

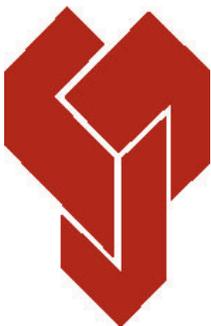
# Policy Brief 16

## Child Care Choices Facing Missouri's Working Families

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Missouri ranks 50th in the nation for child-care subsidies, with the lowest cut-off income level



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Working families in Missouri often do not qualify for child care subsidies, making difficult financial circumstances all the more difficult. Even when such families do qualify, the level of subsidy is low enough that the supply of high-quality child care is severely limited, forcing parents to decide between putting their children in low quality child care or not working, a choice parents should not have to face.

Missouri working families face difficult choices in securing child care. Many families are caught in a Catch-22 in which they need to find safe, high quality child care in order to maintain employment, but the cost is prohibitive. In families where both parents' incomes are needed, families may be confronted with few acceptable options. In single-parent families the choice are even starker: lack of child care may lead to loss of employment and improvement of employment may lead to loss of child care.

Given these choices, many parents must settle for sub-standard child care simply because it is available and within their price range. The State of Missouri provides child care subsidies for some low income families, but both the amount of the subsidy and the income levels covered are insufficient.

### FAMILY INCOME ELIGIBILITY FOR CHILD CARE SUBSIDIES

When comparing Missouri to the eight surrounding states, Missouri families are eligible for child care subsidies only at far lower levels of income than the level of family income in the surrounding states. To be eligible to receive a subsidy in Missouri for a family of 3 with one parent, the family may only earn \$17,784. Only Nebraska has an income eligibility level below \$20,000 for such a family, and Iowa is the only other contiguous state with income eligibility below \$25,000. Overall, Missouri ranks 50<sup>th</sup> in the nation with the lowest income level for families to be eligible for childcare subsidies. <sup>1</sup>

The effect of this low level of income eligibility is to put additional stress on working families. When Missouri adjusted its child care subsidy in 1991, the eligibility level was set near 150% of the Federal Poverty Level (FPL). By not adjusting the eligibility guidelines for cost of living increases, the 2006 guidelines have eroded to 112% of the FPL.

A raise, normally an occasion for joy in a family, can instead lead to a family crisis for low wage workers, as very low levels of income exceed Missouri's eligibility standard. Families with small income increases find themselves facing a cliff instead of a gentle grade; that is, a dime too much income leads to total loss of subsidy, not a sliding scale reduction.

Parents with limited resources must still find child care, even if they do not qualify for state subsidy. Choices for those parents are especially limited, including care that is often not of high quality and perhaps even a detriment to a child's development.

1 National Center for Children in Poverty, January 2006. <http://www.nccp.org/wizard/wizard.cgi?page=home>

## SUBSIDY LEVEL IS ALSO VERY LOW

Missouri not only severely restricts the level of income that a family may earn and still be eligible for childcare subsidies, but it does not meet the federal guidelines for providing a subsidy level equivalent to market rates in Missouri. The federal government suggests a subsidy level that meets the 75th percentile of market rates in a given area meaning that the guidelines expect market rates to not meet the highest prices in a market, but the rate at which most operators seem to be operating. In October of 2005, the State of Missouri Department of Social Services reported that the current rate ceiling is at the 25<sup>th</sup> percentile for licensed child care centers and at the 33<sup>rd</sup> percentile for family home child care. In practical terms this means that subsidy levels are far below what the market charges for child care services. By providing subsidy rates significantly below market rates, the State of Missouri limits the provision of quality early childhood care and education. Potential providers choose not to go into the business and current providers have few resources to improve facilities and staff quality.

Low subsidy levels by the State of Missouri affects the availability of quality child care in the state in a variety of ways. First, low subsidy levels lead many high quality child care providers to limit the number of children receiving subsidy that they serve. Some providers charge more for care than the subsidy to families and given their tight financial condition, families are unable to afford the costs. Other providers simply accept a limited number or no children receiving subsidy.

