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# The Cost of Subsidized Child Care: 2005 to 2016

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## KEY FINDINGS

- A greater percentage of subsidized care occurred in licensed child care centers in FY 2016 than in FY 2005. Children were less likely to receive care in family care settings or in their own homes.
- The amount paid to providers through subsidies and copayments increased more than inflation for the overall economy.
- The increases in the amount paid to child care providers occurred across age groups as well as type of care arrangement.
- The percentage of families making copayments increased somewhat, but copayments as a proportion of total payments to providers were similar in 2016 to what they were in 2005.
- In general, copayments paid by participating families increased at about the same rate as subsidy payments. These results suggest that states have reacted to the rising costs of child care through a combination of higher subsidy payments and increases in copayments.

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## Introduction

The high cost of child care is often a barrier to employment and self-sufficiency among low-income families, leading many of them to stay out of the labor force. When low-income families are employed the financial burden of child care may limit the ability of children to attend the kinds of care arrangements most associated with strong child development. One way policymakers attempt to promote economic mobility for low-income families is through child care subsidies. Child care subsidies pay for part or all of the costs of care for participating families. They are intended to increase work and job training, reduce the financial burden of child care expenditures, and improve the care options available to eligible families.

As a part of ASPE's series on the Changing Cost of Child Care this research brief presents findings on trends in the costs of federal child care subsidies from fiscal years 2005 through 2016. It uses national data from child care subsidy administrative records that states submit to the U.S. Department of Health and Human Services (HHS).

## Background on the Child Care and Development Fund

Child care subsidies to low-income families are supported through several federal and state programs. The largest of these programs is the Child Care and Development Fund (CCDF), which is administered by states, territories, and tribes with funding and support from the Administration for Children and Families' (ACF) Office of Child Care. States use the CCDF to provide financial assistance to low-income families to access child care so parents can work or attend job training or educational programs. In addition, states use the CCDF to improve quality to benefit millions more children by building the skills and qualifications of the teacher workforce, supporting child care programs to achieve higher standards, and providing consumer education to help parents select child care that meets their families' needs. For more information on child care subsidy eligibility and participation see:

<https://aspe.hhs.gov/system/files/pdf/260361/CY2015ChildCareSubsidyEligibility.pdf>

In 2014, Congress reauthorized the Child Care and Development Block Grant and subsequently ACF published a CCDF Final Rule in 2016 to update federal regulations with the new provisions of the law and clarify policy changes for CCDF administration. Among these changes were new requirements for states to:

- Take the cost of providing child care into account when setting provider subsidy payment rates;
- Allow the public to participate in the state's decision-making process around setting reimbursement rates;
- Show how base payment rates enable providers to meet health, safety, quality and staffing requirements.

Many of these policy changes became effective after the period of this analysis, so this brief should be interpreted as describing trends in the pre-reauthorization context.

CCDF allows states to set their own parameters to balance several competing policy priorities. Some states prefer to broaden their eligibility parameters to families with somewhat higher incomes, while other states choose to implement more restrictive eligibility guidelines but provide higher reimbursement rates to the providers, which expands the care options available to the participating families. Some states choose to fund most or all eligible families that apply for subsidies below a certain income threshold, while other states control costs by operating waiting lists or by freezing enrollment.

States are required to establish affordable copayments using a sliding fee scale based on income and family size in a manner that is not a barrier to families' ability to access quality care. States are to track any additional fees a provider may charge above the copayment. Although states determine the copayment amounts and decide which families are exempt from making copayments, HHS recommended in 2016 that states keep copayments below seven percent of family income, a decrease from its previous recommended benchmark of 10 percent.

## Characteristics of Families Receiving Child Care Subsidies Remained Relatively Stable

The costs associated with child care could differ over time based on changes in the characteristics of the families receiving subsidies, such as a variation in the number of children receiving care or a change in the average number of hours in care arrangements. A few of these characteristics—shown at the family level, not child level—are presented in Table 1 for Fiscal Years 2005, 2010, and 2016. Data from this period show that the average number of subsidized children receiving care per family remained about the same while the mean monthly number of hours in care, which includes all care hours of all children in a family receiving subsidized care, decreased from 259 hours per family in FY 2005 to 248 hours in FY 2016, a reduction of four

percent. Ages of the children receiving child care subsidies did not change considerably as a percent of total recipients.

