

RESEARCH BRIEF

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Summary

Recent research studies from across the U.S. have shown:

- Due to the high cost of child care, low-income families often face challenges in navigating difficult options – spending a significant portion of their income on child care, finding a less expensive but potentially lower-quality alternative, or abandoning their employment to become full-time caretakers. For these families, public subsidies hold great potential.
- Child care subsidies are linked to better employment outcomes for parents. Low-income parents who use a subsidy are more likely to be employed than those who do not. Some also have higher wages and work more hours.
- Public child care subsidies are designed to assist low-income parents in obtaining affordable, accessible, and consistent child care, but not all those who qualify use them.
- The receipt of, or lack of, child care subsidies affects children’s participation in child care programs and parental employment. The more costly child care becomes, the fewer families can afford to enroll their children. Increasing prices also reduce parents’ ability to work and influences the type of care children receive.
- State policies have the potential to strengthen outcomes and increase take-up rates, and further research on interventions and quality care is needed.

Providing child care subsidies for low-income parents: Lessons from the literature

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Introduction

Every month, an average of 1,396,500 U.S. children in 857,700 families were served by subsidized Child Care and Development Block Grant (CCDBG) child care programs in Federal Fiscal Year (FFY) 2019 (U.S. Department of Health and Human Services, 2021a). In that same year, the U.S. spent \$10.3 billion on CCDBG child care subsidies (U.S. Department of Health and Human Services, 2021b) and an additional \$3.7 billion in child care expenditures through the Temporary Assistance for Needy Families (TANF) program (U.S. Department of Health and Human Services, 2020)¹.

One way to think about the success of these investments is the degree to which low-income parents are able to obtain affordable, accessible, stable child care that enables them to find and maintain adequate, sustainable earnings. The purpose of this report is to summarize research findings from recent studies across the U.S. and relate that evidence to state policy and practice questions. Specifically, we reviewed 45 peer-reviewed studies published between 1996 and 2021. After a short background section, we describe relevant findings in two sections: parental employment, and child care costs and subsidy uptake.

Policy Background: Federal and State Supports

The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996, also known as welfare reform, combined four federal child care funding streams provided to states into the Child Care and Development Fund (CCDF). This key legislative reform had a strong impact on how child care functions for low-income families. This welfare reform eliminated both cash assistance recipients’ claim to child care subsidies and the requirement for state provider reimbursements to be set at or above the 75th percentile of local market rates (ACF, 1996). Since this reform, states may now draw upon two main funding sources to offer subsidized child care—CCDBG allocations from the federal government with state maintenance of effort (MOE) matching funds, and TANF federal and state MOE funds (CBPP, 2021).

Within the broad federal eligibility standards, states have the ability to define specific qualifying criteria for child care subsidies. This criteria includes different income restrictions, eligibility for child care in 12-month intervals (Matthews et al., 2017), as well as requirements concerning job and educational pursuits, among others. States must also ensure an adequate supply of quality care providers, especially in underserved areas. While states have much autonomy in establishing and executing programs, they are limited and influenced by federal regulations. For example, federal guidelines stipulate that states must designate a child care resource and referral network (CCR&R) to educate parents about benefits and provider quality (Matthews et al., 2017). In essence, states' principal responsibility is to be policy administrators and implementors. Understanding outcomes in relationship to child care costs, subsidy uptake, and parental employment may inform states' choices in some of these areas.

Findings from the Literature: Parental Employment

For families of all income levels, child care is a critical resource that enables and supports parents to work. In this section, we discuss research findings related to how child care subsidies are connected to better employment results for low-income parents. In general, child care policies have been shown to have a positive relationship with employment and retention, particularly with increases in wages and hours worked (Matthews, et al., 2017). This is a particularly important aspect of child care subsidies for lower-income families who have less access to paid family leave compared to higher-income households. Over the last four decades, rising inequality has resulted in slow pay growth for the majority of American workers (Gould & Cooke, 2015). When implemented well, child care subsidies enable low-income parents to access high-quality child care, thus reducing potential future gaps in school readiness and educational achievements among children (Gould & Cooke, 2015).

Do child care subsidies support employment?

