tend to seek more formal child care options when their children reach the ages of three and four years in order to help them gain the preliteracy skills they need to start school ready to succeed. For this reason, it is critical that parents have a choice of child care options with which they are comfortable, and not be limited, for the most part, to informal arrangements.

Improving the quality and expanding the supply of child care should be integral components of a state’s child care policies. All states are required to spend a minimum of 4 percent of their total CCDBG funds on quality and supply-building activities, although states can spend more than 4 percent. Since FY 1999, Congress has also set aside additional funds to enhance the quality and supply of care. In FY 2002, funding for the set-asides included $173 million for quality initiatives, $100 million for infant and toddler care, $18 million for school-age care and resource and referral, $10 million for research, and $1 million for the Child Care Aware toll-free hotline.
With the growth in demand for child care generated by changes in the 1996 welfare law, it has become exceedingly important to target additional funds on expanding capacity or infrastructure to ensure that there is an adequate supply of safe, affordable, good quality child care. States should focus some supply-building funds on the specific child care needs that have increased, and will continue to increase, due to welfare work requirements. These needs include infant care, odd-hour care, and care for teen parents who must be enrolled in school or working toward their GED to receive welfare benefits.

States can improve the quality and expand the supply of care through several strategies:

- Expanding and enhancing training and education opportunities for both formal and informal caregivers.
- Improving salaries and benefits for child care providers who have already received higher education degrees in early education or agree to receive additional education.
- Creating career development systems for child care providers.
- Funding resource and referral programs that inform parents about good quality child care.
- Strengthening health and safety protections for regulated providers as well as those who are not subject to licensing laws.
- Monitoring programs to ensure children’s safety.
- Providing grants and loans to increase the supply of child care.
- Providing grants for equipment and supplies.

In addition, there are a number of ways in which child care policies can build on Head Start, prekindergarten, and other early childhood programs to enhance quality and supply:

- Investing in full-day/full-year state-funded prekindergarten programs.
- Helping Head Start programs meet child care needs by offering them contracts to expand their hours and months of operation.
- Using Head Start’s experience in working with low-income parents, not only to help expand the supply of child care, but also to provide more structured employment possibilities for mothers leaving TANF who demonstrate a clear interest in working as child care providers.
- Funding Early Head Start for infants and toddlers and their families.

States can adopt several other policies to ensure that families have access to quality care and that they are able to balance their responsibilities to their work and their children.

- States can help working parents afford quality care by providing refundable tax credits.
- States can invest in school-age care programs, which offer older children increased opportunities to participate in constructive activities in safe, supportive environments during out-of-school time.
- States can incorporate paid family leave into their child care policies to give parents the option of staying home during the first critical months of a child’s life.
- States can establish work exemptions for mothers receiving welfare who have children under age one.
Many states have policies that do not provide families with adequate access to affordable, quality care.

- States may use federal CCDBG funds to serve families with incomes of up to 85 percent of the state median income (SMI). They may also choose to use their own state dollars to serve families with higher incomes. However, as of June 1, 2001, no state set its income cutoff at the maximum level allowed under federal law. In nearly two out of five states, even a family of three earning just $25,000 a year could not qualify for help.\(^40\)

- High co-payments can make it difficult or impossible for families to use subsidized care, or put families under extreme financial hardship even if they are receiving help. Yet, as of June 1, 2001, in about one-third of the states, a family of three earning just $21,945 a year (150 percent of the 2001 federal poverty level) would have to pay 10 percent or more of their income in co-payments, or would not have been eligible for help.\(^41\)

- Only about half of the states were paying rates at the 75\(^{th}\) percentile of a current market rate (the rate that allows families access to 75 percent of the providers in their community) as of June 1, 2001.\(^42\) This deprives many families of access to quality child care options.

- While 27 of the 42 states with an income tax have a child care tax credit, only 10 truly meet the needs of low-income working families by making the credit refundable.\(^43\)
Source Notes


2 Testimony by Deborah Phillips before the U.S. Senate Committee on Labor and Human Resources, March 1, 1995.


8 “In the labor force” includes mothers who are employed as well as mothers who are looking for work. Unpublished data from the Bureau of Labor Statistics, March 2001 Current Population Survey.


13 Testimony by Deborah Phillips before the U.S. Senate Committee on Labor and Human Resources, March 1, 1995.


Children’s Defense Fund calculations using data on the number of children served from U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, as presented by Julie B. Isaacs at the State Administrators Meeting in Washington, DC, August 13, 2001.


R. Schumacher and T. Rakpura. (September 2002). States Have Slowed Their Use of TANF Funds for Child Care in the Last Year. Washington, DC: Center for Law and Social Policy.

