

Issue Brief | 2021-3 | July 2021

# Proposal to Offset Families' Child-Care Costs Could Enhance Equity by Dramatically Cutting Poverty Among People of Color Across New England

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The views expressed in this paper are those of the authors and do not necessarily represent those of the Federal Reserve Bank of Boston or the Federal Reserve System.

## Abstract

In this brief, authors Beth Mattingly and Jess Carson consider the impact of capping child-care expenses for New Englanders paying out of pocket for child care. Using the Census Bureau's Supplemental Poverty Measure, they find that poverty would decline by 40 percent among New Englanders in families paying for care if out-of-pocket payments were eliminated for those below their state median income and capped at 7 percent of income for higher-earning families. Absolute reductions would be greatest for Black and Hispanic New Englanders, meaning that such a policy change would also bring their poverty rate closer to rates among white New Englanders, thereby decreasing the racial/ethnic poverty-rate gap.

## Key Findings

- Subsidizing child care entirely for families with incomes under the state median and capping expenses at the federal affordability threshold (7 percent of income) for higher-earning families would affect two-fifths of New England families paying for care.
- The poverty rate for individuals in these families would be cut by 40 percent.
- Among people in families paying for care, this policy would reduce poverty most among those without any college education, single parents, and Black and Hispanic individuals.
- Resulting child-care cost savings would reduce racial/ethnic gaps in poverty rates among New Englanders paying for care: although Black and Hispanic poverty rates are still the highest, the policy would reduce rates by around 7 percentage points for each group.
- Our findings may reflect a conservative estimate of poverty reductions, as we do not account for increases in labor-force participation that would further boost income. Still, such care might be of higher quality and offer other benefits to children and families.

## Background

The COVID-19 pandemic spotlighted child care as a necessary component of the workforce infrastructure, although the challenges of care affordability, availability, and quality confronted parents long before the pandemic. These challenges are particularly acute for low-income parents and parents of color.<sup>1</sup> Although child-care subsidy programs exist, the structure and reach of these programs do not meet families' needs well. For

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<sup>1</sup> Novoa, 2020; Gassman-Pines et al., 2020; Johnson-Staub, 2017.

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example, in 2017, only an estimated 14 percent of children eligible under federal guidelines received subsidies.<sup>2</sup> Overhauling this system to instead eliminate or reduce (“cap”) child-care expenses for all families has the potential to enhance family economic security and reduce poverty directly through significant savings and indirectly by loosening family constraints on work.

In this brief, we explore the effects of capping child-care expenses for families across New England, inspired by a policy proposal put forth by Massachusetts’ Common Start Coalition. To do so, we model potential changes to poverty rates using the supplemental poverty measure (SPM), a newer measure available in data collected by the U.S. Census Bureau that not only considers pretax cash income, as the official poverty measure does, but also considers the role of taxes and transfers and the impact of necessary expenses, like child care, on poverty, among other differences. The SPM considers all post-tax income and transfers from all safety net programs, including both cash and noncash transfers, and deducts expenses paid out of pocket for work needs, child care, and medical care from the bucket of family resources. Thus, we alter the resource deduction for child care based on our policy modelling.

Here, we focus on the poverty-reducing effects of capping out-of-pocket expenses in two ways: (1) omitting expenses for those with income below their state’s median and (2) capping out-of-pocket expenses for all other families at the federal threshold for child-care affordability (7 percent of pretax income). We explicitly consider how these provisions would impact persistent racial/ethnic disparities. We mark eligibility for totally subsidized care generally here at below the state median income, although this proposal is related to several existing policy proposals, including President Biden’s American Families Plan, which proposes to eliminate expenses for families earning up to 1.5 times the area median income, and to legislation filed in February 2021 by Massachusetts state senator Jason Lewis (D).<sup>3</sup> Although the state bill is much more specific, prioritizing populations served by state agencies, and would eliminate costs only for families earning below 0.5 times the area median income, it too proposes capping child-care costs for families, as we do here. We find that such a policy would substantially relieve poverty among families currently paying for care, especially among families of color and single-adult families.<sup>4</sup>

## Child-Care Cost Cap Would Have Substantial Reach ...

Child-care costs are not a rare occurrence in New England. Eight percent of New Englanders live in a family with at least some child-care costs, and among those who live

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<sup>2</sup> GAO, 2021.

