

Office of the Assistant Secretary for Planning and Evaluation
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OFFICE OF HUMAN SERVICES POLICY

INCREASES IN OUT-OF-POCKET CHILD CARE COSTS: 1995 TO 2016

Authors: Kendall Swenson
Kimberly Burgess Simms



KEY FINDINGS

The child care market experienced considerable change between 1995 and 2016. This brief documents changes in the out-of-pocket costs for families with children under age five. Key findings include:

- Children of all income levels were less likely to be in paid care arrangements than to receive care only from their parents.
- Children under age five were less likely to participate in paid family child care and more likely to receive care in center programs and unpaid relative care arrangements.
- Hourly early care and education (ECE) payments per child increased 86 percent.
- All major types of care became more expensive.
- The increases in ECE payments were largest for children in upper-income families.

Introduction

Obtaining quality early care and education (ECE)¹ is critical for families to pursue employment and to promote the educational and developmental growth of children. Between 1995 and 2016, participation in ECE remained consistent with about six out of ten children under age five attending some type of care arrangement at least one time per week.² As a previous [ASPE brief](#) documented, in 2016 children who participated in ECE were more likely to receive care in center programs and from relatives, and less likely to be enrolled in family child care than in the past. Both families above and below 200 percent of the poverty thresholds experienced a decline in family child care. Securing ECE arrangements – those that support children’s physical, cognitive, behavioral, and educational development – remains challenging for many families. This is in large part because the price of these services is high enough that parents often need to make

¹ This report uses the terms child care and early care and education (ECE) interchangeably to refer to settings where children are educated or cared for by persons other than their parents or other primary caregivers.

² Kendall Swenson and Kimberly Simms Burgess (2020). *Early Care and Education Arrangements of Children under Age Five*. Office of the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services.

Types of Child Care Arrangements

Early care and education include arrangements in which children are cared for and educated by people other than their parents with whom they live, including care from relatives, family child care, and center programs.

Relative child care includes care from grandparents, siblings, or other relatives. Parental care is excluded.

Family child care includes paid care from nonrelatives in homes other than where the child resides. Many, but not all, of these settings are licensed by state or local governments.

Center programs include preschools, child care centers, Head Start programs, prekindergarten programs, and other early childhood programs.

Other ECE includes paid care for nonrelatives in the children's own homes (e.g., nannies, au pairs) and unpaid care from nonrelatives in other person's homes.

difficult trade-offs between family and employment obligations. For example, a report produced by *Child Care Aware* found that in 2018 the average annual advertised price of full-time child care in center programs was between \$5,760 and \$19,269 per year, depending on the state.³ For many families, these costs were above seven percent of family income, which is the federal affordability benchmark set by the U.S. Department of Health and Human Services⁴ for the maximum percent of income a family should spend on child care.⁵

One concern among parents, policymakers, and researchers is that the price of child care has increased in recent decades above already high levels.⁶ This brief documents the increases in the average amount that families have paid for ECE over two decades among children under age five using data from the National Household Education Survey-Early Childhood Program Participation (NHES-ECPP). For this analysis, payments refer to the out-of-pocket expenditures that families paid for ECE services. Arrangements that were entirely financed by outside organizations or where providers did not require the families to make payments were considered non-paying ECE arrangements. Some child care arrangements were subsidized by governments, family members living outside of the children's homes (such as nonresident fathers), or not-for-profit organizations but required the families to contribute some out-of-pocket expenditures toward the cost of care. These out-of-pocket expenditures were included in the costs.

³ Child Care Aware (2019). *The U.S. and the High Price of Child Care: An Examination of a Broken System*. Available at <https://www.childcareaware.org/our-issues/research/the-us-and-the-high-price-of-child-care-2019>.

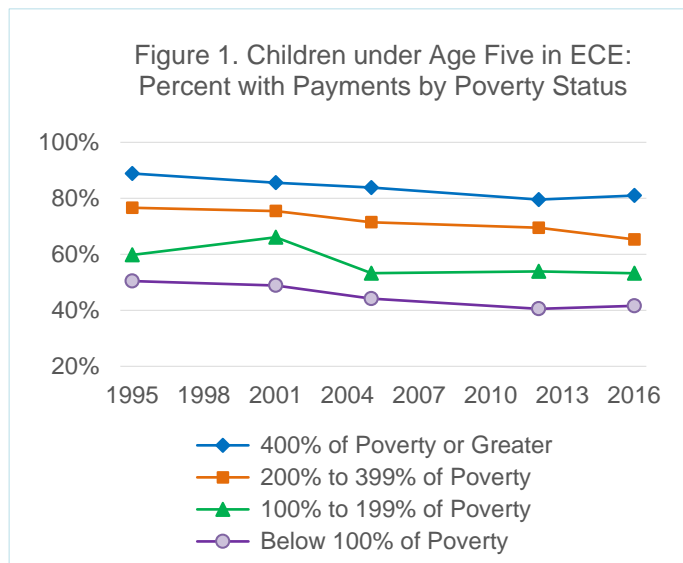
⁴ U.S. Department of Health and Human Services (2016). *2016 CCDF final rule*. Available at <https://www.acf.hhs.gov/occ/ccdf-reauthorization>.

