

# THE WORKING POOR FAMILIES PROJECT

POLICY BRIEF ■ SUMMER 2016

## SUPPORTING WORKING AND STUDENT PARENTS THROUGH CHILD CARE ASSISTANCE: STATE POLICIES TO STRENGTHEN A CRITICAL WORK SUPPORT

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### THE WORKING POOR FAMILIES PROJECT

#### Strengthening State Policies for America's Working Poor

Millions of American breadwinners work hard to support their families. But, despite their determination and effort, many are mired in low-wage jobs that provide inadequate benefits and offer few opportunities for advancement. In fact, nearly one in three American working families now earn wages so low that they have difficulty surviving financially.<sup>2</sup>

Launched in 2002 and currently supported by The Annie E. Casey, Ford, Joyce and W. K. Kellogg foundations, the Working Poor Families Project is a national initiative that works to improve these economic conditions. The project partners with state nonprofit organizations and supports their state policy efforts to better prepare America's working families for a more secure economic future.

For more information:

[www.workingpoorfamilies.org](http://www.workingpoorfamilies.org)

### INTRODUCTION

The need for high-quality child care has increased dramatically over the past several decades. Indeed, child care has become a critical support to allow millions of parents nationwide to work, go to school or receive training. Access to quality child care can also support the healthy development of children. At the same time, the cost of child care is significant,<sup>3</sup> making it difficult for low-income families to afford. Without access to affordable, high-quality child care, low-income families can struggle to find work or pursue education, and children may lose out on their full potential. Fortunately, every state has a child care subsidy program that is intended to help low-income families that are working or going to school pay for child care for their young children.

Child care subsidy programs are a sound investment, as it has been shown that families receiving subsidies are more likely to be employed, maintain work for longer periods of time and increase their annual earnings and financial resources.<sup>4</sup> Access to the child care subsidy program has also been shown to increase access to high-quality child care, improving the well-being of children, especially children in low-income families.<sup>5</sup> Yet, investment in child care subsidy programs is lagging, with spending at a 12-year-low, resulting in the fewest children receiving subsidies in more than 15 years.<sup>6</sup> Additionally, despite a significant amount of flexibility to make programmatic decisions, many states have created unnecessary barriers to access subsidies that undercut the ability of families to move ahead.

**The Working Poor Families Project (WFPF)**, a national initiative that seeks to strengthen state policies on behalf of low-income working families, supports states' efforts to make policy changes that enhance and improve work support programs, such as the child care subsidy program. Access to quality child care and early education has been shown to be critical to the healthy development of children, and child care subsidy programs have been shown to make higher-quality child care more affordable for low-income families.<sup>7</sup> This policy brief focuses on *access* to child care through child care subsidy programs and state policies choices that better assist low-income working families; WFPF recognizes the importance of quality child care but that issue is not explicitly addressed here. The brief outlines barriers to accessing the subsidy for low-income families, reviews state

policies that increase access to the subsidy and offers various recommendations states can take to support increased access.

## **CHILD CARE: A CRITICAL SUPPORT FOR LOW-INCOME FAMILIES**

Access to high-quality child care is vital to families' ability to work and to support the healthy development of children. For low-income families, however, the cost of child care can be difficult to afford.<sup>8</sup> A recent study shows families must earn around 200 percent of the federal poverty level to be able to meet their basic needs.<sup>9</sup> More than 10 million low-income working families earn below that income level,<sup>10</sup> and nearly 18 million children under the age of 13 live in these low-income working families,<sup>11</sup> meaning a significant number of low-income families struggle to afford child care and other basic expenses. Indeed, child care is a major expense. The annual cost of center-based care for an infant in the U.S. ranges from \$5,496 to \$16,594.<sup>12</sup> The cost for a four-year old in a child care center ranges from \$4,515 to \$12,320, and the cost for family or home-based care ranges from \$4,039 to \$10,727.<sup>13</sup> In many communities, child care costs exceed the cost of rent.<sup>14</sup>

Adults in families that struggle to afford child care may have difficulty getting or keeping a job. In fact, one out of five families report that child care problems interfered with their ability to get or keep employment.<sup>15</sup> Moreover, problems in accessing child care hinder some parents from gaining education and skills needed to increase their earnings. Parents are underrepresented among low-income individuals in education and training programs across the country,<sup>16</sup> and many parents face challenges in completing education and training activities.<sup>17</sup> This difficulty in accessing affordable child care could contribute to the reality across the nation where more than three million working low-income families have at least one parent without a high school diploma or equivalent,<sup>18</sup> and where more than five million working low-income families have no parent with postsecondary education.<sup>19</sup> For the 4.8 million parents enrolled in college nationwide, ongoing access to child care is critical to their success in school.<sup>20</sup> At the same time, the availability of on-campus child care has declined over the past ten years. At community colleges, where the largest share of parents is enrolled, only 45 percent report having an on-campus center, down from 53 percent in 2003-04.<sup>21</sup>

In short, access to affordable child care for many low-income families is fundamental to their ability to get or keep a job, gain important skills to move ahead and support their children's healthy progress. But inaccessible child care can prevent this forward momentum, contribute to families remaining stuck in poverty and stifle child development. Child care subsidy programs, as well as other early learning programs,<sup>22</sup> can help low-income parents access quality child care, allow them to gain better employment and educational opportunities and better ensure children can reach their full potential.