<sup>3</sup> See The White House (2021) and Lewis (2021) for details on these original proposals.

<sup>4</sup> Note that our analyses focus on those already paying out of pocket for child care and do not account for changes in additional parental employment, increased work hours or care selected that might be spurred by affordable child-care legislation. Therefore, our findings likely represent a lower bound of the potential economic benefit for families if such a child-care cost policy were adopted.

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with a child under the age of 12, this rises to nearly one-quarter. Among those paying for care, costs are high: on average, \$7,421 across New England. These costs tend to surpass affordability thresholds for families, and earlier work shows that child-care costs exceed 10 percent of family income for one in four families with young children.<sup>5</sup>

We estimate that two-fifths (42.5 percent) of New Englanders in families with child-care costs would realize savings by eliminating costs for the lower earners and capping them for all other families (Table 1). The remainder would not benefit because although they do pay for child care, what they pay now is less than the caps proposed under this policy.

**Table 1 | Effects of Proposed Child-Care Cost Cap on New Englanders in Families with Child-Care Costs**

	Percent Affected	Percent Poor	Percent Poor After Cap
All New England	42.5	7.7	4.5*
<b>State*</b>			
Connecticut	43.4	8.1	5.3*
Maine	50.3	7.8	4.5*
Massachusetts	41.3	8.3	4.9*
New Hampshire	40.2		
Rhode Island	44.5		
Vermont	36.3		
<b>Family's Highest Level of Educational Attainment*</b>			
Less than High School	80.3	38.8	24.3*
High School Graduate	75.8	26.5	16.2*
Some College	61.0	14.0	8.8*

<sup>5</sup> Mattingly et al., 2016.

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College Graduate	32.0	2.6	1.2*
<b>Number of Adults in Family*</b>			
One	83.2	29.0	18.0*
Two	37.4	4.0	2.1*
More than Two	32.2	7.7	5.1*
<b>Number of Children Under 12 in Family*</b>			
One	41.3	8.0	4.4*
Two	41.9	6.4	4.0*
Three or more	47.7	10.2	6.3*
<b>Race/Ethnicity*</b>			
Black alone, not Hispanic	67.0	18.3	10.8*
Hispanic, any race	65.3	21.8	14.8*
Other race or multiracial, not Hispanic	37.5	10.3	6.7*
White alone, not Hispanic	37.1	4.0	1.9*

Source: U.S. Census Bureau American Community Survey Supplemental Poverty Measure Estimates, 2016–2018 pooled sample.

Notes: Asterisks in the row headings indicate a statistically significant association between that measure and being affected by the cost cap (chi-square tests;  $p < 0.05$ ). Asterisks in the far right column indicate a difference in pre- and post-cap poverty rates (t-tests;  $p < 0.05$  after adjustment for multiple comparisons). All estimates are weighted. “Family” refers to SPM unit. All estimates are calculated at the person level for people in family units where at least one person is under age 12 and the family has at least some child-care costs. Educational attainment is only collected among respondents age 25 or older and thus is missing for 0.3 percent of people who live in families where everyone in the family is under 25. Blank cells in the table indicate where estimates are unavailable due to small sample sizes.

