Making Quality Child Care Affordable for Illinois' Working Families

illinois department of human services

Making Quality Child Care Affordable for Illinois Working Families

Introduction

Access to affordable, quality child care is inseparable from our national goals of moving families to economic independence and providing every child with a genuine opportunity to succeed in school and in life. Parents have a dual obligation: to work and support their families, and to ensure that their children are safe and well cared for while they are away at work. But the cost of even minimally adequate child care is far beyond the means of many hard-working, low-income parents in Illinois. This report makes a comprehensive set of four recommendations that, if implemented, would make quality child care affordable for all Illinois families.

This report has been prepared pursuant to P.A. 95-206, which directs the Illinois Department of Human Services (IDHS), in consultation with its Child Care and Development Advisory Council, to propose a plan for making quality child care affordable in Illinois. To assist in the preparation of this report, IDHS convened a work group of 18 child care and early education experts from across the State (for a list of Advisory Group members see Appendix B). The work group was informed by the input provided by over 200 parents and child care providers who attended 14 Community Dialogues convened across the state by Illinois Action for Children.

Over the past five years, Illinois' child care assistance program (CCAP) has undergone several major improvements. Access to care has been enhanced by updating the income guidelines and indexing them to annual changes in the federal poverty level (FPL), and the quality of care available has been improved by raising provider reimbursement rates by 15-20%.

In addition, there has been a strong, tangible commitment to making Illinois the first state in the country to offer free, part-day, high quality pre-kindergarten to all three and four year-olds through Preschool for All (PFA).

Despite these significant improvements to the CCAP and the commitment to PFA, full-day quality child care remains unaffordable for too many working Illinois families striving to become economically independent, and part-day PFA programs cannot be accessed by some of our most at-risk children. These children are defined as; children in low income families, children in low income working families, children living in a homeless situation, children living in non-English speaking families, children in families with English as a second language and children living with teen parents. There are four major reasons for this:

1. The state-assessed co-payments low-income parents must make to participate in the CCAP are not affordable. High risk children are excluded from PFA programs because their families cannot afford the CCAP co-payment required to obtain more than the 2.5 hours of care per day that PFA provides.

2. Despite recent increases, Illinois' provider reimbursement rates are still below the market rate for quality child care. As a result, child care providers routinely require CCAP families to pay the difference between the state rate and the private rate, in addition to their CCAP co-payment.

3. Despite the updating and indexing of the CCAP's income guidelines, the full cost of care is still beyond the means of many families whose incomes exceed the program's guidelines. CCAP families experience the "cliff effect" when an increase in income puts them over the CCAP eligibility limit and they must pay the full cost of care. It is commonplace for CCAP parents to limit their own upward mobility by turning down raises, promotions and overtime that would send them over this income cliff for eligibility.

4. The CCAP's policy of requiring a parent's work hours to closely match the hours their child is in care prevents low-income workers with non-traditional work schedules, including those with early morning, evening, overnight or rotating time shifts, and teen parents in high school, from accessing high quality, stable child care.

This report's four recommendations provide the most effective and cost efficient means for addressing these four barriers to affordable, quality child care.

The Illinois Child Care Assistance Program (CCAP)

> "Rising gas, fuel and grocery prices can really put a crimp in your budget. Daycare subsidies are very important. I wouldn't even have a chance without the help. I feel for the people that are even in the lower income bracket than I am. I don't know how they do it." (*a parent in Moline*)

The Illinois CCAP helps low-income families pay for child care they need to work or go to school. Families are eligible to participate if their income is below 185 per cent of the FPL ($31,765 for a family of three). The parent chooses the child care provider, who is reimbursed at the established state rate, which varies depending on the type of provider, the age of the child, and the region of the state (the state is divided into three regions). All families that participate in the CCAP share the cost of care with the State by making a State-assessed co-payment to their provider.