Parents who receive child care subsidies are more likely to:

- **Work** (e.g., Blau & Tekin, 2007; Crawford, 2006; Marshall, et al., 2013; Meyers, Heintze, & Wolf, 2002; Tekin, 2005; Zanon & Weinberger, 2015)
- **Find a job faster** (e.g., Ficano, et al., 2006)
- **Work more hours** (e.g., Crawford, 2006, Marshall et al., 2013)
- **Get a standard schedule job** (Tekin, 2007)
- **Keep a job longer** (e.g., Forry & Hofferth, 2011; Press, Fagan, & Laughlin, 2006; Gennetian, et al., 2004), though the evidence of this is mixed (e.g., Ha & Miller, 2006)

Specific estimates of the impact of child care subsidies on maternal employment differ by study, and it is often difficult to tease out causation. In other words, does utilization of a child care subsidy lead to employment or does employment lead to subsidy utilization? We therefore must be mindful of this complex relationship and consider other factors that may support both child care and employment, like children's ages or access to transportation. For example, the likelihood that a parent uses formal, center-based care increases by 59.8% when a child turns three years old, but decreases by 30.2% when a child turns six (Blau, 2001).

Does child care increase the number of hours worked?

Employment and child care go together, but researchers disagree about how much child care subsidies increase employment; estimates range from 0% to 30% (Gennetian et al., 2004). Women are more likely to be employed when they receive child care subsidies, and they are also more likely to be employed full-time (Crawford, 2006). Single mothers who reported receiving assistance with child care worked, on average, 9.4 hours more per week than mothers who did not receive assistance (Crawford, 2006).

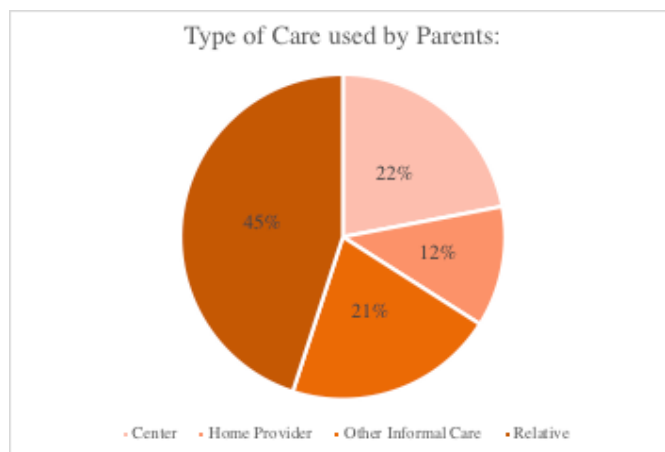
Ficano and colleagues (2006) considers child care to be a work-related expense, and finds that child care benefits lower the cost of working or raise the net return from employment. Therefore, child care subsidies can influence the chance of welfare recipients finding work (Ficano et al., 2006). This study found that child care subsidy receipt reduced the time it took for parents to get back to work, and a significant number of assistance recipients – 46% to 57% – made the move into substantial work (Ficano et al., 2006). Additionally, it demonstrated that using a child care subsidy during a period of unemployment while on other welfare programs is linked to an 11% to 34% reduction in the time it takes to find work (Ficano et al., 2006). Lastly, the beneficial effect of subsidy usage on transitions to significant work was highest for welfare recipients with the lowest incomes prior to subsidy receipt, with a one-quarter reduction in time it took them to get employed (Ficano et al., 2006).

Does child care increase the odds of earning a better wage?

Ha and Miller (2015) found that the receipt of more than one year of child care subsidies was positively and significantly associated with increases in earnings and number of quarters employed in the year (Ha & Miller, 2015). Mothers with 25 months or more of subsidy receipt were 15% less likely to be in the group that experienced continual employment without substantial increases in earnings (Ha & Miller, 2015). Another tradeoff between employment and subsidized child care is less work disruption. According to a study, the odds of experiencing a child care–related work disruption were 75% lower for parents receiving a subsidy than parents not receiving a subsidy (Forry & Hofferth, 2011).

Findings from the Literature: Child Care Costs and Utilization

Given the positive relationship between child care subsidies and employment outcomes, one might assume that everyone who qualifies for a subsidy would be interested in using it. However, child care options and decisions are complex. In this second section of the brief, we summarize research findings related to child care subsidy utilization. Child care arrangements are typically divided into four categories: center-based, home provider, relative care, and other informal care options. Individual differences and preferences, along with policy and program options, influence child care decisions. For example, parental education has been shown to predict use of center-based care over relative or nonrelative home-based care. (Huston et al., 2002). Across income levels, parents who prioritized their families over their careers utilized less child care, and when they did, it was less likely to be center or formal care (Huston et al., 2002). As shown in the figure below, overall, relative care is the most prevalent option; it is also often the most affordable option, but not always covered by subsidies.



