The Classic Conundrum

Child care in America presents a classic conundrum. Which problem came first? Which should we address first? Why does cracking the child care code feel like a game of chicken or egg?

Child care costs vary widely by state, making this a relatively localized issue. Further, child care for infants costs everyone more money than it does for toddlers. This means our parents with the youngest children are often able to save more by staying home than they would earn if they returned to work and paid for child care. For families for whom that may not be the case, finding reliable, flexible child care is another hurdle. Meanwhile, the pipeline of child care workers is, and has been, drying up.

This paper establishes the dynamics behind child care deserts, shortages, and costs that are causing persistent challenges for families, for the workforce, and for policymakers. Targeted solutions from every angle are needed urgently to resolve these stubborn barriers to a stable, adequate child care market. Further, child care is also integral to the health, safety, development, and wellbeing of our youngest community members and must be seen as such.

Why is it so hard to establish a stable and adequate child care workforce?

Child care workers are underpaid.

The child care workforce is a delicate ecosystem, and at its core, it is not a sustainable business model at present. Like most industries, the cost of labor is the greatest expense. At the same time the industry needs more workers than it has, most child care workers are earning so little that they qualify for government benefits. The principles of supply and demand of this workforce has not resulted in higher wages, which disincentivizes workers to enter or stay in the child care workforce. Shortages mean higher staff to child ratios, which adds to the stress of the job. Workers who live in poverty are more likely to experience mental health issues. They then bring those challenges to the workplace, where it may affect the children in their care. The spiral created by this fragmented workforce dynamic cannot be disrupted without interventions in child care pay.

More than half of child care workers nationally access some form of public assistance such as Medicaid, SNAP, and low-income housing. Data from a study in the summer of 2022, show that one-third of child care workers in the nation struggled to pay for basic needs - housing, food, utilities, gas, transportation, and more.

It is hard to imagine someone wanting to pursue a career in child care when accounting for the fact that child care workers make less than 98% of other professions. According to a 2023 report, the median pay for child care workers is a meager $28,300 annually, or $12.39 per hour. That is $31,883 less than the median income in Kentucky ($60,183) and $19,018 less than what recognized policy experts believe is a "livable wage" in Kentucky ($47,318). To further put this into perspective, the median national wage for a worker in the retail sector is $14.26 per hour. And, while child care access and wages are hyper-local, data show that child care worker wages are significantly lower than other private sector workers across all 50 states. One study estimates that across the country, the wage gap for child care workers is between 46 cents and 68 cents on the dollar.
Survey data also show that child care workers experience very high levels of stress, likely due to the nature of the job and the dynamics of living in poverty.\(^3\) High turnover can certainly be attributed to pay and working conditions, but the lack of benefits such as health insurance or retirement plans aggravates the problem.\(^3\)

**Child care centers operate primarily during normal business hours.**

Between 26 and 38 million American adults are "shift workers," who work in fields with inconsistent and unreliable work hours; yet most child care centers have standard workweek operations.\(^5\)

Nearly one in three respondents in a ReadyNation survey said they have difficulty finding care outside typical weekday working hours that was in a convenient location.\(^10\) For hourly workers, often on schedules determined a week at a time or changing day-by-day, this all-but-guarantees at least one parent will have to miss work to care for child(ren).\(^10\)

**Child care is cost-prohibitive for many American families.**

Child care costs are rising faster than median household income. Median household income has increased by 35% since 1990; meanwhile, child care costs have more than doubled.\(^1\)

Kentucky is ranked eighth best in the nation for child care access and affordability, where estimates show Kentucky parents spend an average of 11.85% of their income on child care.\(^1\) Kentucky ranks 13th for the number of childcare workers per 1,000 workers, 17th for the child-to-staff ratio (39.3) and 19th for the percent of households reporting childcare disruptions for children younger than five (33%).\(^1\)

According to the Committee for Economic Development, only one in four families with children needing child care paid for child care, which U.S. News and World Report says is most likely attributed to the cost.\(^2\) The average income of those families who paid for child care was $149,000 per year, $88,817 higher than Kentucky’s annual median income.\(^2,7\)

**The unstable child care market causes quality issues and increases costs.**

Child-to-staff ratios are an indicator of quality, an important factor when looking to expand access.\(^1\) North Dakota boasts the most expensive (i.e. lowest) child-to-staff ratio while Washington state has the highest, at an astonishing 103.6.\(^1\) One can only imagine being a child care worker being paid akin to a fast food worker, while managing a room of 103 birth to 5-year-olds to understand the
gravity of this indicator. Such a rate is arguably warehousing our children more than it is child care. Some states have set limits on those ratios, including Kentucky.