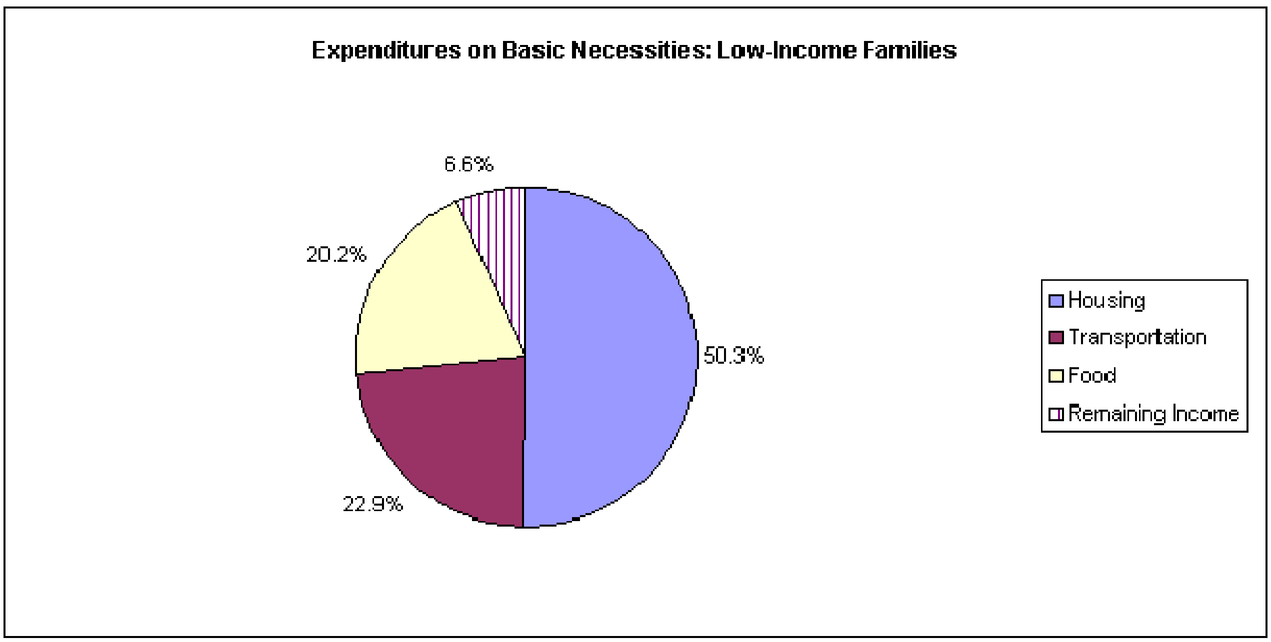
IDHS currently determines the amount of a family's co-payment based on a sliding-fee scale that considers four factors -- the family's income, the family's size, the number of children in care, and whether the care is full or part-time. Families with two children in care pay approximately 50% more than families with one child in care, and nominal extra amounts for additional children in care. Families with one child in part-time care, defined as less than five hours of care in a day, pay half as much as families with one child in full-time care. As a result of this policy, Illinois actually has three separate co-payment scales – one for families with all children in full-time care, one for families with all children in part-time care, and one for families with one child in full-time care and their other children in part-time care.

The Four Barriers to Accessing Affordable Child Care

1. *CCAP Co-payments are not Affordable; How this Affects Preschool for All*

> "We as parents need the best for our children, food, clothes, and activities. We have to work to provide these things. If half our checks go toward child care that's all we are working for." (*a parent in Chicago*)
>
> "I am grateful for the assistance I receive from the Child Care Assistance Program. It has allowed me to afford day care I can trust for the long hours I am gone throughout the day. I have obtained employment in which I must commute 2 hours per day. This job has increased my salary to support my family. However, with the increased transportation expenses and a higher child care co-payment, I wish the state would take other expenses into consideration when assessing co-payments." (*a parent in Carbon Cliff, Rock Island County*)

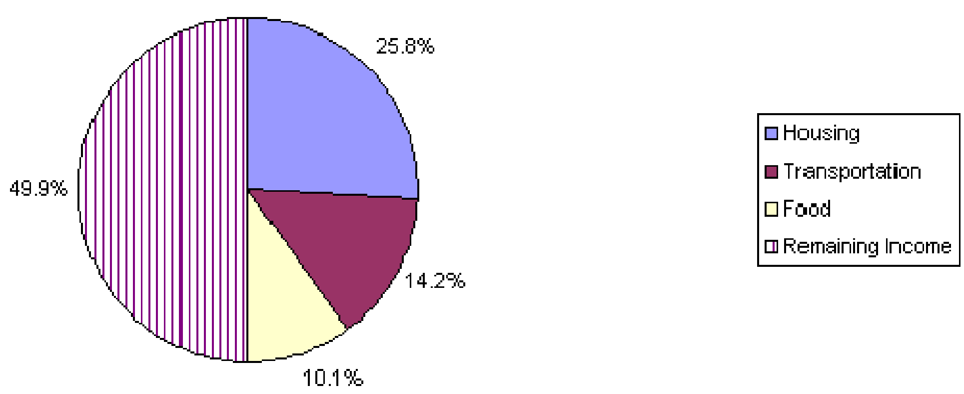
Low-income families spend a disproportionate amount of their income on basic necessities, leaving little money for child care. Most families' three largest expenses are housing, food and transportation. The average American family spends 50% of their income on these three major expenses, leaving 50% of their income for child care and other expenses. However, the average low-income American family spends 93% of their income on these three major expenses, leaving only 7% of their income for child care and other expenses.



