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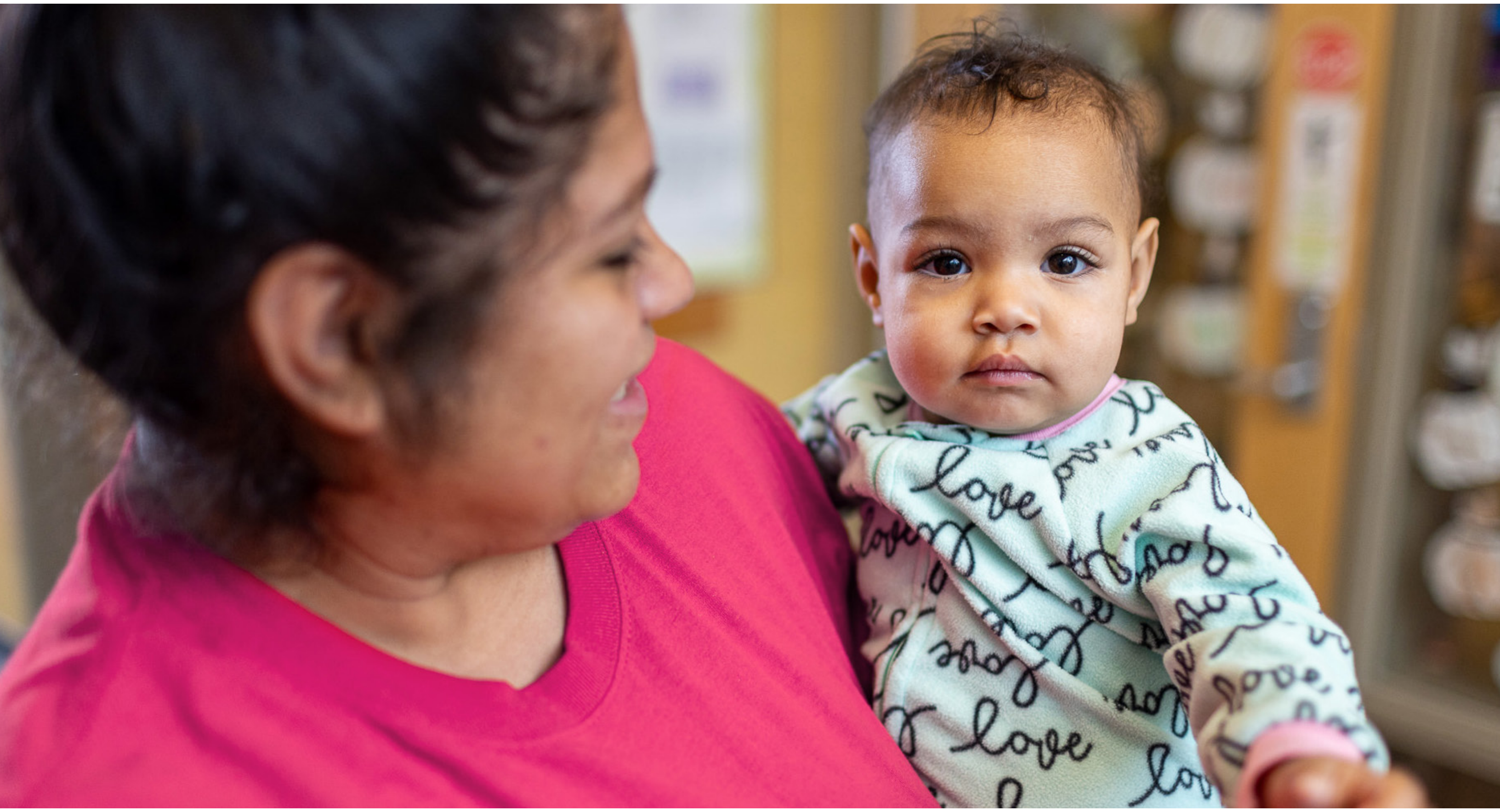
Supporting Child Care Workers as Parents: *How the Kentucky Subsidy Income Exclusion for Child Care Employees Helps Increase Access to Child Care*

