Toward a Vision of National Child Care Reform:
On Breaking the Link Between Parent Fees and Provider Wages

The past year has brought about the unthinkable: a dramatic, fast-emerging national consensus on health care as a universal right. Few would have predicted a year ago that the President and the Congress would be actively debating not whether to remake the system from the ground up, but how. And while we’re still some distance from the final passage of a health care reform plan, this meteoric progress inspires new hope for our field as we work toward a similar consensus on quality care and early education for all American children. As the New York Times wryly observed in a recent profile of child care wage scales, “Perhaps Hillary Rodham Clinton will need another project after she whips the health care system into shape.”

A keystone of any revamped child care system will have to be the ability to break the historic link between what parents pay for child care — often too much — and what child care providers earn — almost always too little. As hard as this feat may be to imagine, we have no choice but to achieve it; the unfair link between fees and wages is the clearest symptom we have that the child care system is broken and must be fixed. Until then, far too many families will continue to settle for poor quality care or no care at all; caregivers will continue to leave the field in order to earn a decent living; and children will continue to get less than they deserve.

The present child care system is predicated both on high parent costs and on poverty-level wages for a work force...
fusion of funds to improving quality, and both have instituted a professional development system that emphasizes training, performance standards, reduction of turnover and increased compensation. The Military Child Care program, in particular, has signaled a clear recognition that quality care cannot be supported on parent fees alone, and a commitment to guaranteeing equal access to the same quality of service for all military families. The program sets parents' child care fees at 8 percent of family income—keeping the military's services cheaper than those available elsewhere in the market—and picks up the remainder of the cost. But as military jobs and services are cut back in coming years, the program could face some retrenchment of its own. And the Head Start program, despite years of success and public acclaim, remains funded at a level that allows it to serve only about 20 percent of eligible families.

What policy mechanisms might be created to bridge these gaps, in order to create a "seamless" system of quality care that doesn't rely on high parent fees and low wages? Clearly, a parental responsibility to share costs should be part of the system — and parents' child care costs should be factored into the total whenever policy makers in any field estimate the necessary household expenses of American families. But we've yet to agree on a reasonable standard for what parents can be expected to pay, and meanwhile, highly dubious figures such as "ten or fifteen percent of income" are thrown around in policy discussions, with little basis in economic fact. Indeed, we generally find that toward the lower end of family incomes (with the exception of those receiving subsidized care), the percentage that goes to pay for child care becomes steeply higher. Recent research from inner-city Los Angeles indicates that poor families (in the range of $11,000 to $18,000 per year) pay an average of 33 to 40% of their income on child care — an obviously unfair burden. Should the figure even be calculated as a percentage of income, when a more equitable approach might be a sliding scale pegged to a family's income tax bracket?

A number of refinancing strategies will have to be explored, and the National Center for the Early Childhood Work Force will work actively with other organizations in the process. In some fashion, child care will have to be connected to the tax base as a public service, whether through a federal or local income tax, an employer tax, a payroll tax, or local property taxes, as in the funding of school systems. An employer initiative to break the link between employees' child care fees and providers' wages would also be a major breakthrough. The Australian system of "Universal Fee Relief" presents another useful model, whereby parents seeking child care are placed on an appropriate level of the sliding fee scale, and public funds make up the difference in cost. In addition, we must continue to explore options that help parents of young children stay at home if they choose — including paid parental leave or a "young child allowance."

It's true, we're considerably further away from systematic reform than the health care field is. Child care costs do not amount to 14 percent of our Gross National Product, as health care costs; and we cannot point to anything remotely similar to the waste, bloat and excessive earnings in certain sectors of the health care system. And while it's become hard to argue against health care as a right for everyone, there is by no means a public consensus about the necessity, value, and appropriateness of out-of-home care for young children; or that mothers of young children should even be working; or that the care and education of young children is a social responsibility shared not only by parents but by all citizens.

How do we help national child care reform to reach center stage? How do we build the political will for fundamental change? It will take nothing less than a massive campaign to change the public perception of child care — a campaign articulating the core message that the care of young children is a social good and a universal public responsibility, and that the long-term social costs of not providing good early care are far higher. Many pieces will have to fall into place: a clear definition of child care quality and its true cost; a definition of parents' responsibility to pay; professional standards for worthy child care wages; and a resulting estimate of what the public sector or another third party must pay in to the system.

We're used to talking about the long-term implications of all our other "purchases" — especially such commodities as cars and homes — but not about investing in our social future. It is not going to be simple to build a strong and stable child care system, but we do not have the option to refrain from beginning the task.

There remains a chronic tendency to focus on only one part of the child care equation — parents, providers or children instead of all three, or on stop-gap measures that disregard "the big picture." In effect, the present system pits the needs of these constituent groups against each other, and it's time for them to become unified in one coherent national program.
the structure of health care administration: for instance, a single payer system such as Canada's (see box) may remain an option at the state level.

The plan’s goal is to keep premium costs low, and to vary consumers’ responsibility to pay in accordance with their income and type of employment. The administration estimates that annual health insurance fees would be $1,800 for an individual and $4,200 for a family. In addition, individuals would have to contribute co-payments of $10.00 for each medical visit and $5.00 per prescription filled.

Under the plan, employers would be mandated to pay 80 percent of the annual fee, with employees covering the remainder. And in a departure from current practice, employers would also pay a pro-rated portion of health care fees for part-time and temporary employees. Small employers—those with fewer than 50 employees—would receive a government subsidy to help them pay their percentage of the tab, as would employees, self-employed workers and unemployed individuals with an income at 150 percent of poverty level or lower. Larger companies would have the option of paying their employees’ portion of the premium and/or providing more extensive coverage than the mandated level—but few child care staff work for companies that have more than 50 employees. Various “sin” taxes on tobacco, liquor and other goods have also been proposed as a way to help fund health care assistance for employers and employees.

