

Affordability: Women and Their Families Need Help Paying for Child Care

Child Care Is a Significant Expenditure for Families

Today, millions of American families are struggling with the challenge of finding affordable child care. Low-income families are hit hardest by the high cost of care; yet many receive little or no help paying for it.

- Child care and early education is a significant expenditure for families at all income levels. For low- and middle-income families with children between the ages of three and five, it represents the third greatest expense after housing and food. For families with higher incomes (annual income above \$66,900), it represents the second greatest expense after housing.¹
- Although low-income families spend less on child care than do middle- and higher-income families, child care expenditures consume a far higher percentage of the earnings of low-income families than of middle- and higher-income families. The Urban Institute found that low-income families (below 100% of poverty) with child care expenses spend about 23% of their earnings on child care and families with incomes from 100% to 200% of poverty with child care expenses spend about 16% of their earnings on child care. In comparison, higher earning families spend 6% of their earnings on child care.²
- The price of child care can easily cost from \$4,000 to \$10,000 annually depending on location, whether the care is home-based or center-based, and whether the care is for infants or preschool-age children.³ Low-income families struggle to meet these costs. Two parents working full-time at the minimum wage, for example, only have a yearly income of \$21,000.
- Women are leaving welfare for low-wage jobs that cannot cover the cost of child care. For example, two-thirds of working poor families headed by single mothers who paid for child care spent at least 40% of their cash income on child care.⁴

Federal and State Investment in Child Care Is Sorely Insufficient

Despite the importance of the early learning years to a child's development, public investments in education and development are more than seven times greater during school-aged years than during the early learning years.⁵ This leaves parents to bear the bulk of child care costs. These costs present a particular challenge for families with young children, since the parents are often just starting their careers and have less financial resources.

Child Care Assistance Is Far Too Limited

- The Child Care and Development Block Grant (CCDBG) provides federal funds to the states to help families pay for child care. But only one in seven children eligible for child care assistance under federal law is receiving it.⁶ This gap is likely to grow because President Bush's FY 2005 budget keeps CCDBG funds frozen for the third consecutive year and fails to keep pace with inflation. The Administration's budget figures indicate that 300,000 fewer low-income children will be able to receive child care assistance by FY 2009 because of decreases in funding proposed for subsequent years and increases in child care costs. This number could be even higher because states are exhausting the surplus funds from the Temporary Assistance to Needy Families (TANF) program that they rely on to help support child care. Taking this into account, it is estimated that a total of half a million fewer children could be able to receive child care assistance in FY 2009 compared to FY 2002.⁷
- A growing number of states are turning away eligible low-income working families or putting them on a waiting list for child care assistance due to inadequate funds. For example, there are 48,800 children on the waiting list in Florida, 26,500 in Texas, and over 20,000 in Tennessee and North Carolina.⁸ Some states are not accepting any new families other than those receiving TANF.
- In a number of states, the income eligibility cutoffs for child care assistance are so restrictive that many low-income working families who cannot afford the costs of child care cannot qualify for help in paying for it. For example, a family of three in Missouri earning above \$17,784 a year cannot qualify for help. In Indiana, a family of three earning above \$19,075 a year is not eligible for child care assistance.⁹
- Even when child care assistance is available, the amount the state will pay providers for care is often so low that parents cannot find qualified providers who can afford to serve their children. Iowa, for example, has not raised rates for child care providers in six years while Delaware has not raised its rates in four years.¹⁰
- In some states, parents have to pay so much in fees or copayments that child care expenses remain a staggering financial burden. For example, in Oregon, a family of three earning \$20,000 a year receiving a child care subsidy still has to pay 15% of its income for child care because of high copayments.¹¹

Head Start and State Prekindergarten Provide Some Help, but Not Enough

- The Head Start Program, a comprehensive child development program designed to help low-income children enter school ready to learn and succeed, serves more than 900,000 low-income children and their families.¹² Despite nearly 40 years of investment in Head Start, however, the program still reaches only about three out of five eligible preschoolers and 3% of eligible infants and toddlers.¹³ In addition, many Head Start programs operate on a part-day, part-year schedule and are unable to meet the needs of many working families.

- About 40 states invest in prekindergarten, serving primarily four-year-old children and a more limited number of three-year olds. Most of these states only reach a small percentage of low-income children. In addition, state-funded prekindergarten programs, like Head Start, typically are open for only part of the day, making access difficult for parents working full time.¹⁴

Tax Assistance Offers Some Relief to Families, but Is Often Inaccessible for Low-Income Families

