American Rescue Plan Act of 2021: Opportunities for Stabilizing the Most Fragile Part of the Child Care Market—Infant and Toddler Care

Sarah Savage
The views expressed in this paper are those of the author and do not necessarily represent those of the Federal Reserve Bank of Boston or the Federal Reserve System.
The top priority for the $39 billion of child-care funding provided through the American Rescue Plan Act (ARPA) is to mitigate costs incurred as a result of COVID-19. These funds also offer opportunities to shore up the industry and demonstrate the potential transformative effect of increased funding. Infant and toddler care is a uniquely challenged piece of the child-care sector that may continue to struggle fiscally, with adverse effects on the economic activity of parents with infants and toddlers. This may be an ideal area to direct a part of the Child Care Stabilization portion of ARPA funds.

Introduction

COVID-19 spotlighted the importance of child care for parental employment and illuminated key challenges providers face in providing affordable, high-quality care when and where parents need it. Widespread closures at the onset of the pandemic, coupled with enhanced classroom cleaning and health protocols, made it impossible for many providers to stay afloat. Today, the full impact of the pandemic on the availability of care is still unfolding. Key provisions in the Coronavirus Aid, Relief, and Economic Security (CARES) Act, including Paycheck Protection Program loans and enhanced unemployment compensation, as well as some direct funding to the sector or via states, provided some initial support. As the pandemic and related recession continue, child-care provision and demand have not returned to pre-pandemic levels. Changes in access and demand may partially explain why labor force participation rates of mothers continue to be lower than what they were prior to COVID.1 Child care is critical to parental employment.

Even before COVID, infant/toddler care was a highly unstable portion of the child-care market, yet it is often overlooked by efforts intended to improve access to early child care and education that more heavily focus on preschool-aged children. An inadvertent consequence in states with a high growth of public preschools is the disappearance of preschool-aged children from the mix of private providers.2 Many child-care providers depend on the revenue from enrollment of preschoolers, for whom the costs of care are less, to make up for the higher costs of providing infant/toddler care. This funding model was vulnerable before the global pandemic, which rattled and in some cases decimated portions of the child-care sector.3 While the impact on infant/toddler care as a whole is unclear, there is some indication that the higher costs were more burdensome during the pandemic. One center director in Massachusetts migrated all of the infant and toddler slots into family child-care settings as a way to mitigate financial losses to the business

---

1 Bauer, 2021.
during the pandemic. According to the director, these losses are especially acute for providers serving subsidized children and for parents paying for care out of pocket. In general, the high costs of delivering infant/toddler care are passed on to parents. The national average monthly fee for full-time center-based care for infants is $1,228, compared to $762 for preschoolers. As a percentage of income for many families, this represents well more than the 7 percent threshold the U.S. Department of Health and Human Services suggests as affordable.

ARPA provides nearly $24 billion in child-care stabilization funds; states must distribute their allocations by September 30, 2023. These funds are stipulated for use in implementing grant programs that support child-care providers, including covering expenses associated with the COVID-19 pandemic and assisting families struggling to make copayments or tuition payments. This funding offers an opportunity to stabilize infant/toddler care.

This Field Note provides justification for dedicating some of the funds to infant/toddler care, offers three preliminary ideas developed for stabilizing this critical support, and describes the utility of these approaches in demonstrating the possible impacts of public investment in the sector. While the ARPA funds are insufficient for supporting the long-term systems change required for equitable access to high-quality child care, they represent an opportunity to test modifications for informing future systems-change efforts. For instance, there is hesitation among providers regarding time-limited funds because of concern that such funds would not allow for sustainable change; however, the months of reliable funding that the ARPA funds would provide could help make a case for continued funding.

Why focus on infant and toddler care?