Even though a high percentage of their income goes to other necessities, participants in Illinois' CCAP must make high co-payments at every income level.

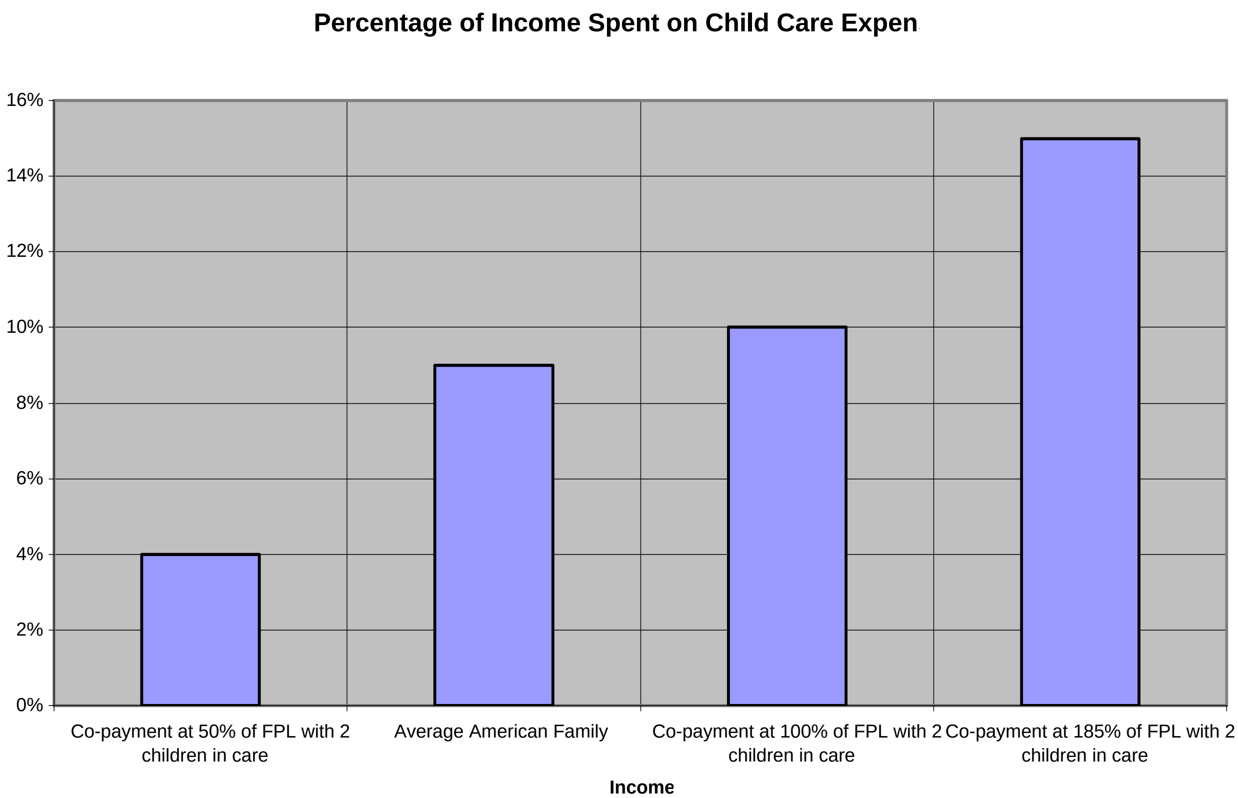
- The CCAP co-payment for a single mother with two children in care who lives in deep poverty (50% of the FPL) consumes over 4% of her gross annual income of $8585.
- The CCAP co-payment for a single mother with two children in care with income at the poverty level ($17,170) is more than 10% of her gross annual income.
- The CCAP co-payment for a single mother with two children in care with income at 185% FPL ($31,765), the top of the CCAP income eligibility scale, is $4,888 annually, more than 15% of her gross income.

Expenditures on Basic Necessities: Median American Family



Source: U.S. Dept. of Labor, Consumer Expenditure Survey 2005

In contrast, the average American family with child care expenses spends just 9% of their gross annual income on child care.[1]