⁵ Maura Baldiga et al. (2018). Available at http://www.diversitydatakids.org/sites/default/files/2020-02/child-care_update.pdf.

⁶ Care.com. *This is How Much Child Care Costs in 2019*. Available at <https://www.care.com/c/stories/2423/how-much-does-child-care-cost>.

Children in families at all income levels were less likely to be in paid ECE arrangements.

Paid ECE arrangements include any setting in which children are cared for and educated by people other than their parents with whom they live, including care from relatives, family child care, and center programs, and where families make an out-of-pocket payment. As presented in Figure 1, when children participated in ECE in 2016 they were less likely to receive care in settings that required out-of-pocket fees from their families than in 1995. These reductions occurred across the income distribution. Between 1995 and 2016, the percent of children below poverty attending paid arrangements decreased by nine points. The percent of children at or above 400 percent poverty in paid arrangements decreased by eight points.



Children under age five were less likely to participate in paid family child care and more likely to receive care in center programs and unpaid relative care arrangements.

Between 1995 and 2016, participation⁷ in ECE remained stable with about six out of 10 children under age five attending some type of regular ECE each week.⁸ However, as shown in Figure 2, the settings in which primary child care arrangements took place changed. One of these movements was a shift away from paid family child care to center programs. The other was an increase in the usage of unpaid relative care. For example, the percentage of children in paid family child care arrangements decreased from 21 percent in 1995 to 12 percent in 2016 while the percentage of children in paid center programs increased from 32 percent to 37 percent. During this same period, the percentage of children in unpaid relative care settings increased from 18 percent to 22 percent.⁹

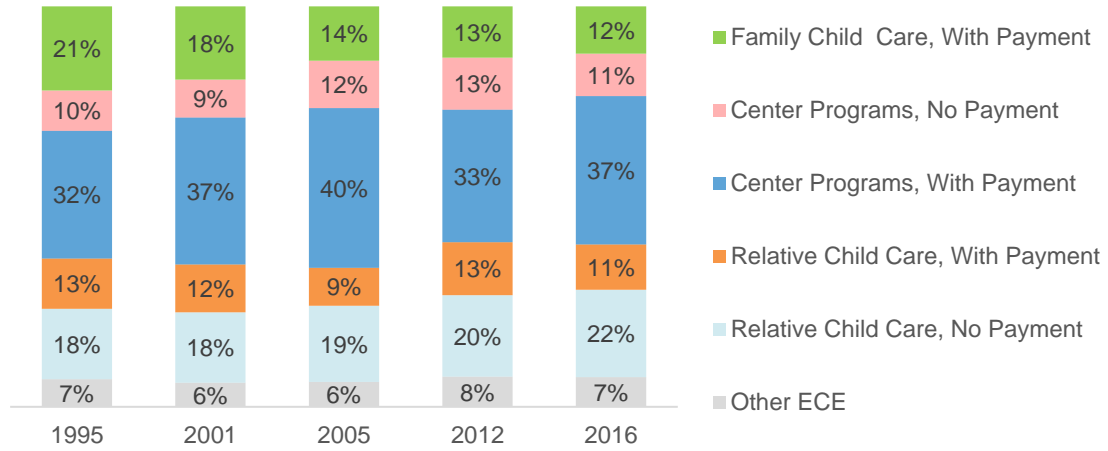
Children in low-income families became less likely to participate in paid settings overall. However, on average children in such families weren't any more likely to attend no-cost center programs in 2016 than two decades earlier. While the number of children receiving child care subsidies funded by the Child Care Development Block Grant declined slightly from 2006 to 2016, the number receiving subsidies from Temporary Assistance for Needy Families increased, as did the number of children receiving ECE from programs such as Pre-Kindergarten, Head Start, and other public programs.

⁷ For a recent examination of child care over time see: Brown, Jessica and Herbst, Chris. "Child Care over the Business Cycle.", IZA Discussion Paper Series. Available: <https://www.iza.org/publications/dp/14048/child-care-over-the-business-cycle>.