## **THE CHILD CARE SUBSIDY PROGRAM**

### **Flexibility and Funding**

Child care subsidy programs provide assistance to low-income families that are working, searching for work or pursuing education by helping cover all or part of the cost of child care. The Child Care and Development Fund (CCDF) provides federal support to states to help subsidize the cost of child care for low-income parents. The Child Care and Development Block Grant (CCDBG), which outlines the CCDF's provisions and eligibility components for child care subsidy programs,<sup>23</sup> was reauthorized in 2014, and federal regulations were completed in September of 2016, making numerous changes to the program. Under CCDBG, child care subsidies may be received by families with: a) children under age 13 (and children under age 19 with special needs), b) a family member engaged in a particular activity (working, looking for a job or engaged in education/training), and c) an income under 85 percent of the applicable State Median Income (SMI) for families of various sizes.<sup>24</sup>

Within these general parameters, states have significant flexibility to establish state child care subsidy programs and set policies regarding income eligibility, allowable work, education and training activities, copayments, application and reporting and redetermination procedures.<sup>25</sup> Many child care subsidy programs are funded jointly with CCDF funds and funds from other sources, including Temporary Assistance to Needy Families (TANF) funds. Up to 30 percent of TANF funds can be transferred to CCDF to pay for subsidized child care. Another funding source for child care comes from the Workforce Innovation and Opportunity Act funds (as a supportive service).<sup>26</sup> States also allocate state funds to support child care subsidy programming.<sup>27</sup> States may choose to add state funding to their CCDF-funded programs (over and

above what is federally required), or may use these funds to support separate subsidy programming to complement CCDF-funded programs.

Spending nationally on child care subsidy programs has dipped in recent years. In 2014, overall federal and state spending on child care subsidy programs, including CCDBG and TANF, reached a 12-year low.<sup>28</sup> In that year, total spending on child care subsidies fell to \$11.3 billion, and the number of children receiving subsidies reached a 16-year low.<sup>29</sup> The amount of TANF funds transferred to CCDF for child care subsidies also has declined. In 2000, 43 states plus the District of Columbia transferred \$2.3 billion to CCDF, but in 2012, only 29 states transferred \$1.4 billion, a decline of about 40 percent.<sup>30</sup> The combination of reduced funding and state-level policy choices have led to child care subsidy programs failing to meet the needs of many low-income families.

### Limited state financial investment

Limited state investment has a number of ramifications for families that need subsidies to work or go to school. For example, about two-thirds of states have a waiting list for subsidies.<sup>31</sup> Many families that may meet program eligibility requirements must wait indefinitely to access services. In Florida, for example, more than 50,000 children were on a wait list in 2015.<sup>32</sup> Reduced state investments also lead to low provider reimbursement or pay rates for child care workers.

Every state must set the rate at which a child care provider will be reimbursed for caring for children through the child care subsidy program. The reimbursement rate sets a maximum amount the state will reimburse providers for caring for children receiving a subsidy. Some states utilize a Market Rate Survey<sup>33</sup> to set reimbursement rates at a percentile of the market rate. For example, a state rate at the 60<sup>th</sup> percentile of the market is meant to allow families to be able to access 60 percent of providers in a given community or geographic area.<sup>34</sup> However, due to federal regulatory changes, states will be required to show that rates are adequate and based on their *most recent* Market Rate Survey or with an alternative methodology, such as a cost-estimation model.<sup>35</sup>

Federal law does not set a requirement for reimbursement rates but instead encourages states to set a benchmark of reimbursement at the 75<sup>th</sup>

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percentile of the market rate.<sup>36</sup> As of 2015, only one state set its rate at the 75<sup>th</sup> percentile.<sup>37</sup> When states set low reimbursement rates it can be more difficult for families to find child care providers willing to accept children with subsidies, especially for non-traditional care hours or specialized care.<sup>38</sup> Lower rates also can mean fewer high-quality child care providers are available, and providers may ask parents to pay additional costs over and above a copayment to make up the difference between the reimbursement rate and the market rate.<sup>39</sup> About three-quarters of states allow this practice.<sup>40</sup>

### Stringent limits on income eligibility and the “cliff effect”

Under CCDBG, states may set any income eligibility level at or below 85 percent of the SMI,<sup>41</sup> which equates to approximately 270 percent of the federal poverty level averaged across states. This flexibility leads to wide variation among states in income eligibility limits, ranging from 121 percent of the federal poverty level (\$1,990 per month) in Michigan to 298 percent of the federal poverty level in North Dakota (\$4,915 per month) for a family of three.<sup>42</sup> With lower eligibility thresholds, fewer families can receive subsidies. Additionally, states are free to determine what income should be counted toward eligibility and what kinds of income can be disregarded.<sup>43</sup> For example, states may exclude TANF income, Supplemental Security Income (SSI), Social Security Disability Insurance (SSDI), child support income and more.<sup>44</sup> States also may decide to disregard a set amount of earned income. The less income that is counted, or the more income disregarded, the more likely a family will be eligible for subsidies. As of 2014,

only three states disregarded any earned income, and only about half did not count child support paid outside of the household.<sup>45</sup>