Further, 2023 data from Forbes shows that it costs approximately one-third of an employee’s salary to replace them when they turn over. As child care workers burn out or leave for other reasons, not only does their temporary absence disrupt worker to child ratios, it costs the center extra money to recruit and hire a replacement, if they can even find one. The profit margin for child care centers is typically 1% or less. Further, labor costs already absorb around 80% or more of child care center budgets. The math just doesn’t make sense.

Why is it so expensive?

The child care market dynamics outlined above lead to one core fact: child care access is driven primarily by the number of child care workers available.

A child care “desert” is defined as an area where there are more than three children aged 5 and under for every licensed child care space. More than half of...
Americans live in one of these "deserts." Increasing wages while cutting costs seems to be the primary method of addressing this market issue, but doing so requires higher worker to child ratios. States in the Eighth Federal Reserve District, including Kentucky, have lower child care costs than other regions. But, as is often the case with lower child care costs, these states tend to have lower wages and higher employee to child ratios, both of which can sacrifice quality. Further complicating the issue is the fact that child care is a seasonal need for some families, particularly teachers who do not work during the summer months. A 2022 study estimates that if centers were reduced to 75% capacity from 90%, it would drive the cost of care up by nearly $2,000 per year, per family.

Single parents are at a distinct disadvantage, since the burden of paying for, transporting, and acquiring child care rests solely on their shoulders. Households with a double income nationwide are spending approximately 10% of their income on child care while their single-income peers are spending approximately one-third of their income on child care.

According to the U.S. News and World Report, the most affordable state for the average single parent of a four-year-old paying for full-time child care is South Dakota, where the average single parent would spent 23.7% of their income (based on median income of single parents) per year on child care – a total of $6,677 annually. Least affordable states by that ranking span as far as 51.4% of the annual median income in Massachusetts, where a single parent making the annual median income would pay $16,781 annually for child care. Kentuckians with infants pay, on average, three-fourths of the cost of their rent for infant care.

Child care costs are likely higher than we know. A family that pays for child care for two days a week and sends children to a grandparent's house for the other three days will show a lower cost generally than their peers paying for five days of child care per week at a traditional center. Centers operating with state or federal subsidies may also cause data to artificially show lower costs. Focusing on the cost of child care for one child can be deceiving when considering total costs, as approximately 29% of Kentucky families have more than one child. According to the Economic Policy Institute, child care for two children costs almost one-third more than the average rent in Kentucky. A family of a four-year-old and an infant would have to spend, on average, 23.8% of their income on just child care.

The U.S. Department of Health and Human Services (HHS) defines "affordable" child care as costing no more than 7% of the total family income. The Economic Policy Institute introduces this staggering statistic to put the overwhelming cost of child care into perspective. A Kentuckian earning minimum wage would need to work full time for six months just to pay for one year of child care for a single infant.
**Child Care Affordability in Eighth District States in 2019**

<table>
<thead>
<tr>
<th>State</th>
<th>Median Household Income</th>
<th>Average Child Care Cost</th>
<th>Affordability</th>
<th>Average Child Care Industry Wage</th>
<th>Average Child-to-Staff Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arkansas</td>
<td>$52,000</td>
<td>$6,090</td>
<td>11.7%</td>
<td>$10.63</td>
<td>8.3</td>
</tr>
<tr>
<td>Illinois</td>
<td>$76,000</td>
<td>$8,828</td>
<td>11.6%</td>
<td>$13.28</td>
<td>7.3</td>
</tr>
<tr>
<td>Indiana</td>
<td>$64,000</td>
<td>$8,036</td>
<td>12.6%</td>
<td>$11.64</td>
<td>7.0</td>
</tr>
<tr>
<td>Kentucky</td>
<td>$58,100</td>
<td>$6,611</td>
<td>11.4%</td>
<td>$12.31</td>
<td>9.0</td>
</tr>
<tr>
<td>Mississippi</td>
<td>$50,100</td>
<td>$4,617</td>
<td>9.2%</td>
<td>$9.34</td>
<td>10.3</td>
</tr>
<tr>
<td>Missouri</td>
<td>$63,000</td>
<td>$8,136</td>
<td>12.9%</td>
<td>$12.24</td>
<td>7.3</td>
</tr>
<tr>
<td>Tennessee</td>
<td>$60,500</td>
<td>$7,738</td>
<td>12.8%</td>
<td>$10.93</td>
<td>6.7</td>
</tr>
<tr>
<td>U.S.</td>
<td>$70,200</td>
<td>$9,940</td>
<td>14.2%</td>
<td>$13.72</td>
<td>6.7</td>
</tr>
</tbody>
</table>