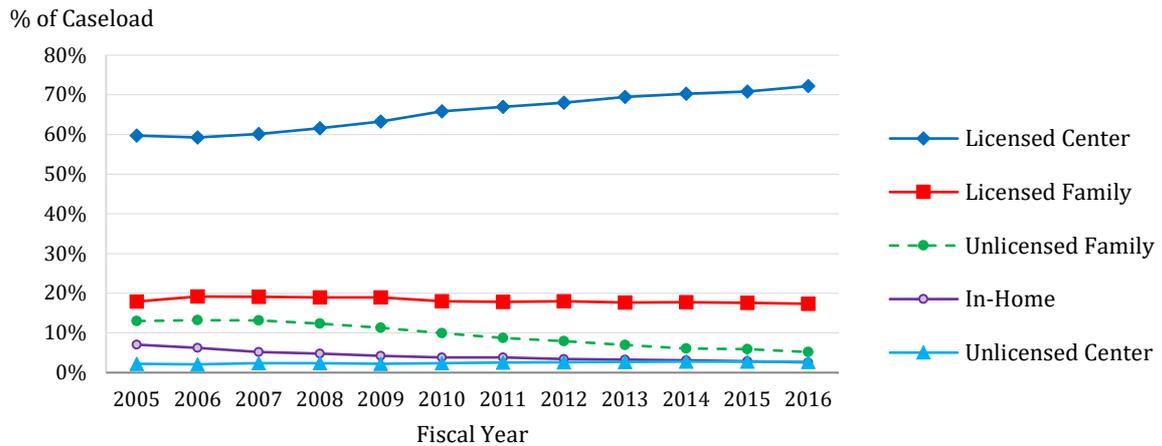
**Table 1. Characteristics of Subsidized Families by Fiscal Year**

<b>Demographic Characteristic</b>	<b>FY 2005</b>	<b>FY 2010</b>	<b>FY 2016</b>
<b>Average monthly # of care hours</b>	259	245	248
<b>Average # of subsidized children per unit</b>	1.7	1.7	1.7
<b>Age of youngest child (% of families)</b>			
Infant	10%	9%	8%
Age 1	15%	18%	16%
Age 2	17%	18%	18%
Age 3	16%	17%	17%
Age 4	15%	14%	15%
Age 5	9%	8%	9%
Ages 6 to 8	13%	11%	13%
Ages 9 to 12	5%	4%	4%
<b>Primary type of care (% of families)</b>			
In-home	7%	4%	3%
Licensed family	18%	18%	17%
Licensed center	60%	66%	72%
Unlicensed family	13%	10%	5%
Unlicensed center	2%	2%	3%

### **A Greater Percentage of Subsidized Care Occurred in Licensed Child Care Centers**

The type of care did change noticeably over this period of time, with a general shift from unlicensed family care to licensed center care. As shown in Table 1 and Figure 1, by Fiscal Year 2016, 72 percent of subsidized children were in licensed center arrangements (an increase of 12 percentage points since Fiscal Year 2005) while only five percent were in unlicensed family arrangements. For these calculations the primary child care arrangements are defined by where the children in the family spent the most hours in care.

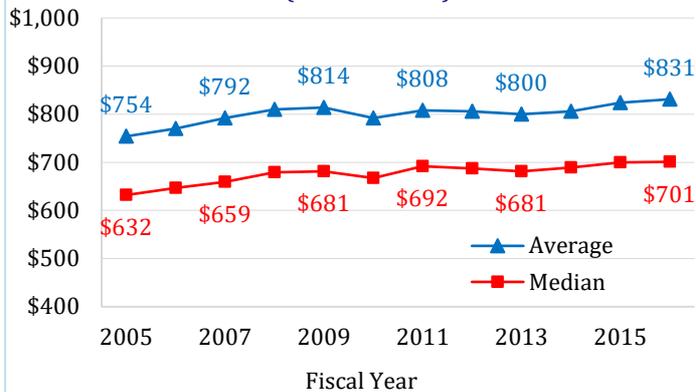
Figure 1. Primary Child Care Arrangements of Families Receiving Subsidies



## The Amount Paid to Providers through Subsidies and Copayments Increased More than Inflation

The amount paid to providers for child care primarily comes from the government subsidies they receive and the copayments that families contribute out of pocket. In some cases additional funds from charities or other private organizations are paid to providers but these expenditures are unknown and the amounts are not included in these calculations. Fees paid by the families in addition to their copayments are also excluded from these totals.

