



Child Care Assistance Helps Families Work: A Review of the Effects of Subsidy Receipt on Employment

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Reliable and stable child care helps parents retain steady employment and reduces workplace absenteeism. Working parents with affordable, dependable child care are less likely to face child care interruptions that can result in absences and other schedule disruptions in the workplace. Yet meeting the high costs of child care is difficult for low-income working families.

In February, Congress passed the fiscal year 2006 federal budget (called the “Deficit Reduction Act of 2005”), which included significant changes to the Temporary Assistance for Needy Families (TANF) program. As a result, many states will have to increase the number of families receiving TANF who participate in work activities. Provision of a child care subsidy can make a significant difference in helping these families access the child care that best meets their needs and retain stable employment. Research shows that when families are not able to access child care assistance, they may go into debt, return to welfare, choose lower-quality, less stable child care, or face untenable choices in their household budgets (for example, between paying for child care or paying for rent or clothes).¹

This policy brief reviews relevant research on the relationship between child care assistance and employment and finds that subsidy receipt is associated with positive employment outcomes for low-income workers. Low-income mothers who receive child care assistance are more likely to be employed, to stay off welfare, and to have higher earnings.

The High Costs of Child Care

The majority of parents with young children work and, therefore, have to arrange care for their children. Most families that are low-income—defined as having earnings below 200 percent of poverty—include a year-round, full-time worker.² Over the course of a year, more than two-thirds of poor families with children work.³ In the last decade, the share of single, low-income working mothers has risen dramatically. In 2002, 64 percent of single, low-income mothers with children under the age of six were employed.⁴

Child care costs are particularly burdensome for poor and low-income families, who pay a significantly higher share of their income for care than do upper-income families. For example, 40 percent of poor, single, working mothers who paid for child care in 2001 paid at least half of their cash income for child care; an additional 25 percent of these families paid 40 to 50 percent of their cash income for child care.⁵

The cost of child care varies greatly based on where in the country a family lives, the type of care used, and the quality. The average annual cost of child care for a 4-year-old child ranges from \$3,016 to \$9,628 across the states. The average cost of care for an infant is even higher, ranging from \$3,803 to \$13,480 annually.⁶ Higher-quality child care is more expensive than that of lesser quality and can be prohibitively expensive for many families. A study of 17 states found that in 11 communities, low-income families without a child care subsidy could only afford 10 percent or less of the center-based care in that community. Receipt of a child care subsidy made child care centers and regulated family child care homes more accessible for low-income families.⁷

The High Costs of Child Care Breakdowns

Just as families struggle with child care, employers also pay a price when parents do not have stable child care arrangements. In 1998, employee absences related to child care breakdowns were estimated to cost U.S. businesses \$3 billion.⁸ Difficulties with securing child care result in missed work and missed income:

- A survey of employees across multiple industries found that 45 percent of parents miss at least one day of work every six months due to a child care breakdown and 65 percent are late to work or leave work early due to child care issues.⁹
- A statewide household survey in Minnesota found that 20 percent of parents reported child care problems that interfered with getting or keeping a job within the prior year and 37 percent reported having lost time or income due to a child care problem other than a sick child.¹⁰

When child care arrangements break down, some workers without flexible work hours or paid-leave benefits face the prospects of losing pay or losing employment. The majority of poor workers, former welfare recipients, and recent welfare leavers are employed in jobs that do not allow paid leave.¹¹ Receipt of a child care subsidy may lessen employment problems related to child care. According to a survey of working mothers in Philadelphia, Pennsylvania, women who receive child care subsidies are 56 percent less likely to report work schedule problems including having to change shifts or work schedules, reduce work hours, or work fewer hours than desired.¹²

Child Care Subsidies Can Increase Mothers' Employment

The employment effect of providing a child care subsidy has not been experimentally evaluated, yet several studies have found that child care costs are a significant barrier to

women's labor force participation.¹³ When low-income families receive help meeting child care costs they are more likely to enter and remain in the workforce, and may work more hours. Researcher David Blau notes that a child care subsidy generates more additional hours worked per dollar of government spending than a comparable wage subsidy.¹⁴

Several studies have estimated a positive correlation between decreasing child care costs and women's employment decisions.

