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ASPE ISSUE BRIEF

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OFFICE OF HUMAN SERVICES POLICY - U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

A POLICY TO PROVIDE CHILD CARE ACCESS FOR ALL WORKING FAMILIES: EFFECTS ON MOTHERS' EMPLOYMENT AND CASELOAD

Overview

The federal government provides subsidies for child care to low-income families to promote employment and child development, among other reasons. These subsidies currently provide child care for 15 percent of eligible families,[1] and the current subsidy rate in many states does not cover the full cost of care for parents.[2] We present the effects of a policy that would expand child care by providing subsidies for children ages three and younger in working families with incomes at or below 200 percent of the federal poverty guidelines. The policy would also increase the average annual subsidy per child age three or younger from $5,562[3] (FY2013) to $10,000, which could potentially permit families to purchase higher quality child care. We used the Transfer Income Model (TRIM)—a microsimulation model—to estimate the impact this policy would have on maternal employment and program caseloads. Results showed:

- An estimated 262,000 to 427,000 additional mothers would be employed.
- An estimated 2.32 to 2.55 million children would receive subsidies (up from the FY2013 level of 1.44 million children).[4]

Child Care Policy Parameters Simulated

Child care subsidies are intended to provide support to low-income working parents. Children from birth through age 12 (or through 18

[1] Chien, Nina. 2015. "Estimates of Child Care Eligibility and Receipt for Fiscal Year 2012." Washington, DC: US Department of Health and Human Services. https://aspe.hhs.gov/sites/default/files/pdf/153591/ChildEligibility.pdf

[2] McCready, Michelle. 2015. *Parents and the High Cost of Child Care: 2015 Report*. Arlington, VA: Child Care Aware of America. http://usa.childcareaware.org/wp-content/uploads/2016/05/Parents-and-the-High-Cost-of-Child-Care-2015-FINAL.pdf.

[3] Computed using estimates from: http://www.acf.hhs.gov/occ/resource/fy-2013-final-data-table-15.

[4] This actual caseload figure is for the average month of 2013, including the 50 states and the District of Columbia. CCDF also operates in five territories.

ABOUT THIS ISSUE BRIEF

By providing child care subsidies to all children from birth through age three in working families with incomes at or below 200 percent of the federal poverty guidelines, an estimated 262,000 to 427,000 additional mothers would be employed.

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with disabilities) in families where any parent who is present is either employed or in training, and where family income is at or below 85 percent of the state median income (SMI; average is $56,426 for a family of three, FY2013), are potentially eligible to receive child care subsidies, depending on the specific policies in their state of residence. The Child Care and Development Fund (CCDF) program served 1.4 million children in the average month of 2014. But only about 15 percent of the children who are potentially eligible (if states used the income limits allowed by federal law) actually receive a federally-funded child care subsidy.[5] Furthermore, income eligibility levels set by states—the de facto income eligibility thresholds—are lower than the maximum allowed by federal rules. In 2014, 36 states and territories had income eligibility thresholds for families of three that were less than 200 percent of the federal poverty guidelines ($39,580 for a family of three). (Of course, given fixed funding levels, higher eligibility limits would likely result in lower participation rates.) Finally, in many states, subsidy levels are lower than the average cost of care.[6] This brief explores the impacts of an alternative child care policy that increases the following three parameters that would expand the reach of the CCDF program: percentage of eligible children who are served, income eligibility threshold, and subsidy amount.

This brief estimates the effects of expanding child care investments and providing access to child care subsidies for children from birth through age three in working families with incomes at or below 200 percent of the federal poverty guidelines. Under this simulated policy, the average annual subsidy per child (age three or younger) would also be larger, increasing to $10,000 annually (or $833 per month). For this analysis, we assume that the existing subsidy policies would remain in place for older children and for young children not eligible for the new policy. We used the TRIM microsimulation model to estimate the effects of the policy changes on maternal employment, the number of children eligible for subsidies, and the number of children who would receive subsidies.