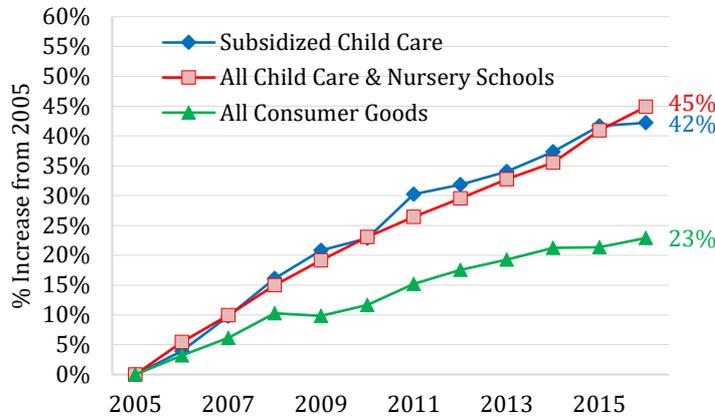
Figure 2. Monthly Child Care Payments to Providers for Subsidized Families by Fiscal Year (2016 Dollars)



The amounts paid to providers serving subsidized families are presented in Figure 2. The upward trend in care payments between Fiscal Year 2005 and Fiscal Year 2009 is evident for both the average price and the median. Average values decreased somewhat in 2010 but eventually increased to a monthly average amount of \$831 by Fiscal Year 2016 for a total increase of 10 percent. The median price of care increased 11 percent during this time period, from \$632 to \$701. The benefit of examining the median in addition to the average is to verify

that the trends in the averages are not a result of outliers, or the addition of a few very high or very low payments.

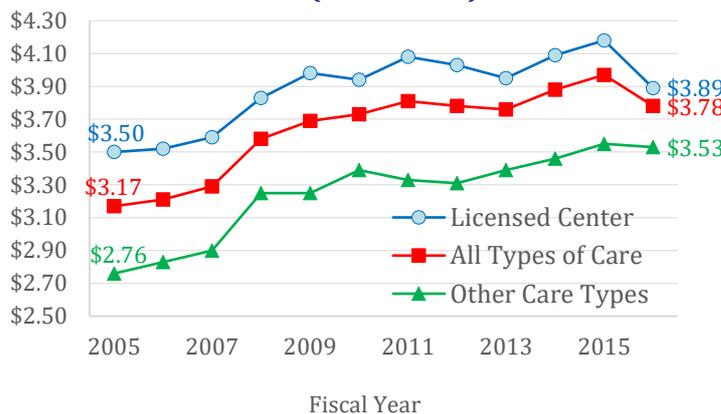
Figure 3. Percent Increase in the Payment Amounts to Providers for Subsidized Families Since 2005 Compared to the Increases in the Price of Consumer Items



An important question is whether the amounts paid for child care subsidies increased at rates similar to the changes in all consumer goods and services, as well as changes in child care payments, regardless of whether they were subsidized or not. These trends are displayed in Figure 3, which uses 2005 as the base year to compare the increases in average hourly payments for subsidized child care (subsidies plus copayments) to changes in prices for child care and nursery schools, as well as general price inflation.

Between 2005 and 2016 child care expenditures increased 45 percent for families receiving subsidies. In comparison, expenditures on all consumer items increased 23 percent, and the expenditures that all families paid for child care and nursery schools increased 42 percent.

Figure 4. Average Per Child Hourly Payments to Providers for Subsidized Child Care (2016 Dollars)



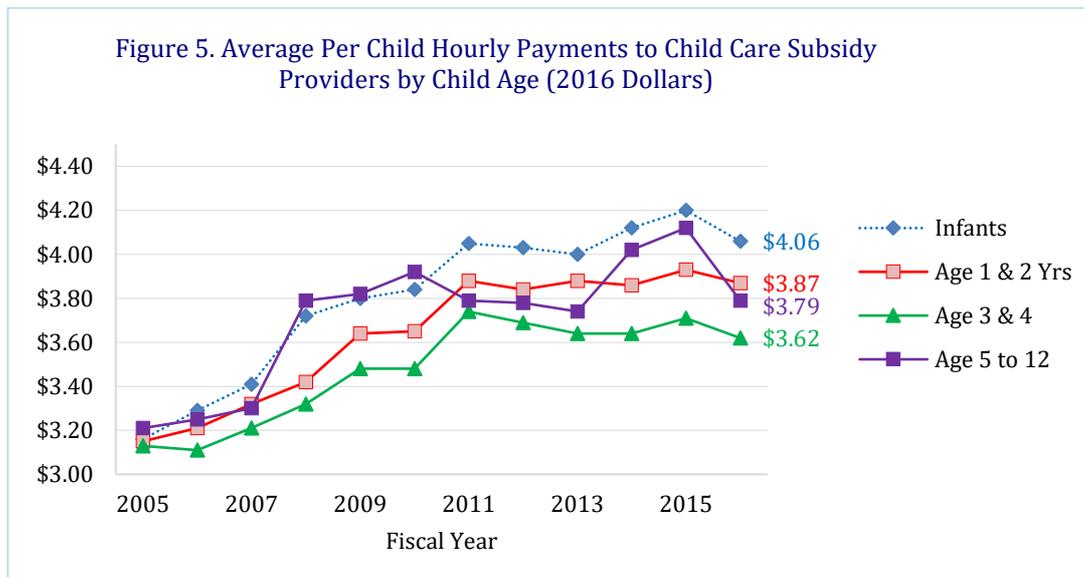
As shown in the figure, the increases in the payments for subsidized child care were similar to the increases in the prices for day care and nursery schools. Both were above the increases in overall consumer prices paid by urban consumers for all items.

