Workforce Series: Child Care

Center Forward Basics

March 2023

Overview

Child care is an essential service, but rising costs and limited availability following the COVID-19 pandemic have put an increasing strain on working parents. The average annual cost of one child's care in 2021 was $10,600, and in 40 states and Washington, D.C., the average monthly cost of child care for two children under five exceeded the average monthly mortgage payment. Costs for child care providers are also usually not flexible. The industry is labor intensive and child care workers are currently underpaid, making an average of $13.22 per hour. Cutting labor costs could risk the safety and quality of child care services, and likely lead to further closures as child care workers leave the industry for better pay and working conditions.

In the absence of a market solution, the government will look for policy tools to make child care more affordable and accessible. Programs like Head Start and the Child Care Development Block Grant have received strong bipartisan support in the past, and both parties introduced legislation to expand and improve access in the 117th Congress. With a newly divided Congress looking to address inflation, the rising cost of living, and a labor shortage, child care policy could be one of the best opportunities to advance bipartisan legislation in the next few years.

The Costs of the Child Care Crisis

Over 20 million working parents in the U.S. have children under six years old, and over 17 million work full-time. Reliable and affordable child care is essential to those parents' ability to continue in the workforce, and the lack of child care has deep and far-reaching consequences.

A study from ReadyNation and the Council for A Stronger America found that costs from expensive and inaccessible child care have nearly doubled since 2018. Looking at 2022 data, they found $122 billion in total economic losses. Working parents lost over $78 billion in earnings due to child care complications, and a lack of child care cost employers $23 billion in lost productivity. Additionally, reduced commerce from parents out of work lost $21 billion in tax revenue.

Beyond the economic losses, working parents suffer serious career setbacks from a lack of stable and affordable child care. In ReadyNation's 2022 study, 41% of working parents reported turning down a new job offer due to a lack of child care options, and 33% moved from full-time to part-time work to recoup some of the time and costs sunk into child care. Most strikingly, 26% of working parents surveyed had left a job at some point in time because of the stress and cost of securing child care. After several years of stepping back from their careers, many parents also find it difficult to re-enter the workforce, leading to long-term impacts on the labor market.

Center Forward Basics

Center Forward brings together members of Congress, not-for profits, academic experts, trade associations, corporations and unions to find common ground. Our mission: to give centrist allies the information they need to craft common sense solutions, and provide those allies the support they need to turn those ideas into results.

In order to meet our challenges we need to put aside the partisan bickering that has gridlocked Washington and come together to find common sense solutions.

For more information, please visit www.center-forward.org

Existing Federal Programs

Between tax credits, federally-funded programs, and grants, there is currently a patchwork of federal policies that can help families and employers shoulder the costs of child care. However, as child care is still out of reach for middle and lower income families, none of these programs have offered a comprehensive solution.

Child care advocates often praise **Head Start** Programs as the "gold standard" in policy solutions. Head Start was signed into law in 1965 as part of President Johnson's War on Poverty, and created federally funded program centers around the country to provide child care, early childhood education, nutrition assistance, and family resources to low-income households. These programs have impressive results in later education and life outcomes, but they only serve families living below the poverty line and are largely underfunded. While Head Start programs have opened in 2,809 locations in 50 states and Native American territories, they still service less than 20% of eligible families.

The **Child and Dependent Tax Credit** (CDTC) is a credit to families for costs associated with care for qualifying dependents, including children. To receive this credit, one or both parents must be working or in school, and eligible children must be under 13 years of age. This credit can refund a portion of expenses up to $3,000 for one child and $6,000 for two or more children. Households with income under $43,000 can also claim a larger percentage refund on these qualifying expenses. The American Rescue Plan Act increased the qualifying expenses to $4,000 for one child and $8,000 for two or more children and made the credit refundable for the 2021 tax year, but that expansion was not renewed.

Like the Child and Dependent Tax Credit for families, there is also an **Employer-Provided Child Care Credit**. This can cover up to 25% of eligible expenses incurred by employers to provide child care for their staff. This includes building, acquiring or operating an in-house child care facility or contracting with a licensed provider, including home-based child care businesses. Employers can also receive a credit for 10% of the expenses associated with providing employees with child care resources, local providers, and referral services. The credit is capped at $150,000 per year. Although this program gives employers a useful incentive to help employees secure child care and keep their jobs, critics note the policy forces families to accept the employer's preferred options, and does not allow parents to choose the providers that fit their individual needs.

Employers can also help working parents by offering a **Dependent Care Flexible Spending Account** (DCFSA). Much like a healthcare FSA, this is a pre-tax benefit account that parents can use to pay for care expenses, including daycare, nursery school, preschool, before and after school programs, and summer day camps. Individuals or households filing together can contribute up to $5,000 per year, and married couples filing separately can contribute $2,500 each. Employers can structure DCFSA's rollover rules in one of two ways. In the first option, account holders can roll over a maximum of $550 to the next year. Alternatively, employers can use a grace period option, which allows account holders to roll over unlimited funds to spend within the first two months and 15 days of the new year. Unspent rollover funds are forfeited at the end of that period.