Infant/toddler care is often the most expensive category of child care for parents, and access to such care affects employment, especially for mothers. Workforce participation is significantly higher in places with considerably more infant/toddler care. However, infant/toddler care is less affordable to families than care for children ages three and four; this is likely by design, to compensate for its lower profitability. Infant/toddler care is often insufficient to meet demand, even during traditional work hours. Providers struggle to cover the higher costs of caring for infants and toddlers, which, in most states, requires one staff person for every three or four infants and for every four or five toddlers. Paying lower wages to staff working with the youngest children helps offset the higher costs but leads to challenges in attracting and retaining early educators. Meanwhile, preschool ratios are typically one staff person to every 10 children or, in a few states, as many as

---

4 Based on conversation on 4/12/2021 and email exchange on 5/21/2021 with Dawn Forbes DiStefano, President & CEO, Square One.
5 Workman, 2018.
6 Office of Child Care, 2016.
7 For estimates of state allocations see Hardy & Gallagher Robins (2021).
9 Office of Child Care, 2013, May.
10 Cassidy et al., 2011; Whitebook et al., 2018.
Aside from providing a community service, providers justify offering infant/toddler care as a pipeline because these children often transition into higher-margin preschool care.

### Three ideas for stabilizing infant and toddler care

The first two ideas outlined below—grants to cover the true cost of infant/toddler care and incentive money for providers to use to attract credentialed early educators to work in infant/toddler classrooms—address ways states may opt to implement grant funding for child-care providers to subsidize infant/toddler care specifically. The third option describes a potential modification of Child Care and Development Block Grant Act (CCDBG) funding to expand access to high-quality infant/toddler care. All three solutions create an opportunity to demonstrate the effects of publicly investing in the costliest and least affordable portions of the child-care market, which could improve conditions for working parents and their children. These options may not be a fit for all providers, depending on how they are structured and funded, but the hope is to elevate the challenges unique to the provision of infant/toddler care and offer a menu of options that could be inclusive of a large share of providers.

#### Grants to cover the true cost of infant/toddler care

These grants would subsidize child-care providers so that they can set tuition rates for infant/toddler care at more affordable levels for families than the more common higher-cost-per-infant/toddler model allows without subsidizing the care from the fees charged for the care of older children. These grants would enable providers to offer the more intensive level of care that infants and toddlers need, with fewer constraints on what they can pay staff working with infants/toddlers and what they need to charge parents to cover the higher cost per child that they typically incur for infants/toddlers. This subsidy could increase demand for infant/toddler care and make it a more viable option for families with this need.

These grants are intended to increase the supply and quality of infant/toddler care by adjusting for the higher personnel, equipment, and materials costs of delivering this care. Personnel costs include compensation paid to teachers working primarily with infants and toddlers, while equipment and materials costs could include the costs of cribs, changing tables and materials, waste management, and specialized food storage that may be unique to caring for infants and some young toddlers; combined, these costs will be referred to as operational costs. Providers with infant/toddler slots could apply for grant amounts that would adjust for the higher operational cost per child incurred for infant/toddler slots. With these funds, providers could lower infant/toddler rates to match the rates charged for serving preschool-age children, while using any surplus to invest in quality. For example, these formulas using infant slots could be customized and applied to calculate grant amounts:

---

11 Office of Child Care, 2013, May.
a. Operational cost per child of infant slots – Operational cost per child of preschool slots = Incremental operational cost of infant slot

b. Incremental operational cost of infant slot x Number of infants = Grant amount

Family child-care providers who serve smaller groups of mixed-aged children are likely to have different sets of operational costs if they have employees, so the specifics of how to include them would need to be determined. Of course, some caps would need to be implemented so that more profitable centers did not get a greater share of resources than those struggling to get by.

While this solution could work in the short term, it would require ongoing investment from the state or federal government in the long term. Also, ARPA releases a fixed amount of money, and it will most likely not be enough to meet every provider’s need. As a result, the state would have to make difficult decisions about how to allocate the grant pool. To solve this problem, there could be selection criteria to target the grants to those most in need. Criteria for prioritization could include (1) licensed providers who already have infant and toddler capacity, (2) providers willing to add at least one new infant or toddler slot, (3) providers participating in the subsidy system, (4) providers located in areas with a high concentration of low- and moderate-income families, (5) providers in areas identified as child-care deserts, and (6) providers willing to convert one or more private-pay slot(s) into a subsidized infant or toddler slot. The incremental amount could be applied to existing infant/toddler slots and/or slots to which providers commit to having available within a specified time frame.

This grant program could persist within a set time frame, such as 12 months, in order to demonstrate the effects of reducing the costs of infant/toddler care on the supply, quality, and utilization of those slots, which could be informative for justifying longer-term investments beyond the life of the grant program.