In addition, we simulated alternative policy scenarios with income thresholds set at 150 percent, 250 percent, and 300 percent of the federal poverty guidelines, and with the average annual subsidy at $8,000 per child (rather than $10,000 per child).

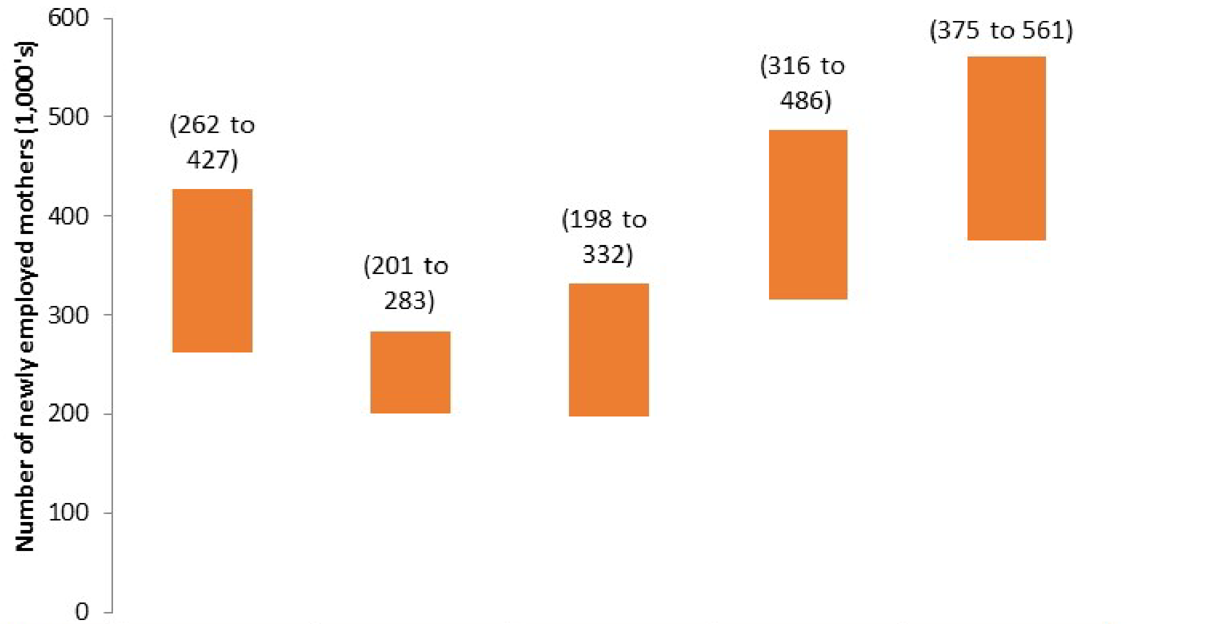
Microsimulation Results

Given an eligibility threshold of 200 percent of the federal poverty guidelines and a subsidy of $10,000, an additional 262,000 to 427,000 mothers (which represents a 9.2 to 15.0 percent increase in jobs among women with children ages three and younger who could become eligible by taking a job) would be employed. Figure 1 shows the number of newly employed mothers for each of the four alternative policy scenarios. (The ranges shown in the figures use estimates obtained from two different approaches to estimating the employment impacts.)

[5] As described in Chien (2015), this calculation includes children receiving subsidies funded by CCDF, TANF, the Social Services Block Grant (SSBG), or state expenditures claimed as TANF maintenance of effort (MOE) funds.

[6] See McCready (2015) for average expenses. Reimbursement rates from Minton, Sarah, Kathryn Stevens, Lorraine Blatt, and Christin Durham. 2015. *The CCDF Policies Database Book of Tables: Key Cross-State Variations in CCDF Policies as of October 1, 2014*. OPRE Report 2015-95. Washington, DC: Office of Planning, Research and Evaluation, Administration for Children and Families, US Department of Health and Human Services.
http://www.acf.hhs.gov/sites/default/files/opre/ccdf_policies_database_2014_book_of_tables_final_11_05_15_b508_3.pdf.

