

Policy Brief

November 2013

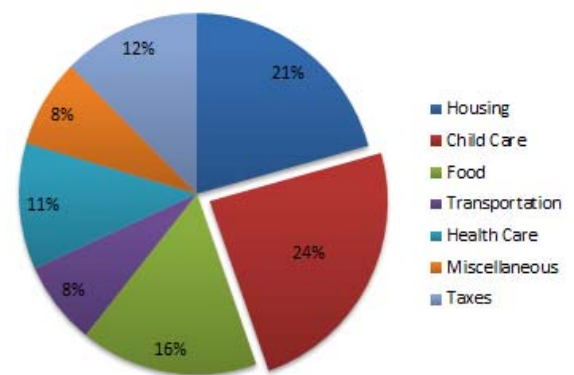
The Child Care Development Fund (CCDF)

The Child Care and Development Fund (CCDF) is a federal program specifically devoted to child care services and quality. CCDF is authorized by the Child Care and Development Block Grant Act (CCDBG) and Section 418 of the Social Security Act. This program assists low-income parents and parents receiving Temporary Assistance for Needy Families (TANF) benefits in obtaining childcare while they work or participate in education or training programs needed in order to find work.

Who is Eligible for CCDF?

Federal eligibility for CCDF is restricted to children from families who are working or attending education² or training programs and earning a maximum of 85 percent of the state's median income. A family's gross monthly income (before taxes and deductions) cannot exceed 127 percent of the Federal Poverty Guidelines to enter the program (known as the 'entry-level' at \$24,244 for a family of three) and can remain enrolled in the program until their income exceeds 170 percent of FPG (known as the 'exit-level' at \$32,453 for a family of three).

Childcare as a Percent of a Family's Basic Expenses¹



Cliff Effect: Prohibitive Cost and Early Exit Limits

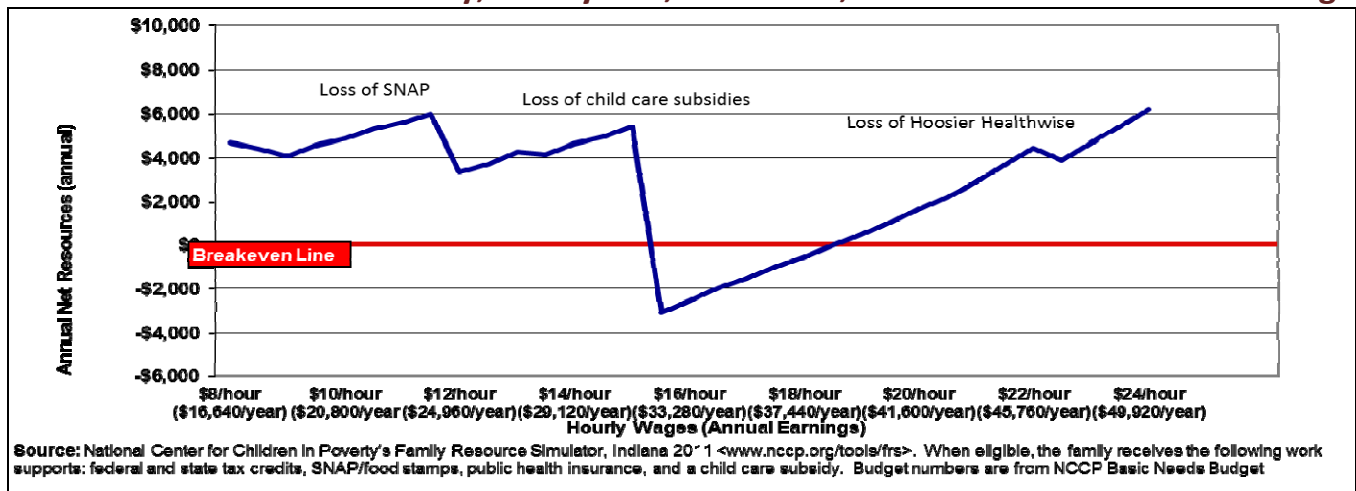
This 'exit-level' threshold is responsible for the economic phenomenon known as the childcare 'cliff effect' – which occurs when a \$0.50 increase in hourly wages leads to the complete termination of the benefit and a dramatic net loss of resources. This creates a disincentive towards economic mobility; a parent or guardian turns down the raise due to the prohibitive cost of childcare, or does accept the hard-earned increase but is now financially worse off.³ By reforming income thresholds in the childcare development fund, policymakers can restore the most basic incentive for hard work – a raise that results in an increase in net resources – and provide Hoosier families with a smooth landing into economic self-sufficiency.

