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 married-couple families with children between the ages of three and five, it represents the second greatest expense after housing.¹ For low-income single-parent families (those earning less than $44,500 a year), child care and early education for children ages three to five represents the third greatest expense after housing and food; for middle- to higher-income single-parent families (those earning $44,500 or more a year), child care and early education for children ages three to five is the third greatest expense after housing and transportation.²

- 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. Among families who pay for child care, families in poverty spend an average of 29 percent of their income on care and families between 100 and 200 percent of poverty devote an average of 14 percent of their income on care, according to the Census Bureau. In contrast, higher-income families paying for child care spend less than 6 percent of their income on care.³

- The price of center-based care for one child can average from $3,800 to $14,600 annually depending on where the family lives and the age of the child.⁴ Low-income families struggle to meet these costs. Two parents working full-time at the federal minimum wage, for example, only have a yearly income of $24,300.

- Child care expenses have significantly increased for families over the past two decades. The average amount paid for child care among families with employed mothers that paid for care rose from $73 per week in 1985 to $107 per week in 2005 (after adjusting for inflation).⁵

- 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 percent of their cash income on child care.⁶
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-age years than during the early learning years. 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. CCDBG funding has been virtually flat since FY 2002. With no increase in funding, as the Bush Administration has proposed in its FY 2009 budget, 200,000 children are expected to lose child care assistance between 2007 and 2009.

- States are turning away eligible low-income working families or putting them on a waiting list for child care assistance due to inadequate funds. In 2007, 17 states had waiting lists or frozen intake (turning away families without adding their names to a waiting list). Studies of low-income families on waiting lists for child care assistance show a range of negative consequences: families use care that is less than satisfactory or unstable, face tremendous financial pressures, are unable to work, or are forced to return to welfare.

- 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. In 2007, a family with an income slightly above 150 percent of poverty ($25,755 a year for a family of three in 2007) could not qualify for assistance in over one-quarter of the states. A family with an income above 200 percent of poverty ($34,340 a year for a family of three in 2007) could not qualify for assistance in over two-thirds of the states. Yet, in the majority of communities across the country, a family needs an income equal to at least 200 percent of poverty to meet its basic needs, including housing, food, child care, transportation, health care, and other necessities, according to a study by the Economic Policy Institute.

- 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. In 2007, 41 states and the District of Columbia had rates that were based on outdated market rate surveys, or below the level recommended in federal regulations. Seven of these states had gone since 2001 or longer without updating their rates.

- In some states, parents receiving child care assistance have to pay so much in fees or copayments that child care expenses remain a staggering financial burden. Nationwide, families who pay for child care (including those who receive child care assistance and those who do not) pay an average of less than 7 percent of their income for child care. Yet in 2007, a family at 150 percent of poverty receiving child care assistance had to pay more than...
7 percent of its income in copayments in about two-thirds of the states in which this family was eligible for assistance.\textsuperscript{17}

**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.\textsuperscript{18} Despite over 40 years of investment in Head Start, however, the program still reaches only about half of eligible preschoolers and less than 3 percent of eligible infants and toddlers.\textsuperscript{19} 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.

- In recent years, insufficient funding for Head Start has forced programs to cut costs in various ways. Many programs report reductions in operating hours, instructional time, classroom materials, mental health services, medical and dental services, services for children with disabilities, parent involvement activities, parent support services, facility maintenance, teacher training and professional development, and/or staff salaries.\textsuperscript{20}

- Thirty-eight states invest in prekindergarten, serving primarily four-year-old children and a more limited number of three-year-olds.\textsuperscript{21} While several states make prekindergarten programs available to all children whose families want to participate, most states reach only 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 and during the school year, making access difficult for parents working full time.

- Average state spending per child enrolled in state prekindergarten programs, after adjusting for inflation, has declined steadily since the 2001-2002 school year. Between 2004-2005 and 2005-2006, spending per child decreased by $373—10 percent—after adjusting for inflation.\textsuperscript{22}

**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. Currently, the federal Dependent Care Tax Credit (DCTC) can be up to 35 percent of a family’s qualifying child and dependent care expenses. Qualifying expenses are capped at $3,000 for one child or dependent and $6,000 for two or more children or dependents.\textsuperscript{23} This credit can be worth up to $1,050 for one child or dependent and $2,100 for two or more children or dependents.\textsuperscript{24} Many families, including 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-eight states (including the District of Columbia) offer tax assistance for families with child care expenses.\textsuperscript{25} The majority—18 of the 28—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 fully or partially refundable credits, making it possible for the lowest-income families to benefit from those state credits even when they owe no taxes. For example, in New York, families with incomes of $25,000 or less may be eligible for a state tax credit of 110 percent of the federal DCTC, even if they were not actually able to claim the federal credit because they lacked federal income tax liability against which to apply the credit. This could 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 use pre-tax dollars to pay for child care expenses. Employees can set aside up to $5,000 per year in DCAP funds. However, many low-wage employers do not offer DCAPs. 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 fails to use that entire amount during the year, he or she cannot recoup the unused funds. As a result, low-wage workers may be reluctant to enroll in a DCAP.
Sources:
2 Lino, 24.
12 State Child Care Assistance Policies 2007, 5.
13 State Child Care Assistance Policies 2007, 5.
15 State Child Care Assistance Policies 2007, 7 and 22.
16 Child Care Arrangements: Spring 2005, Detailed Tables, PPL Table 6.
17 State Child Care Assistance Policies 2007, 6.
26 Campbell, et al., 14; Entmacher, et al.
28 Campbell, et al., 44.
30 Only 50 percent of even large employers—those with 100 or more employees—offer a DCAP. Dana E. Friedman, “Employer Supports for Parents with Young Children,” The Future of Children, 11 (1), 2001, 70.