The increases in the payments for subsidized child care were evident in both licensed and non-licensed care. As shown in Figure 4, the average per child hourly payments to providers increased 11 percent for licensed center care and 28 percent for all other types of care, including family care and care in the children’s own homes, for an average increase of 19 percent in real terms, from \$3.17 per hour in 2005 to \$3.78 in 2016. Note that for this figure the unit of analysis is the child instead of the family.

## Increases in the Amount Paid to Child Care Providers Occurred Across Age Groups and Types of Care

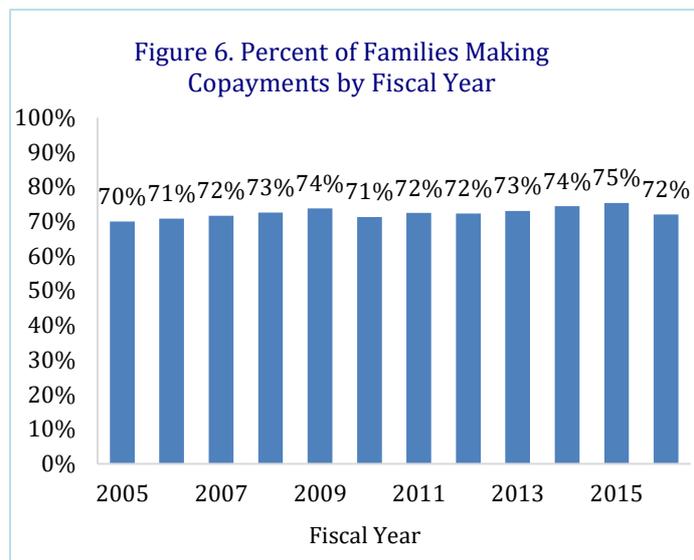
The increases in the real cost of subsidized care were observed across age groupings. Figure 5 presents the average per child hourly payments to CCDF providers by the age of the child, which increased at least 16 percent between FY 2005 and FY 2016 for all age groups. The increases in average payments were somewhat lower for children ages three and four (16 percent) and children ages five and older (18 percent) than for infants (28 percent) and children ages one and

two (23 percent). The amounts shown in this figure include the government subsidy paid to the provider as well as the copayment amount provided by the child's family.<sup>1</sup>



## The Percentage of Families Making Copayments Increased Slightly While Copayments as a Proportion of Total Payments to Providers Remained Stable

Understanding changes in the percentage of families paying copayments is important to understanding how states are reacting to price increases in child care markets and to what extent they pass the increases on to participating families.

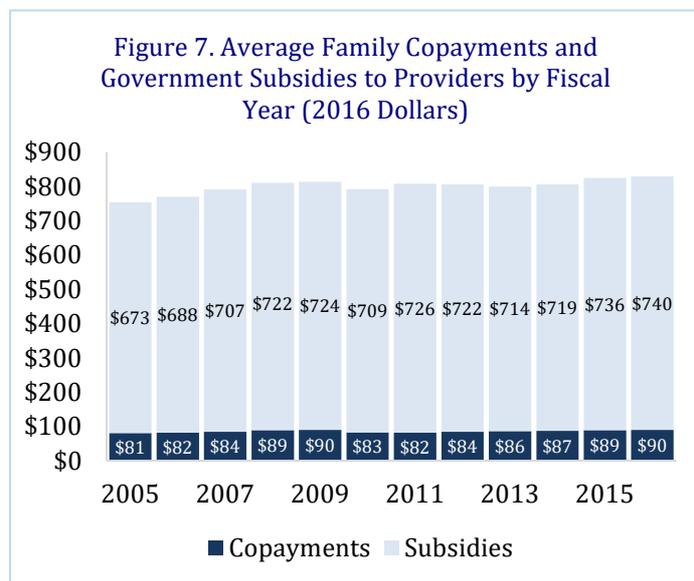


As shown in Figure 6, the percentage of families required to make payments to providers has increased slightly, from 70 percent in FY 2005 to 72 percent in FY 2016.