States also have been permitted to set short eligibility periods, such as six months, and can set different policies if income or work changes occur during the eligibility period. For example, states have been permitted to terminate eligibility for the subsidy program if a parent has a temporary cessation in school or work (see below), or can terminate eligibility if parents' income rises above the initial income eligibility threshold. However, several recent federal law changes now support ongoing eligibility. Importantly, eligibility may now be redetermined no sooner than every 12 months, rather than every six months or less, as was common in many states.<sup>46</sup> During the 12-month eligibility period, parents remain eligible even if their income increases beyond the state's initial eligibility limit as long as the family income remains at or below 85 percent of the SMI.<sup>47</sup>

In addition, states are allowed to set a higher income eligibility threshold when eligibility is redetermined to help families transition away from the child care subsidy. When states hold the same initial and ongoing eligibility limits, families can experience the "cliff effect" when their income increases above the initial eligibility limit. The cliff effect occurs when modest increases in earnings or a new job result in the loss of child care subsidy, leaving families in a financially worse position than before the increased earnings (see example below). To address this, some states have created a

two-tiered structure to gradually phase families off of assistance, with higher income thresholds at the end of an assistance period when eligibility is redetermined.

In recognition of the cliff effect, recent federal changes have altered requirements around this gradual phase out. According to federal regulations, states that have an ongoing income eligibility limit of less than 85 percent of SMI must create a graduated phase-out, by implementing two-tiered eligibility thresholds.<sup>48</sup> Specifically, when eligibility is redetermined states must either: a) allow families to remain eligible as long as income does not exceed 85 percent of SMI for a family of the same size, or b) institute an ongoing eligibility threshold in an amount less than 85 percent of SMI but above their initial eligibility limit.<sup>49</sup> States choosing the latter option must detail how this approach will sufficiently accommodate family income increases over time, among other things.<sup>50</sup>

### **Activity hour requirements and limitations on work and school activities**

In general, parents must have a particular need or be engaged in a specific activity, such as work or study, to be eligible for child care subsidies. Many states set minimum and maximum hour requirements for activities to maintain subsidy eligibility. For example, a majority of states set a minimum weekly work or study requirement, ranging from a minimum of 15 to 30 hours.<sup>51</sup> Anyone working or studying fewer hours is

### **Child Care Cliff Effect Example**

Mother currently earns the federal minimum wage of \$7.25 per hour, working 40 hours per week, and grosses \$1,160 per month. Despite working full-time, this mother and her child are living well below the poverty level.

- At this income level, mother is eligible for \$650 per month in a child care subsidy.

Mother applies for and accepts another job, which pays \$10 per hour, or a little over \$20,000 per year. Working 40 hours per week, she grosses \$1,600 per month – an increase of \$440 per month in gross income.

- With an extra \$440 per month in income, mother now makes "too much" to qualify for a child care subsidy. But because she took a better paying job, she now has \$210 less in her budget to meet her family's needs than before she took a raise.

**For this mother, taking a pay raise actually makes her worse off financially.**

ineligible. Most states also establish a maximum number of hours allowed per week and set limits on allowing child care subsidy for travel time, rest or other related activities.<sup>52</sup>

Until recently, states have been broadly permitted to set policies on temporary and non-temporary cessation of work, education or training. However, parents now remain eligible during the full 12-month eligibility period even if there is a temporary change in an activity, such as a school break.<sup>53</sup> And, states must continue to provide a subsidy for at least a set period of time after a non-temporary or indefinite cessation of work or education. Specifically, the subsidy must remain in place after an indefinite cessation of an activity for the remainder of the 12-month eligibility period, unless the state opts to terminate eligibility, in which case a minimum of three additional months of subsidized care must be provided.<sup>54</sup> This increased continuity helps parents have the support to find a new job, and can help children remain in high-quality child care settings, rather than cycling on and off of child care, which can disrupt a child's healthy development.

### **Restrictions on education and training**

All states allow parents to pursue education and training, and receive child care subsidies; however, most limit assistance in various ways.<sup>55</sup> Some states allow education and training under limited circumstances,<sup>56</sup> some require a minimum number of hours per week,<sup>57</sup> some require parents to work a set number of hours per week in addition to pursuing education and training,<sup>58</sup> and some limit the amount of time parents can pursue education (from six months to six years).<sup>59</sup> In addition, many states limit the level of degree parents may pursue,<sup>60</sup> about half of states allow for participation in English as a Second Language (ESL) programs and only 12 states allow Supplemental Nutrition Assistance Program (SNAP) Employment and Training activities.<sup>61</sup>

### **Unaffordable copayments<sup>62</sup>**

Each state can set copayment levels within broad federal guidelines on sliding fee scales. Copays can vary based upon family size, age of children in care, income and other factors.<sup>63</sup> Nationally, for a family of two earning \$20,000 per year, copayments range from \$0 per month to \$698 per month, with a median copay across states of \$116.<sup>64</sup> In many states, these copayments are unaffordable for low-income families.<sup>65</sup> In response, some states

Families participating in the child care subsidy program often face significant challenges applying for and maintaining eligibility for the program.

have set policies to reduce copayments for low-income families. For example, some states exempt very low-income families from copays, with eight states exempting families at or below 100 percent of the federal poverty level from all copays.<sup>66</sup> The reauthorized CCDBG supports policies such as these by indicating that cost sharing should not be a barrier to families receiving child care,<sup>67</sup> and the federal regulations more specifically encourage states to waive copayments for families with incomes at or below the poverty level.<sup>68</sup>