Figure 1. Number of Newly Employed Mothers for Each Policy Scenario



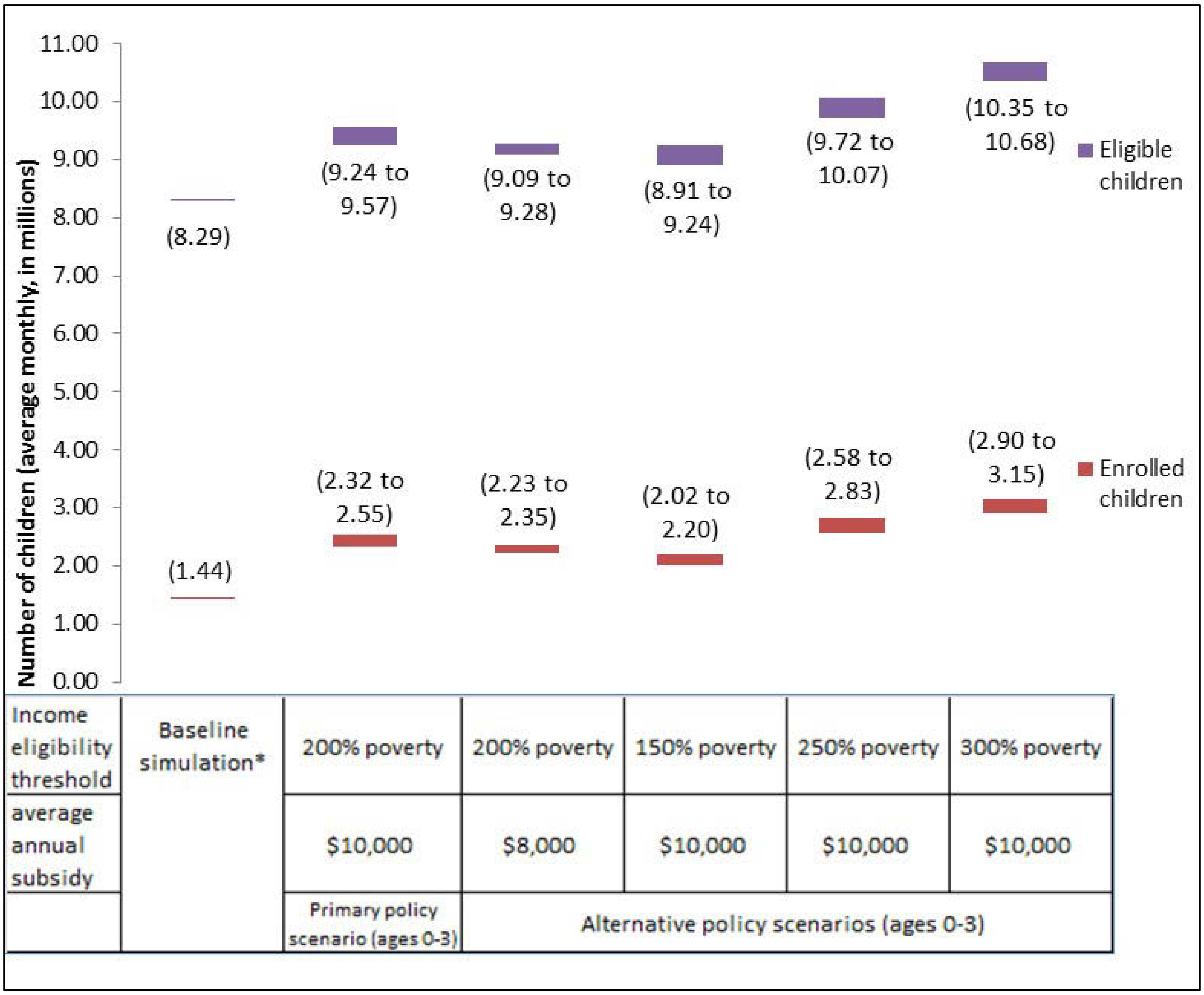
Income eligibility threshold	200% poverty	200% poverty	150% poverty	250% poverty	300% poverty
average annual subsidy	$10,000	$8,000	$10,000	$10,000	$10,000
	Primary policy scenario (ages 0-3)	Alternative policy scenarios (ages 0-3)			