¹ All costs are median costs across 92 counties for a family of three (1 adult, 1 preschooler, 1 school age child) using our Self Sufficiency Standard. Self-Sufficiency is generally defined as 200% of the FPG. Self-Sufficiency accounts only for the most basic goods for a family's needs. While data is from 2009, wages have not increased significantly, nor has there been a significant decrease in the cost of basic needs. The Standard is also useful in illustrating the gap between the cost of living and median wages, as well as the variance of a family's most basic needs across all 92 counties. See the Standard here <http://bit.ly/17ecFUy>. According to *Parents and the High Cost of Child Care Report* from Childcare Aware of America: "average cost of childcare in Indiana is \$8,073 for an infant, \$6,448 for a 4-year-old and \$5,759 for a school-age child." <http://bit.ly/Q4b4Dn>

² Parents receiving childcare assistance can continue to receive it while searching for a job for up to 13 weeks per 12-month period.

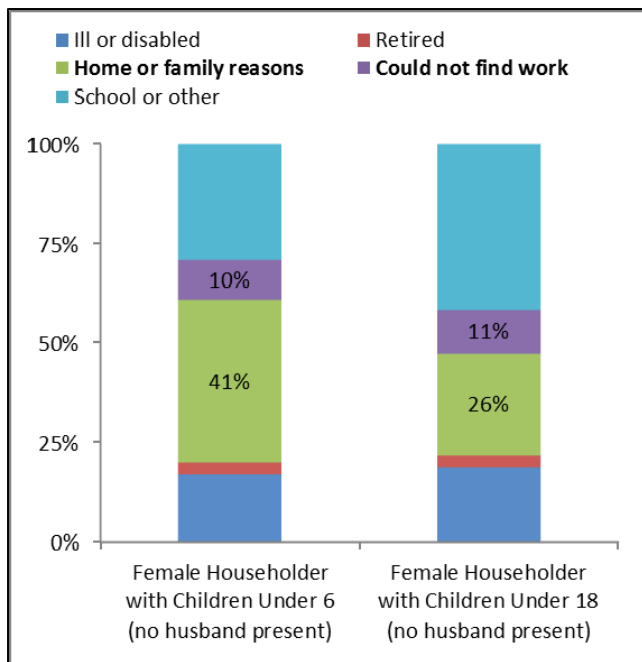
³ See our report (The Cliff Effect: One Step Forward, Two Steps Back – How Policy Design Acts as A Disincentive for Economic Mobility) and infographic video here: <http://www.incap.org/cliffeffect.html>. Media coverage of affected Hoosiers can be found here: Cooke, K. Rohde, D. and McNeill, R. December 2012. *The Unequal State of America*. Reuters. A Hoosier Falls off the "Benefits Cliff.": <http://reut.rs/UazVM3>; Heffernen, Shannon. October 2012. WBEZ 91.5 | Front and Center. *The Cliff Effect: When Work Doesn't Pay*: <http://bit.ly/TetF1k> and; Human, Dan. Indianapolis Business Journal. January 2013. *Advocacy Group Wages War on Cliff Effect*: <http://bit.ly/1bKWhfR>

The Cliff Effect: Marion County, Family of 3, One Adult, One Preschool & One Schoolage



The red breakeven line is the point at which income is equal to expenses related to the costs of basic necessities. At a wage of \$8 per hour, a single mother with one preschool age child and one school age child, with the support of federal and state tax credits, SNAP, public health insurance, and a childcare subsidy is self-sufficient. The first significant loss in net resources occurs when the participant loses SNAP benefits between the wages of \$11.50 and \$12.00 per hour—a total annual net resource loss of \$2651—nearly 11 percent of annual income. Most dramatically though is the “cliff” that occurs as childcare subsidies are lost between the wages of \$15.00 and \$15.50 per hour—a total net resource loss of \$8,454—a painful 25 percent loss in annual resources as a result of a \$0.50 raise. Finally, between the wages of \$22.00 per hour and \$22.50 per hour, when Hoosier Healthwise is lost, the total annual net resource loss is \$574.