**Incentive money for providers to use to attract credentialed early educators to work in infant/toddler classrooms**

These grants recognize the challenge of attracting and retaining credentialed staff to work with infants and toddlers. The lower wages that accompany this work likely drive the hiring challenges. Infant/toddler teachers typically earn less than those working with preschool-aged children, most likely because of the high cost to providers of infant/toddler slots, which limits how much they can pay workers. This grant program would enable providers to incentivize staff to work with infants and toddlers by overcoming the wage penalty of working with the youngest children and possibly rewarding the work instead. In the case of family child-care providers, who tend to serve mixed ages, they could apply for incentive grants as long as they have enrolled infants/toddlers and have hired staff or intend to hire staff. This would better position both types of providers to attract and retain credentialed early educators to work with their children.

---

12 Whitebook et al., 2018.
13 Whitebook et al., 2018.
infants and toddlers without having to put financial pressure on parents through higher tuition.

Eligible providers would need to have infant/toddler capacity. Criteria for prioritization could again include providers participating in the subsidy system or those willing to participate within a set time period and/or providers located in areas with a high concentration of low- and moderate-income families. Whether or not staff are assigned discrete coverage of age groups could vary by provider, so this grant may not be a fit for all providers. Additionally, there are times staff need to provide coverage with different aged children to ensure that ratios are maintained, which could complicate the use of this grant. This grant program could persist within a set time frame. Its effects on the operations of staffing this capacity, the quality of the early education and care, and utilization of high-quality infant and toddler care could be informative for justifying future sustainable investments in this area. Incentivizing work with infants/toddlers temporarily may not be compelling to providers without the potential for ongoing public investment; however, demonstrating the benefits of incentivizing this work on staff recruitment and retention and the ability to better serve families may help justify sustainability investments.

**CCDBG modification: Reimbursement of CCDBG infant/toddler slots above the recommended 75th percentile of market rates**

There have been a multitude of efforts to increase reimbursement rates of CCDBG-funded slots in order to both close the copayment gap for parents and better support early education and care workers. The benchmark for reimbursement for equal access established by the Administration for Children and Families’ Office of Child Care is the 75th percentile of the current child-care market, yet the majority of states reimburse below this level, with just 7 states reimbursing at this level in 2019.14 Payment rates, which include a family copayment portion, vary widely within and across states. Setting rates too low may limit access to licensed care by lower-income families, with past studies revealing that payment rates for infant care would enable access to just 41 percent of child-care providers.15 Tiered reimbursement, where providers who demonstrate higher levels of quality are reimbursed at higher rates, has been adopted by some states in attempts to increase reimbursement levels. But provider participation in CCDBG varies by state partly because of administrative burdens, additional requirements that accompany participation, and costs associated with participation in the system.

ARPA funds represent an opportunity to try something that is a departure from the status quo of having states confront a difficult choice of either lowering payment rates to serve more children or raising payment rates to increase quality for fewer children. Setting reimbursement rates at or above the 75th percentile of market rates could increase access to a larger pool of high-quality care. Providers could end up with a bonus payment for their subsidized infant/toddler slots in cases where their rates fall below the

---

14 Murrin, 2019.
15 Murrin, 2019.
higher selected percentile. This could infuse more needed dollars into the supply of child care, bring a higher quality into the mix of participating providers, and motivate increases in quality should there be a shifting to higher-quality providers as a result of this modification. Criteria for prioritization could include providers who have either been participating in CCDBG or who have a commitment to participate within a set time frame.

Reimbursing care for infants and toddlers at or above the 75th percentile of market rates would be a worthwhile test to determine the effects on both quality and provider participation in the subsidy program that aims to expand access to quality options for parents. A helpful tool for assessing the different options is Eugene Bardach’s policy grid (Table 1 on page 9).  

Utility to longer-term sustainable change

The intention of this Field Note is to offer a set of possibilities that get at the heart of the costly challenges of offering affordable, high-quality early child care when and where parents need it. None of the three options is clearly more effective than the others, and in some states, combining ideas might be more effective or the justification for what is laid out may spur further thinking. While the life of ARPA funds is limited, there is an opportunity to demonstrate the potential effects of greater investments in very early child care in ways that recognize the most costly components of the business model. This infusion of funds is unprecedented, yet the need to modify the way that child care is offered and accessed was widely acknowledged well before this opportunity emerged in response to a crisis.