Source: Blau, D. M. (2001). *The Child Care Problem: An Economic Analysis*. Russell Sage Foundation.
<http://www.jstor.org/stable/10.7758/9781610440592.16>

Rules around subsidies and the process to apply for and receive them limit their accessibility and appeal to some families. Thus, not everyone who qualifies for a subsidy may want or know how to use one. Danzinger and colleagues (2004) focused specifically on uptake of child care subsidies among families receiving TANF. According to that survey, 42% of respondents who were income

qualifying and had a child under the age of 14 received a child care subsidy on a normal work week. (Danzinger et al., 2004). Nearly a third of these families also reported out-of-pocket child care expenses totaling about 31% of their income during a typical week (Danzinger et al., 2004). Concerning social safety net programs, subsidy restrictions or other policy regulations that intersect with child care subsidy qualifications may have an impact on subsidy use tendencies (Ha, 2009). Mothers who did not receive other public assistance benefits (such as TANF or SNAP) were more likely to continue using child care subsidies than mothers who received both (Ha, 2009). Regarding TANF specifically, many program leavers are ineligible for child care subsidies and leavers that are ineligible for subsidized child care are less likely to receive any child care or to work (Shlay, et al., 2010).

How does cost affect uptake and employment?

Despite dramatic increases in federal child care funding as a result of the 1996 welfare reform, low-income parents spent 46% more on average on child care after welfare reform (Ahn, 2012). This is important as cost may serve as one clear barrier to uptake. In more technical terms, price has a negative relationship with uptake; when the price of child care increases by 1%, the proportion of families using child care decreases by 0.34% (Blau, 2001, p.73). The table below summarizes the relationship between price and uptake in various settings, with home provider care the most sensitive to price increases and relative care the least sensitive.

Type of Care	When Price Increases 1%, Take-Up Goes Down by:
Center	0.24%
Home Provider	0.34%
Other informal	0.12%
Relative	0.07%

Source: Blau, D. M. (2001). *The Child Care Problem: An Economic Analysis*. Russell Sage Foundation.
<http://www.jstor.org/stable/10.7758/9781610440592.16>

The price of child care is also related to employment—both in terms of employment status and earnings. Literature reviews estimate the average U.S. elasticity of employment with respect to child care prices is -0.35, meaning that as the price of child care increases, employment rates decrease (Akgunduz & Plantenga, 2018). The relationship between cost and earnings is a bit more nuanced. Research indicates that while very low, marginal co-payment rates may have no significant effect on earnings; marginal co-payments in excess of 10% of income appear to lead to significant declines in earnings (Queralt et. Al, 2000).

Do subsidies support child care utilization?

Despite challenges related to cost, the literature indicates that child care subsidies even the playing field in terms of both locating and maintaining child care arrangements. Child care subsidies helped low-income families to be just as likely as middle-income families to say they had child care options in their neighborhoods and more than one child care option for their children (Marshall et al., 2013). Brook's (2002) study discovered links between receiving subsidies and a mother's capacity to find child care, as well as the stability of that care over time. This also has a positive effect on children in subsidized care whom are found to have been together for twice as long (18 months vs. 9 months) as children in non-subsidized care (Brooks, 2002). Scott and Abelson (2016), established that child care subsidies enable parents to seek child care alternatives when they are dissatisfied with a provider or when one becomes unavailable, allowing them to keep their jobs. Conversely, parents with non-traditional hours or limited job choices may find fewer child care choices that meet their needs (Huston et al., 2002; Marshall, et al., 2013).

Conclusion: Child Care has Positive Employment Benefits for Those that Utilize It, But Utilization is Complicated

Many families with young children face challenges when making child care arrangements. Such challenges pose barriers to employment, including excessive costs, lack of availability, or unsuitable service hours. Public child care subsidy programs are designed to help these families. The scope of this review is restricted to child care that is publicly subsidized by the CCDBG and TANF as a work support for low-income and single parents. The 45 published studies we reviewed contain multiple findings related to current policy and federal guidelines. This research brief emphasizes the link between child care and maternal employment, suggesting that policies to enhance child care availability have the potential to increase working mothers' employment and wages. Findings also suggest, however, that child care decisions are complicated by factors unrelated to subsidies. Our review also did not include research on the relationship between child care and child development and school-readiness. Furthering the case for public investments, many argue that high-quality, personalized, educational child care for young children is one of the best investments the government can make (Heckman, 2005). Future research and policy decisions should consider questions that center child outcomes as well as parental employment.

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