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REVIEWS OF RESEARCH

INTRODUCTION TO CHILD CARE SUBSIDY RESEARCH

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The *Reviews of Research* series synthesizes research on selected topics in child care and early education. For each topic, *Reviews of Research* provides an in-depth Literature Review and a summary Research Brief. Also, for each, a companion Table of Methods and Findings from the literature reviewed is available on the *Research Connections* web site, www.childcareresearch.org.

This *Introduction to Child Care Subsidy Research* sets the stage for several *Reviews of Research* on aspects of publicly subsidized child care, initially including:

- ▶ Predictors of Child Care Subsidy Use
- ▶ Family Employment and the Use of Child Care Subsidies

Child care subsidies help low-income families pay for the care and education their children need while parents work and/or participate in education and training. As women with children entered the workforce in growing numbers throughout the 1970s, 1980s, and 1990s,¹ public child care assistance for low-income working families grew as well. Child care subsidies assumed heightened importance and visibility with the 1996 passage of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) and the simultaneous establishment of the Child Care and Development Fund (CCDF).² Welfare reform's strong emphasis on moving welfare families to work and helping other working families support themselves without turning to cash assistance sparked a major expansion of government funding for child care.

With the expansion of financial assistance for child care, policymakers—wanting to use subsidies effectively—have been eager to understand the impact of child care funding on employment, child care use, and child development. The CCDF gives states a great deal of flexibility in implementing their subsidized child care programs, leading to strong state-level interest in these questions. A growing body of new research speaks to these issues.

Research Connections is publishing this occasional series of Reviews of Research to summarize research on subsidized child care, recognizing that it is a young area of inquiry. Studies are selected for review according to their policy relevance. Most of the reports examine aspects of subsidized child care since the 1996 welfare reform; others address pertinent aspects of pre-CCDF child care assistance. In addition to policy relevance, studies reviewed here have sound—and evolving—methodologies, with conclusions supported by their analyses.

QUESTIONS ADDRESSED BY THE SERIES

The first two reviews of research planned on child care subsidies examine the research literature on two interrelated questions:

- (1) What are predictors of child care subsidy use—that is, what family and child care characteristics are associated with use of child care subsidies?
- (2) What family employment outcomes are associated with the use of child care subsidies?

Other reviews will look at research on a range of aspects of subsidized child care, including variation among state child care policies and systems—the result of wide latitude given states—and experiences with subsidy systems of families and children, child care providers, and communities.³

These reviews will note important questions about child care subsidies that await future research and further methodological development. For example, research so far has little to say about outcomes for children associated with the use of subsidized child care, although a major body of research looks at child outcomes associated with the use of care more generally. Some researchers have suggested that the typically short and sporadic periods for which children receive subsidies seriously limit the subsidy system's capacity to enhance children's development (Meyers et al., 2002; Child care inadequate for vulnerable young children, 2002).

POLICY LANDSCAPE

Child care subsidy policy is designed to further two major goals: (1) to support parents' employment and (2) to support children's development. Subsidies may offer parents greater access to the child care market and can allow them to select care that better meets child and family needs.

Child care subsidies are funded largely, although not exclusively, through federal and state funds in the Child Care and Development Fund. Federal funds from the Temporary Assistance for Needy Families (TANF) cash assistance program, either transferred

into CCDF or spent directly on child care, are another major federal source of child care funding. Some states also use federal Social Services Block Grant funds for child care. A number of states also provide significant state child care subsidy funds beyond those required by CCDF.

Other major forms of publicly supported child care and early education—federal Head Start and Early Head Start, state prekindergarten, programs funded through Title I of the Elementary School Education Act, 21st Century Learning Centers—generally do not fall within the definition of “child care subsidy” used by research reviewed in this series. Nonetheless, these programs help many low-income parents meet some of their child care needs while working or in school/training—and are important parts of states’ early care and education systems. Spurred in part by the President’s Good Start, Grow Smart Initiative—involving the U.S. Department of Health and Human Services, Administration for Children and Families (ACF), and the U.S. Department of Education—efforts are underway across the states to better coordinate their subsidy, Head Start, and prekindergarten systems. Federal and state dependent and child care tax credits are also outside the definition of “subsidy” in this literature.

CHILD CARE AND DEVELOPMENT FUND PROVISIONS

The CCDF combined four federal child care programs. Three had been linked to welfare—entitlements for families receiving cash assistance and working or in training, entitlements for those transitioning from welfare to work, and some funding for those at-risk of needing cash assistance. These welfare-related child care programs, previously authorized under Title IV-A of the Social Security Act, were Aid to Families with Dependent Children Child Care, Transitional Child Care, and At-Risk Child Care, respectively. The fourth program, the Child Care and Development Block Grant, not an entitlement, had targeted low-income, working families. CCDF eliminated all entitlements, leaving it to states to set their

own eligibility guidelines on income and work/training activities, within broad parameters.