This is a time to experiment with addressing some of the major cost drivers that have made access to and quality of child care so challenging to reconcile. These limited funds have the potential to yield observable outcomes that have been impossible to achieve in the absence of funding. If this happens, a serious case may be made for future investments in the parts of child care that make the model so difficult to offer in a way that brings high-quality care to those most in need. This would be a critical step in fixing the inequities perpetuated by the current market, which is not accessible to all. Furthermore, in experimenting with the ideas laid out in this Field Note or others that emerge, there is an opportunity to understand the costs and benefits in real ways that could offer clarity on what is needed to move forward from what was a struggling sector pre-COVID and has become even more tenuous since.

Limitations

Affordability solutions alone are insufficient for improving access to high-quality child care since they neglect the under resourced status of providers, which erodes quality and limits supply of high-quality care. While the ideas laid out in this piece go beyond affordability by more directly addressing cost drivers that constrain providers from

16 Bardach, 2012.
charging affordable rates and supporting high quality, there are still important limitations worth noting.

### Table 1 | Policy Analysis Grid for Assessing Solutions

<table>
<thead>
<tr>
<th>Stabilization of Infant/Toddler Care</th>
<th>Criterion 1: Appeal</th>
<th>Criterion 2: Operationally Feasible</th>
<th>Criterion 3: Financially Feasible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Option 1: Grants to cover the true cost of infant/toddler care</td>
<td>Providers and parents would benefit since option addresses cost, affordability, and availability</td>
<td>May be complicated to determine cost formula and verify numbers on the grant application review and approval process side; may not be a fit for all providers, but will likely be feasible for many</td>
<td>The stabilization funds could cover a sizable portion of eligible providers, though caps might need to be instated or grant requests may need to be prioritized to maximize stabilization efforts</td>
</tr>
<tr>
<td>Option 2: Incentive money for providers to use to attract credentialed early educators to work in infant/toddler classrooms</td>
<td>Providers and parents would benefit since option addresses child-care staffing challenges, quality, and affordability</td>
<td>May be challenging if staff are not discretely assigned to specified ages, but for providers who operate in this way and family child-care providers with hired aids, this grant should be straightforward</td>
<td>The stabilization funds could adequately cover these types of grants without needing to cap amounts unless this grant type is combined with Option 1</td>
</tr>
<tr>
<td>Option 3: Reimbursement of CCDBG at or above the 75th percentile of market rates for infant/toddler slots</td>
<td>Providers and parents would benefit since option addresses child-care staffing challenges, quality, affordability, and availability of higher-quality options</td>
<td>This is operationally doable, though an influx of newly participating providers could be overwhelming to state administrators</td>
<td>As $149 million was the average 2019 federal funding of the Child Care and Development Fund for U.S. states and this option is intended to supplement, the stabilization funds could cover a significant portion of providers</td>
</tr>
</tbody>
</table>

One area that the options in this piece do little to affect is increasing access to safe and reliable care outside traditional working hours, which low- and moderate-income parents of color are more likely to need. This is a critically important problem that intersects with family-leave policy and how much we require parents to rely upon

---

17 Office of Child Care, 2020, October.
18 Harknett, et al., 2019; Storer et al., 2019.
nonparental care for infants. Neglecting this piece will continue to subject lower-income parents—those most likely to need such care—to the most limited options. The fact that parents of color are disproportionately represented in jobs outside of the traditional work hours of 7 a.m.–7 p.m. means that they are more likely to have little choice and possibly few or no licensed options from which to choose, or they may have to sacrifice job security or participation in the workforce, putting their family’s economic security and equitable economic outcomes for their children at greater risk. While it is possible that offsetting operational costs in the ways described above could motivate some providers to expand slots and/or hours of operation, given the limited nature of the ARPA funding, the efforts required to accommodate the level of changes needed for expansion of either type may be difficult to justify.