Source: The Urban Institute.

Notes: Tabulations calculated using the TRIM3 microsimulation model. Bars represent range of estimates based on two approaches to estimating employment increases.

Given an eligibility threshold of 200 percent of the federal poverty guidelines and a subsidy of $10,000, 9.24 to 9.57 million children would be eligible for subsidies (including young children eligible for the new program and older children eligible for the existing program), compared to the baseline (i.e., based on current policy) of 8.29 million children. We assume that not all children eligible for subsidies will actually receive them, for various reasons. Of those eligible, 2.32 to 2.55 million children would receive subsidies, compared to the baseline of 1.44 million children simulated to receive subsidies under current policies. Figure 2 shows the total number of children (from birth through age 18) eligible for and receiving subsidies for each of the four alternative policy scenarios. Figure 3 provides estimates of eligibility and receipt for children ages three and younger.

Figure 2. Number of Eligible Children and Enrolled Children for Each Policy Scenario, All Ages



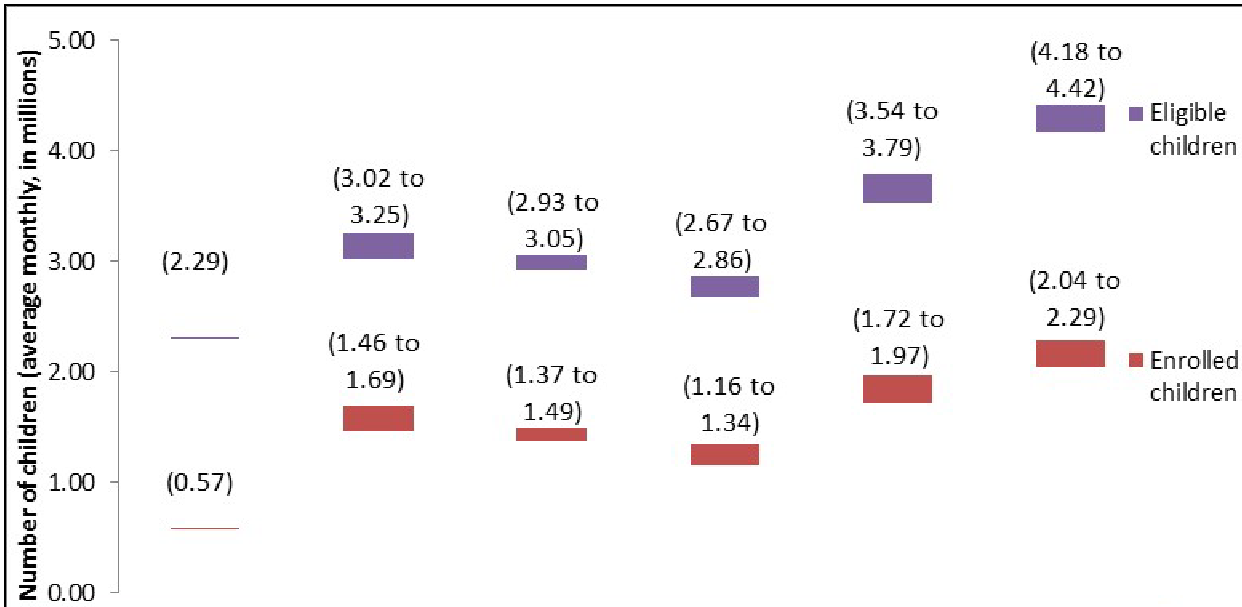
Source: The Urban Institute.

