

## POLICY 4:

# Child Care Subsidies

**Why Child Care Policy Matters.** For states seeking to strengthen their current and future work force, child care subsidies can serve as an important tool. Research shows that access to high-quality, affordable child care improves the employment stability of workers.<sup>16</sup> Studies also show that low-wage families are much less likely to return to the welfare rolls if they have access to child care assistance.<sup>17</sup>

High-quality child care also can promote child development. The brain architecture of a child is developed most in the first years of life,<sup>18</sup> and research shows that quality child care can offer the important physical, language, social and cognitive training that helps develop this brain architecture effectively.<sup>19</sup> Research also shows that the positive effects of early development continue into regular schooling,<sup>20</sup> and that the benefits of early childhood education have been found to improve the education, employment and positive life outcomes of participants throughout life – providing far greater economic gains for society than the original cost of the investment.<sup>21</sup> Therefore, child care serves not only as a work support for parents, but also as part of a broad approach to child development aimed at helping children become healthy, eager to learn, and prepared to succeed as productive members of society.

**Key State Policy Measures.** States can achieve the benefits of child care assistance through the following policies that enhance access to – and the quality of – child care.

**4.1 Income eligibility levels.** The federal government allows states to determine the income level at which families are eligible to access child care subsidies, but sets a maximum eligibility level equal to 85 percent of a state’s median income (SMI). States can expand access to child care by increasing eligibility up to that level. Raising the income eligibility level will not improve access to child care unless the state also provides adequate funding to ensure that all eligible families receive the assistance.

### Changes in 2007:

#### States increasing eligibility levels in dollar terms and as a percentage of the SMI.

When states raise eligibility levels in dollar terms and as a percentage of SMI, families receiving subsidies are more likely to maintain their eligibility even as inflation and other factors cause wages to rise. Increasing eligibility as a percentage of SMI helps combat the “benefit cliff” effect, where low-wage families who see small wage increases may suddenly lose their child care subsidy because their wages have crossed the eligibility threshold. Raising the threshold relative to SMI does not eliminate this effect, but can reduce the number of low-wage workers who experience it. The following states increased their eligibility levels both in terms of dollar amounts and as a percentage of the state median income:

Arizona	Indiana	Ohio
Arkansas	Kansas	Oregon
California	Massachusetts	Pennsylvania
Delaware	Nebraska	South Carolina
Florida	Nevada	
Georgia	New York	

**States keeping eligibility levels constant in dollar terms, and seeing increases as a percentage of SMI.** One state made no change to eligibility levels, but saw these levels increase when measured as a percentage of SMI, due to declining SMI.

- **Illinois** held its eligibility level constant in dollar terms, but when measured as a percentage of state median income, this level increased from 50 percent to 51 percent of SMI.

**States increasing eligibility levels in dollar terms, with no notable change as a percentage of SMI.** The following states increased their eligibility in terms of dollar amounts, but the increase only kept pace with increases in SMI. As a result, low-wage workers with average wage growth in these states may continue to be eligible for child care subsidies.

Connecticut	Minnesota*	Utah
Florida	New Hampshire	Washington
Iowa	New Jersey	Wisconsin
Maine	Tennessee	

\* For FY 2008 these rates were reduced.

**States keeping eligibility levels constant in dollar terms, with no change as a percentage of SMI.**

- **Missouri** made no change to the dollar threshold of its eligibility level, and saw no change in this level measured as a percentage of SMI.

**States increasing or keeping eligibility levels constant in dollar terms, and seeing decreases as a percentage of SMI.** These states did not change the dollar amount of their eligibility threshold, but due to rising income levels, saw these eligibility levels decline when measured as a percentage of SMI.

Alabama	Louisiana	North Carolina
Alaska	Maryland	North Dakota
District of Columbia	Michigan	South Dakota
Hawaii	Mississippi	Vermont
Idaho	Montana	West Virginia
Kentucky	New Mexico	Wyoming

**States with local or regional variations in eligibility levels**

- Colorado
- Texas
- Virginia

**4.2 Reimbursement rates.** If child care reimbursement rates are not consistent with fees charged in the child care market, families using subsidies may not have access to high-quality care, and many will struggle to find a suitable provider. Federal guidelines recommend that states conduct a market rate survey of private child care providers every two years, and set reimbursement rates at the 75th percentile of the current market rate (or above).