- The federal government provides a tax credit to help parents offset the costs of child care needed to enable a taxpayer to work, as do some states. Currently, the federal Dependent Care Tax Credit (DCTC) ranges from 35% to 20% of a family's qualifying child and dependent care expenses. Qualifying expenses are up to \$3,000 for one child or dependent and \$6,000 for two or more children or dependents.¹⁵ This credit can be worth up to \$1,050 for one child or dependent and \$2,100 for two or more children or dependents. Many families, including many low-income families, receive some assistance with their child care expenses through this credit. However, no families with below-poverty income currently receive the federal credit since they have no tax liability and the credit is not refundable.
- Twenty-seven states (including the District of Columbia) offer tax assistance for families with child care expenses. The majority—18 of the 27—offer a tax credit that is calculated as a percentage of the federal DCTC. Thirteen states—Arkansas, California, Colorado, Hawaii, Iowa, Louisiana, Maine, Minnesota, Nebraska, New Mexico, New York, Oregon and Vermont—have refundable credits, making it possible for the lowest-income families to benefit from state credits even when they owe no taxes.¹⁶ For example, in New York, families with incomes of \$25,000 or less may receive a state tax credit of 110% of the federal DCTC, regardless of whether they had any federal income tax liability against which to apply the credit. This can result in a tax refund of up to \$2,310 for a family with qualifying care expenses for two children or dependents.
- The federal Dependent Care Assistance Program (DCAP) allows employees to pay for child care expenses out of earnings that are not subject to federal income or payroll taxes. Employees can set aside up to \$5,000 per year in DCAP funds.¹⁷ However, DCAPs are only available if employers provide them and many low-wage employers do not offer DCAPs.¹⁸ In addition, to take advantage of a DCAP, an employee generally must decide at the beginning of the year how much money to set aside for child and dependent care expenses. If the employee does not use that entire amount during the year, she cannot receive any of the leftover money. As a result, low-wage workers may be reluctant to enroll in a DCAP.

Sources:

¹ U.S. Department of Agriculture. (2002). *Expenditures on Children by Families, 2002*, Table ES-1, available at <http://www.usda.gov/cnpp/Crc/crc2002.pdf>.

² L. Giannarelli and J. Barsimantov. (2000). *Child Care Expenses of America's Families*. Washington, DC: Urban Institute.

³ K. Schulman. (2000). *The High Cost of Child Care Puts Quality Care Out of Reach for Many Families*. Washington, DC: Children's Defense Fund.

⁴ R. Wertheimer. (2003). *Poor Families in 2001: Parents Working Less and Children Continue to Lag Behind*. Washington, DC: Child Trends.

⁵ C. Bruner, V. Elias, D. Stein, and S. Schaefer. (2004). *Early Learning Left Out: An Examination of Public Investments in Education and Development by Child Age*. Washington, DC: Voices for America's Children and the Child and Family Policy Center.

⁶ Calculations using data on the number of children served from U.S. Department of Health and Human Services, *FY 2005 Budget in Brief*, February 2004, and data on the number of children eligible from the 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.

⁷ J. Mezey, S. Parrott, M. Greenberg, and S. Fremstad. (2004). *Reversing Direction on Welfare Reform: President's Budget Cuts Child Care for More Than 300,000 Children*. Washington, DC: Center for Law and Social Policy and Center on Budget and Policy Priorities.

⁸ National Women's Law Center. (2004). "States Limit Child Care Help for Low-Income Working Families." Washington, DC: National Women's Law Center citing information from state child care administrators and policy leaders collected by the National Women's Law Center in early 2004; unpublished information collected by the Children's Defense Fund in the fall of 2003; and two published reports by the Children's Defense Fund, *State Budget Cuts Create a Growing Child Care Crisis for Low-Income Working Families* (March 2003) and *State Developments in Child Care, Early Education and School-Age Care 2002* (April 2003).

⁹ National Women's Law Center. (2004). "States Limit Child Care Help for Low-Income Working Families."

¹⁰ National Women's Law Center. (2004). "States Limit Child Care Help for Low-Income Working Families."

¹¹ National Women's Law Center. (2004). "States Limit Child Care Help for Low-Income Working Families."

¹² U.S. Department of Health and Human Services, Head Start Bureau. (2003). "Head Start Program Fact Sheet 2003," available at <http://www.acf.dhhs.gov/programs/hsb/research/2003.htm>.

¹³ Calculations based on data from the U.S. Department of Health and Human Services, Head Start Bureau and data from the U.S. Census Bureau. (2003). *Current Population Survey Annual Social and Economic Supplement*, Detailed Tables: POV34, available at http://ferret.bls.census.gov/macro/032003/pov/new34_000.htm.

¹⁴ W. S. Barnett, K. B. Robin, J. T. Hustedt, and K. Schulman. (2003). *The State of Preschool*. New Brunswick, NJ: The National Institute for Early Education Research, Rutgers University.

¹⁵ National Women's Law Center. (2003). *Credit Where Credit is Due: Lower Your Taxes or Increase Your Refund to Help Your Family*. Washington, DC: National Women's Law Center.

¹⁶ National Women's Law Center. (2002). *Making Care Less Taxing: Improving State Child and Dependent Care Tax Provisions*. Washington, DC: National Women's Law Center; National Women's Law Center. (2004). *2004 Supplement to Making Care Less Taxing*. Washington, DC: National Women's Law Center.

¹⁷ National Women's Law Center. (2003). *Credit Where Credit is Due: Lower Your Taxes or Increase Your Refund to Help Your Family*. Washington, DC: National Women's Law Center.

¹⁸ Only 50% of even large employers—those with 100 or more employees—offer a DCAP. D. Friendman. (Spring/Summer 2001). "Employer Supports for Parents with Young Children." *The Future of Children*, Vol. 11, No. 1 pp. 63-77.