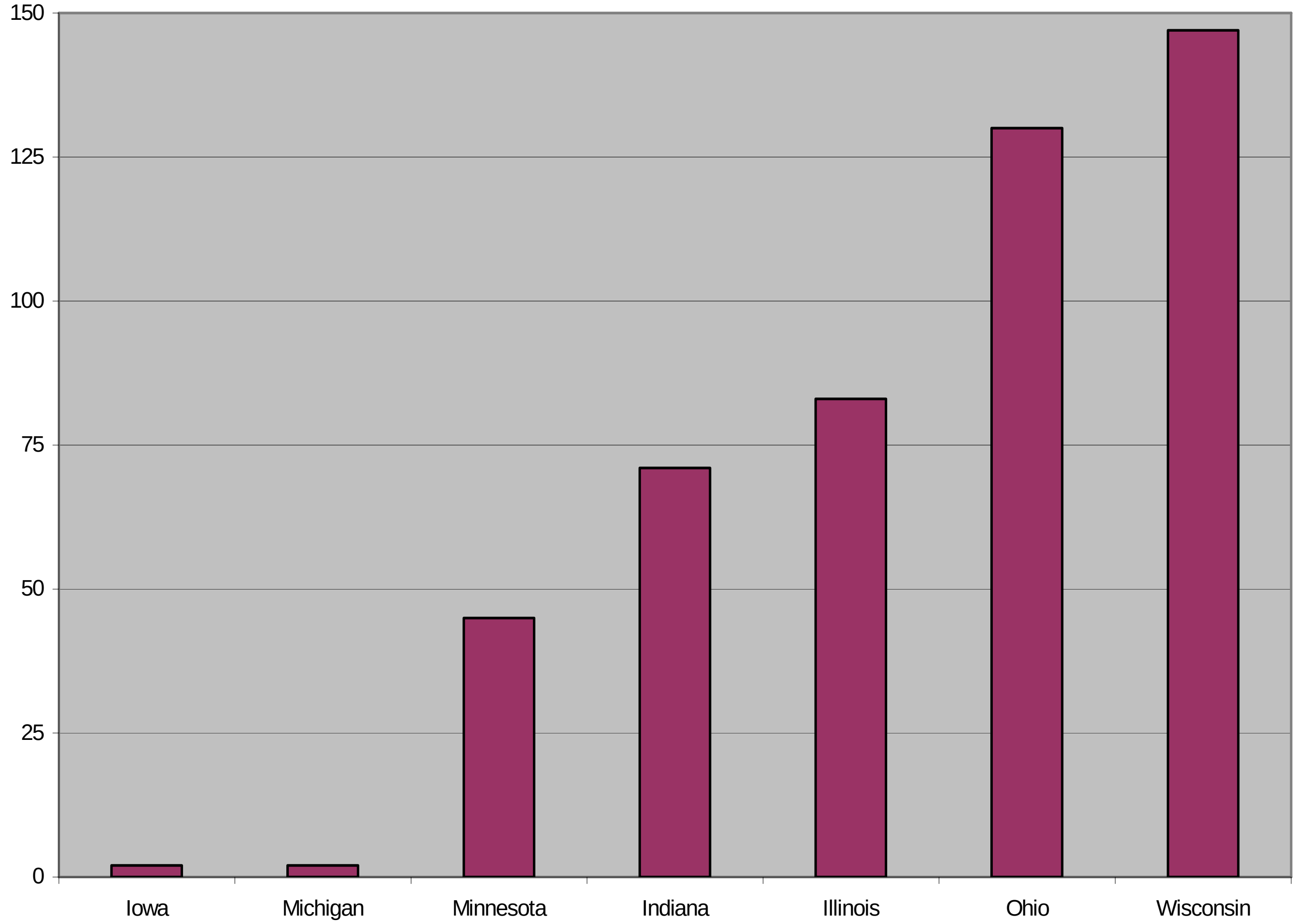


According to providers across the state, Illinois' unaffordable CCAP co-payments have forced families to leave their programs, disrupting the child's care and often the parent's employment. The chart below compares Illinois' co-payment for a family of 3 with income at the FPL and one child in care to other Midwestern states.

In addition to charging families with one child in care higher co-payments than most other states, Illinois charges families with a second child in care approximately 50% more. States often do not increase the co-payment of a family with a second child in care, in recognition that what a family can reasonably afford to pay depends on the family's income and size, and is unrelated to how many children are in care. The same principle is applied in the subsidized housing program, which charges families 30% of their income, regardless of the size and number of rooms of their unit.

[1] "Getting Help with Child Care Expenses," Urban Institute (2003), available at http://www.urban.org/UploadedPDF/310615_OP62.pdf.

State-by-State Comparison of Monthly Child Care Co-payments for Family of 3 with 1 Child in Care and Income at Federal Poverty Level



Source: "State Child Care Assistance Policies 2007: Some Steps Forward, More Progress Needed," National Women's Law Center, available at www.nwlc.org/pdf/StateChildCareAssistancePoliciesReport07Web.pdf.