**Changes in 2007:** For 2007, the following policy changes were made:

- **California and North Carolina** raised their reimbursement rates to a level that now meets the federal guideline, which is set at the 75<sup>th</sup> percentile of the current market rate (or above).
- **South Carolina and Wyoming** *ceased* to meet the federal guideline, which is set at the 75th percentile of the current market rate (or above).

**4.3 – 4.4 Co-payment requirements.** States often require low-wage families to share in the cost of child care by requiring co-payments, which can make it difficult for these families to afford child care and make ends meet.<sup>22</sup> States generally set co-payments as a percentage of a family’s income, and set different rates for families at 100 percent (\$17,170 in 2007) and 150 percent (\$25,755 in 2007) of the federal poverty level. In the United States, families with child care expenses on average pay seven percent of their earnings towards child care.<sup>23</sup>

**Changes in 2007:**

For families with earnings equal to 100 percent of the FPL, the following policy changes were made:

<b>Reduced Co-payments</b>	<b>No change</b>	<b>Increased Co-payments</b>
Alabama	Alaska	Delaware
Arkansas	Arizona	Florida
Iowa	California	Illinois
New Jersey	Colorado	Kentucky
Texas	Connecticut	Louisiana
Washington	District of Columbia	Massachusetts
	Georgia	Ohio
	Hawaii	Oregon
	Idaho	South Dakota
	Indiana	Vermont
	Maine	Wisconsin
	Maryland	
	Minnesota	
	Mississippi	
	Missouri	
	Montana	
	Nebraska	
	Nevada	
	New Hampshire	
	New Mexico	
	New York	
	North Carolina	
	North Dakota	
	Oklahoma	
	Pennsylvania	
	Rhode Island	
	South Carolina	
	Tennessee	
	Utah	
	Virginia	
	West Virginia	
	Wyoming	

For families with earnings equal to 150 percent of the FPL, the following policy changes were made:

<b>Reduced copays</b>	<b>No change</b>	<b>Increased copays</b>	<b>Eliminated eligibility</b>
Alaska	Alabama	Delaware	Georgia
Arkansas	Arizona	Florida	
Illinois	California	Kentucky	
Nevada	Colorado	Louisiana	
New Jersey	Connecticut	Minnesota	
Texas	District of Columbia	North Dakota	
Wyoming	Hawaii	Oregon	
	Idaho	Rhode Island	
	Indiana	South Dakota	
	Iowa	Vermont	
	Maine	West Virginia	
	Maryland	Wisconsin	
	Massachusetts		
	Michigan		
	Mississippi		
	Missouri		
	Montana		
	Nebraska		
	New Hampshire		
	New Mexico		
	New York		
	North Carolina		
	Ohio		
	Oklahoma		
	Pennsylvania		
	South Carolina		
	Tennessee		
	Utah		
	Virginia		
	Washington		

## Child Care Subsidies Policy Measures

### Measure 4.1: Income Eligibility Levels

At what percentage of the state's median income (SMI) does the state set eligibility levels for child care assistance? *Table reflects policy as of February 2007.*

75% of SMI or above, <i>with no waiting list</i>	Hawaii, Nev.
50 to 74% of SMI, <i>with no waiting list</i>	Alaska, Ariz., Conn., D.C., Del., Ga., Ill., Kan., Ky., La., Mont., N.M., N.D., Ohio, Okla., Ore., R.I., S.C., S.D., Utah, Vt., Wash., W.Va., Wis., Wyo.
Below 50% of SMI, <i>with no waiting list</i>	Colo.,* Fla., Idaho, Ind., Iowa, Md., Mich., Mo., Neb., N.H.
States with waiting lists for child care	Ala., Ark., Calif., Fla., Ga., Ind., Maine, Mass., Minn., Miss., N.J., N.C., N.Y.,** Pa., Tenn.,*** Texas,* Va.*

\*In Colorado, Texas and Virginia eligibility varies by county or region.

\*\*New York experienced waiting lists at the county level.

\*\*\*Tennessee did not report a waiting list, but froze intake during 2007.