The regulations also suggest copayments should be no more than 7 percent of a family's income,<sup>69</sup> and generally do not allow copayments to be increased during the 12-month eligibility period even if income increases. At the same time, the regulations do allow copay increases during the 12-month eligibility period for families eligible under the graduated phase out.<sup>70</sup> This is designed to help mitigate the cliff effect families would otherwise face when eligibility is lost, by increasing their share of cost as they become better able to afford the cost of care.<sup>71</sup>

### **Burdensome verification and reporting requirements**

Families participating in the child care subsidy program often face significant challenges applying for and maintaining eligibility for the program. Typically, families must complete an application; provide documentation of income, employment and work hours; report changes in circumstances; and often provide all of this same information when eligibility is redetermined 12 months later. These procedural hurdles can result in families losing subsidy support for reasons unrelated to program eligibility,<sup>72</sup> like failing to provide a paystub or work schedule. When they quickly reapply,<sup>73</sup> it creates additional work for both the family and the

administering agency, as families churn off and on the program.

In response, states may use verified data from other programs like SNAP to determine income instead of requiring documentation, or may allow applicants to attest to their work schedule and hours instead of requiring employer verifications.<sup>74</sup> Most states also require interim reporting, where families must report certain changes in their circumstances (increased income, job loss) within a set number of days, often 10. Due to federal changes, states should only require the mandatory reporting of information that would impact a family's eligibility—income and non-temporary end of employment.<sup>75</sup>

Families are typically required to show they remain eligible for the program after a set period of time, but some states have experimented with making this redetermination of benefits simpler, for example, by providing families with forms that are prepopulated with any information the state already has and requesting that families make necessary changes.<sup>76</sup> Under the reauthorization of the CCDBG, families must not be required to unduly disrupt their education, training or employment to complete the redetermination process,<sup>77</sup> a change intended to protect parents from losing assistance for failing to meet a burdensome redetermination requirement, like leaving work to submit documentation or by resubmitting documentation of things that have not changed.<sup>78</sup> States are encouraged to reevaluate their processes for verifying eligibility to simplify and streamline duplicative requirements.<sup>79</sup>

## STATES UTILIZING FLEXIBILITY TO INCREASE ACCESS TO CHILD CARE SUBSIDY

Under the flexible federal law, states demonstrate wide variety in child care subsidy program requirements, eligibility and processes. Below are examples from states that have taken positive steps to improve access to child care subsidy programs. In recent years, **Colorado** has made a number of state policy changes to increase access. The state improved provider reimbursement rates (rates are determined locally),<sup>80</sup> and set a new statewide income eligibility limit for entering the program.<sup>81</sup> Colorado also made several efforts to address the cliff effect,<sup>82</sup> including a pilot program allowing local authorities to experiment with policies and to collect data on outcomes.<sup>83</sup>

Ten counties are currently implementing pilot programs with several taking different approaches for increasing parent copayment amounts and keeping families eligible for the program. In addition, Colorado reduced copayments for low-income families, with a focus on families with incomes below 100 percent of the federal poverty level.<sup>84</sup> The state is also working to simplify how families apply for and maintain program eligibility. For example, Colorado de-linked the connection between work or school schedules that had been used to authorize the number of child care subsidy hours that would be subsidized, decreasing the burden on families to continually update changes in their schedule.<sup>85</sup>

Although **Ohio** has a relatively low initial eligibility limit (130 percent of the federal poverty level), it has an ongoing eligibility limit of 300 percent of the federal poverty level.<sup>86</sup> This can help address the cliff effect for families by ending penalties for income increases. Ohio also has generous policies relating to hours and authorized activities. For example, the state has no minimum or maximum activity hour requirements for child care subsidy support,<sup>87</sup> and allows hours for travel and rest.<sup>88</sup> Ohio also has fully eliminated copayments for families under 100 percent of the federal poverty level.<sup>89</sup>

The **District of Columbia (D.C.)** has made strides to make child care subsidies more accessible to its population, especially related to income treatment and copayments. For example, D.C. does not count income from numerous areas, including TANF, SSI, SSDI or SNAP,<sup>90</sup> in determining initial program eligibility, making it more likely for a family to be found eligible. D.C. also does not count the value of housing assistance, energy assistance, foster care support or state Earned Income Tax Credits in determining eligibility.<sup>91</sup> Additionally, D.C. has a relatively high income eligibility threshold (\$3,815 for family of three in 2014)<sup>92</sup> and a relatively low copayment schedule. For example, the copay for a family of three with an income at 150 percent of the federal poverty level is \$118 per month, or about 5 percent of their income.<sup>93</sup> Compare this with Missouri, where the same family would pay \$287 per month or 11 percent of their income.<sup>94</sup>

In recent years, **Nebraska** has taken positive steps to improve its child care subsidy program. Although its initial eligibility limit is low (130 percent of poverty), changes have been made

to help address the cliff effect by increasing the amount of income disregarded at redetermination and by allowing families to increase their earnings up to 185 percent of the poverty level for up to 24 consecutive months.<sup>95</sup> In Nebraska, individuals may pursue the full array of education and training opportunities and receive child care subsidies. These include obtaining a high school diploma, a General Education Diploma (GED) or an English as a Second Language certificate, as well as pursuing training and postsecondary education.<sup>96</sup> There is also no limit on the amount of time parents can spend pursuing education and no additional work hour requirement, and parents can pursue up to a bachelor's degree.<sup>97</sup>