By the same token, if the co-payment is based on what the family can afford and not the amount of services it uses, a family that uses part-time rather than full-time care should pay the full co-payment, not one-half of it. An exception to this principle is school age care. Providers in the field have reported that families leave school age children unattended at home if the child care co-payment for a few hours of after-school care is set too high.

How unaffordable CCAP co-payments deny access to Preschool for All

The Illinois Preschool for All program is primarily for 3 and 4 year-olds and offers free, educational enrichment activities that help children to develop appropriately and prepare them to succeed in school. Increasingly, PFA programs are being offered in community-based child care centers. [T]

Preschool for All is a 2.5 hour per day program. 2.5 hours of care per day is not sufficient to meet the needs of low-income working families, who must access the CCAP to cover any additional hours of care needed. The children of parents who cannot afford the CCAP co-payment also lose access to the Preschool for All program offered at the child care center. In this way, unaffordable CCAP co-payments cause some of our highest risk, most disadvantaged children to miss out on the early education programs they so badly need.

2. Illinois' Low Provider Reimbursement Rates Make Child Care More Unaffordable for Low-Income Families

Under CCAP rules, child care providers are permitted to charge parents, in addition to their co-payment, the difference between the rate they charge their private customers and the amount that the state reimburses them. More than half of the child care providers who attended the Community Dialogues reported that they charge parents this difference in addition to their co-payment. Parents confirmed the prevalence of this practice and spoke of how it has forced them to change providers and forego providers that offer higher quality care and are more conveniently located.

IDHS' 2005 Child Care Rates Report, the blueprint for reforms to the CCAP provider reimbursement system currently being implemented, recommends that IDHS prohibit providers from charging parents the difference between the state rate and the private rate once state reimbursement rates are raised to the Report's target levels and therefore are sufficient to support quality child care.[2]

Prior to issuance of the Rates Report, Illinois' provider reimbursement rates were as low as the 14th percentile. This means the state's rate was sufficient to purchase only 14%, or one in seven, of the slots in the child care market. The Rates Report recommends that child care provider reimbursement rates be raised to the 50th percentile in County Group 1A, the 60th percentile in County Group 1B, and the 75th percentile in County Group 2.

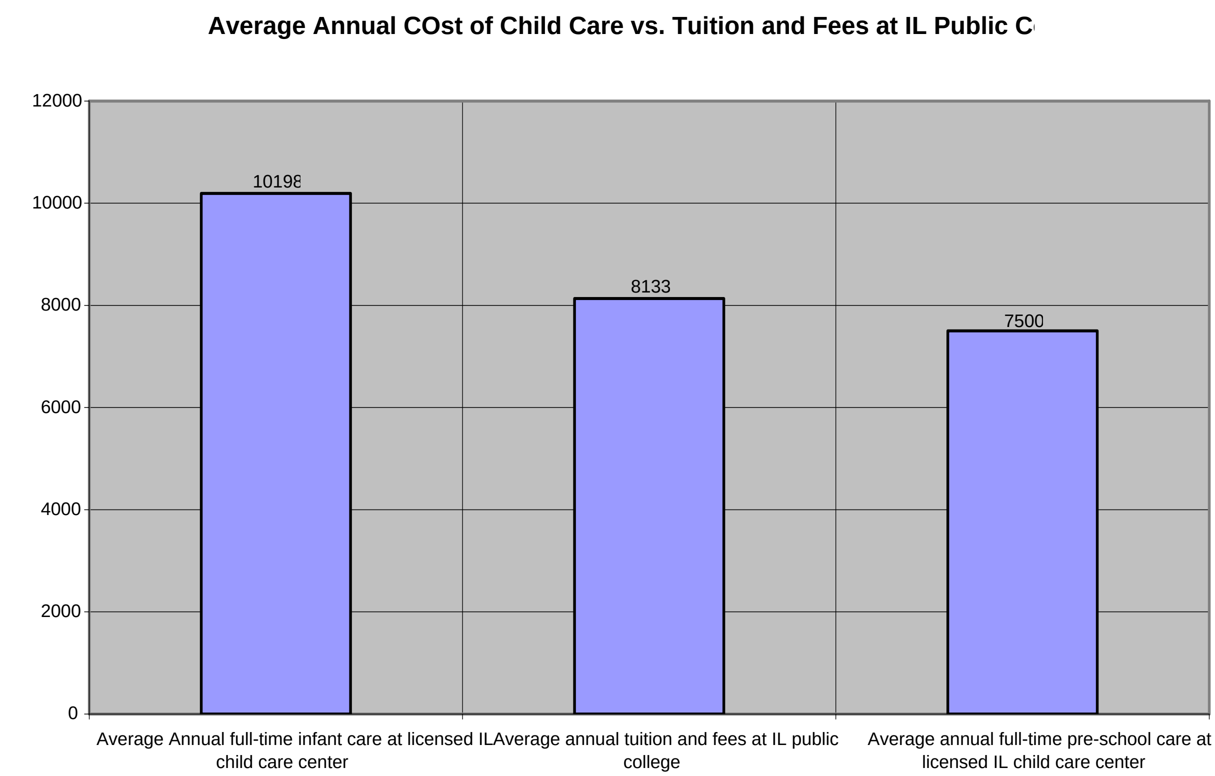
CCAP provider reimbursement rates have been increased substantially over the past two years and are no longer at this low percentile, but they continue to lag behind the targets set in the Rates Report, especially in Group 1A counties. Reaching these target levels would require a one-time adjustment to Group 1A rates and increases in other rates around the state.

