Factoring Child Care into the Welfare to Work Equation: Lessons from Massachusetts and Rhode Island

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Perhaps the largest barrier to moving welfare recipients off cash assistance and into work and economic self-sufficiency is the lack of adequate and affordable child care. Reauthorization of federal welfare law is currently under way, and new requirements passed in February 2003 as part of House Republican Welfare Bill HR4, call for states to increase work activity among parents who receive cash assistance. The bill aims to have 70 percent of parents participate in work activity by 2008 and raises work hour requirements to 40 hours per week. With a freeze on federal welfare funding, an uptick in caseloads across the nation, and state budgets under severe fiscal strain, these new standards may force states to shift funds away from already strapped support programs — including child-care programs and services — that facilitate the welfare to work transition for many families.

To provide a New England context for the current reauthorization, we look at how welfare reform has progressed in Massachusetts and Rhode Island since the 1996 reforms. Rhode Island has one of the most generous versions of welfare reform, while Massachusetts has one of the most restrictive.

Child-care provisions under welfare programs in these two states are very different, yet each program helps us see how important child care is in enabling women to work. Studying each of these different approaches provides useful information about child care and work — especially as states everywhere cut spending.

In Massachusetts, studies show that the cost, quality, and availability of child care play a major role in a mother's decision to choose work over welfare. In Rhode Island, studies suggest that child-care subsidy reforms are important in encouraging mothers to use child-care benefits and make the transition to work.

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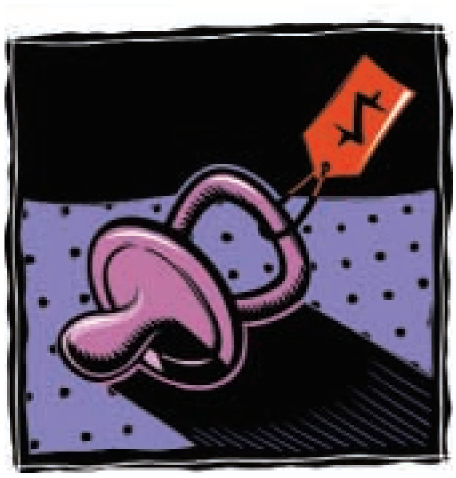
Welfare Reform

By many measures, welfare reform — the Personal Work and Responsibility Act of 1996 — has been a remarkable success. The overall goal was to end recipients' dependence on government benefits by promoting job preparation, work, and the raising of children in two-parent families. Welfare reform devolved power from the federal government to the states. Aid to Families with Dependent Children (AFDC) was replaced by Temporary Assistance to Needy Families (TANF), which allows states to construct their own welfare programs within federally mandated parameters. This freedom for states to construct their own programs explains why, despite their geographic proximity, Massachusetts and Rhode Island have adopted markedly different policies for child care and welfare reform.

In Massachusetts, welfare recipients with children over two years of age have a maximum of 24 months of assistance in any consecutive 60-month period. Time limits on assistance start ticking as soon as the youngest child turns two years old, but the mother remains exempt from work requirements until the child turns six years old. Welfare recipients with children over six years of age must work at least 20 hours per week two months after benefits begin. Failing to find a job, they must fulfill 20 hours of community service per week to remain eligible for assistance.



Rhode Island enforces a 60-month time limit on benefits — two and a half times longer than the 24 months allowed in Massachusetts (and the maximum allowable under federal law). In addition, Rhode Island recipients have the option of completing up to 24 months of either post-secondary education or job training that counts toward the work requirement. These 24 months allow for a gradual transition to work and the possibility of learning skills that might lead to a better paying job.

Lessons from Massachusetts

Numerous studies show that the cost of child care is a significant factor in the decision of a low-income mother to move from welfare to work. Yet these studies typically do not consider the quality and availability of child care. Armed with comprehensive data from Massachusetts, economists Lemke, Queralt, Witt, and Witte designed a study to measure how child-care cost, quality, and availability (referred to as the "child-care trilogy") affect the probability that a mother on cash assistance will work.

The results of this study provide important insights. The authors found that if the weekly cost of child care were to double, a mother would be five percent less likely to work. Enhancing the quality of providers, as measured by the number with national accreditation, had a positive, but small, effect on whether a mother would choose to work. The availability of full-day kindergarten also encouraged work, as women living in towns offering this type of care showed a three percent higher work probability. However, increasing the stability of child care, by raising the number of years a provider has been in operation, was found to have even larger effects. Increasing the stability of child-care providers may have the most dramatic impact on moving low-income mothers from welfare to work.

Lessons from Rhode Island

In contrast to Massachusetts, which has waiting lists for child-care subsidies, Rhode Island guarantees vouchers to all eligible families to help them pay for child care. In 1997, Rhode Island enacted major reforms to encourage welfare recipients to use those subsidies and make the transition to work.

Among the reforms, Rhode Island decided to raise the rate at which it reimburses child-care providers. Subsidies are now pegged to the 75th percentile of market prices; this compares with Massachusetts, where the subsidy is set at or below the median (50th percentile). Rhode Island's relatively high reimbursement rates have resulted in 90 percent of child-care providers accepting vouchers, while only 60 percent of providers in Massachusetts take them. Rhode Island also increased the income cap at which a family, and the age range at which a child, could qualify for a subsidy. In addition, the state offers subsidized health insurance to family child-care providers and to employees of centers that serve subsidized children. This has led to sig-

nificant increases in the availability of child care, especially in cities such as Providence, Pawtucket, and Central Falls.

In April 2003, Witte and Queralt completed a study of the impact of Rhode Island's subsidized child-care reforms. They found that the reforms increased by 11 percent to 13 percent the likelihood that a working welfare family would use a child-care subsidy. Further, the reforms increased by 5 percent the probability that a single-parent family would leave welfare and work more than 20 hours per week. Because of information lags, welfare recipients only slowly became aware of increased benefits as a result of Rhode Island's reform – making it likely that the full and final impact of the reform is even greater than these estimates, which were calculated halfway through year 2000.

Rhode Island's numerous reforms also show that raising provider reimbursement rates indirectly affects the work decisions of low-income women, ultimately increasing the probability of work and the number of hours worked. Rhode Island's policy made it more attractive for providers to care for subsidized children. In turn, these providers found it beneficial to disseminate information about the subsidy program to low-income women – facilitating recruitment of children to their centers. It is likely that these mothers were not aware of the full extent of state support, but when provided with sufficient information, could be lured off cash assistance by the relative benefits of work.

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Beyond the States

Last year, the Congressional Budget Office predicted that the cost to states of enforcing the 40-hour work requirement and meeting the increased participation rates could reach as high as $11 billion over five years. With more welfare recipients working and putting in more time on the job, the costs of child-care supports will increase. The Congressional Budget Office estimates that $5 billion in child-care funding will be needed to ensure that TANF funds devoted to child care keep pace with inflation. The new bill provides only $1 billion over the next five years in additional child care.

States have already had to make substantial cuts in child-care programs. Compliance with the new bill will likely require detrimental additional cuts, particularly in light of the dire fiscal situation in most states and because the federal government will not be supplying additional funds. Across-the-board cuts in federal spending for child care and other children's services will result in 30,000 children being dropped from child care in fiscal year 2003. The Bush Administration's budget acknowledges that, in addition to these 30,000 children, over the course of the next five years at least 200,000 more children will be dropped from child care.

Evidence from Massachusetts and Rhode Island shows that as availability of child care wanes and support for child-care programs disappears, parents may decide to stay at home and work less. This will hinder efforts to move families to self-sufficiency and threaten to counter the progress made by welfare reform.

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