Several other states have streamlined program verification policies to decrease the paperwork burden for families and administering agencies. Some states, such as **Maryland**, use existing data sources, like SNAP, to verify eligibility information and request documentation from a family only if needed.<sup>98</sup> **Rhode Island** has made the application process for families simpler by allowing self-attestation rather than verification of certain circumstances, like proof of family composition.<sup>99</sup> Only about half of states currently allow this.<sup>100</sup> Similarly, **Nebraska** streamlines application procedures by not requiring verified documentation of applicant identity, the applicant's relationship to child or household composition.<sup>101</sup>

Many states require proof of employment and work hours to authorize child care subsidies. This can create a barrier for families that must get documentation from their employer and that must provide updated schedules if their hours fluctuate. States have worked to address this issue in different ways. **Illinois** allows electronic wage deposits to be used to verify an individual's employment, rather than requiring documentation from an employer.<sup>102</sup> **Idaho** and **Illinois** both simplified how work hours are calculated; focusing on the total number of hours an individual works rather than their actual work schedules.<sup>103</sup> **Rhode Island** allows families to self-attest to work hours, instead of providing documentation.<sup>104</sup>

States also have experimented with changing interim reporting requirements. Most states require families to report important changes, for example, in income or employment, within 10 days of the occurrence. **Idaho** has modified this process and allows families to report changes by the 10<sup>th</sup> of the following month instead of within 10 days.<sup>105</sup>

Any change to the subsidies then occurs in the following month. This has helped parents better understand the process and makes it less likely they will lose subsidies for failing to report a change.<sup>106</sup>

## RECOMMENDATIONS FOR STATES TO INCREASE ACCESS TO CHILD CARE SUBSIDIES

The Working Poor Families Project recommends that state partners work to increase access to child care subsidies for low-income families. WFPF offers its state partners the following policy recommendations to ensure more families can access child care subsidies to support work, job search, education and training. Though some of the recommendations may come with a need for additional state funding, others can save state dollars through decreased administrative burden. These policy changes include:

- **Increase state funding investment in child care subsidy programs to decrease wait lists and improve provider reimbursement rates**

While spending in child care has dipped, some states have increased their state share of spending on child care assistance in recent years. Increasing the state share of spending can help address program limitations, like wait lists. At present, about two-thirds of states have wait lists for child care subsidies. This means that families that have met all eligibility requirements must still wait a period of time to access quality child care. **States should act to reduce wait lists through greater state-funded investment in the child care subsidy program**, as several states have done recently.<sup>107</sup>

Likewise, the reimbursement rates for child care providers have a significant effect on access to quality child care. Where the reimbursement rates are low, there are fewer high-quality providers for children to access, and parents may have to pay more out of pocket for care. **States should review their reimbursement rate policy and increase their rates, by either setting them to their most recent Market Rate Survey or by using an alternative, cost-modeling approach.** Although increasing rates will require additional state investment, many states will be revisiting their approach to setting rates under the reauthorized CCDBG, and the Administration for Children and Families (ACF) has indicated it will more seriously scrutinize lower rates. This creates a good opportunity to make a case for improved rates in the coming months.

- **Set more appropriate initial income eligibility limits and address the cliff effect**

Many states set eligibility limits so low that low-income families may be ineligible for child care subsidies even though they struggle to make ends meet. Studies suggest that a family needs an income at or equal to 200 percent of the federal poverty level to meet their basic needs,<sup>108</sup> and many states have eligibility thresholds well below 200 percent of federal poverty. **States should seek to alter their initial income eligibility limits to match the need for child care assistance for low-income families.** States can do this by increasing their eligibility threshold or by disregarding additional earned income by excluding things like child support, TANF, SNAP, SSI, or any such combination.<sup>109</sup> Moreover, the recent federal changes place an emphasis on addressing the cliff effect by requiring states to have a graduated phase-out at eligibility redetermination. **States should take advantage of this opportunity and adopt a tiered eligibility structure at a more reasonable income level.** This can be done by either establishing an ongoing income eligibility limit of 85 percent of SMI or, by setting an ongoing income limit that is significantly above the state's current initial eligibility limit.

- **Provide simple hourly activity requirements and ensure eligibility for the full 12-month period during indefinite activity changes**

States have broad flexibility in determining the number of hours and type of activities families must be engaged in to receive child care subsidies. **States should make it easier for families to maintain eligibility for the program through more realistic policies about activity hours.** States could consider removing a minimum hour requirement, and establishing either no maximum hour limit or a liberal one. **States also should choose to maintain subsidy eligibility during non-temporary activity breaks.** For parents receiving the child care subsidy who lose a job or discontinue going to school, eligibility for the subsidy can continue for the remainder of the eligibility period unless states opt to terminate eligibility. Continued eligibility will better support parents' ability to find a new job and better ensure children can remain in high-quality child care.

