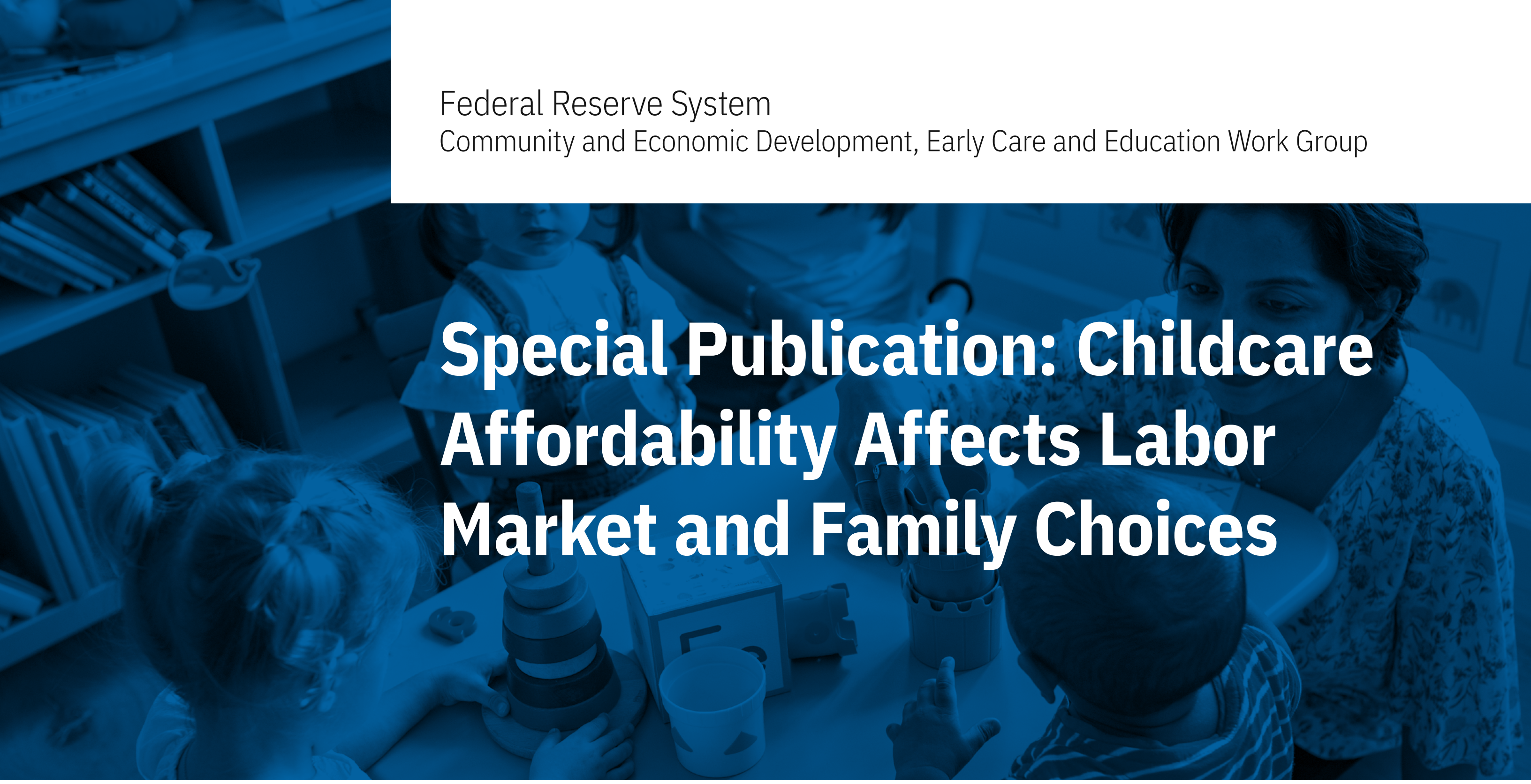

Federal Reserve System
Community and Economic Development, Early Care and Education Work Group

Special Publication: Childcare Affordability Affects Labor Market and Family Choices

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This article is part of a series produced by the Federal Reserve's Early Care and Education Work Group that explores the cost, affordability, and racial equity issues in early childhood education in the United States. The first three articles frame each of these issues based on existing research and data. The series finishes with an article that explores these topics based on findings from human-centered design focus groups conducted with early childhood education providers and parents with young children. This article focuses on affordability challenges and integrates quotes from participating parents in the focus groups to highlight real-world experiences of challenges revealed through existing literature.

Key Takeaways:

- Childcare market rates are not affordable for most families.
- Without subsidies, low-income families spend a larger portion of their income on childcare than do high-income families.
- The affordability of childcare influences parents', but particularly mothers', decisions on whether to participate in the workforce.