Sources: IPUMS USA, Child Care Technical Assistance Network and authors’ calculations.

Note: See appendix for other states and Washington, D.C.

Child care is more expensive in many cases than a college degree. This is true in 34 states and the District of Columbia, where the cost of center-based child care for infants is higher than in-state, public college tuition. Parents are often younger than other workforce participants as well, so they often need child care early in their career before they have the experience that brings higher wages. Today’s parents are also more likely than their older peers to be burdened with college debt.

The Child Care and Development Block Grant helps offset costs for 1.3 million children in child care, but there are another 10.7 million children in child care nationwide. Federal eligibility provides another hoop for busy parents to jump through, which may be contributing to the fact that only 16% of children eligible for federal child care assistance programs receive benefits. Disparities in Black communities persist in this area, particularly regarding subsidy amounts.

Having a third party to guide eligible parents clearly produces results. Family Scholar House has helped 100% of its families with children between the ages of six weeks and five years of age in receiving Child Care Assistance Program (CCAP) dollars, which helps low-income families pay for child care. In addition, every child in the Family Scholar House residential program is ushered into age-appropriate child care while Family Scholar House provides or connects parents to resources that give them wraparound support. Their 56-slot early learning campus in partnership with the University of Louisville offers full-day curriculum for children up to Pre-Kindergarten. Children who participated in this partnership saw an average improvement in Ages and Stages Developmental Questionnaire scores of 68% after receiving a single year of quality care.

Investing in better access to high-quality preschool programs could alleviate some of these costs for
families, although at the expense of government coffers. Not only does preschool come at little or no cost to parents, its education-focused bent provides a better return on investment for taxpayers by getting students Kindergarten ready. Data show that students who are able to attend preschool are more likely to be identified for needs for early interventions or screenings, and they are also more likely to receive those interventions before reaching Kindergarten. Those early interventions are estimated to have broad positive effects, from higher academic achievement and reduced special education needs later in life to lower future crime rates among students with need for these interventions. One study estimates that this alone saves communities between $13,000 and $19,000 per child above the cost of the preschool program. Florida, Oklahoma, Vermont, and the District of Columbia are the only states offering universal pre-kindergarten at this time, and data on their success is limited, likely due to the newness of these policies.

**COVID Impact**

Operational costs during the pandemic increased costs for child care centers while they were forced to reduce capacity. As a result, many child care centers closed. Child care centers were able to access federal relief dollars like other small businesses, which is attributed with keeping thousands of centers open. Still, state-level requirements for reduced capacities and additional costs for sanitizing, masks, etc. increased costs for centers. Inflationary pressure was also a significant factor. Every child care center that did not reopen further increased the demand placed on those in operation. But, that increased demand did not find an increase in supply, further exacerbating high costs. American Rescue Plan Act (ARPA) dollars were infused into the child care industry during the pandemic, but those dollars are drying up, with recent funds expiring in September 2023.

In Kentucky, the last of the ARPA sustainability payments for child care was released in September 2023. Two other pockets remain, with limited time for policymakers to shore up the benefits cliff likely to occur for eligible families when the last stream of funding runs dry.

The ARPA-funded one-time child care and development block grants expire in September 2024, just three months after the state's next biennial budget will go into effect. Governor Andy Beshear's office announced an additional $50 million in last-mile sustainability funds for child care providers in December 2023, the effects of which remain to be seen at the time of this writing. In essence, that means local, state, and federal policy makers have a few months, as of this writing, to shore up the difference.

The pandemic had a deep and lasting impact on the child care workforce. Exposure concerns reduced the number of people willing to work in child care centers, where exposure risk was high, children were primarily un-masked, and, at the time, ineligible for vaccines for COVID strains. In addition, pandemic-era unemployment benefits often paid more than working full time in a child care center. Despite federal pandemic investments, there are still nearly 50,000 fewer child care employees than were working pre-pandemic.
Why does it matter?