Another gap the ideas do not address is related to care for children with special needs. Previous studies indicated that more than 14.5 million children under age 18 in the United States have special healthcare needs, leading to 25 percent of parents of children with special needs limiting work or leaving the workforce to care for them. Younger children have the fewest options, as early care that accommodates special needs is rare. A state that considers this gap a higher priority might consider repurposing ideas in this note to target care for children with special needs rather than for infants and toddlers.

This brings us to a final limitation: an infusion of funds rather than a sustainable investment could both inhibit states’ willingness to institute what might be only temporary changes and affect providers’ interest and uptake in the grant programs.

**Conclusion**

Widespread systems change has been needed in the child-care sector for decades, but without the political will to infuse public investment into the sector, it will remain an unmet need. It has not been recognized as a coherent industry or treated as such because it is a fragmented array of mostly small and disparate businesses. Historically, these businesses have consisted of lower-income women supporting lower-income working mothers, and thus they have not been made a public-policy priority for classist and racist reasons. Women entered the workforce in droves over the past few decades, but we have not adjusted policy to support that reality. We are left with a limited pool of high-quality care that highly resourced families can access, while less-resourced families and the providers who serve their children engage in a delicate balance to access and provide a service that often struggles to comply with regulations or that operates outside of regulatory oversight.

There are many ways to do and fund child care, with varying implications for quality and—more concerning—health and safety. There is a full spectrum of care, from unregulated group care that is beyond the radar of licensing to licensed paid care that

---

21 Dobbins et al., 2016.
varies in quality to very high-quality care, that either excludes infants and toddlers or is only accessible to the most resourced families. The cost drivers emphasized in this Field Note play a role in the ways in which various forms of care operate. For instance, we see some variability with child-to-staff ratios as states that are more liberal with ratios may find that costs go down but at the expense of quality; states with tighter ratios may uphold quality to some degree but constrain accessibility to families, to whom the higher costs are passed. The added constraints may also disincentivize some providers from pursuing licensure. Raising quality standards alone would only drive costs higher, while loosening regulations that drive costs up could put children in danger.

While the suggestions in this piece for using ARPA stabilization funds cannot transform the child-care sector to a robust, cohesive, adequately funded system in isolation, they do represent an opportunity to demonstrate changes that would be needed to move in that critical direction. Working parents and their children need reliable access to this support to thrive economically and equitably. The use of ARPA funds may enable some progress toward demonstrating the effects of mechanisms intended to foster more equity. At this point, access to high-quality early child care is a privilege and nowhere near a right like we might consider access to public education to be. Such demonstrations have the potential to inform efforts, as infant/toddler care is too often overlooked, and this oversight continues to have consequences for women in the workforce. Successful demonstrations could also build the political will necessary to further the change needed to ensure equitable access to high-quality early child care. This includes the need to heighten a call to action to address the dearth of licensed care outside traditional work hours, as these schedules are more prevalent among lower-income parents of color.

About the Author

Sarah Savage

Sarah works in the area of community development as a senior policy analyst & advisor at the Federal Reserve Bank of Boston. As part of the Bank’s work to increase employment opportunities and household economic security and equity, Sarah’s current research focuses on barriers to labor force engagement of low- and moderate-income parents in the New England region. Sarah earned her B.S. from Babson College and her Ph.D. from the University of New Hampshire.

sarah.savage@bos.frb.org

Acknowledgements

The author would like to thank Marybeth Mattingly, Erin Graves, and Sara Chaganti for their thoughtful insight and feedback, along with Prabal Chakrabarti and Anna Steiger for their input. Members of the Federal Reserve Bank Workgroup on Early Care and Education also gave helpful input including Rob Grunewald of the Minneapolis Fed and
Field Note | 2021-1 | American Rescue Plan Act of 2021: Opportunities for Stabilizing the Most Fragile Part of the Child Care Market—Infant and Toddler Care

Jason Keller of the Chicago Fed, Carol O’Donnell of the Connecticut Council for Philanthropy and Aly Richards and Sherry Carlson of Vermont’s Let’s Grow Kids campaign offered valuable perspective and input. Production help by Suzanne Cummings and editing by Amberly Polidor were greatly appreciated. Lastly, I would like to thank Meghan Smith and the Corporate Communications team for their work in the final production and publication of this Field Note.
References