Notes: Tabulations calculated using the TRIM3 microsimulation model. Bars represent range of estimates based on two approaches to estimating employment increases. The baseline simulation uses state-specific eligibility policies from the CCDF Policies Database as of October 1, 2013.[7]

[7] Minton, Sarah, Christin Durham, Linda Giannarelli. 2014. *The CCDF Policies Database Book of Tables: Key Cross-State Variations in CCDF Policies as of October 1, 2013*. Washington, DC: The Urban Institute.

http://www.urban.org/research/publication/ccdf-policies-database-book-tables-key-cross-state-variations-ccdf-policies-october-1-2013

Figure 3. Number of Eligible Children and Enrolled Children for Each Policy Scenario, Ages Three or Younger



Income eligibility threshold	Baseline simulation*	200% poverty	200% poverty	150% poverty	250% poverty	300% poverty
average annual subsidy		$10,000	$8,000	$10,000	$10,000	$10,000
		Primary policy scenario (ages 0-3)	Alternative policy scenarios (ages 0-3)			

Source: The Urban Institute.

Notes: Tabulations calculated using the TRIM3 microsimulation model. Bars represent range of estimates based on two approaches to estimating employment increases. The baseline simulation uses state-specific eligibility policies from the CCDF Policies Database as of October 1, 2013.[8]

Method

The TRIM3 Microsimulation Model

Estimates come from TRIM,[9] a microsimulation model that uses data from the Annual Social and Economic Supplement of the Current Population Survey (CPS-ASEC).[10] The data used for this brief are from calendar year 2013.[11] The TRIM baseline child care simulation applies actual child care eligibility rules to the survey data to simulate eligibility for subsidies. Also, a caseload of child care subsidy recipients is selected from among the eligible families in a way that comes close to administrative figures for the number and characteristics of recipients. By changing child care policy parameters from

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[8] Minton. 2014. *CCDF Policies Database Book of Tables: Key Cross-State Variations in CCDF Policies as of October 1, 2013.*

[9] Developed and maintained by the Urban Institute under contract with ASPE (http://trim3.urban.org).

[10] Census Bureau. For technical documentation, see https://www.census.gov/prod/techdoc/cps/cpsmar13.pdf.

[11] The calendar year 2013 data were collected in March of 2014 and released in September of 2014.

what they actually are to alternative policy parameters, TRIM provides estimates for how outcomes might change under these alternative parameters. However, because all of the estimates are based on survey data, they could differ from true figures to the extent that the survey sample does not exactly represent the full population.

Focusing on the baseline TRIM data (prior to modifications to simulate alternative scenarios), several modifications were made to the underlying CPS data. Some non-citizens were imputed to be undocumented or temporary immigrants, and children with one of those statuses were considered ineligible for services. The survey-reported incidence of Temporary Assistance for Needy Families (TANF) and Supplemental Security Income (SSI) income was adjusted to correct for underreporting, and the adjusted data were used in simulating CCDF eligibility and copayments.

Modeling and Assumptions Specific to the Current Microsimulation

Estimates were generated using the following modeling steps:

