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Welfare Reform & Beyond

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Child Care and Welfare Reform

Executive Summary

Child care assistance is a key element of welfare reform because many low-income working parents, including most single mothers leaving welfare for work, need help paying for child care. Consequently, child care was an integral part of the 1996 welfare reform debate. Since then, states have received additional federal funding for child care through the Child Care and Development Block Grant (CCDBG). States are also using significant amounts of Temporary Assistance for Needy Families (TANF) funding for child care. Despite these increases, there is still inadequate funding to provide child care to all eligible families. As a result, states formally and informally ration child care subsidies. Low-income working families that have not recently received welfare are less likely to receive assistance than those leaving welfare. This approach favors mothers who have been on welfare over equally poor mothers who have not. The role of subsidies in affecting the quality of care is also important given evidence that quality affects children's development. The 2002 reauthorization of the CCDBG and TANF presents an opportunity for policymakers to address three important issues: funding levels, who should get subsidies, and the quality of care.

Child care is an essential part of federal and state welfare policy because it allows low-income families to move from welfare to work and to stay employed. Because the two primary sources of federal funding for child care subsidies, the Child Care and Development Block Grant (CCDBG) and the Temporary Assistance for Needy Families (TANF) Block Grant, are scheduled for reauthorization in 2002, child care will be a vital part of the welfare reauthorization debate. Child care subsidies, which are usually provided as vouchers that parents can use to purchase any type of child care, have primarily focused on helping low-income parents work. But because child care also affects children's development, policy and funding decisions about the CCDBG and TANF have implications for the development and safety of millions of low-income children.

The Child Care Context

Child care subsidy policies operate within a larger context that frames the current debate, one element being the dramatic increase in maternal employment rates, particularly among single mothers. Between 1996 and 2000, the proportion of single mothers who were employed rose from 66 to 76 percent. At least partially due to this trend, non-parental child care has become a reality for millions of American families. The 1999 National Survey of America's Families, conducted by the Urban Institute in Washington, D.C., found that a majority of children under age 13 with an employed primary caretaker were regularly placed in a non-parental child care arrangement. The over 20 million children in this group were cared for in a range of settings, including centers, family child care homes (care in the home of an unrelated adult), nannies or babysitters, and relatives.

WELFARE REFORM & BEYOND

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For many families, cost is an important factor in their choice of child care. In fact, child care expenses can take up a large share of the family budget, often coming right after housing and food. About half of all working families with children younger than age 13 paid for child care in 1997, spending an average of 9 percent of their earnings. While poor working families were somewhat less likely to pay for care, those that did spent an even larger portion of their earnings—23 percent—for child care.

The quality of care also is important. There is evidence that, in addition to being influenced by their home environments, children's development is related to the quality of their non-parental care. Despite the importance of quality care, however, studies show that many child care arrangements across a range of settings do not adequately support children's development. Research also shows high turnover rates among child care staff (related to low wage and benefit levels), which limit children's ability to develop stable relationships with nurturing caregivers. In addition, state licensing laws, which are designed to protect children from harm, have gaps in coverage, standards, and enforcement. Finally, although low-income children can see some of the largest benefits from participation in high quality programs, low-income families face particular challenges in obtaining high quality care.

Child Care Policy and Funding Under Welfare Reform

Recent Developments Federal funding for child care was a major part of the 1988 Family Support Act (FSA). The FSA created two new entitlement programs, Aid to Families with Dependent Children Child Care and Transitional Child Care, which combined federal and state funds to provide guaranteed subsidies to families leaving welfare. Congress passed two additional child care initiatives in 1990: the CCDBG and At-Risk Grants to States.