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Before a parent can pick a childcare provider based on the convenience of location, program type, quality standards, cultural values, or operating hours, the parent must know if the childcare provider's rates are affordable. Two simple factors constrain a family's ability to find optimal childcare for their child: their income and the prices childcare providers charge.

Childcare prices vary across local markets, but one statistic summarizes the challenges these markets present to parents with low incomes. In every state, the median price for childcare for an infant in a childcare center is at least 7 percent of the state's median income for a married couple with one child. In 43 states, typical infant tuitions are more than 10 percent of the median income for such families and can be as high as 18 percent.[1]

The relatively high price of childcare is reflected in data on childcare spending trends. Childcare expenditures have risen over time relative to other expenses and family income levels. As of 2018, the portion of income spent on childcare exceeded all other budget items in every region with the exception of housing expenditures in the West.[2,3]

The increase in market prices may be connected to spending increases among higher-income families, but families with low incomes still spend much more relative to their household budget.[4] Among families that pay for childcare, high-income families spend about 6.7 percent of their income on childcare while families with low incomes spend about 39.6 percent.[5] For low-income families with only young children, the proportion spent on childcare climbed to over 50 percent.[6]

Subsidies to alleviate childcare costs

Public subsidies can offset the relatively high price of childcare for families with low incomes. But with limits on federally funded, state-run subsidy programs, the subsidies currently fall far short of making childcare affordable for all eligible families. The largest federal childcare subsidy funding stream is the Child Care and Development Fund (CCDF), which provides subsidies so that parents can work or go to school. Under federally recommended program guidelines, CCDF funding reached only one of every six children who were eligible in fiscal year

"First thing I look at honestly is the price. All of those things as far as ratings and all of those things matter to me but those are kind of like secondary."

\- Suburban Black mother whose child under age five attends a Head Start program

[1] Child Care Aware of America, The US and the High Price of Child Care: An Examination of a Broken System, 2019 Report, (Arlington, VA: Child Care Aware of America, 2019).
[2] Drew Desilver, Rising Cost of Child Care May Help Explain Recent Increase in Stay-at-Home Moms (Washington, DC: Pew Research Center, April 8, 2014).
[3] Child Care Aware of America, The US and the High Price of Child Care: An Examination of a Broken System, 2019 Report, (Arlington, VA: Child Care Aware of America, 2019).
[4] Chris M. Herbst, "The Rising Cost of Child Care in the United States: A Reassessment of the Evidence," Economics of Education Review 64 (June 2018): 13–30.
[5] Nicole D. Forry, Rebecca Madill, and Tamara Halle, "How Much Did Households in the United States Pay for Child Care in 2012? An Examination of Differences by Household Income," Snapshots from the NSECE, OPRE Report #2018-112 (Washington, DC: Administration for Children and Families, Office of Planning, Research and Evaluation, 2018).
[6] Sarah Jane Glynn, Child Care: Families Need More Help to Care for Their Children (Fact Sheet) (Washington, DC: Center for American Progress, August 16, 2012).

2018.[7,8] States have the flexibility to establish eligibility parameters, which has reduced CCDF coverage by one-third compared to federal guidelines. In some cases, subsidy programs are available only for working families and do not support parental education.

Families seeking subsidies face obstacles including waiting lists and income-eligibility requirements. Those who receive subsidies may experience other challenges such as significant copayments and relatively low reimbursement rates to providers, which can limit their childcare options or require them to pay additional funds to bridge the gap between the subsidy value and the payment rate. These design flaws strain parents' ability to access high-quality childcare that works for them.

"If you're someone that has a voucher, the access is limited. I don't have many options. If they don't take the voucher, they don't take the voucher."

- Urban White mother whose child under age five attends a childcare center

Additionally, eligibility limits for families can inadvertently hinder economic mobility—when they encounter a benefits cliff, for example. Benefits cliffs occur when modest wage increases put a family above income eligibility for certain benefits, and despite the gain in income, the loss of subsidy results in the family being financially worse off. If the eligibility ceiling for the subsidy is lower than the income level families need to afford the services on their own, it can discourage parents with low earnings from pursuing jobs with higher wages or working more hours.