- **Increase access to education and skills training for parents**

While all states allow low-income parents to pursue education and training, most states choose to limit the education and training parents can pursue. **States should use the most expansive education and training policies.** States should eliminate minimum hour requirements, eliminate any requirement that parents must work to be able to pursue education and training, eliminate or increase limits on the amount of time parents can pursue these activities and allow for education leading to at least a bachelor's degree level. States also should ensure parents can pursue the full array of educational activities, including high school equivalency, ESL and postsecondary education.

- **Make copayments more reasonable for low-income families**

For many low-income families in need of child care subsidies copayments take up a significant portion of their income.<sup>110</sup> States should review their copayment schedule and methodology and consider whether changes are merited. **States could reduce or eliminate copayments for families earning incomes below the poverty line, and could limit copayments to percentage of a family's income.** Both of these policy choices have been encouraged by ACF, and now is a good time to make the case for these changes. At the same time, **states should consider allowing copayments to increase for families during the graduated phase-out period.** This can help ensure families do not experience an abrupt benefit cliff if their income increases but their share of cost stays the same as they approach a transition off the program.

- **Simplify procedures for application and maintaining eligibility**

Families must provide and child subsidy agencies must verify a significant amount of eligibility information during the application period, during the eligibility period and at redetermination. Simplified procedures can increase the likelihood a family remains eligible for the subsidy and can reduce the administrative load for state entities tasked with verifying client eligibility.<sup>111</sup> Because of this, **states should seek to streamline the way families apply for and maintain eligibility.**<sup>112</sup>

States can focus on three main areas: procedures and verifications required at application, verifications required for program activities and interim reporting and redetermination.

Regarding applications, states should seek to use data already available to verify things like income, only requesting documentation if needed. States also should consider streamlining what must be documented and simplifying or not requiring documentation of things like household composition. Additionally, state agencies can make it easier to verify employment and work or study hours through the use of self-attestations, verification of wage deposits and by focusing on total number of work or study hours rather than a work or study schedule, which is now expressly permitted.<sup>113</sup>

Finally, states should reconsider their interim reporting and redetermination procedures. Under the federal regulations states can require mandatory interim reporting only for things that affect eligibility, like income that increases above 85 percent of the SMI or non-temporary cessation of an activity (at state option). States should also consider whether the typical 10-day reporting requirements should be modified as some states have done. States can make the redetermination process as simple as possible,<sup>114</sup> utilizing existing data to verify information and using prepopulated forms to ease renewal.

## CONCLUSION

Access to child care subsidies is vital to support families' ability to work, pursue education or acquire new skills to increase their earnings and move out of poverty. Child care subsidies have been shown to increase workers' earnings potential and family stability, and states have many policy options to increase access to the subsidy program. States that make child care subsidies more accessible can strengthen the economic success of low-income families, benefitting parents, children and communities.

## RECOMMENDATIONS

1. Increase state funding investment in child care subsidy programs to decrease wait lists and improve provider reimbursement rates.
2. Set more appropriate initial income eligibility limits and address the cliff effect.
3. Provide simple hourly activity requirements and ensure eligibility for the full 12-month period during indefinite activity changes.
4. Increase access to education and skills training for parents.
5. Make copayments more reasonable for low-income families.
6. Simplify procedures for application and maintaining eligibility.

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## ENDNOTES

<sup>1</sup> James Goddard is the Director of the Economic Justice and Health Care Access Programs at Nebraska Appleseed. The author would like to acknowledge the following individuals for their assistance in reviewing this paper: Hannah Matthews, CLASP; Judy Berman, D.C. Appleseed; Rich Jones, Bell Policy Center; Hannah Halbert and Michael Shields, Ohio Policy Matters; and Deborah Povich and Brandon Roberts, Working Poor Families Project.

<sup>2</sup> Working Poor Families Project, generated by Population Reference Bureau, analysis of 2014 American Community Survey. In this reference, low-income means a family with an income below 200% or double the threshold for poverty as defined by U.S. Census Bureau.

<sup>3</sup> Economic Policy Institute, High Quality Child Care is Out of Reach for Working Families, Issue Brief #404, October 2015. Under this study, among families with two children child care costs exceeded rent in 500 of the 618 communities surveyed.

<sup>4</sup> U.S. Dept. of Health and Human Services, Administration for Children and Families. Office of Planning, Research and Evaluation, Child Care Subsidy Literature Review, Issue Brief 2013-60, December 2013, at pg. 28-29.

<sup>5</sup> CLASP, Child Care Assistance: Helping parents Work and Children Succeed, Matthew, H., Walker, C., July 24, 2014.

<sup>6</sup> CLASP, Child Care Assistance Spending and Participation in 2014, Matthews, H., Walker, C., March 2016.

<sup>7</sup> *See supra*, note 4.

<sup>8</sup> *See supra*, note 2.

<sup>9</sup> Implementing the Child Care and Development Block Grant Reauthorization: A Guide for States, Matthews, H. *et. al.*, 2015, at pg. 40.

<sup>10</sup> Working Poor Families Project, generated by Population Reference Bureau, analysis of 2014 American Community Survey. In this reference, low-income means a family with an income below 200 percent of the poverty threshold as defined by U.S. Census Bureau.

<sup>11</sup> *Id.* Analysis of 2014 American Community Survey Public Use Microsample Data. Percent of Children Below Age 13 Living in Families Below 200 percent is 39.1 percent, or 17,938,665 children.