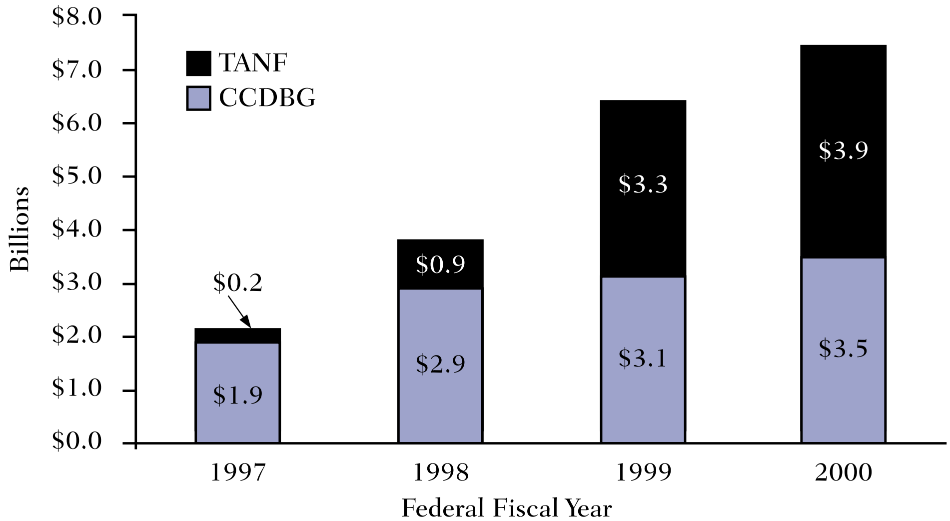
These four federal programs were overlaid upon a diverse landscape of state child care funding, policies, and programs. Some states had a long history of significant investments in child care while others had virtually no subsidy programs for low-income working families. In fact, when FSA was implemented, average annual child care funding ranged from 24 cents per child in Idaho to $152 per child in Massachusetts.

In 1996, welfare reform made three major changes to federal child care funding and related policies. First, the four existing programs were combined into a single federal child care program, also called the CCDBG, which gave states greater flexibility in designing their subsidy systems (this program is sometimes referred to as the Child Care and Development Fund). Second, the federal legal guarantee of child care support to current and former welfare recipients was eliminated, thereby increasing state discretion in determining priority groups for subsidies. Third, overall child care funding was increased by directly increasing the funding for the CCDBG above the combined total for the previous programs and by allowing states to use TANF block grant funds for child care.

These changes, combined with subsequent funding increases, resulted in a significant increase in federal child care funding. In fiscal year 2000, for example, $7.4 billion in federal funding was allocated to child care through the CCDBG and TANF, compared to $2.1 billion in FY 1997. (Head Start, a comprehensive program for poor 3-4 year olds that has also experienced recent funding increases, is not included in this analysis because it is not aimed at the child care needs of working families).

Total funding levels, however, tell only part of the story. Examining CCDBG and TANF funding separately provides further insight into the commitment to funding child care at both the federal and state level. Figure 1 shows the growing federal investment in child care through the CCDBG, under which allocations to states rose from $1.9 billion in FY

Figure 1: TANF and CCDBG Funds Allocated for Child Care



Note: Temporary Assistance for Needy Families (TANF) allocations include funds states transfer to the Child Care and Development Block Grant (CCDBG) as well as TANF funds that states spend directly on child care.

Source: Schumacher, Greenberg, and Duffy. Center for Law and Social Policy, 2001.

1997 to $3.5 billion in FY 2000. Similarly, CCDBG funding reflects state commitment to child care, as almost every state has consistently met or exceeded federal CCDBG requirements for state child care spending (totaling $1.8 billion in FY 2000). In addition, states have chosen to spend significant portions of their TANF block grant on child care. In FY 2000, 44 states transferred $2.4 billion from TANF into the CCDBG and 35 states spent $1.5 billion in TANF funding directly on child care. In fact, TANF now surpasses the CCDBG as the primary source of federal child care funding.

Who Is Getting Served and What Are They Getting? Not surprisingly, the growth in child care funding has resulted in significant growth in the number of children served. Through the CCDBG alone, states provided subsidies to an estimated monthly average of 1.9 million low-income children under age 13 in fiscal year 2000, compared to an estimated 1 million served in 1996. Research suggests that subsidies generally go to the lowest-income families within eligible populations.

Child care subsidies are usually administered through vouchers that help parents access any legally operating child care provider who is willing to serve subsidized children. CCDBG administrative data for 1999 show that about 71 percent of subsidized children were in regulated settings (child care centers or licensed family child care homes) and 29 percent were in legally unregulated child care arrangements (relatives or non-relatives in the child's or the caregiver's home).

What Has Changed and What Is the Same? As Table 1 shows, state and federal child care policy has consistently followed four themes over the past decade: support for parents' choice of child care provider, support for parents' work, priority assistance to families leaving welfare for work, and latitude for state diversity and variation.

During this time, however, state subsidy systems also have undergone tremendous expansion and evolution. While all states have responded to increased funding by serving additional children, there is substantial variation in other policy areas. For example,

Table 1: Consistent Themes in Federal and State Child Care Subsidy Policy

Supporting parent choice. Since 1988, the federal and state child care subsidy system has been predicated on a concept of parent choice that allows families to use any legal provider that accepts the subsidy—whether licensed or legally unlicensed, and ranging from relatives to child care centers.