⁸ Unless stated otherwise, all differences referenced in this research brief are statistically significant at $p < .05$.

⁹ For more detailed trends in child care arrangements by race, ethnicity, and income, see: Swenson, Kendall & Burgess Simms, Kimberly. Office of the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services. Available. https://aspe.hhs.gov/system/files/pdf/263876/Preschoolers_Type_of_Care.pdf.

Figure 2. Children under Age Five in ECE by Type of Arrangement and Whether Payments were Made by Participating Families

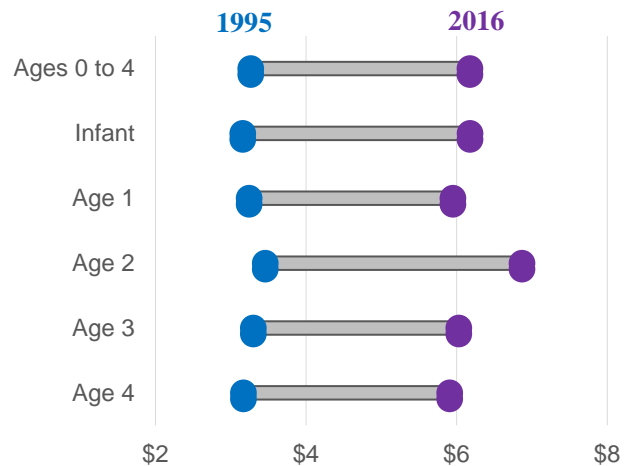


Note: Care settings refer to the primary arrangements of the child.

Hourly ECE payments per child increased 86 percent for families making out-of-pocket payments.

While families were less likely to pay for ECE arrangements in 2016 than they were in the mid-1990s, those with out-of-pocket expenditures were paying 86 percent more per hour.¹⁰ Figure 3 highlights these trends by age of child. All ages experienced at least an 80 percent increase in average payments per hour. For example, average payments for two-year-old children increased by \$3.34 per hour to \$6.83 in 2016.

Figure 3. Change in Average Hourly ECE Payments For Children Under Age Five, for Families Making Payments

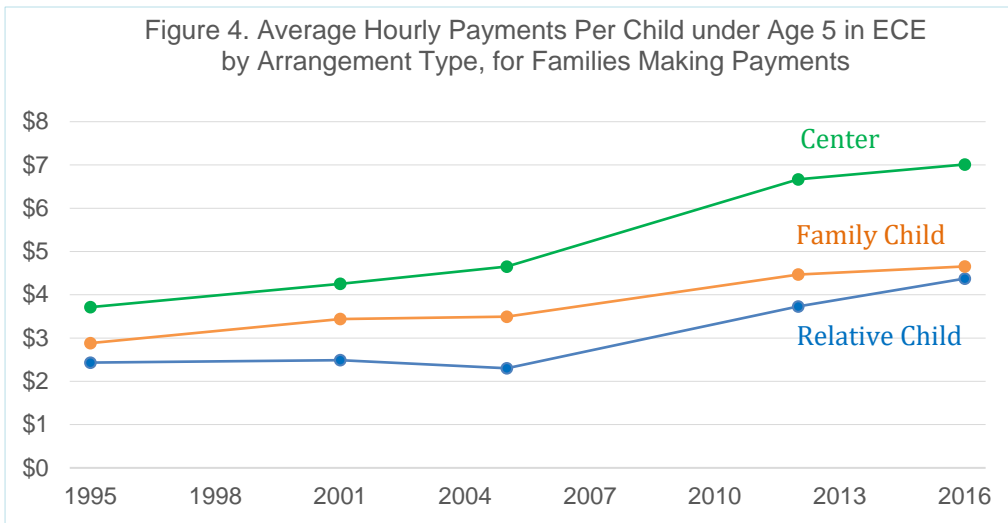


If we include families not paying anything out of pocket, the change in hourly payments over the time period is comparable, though the increase is smaller. After including families with no payments, average payments for ECE increased 76 percent, from \$1.35 per hour of care in 1995 to \$2.37 per hour in 2016.

All major types of care became more expensive.