Reason for Not Working or Spending Time Out of the Labor Force – Below 200% FPG⁴



Does anyone really doubt that the greater availability and lower cost of childcare facilitates additional work? Statistical studies...strongly confirm that reductions in the cost of childcare lead to increased work.”

— Cutting the Cost of Care, American Enterprise Institute —

There are 1,648,172 families⁵ in Indiana, of which 719,823 have children under 18. Of the families with children under 18, 180,643 are female householders with no husband present (477,058 are married couples). These families have an unemployment rate of 11% (7.6% for female householders with no husband present, and no children under 18). By removing the perverse incentives within current policy design, policymakers can provide keys to those families traditionally locked out of the labor force due to the prohibitive cost of work.

⁴ Source: U.S. Census Bureau Current Population Survey. 2013 Annual Social and Economic Supplement. Reason For Not Working or Reason For Spending Time Out of the Labor Force-Poverty Status of People Who Did Not Work or Who Spent Time Out of the Labor Force: <http://1.usa.gov/1epxzC2>

⁵ Source: U.S. Census Bureau, 2012 American Community Survey. Table B23007. A family consists of a householder and one or more other people living in the same household who are related to the householder by birth, marriage, or adoption. <http://1.usa.gov/lbGw7o>.

*Polakova, Veronika. Viard, Alan. American Enterprise Institute. Tax Analysts: Marginal Impact. March 2013. *Cutting The Cost Of Care: State Income Tax Relief For Child Care*: <http://bit.ly/Yss1Pt>

What is the Average CCDF Benefit?

The cost of childcare for a single child averaged \$372 monthly (includes parent fee plus monthly subsidy). Of the monthly cost, parents paid 5 percent of the cost, while CCDF funds paid the majority of the cost, 95 percent. The cost of childcare varies by age and geographic location, with childcare for children under the age of one year being the most expensive – averaging \$438 a month.⁶ Copayments increase with income and by number of years on the program and represent about 7% of a family's income.⁷

How Many Hoosiers Participate in CCDF?¹

22,368 families and 41,976 children
2,100 families and 3,492 children on wait list
91% of families received subsidies due to employment
24.8% of families had copayments, avg. of 7% of income
9% of families were marked as TANF recipients
75.2% of families were below the poverty level
6.6% of families were above 127% of poverty

For Hoosier families without childcare assistance:⁸

- The average annual cost of full-time care is: \$8,073 for infant; \$6,448 for 4 year-olds, and; \$5,759 for schoolage children. For two children, it's \$14,521 (one infant and one 4-year-old child). For perspective, the average annual rent payments total \$8,508 and the average annual mortgage payments are \$13,584. The average cost of college – at \$8,704 – is just 7.25% higher than the annual cost of infant center care.
- For married couples, Indiana is the 9th least affordable state for before-/after-school care for a schoolage child in a center – representing 7.8 percent of cost of care as a percentage of median income for a married couple.
- The cost of center based care for a 4 year-old as a percent of income is equal to: 33.78% for families at the federal poverty level (\$19,090 for a family of three); 22.52% for families at 150 percent of FPG (\$28,635 for a family of three), and; 16.89% for families at 200 percent of FPG (\$38,180 for a family of three).

How is CCDF Funded?

CCDF block grant funds are made available to Family and Social Services Administration (FSSA) and awarded by the federal government – a portion of funding must be matched by state funding.^{9,10} For Fiscal Year 2014, the Federal CCDF allocation (Discretionary, Mandatory and Matching) is \$111,904,759; Federal TANF Transfer to CCDF is \$27,158,599 (plus the recent addition of the \$23 million in unobligated funds); State CCDF Maintenance-of-Effort Funds are \$15,356,947, plus; State Matching Funds of \$17,916,102.