Supporting parents' work. The child care subsidy system focuses primarily on supporting work among low-income parents, and far less on ensuring that parents are able to access good quality care that supports their children's development.

Prioritizing assistance to families working to leave welfare. Prior to 1996, states were required to give subsidies to current or former welfare recipients, while low-income working families that had not received welfare were served at state discretion. Though this requirement was eliminated in 1996, most states continue to prioritize current and former welfare recipients over other low-income working families, at least in part to meet federal TANF work requirements and to support families subject to these requirements and time limits.

Allowing for state diversity and variation. States have always had significant latitude in how they set up, administer, and fund their child care subsidy systems. Consequently, state variation is a hallmark of child care subsidy policy and is seen in funding levels, program structure and administration, the proportion of eligible families served, and other policies such as eligibility, parent fees, and reimbursement rates. States also have complete discretion over child care licensing and regulation.

although a number of states have reduced parent co-payments, raised income eligibility limits, raised reimbursement rates, or funded quality enhancement initiatives, other states have moved in the opposite direction on each of these dimensions.

There has also been variation among states in changes to service priorities. Though most states continue to give current and former welfare recipients higher priority for subsidies, a few states—including Illinois, Rhode Island, Vermont, and Wisconsin—have moved toward creating a single system that gives all low-income families equal priority. These states base eligibility solely on income and work status rather than welfare status and invest sufficient funds to serve all low-income families that apply.

Challenges Remaining

Are Low-Income Families that Need Subsidies Getting Help? Despite major increases in funding for child care subsidies since the 1996 reforms, research suggests that many low-income families are still not getting help. One study of sixteen states found that no state was serving more than 25 percent of the families who would qualify for subsidies under federal income limits (85 percent of state median income, which varies across states but averages about $38,000), and some were serving less than 10 percent.

While some eligible families may not want or need subsidies, two recent multi-state studies found that states use a variety of formal and informal methods to ration child care subsidies, primarily because of insufficient funds. One rationing approach is to limit access by setting eligibility requirements below the federal maximum. In 2000, forty-seven states set their income eligibility limits below the federal limit, with some states as low as 40 to 45 percent of the state median income. In twenty-two states, a family of three earning $25,000 did not qualify for assistance in March 2000.

Most states also ration services, albeit indirectly, by limiting outreach efforts. As a result, many eligible low-income families (particularly families that never received welfare) do not know that subsidies are available. Finally, some eligible families make it past these barriers and apply, but are denied subsidies due to inadequate funds. In these cases, states ration funds through waiting lists and prioritizing categories or by freezing program intake. Seventeen states had waiting lists or had frozen intake as of March 2000 because they had insufficient funds to serve those that were eligible, knew about subsidies, and applied. Typically in these cases, current and former TANF recipients are given higher priority and get served, while non-TANF families are denied service.

How Well Is the Subsidy System Working for Families? Another reason low-income families may not get child care subsidies is that administrative policies and practices can create barriers that make it difficult for families to complete the application process or meet all of the requirements for retaining the subsidy. A study conducted in twelve states by Gina Adams and her colleagues at the Urban Institute showed that some parents have to repeatedly take time off work to apply for benefits or to prove their continuing eligibility by reporting all changes in work status, work schedule, income, or provider. Taking time off work to make office visits is difficult for entry-level workers and undercuts the subsidy program's goal of supporting work. These challenges also particularly affect parents who most need support, including parents with barriers to employment, parents who experience many job changes, and parents who receive TANF and must navigate both the TANF and child care systems.

These challenges varied across and within states, and were caused both by policy and implementation. When combined with reports of problems dealing with caseworkers and multiple agencies, these barriers may help explain recent evidence of low usage rates and short spells of subsidy use, even among families that are a high priority for service. One five-state study found that the average length of subsidy receipt was three to seven months. The research by Adams and her colleagues suggests that to better support low-income working families, states should focus more attention on eliminating barriers to subsidy access and retention. However, improving access and retention without investing additional resources may simply increase the number of eligible parents who end up not getting served.

Does the Current System Help Families Get Quality Care? Rising concerns about the importance of early learning and literacy, school readiness, and youth development underscore the importance of child care subsidies in affecting the quality of care received by the 1.9 million low-income children served by CCDBG funds. The quality of child care for low-income families was a major topic in the 1996 welfare reform debate, and states must now spend at least 4 percent of their CCDBG funds to improve the quality and supply of care. However, the CCDBG places a higher priority on supporting work than on supporting access to good quality child care, and states must trade between quality and subsidy access in allocating child care funds. In particular, while a cornerstone of the CCDBG is to give low-income families "equal access" to the kinds of choices that higher-income families have, there are several ways in which CCDBG subsidies are administered that can make it difficult to realize this goal.