Childcare affordability and the labor market

Childcare affordability challenges can alter the way parents interact with the labor market. Parents with children under the age of 18 make up over 39 percent of the labor force. Of those households, nearly 88 percent have at least one parent working, and in 64 percent of households with children, all present parents are in the labor force.[9] As of February 2020, 21.3 percent of workers, some 35.2 million people, had at least one child under the age of 14 with no other adult in the household able to care for them during the workday.[10]

Survey data and labor statistics alike suggest that childcare affordability has a particularly large impact on labor force decisions made by women. In one survey, childcare affordability was the most-cited reason women gave for not working.[11] One study looking at 1990–2011 data found that weekly childcare costs rose 16 percent over that time period.[12] Meanwhile, over the same period, families who paid for childcare decreased their use of childcare by 23 percent fewer hours, on

[7] Nina Chien, Factsheet: Estimates of Child Care Eligibility & Receipt for Fiscal Year 2018, (Washington, DC: US Department of Health and Human Services, Office of the Assistant Secretary for Planning & Evaluation, August 2021).
[8] FY2018 data were the most recent available data for CCDF subsidies at the time of publication. Data on childcare subsidies, prices, and outcomes are not collected on a regular basis, and research efforts would improve if more data were available.
[9] Current Population Survey, 2020 Annual Social and Economic Supplement. Table C3. Living Arrangements of Children Under 18 Years and Marital Status of Parents, by Age, Sex, Race, and Hispanic Origin and Selected Characteristics of the Child for All Children: 2020
[10] Sarah Flood, Miriam King, Renae Rodgers, Steven Ruggles, and J. Robert Warren, Integrated Public Use Microdata Series, Current Population Survey. Version 8.0 [dataset]. Minneapolis, MN: IPUMS, 2020. https://doi.org/10.18128/D030.V8.0
[11] Claire Cain Miller, "Americans Are Having Fewer Babies. They Told Us Why." *New York Times*, July 5, 2018.
[12] Chris M. Herbst, "The Rising Cost of Child Care in the United States: A Reassessment of the Evidence," Economics of Education Review 64 (June 2018): 13–30.

average.[13] Some families chose not to pay for childcare at all; the mothers instead left the labor force, which happened more often for families with children under the age of five and low-income families.

Similarly, data from the pandemic era show that parents, and mothers of young children in particular, are working less. Recent research by the Federal Reserve Bank of Atlanta found that mothers with children under the age of six, who made up roughly 10 percent of the prepandemic workforce, accounted for nearly 25 percent of employment loss.[14]

Prior economic literature suggests that challenges with childcare affordability can ultimately lead parents who want to work to stay home with their children, work fewer hours, or turn down higher paying roles to avoid benefits cliffs.[15] However, other literature suggests that childcare assistance programs, including parental leave, part-time-work protections, and childcare subsidies, can boost mothers' participation in the labor market.[16, 17]

Conclusion

Several key choices may be ahead of policymakers interested in addressing childcare affordability. First, defining affordability is important and should be considered in relation to a family's overall income. Some have suggested using the Department of Health and Human Services' recommendation of 7 percent of a household's income as an affordability benchmark; specifically, families receiving subsidy should contribute no more than 7 percent of their income to childcare. This threshold could still place a large financial burden on families with very low incomes, while families with more economic resources can often afford to spend a larger share of their income on childcare.

Attempts to address affordability may also interact with other barriers to childcare access. For example, if subsidies were more widely available, then more parents with low incomes may seek to enter the labor force. But if reimbursement rates are too low within the subsidy program, childcare providers will struggle to provide high-quality childcare to families with low incomes. They may even decide not to accept children using subsidies. Parents with low incomes currently face significant constraints in the childcare market, and their children are less likely to receive the high-quality early childhood education that provides significant long-term benefits.

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[13] So Kubota, "The U.S. Child Care Crisis: Facts, Causes, and Policies," WINPEC Working Paper Series No. E2008 (July 2020).
[14] M. Melinda Pitts, "Where Are They Now? Workers with Young Children during COVID-19," Federal Reserve Bank of Atlanta's Policy Hub, No. 10–2021 (September 2021).
[15] Taryn W. Morrissey, "Child Care and Parent Labor Force Participation: A Review of the Research Literature," Review of Economics of the Household 15(1): 1-24 (2017).
[16] Charles L. Baum II, "A Dynamic Analysis of the Effect of Child Care Costs on the Work Decisions of Low-Income Mothers with Infants," Demography 39(1): 139–64 (February 2002).
[17] Francine D. Blau, Lawrence M. Kahn, "Female Labor Supply: Why Is the US Falling Behind?," National Bureau of Economic Research Working Paper series, 18702 (January 2013).

In sum, the research suggests that affordability influences two important choices for parents: whether to work, and where their children will receive care. Families with low incomes are already investing a disproportionate share of their resources to resolve these decisions within their household. Changes to current subsidy systems could influence those outcomes.

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Historical Estimates of Child Care Eligibility and Receipt (FY 2003–FY 2018)

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