Under current CCDF rules, the federal law allows states to assist families with child care costs when their incomes fall below 85 percent of their state median income and when they need child care to support their employment and/or education and training. Most states, however, exercise the flexibility allowed under the law and set their eligibility levels below this maximum. In both federal fiscal years 2000 and 2002, the average state eligibility level was 62 percent of state median income, and most families served across the country had incomes well below this level (U.S. Child Care Bureau, 2003; U.S. Child Care Bureau, forthcoming.) Typically, states continue to guarantee subsidies for eligible families while they are receiving TANF and for a post-TANF period. At different points in time, the same family may be in all three subgroups.⁴ Some states provide subsidies to all families eligible under state guidelines who apply, regardless of TANF status.

Thus, policymakers are interested in three subgroups within the broad group of potentially eligible low-income working families: families currently receiving cash assistance (TANF), families transitioning off TANF, and low-income families with no TANF history but at risk for TANF dependency.

The CCDF also gave states power to set other key subsidy policies, most notably, the rates states pay child care providers for services and the portion of provider payments that families must pay, the “co-payments.” These policies influence the willingness of both providers and parents to participate in subsidy systems.

GROWTH OF CCDF AND RELATED SUBSIDIES

With the creation of CCDF in 1996, dollars spent and families and children served through CCDF and related subsidies grew rapidly, but more recently growth has slowed. By 2004, annual spending on child care subsidies from CCDF and TANF-related resources reached an estimated \$11 billion (Field

Initiated Child Care Research Projects, 2004). One study reporting states' child care spending from all sources found that median spending grew 110 percent between federal fiscal years 1997 and 2001, with the fastest growth in 1997. The same study reported an 89 percent median increase in children served between 1997 and 2002—with the greatest growth between 1997 and 1999 (Collins, Layzer, & Kreader, forthcoming).⁵

Between 1997 and 2002, the proportions of subsidized children from TANF families dropped substantially. Among states reporting the TANF status of subsidized children, the proportions of children from TANF families dropped by more than 100 percent (Collins et al., forthcoming). During roughly the same period, caseloads of TANF families nationwide decreased by 54 percent.⁶ By 2002, children from families transitioning from TANF and families without recent TANF histories accounted for the majority of families receiving subsidies in most study states.⁷

Despite the growth in subsidy use, there are indications that many states may face more demand for subsidies than they can meet. A General Accounting Office (GAO) survey covering January 2001 through early 2003, found that while half the states provided child care assistance to all state-eligible families who applied, half did not. Some states that continued to serve all their eligible applicants have had to raise family co-payments, freeze reimbursement rates, and in general lower the value of subsidies to families to continue to meet the demand. During this period of economic downturn and tight state budgets, of the 35 states that made changes that could affect the availability of child care assistance, i.e., changes to eligibility ceilings, family co-payments, or provider payment rates, 23 decreased availability, nine increased availability, and three made a mix of changes. The GAO also observed that states “often give TANF and transitioning families higher priority than other low-income working families when program resources are insufficient to cover all who apply” (U.S. General Accounting Office, 2003).

It is not yet known how proportions of TANF and non-TANF subsidy families may have changed

since 2002. Many states give priority to TANF and post-TANF families, yet between June 2002 and June 2003, TANF caseloads remained unchanged nationally, rising slightly in some states and dropping slightly in others.⁸

GROWTH OF CHILD CARE SUBSIDY RESEARCH

Research on subsidized child care in the United States has grown since the mid-1990s, part of the burgeoning child care research on national and state patterns of child care use, parents' selection of different types of care, the quality of child care environments, and the effects of child care quality on children.

Some of the first literature related to child care subsidies examines the effect of the price of child care on mothers' employment and child care selection. This literature uses economic modeling to simulate the impacts on employment and child care use of a reduction in child care price, thus inferring the impact of subsidy receipt. As authors of some of this work note, however, these studies do not capture the full experience of receiving subsidies, such as hassles with the application, potential stigma, and other aspects of engaging with the subsidy system.⁹

Much of the earliest federally funded research on subsidy programs was conducted by *Child Care Policy Research Partnerships*, organized in 1995 by ACF. These partnerships brought together university-based researchers, state subsidy administrators, child care resource and referral agency leaders, and others. ACF and its Child Care Bureau encouraged early *Research Partnerships* to make research use of administrative data generated in the process of operating state child care subsidy programs.