How Will Child Care Workers Fare Under the Clinton Plan?

A typical child care worker—a low- to moderate-income woman in her child-bearing years—has much to gain under the proposal. The plan would require her center, with the help of a government subsidy, to pay a substantial portion of her health insurance costs; for employees of the centers currently offering no health benefits at all, this comprehensive coverage would clearly be a boon. For low-income child care staff, an annual estimated fee of $360 for individual coverage, or $840 for family coverage (20 percent of $1,800 and $4,200 respectively), would be dramatically lower than nearly all current health plans—although, of course, the fees would still make a noticeable dent in their already low earnings.

Despite our enthusiasm, however, we must also emphasize that the plan is not a cure-all. The following are the most critical areas of concern to the child care field:

- **Limited help to self-employed workers.** The amount of subsidy that would be available to the low-income self-employed—a group that includes most family day care providers—is not yet clear at this point. It appears that providers might be eligible for a subsidy only for the 20 percent employee portion of the annual health care fee, not the 80 percent employer portion, and that providers with a family income between 150 and 250 percent of poverty level ($21,500 or $35,800, respectively, for a family of four) would be responsible for paying the full fee. They would also be required to pay the fee up front, receiving a tax deduction, but not a refund, at the end of the year. For low- or moderate-income providers with little or no tax liability, this could amount to very scant assistance or actually pose a considerable burden.

- **A continuing burden on middle-income workers.** Capping the eligibility for subsidy at 150 percent of poverty level places an unfair burden on child care workers who have made modest gains in salary after years in the field, only to see them consumed by health care premiums and co-payments.

- **Payroll taxes.** Subsidies for small businesses and low-wage employees are an important first step. But for centers that already find it difficult to balance their budgets, a 3.5 percent payroll tax to cover employee health care premiums may prove unworkable. If they cannot pass on their health care costs to parents, centers could be pressured to freeze or even roll back child care salaries, an ominous move in an already severely underpaid profession.

- **A flat employee fee and co-payment schedule for all workers earning over $24,000 per year.** A preschool teacher with three children who is lucky enough to earn $21,500 per year should not be paying a health care premium comparable to that of the average Fortune 500-company CEO who earned $3.5 million last year. Thus far, the highest-paid Americans—who ultimately rely on the services of child care teachers and other low-income workers—are not being asked to assume an appropriate share of health care costs.

*President Clinton’s plan would be a welcome, giant step forward in health coverage for the majority of American child care workers... But there can be little satisfaction in the long term if child care staff and providers make measurable progress only when they qualify for government assistance to low-income workers.*

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EARNED INCOME TAX CREDIT
TO EXPAND IN 1994

The Earned Income Tax Credit (EITC) is a federal program that provides direct tax benefits to low- and moderate-income working families. Starting with the 1994 tax year, a recently passed expansion of the program will increase EITC benefits and make them available to more families. Because of its importance, many child care providers are eligible to claim these benefits.

We urge anyone who is eligible to make use of this opportunity, but at the same time, we recognize that the EITC is hardly a solution to the problem of low pay for the child care work force. Tax remedies of this kind fail to challenge the basic fact that valuable work such as child care remains severely undervalued, and they run the risk of further institutionalizing low pay.

Under the EITC, most eligible working families can either reduce the amount of tax they owe, receive a refund on federal taxes they have already paid, or receive monthly installments added to their paychecks. Very low-income families that have no federal tax liability are also eligible for an EITC payment, and many federal assistance programs—including AFDC, Medicaid, food stamps, SSI, public housing and subsidized housing—do not count this payment when calculating a recipient's earnings.

The amount of the credit varies according to family size and income; it is calculated as a percentage of family earnings, with the percentage decreasing as income rises. The maximum basic credit on 1993 earnings for a family with one child is $1,434, and $1,511 for a family with more than one child. But families with a newborn, and those paying health insurance premiums on policies that cover their children, are eligible for additional credits as well. The maximum newborn credit is $388, and the maximum health insurance credit is $465.

To be eligible for EITC benefits on 1993 earnings, both single-parent and two-parent families must:

• have at least one child under age 19 living with them for more than half the year (this includes families headed by grandparents or other relatives, or by foster parents);

• have at least one parent working either part- or full-time at some point during the ear; and

• earn less than $23,050.

Now, an expansion of the EITC—passed as part of the Omnibus Reconciliation Act in August—will be phased in over a two-year period beginning with the 1994 tax year. To be eligible in 1994, families with one child will be able to earn up to $23,760, and families with more than one child, up to $25,300; in addition, childless workers earning less than $9,000 will also be able to claim EITC benefits. The maximum credit for families with one child will rise to $2,038; and to $2,550 for those with two or more children. The new provisions eliminate the newborn and health insurance benefits, but the higher basic credits are expected to more than offset this loss.

For more information about the Earned Income Tax Credit, call your local IRS office; call the IRS toll-free at (800) 829-3676; or contact the National Women's Law Center, which is conducting a national information and outreach campaign on the EITC at 1616 P Street N.W., Suite 100, Washington, DC 20036; (202) 328-5160. Until we achieve a more comprehensive and systematic approach to improving compensation, we must be sure to take advantage of any federal programs that help supplement the depleted earnings of the child care work force.