The National Conference of State Legislators (NCSL) toolkit calls child care workers “the workforce behind the workforce,” noting that without child care, parents are unable to work. A 2023 study reveals that one in nine Kentucky parents have had to miss work, quit their jobs, or scale back hours due to child care challenges. The child care crisis costs everyone a lot of money.

New data show how costly a lack of child care is for America, and it’s not a small sum. A February 2023 report by ReadyNation estimates the annual cost of the current child care crisis for children birth to 5-year-olds is costing the country an annual $122 billion in lost earnings, productivity, and revenue.

In their recent report, ReadyNation indicates two-thirds of parents of infants and toddlers have reported missing work (either hours or whole days) or being distracted at work due to child care issues. Eighty-five percent of parents in this category reported child care issues have compromised their work productivity. The results of this pervade the economy at nearly every level.

One-fourth of parents with child care needs reported having been fired or reprimanded due to child care issues, resulting in $78 billion nationally in lost wages for families and turnover expenses for employers. Lack of child care also inhibits career advancement for many parents. ReadyNation reports that one-third of parents who have reported struggling to obtain child care have turned down job offers, further education, or training as a result. Among those, more than one in four reported turning down a promotion for child care reasons. Overall, reduced productivity among young parents with child care distractions is causing employers an estimated $23 billion as well, which costs taxpayers another $21 billion in lost federal and state tax revenue.

This workforce impact is more pronounced among women. Women are between five and eight times more likely than men to sacrifice work in lieu of child care needs. Kentucky Youth Advocates estimates that Kentucky’s economy loses out on $1.2 billion annually due to lost wages, productivity, and tax revenue.

Data on parenthood show that workforce participation among men increases while workforce participation for women decreases when they have a child. That is, when a child is born, the mother is less likely to work while the father is more likely to work. Nearly three-fourths of childless women are in the workforce, but only 65% of mothers with young children are in the workforce. For men, those numbers are 79% for childless males compared to 93% workforce participation among fathers with young children.

More than 50% of working Kentuckians are parents, and almost 40% of those parents have young children. In Kentucky, 66% of Black mothers with young children are single mothers, compared to 27% of white mothers.

Short term costs to the economy are important, but the lasting impact of a disruptive child care system also cost society in the long run. The longer a person stays out of the workforce, the less likely they are to re-enter it. Data show a 20-40% lower probability of being employed for people who have been out of the workforce for more than six months; the probability declines the longer a person is out.
of the workforce. The probability of returning to work after being unemployed for 6-18 months is around 10%. For those who did not work for two years or more, the likelihood of re-entering the workforce dropped to 6%. At three years, that probability drops to 4%. Researchers attribute this to frustration and discouragement in finding a job and possible discrimination on the employer side inaccurately identifying continuous employment as reflective of worker quality. Of course, it could also be attributed to the fact that the longer a person is out of the workforce, the less likely their skills are to match current job descriptions.

The child care crisis is more than the lack of care, lack of affordability of care, and reduced economic output from parents. High quality child care can promote school readiness and enhance child wellbeing, but the shortage and cost of child care has forced many parents to adopt varying approaches to securing care. Part-time care, home-based centers, and familial care from grandparents, siblings, or friends and neighbors have all become common. While these options are certainly more financially sustainable choices for most family budgets, they most often place children in the care of homes that are not subject to child care regulations regarding safety, healthy meals, requirements for reporting of suspected abuse or neglect, and more.

Lack of enriching environments for children while parents are at work is also costing everyone. A 2023 report states, "Beyond its impact on the workforce and economy today, the infant-toddler child care crisis damages the future workforce by depriving children of nurturing, stimulating environments that support healthy brain development while parents work." Children under the age of 5 are in unique stages of brain development unlike any other age, and high turnover rates in the child care workforce cause disruptions to learning that create volatility in what should be a stable learning environment. High turnover rates correlate with poorer-quality of child-teacher relationships, influencing smaller gains in vocabulary and literacy, as well as higher levels of parent-reported behavioral problems compared to peers with stable caregivers. A plethora of research indicates that children's brains develop best in environments without intense stress, a dynamic we know cannot be guaranteed when child care workers live in poverty.

