ASPE
ISSUE BRIEF

INCOME & EMPLOYMENT FLUCTUATIONS AMONG LOW-INCOME WORKING FAMILIES AND THEIR IMPLICATIONS FOR CHILD CARE SUBSIDY POLICY

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The Child Care and Development Block Grant (CCDBG) of 2014 reauthorized the Child Care and Development Fund (CCDF) program, which subsidizes child care for working families with limited incomes. Under the reauthorization, states are required to provide 12-month periods of child care assistance before re-determining a families' eligibility status. This policy supports a continuous relationship between children and their caregivers, gives working parents stability in their children's care arrangements, and provides a steady source of income for child care providers. Continuity of care has the potential to support parents' employment and the family's economic stability and improve children's educational and developmental outcomes. It also has the potential to improve the quality of care offered by child care providers who can count on a consistent revenue stream.

Currently, the CCDF only funds child care subsidies for one in six eligible[1] children.[2] This means that although 12-month eligibility periods serve those who receive subsidies, many eligible children and families do not have access to any public support for child care. Without more funding for the CCDF, the longer subsidy periods for some families may mean longer waiting periods, or no subsidies at all, for many more eligible families.

Some families may be eligible for child care subsidies at the beginning of a 12-month period, but lose their jobs (and not look for new work), while keeping their children in subsidized care. Others may see their incomes rise, but continue to receive subsidies while other eligible families remain unserved. Shorter redetermination periods give more families an opportunity to receive child care subsidies in these situations. On the other hand, a continuous CCDF subsidy for a full 12 months will prevent disruptions in a child's care, promoting child development and a family's economic stability. If rising incomes or job losses are only temporary experiences for families who receive subsidies, providing a full 12 month child care subsidy could be a more effective

[1] Children are eligible if they meet all of the following eligibility criteria: family income is less than 85 percent of state median income; child is under 13 years of age (or older than 13 with a disability), and all parents in the household are either working or participating in school/training activities.

[2] Chien, N. (2015). *Estimates of child care eligibility and receipt for fiscal year 2012.* Office of the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services.

way to invest scarce resources. The critical question thus becomes: what is the actual nature of families' economic stability (or instability), and what are the implications for child care eligibility?

In this brief, we address that question, examining the income and employment patterns of potentially eligible working families over a 12-month period and discussing the implications for subsidy authorization, eligibility redetermination and reporting policies. The findings of our analyses reveal that income and employment do fluctuate for many of the families that would be eligible for child care subsidies. Many who are eligible at the beginning of a 12-month period experience brief job losses or periods of increased income, only to return to work or to a lower income level within a few months' time. Thus, full implementation of 12-month subsidies will not result in subsidizing care for a significant number of parents that have either lost work long-term or sustained an income above 85 percent of State Median Income (SMI).

Key findings

- More than three-quarters (78 percent) of children who initially qualify for CCDF under state eligibility rules are still eligible when checked at later time points during the entire 12-month period.
- In many working families with limited incomes, parents or guardians lose jobs only to return to work again within the 12-month period. Likewise, many families whose income rises above 85 percent of SMI see their income fall below that level later in the same 12-month period.
- Fewer than 3 percent of children who are initially eligible for CCDF would be ineligible at each of the three later time points, either because their parents or guardians stop working or looking for work, or their family income goes above 85 percent of SMI.

The CCDBG Act of 2014 establishes a minimum 12-month eligibility period for subsidies. The CCDBG governs the use of state and federal dollars from the CCDF, which provides child care assistance to eligible working families and supports initiatives to improve the quality of child care. Among many other changes, one major goal of the 2014 CCDBG reauthorization was to promote stability and continuity in subsidized child care through a new provision that requires lead agencies (states, territories, tribes) to determine a family's eligibility for assistance for periods of at least 12 months, regardless of temporary changes in parents' work, education, or training status, and regardless of changes in income that do not exceed 85 percent of SMI.[3] Although the law establishes this 12-month period, it does not prohibit states from requiring families to report changes in their circumstances, nor does it keep them from ending child care assistance under certain circumstances within the eligibility period.

However, regulations limit required reporting of changes in family circumstances to increases in family income exceeding 85 percent of SMI (taking into account irregular fluctuations in earnings), or non-temporary changes in parents' work, education, or training status. They also

[3] 85 percent of State Median Income is the federal income eligibility limit.

limit any interim requirements to report changes in their family circumstances that would affect their eligibility.