<sup>12</sup> Institute for Women's Policy Research, The Need for Support for Working Families, Briefing Paper #B357, February 2016, at pg. 5.

<sup>13</sup> *Id.*

<sup>14</sup> *See supra*, note 2.

<sup>15</sup> Center for an Urban Future, Subsidizing Care, Supporting Work, January 2011.

<sup>16</sup> Urban Institute, Bridging the Gap, Exploring the Intersection of Workforce Development and Child Care, Executive Summary, Adams, G., *et. al.*, May 2015, at pg. 2.

<sup>17</sup> *Id.*

<sup>18</sup> This includes 28.8 percent or 3,030,600 individuals between ages 18 and 64. *See supra*, note 9.

<sup>19</sup> 5,132,700 working families earning 200 percent of poverty or less have no postsecondary education. *Id.*

<sup>20</sup> *See supra*, note 11.

<sup>21</sup> Institute for Women's Policy Research, Mothers in College Have Declining Access to On Campus Child Care, Quick Figures, IWPR #Q049, May 2016.

<sup>22</sup> There are many other early learning programs that can help provide an access point for families to receive quality care and education, including Head Start, Early Head Start and state pre-kindergarten programs. Connecting low-income families to these programs can help increase their level of resources. *See supra*, note 8.

<sup>23</sup> *See* 42 U.S.C. sec. 9858 *et. seq.*

<sup>24</sup> *See* 42. C.F.R 98.20(a). Children may also be eligible due to being within the purview of child protective services. Note also there is an asset limit of \$1 million.

<sup>25</sup> *See* 42 U.S.C. sec. 9858 *et. seq.*; 42. C.F.R 98.1 *et. seq.*

<sup>26</sup> Indeed, with the reauthorization of CCDBG and WIOA in recent years there is an opportunity to ensure these two systems are better aligned. *See generally*, Urban Institute, The Child Care Development Fund and Workforce Development for Low-Income Parents, Opportunities and Challenges with Reauthorization, Adams, G., Heller, C., June, 2015.

<sup>27</sup> The CCDF Policies Database Book of Tables, Key Cross-State Variations in CCDF Policies as of October 1, 2014, OPRE Report 2015-95, October 2015, at pg. 5.

<sup>28</sup> CLASP, Child Care Assistance Spending and Participation in 2014, Matthews, H., Walker, C., March 2016.

<sup>29</sup> *Id.*

<sup>30</sup> Congressional Research Service, Trends in Child Care Spending from the CCDF and TANF, Lynch, K., June 2016.

<sup>31</sup> *See supra*, note 26 at pg. 116.

<sup>32</sup> National Women's Law Center, State Early care and Education Updates 2015, December 2015.

<sup>33</sup> 42 U.S.C. sec. 9858c(c)(4)(B).

<sup>34</sup> National Women's Law Center, Building Blocks State Child Care Assistance Policies 2015, at pg. 11.

<sup>35</sup> 42 U.S.C. sec. 9858c(b)(2).

<sup>36</sup> Note that the new federal regulations indicate that states that set their rates below the 75<sup>th</sup> percentile will now undergo scrutiny. *See* 81 Fed. Reg. 67438 at 67512.

<sup>37</sup> *See supra*, note 33.

<sup>38</sup> Work Support Strategies: Streamlining Access, Strengthening Families, Job Hours and Schedules: Implications for State Child Care and Development Fund Policies, Johnson-Staub, C., Matthews, Hannah, Adams, Gina, April 2015; *supra*, note 8.

<sup>39</sup> *See supra*, note 33.

<sup>40</sup> *Id.*

<sup>41</sup> 42. C.F.R 98.20(a).

<sup>42</sup> *See supra*, note xxvi, at pg. 27, 270. This is the eligibility for a family of three.

<sup>43</sup> *Id.*, at pg. 24.

<sup>44</sup> *Id.*

<sup>45</sup> *Id.* at pg. 105-106. The three states are South Dakota, Utah and Wyoming.

<sup>46</sup> 42 U.S.C. sec. 9858c(c)(2)(N)(i)(I).

<sup>47</sup> *Id.* *See also* 42. C.F.R 98.21(a)(5), indicating exceptions to 12-month eligibility for excessive unexplained absences, changes in state residency, or fraud.

<sup>48</sup> 42. C.F.R 98.21(b)(1).

<sup>49</sup> 42. C.F.R 98.21(b)(1)(i)-(ii).

<sup>50</sup> 42. C.F.R 98.21(b)(1)(ii).

<sup>51</sup> *See supra*, note 26 at pg. 14; note 37.

<sup>52</sup> *See supra*, note 26 at pg. 24,120.

<sup>53</sup> 42 U.S.C. sec. 9858c(c)(2)(N)(i)(I). A temporary change includes a time-limited absence such as sick or parental leave, seasonal work changes, student breaks or holidays, work or school hour reductions, any cessation of work or school that does not exceed three months, changes in child age and change in residency within the state. *See* 42. C.F.R 98.21(a)(1)(ii).

<sup>54</sup> 42 U.S.C. sec. 9858c(c)(2)(N)(iii). According to the new regulations, if states opt to terminate eligibility, the parent should remain eligible if he or she begins a new activity of work, training or education during the three month period. *See* 42. C.F.R 98.21(a)(2)(ii).