### Measure 4.2: Reimbursement Rates

In setting reimbursement rates for child care, does the state meet the federal guideline of the 75th percentile of a recent market rate survey or above? *Table reflects policy as of February 2007.*

Yes	Ark., Calif., Ind., Maine, Mont., N.C., N.Y., S.D., Wis.
No	Ala., Alaska, Ariz., Colo., Conn., Del., D.C., Fla., Ga., Hawaii, Idaho, Ill., Iowa, Kan., Ky., La., Md., Mass., Mich., Minn., Miss., Mo., Neb., Nev., N.D., N.H., N.J., Ohio, Okla., Ore., Pa., R.I., S.C., Tenn., Utah, Vt., Va., Wash., W.Va., Wyo.
Surveys are not used to set reimbursement rates	N.M., Texas

### Measure 4.3: Co-payments for Families at 100 Percent of the Federal Poverty Level

What percentage of families' income does the state charge as a co-payment for families with earnings equal to 100 percent of the federal poverty level (\$17,170 for a two-parent family with one child)? *Table reflects policy as of February 2007.*

No co-payments	Ark., Calif., Hawaii, Iowa
Less than 3.5% of earnings (i.e., less than half the national average for unsubsidized child care expenses)	Alaska, D.C., Minn., N.H., N.Y., R.I., S.C., S.D., Utah, Wash., W.Va., Wyo.,
3.5 to 7% of earnings	Ala., Ariz., Conn., Fla., Idaho, Ill., Ind., Miss., Mo., Mont., Neb., Nev., N.J., N.M., Okla., Pa., Tenn., Vt.
Above 7% of earnings (i.e., more than the national average for unsubsidized child care expenses)	Colo., Del., Ga., Ky., La., Mass., Maine, Md., N.C., N.D., Ohio, Ore., Texas, Va., Wis.

**Measure 4.4: Co-payments for Families at 150 Percent of the Federal Poverty Level**

What percentage of families' income does the state charge as a co-payment for families with earnings equal to 150 percent of the federal poverty level (\$25,755 for a two-parent family with one child)? *Table reflects policy as of February 2007.*

Up to 7% of earnings (i.e., up to the national average for unsubsidized child care expenses)	Alaska, Ariz., Ark., Calif., Conn., D.C., Hawaii, Ill., Minn., Miss., N.J., N.H., N.M., R.I., S.C., Utah, Wash., W.Va., Wyo.
8 to 13% of earnings	Ala., Colo., Fla., Ga., Ky., La., Maine, Mass., Nev., N.Y., N.C., Ohio, Okla., Pa., Tenn., Texas, Va., Wis.
14% or above (i.e., at or above twice the national average for unsubsidized child care expenses)	Del., Md., N.D., Ore., S.D., Vt.
Families not eligible for subsidies at this income level	Idaho, Ind., Iowa, Mich., Mo., Mont., Neb.