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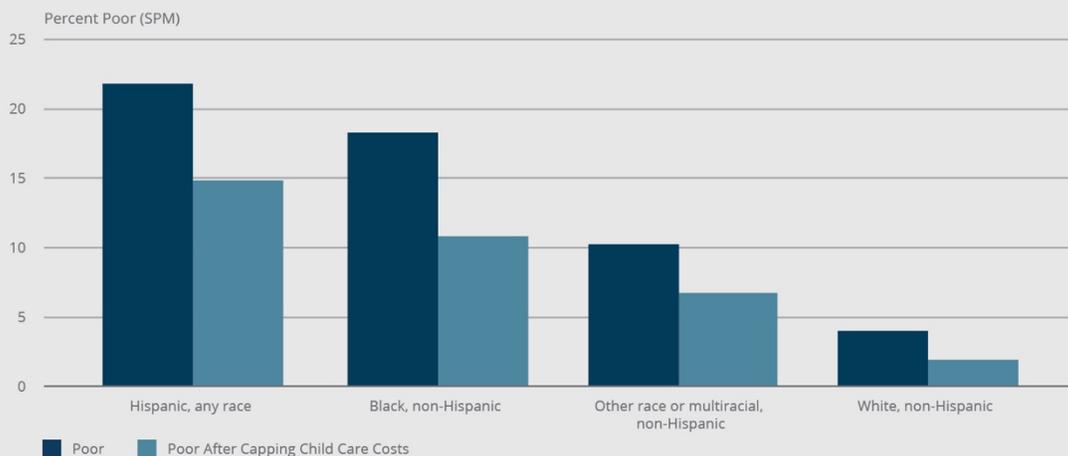
Across the six New England States, 36–50 percent of people in families paying for child care would benefit from a child-care cost cap like that proposed in Massachusetts (Table 1). With this additional income returned to family resource calculations, the poverty rate among people in families with child-care costs would fall from 7.7 percent to 4.5 percent. Although sample sizes are not sufficient for analyzing effects in every state separately, Connecticut, Maine, and Massachusetts would all experience poverty rate changes between 2.8 and 3.4 percentage points, consistent with the region.

### ... And Reach Would Be Equity Enhancing

Although we estimate that this policy would reach about two-fifths of people in families with child-care costs, the penetration into specific populations would be much greater. For instance, individuals in families that are likely to have the fewest resources are the most affected: more than 80 percent of individuals in families with only one adult present or where the highest-educated person in the family does not have a high-school diploma would have reduced costs under this policy. Similarly, while two-thirds of Black and Hispanic New Englanders would have reduced expenses, this is true for just 37 percent of non-Hispanic white New Englanders. As a result of this focused reach, such a policy makes inroads in reducing disparities by education and race/ethnicity.

In addition to deeper reach into some groups, this policy also has greater effects on poverty among some groups, both reducing rates and closing gaps in the poverty rate between non-Hispanic white individuals and people of color. Specifically, this policy has significant potential to meaningfully reduce poverty for Black New Englanders, cutting the group's poverty rates by 41 percent, from 18.3 percent to 10.8 percent (Figure 1).

Figure 1 | SPM Poverty Rates Before and After Capping Child Care Costs among New Englanders in Families with Child Care Costs, by Race/Ethnicity



Source: U.S. Census Bureau American Community Survey Supplemental Poverty Measure Estimates, 2016–2018 pooled sample.

Note: Poverty reductions are statistically significant for each group ( $p < 0.05$ ). Small sample sizes precluded the inclusion of estimates for other racial/ethnic groups. All estimates are weighted.

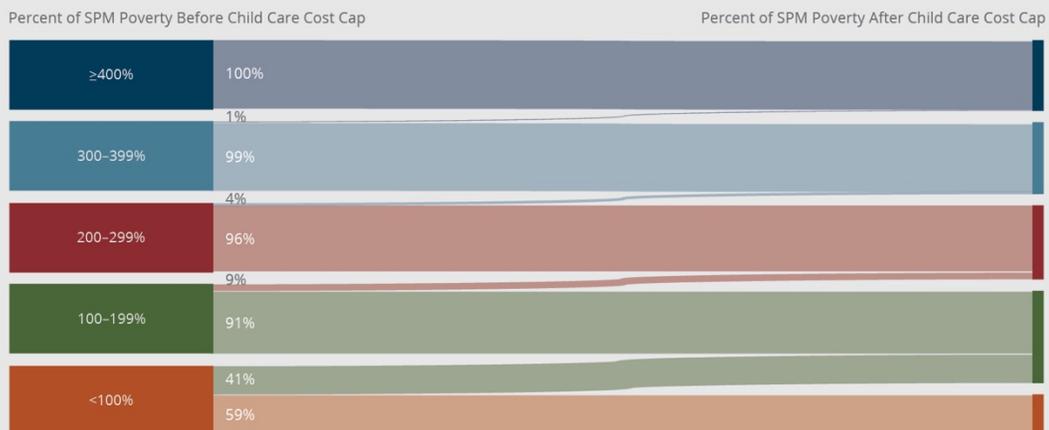
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Although white poverty would be halved, a much lower existing poverty rate makes the absolute effect less dramatic. Beyond reducing poverty within specific racial/ethnic groups, a child-care-cap policy would also substantially reduce the differences between Black and white poverty. While Black New Englanders would still have higher poverty rates, the difference between Black and white rates would be reduced by 38 percent, from a 14.3 to an 8.9 percentage-point separation.