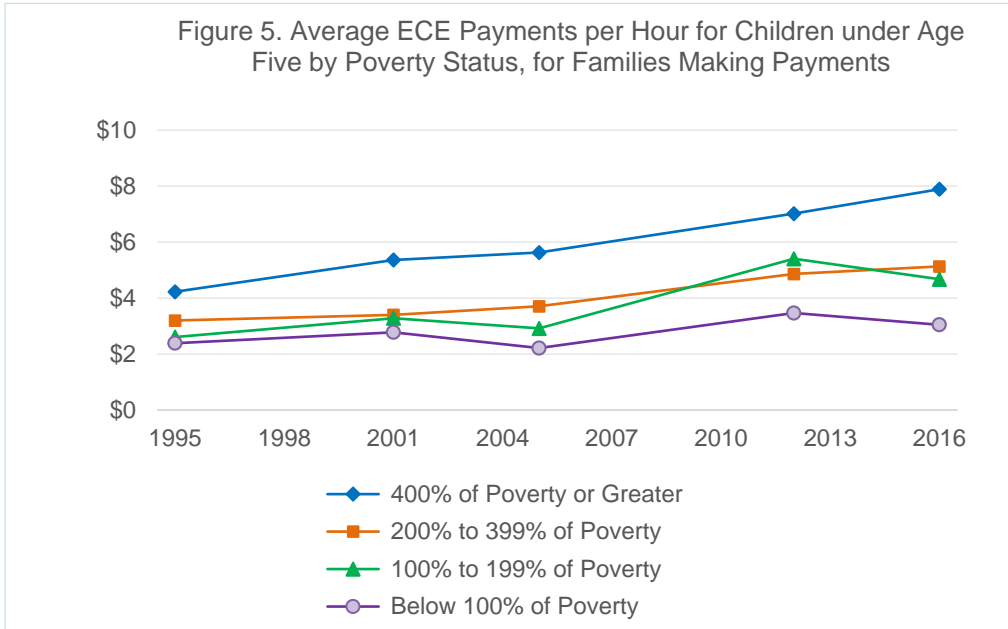
The increases in payments made by families for ECE were not confined to a particular type of care arrangement, as shown in Figure 4. Among children in paid care arrangements, average hourly payments per child increased 80 percent for relative care (from \$2.43 to \$4.37), 61 percent for family child care (from \$2.88 to \$4.66), and 89 percent for center care (from \$3.71 to \$7.01). In 2016, hourly payments for ECE in center programs remained higher than other types of care. Hourly payments for family child care and relative child care were not statistically different from each other in 2016. These trends were comparable when including families making no out-of-pocket payments.

¹⁰ All payment amounts are presented in 2016 dollars converted using the Consumer Price Index Research Series (CPI-U-RS).



The increases in ECE payments were largest for children in upper-income families.

The magnitude of the increases in payments varied by family income, with children from upper-income families more likely to pay higher prices. For example, hourly payments increased 28 percent for ECE for children in families below 100 percent of the federal poverty thresholds (from \$2.39 per hour in 1995 to \$3.05 per hour in 2016), but increased 87 percent for children in families at or above 400 percent of the federal poverty thresholds (from \$4.23 per hour in 1995 to \$7.89 per hour in 2016). These trends were comparable when including families making no out-of-pocket payments.



Discussion

The child care market has experienced considerable change in recent decades. While families were less likely to pay for ECE arrangements in 2016 than they were in the mid-1990s, those with out-of-pocket expenditures were paying considerably more, on average. The increases in average payments were evident across different types of care arrangements, ages of the children, and family incomes. However, the growth in payments were larger for upper-income families than they were for lower-income families.

The increases in payments presented here may be related to the compensation received by caregivers - an important input into the cost of providing care – though increased costs are not likely fully explained by modest rises in child care wages. Researchers, advocates, and policymakers have expressed concern that the compensation of the early childhood workforce is low and that increases in earnings could attract and retain a higher quality workforce that could potentially benefit children’s development and safety. In response, policymakers have attempted to increase the qualifications of the ECE workforce by requiring higher qualifications to caregivers in licensed programs and providing additional training. To investigate this issue Herbst¹¹ conducted a thorough review of the compensation of child care workers and providers since 1990 and found that the salaries of caretakers have increased a little, but not enough to fully explain the large growth in child care payments observed in this analysis. The wages of care workers remain very low compared to the wages in other sectors of the labor force.¹² More research is needed to understand factors that have contributed to these relatively low wages, which could include state policies, market conditions, and changing infrastructure costs, among other things.