Subsequent waves of federally supported research followed, financed in part by CCDF funds set aside for research. The Child Care Bureau, for example, has funded field-initiated research projects and research scholars completing dissertations. Since the passage of welfare reform, the ACF Office of Planning, Research, and Evaluation and the Child Care Bureau

have also commissioned several large-scale studies to examine aspects of the operation of the new Child Care and Development Fund. These include the *National Study of Child Care for Low-Income Families* and two experimental studies, *Evaluation of Child Care Subsidy Strategies* and, most recently, *Quality Interventions for Early Care and Education (QUINCE)*.¹⁰ Other federal agencies, states, and private foundations have also supported research on low-income families' use of child care and child care subsidies. A notable example is the work on child care done through the Assessing the New Federalism project based at the Urban Institute, supported by numerous foundations.

Given the historic connections between welfare programs and child care subsidies, it is not surprising that research on welfare policy also has provided starting points and models for research on child care subsidy policy. Among the “leavers” studies—of families “leaving” welfare—are several that examine levels of child care subsidy use by these families and look for differences between those who use child care subsidies and those who do not. Experimental studies to evaluate the effects of various welfare policies also inform the experimental studies now in the field to evaluate effects of subsidy policies.

The early research on child care subsidy programs tended to be descriptive—drawing necessary baseline pictures of the families and child care providers in state subsidy systems and of the financing, use, and administration of those systems. Ongoing descriptive work remains an essential enterprise, documenting changes in these pictures over time. As subsidy research has evolved, studies have also increasingly looked for correlations among various characteristics of subsidy populations, policies, and/or outcomes. Experimental studies now underway take the next step, moving beyond establishing correlations and associations to documenting causes and effects.

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ENDNOTES

1. According to U.S. Current Population Survey data, the percentage of mothers in the workforce with children under age 6 years grew from 39 percent in 1975 to 65 percent in 1998. For these and additional comparisons, see U.S. Department of Labor, Office of the Assistant Secretary for Policy. (1999). *Work and family. In Futurework: Trends and challenges for work in the 21st century* (pp. 28-39). Washington, DC: U.S. Department of Labor .
2. The Child Care and Development Fund was created by 1996 and 1997 amendments to the Child Care and Development Block Grant. The name “Child Care and Development Fund” does not appear in the legislation and is the name adopted by the U.S. Department of Health and Human Services to refer to the consolidated funds.
3. In addition to offsetting child care costs for low-income families, public dollars support a host of initiatives designed to improve the quality of child care and early education services.
4. A current TANF family may become a former TANF family, and a family with no recent TANF history may begin to receive cash assistance from the TANF program.
5. In four states studied, the number of children receiving child care subsidies decreased between 2000 and 2002.
6. In August 1996, over 4.4 million families nationwide received Aid to Families with Dependent Children; in June 2002, a little over 2 million families received Temporary Assistance for Needy Families, a drop of 54 percent. See U.S. Department of Health and Human Services, Administration for Children and Families publications: *Percent change in AFDC/TANF families and recipients, August 1996-September 2001* and *Percent change in TANF families and recipients, December 2001-June 2002*, at <www.acf.hhs.gov/news/stats/newstat2.shtml>.
7. Not all states’ data distinguish between families transitioning off TANF and families without TANF histories.
8. In June 2002, 2,024,875 families nationwide received TANF; in June 2003 this number was 2,032,157, a slight increase of 0.36 percent. See U.S. Administration for Children and Families publications: *Percent change in TANF families and recipients, December 2001-June 2002* and *TANF: Total number of families and recipients, percent change from March 2003 to June 2003*, <www.acf.hhs.gov/news/stats/newstat2.shtml>
9. Examples of this economic modeling literature will be considered in the second review in this series, on research examining family employment outcomes associated with the use of child care subsidies. Also see a review of this literature in Blau, D., & Tekin, E. (2001). The determinants and consequences of child care subsidy receipt by low-income families. In B. Meyer & G. Duncan (Eds.), *The incentives of government programs and the well-being of families*. Chicago: Joint Center for Poverty Research.
10. ACF funded and the CCB oversaw the first two rounds of *Child Care Research Partnerships*, and the CCF funded and oversaw round three. ACF funded and oversaw *The National Study of Child Care for Low-Income Families*; CCB funds and, with ACF, oversees *The Evaluation of Child Care Subsidy Strategies*; CCB funds and oversees QUINCE.