2024

POLICY BRIEF



Buffett Early Childhood Institute *at the University of Nebraska*

Bipartisan Policy Center

U.S. Chamber of Commerce Foundation

Background

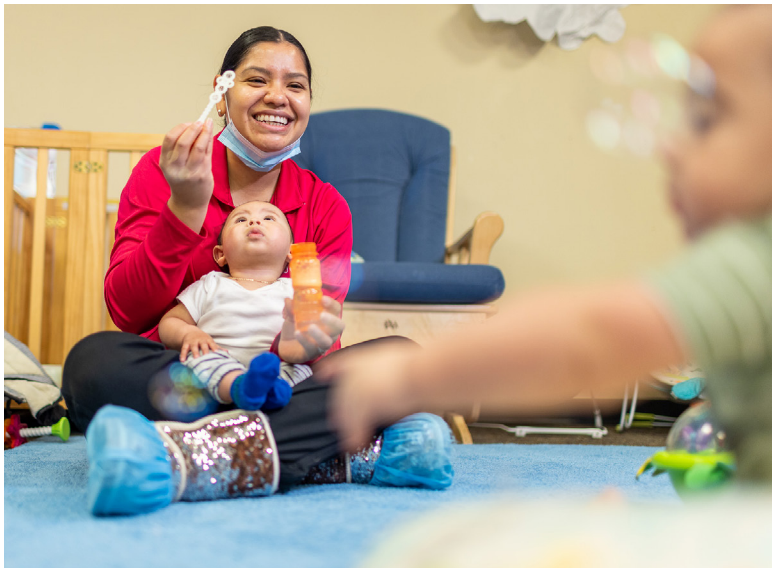
Throughout the country, more than 14.6 million children under age six live in families with working parents (about 69.3%).[1] When parents of young children have access to child care, they are better able to obtain and retain employment.

Employers depend upon working parents, which makes addressing the supply, affordability, and the quality and safety of child care important.

When the COVID pandemic swept the nation in 2020, stay-at-home orders and anxiety about COVID spread resulted in millions of children being pulled out of child care.[2] In turn, this threatened the financial viability of programs that were crucial for ensuring essential personnel—such as first responders and grocery store workers—had access to child care while working onsite.

Congress passed three COVID relief bills between March of 2020 and March of 2021 that included specific increases in funding for child care[3–5] to ensure that the child care market didn't collapse—that is, programs could continue operating with a significant reduction in the number of enrolled children. This was critical to ensure that onsite working parents could utilize the child care they depended on to work.

While the nation witnessed a swift recovery after the initial months of the pandemic,[2] the child care industry still floundered. In part, this was a result of the inability of programs to hire and retain staff in a job market where workers, who typically earn low wages in child care, could be employed nearly anywhere else and earn more money. The workforce recruitment and retention challenge for child care businesses impacted the ability of parents to obtain child care. For example, while programs across the country reported waitlists for children, some classrooms



remained empty because child care small businesses were not able to hire and retain the staff needed to operate at full capacity.

Many states utilized the supplemental federal COVID child care funding to pay workforce bonuses to child care workers.[6] Every state provided stabilization grants to child care businesses, and some of those states provided enhanced grants based on wage boosts for child care workers.[7]

While the median wage for child care workers increased from $11.65 per hour in 2019 to $14.60 per hour in 2023, the 25.3% increase[8] was a reflection of how low wages were in 2019, rather than a boost to make child care jobs more competitive within local markets.

Even with the significant increase in wages, child care jobs still pay considerably less than other jobs throughout service and retail industries, such as at McDonald's, Walmart, Target, or Staples. Those jobs typically involve less stress and require little to no training compared to licensed child care programs that have annual training requirements and the responsibility for meeting the needs of every child in a group setting.

The Kentucky Solution

In response to the dwindling labor pool, some states began to review other options to improve the ability of child care programs to recruit and retain staff. Kentucky was the first state to make child care workers eligible for publicly funded child care subsidy regardless of their household income.[9]

Kentucky's workforce investment sought to:

1. Ensure child care programs could be fully staffed to serve children.
2. Make child care more affordable for child care workers who otherwise might struggle with the price of child care for their own children.
3. Make child care jobs more competitive with other employment options in communities.

Although Target may pay more per hour, the value of child care subsidies to child care workers might outweigh the increased hourly pay offered elsewhere.