Trends in the percentage of families making payments for ECE and the amounts paid for these services may have been influenced by increased public investments in ECE over the last quarter century. These include enlarged state pre-kindergarten education programs¹³, expansions in child care subsidy programs such as the Child Care and Development Fund (CCDF), and increases in Head Start enrollment. These program additions were intended to improve the early educational opportunities of low-income families and to reduce the cost burden of child care for parents in the labor market. These programs have increased the supply and quality of ECE settings but they have not been funded at levels to serve all children who qualify.¹⁴ In particular, only 16 percent of children federally eligible for child care subsidies received them in federal fiscal year 2017. In addition to program expansions, policymakers have worked to improve the quality of caregiver interactions with children through lower caregiver-to-child ratios, additional training and educational requirements for caregivers, and higher quality standards for state licensing. While the effects of various public policies on the types of care arrangements used by young children and the amount paid for these services have received some attention by researchers, these topics are in need of additional investigation. Future research should also examine how to create policies that promote equitable access to a range of child care options and remain affordable for parents.

It is also noteworthy that the data analyzed for this paper covers a time period before the implementation of the CCDF Final Rule (2016) associated with Child Care and Development Block Grant Act of 2014 (CCDBG). Analyses of post-implementation data from states are needed to examine the effects of multiple policies set forth in the Rule, and the impact of implementation on both providers across settings and families making decisions about care.

¹¹ Herbst, Chris (2015) *The Rising Cost of Child Care in the United States: A Reassessment of the Evidence*. Institute for the Study of Labor (IZA) Bonn Germany. Available. <https://www.iza.org/publications/dp/9072/the-rising-cost-of-child-care-in-the-united-states-a-reassessment-of-the-evidence>.

¹² McLean et al. (2021) *Early Childhood Workforce Index 2020*. Center for the Study of Child Care Employment. Available. <https://cscce.berkeley.edu/workforce-index-2020/>.

¹³ National Institute of Early Education Research, *The State of Preschool*, Editions 2002-2019. Available at <http://nieer.org/state-preschool-yearbooks>.

¹⁴ Chien, Nina (2020). *Factsheet: Estimates of Child Care Eligibility & Receipt for Fiscal Year 2017*. Office of the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services. <https://aspe.hhs.gov/system/files/pdf/264341/CY2017-Child-Care-Subsidy-Eligibility.pdf>.

There are equity issues related to the provision of affordable ECE that were not addressed in this brief. If racial and ethnic groups have experienced different rises in costs, there could be implications for the equitable supply of care or access to high quality care, among other concerns. This brief did not focus on cost differences by race and ethnicity, and future research is needed to better understand such trends.

It is important to note that the trends in child care arrangements reported here may change during and after the COVID-19 pandemic when both families and providers are making choices based on health and safety. Future research on the effect of the COVID-19 pandemic on payments made by families for child care would help policymakers understand how the pandemic has affected families' demand for ECE arrangements and the payments made for these arrangements.¹⁵

Data Appendix

National Household Education Survey-Early Childhood Program Participation (NHES-ECPP)

The NHES-ECPP is the Department of Education's flagship survey documenting ECE participation among young children through age six who have not yet entered kindergarten. The survey fields a nationally representative sample covering the 50 states and the District of Columbia. For each wave of the survey, the respondents answer detailed questions about each ECE arrangement's location, hours of care, and the out-of-pocket amount that families paid for care.

The NHES-ECPP asks detailed questions about children's participation in (1) relative care, (2) nonrelative care, and (3) center-based care arrangements. Before the 2012 survey (i.e., the 1995, 2001, and 2005 surveys), respondents were asked to provide information about more than one arrangement for each type of care, if applicable. Beginning with the 2012 survey, respondents were only asked about one arrangement of each setting type. For example, a child who received care from two center programs and one relative setting would only have information collected about the first center program and the relative arrangement. The data on the second center program would not have been collected. In order to make the data comparable across the years only the settings with the most hours of participation were included for each type of care arrangement. Therefore, the average payments presented in this research brief are slightly lower than the actual totals in some cases had the averages been calculated using multiple arrangements for each care type. Estimating this discrepancy using the 2005 NHES-ECPP suggests that the effects on average payments of excluding multiple arrangement for a given type of setting were likely small. The average weekly payment per family in 2005 was \$104.67 when calculated using multiple arrangements per type of care compared to an average payment of \$103.25 when including only the primary arrangement for each type of care.

For this analysis, children were excluded if they had reached their fifth birthday (i.e., 60 months) or if they did not live with at least one of their parents. The average sample size per year of data for the subgroup analyzed was 6,559 children (2,873 children in paid care arrangements). All statistics presented in this brief using the NHES-ECPP were tabulated by the authors using public-use data.¹⁶

¹⁵ Morning Consult & Bipartisan Policy Center. *COVID-19: Changes in Child Care*. Available at https://bipartisanpolicy.org/wp-content/uploads/2020/04/BPC-Child-Care-Survey_CT-D3.pdf.

¹⁶ The public-use data files are located at: https://nces.ed.gov/nhes/data_files.asp.