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## **Child Care Copayment Affordability Study: Are Washington State's Child Care Copayments Reasonable and Affordable?**

### **EXECUTIVE SUMMARY**

The Washington State Institute for Public Policy was directed in EHB 3901 to conduct a study of reasonable, affordable child care copayments that are realistic for low-income families. The Institute was also asked to review the child care copayment schedules of other jurisdictions and to model the economic impact of child care copayments on low-income families.

Washington State's new child care copayment schedule became effective on November 1, 1997. The new schedule is the result of the same legislation that created WorkFirst, the state's response to the Personal Responsibility and Work Opportunity Act (PL104-193). The employment emphasis of WorkFirst makes the state's child care subsidy program a critical element of welfare reform.

### **Highlights**

- Three guidelines were developed specifically for this report. They take into account the following factors: (1) a consideration of the limited resources available to some families, (2) data on typical child care expenditures, and (3) the policy goal of making work pay. These guidelines help define an affordable copayment schedule (an answer of **no** to any guideline indicates the schedule may be problematic):
  - Does the copayment schedule recognize that below a minimum income copayments may compete with expenditures on basic necessities such as shelter, utilities, or transportation?
  - Is the maximum copayment (representative of what families with similar incomes spend on child care) at or below 12 percent of family income?
  - When a family's earned income increases, does the copayment schedule avoid reductions in the family's total resources?
- When measured against these affordability guidelines, Washington's copayment schedule appears to be, for the most part, reasonable and affordable. However, some areas may be problematic:
  - The \$10 minimum copayment may not be realistic for some families with total resources below the Federal Poverty Level (FPL).
  - Some copayments may be slightly higher than what the U.S. Census shows as typical expenditures on child care. A few families may spend up to 13.1 percent of their incomes on copayments. Nationally, similar families spend an average of 12 percent of their incomes on child care.

- When their incomes exceed 175 percent of FPL, a few families may encounter rapid increases in child care copayments as they take on the full costs of child care.
- Washington's copayment schedule was compared with the copayment schedules of 28 other states:
  - The beginning and ending points of Washington's schedule *are similar to most of the other states surveyed*.
  - Washington State families with gross incomes between 100 and 145 percent of the FPL pay *lower* copayments than would similar families in most of the other states surveyed.
- A micro-simulation model was developed to test the interactions of state and federal policy decisions on family resources. As income changes, food stamps, TANF, earned income tax credit, tax burden, and child care copayments also change. The model calculates the total resources available to a hypothetical family for any level of income and for different child care copayment scenarios. Graphs and tables generated by the model help demonstrate the effect a given copayment schedule might have on a family's total resources.

Although developed specifically for this copayment study, the model can be applied to a range of other issues regarding low-income families. The Institute will provide copies of the model upon request and through its web site: <http://www.wa.gov/wsipp>.

- Research Recommendations: The introduction of Washington State's new child care copayment schedule and similar changes to the schedules in other states provide an opportunity for data collection and research that will shed light on the effects of copayments on clients and providers. Several issues stand out as deserving particular attention:
  - *Demand for Subsidized Care:* The relationship among the child care market, copayments, and income eligibility limits on the demand for subsidized child care.
  - *Quality and Characteristics of Subsidized Care:* The effect of copayments and the income eligibility limit on the type and quality of child care used by parents: hours in care; choice of centers, family homes, in-home care, relatives, or illegal care; and number and age of children in care.
  - *The Supply of Subsidized Care:* The effect of copayments on the willingness and ability of providers to offer services to TANF and other low-income families receiving assistance.
  - *What Happens When the Subsidy Ends:* The child care arrangements of families who leave the state's child care subsidy programs compared with those still on assistance and those in the general population.