[2] Prohibiting child care providers from charging parents the difference between the state rate and the private rate, in addition to their co-payment, would also level the playing field between providers who are in the certificate program administered by the Child Care Resource and Referral Agencies (about 95% of CCAP children) and are allowed to charge the difference, and providers who have State or City of Chicago contracts to provide care (about 5% of CCAP children) and are prohibited by their contracts from charging the difference.

3. The CCAP's Low Income Guidelines; the Cliff Effect that No One Survives

> "I am in a position in my life where I must decline moving up in my job due to not being able to afford child care on my own. I'm at an income right now, where if I made any more, I would not qualify for the Child Care Assistance Program. This program is such an asset to me that I cannot afford to lose it. Therefore, I must remain a part time employee." (*a parent in Cambridge, Henry County*)

The cost of child care is high. On average, infant care at a licensed Illinois child care center costs $10,198 per year and preschool care costs $7,500.3 By comparison, the average cost of a year's tuition and fees at a public Illinois college is $8,133.[4]



3 "2007 Child Care in the State of Illinois," National Association of Child Care Resource and Referral Agencies, available at www.naccra.org/randd/data/docs/IL.pdf.

4"Trends in Pricing: Table 6, Average Published Tuition and Fee Charges by State, in Current Dollars, 2004-05 to 2006-07 (Enrollment-Weighted)," College Board, available at www.collegeboard.com/prod_downloads/press/cost06/06-pricing_charts.xls.

Both the federal and state governments offer financial aid to families that need help paying for postsecondary education. Nearly 70% of all undergraduates enrolled in public 4-year institutions receive some type of financial aid.5 Yet there is no financial aid available to help families pay for child care.

Under the current CCAP, a family of 3 must bear the full cost of care when their income reaches $31,765 and they lose eligibility for the CCAP. In the average child care center in Illinois, paying the full cost of care would consume 24% of this family's income for a preschooler and 32% of their income for an infant. Low-income families cannot afford to devote such a large percentage of their income to child care.

This phenomenon – the extraordinary increase in a family's child care costs when their income makes them ineligible for the CCAP and they must bear the full cost of care – is called "the cliff effect."

According to one child care provider who has been in the field for 25 years, not one family that has gone off the cliff during those 25 years who received a pay raise that put them above the CCAP's income guidelines, has been able to keep their child enrolled in her program. Other providers said that there is "no way" any family can survive the cliff effect and keep the children with the provider after their income rises above the eligibility guidelines.

Following is a real example of a family that experienced the child care cliff effect:

> A single mother with two children received a raise of 20 cents/hour. The raise increased her *annual* income by $416. This small increase was just enough to make the family ineligible for the Child Care Assistance Program. The family fell off the child care "cliff" and their annual child care expenses increased by $11,350. Thus, the salary increase resulted in a net loss of $10,934 to the family.

Every child care provider has stories of parents who, for the sake of keeping their child in a trusted child care setting, has refused a raise that would have pushed them above the CCAP's income guidelines, sending them off the cliff. [Insert graphic depicting the cliff effect]. At every single Community Dialogue, at least one parent, often more, spoke of how they had turned down a promotion, a pay raise, or overtime to avoid going off the income eligibility cliff and losing their child care.

This is not an insolvable problem. Illinois may use Federal child care funding, which accounts for roughly half of the Illinois CCAP's budget, to provide assistance to families whose incomes fall below 85% of state median income,6 approximately 300% of the FPL. If Illinois provided assistance to families with income up to 300% of the FPL -- $51,510 for a family of 3 and $61,950 for a family of 4 – these families would face a far more manageable cliff than they face now.

5 "2003-04 National Postsecondary Student Aid Study (NPSAS:04) Undergraduate Financial Aid Estimates for 2003-04 by Type of Institution," U.S. Department of Education, National Center for Education Statistics (2005), available at (NCES 2005-163).

[6] 45 CFR 98.20(a)(2)(2007).