<sup>55</sup> National Women's Law Center, Building Pathways, Creating Roadblocks: State Child Care Assistance Policies for Parents in School, May 2015.

<sup>56</sup> *Id.* For example, in Rhode Island parents can pursue only vocational training for up to six months, and parents cannot pursue postsecondary education.

<sup>57</sup> *Id.* Nineteen states require a minimum number of clock hours or credit hours per week.

<sup>58</sup> *Id.* For example, Wisconsin requires parents to work at least five hours per week or 20 hours per month.

<sup>59</sup> *Id.*

<sup>60</sup> *Id.*

<sup>61</sup> *See supra*, note 26, at pg. 29.

<sup>62</sup> Families can also benefit from increasing tax credits for child care, but an examination of this topic is beyond the scope of this policy brief.

<sup>63</sup> States may establish different methods of copayment calculations and adjustments that affect the amount a family's copay. These various methodologies are beyond the scope of this brief.

<sup>64</sup> For example, in one-third to one-half of states, families receiving a child care subsidy paid more in copayments than the nationwide average amount that families paying for child care spent on child care: more than 7 percent of income. *See supra*, note 26 at pg. 181.

<sup>65</sup> National Women's Law Center, Turning the Corner, State Child Care Assistance Policies 2014, Schulman, K., Blank, H., 2014, at pg. 11.

<sup>66</sup> *See supra*, note 26, at pg. 176.

<sup>67</sup> 42 U.S.C. sec. 9858c(c)(5).

<sup>68</sup> 81 Fed. Reg. 67438 at 67440.

<sup>69</sup> *Id.*

<sup>70</sup> *Id.* at 67468.

<sup>71</sup> *Id.* at 67467.

<sup>72</sup> *See* Urban Institute, Changing Policies to Streamline Access to Medicaid, SNAP, and Child Care Assistance, Isaacs, Julia B. *et. al.*, March 2016, at pg. 13 (indicating that stringent reporting requirements contributed to churn and instability for families attempting to maintain care while working and engaging in work or education activities).

<sup>73</sup> *Id.*

<sup>74</sup> *Id.*

<sup>75</sup> 42. C.F.R 98.21(e). States can also require additional reporting of income-related changes during the graduated phase-out period.

<sup>76</sup> *See supra*, note 8 at pg. 38-39.

<sup>77</sup> 42 U.S.C. sec. 9858c(c)(2)(N)(ii).

<sup>78</sup> *See supra*, note 67 at 67469.

<sup>79</sup> *Id.*

<sup>80</sup> *See supra*, note 31; note 33 at pg. 31.

<sup>81</sup> *See supra*, note 26 at pg. 270; note 31 at pg. 2.

<sup>82</sup> If a county sets the initial eligibility limit at or below 185 percent of federal poverty it must set the ongoing income eligibility limit higher than the initial limit. If a county sets the initial eligibility limit is at or above 185 percent of poverty it can set the ongoing income eligibility limit at the same level.

<sup>83</sup> Bell Policy Center, Support SB 16-022: CCCAP “Cliff Effect” Pilot Program, Fact Sheet, 2014.

<sup>84</sup> *See supra*, note 31; note 33 at pg. 31.

<sup>85</sup> *See supra*, note 37 at pg. 5.

<sup>86</sup> *See supra*, note 31.

<sup>87</sup> *See supra*, note 26 at pg. 33-34.

<sup>88</sup> *Id.* at pg. 145.

<sup>89</sup> *See supra*, note 31.

<sup>90</sup> *See supra*, note 26 at pg. 93-94; 99-100.

<sup>91</sup> *Id.*

<sup>92</sup> *Id.* at pg. 107.

<sup>93</sup> *See supra*, note 33.

<sup>94</sup> *Id.*

<sup>95</sup> *See* Nebraska Legislative Bill 81 (2015); *See also supra*, note 31.

<sup>96</sup> *See supra*, note 26 at pg. 28.

<sup>97</sup> *See supra*, note 54.

<sup>98</sup> *See supra*, note 26 at pg. 38.

<sup>99</sup> *Id.* at pg. 117.

<sup>100</sup> *Id.*

<sup>101</sup> *Id.* at pg. 128.

<sup>102</sup> *See supra*, note 8 at pg. 38.

<sup>103</sup> *See supra*, note 71.

<sup>104</sup> *Id.*

<sup>105</sup> *Id.* at pg. 13.

<sup>106</sup> *Id.*

<sup>107</sup> *Minnesota*, for example, increased child care investment by more than \$10 million in 2016-17, with the intention of reducing its wait list.

<sup>108</sup> *See supra*, note 8 at pg. 40.

<sup>109</sup> There are other ways to look at income, including how states define the assistance unit for eligibility. *See supra*, note 26 at pg. 19.

<sup>110</sup> *See supra*, note 66.

<sup>111</sup> *See supra*, note 71 at pg. 4.

<sup>112</sup> States can also take actions to increase outreach and enrollment to eligible families, such as providing information about child care subsidy in locations where low-income adults are seeking education, training or other workforce services.

<sup>113</sup> States do not have to tie authorization for child care services to the work or education schedule of a parent. *See* 42 C.F.R 98.21(g).

<sup>114</sup> Note that under the reauthorized CCDBG, states must ensure the redetermination process does not force parents to disrupt employment.