Longer eligibility periods enhance continuity of care and support children's development, but without more funding, they may limit the number of children who benefit. In 2013, before the CCDBG reauthorization, 24 states had policies with shorter child care eligibility periods (six or eight months) and these shorter eligibility periods were associated with shorter subsidy spells. Research has documented that many families stopped receiving their subsidy in the month following the end of their eligibility period—the month they were required to recertify.[4] This may be because the recertification process is difficult for families.[5] Losing a subsidy can mean a child's care arrangement changes,[6] and this instability can harm young children's development,[7] and discourage their parents' continued employment.[8] Longer eligibility periods are meant to make both the subsidy and the child care arrangement more stable. Stakeholders have expressed concern that interim reporting requirements could cause families to lose their subsidies before the end of the 12-month period, thus undermining Congress' intent to establish a full 12-month eligibility and continuity of care for children and families.

We analyzed income and employment fluctuations among potentially eligible working families. To understand whether 12-month subsidy periods would result in supporting some families whose incomes exceed 85 percent of SMI or other families in which parents or guardians are no longer working, ASPE conducted an analysis of family income fluctuations and changes in parental work status among a sample of the CCDF-eligible population. Earlier research indicates that working families with low incomes have volatile income streams, but their incomes still tend to remain low over time.[9] Thus, our hypotheses were that (1) most families whose incomes increased during the 12-month period would either return to or remain under 85 percent of SMI later in the same period, and (2) parents or guardians who lose work would return to work fairly quickly. Detailed information on our methodological approach can be found in the appendix.

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[4] Forry, N., Daneri, P., & Howarth, G. (2013). *Child Care Subsidy Literature Review*. Office of Research, Planning, and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services: Washington, DC. http://www.acf.hhs.gov/sites/default/files/opre/subsidy_literature_review.pdf; Ha, Y., & Meyer, D. (2010). Child care subsidy patterns: Are exits related to economic setbacks or economic successes? *Children and Youth Services Review, 32(3)*, 346-355.

[5] Adams, G., & Rohacek, M. (2002). More than a work support? Issues around integrating child development goals into the child care subsidy system. *Early Childhood Research Quarterly, 17*, 418-440.; Forry et al. (2013); Scott, E., London, A. S., & Hurst, A. (2005). Instability in patchworks of child care when moving from welfare to work. *Journal of Marriage and Family, 67(2),* 370-386.

[6] Forry et al. (2013); Ha, Y., Magnuson, K., & Ybarra, M. (2012). Patterns of child care subsidy receipt and the stability of child care. *Children and Youth Services Review, 34(9)*, 1834-1844.

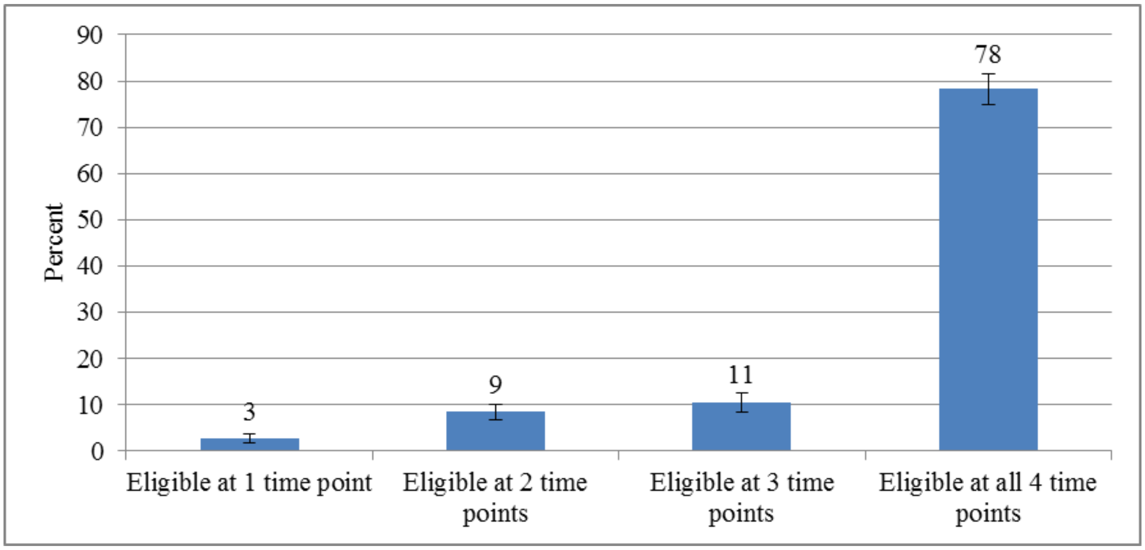
[7] Adams, G., & Rohacek, M. (2010). *Child care instability: Definitions, context, and policy implications*. Urban Institute: Washington, DC.