Providing child care assistance to families with $50,000 and $60,000 incomes may seem unrealistic. But as the above discussion details, given the high cost of child care, there is no other way to avoid the perverse effects of the cliff effect.

4. Provide More Flexibility in Rules Requiring Hours of Work and Hours of Care to Match

There are a couple of administrative changes that would make child care more affordable for two special populations who, due to their work and school schedules, are often unable to access providers who offer continuous, quality, year-round care.

Illinois requires hours of child care to be "reasonably related" to the hours of work or school. Since child care centers generally are only open Monday-Friday in daytime hours, workers with non-traditional work schedules, such as early, late or weekend shifts or rotating schedules, can only receive child care assistance for the days that their work schedules match the center's operating hours. These workers must pay the full cost of care for other days, making center-based care unaffordable for families with non-traditional work hours.

This problem could be addressed by allowing more flexibility in the application of the requirement that the hours of care and work match. The Child Care Advisory Council has long recommended that parents who work full-time have the option to choose a single full-time child care provider. Parents who choose this option would not be eligible to receive assistance for a second child care provider.

Teen parents in high school are another group that has special difficulty in maintaining consistent care arrangements and accessing center-based care due to rigid administrative requirements. Currently, these parents are not eligible to receive assistance during school holidays and over the summer. Since they have no income to pay for care on those days, providers are financially unable to hold their slots open for them until they return. Children of teen parents are one of the higher risk populations most in need of high quality and consistent child care. This problem could be solved by making teen parents in high school eligible for year-round, full-time care.

Recommendations

These four recommendations, if implemented, would remove the four barriers to making quality child care affordable for all working families in Illinois:

- Adopt a new co-payment scale that requires all families to pay their fair share of the cost of care by setting family co-payments at a level that low-income parents can reasonably afford. Co-payments would be a lower percentage of family income for the poorest families and gradually increase as a percentage of family income as income rises. The co-payment for a family at the top of the CCAP income scale would be 10% of their gross annual income, roughly equal to the 9% of gross annual income that the average American family spends on child care. Appendix A contains a detailed explanation of our proposed co-payment scale.

  In addition, base the family's co-payment on what they can reasonably afford to spend on child care, given the family's income and size, and not on the amount of services they use. The family co-payment would be the same regardless of how many children are in care or whether the children are in full or part-time care, with the exception that families that only use school age care would continue to pay one-half of the co-payment, to avoid unduly pressuring families to leave school age children home alone.

- Raise provider reimbursement rates to the target levels in the Rates Report and then prohibit providers from charging parents the difference between the state rate and the private rate, in addition to their co-payment. This will require a one-time adjustment in Group 1A (Cook and surrounding counties), where the rates are far below the target levels, and also rate increases in other parts of the State.

- Maintain access to the CCAP until a family reaches 300% of the FPL. This is necessary to reduce the cliff effect to manageable proportions and allow families to continue moving towards economic independence.

- Add more flexibility to the policy requiring the hours of work or school and the hours of care to match, so that parents who work non-traditional hours and teen parents in high school can afford to access care that is higher quality and provided on a stable, year-round basis.[7]

[7] This report recommends changes to the CCAP administered by IDHS that would make child care more affordable for Illinois working families. In addition, the State of Illinois should follow the lead of 27 other states and enact a State Child and Adult Care Tax Credit that would be administered by the Illinois Department of Revenue. State child care tax credits are an efficient mechanism for helping low and middle income taxpayers afford the huge expense of child care. A state child care tax credit should be carefully designed to ensure that it maximizes the benefits to the lowest-income families. For a guide to designing a state child care tax credit, see http://www.nwlc.org/pdf/MakingCareLessTaxing2006.pdf

Conclusion

This report details the major barriers that hamper the efforts of low-income working families to move towards economic independence:

- child care co-payments that pose too great a burden on low-income working families;
- inadequate provider reimbursement rates that make child care even more unaffordable for families;
- a cliff effect that perversely causes parents to limit their own upward mobility by refusing pay raises, promotions and overtime; and
- inflexible policies that prevent many parents from accessing the quality, stable care that they know their child needs.

This report also contains four recommendations that, if implemented, could sweep away these barriers and allow low-income working parents to fulfill their obligations to support their families and to assure that their children are safe and well-cared for while they are away at work. Adopting policies that enable all Illinois working families to access quality, affordable child care is not just a worthwhile goal, it's a societal imperative that fulfills our deepest-held values.

Appendix A: Design of the Proposed Co-Payment Scale

The proposed co-payment scale is modeled after the concept of federal income tax brackets. Families would pay 3% on all income between 0-100% FPL, 7% on all income between 100-150% FPL, 12% on all income between 150-200% FPL, and 17.5% on all income between 200-300% FPL. One exception: families in deep poverty (below 50% FPL) would pay $1/week. The co-payment for a family at the top of the income scale would be 10% of gross annual income.