Finally, the **Child Care Development Block Grant** (CCDBG) is one of the most widely used and well-received policies to subsidize child care. First enacted in 1990, the Child Care Development Block Grant Act authorized the Child Care and Development Fund (CCDF) to be administered by states, and set certain health and safety standards for eligible providers in the program. Qualifying families must have both parents or one single parent working or in school full-time, household income less than 85% of the state median income, and care expenses for a child under 13 years of age. Once families choose a licensed provider, they can use state vouchers from the CCDF, or the state will contract with the provider and pay them directly.

Congress passed a bipartisan reauthorization of the CCDBGA in 2014 with revisions to strengthen quality and safety standards, and in 2018, the Republican Congress and Trump Administration authorized an additional $2.37 billion in funding, the largest increase the program has ever received. The CCDBG is very popular now and seen as critical social infrastructure, but many policy experts agree the program still does not have the necessary funding to serve all eligible families and the coverage is not comprehensive enough. Most CCDBG subsidies require a copay from families, and their reimbursements to providers frequently undercut the market rate and do not cover the total costs of the service. Additionally, the Bipartisan Policy Center found that before the COVID-19 pandemic, the CCDBG only served 14% of eligible children.

The Path Forward

In the 117th Congress, both parties introduced proposals to increase child care subsidies. **Sens. Tim Scott (R-SC)** and **Richard Burr (R-NC)** introduced the **Child Care Development Block Grant Renewal of 2022** in March of last year. The bill included a boost to the program's funding and several notable revisions. One of the main provisions broadened the income threshold for qualifying families from households making less than 85% of the state median income to households making less than 150% of state median income. Additionally, the reauthorization would eliminate copays for families making less than 75% of state median income, and limit copays to 7% of annual household income for all other qualifying families.

The Scott/Burr reauthorization bill would also revamp the cost estimation system for higher reimbursement rates to providers. This would allow child care providers to give their employees higher wages and better benefits, improving worker retention in the sector. Furthermore, the bill included provisions to broaden the requirements for licensed providers that can be reimbursed under the program to include home-based care centers. This gives working parents more choices to find a child care provider that fits their specific needs, which is especially important in low-income and rural communities. Reps. Burgess Owens (R-UT) and Ashley Hinson (R-IA) introduced a companion bill in the House in December 2022. Neither bill was given a vote in committee.

Democrats proposed several new programs to subsidize child care, but the most notable came from **Sens. Patty Murray (D-WA)** and **Tim Kaine (D-VA)** as part of negotiations for the 2022 reconciliation bill. **The Revised Child Care and Preschool Reconciliation Proposal** would have tripled the current funding to the CCDBG, providing $72 billion over the following six years. Part of the increased funding would be dedicated to opening new child care centers, renovating old facilities, and increasing worker pay. The proposal would also provide funding for grants to states to establish and expand subsidized preschool programs and codify significant pay increases for employees at federally funded Head Start program centers.

The most significant provision in the Murray-Kaine proposal was a pilot Child Care Development Expansion program for the following six years. Participating states would opt-in to the new program that would provide a CCDBG subsidy to families making less than 250% of the state median income and cap all qualifying families' child care expenses at 7% of income on a sliding scale for children ages 0-5. The federal government would cover 90% of the costs of this new program, while states that opt-in would pick up the remaining 10%. This proposal was ultimately not included in the Inflation Reduction Act due to hesitations regarding the amount of overall spending weighed against competing priorities in the bill, like climate and energy policy.

Looking forward, Republicans have expressed interest in expanding family policy and child care subsidies, but are hesitant to support bills with drastic increases to federal spending and measures that would significantly change the existing dynamics of the industry. Democrats are still looking to increase family support, but are also wary of some means-testing measures and reluctant to support bills they see as "half–measures". If Congressional leadership can negotiate past their differences, some form of child care expansion could be one of the most substantial pieces of legislation to pass both chambers in the 118th Congress.

Links to Other Resources

- Council for a Strong America - The Growing, Annual Cost of the Infant-Toddler Child Care Crisis
- NHSA - Head Start programs fact sheets
- U.S. Chamber of Commerce - Employer Guide to Child Care Assistance and Tax Credits
- IRS Guidelines for the Child or Dependent Tax Credit and the Employer-Provided Tax Credit
- First Five Years Fund - Comparison of the CCDBG Reauthorization Act of 2022 to Current Law
- First Five Years Fund - State Fact Sheet of Child Care Programs
- Murray-Kaine Revised Child Care and Preschool Reconciliation Proposal One Pager