⁶ CCDF Fact Sheet: Statewide Summary Voucher And Contract Centers Programs October, 2013: <http://bit.ly/1gp8ies>

⁷ CCDF Fact Sheet: Statewide Summary Voucher And Contract Centers Programs October, 2013: <http://bit.ly/1gp8ies>

⁸ Childcare Aware. *Parents and the High Cost of Child Care – 2013 Report*: <http://bit.ly/1bzBqdE>

⁹ Reimbursements Rates: Indiana reimburses childcare providers at the 72nd percentile of 2009 rates, well below the Federal recommendation of the 75th percentile of current market rates. For Example: In Marion County in 2011, \$693 was the state's reimbursement rate for center care for a four year old, but the 75th percentile of market rate is \$792. The difference is \$99, or 13% below market rate. Ultimately, this affects quality of care. See more from Schulman, K. and Blank, H. National Women's Law Center. *Downward Slide – State Child Care Assistance Policies*: 2012: <http://bit.ly/R0aRF8>

¹⁰ The amount of a funding a state receives in a FFY is determined by a formula: The ratio of the number of children under age five in the State to the number of children under age five in the country; The ratio of the number of children in the state who receive free or reduced price school lunches under the National School Lunch Act to the number of such children in the country; and a weighting factor determined by dividing the three-year average national per capita income by the three-year average state per capita income (as calculated every two years).

Strengthening CCDF – Restoring Economic Mobility for Hoosier Families

In an effort to solve the unintended consequences in current policy design, and to restore the promise of upward mobility for more families, the Institute recommends the following: encourage existing efforts at expanding access to Indiana’s most vulnerable children; promise to restore the basic incentive for hard work (a raise equals an increase in net resources) and the incentive of upward mobility, and ultimately; aim to expand the innumerable benefits of high-quality childcare for Hoosier children and for their parents who face an increasingly prohibitive cost to work.¹¹

“To ensure that low income families have the necessary access to child care to achieve self-sufficiency, the eligibility threshold should be increased from 127 percent FPL to 200 percent FPL.”

– Indiana Childhood Poverty Commission, 2011 –

- ✓ **Continue Efforts Aimed at Reducing the Waitlist:** Placing its priority on Indiana’s most high-risk children, the state has recently made steady efforts to reduce the wait list, now at 4,880 children – from 5,059 children in early 2011 and 12,689 in early 2010. It was 11,958 children in 2001.¹² Indeed, FSSA announced in November 2013 a transfer of the full 30 percent (allowable by federal law) from TANF to CCDF – representing a 58% increase in annual funding to further reduce the waitlist.
- ✓ **Increasing CCDF exit income limit to 250% FPG:** Smoothing out the ‘benefit cliff’ (with increased co-payments for the continued service), eliminates the unintended consequence of punishing work, and reverses the perverse incentive to upward mobility. At a small cost, policymakers can instead provide Hoosier families with a safe-landing into economic self-sufficiency.
- ✓ **Increasing CCDF entry eligibility to 200% FPG:** A family’s gross monthly income (before taxes and deductions) cannot exceed 127 percent of the Federal Poverty Guidelines (FPG) (\$24,244 for a family of three). Only a handful of states have lower entry level limits.

“Research shows that parents are much more able to work reliably and work a sufficient number of hours to reach economic self-sufficiency when they have access to quality child care. By easing the child care burden on families, we are enabling them to obtain and maintain better employment opportunities.”

– Debra Minott, Secretary of the Indiana Family and Social Services Administration –

Policy Brief Made Possible Through Generous Funding From



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¹¹ Indiana Commission on Childhood Poverty. December 2011. *Indiana’s Emergency Report & Recommendations*: <http://bit.ly/yEBgdV>

¹² Schulman, K. and Blank, H.. National Women’s Law Center. *Downward Slide – State Child Care Assistance Policies*: <http://bit.ly/R0aRF8>