Since Kentucky's enactment of state legislation in 2022,[9] other states have followed. A review of fiscal year 2025–27 Child Care and Development Fund (CCDF) state plans identified seven other states that have implemented child care subsidy policies with similar strategies related to the recruitment and retention of the child care workforce (Arkansas, Georgia, Indiana, Maine, Massachusetts, North Dakota, and Rhode Island).[10–16] In addition, Utah and Nebraska passed similar legislation, but the new laws have not yet been implemented.[17,18]

ABOUT KENTUCKY

In Kentucky, about 204,400 children under age six live in families with working parents (68.4%).[1] Similar to other states, the use of paid care in Kentucky declined by about 20% from 2019 to 2021.[2] Reduced enrollment impacted the financial viability of child care businesses despite the use of stabilization grants offered by the state agency, the Cabinet for Health and Family Services.

Although the financial stability of child care programs was tenuous, the biggest challenge that program directors voiced was the ability to recruit and retain staff. Even before the pandemic, child care programs were struggling. The low unemployment rates had already created staff shortages. Many child care centers had at least one room in their center empty due to staff vacancies. Family child care programs, already a smaller percentage of Kentucky child care, were declining before COVID-19. Between 2011 and 2021, home-based child care programs in Kentucky declined by 32.2%.[19] The pandemic exacerbated these challenges.

Prior to the pandemic, Kentucky was serving 30,000 children through its state Child Care Assistance Program (CCAP). During the pandemic, the number of children whose care was paid by CCAP dropped to 17,000 despite an increase in subsidy income eligibility from 160% of the federal poverty level to 85% of state median income.[9]

To better understand the decline, the Division of Child Care surveyed child care directors. The overwhelming response was that they were turning away families because they lacked the staff to care for children. The combination of low pay and high stress of the work was exacerbated by the health risks of COVID, causing many workers to leave the field. Staffing was at an all-time low with most leaving for higher paying jobs in the retail and hospitality industries.

Because CCAP enrollment accounted for only 15% of the state's child care enrollment overall,

agency staff understood that the problem was far broader and impacted the ability of working families statewide to access child care.

The challenge became how to open hundreds of empty classrooms across the state and prevent more child care employees from leaving the field. The Division of Child Care looked for innovative ways to encourage child care employees to stay in or return to the field.

After consulting with child care program directors across the state, the Kentucky Division of Child Care proposed a strategy to better support child care employees, strengthen the financial stability of child care programs, and expand access to child care for working parents statewide.

THE KENTUCKY RECRUITMENT AND RETENTION POLICY STRATEGY

Allowing child care employees to participate in CCAP and have their tuition waived regardless of their income level provides an employment benefit that can increase the likelihood of child care workers choosing to return to, or stay in, child care. Based on the cost of child care, the savings to the worker would far outweigh the per hour wage increase they might receive elsewhere.

Changing child care subsidy policy to allow child care providers to qualify for subsidy regardless of income took several months to sort out. The flexibility of the federal supplemental COVID funds allowed the state to use these funds to cover the costs. With the expiration of the federal funds, the state recognized the need to continue to support child care workers. Currently, Child Care and Development Block Grant (CCDBG) subsidy funding pays for employees who would otherwise be eligible for child care subsidy, and state funds cover those who exceed 85% of state median income.

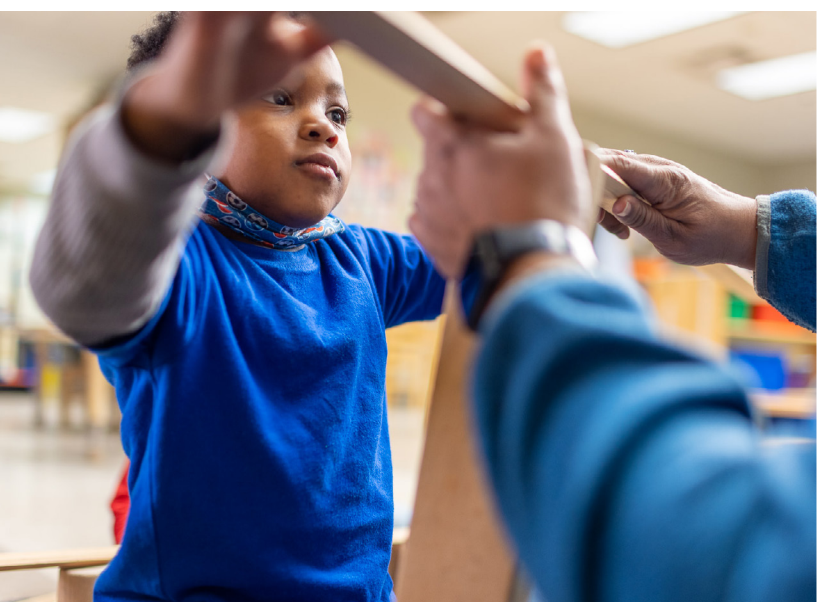
Initial estimates found that more than 60% of employees applying under the new law were already subsidy-eligible but had never applied before.[20]