1. Parameters from the various policy scenarios were applied, replacing current policy. To simulate a policy that would serve all eligible children and families who wanted services, the participation rate for young children eligible under the hypothetical program was set at 45 percent. We chose 45 percent because not all eligible families pay for child care as a result of access to Early Head Start or Head Start, public preschool, unpaid relative care, or for other reasons.[12] Preliminary child care estimates without employment impacts were generated (not shown), including number eligible, number enrolled, and aggregate subsidy amount.
2. Research shows that reducing child care costs (e.g., by increasing subsidy rates as we do in this simulation) encourages maternal employment.[13] Using the preliminary estimates of increases in aggregate subsidy amount, and using a child care expenditure-employment elasticity of .068,[14] we estimated a low and high number of mothers who would be newly employed as a result of the proposed policy. The high estimate took into account the iterative relationship between expenditures and employment. That is, increased expenditures drive higher employment, which results in a larger caseload, which in turn drives higher expenditures, which in turn drives higher employment, and so on, until an equilibrium is reached between the increased-employment estimate and the increased-expenditures estimate. The low estimate did not take into account this iterative relationship–expenditures were used to calculate a simple (one-time) increase in mothers' employment.

[12] In addition, some eligible families that do have child care expenses may not know about available services, choose not to receive services, or be discouraged from applying due to administrative requirements. For example, the SNAP take-up rate is 85 percent, even though SNAP is an entitlement program. From Rosenbaum, Dottie, and Brynee Keith-Jennings. 2016. *SNAP Costs and Caseloads Declining: Trends Expected to Continue.* Washington, DC: Center on Budget and Policy Priorities. http://www.cbpp.org/sites/default/files/atoms/files/11-20-13fa.pdf

[13] Morrissey, Taryn W. 2016. "Child care and parent labor force participation: A review of the research literature." *Review of Economics of the Household*. doi:10.1007/s11150-016-9331-3.

[14] This employment elasticity for likely eligible women with children ages three and younger comes from a study using difference-in-differences methodology conducted by ASPE and the Urban Institute to examine the relationship between state-level CCDF expenditures and mothers' employment outcomes. From M. Enchautegui, N. Chien, K., Burgess, and R. Ghertner. Forthcoming. *The Effects of CCDF Subsidies on the Employment Outcomes of Low Income Mothers*. Washington, DC: The Urban Institute. This estimate also falls within the range of elasticity estimates reported in this recent literature review: Morrissey, Taryn W. 2016. "Child care and parent labor force participation: A review of the research literature." *Review of Economics of the Household*. doi:10.1007/s11150-016-9331-3.

3. Mothers' educational attainment was used to estimate the new would-be wages, and only mothers who would remain income-eligible qualified to be assigned new jobs. Using estimates from step 2, a subset of these qualifying mothers were assigned new jobs. All of these newly working mothers were then assigned to receive subsidies; that is, the participation rate for newly working mothers was 100 percent.
4. After adding newly working mothers into the model, the new number of children eligible and number of children enrolled were computed.

Some additional assumptions that applied to our modeling were as follows:

- We assume that the existing CCDF program would remain in place, unchanged. That is, children ages 4 through 12 who are not age-eligible for the simulated child care subsidies, and children ages three and younger who are not income-eligible for the simulated subsidies but are currently eligible under state rules (i.e., in states with income eligibility thresholds higher than 200 percent of the federal poverty guidelines), would continue to be eligible.
- Working families are defined as families with parents/guardians working at least 25 hours per week.[15]
- The new program is modeled to allow up to three months (13 weeks) of continuing eligibility for job search. Among those families simulated to receive subsidies, those parents who became unemployed and were searching for a job were modeled to continue receiving subsidies for a period of up to three months.

Conclusion

This brief estimates the effects of providing child care subsidies for children ages three and younger in working families with incomes at or below 200 percent of the federal poverty guidelines. The simulated average annual subsidy per family was $10,000, which would increase parents' ability to access high-quality care. The combination of the TRIM estimates of new subsidy spending and prior analysis on the relationship between such spending and employment suggests that an additional 262,000 to 427,000 mothers would enter employment. An estimated 2.32 to 2.55 million children would receive subsidies (up from the FY2013 level of 1.44 million children), providing families with an important option to support their decisions on workforce entry.

[15] Note that this is not a federal requirement. Current federal regulations give Lead Agencies the flexibility to establish minimum work requirements.