Careening Near the Edge: How the Childcare Benefits Cliff Hurts the Workforce and Employers

An Executive Brief from *Benefits Cliffs: Effects on Workers and the Role of Employers*
A project of the U.S. Chamber of Commerce Foundation with support from the Seldin/Haring-Smith Foundation

Access to high quality, affordable childcare is the lynchpin for working parents with children 0-5 years old. For employers, it is a stabilizing factor for the workforce, preventing high turnover and absenteeism, improving recruitment and retention, and increasing productivity. Yet, the cost of childcare is a burden on most Americans with young families who spend up to 20% of their annual income on care for children ages 0-5.[1] For many families, especially those with more than one child under age 5, it is prohibitively expensive, driving millions of parents pre- and post-COVID-19 crisis to remain out of the workforce because they are caring for their young children.[2]

Childcare benefits, including subsidies, can be one of the greatest deciding factors on whether to participate in the workforce. Childcare benefits also contain one of the harshest cliffs – that is to say, when families surpass income eligibility limits, they lose the entirety of their childcare benefit. An increase of a dollar in earnings can mean the difference between subsidized and unsubsidized childcare.

Benefits cliffs pose a challenge to employee financial stability and a barrier to career advancement, with many workers choosing to turn down promotions and raises for fear of losing benefits. Families who surpass the income eligibility level by a narrow margin find themselves with a lower net income level because of the high cost of unsubsidized childcare. Furthermore, accepting a raise adds an additional risk to families receiving subsidies- due to the limited supply of childcare subsidies, families who surpass income eligibility levels cannot be guaranteed their previous subsidies if their income drops again. The loss of these benefits, due to the high cost of childcare distinctively challenges the economics of families and employers.

Childcare Subsidies

The Child Care and Development Fund (CCDF) program is authorized by the Child Care and Development Block Grant (CCDBG) Act and is administered by states to help families pay for childcare so they can work, participate in job training, or go to school. Parents apply to the state to receive subsidies which they can use with approved childcare providers. CCDBG includes an eligibility cap of 85% of state median income (SMI), and states can set their own income limits within that cap. State income limits are as low as 37% of SMI, with an average income of $44,613 or 168% of the federal poverty level (FPL) for a family of 4 in 2021.

States charge co-payments as a flat fee or a percentage of income with or without a sliding scale – meaning the higher income the more the family pays. Under the CCDBG, 7% is the recommended high watermark for the percentage of income a family should pay. More than a third of states charge co-payments that exceed 7% of family income. In states that use a sliding scale for co-payments, the value of subsidies gradually decreases as income rises.

Continued on page 2

---

[1] U.S. Workers Spend Up to 29% of Their Income, on Average, on Child Care for Kids Younger Than 5, (March, 2022), LendingTree at: https://www.lendingtree.com/debt-consolidation/child-care-costs-study/#annualcostsspikeperchildforcenterbasedcareprovidersamidcoronaviruspandemic

[2] As reported in Forbes, Parents who quit their jobs because they can't find adequate childcare face a 7% wage penalty, (March, 2022) at: https://fortune.com/2022/03/15/wage-gap-is-wider-for-moms-who-leave-the-workforce/

The CCDBG Act of 2014 requires states to allow families already receiving assistance to continue to do so through the end of their 12-month eligibility period — if income does not exceed 85% of state median income. Some states also apply income exit eligibility limits, meaning that families can continue to receive assistance as their incomes rise. For example, in Michigan in 2021, families with income up to $40,632 qualified for assistance and could continue to receive assistance until their incomes reached $66,756. However, in Nebraska, the exit income limit was $43,920 — a difference of only $3,288 from the entry limit.

While childcare subsidies are essential for low-income families, most eligible families do not receive them due to a lack of adequate funding; less than a fifth of families eligible for childcare subsidies receive them. In fact, only one in six eligible children receive subsidies through CCDF.

Losing Childcare Subsidies: An Especially Harsh Benefit Cliff

Childcare is expensive and losing childcare subsidies can be financially devastating to families. In Illinois, a family of one parent and two children would lose a $25,481 subsidy when their income rose from $54,000 to $55,000 – a drop in net financial resources of $24,481. Before losing their subsidy, this family paid 6.75% of their income on childcare via co-payments. After losing their subsidy, they would spend 53% of their income on childcare

Families depend on childcare to work and therefore a lack of access to quality care has a significant impact on the workforce. A 10% reduction in the net cost of childcare is estimated as having a 2% increase in the employment rate. The loss of a subsidy may force families to turn to informal forms of care that are less expensive, but may be less reliable, which may interfere with work. Children's development may suffer in less expensive but lower quality informal care.

Policy Actions to Address the Childcare Benefits Cliff

Public benefits are typically designed to encourage entry into the workforce, but don't address the additional steps necessary to achieve economic independence, including employment retention, career development, and economic stability and mobility- including the ability to withstand fluctuations in income and avoid hardship. Policy actions to ease the childcare benefit cliff and help families achieve financial stability and economic mobility:

1. Raise income limits. Ideally, limits should be indexed to financial stability standards to ensure that families can support themselves financially on earnings alone once they lose childcare benefits.

2. Phase out benefits more gradually. Rather than requiring an abrupt loss of benefits, recipients should receive gradually lower amounts of benefits as their income rises to the income limit. Sliding scale co-payments for childcare subsidies are an effective way to phase out benefits.

3. Increase transparency and knowledge about benefits cliffs. Many public benefits recipients do not know about cliffs until they experience one. State agencies should assess their benefits cliffs, share results with the public, and use a benefits cliffs calculator to help recipients understand and anticipate cliffs.

While childcare subsidies can be pivotal for working families, the built-in benefits cliff poses a significant challenge that can inhibit families from advancing economically and employers from finding employees.

Where significant barriers to childcare exist, the U.S. Chamber of Commerce Foundation is committed to driving progress to support employers and employees. The Foundation has heard from hundreds of employers seeking ways to support their workforce with childcare challenges, and developed an Employer Roadmap to guide employers to various solutions. Addressing the childcare benefit cliff is a strategy to that can promote employees' economic mobility, support workforce development, and ensure that increased productivity is sufficiently incentivized.