Providers report that the incentive has been an effective recruitment and retention strategy. Child enrollment across programs has increased with the ability of programs to ramp up staffing.

HOW IT WORKS

Kentucky has a centralized system for family support. Families can go to one website or to one Department for Community Based Services office to apply for multiple government support programs, such as CCAP, Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), and Medicaid. All staff working in licensed child care programs are eligible for the child care subsidy benefit but must apply through the centralized system. If a child care employee is income eligible for CCAP, then they are routed to the state subsidy program. If not, they are considered for the "income exclusion" program, which is not paid out of federal child care funds.

While there are about 20,000 individuals working in Kentucky child care,[21] it is not clear how many have young children who would qualify for the subsidy benefit. For example, workers do not qualify if they are caring for their own child but would qualify if they send their child to another program or if their child is in a different classroom. Currently, about 2,900 families with 5,200 children receive the new child care subsidy benefit.[22]



EMPLOYEES QUALIFY IN ONE OF TWO WAYS

- **CCAP eligibility.** A child care employee is eligible based on household income (i.e., income falls at or below 85% of state median income), or
- **Income Exclusion.** A child care employee is employed by a legally operating child care program and works at least 20 hours per week.

In both cases, as required by law, eligibility is reviewed on a case-by-case basis.

ELIGIBILITY PROCESS

- Applicants must enter through the online process used for other public assistance programs.
- Employees choose a child care program. They are not required to use the program where they work but the child care program must be licensed or certified by the state.
- The state support is limited to the same rates paid for CCAP children. Programs are allowed to charge an overage fee to make up any difference between what the state pays and the price of care charged to private-pay families. If the program has additional fees above this, it is up to the program whether to charge staff for that overage.
- A provider cannot be paid to watch their own child. However, if the applicant is a family child care provider, child care subsidy can be paid to cover the cost of their children participating in another program.
- When child care employees apply, they must provide proof of income, including proof they work at least 20 hours per week at a child care program. A paystub from the business can be used for verification.

Key Insights from Implementation

TRAINING FOR STAFF ADMINISTERING THE PROGRAM

As with any new program or policy, it is critical to ensure that agency staff are trained and understand any changes from a prior state law or policy. Training or agency instruction memos likely should be provided numerous times. In Kentucky, some child care employees that applied were initially turned down because their income exceeded state subsidy eligibility requirements. This occurred because other state changes were happening at the same time, and agency staff may not have been up to date on the new income exclusion eligibility option. Nevertheless, it is important that policy changes be communicated in multiple ways and through several sessions to ensure that all who carry out the policy are informed of the changes.

EMPLOYEE ACCESS TO THE APPLICATION PROCESSS

Periodic review of the subsidy eligibility process helps ensure that the process makes sense for families who apply. For example, child care workers needed time away from children to complete the online application process. This was difficult given that there was a staffing shortage. As a result, many directors took turns working in the classroom so that staff members could complete their applications without simultaneously being responsible for the care of children.

Although the application process can be started online and important documents can be uploaded online, in Kentucky, parents must also go into their local Department for Community Based Services office to finalize the application process.

A SIDE BENEFIT: AN INCREASE IN PROGRAMS WILLING TO ACCEPT CCAP CHILDREN

Initially, some directors reported they had never accepted CCAP payments at their program even though the program met all the requirements to receive subsidies. These directors reported that they had waiting lists for child care among private-pay families so they had no interest in the additional paperwork required for CCAP eligibility. Also, at the time, most private-pay families paid prospectively, and state subsidy was based on a reimbursement system. Directors explained this as a disincentive to enroll subsidy children since it hurt their cash-flow and ability to pay expenses on time.