- A Government Accountability Office (GAO) study estimating the effect of different levels of subsidies for various income groups found that a child care subsidy covering 100 percent of child care costs could increase the proportion of poor mothers who work by 15 percent and the proportion of low-income mothers (with incomes up to 185 percent of the federal poverty level) who work by 14 percent.¹⁵
- A study of low-income single mothers in California who were current or former welfare participants found a large positive correlation between the probability of receiving a child care subsidy and labor force participation. Mothers who were most likely to receive child care subsidies had significantly higher rates of labor market activity, including job preparation activities and actual employment. However, just 18 percent of mothers who were engaged in any kind of labor market activity received child care assistance.¹⁶

There is significant evidence that when low-income families receive help meeting the high costs of child care, they are more likely to enter and remain in the workforce.

- A study analyzing longitudinal Census Bureau data to examine women's employment experience during the 1990s found that "[r]eceiving a subsidy for child care promotes longer employment durations among women, regardless of marital status or educational attainment." The study found that single mothers of young children who received child care assistance were 40 percent more likely to still be employed after two years and former welfare recipients were 60 percent more likely to still be employed after two years than those who did not receive any help paying for child care.¹⁷
- A study of a representative sample of low-income single mothers found that receipt of child care subsidies increased the probability of employment by 15 percent. Subsidy recipients were more likely to work standard hours compared to non-recipients. Subsidy receipt also increased the use of center-based care among employed mothers and decreased reliance on relative care, which may be less stable.¹⁸
- An analysis of household survey data from 13 states conducted in 1999 found that subsidy receipt correlated with a 13 percent increase in the likelihood of being employed.¹⁹

Additional evidence comes from studies that compare families receiving subsidies with families on child care waiting lists.

- A study in Georgia found that compared to mothers on waiting lists for child care assistance, mothers receiving subsidies for their child's care were more likely to be employed, spent half as much of their income on child care, and were less likely to be very poor. Compared to children on waiting lists, children receiving subsidies for child care were more likely to be in a formal licensed child care center, have more stable care, and have mothers who were more satisfied with their child care arrangement.²⁰
- A recent survey of families on waiting lists for child care assistance in Minnesota found that nearly 75 percent of parents had made changes in their work or education plans as a result of being put on a waiting list; nearly half of parents had reduced and/or changed their work hours; over one-quarter of parents had used their savings to pay for child care; and more than one-third of parents said they had to forgo paying other household expenses due to the costs of child care.²¹
- Analysis of survey data of low-income single mothers in Kentucky estimated that single mothers receiving subsidies were 12 percent more likely to be employed compared to mothers on waiting lists for assistance. Single mothers receiving subsidies also reported higher levels of satisfaction with their child care arrangements.²²

Several studies of former welfare recipients' experiences with child care subsidies have shown that subsidies have a positive effect on mothers' participation in the labor market.

- A survey of welfare leavers in Michigan found that, after controlling for demographic and other factors affecting work outcomes, subsidy recipients worked more hours and had higher earnings compared to mothers whose children were in non-subsidized care. Subsidy receipt was associated with a 50 percent increase in months worked and an over 100 percent increase in earnings. Former welfare recipients with young children are 82 percent more likely to be employed after two years if they receive help paying for child care.²³
- A study examining child care subsidy participation among families receiving and leaving welfare in three states concluded that child care subsidy use was strongly correlated with employment retention. Even after controlling for a range of socioeconomic and demographic characteristics, the researchers concluded that using a child care subsidy decreased the probability of ending employment over the study period by 25 to 43 percent.²⁴

- A nationally representative study of families who had left welfare found that families receiving child care subsidies were less likely to return to welfare: 28 percent of families who did not receive child care assistance within three months of leaving welfare returned to welfare, while only 19 percent of those who did receive child care assistance returned to welfare.²⁵

Conclusion

Receipt of child care assistance as a work support increases the likelihood that single mothers will be able to secure and maintain stable employment, benefiting both workers and their employers. Yet only one in seven children who is federally eligible for child care subsidies receives assistance.²⁶ Research clearly indicates that child care assistance is a worthy public investment—it can play a role in families moving off of welfare and provide a needed work support to low-income working families struggling to succeed financially and remain independent of the welfare system.