### Changes Also Impact Higher-Earning Families

Although this brief has focused on the poverty-reducing impact of a child-care-cap policy, effects would not be limited to the poor. Figure 2 shows how New Englanders in families with child-care costs in five resources-to-poverty-threshold ratio categories would be affected by this policy. The left side shows families' beginning poverty ratio, and the migrating lines indicate the proportion of each group that would transition to another category after capping child-care costs. For instance, more than two-fifths (41.2 percent) of poor individuals in families paying for child care would be lifted out of poverty and into the next-highest category by this policy. Further, 9.5 percent of families with incomes at 100–199 percent of the poverty threshold would move out of this low-income status and above 200 percent of the threshold, with additional small effects visible for individuals with incomes up to 400 percent of the poverty threshold.

Figure 2 | Changes in Resources-to-Poverty-Threshold Classifications for New Englanders in Families with Child-Care Costs, Before and After Capping Child-Care Costs



Source: U.S. Census Bureau American Community Survey Supplemental Poverty Measure Estimates, 2016–2018 pooled sample.  
Note: All estimates are weighted. No individuals shifted more than one resources-to-poverty-threshold category upward.

### Discussion

We modelled one of the potential impacts to making child care more affordable: reducing poverty. That said, of course, poverty reduction is not the only outcome. In addition, we anticipate that parental work may increase and care may be of higher quality, providing

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benefits to children across the income spectrum. While it is beyond the scope of this brief to model increased employment or work hours and child-care quality improvements, a policy like this has particular potential to stimulate enrollment in child care among the lowest-income families, in part because those families are least likely to already be using paid care. People in poor families with children under age 12 report having child-care costs at half the prevalence of higher-income families (13.2 percent vs. 32.7 percent for those in families with incomes more than four times the poverty threshold). Thus, our findings should be considered an estimation of only one positive outcome from the proposed policy. Indeed, if poverty reduction alone were the sole goal, we might find more cost effective and efficient mechanisms.

Our analyses suggest that making child care more affordable can have a dramatic impact not only on poverty broadly but also in reducing racial/ethnic poverty disparities among those currently paying out of pocket for care. Of course, the cost of such policies is large. For example, a recent analysis found that “universal high-quality ECE [early care and education] in Massachusetts, with affordable capped fees of no more than 7% of income and free for low-income families, would cover a total of 288,000 kids with net new costs of \$5.03 billion.”<sup>6</sup> However, poverty reductions are important, economically and socially, given the known correlations between poverty, academic achievement, health, occupational and educational attainment, and criminal-justice outcomes.<sup>7</sup> As such, investments in child care would likely lead to better life outcomes across generations and considerable cost savings downstream, essentially offering a positive rate of return. Additionally, effects aren’t limited to poor populations: if low-income New Englanders in families with child-care costs were to recoup some or all of their child-care costs in this way, nearly one in ten (9.5 percent) would be lifted above 199 percent of the poverty line.

Aside from the direct poverty-ameliorating effects of a child-care-cap policy, making care affordable is also valuable for stabilizing family employment capacity, by ensuring that child-care expenses do not outweigh earnings. Alleviating child-care pressures on families is especially salient for long-term family economic stability in a post-COVID-19 labor market, when labor-force participation has not yet recovered to prepandemic rates and women’s labor-force participation in particular is the lowest it has been since 1988.<sup>8</sup>

Further, the pandemic’s labor-market effects have been racially patterned, suggesting supports for families of color are especially significant. Job losses are still disproportionately borne by workers of color, and the March 2021 unemployment rate among Black workers was 40 percent higher than among white workers (9.6 percent vs. 5.4 percent).<sup>9</sup> Policies that support workers of color in their capacity to engage in the

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<sup>6</sup> Jones & Giang, 2021.