### Selected State Child Care Policies (For a Two-Parent Family with One Child)

STATE	4.1		4.2		4.3		4.4	
	Income Eligibility (As a % of SMI*) [a]	Eligible Families Served Without Waiting List [c]	Income Eligibility	Reimbursement Rate Based on Current Survey [b]	% Family Income Paid in Co-payment (At 100% FPL) [c]	% Family Income Paid in Co-payment (150% of FPL) [c]	Income Eligibility	Reimbursement Rate Based on Current Survey [b]
Alabama	↓ 42	-	[r]	↓ 5	10			
Alaska	↓ 71	Yes	[r,y]	1	↓ 1			
Arizona	↑ 57	Yes	[j]	5	7			
Arkansas	↑ 83	-	Yes	↓ 0	↓ 5			
California	↑ 75	-	↑ Yes	0	3			
Colorado	↑ 35-61 [d]	Yes	[s,r]	10	11			
Connecticut	50	Yes	-	4	6			
Delaware	↑ 55	Yes	-	↑ 11	↑ 18			
District of Columbia	↓ 74	Yes	[s]	3	5			
Florida	↑ 49	-	[r]	↑ 7	↑ 8			
Georgia	↑ 52	-	[j]	9	9 [i]			
Hawaii	↓ 76	Yes	-	0	2			
Idaho	↓ 42	Yes	-	7	Not eligible			
Illinois	↑ 51	Yes	[t,r]	↑ 6	↓ 7			
Indiana	↑ 38	-	Yes	5	Not eligible			
Iowa	43	Yes	[t]	↓ 0	Not eligible			
Kansas	↑ 58	Yes	[t]	n/a	n/a			
Kentucky	↓ 52	Yes	-	↑ 8	↑ 11			
Louisiana	↓ 70	Yes	[t]	↑ 11	↑ 11			
Maine	85	-	Yes	8	10			
Maryland	↓ 41	Yes	[j]	11	14			
Massachusetts	↑ 48	-	[t,r]	↑ 8	9			
Michigan	↓ 40	Yes	-	n/a	Not eligible			
Minnesota	44	-	[r]	3 [k]	↑ 5 [k]			
Mississippi	↓ 82	-	-	5	6			
Missouri	34	Yes	[s,t]	6	Not eligible			
Montana	↓ 53	Yes	Yes	4	Not eligible			
Nebraska	↑ 37	Yes	-	4	Not eligible			
Nevada	↑ 75	Yes	[t,r]	4	↓ 10			
New Hampshire	46	Yes	-	<1	<1			
New Jersey	44	-	-	↓ 6	↓ 7			
New Mexico	↓ 60	Yes	[s,t]	4	6			
New York	↑ 58	[h]	Yes [j]	1	12			
North Carolina	↓ 70	-	↑ Yes [s]	10	10			
North Dakota	↓ 51	Yes	[t]	13	↑ 15			
Ohio	↑ 56	Yes	-	↑ 9	9			
Oklahoma	62	Yes	[r,t,y]	7	8			
Oregon	↑ 50	Yes	[j]	↑ 11	↑ 27			
Pennsylvania	↑ 57	-	[r,t,y]	6	8			
Rhode Island	61	Yes	-	1	↑ 7			
South Carolina	↑ 52	Yes	↓ [s,j]	3	3			
South Dakota	↓ 66	Yes	Yes	↑ 1	↑ 15			
Tennessee	60	[g]	[r,t,y]	6	8			
Texas	↑ 52-85 [d]	-	[r]	↓ 9-11	↓ 9-11			
Utah	58	Yes	[s,y]	1	7			
Vermont	↓ 51	Yes	[f]	↑ 5	↑ 15			
Virginia	40-67 [d]	-	-	10	10			
Washington	55	Yes	[t]	↓ 3	7			
West Virginia	↓ 55	Yes	[t,y]	3	↑ 5			
Wisconsin	53	Yes	Yes	↑ 10	↑ 9			
Wyoming	↓ 59	Yes	↓ [f]	1	↓ 2			
<b>Year Data Collected</b>	<b>2007</b>	<b>2007</b>	<b>2007</b>	<b>2007</b>	<b>2007</b>	<b>2007</b>	<b>2007</b>	<b>2007</b>

\* SMI = State Median Income

**Data Source:**

Karen Schulman and Helen Blank. *State Child Care Assistance Policies 2007: Some Steps Forward, More Progress Needed*. Washington, D.C.: National Women's Law Center, September 2007.

**Data Table Notes:**

- a. Income eligibility limits shown in the table represent the maximum income a family can receive when they apply for child care assistance. Some states allow families, once receiving assistance, to continue receiving assistance up to a higher income level.
- b. For 2006 reimbursement rates, a survey conducted in 2004-2005 was considered current. For 2007 reimbursement rates, a survey conducted in 2005-2006 is considered current.
- c. Co-payments are calculated for a hypothetical family of three with one child in care at specific income levels. Some states shown to charge co-payments at 100 percent of FPL do not charge co-payment to families just under that income level. The 2007 Federal Poverty Level for a family of three is \$17,170. At 150 percent of the federal poverty level, a family of three earns \$25,755.
- d. Colorado, Texas and Virginia have local or regional variation in their income eligibility limits.
- e. Waiting lists are reported as of early 2007.
- f. Wyoming and Vermont planned to implement new rates effective July 2007.
- g. Tennessee did not report a waiting list, but froze intake during 2007.
- h. New York experienced waiting lists at the county level.
- i. Georgia expanded its income eligibility in 2007 to include families at this income level.
- j. Reimbursement rates reflect a sample set of jurisdictions within these states.
- k. For FY 2008 these rates were reduced.
- r. Reimbursement rates vary by region in these states.
- s. Reimbursement rates vary according to rating standards met by providers these states.
- t. Reimbursement rates vary by type of care in these states.
- y. Reimbursement rates vary by age of child in these states.