Unfortunately, despite the evidence, child care assistance remains severely under-funded nationally. Although Congress recently increased child care funding by an additional \$200 million a year, a large shortfall in funding remains for states to meet the new TANF requirements and continue to support the child care needs of low-income families.²⁷ Given the limited resources available, states will need to increase their overall investments in child care assistance in order to help families move from welfare to work and help low-income parents continue working. The strong evidence on the employment effects of child care subsidies shows that it is in their best interest to do so. Providing child care assistance to both families receiving TANF and to low-income families who are not on welfare can encourage work and decrease the likelihood that low-income working families will need to turn to welfare assistance.

¹ Greater Minneapolis Day Care Association. *Valuing Families: The High Cost of Waiting for Child Care Sliding Fee Assistance*. 1995. Shlick, Deborah; Daly, Mary; and Bradford, Lee. *Faces on the Waiting List: Waiting for Child Care Assistance in Ramsey County*. 1999. Coonerty, Casey and Levy, Tamsin. *Waiting for Child Care: How Do Parents Adjust to Scarce Options in Santa Clara County?* 1998. Coltoff, Philip; Torres, Myrna; and Lifton, Natasha. *The Human Cost of Waiting for Child Care: A Study*. 1999. Philadelphia Citizens for Children and Youth. *Use of Subsidized Child Care by Philadelphia Families*, 1997. Gulley, Jennifer and Hilbig, Ann. *Waiting List Survey: Gulf Coast Workforce Development Area*. 1999; Lyons, Jeffrey D.; Russell, Susan D.; Gilgor, Christina; and Staples, Amy H. *Child Care Subsidy: The Costs of Waiting*. 1998.

² In 2004, among the 13.7 million families with related children under age 18 and incomes below 200 percent of poverty, 84 percent reported some work during the year, and 56 percent had a year-round, full-time worker (U.S. Census Bureau Current Population Survey 2005).

³ In 2004, among the 5.8 million poor families with related children under age 18, 69 percent reported some work during the year, while the head of the household worked year-round, full-time for 30 percent of such families (U.S. Census Bureau Current Population Survey 2005).

⁴ Congressional Research Service analysis of U.S. Census Bureau Current Population Survey data.

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- ⁶ National Association of Child Care Resource and Referral Agencies. *Breaking the Piggy Bank: Parents and the High Price of Child Care*. 2006.
- ⁷ U.S. Department of Health and Human Services, Child Care Bureau. *Child Care and Development Fund (CCDF) Report to Congress, Fiscal Year 2001*. January 2003.
- ⁸ Child Care Action Campaign. *Child Care: The Bottom Line*. 1998. (CLASP is unaware of any more recent estimates.)
- ⁹ Bright Horizons Family Solutions, Child Care Trend Data 2002.
- ¹⁰ Minnesota Department of Human Services. *Child Care Use in Minnesota: 2004 Statewide Household Child Care Survey*. 2005.
- ¹¹ Ross Phillips, Katherin. *Getting Time Off: Access to Leave among Working Parents*. 2004.
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- ²² Berger, Mark C. and Black, Dan A. *Child Care Subsidies, Quality of Care, and the Labor Supply of Low-Income Single Mothers*. 1992.
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- ²⁴ Lee, Bong Joo, et al. *Child Care Subsidy Use and Employment Outcomes of TANF Mothers During the Early Years of Welfare Reform: A Three-State Study*. 2004.
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²⁶ Mezey, Jennifer; Greenberg, Mark; and Schumacher, Rachel. *The Vast Majority of Federally Eligible Children Did Not Receive Child Care Assistance in FY 2000—Increased Child Care Funding Needed to Help More Families*. 2002.

²⁷ See Matthews, Hannah and Ewen, Danielle. *Toward a Decade of Indifference: Administration Ignores Child Care Needs of Working Families*. 2006. Also, Ewen, Danielle. *Families Will Lose Child Care Assistance under House Ways and Means Committee Welfare Reauthorization Bill*. 2005.