<sup>7</sup> See, for example, Duncan et al. (2017), Holzer et al. (2008), and Duncan et al. (2010).

<sup>8</sup> Ewing-Nelson & Tucker, 2021.

<sup>9</sup> U.S. Bureau of Labor Statistics, n.d.

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labor force while reducing the pressures of child care might hasten increased labor-force participation and improve the economic outlook for women and people of color.

Finally, in any policy effort that utilizes subsidies, implementation is critical in the share and characteristics of eligible people who participate. Such a policy could leverage lessons learned on program delivery from the existing child-care subsidy program and from pandemic-specific service delivery to craft a program with a low administrative burden and high accessibility among those who need it most.

In this brief, our primary focus was on affordability since that is often a major barrier for families in accessing quality child care. That said, while increasing affordability is important for family economic security (by enabling work and lowering expenses), it doesn't address the quality or supply of child care, which are persistently constrained by this country's funding and delivery of child care. Poor quality care poses its own problems, potentially turning families away from child care and the labor market or exposing children to adverse childhood experiences. Additionally, even affordable care is no guarantee of available care, and families may still struggle to find care that meets their needs and preferences.

## Data & Methods

This brief uses data described in the U.S. Census Bureau's working paper number 2020-09, which produces Supplemental Poverty Measure (SPM) estimates using American Community Survey (ACS) data. To achieve sufficient sample size for these analyses, we pool three consecutive years of data (2016, 2017, and 2018) and adjust all resource and threshold measures to reflect 2020 dollars. While data necessary for calculating the SPM are typically only collected and estimated through the Annual Social and Economic Supplement (ASEC) of the Current Population Survey (CPS), which is sponsored jointly by the Census Bureau and the Bureau of Labor Statistics, the CPS has a smaller sample size than the ACS and is not typically recommended for estimating poverty rates for geographies below the national level. Census Bureau staff have addressed this gap by creating a methodology for calculating SPM estimates among the much larger ACS sample.

Because the ACS does not contain all the information needed to calculate the SPM, it is important to note that the estimates here are derived from modeled data, not data collected from families via survey response. In addition, the estimated aggregate child-care costs from the ACS paper are substantially lower than those from the CPS ASEC, suggesting that estimates of change here are smaller than might be identified in analysis using the CPS ASEC.<sup>10</sup> Additional data on state-level median income were derived from ACS detailed tables (2019 five-year estimates, inflation adjusted to 2020 dollars), which

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<sup>10</sup> More information on this methodology and the differences between ACS SPM and CPS ASEC SPM can be found in Fox, Glassman, and Pacas (2020).

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are derived from a larger sample than the microdata from which the rest of these analyses are derived.

Utilizing SPM data allow for a poverty-centered analysis of a child-care-cap policy by providing details on total family resources, child-care costs alone, and family-specific poverty thresholds. To identify changes in poverty triggered by a child-care-cap policy, we first calculate families' maximum child-care costs under the new policy: \$0 if family cash income is below their state's median income, and no more than 7% of their income if above the state median. For higher-income families, if the amount they presently pay for child care is below 7% of income, we preserve their original child-care-cost value and consider them not affected by this policy. These new "capped" costs are subtracted from reported costs across all families with a child under age 12 and paying for child care, and the difference is added back to total family resources. This new family income—post child-care cap—is compared with SPM family-resource thresholds to calculate a new, post-child-care-cap poverty status for each family and overall rates across groups.

Although proposed child-care-cap legislation allows for families with children as old as 12 to benefit from the proposed policy, SPM child-care measures available here do not include child-care expenses for families whose youngest child is 12. As such, we limit this analysis to families with children *under* age 12. In addition, children with special needs would be covered by the legislation through age 15; those children are also excluded here because of the lack of detailed information in these data that would allow us to identify eligible families.

All estimates are weighted, using the person-level SPM weight available in the ACS SPM data sets. All differences discussed in the text are statistically significant at the  $p < 0.05$  level. Because these data are derived from sample-based surveys; because child-care costs are modeled, rather than collected, in the original source; and because even with three years of ACS SPM data, some subgroup cell sizes are relatively small, caution should be used in making comparisons within the tables and figures.

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