[8] Scott et al. (2005).

[9] Wolf, S., Gennetian, L. A., Morris, P. M. & Hill, H. H. (2014). Patterns of income instability among low- and middle-income households with children. *Family Relations, 63*, 397-410.

Most families remain eligible for the entire 12-month period. More than three-quarters (78 percent) of eligible children did not have parents who experienced a long-term loss of employment or an increase in income above 85 percent of SMI during the entire 12-month period (Figure 1). Eighty-nine percent remained eligible for more than three-quarters of the year. Some families experienced temporary changes in employment or increases in family income exceeding 85 percent of SMI at four or eight months, but many of these families regained employment or their income dropped again later in the 12-month period. Three percent of children initially eligible were no longer eligible for the remainder of the 12-month period, according to the criteria for this analysis.

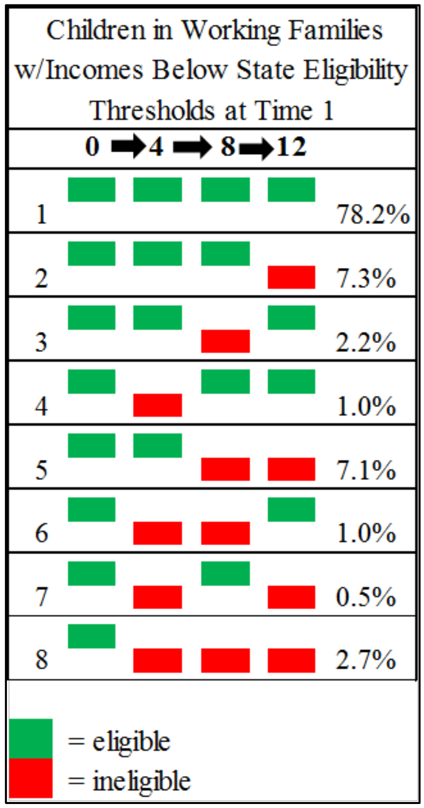
Figure 1: CCDF Eligibility Over a 12-Month Period



Note: ASPE tabulations from the Survey of Income and Program Participation, 2008 Panel. Estimates are for a population size of 19.2 million children under age 13 with a low-income working parent at Wave 1. Black bars represent 95-percent confidence intervals. Eligibility measured as under state income thresholds at the first time point, under 85 percent SMI at the next three time points, and parents are employed.

Figure 2 shows how eligibility patterns differ at four time points within a 12-month period, and the percentage of children that follow each pattern. In pattern 8, less than three percent of children would be ineligible if assessed at each of the three time points after the baseline. In patterns 3, 6, and 7, 4.7 percent of children eligible at the baseline would be considered ineligible if they were assessed at one or two of the later time points, but they would be considered eligible again if assessed at a later time point in the 12-month period.

Figure 2: Fluctuations in CCDF Eligibility Parameters Over a 12-Month Period



Note: ASPE tabulations from the Survey of Income and Program Participation, 2008 Panel. Estimates are for a population size of 19.2 million children under age 13 with a working parent at Wave 1. Eligibility measured as under state income thresholds at the baseline, under 85percent SMI at the next three time points, and parents are employed.

Considerations

We based this analysis on a sample of eligible children whose families are potentially eligible for subsidies based on their work and income histories. Most of them did not receive child care subsidies, because only 15 percent of all eligible children receive such subsidies. Families that do receive child care subsidies may differ in important ways from other eligible families that do not receive subsidies. For example, child care subsidies can help parents stay employed. If that is the case, then families who actually receive subsidies would be even more likely to remain eligible throughout the 12 months than this analysis suggests. It is also possible that receiving subsidies might increase parental earnings and result in higher family incomes. Although this is less consistently documented in the literature, if this were the case, we might expect that more family incomes would rise above 85 percent SMI, and these analyses could then underestimate the percentage that become ineligible during the 12-month period.