First, vouchers funded by the CCDBG

Although funding levels have increased significantly since 1996, current funding is not sufficient to help families access quality child care and serve all eligible families that want services.

help low-income families gain access to the child care available in their communities. But research suggests that low-income communities tend to have a lower supply of regulated care than higher-income communities. In addition, the non-center-based care used by low-income families tends to be of lower quality than similar care used by higher-income families. Consequently, while subsidies are likely to broaden the child care choices available to low-income families, parents are still limited by what is available in their communities. Furthermore, current subsidy policies do little to expand good quality options in low-income areas.

Second, families served with CCDBG funds are unlikely to have access to the full range of providers in their communities. The CCDBG encourages states to set maximum reimbursement rates for child care providers at least at the seventy-fifth percentile of current market rates, which ensures that parents have access to all providers except those whose fees fall in the top 25 percent of local market rates. However, nearly half the states set their reimbursement caps at lower levels, thus restricting access to an even smaller pool of less costly providers.

Third, the Urban Institute case studies suggest that the implementation of subsidy payments to providers may further undercut payment levels. Miscommunications about when families are authorized or terminated, delays in payments, and policies that directly undercut the payment amount (such as partial subsidies or not paying for sick days), may mean that subsidized providers receive less than the rate set by reimbursement policies. The extent of these problems varies across local sites, but they appear to make some providers unwilling to serve subsidized children, and can affect the quality of care providers can offer, thereby further limiting the choice of quality child care for subsidized families.

Issues for Reauthorization

Funding There are three major funding issues that are likely to be part of the reauthorization debate. First, although funding levels have increased significantly since 1996, current funding is not sufficient to help families access quality child care and serve all eligible families that want services. This situation is likely to worsen as state budgets become tighter with the economic downturn. Some states have already begun reducing child care spending.

Second, much of the recent funding increase occurred because states have used large amounts of TANF funding for child care. The ability to use TANF for this purpose was an important provision of the 1996 reforms and was designed to help states meet their unique child care needs. However, there is a risk that comes with using the flexible TANF funding; namely, that TANF funds available for child care could diminish either because of an economic downturn or because of a reduction in TANF funding by Congress. Thirty-one states drew more than one-third of their combined federal CCDBG and TANF child care funds from TANF in 2000, showing that any threat to TANF funding is also a threat to child care funding. If states are to take additional steps to improve the subsidy system, they are likely to require some assurance that child care funding will be stable.

Third, an ongoing challenge facing policymakers is the difference in funding levels across states. This situation reflects the classic tradeoff between devolution and equity. It is likely that some states have invested more money and developed more innovative child care models than they would have under a single national approach. However, funding for and access to child care subsidies remains fundamentally inequitable across states.

Who Should Get Child Care Subsidies? There is widespread consensus that subsidies are important both to prevent welfare receipt by low-income parents who never received welfare and to support work by current and former welfare recipients. However, despite increases in the numbers of non-welfare families receiving subsidies, the current reality in many states is that families receiving TANF are still more likely to get subsidies. And in the seventeen states with waiting lists, a low-income working parent who urgently needs child care assistance can be most certain of getting it by quitting work and applying for TANF. This perverse incentive undercuts the fundamental premise of welfare reform. If Congress and the states want to build a child care subsidy system that effectively supports work for all low-income families, it will be necessary to appropriate additional funds. States must also eliminate administrative barriers that prevent low-income families from obtaining and keeping subsidies, and conduct outreach to ensure that eligible families know they can get help.

Should Child Care Subsidies Support Child Development? There has recently been a convergence of opinion about the importance of the preschool years for early learning, early literacy, and school readiness, and about the importance of after-school time for the education, development, and safety of school-age children. Nonetheless, there continues to be a disconnect between this set of concerns and the way subsidy funds are spent.

As a consequence, quality of child care is likely to be part of the reauthorization debate; i.e., the extent to which the nation's child care subsidy system should support child development and school readiness as well as parental work. In order to meet this goal, policymakers would need to make several adjustments to current policy. These include increasing the funding dedicated to improving the quality and supply of care providers in low-income communities; increasing the reimbursement rates to allow families to access all the providers in a community; eliminating subsidy policies and practices that undercut payment levels and stability; allocating resources to recruit and retain providers through compensation and education initiatives; and funding strategies to upgrade the quality of unregulated settings.

Additional Reading

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