Here is an example of how this would work:

Take a family of three with annual gross income of $30,000.

The FPL for a family of three is $17,170.

The family's co-payment would be:

3% of $17,170 (income from 0-100% FPL)	**= $515**
7% of $8,585 (income from 100-150% FPL)	**= $601**
12% of $4,245 (income from 150-200% FPL)	**= $509**
Total co-payment	**= $1625**

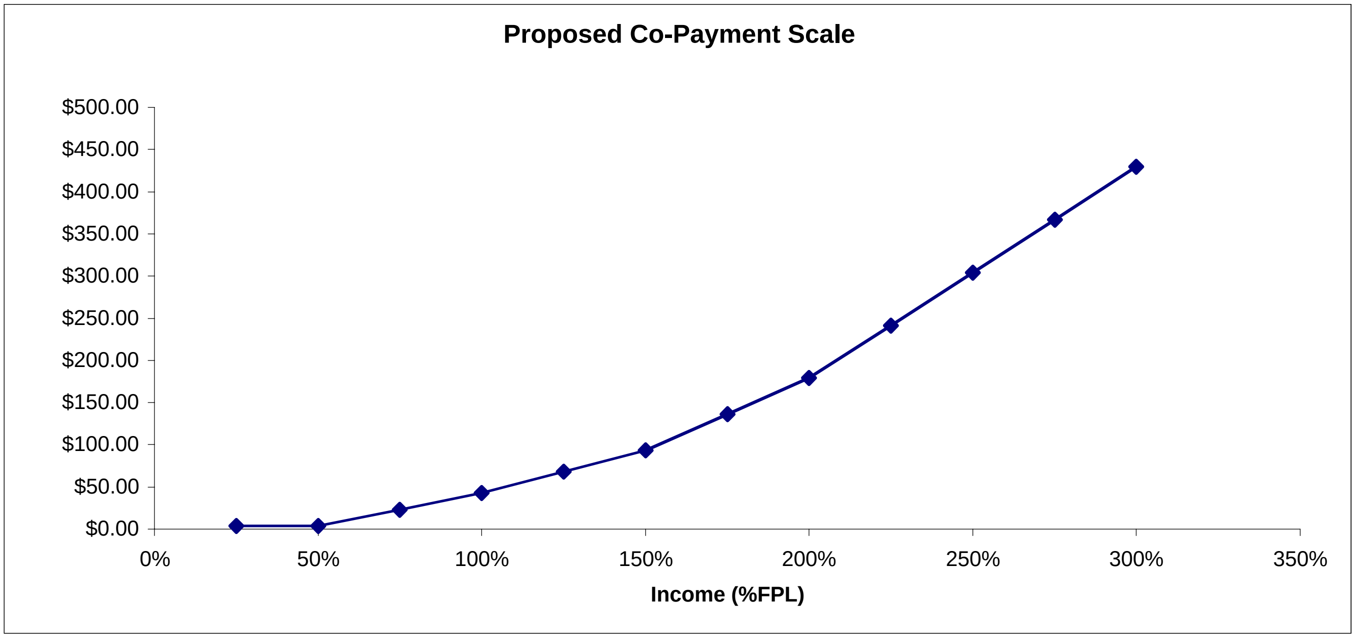
Total co-payment is 5.4% of gross annual income.

Co-payments would not be individually calculated. Rather, co-payments would change at fixed intervals and be reflected in a chart that would be far simpler to use than the current three co-payment charts. The co-payment scale and chart could be easily updated each year when the FPL changes.

Following is a chart that compares what families now pay for child care with the proposed co-payment scale:

Current and Proposed Co-Payments for Family of Three with One Child in Care					
% FPL	**Monthly Income**	**Current Co-payment**	**% Income**	**Proposed co-payment**	**% Income**
25%	$357.70	$4.33	1%	$4.33	1%
50%	$715.42	$21.67	3%	$4.33	1%
75%	$1073.13	$47.66	4%	$23.63	2%
100%	$1430.83	$86.66	6%	$42.92	3%
125%	$1788.54	$108.33	6%	$67.96	4%
150%	$2146.25	$160.32	7%	$93.00	4%
175%	$2503.96	$212.32	8%	$135.93	5%
200%	$2861.67			$178.85	6%
225%	$3219.38			$241.45	7%
250%	$3577.08			$304.05	8%
275%	$3934.79			$366.65	9%
300%	$4292.50			$429.25	10%

Here is a visual depiction of the proposed co-payment scale:



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