There are several other considerations. First, we only assessed parents' work status, not whether they were in job training or searching for a job. These activities would sustain the family's eligibility, and thus our analysis may underestimate the percentage of children eligible at any of the time points. We did account for job search as a determinant in eligibility at the later time points, however, by considering families ineligible only if they were not employed at two consecutive time points. The SIPP time points are in four-month intervals, so we are allowing for up to a four-month job search period, whereas the law requires a job search period of at least three months. Lead agencies may assess eligibility differently than we did for the purpose of this analysis. For example, we used household income and household size instead of family income and family size. One household may include one or more families. We used the employment status of the head of household, which may not always be the parent. We used the employment status of the spouse, and do not capture unmarried cohabiting parents. We defined "employed" as working at least one week in the month immediately preceding the survey interview. We use total household income from the month immediately preceding the survey interview.

Implications for Implementation of the Child Care and Development Block Grant Act of 2014. The findings indicate that given a 12-month subsidy, 78 percent of children initially eligible for the subsidies would likely have parents who remain employed and have family incomes under 85 percent of SMI throughout the entire year.[10] About three percent of children would lose eligibility at each of the three later time points.

Among families whose incomes increase above 85 percent of SMI, most find their family incomes drop again, and many parents or guardians who lose their jobs go back to work relatively quickly. Limiting interim reporting requirements and ensuring that families have access to subsidies for a full 12-month period will also reduce the administrative burden on both program administration and on the families themselves as they work towards financial stability and self-sufficiency. In addition, providing a longer-term CCDF subsidy can enhance the stability of child care, promoting children's early learning and development.

[10] To understand the extent to which families are losing eligibility due to job loss versus due to income increases, we conducted follow-up analyses and found that if job loss were the only determinant of eligibility, 91 percent of families would remain eligible for the entire 12-month period. Similarly, if income were the only determinant of eligibility, 87 percent of families would remain eligible for the entire 12-month period.

Appendix: Methodological Approach

This analysis was based on data from the 2008 panel of the Survey of Income and Program Participation (SIPP), waves 8–11 (early 2011 to early 2012). The SIPP is a longitudinal, nationally representative survey conducted by the U.S. Census. For this analysis, we constructed a sample of children who lived in households that we consider and label eligible for CCDF subsidies, and then followed these children for 12 months. We took a figurative snapshot of those family circumstances that affect eligibility every four months, at the baseline and at months 4, 8 and 12.

To be considered eligible at the baseline, the following criteria had to be met:

1. The child was under the age of 13.
2. The head of household was employed.[11]
3. If the head of household was married, his or her spouse was employed.
4. The total monthly household income was below the state-specific CCDF income eligibility thresholds for the family size.[12]

To be considered eligible at the later time points, the child had to meet the following criteria:

1. The head of household was employed; or, if not employed at the time point in question, was employed at the previous time point. This allows for a job search period or for temporary changes in work status.
2. If the head of household was married, then his or her spouse was employed; or, if not employed at the time point in question, was employed at the previous time point.
3. The total monthly household income was below 85 percent of SMI.

Note that the head of the household and/or the spouse could be unemployed at a single time point and still satisfy both CCDBG's statutory requirement that lead agencies must allow at least a three-month period for a job search and the proposed regulatory requirement that states must allow for temporary changes in work status.

We also observed patterns of income fluctuation and changes in work status among a sub-sample of families with incomes under the federal poverty level, because we hypothesized that the patterns would differ as family income rose or fell. For this analysis, all criteria remained the same, except for criterion 4 at the baseline, which in this case required the total monthly household income to be below the federal poverty level for the family size.

[11] Employment is defined as the designated parent working part or full time in the reference month of each 4-month snapshot.

[12] Household income is defined as the average monthly total household income. It is a composite variable computed by the U.S. Census Bureau, representing the reported pre-tax income of everyone in the household. The income measure includes earned income, cash transfer payments (i.e., means-tested income including cash values of food stamps), lump-sum and one-time payments, regular salary or other income from self-owned business, property income, and any interest and dividend income.