This enduring problem is not going away soon, as most parents with small children are already in the workforce. This accounts for approximately 11.4 million children under the age of 3 with 14.1 million parents in the workforce.

The Family Scholar House model has produced proven results. Not only does Family Scholar House assist parents in securing affordable child care while parents are attending school, children under the age of five are also assessed via the Ages & Stages Questionnaire. The questionnaire is a developmental screening tool that pinpoints developmental progress in children between the ages of one month to 5 ½ years.

Its success lies in its parent-centric approach and inherent ease-of-use—a combination that has made it the most widely used developmental screening across the globe. Evidence shows that the earlier development is assessed—the greater the chance a child has to reach his or her potential. As a result, 85% of Family Scholar House children were found to be developmentally on track for their age.
Policy Proposals

The National Conference of State Legislatures (NCSL) reports “The United States is distinct among advanced economies for its paltry support of early childhood care,” citing investment of only $500 per child per year compared to an average $14,000 among countries in the Organization for Economic Cooperation and Development whose data were available. The gap is largely explained, per NCSL’s Jennifer Palmer, by the lack of guaranteed paid parental leave in America.

Policy solutions abound but require costly investments by state and federal governments and employers. Investments by all three are likely needed to begin to resolve this workforce crisis. Policies that provide startup capital for new providers could help grow supply if wages are able to meet workforce demand. Federal policymakers could also expand the Federal Child Care Access Means Parents in School Program, which serves student parents. Infusing funds into programs such as Family Scholar House, would also go a long way toward resolving workforce volatility among student parents.

California created a retirement fund and allocated funding for unionized child care workers to the tune of a combined $180 million in one state budget. Minnesota extended retention incentives and increased reimbursement rates to 75%. Vermont increased eligibility thresholds for parents earning up to 575% of the federal poverty level and cut copays. Colorado is offering bonuses to providers who participate in the state's preschool program, which will increase child care quality and address persistent nationwide demand for limited preschool spaces.

Three states passed bills this year to address the child care workforce shortage, including Colorado, Minnesota, and Texas. The three take varying approaches to incentivizing child care employee recruitment, including scholarship programs and pipeline grants. Mandatory paid parental leave is noticeably absent among these policy initiatives.

A St. Louis Federal Reserve report estimates that policies aimed at incentivizing maximum enrollment at centers while accounting for seasonal shifts in demand could help centers make ends meet. They also suggest that utilizing vacant office space near areas of dense employment could make child care more accessible for parents wanting to return to work by providing on-site child care. Flexibility on child care facility requirements would likely need to accompany this should policy initiatives move forward.

State funding could help alleviate the sunsetting of ARPA dollars while Congress could reauthorize the Child Care and Development Block Grant Act. Increasing funding for public pre-school and Head Start could also help infuse dollars into the market while incentivizing child care centers that provide early childhood education services. Kentucky’s Child Care Assistance Program, already in existence, serves only low-income families and comes with a series of eligibility requirements. The resulting red tape makes assistance from nonprofits such as Family Scholar House critical to navigating the application process and proving eligibility.
In Kentucky, expansion of the newly enacted Employee Child Care Assistance Program passed by Kentucky legislators could help, but that program remains woefully underused. This pilot program designed by Kentucky lawmakers intends to incentivize employers to put some skin in the game to increase workforce engagement among parents. The program promises a match on dollars invested by the employer in the employee's child care. In the example given, if an employer agrees to pay $400 per month per employee for child care, the state program will provide an additional $400 to match. The employee is left to cover the difference if there is one.

Still, the data show that employers are not lining up to participate and proffer their own dollars. According to reports from the Cabinet for Health and Family Services, as of August 1, 2023, 17 Kentucky employers are approved to participate in the program, leveraging only $168,000 of the $15 million slated for program use. An estimated 88 children out of the state's 261,000 children ages birth to 5-year-olds were benefiting from the program as of August 2023. Since the pilot is only authorized for one year (applications opened in June 2023), current data suggest the program is not having the intended impact on employer investment.

Ultimately, policymakers and employers should treat the child care crisis as what it is – an imbalanced and unsustainable model within the free market. Adopting policies that result in increased wages are all but obligatory. Subsidizing child care would drive costs down for families while recognizing the industry as a public good that deserves broad public investment. Expanding supply to meet demand is urgent. Investment in all three will result in a more sustainable model that increases child care access and affordability.

References

Learn more @