A critical element of quality early child care education is that staff receives continued training and professional development. With low subsidy rates come very low wages and with very low wages, many early childhood education staff turnover rapidly. Rapid turnover results in what training does occur being lost as employees move on to other jobs and provides little incentive to invest time and money into professional development. Furthermore, those facilities which tend to have a high proportion of children receiving state subsidy, have few resources to become licensed or accredited, and potentially improving child care quality. As a result children receiving subsidy are less likely to receive developmentally appropriate care that prepares them to begin school ready to learn.

Finally, low subsidy levels leads to market instability where providers who are not adequately compensated enter and leave the market relatively quickly. This has three negative effects. First, any investment, such as training or improvements in the facilities, are lost when the provider leaves the market. Secondly, the supply of slots at providers is erratic and difficult to navigate for parents,

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and when providers change frequently, parents have a harder time finding child care that fits their needs in terms of hours and transportation. Perhaps most significantly, child development is damaged when child care is not consistent. Loeb et al.<sup>2</sup> found that children in less stable child care situations tend to develop more slowly than students in stable care situations. High turnover in providers leads to more children having less consistent care. Since 85 percent of brain development occurs between gestation and age three, some children will be unable to overcome deficits that develop due to inadequate early childhood education.

### EARLY CHILDHOOD CARE AND EDUCATION AS ECONOMIC INVESTMENT

The advantages of high quality child care are not limited to the individual families receiving that child care. Recent research by Art Rolnick and Rob Grunewald (2003) of the Minneapolis Federal Reserve has found that investment in high quality child care is one of the best public investments that can be made in terms of the return on a government's expenditures. They found that high quality child care provided to all students can result in up to a 12 percent rate of return. This is in contrast to the effectiveness of other economic development efforts. For example, research has found that traditional economic development programs that seek to attract existing businesses tend to have no long term economic benefit or can even be negative (Rolnick and Grunewald 2003)<sup>3</sup>.

Rolnick and Grunewald took a different tack at examining the costs and benefits of early childhood education and utilized long term panel studies of children who had received high quality early childhood education. They then compared the cost of investment in such programs to that of future societal costs of those who did not receive such services. Those costs include

<sup>2</sup> Loeb, S, Fuller, B, Lynn Kagan, S and B Carrol. 2004. Child care in poor communities: Early learning effects of type, quality, and stability. *Child Development*.

<sup>3</sup> Rolnick, Art, and Rob Grunewald. 2003. "Early Childhood Development: Economic Development with a High Public Return." *The Region*, Federal Reserve Bank of Minneapolis, December

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A dime too much leads to total loss of subsidy rather than a sliding scale reduction in benefits

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criminal justice costs, unemployment insurance, and increased costs in the K-12 system for children without a strong base to start school which those not receiving high quality early childhood education services incurred at a higher rate. Additionally, those who receive high quality early childhood education tend to earn more themselves, and the public receives the benefits of a higher quality workforce.

Given Missouri's tight budget situation, funding for all programs is extremely limited, but investing in early childhood care and education has a documented high rate of return that will benefit both the individuals receiving the care and the state as a whole with improved economic activity in the future.

The fiscal notes of recent bills provide estimates of increasing the income eligibility to families. HB1052 would increase the Federal Poverty Level for families to 130% for full subsidies, provide proportional benefits to those in between 130% and 150%, and allow a waiting list for those between 150% and 185% FPL that could be funded proportionally if appropriations were available. Increasing eligibility to 130% of FPL would require approximately \$21,500,000. Instituting a proportional subsidy for those between 130% and 150% of FPL would cost approximately \$26,700,000.



**LIVABLE** COMMUNITIES DON'T JUST **HAPPEN**.  
THEY ARE **CREATED** BY THE **PEOPLE** WHO **LIVE** IN THEM.