When the total amount of copayments and subsidies are aggregated, the percent of total payments to providers from family copayments remained stable at around 11 percent between FY 2005 and FY 2016.

<sup>1</sup> When families have more than one child in subsidized care the child's copayment amount is calculated by multiplying the family copayment paid by the proportion of total family hours the child was in care. For example, a family could have two children in subsidized care with a total copayment of 100 for the month. If child #1 is in care for 100 hours per month and child #2 is in care for 140 hours per month then the child's portion of the copayment would be  $100 * (100 / 240)$  for child #1 and  $100 * (140 / 240)$  for child #2.

The increases in the total payments to providers include both rises in government subsidy amounts and increases in family copayments. As shown in Figure 7, the average subsidy per family increased 10 percent, from \$673 per month in FY 2005 to \$740 in FY 2016. In comparison, family copayments increased 11 percent from \$81 in FY 2005 to \$90 in FY 2016. These results suggest that states have reacted to the rising costs of child care through a combination of higher subsidy payments and increases in copayments.



## Conclusion

This research brief analyzed how subsidized child care arrangements and the amounts paid to providers have changed since FY 2005. This investigation showed that the amount paid to providers of subsidized child care has increased since FY 2005 in real terms. Part of the increase is attributed to changes in the types of arrangements that subsidized families used, particularly an increase in utilization of licensed center care, which is on average more expensive than other types of care arrangements. However, the increases can also be attributed to rising payments to

licensed center providers and other types of arrangements. Increases in child care payments to providers involved growth in both subsidy amounts and in the copayments that families contribute for the care of their children. Although these changes may be related to simple supply and demand forces in the wider child care market, the payment increases could also be related to improvements in the quality of care provided to subsidy recipients or to additional costs that providers incur for compliance with state and local regulations. More research is needed to understand the drivers behind cost increases for child care.

## Methodological Appendix

The data used to tabulate the findings in this research brief are the public-use ACF-801 administrative files. The ACF-801 data consist of a sample of administrative records submitted by state child care programs to the U.S. Department of Health and Human Services (HHS), and this analysis uses data from federal Fiscal Years 2005 through 2016. The ACF-801 data include families that received subsidies from the Child Care and Development Fund (CCDF) including those funded through the Child Care Development Block Grant (CCDBG), those funded with transfers from the Temporary Assistance for Needy Families (TANF) program, and those funded with state matching and maintenance of effort (MOE) funds related to the CCDBG. States also have the option of including families receiving subsidies from other funding sources such as the Social Services Block Grant (SSBG), direct TANF funds, or state-funded sources, but not all states include these records in the ACF-801 data. Although states provide some subsidies for children ages 13 through 18, this study only includes children under age 13. This analysis is restricted to families receiving subsidies in the 50 states and the District of Columbia.

Unless noted otherwise, the data presented in this research brief are tabulated from the ACF-801 data file, which consist of a sample of subsidized children and families (N=1,541,000) between Fiscal Year 2005 and Fiscal Year 2016. All comparisons are statistically significant at  $p < .05$ . Additional statistics and confidence intervals can be found at: <http://hhsXXXXXX>. All dollar values of subsidy costs and copayments are adjusted for inflation using the Consumer Price Index for Urban Consumers (CPI-U), with 2016 as the base year.

States report hours of care using different methodologies (actual hours or actual blocked hours based on attendance, authorized hours, or authorized blocked hours). Actual or authorized blocked hours reflect the upper threshold of the range of hours within each defined block. For example, a state could define a block of hours associated with full-time care as 10-12 hours, and in this instance, the state would report 12 hours of care.

The source of data for Figure 3 is the Consumer Price Index for Urban Consumers (CPI-U). The changes in prices for child care and nursery schools is a subset of this price index (series number CUUR0000SEEB03).

The data for all consumer goods can be found at:  
<https://www.bls.gov/cpi/research-series/allitems.xlsx>

The data for child care and nursery schools can be found at  
<https://beta.bls.gov/dataViewer/view/timeseries/CUUR0000SEEB03>