Once program directors began using child care subsidies for their employees, they were more willing to accept subsidy payments from other families as well.

Note: All states are currently required to make subsidy payments prospectively as part of a new child care rule that became effective in April 2024.[23] States are allowed a waiver for two years while state laws, regulations, and payment systems are modified.

DATA TRACKING

In Kentucky, the average monthly number of individuals working in child care who receive the subsidy and the number of children are tracked. For other states considering this, it would also be helpful to track job turnover among child care employee subsidy recipients and within the child care programs themselves. Understanding that this support can reduce staff turnover, compared to staff who do not receive a subsidy, could be valuable information for future policy discussions.

Future Policy Considerations

INCOME ELIGIBILITY

In all states, federal law requires a review of household income on a case-by-case basis to determine eligibility for child care subsidy.

As in the Kentucky model, some states allow child care workers to be eligible for child care subsidies in two ways—those with household income up to 85% of state median income who qualify under existing federal regulations and child care workers above that income limit who qualify for assistance using state funds.

Other states, such as Indiana,[12] have two tiers—family income eligibility for child care subsidy is set at 127% of the federal poverty level (FPL). However, child care workers can qualify for child care subsidy with income up to 85% of state median income, which is a considerably higher threshold.[24]

Federal child care law and regulations allow states flexibility in determining vulnerable populations to include in the "protective services" category. The 2016 child care final rule specifically clarifies that "protective services" does not need to be linked to the receipt of child protective services or child welfare services. But, instead, the intent was to allow states flexibility to provide services to at-risk children.[25] Guidance from the U.S. Department of Health and Human Services, Office of Child Care allows states to include children of child care providers in the protective services category given their low wages and current instability in the child care sector. Applications must still be reviewed on a case-by-case basis.

States that have set policies to allow individuals working in child care to have access to child care subsidies have done so as a workforce investment strategy. In these states, the goal is to recruit or retain child care workers. Access to child care is connected to a program's ability to use all available space. This in turn depends on the programs' ability to recruit staff. Currently, it is widely understood that many programs are struggling with staffing challenges and have vacant space. Policies related to improving both the pay and the working conditions for child care employment are critical to expanding access to child care for all working families.

CHILD CARE AND DEVELOPMENT FUND (CCDF) FINAL RULE, 2016

If the state includes the children of child care workers in its definition of receiving or needing to receive protective services under 45 CFR 98.20(a)(3)(ii), child care subsidy income eligibility requirements can be waived on a case-by-case basis per 45 CFR 98.20(a)(3)(ii)(A).

§ 98.20 A child's eligibility for child care services.

(a)(3)(ii) Receive, or need to receive, protective services, which may include specific populations of vulnerable children as identified by the Lead Agency, and reside with a parent or parents other than the parent(s) described in paragraph (a)(3)(i) of this section.

(A) At grantee option, the requirements in paragraph (a)(2) of this section may be waived for families eligible for child care pursuant to this paragraph, if determined to be necessary on a case-by-case basis.

Source: Child Care and Development Fund (CCDF) Program, Final Rule. 45 CFR Part 98 (2016).

CHILD CARE WORKERS AS A PRIORITY CATEGORY

Child care workers can also be considered an "at risk" category of families.[26] Nearly half of child care workers (46%) in the U.S. already qualify for some type of public assistance program, and many of the rest of the workforce may as well.[27] Federal child care regulations specify that child care funding is to be used to meet the needs of families at risk of being dependent on public assistance. In addition, a priority for child care services is intended to increase access to high-quality child care in areas with high poverty and unemployment that lack child care supply.

In either case, states have the option of designating child care workers as a priority category based on their low wages and risk of qualifying for public services. Workers would still need to apply for child care subsidy on an individual basis but could be given priority status.

FAMILY CHILD CARE HOMES

Regulated family child care homes have been on the decline for over a decade. This is concerning since home-based care is often more affordable, is disproportionately located in more rural areas, offers parents a smaller setting that can serve siblings and children with special needs, and is more likely to offer flexibility for care during nontraditional hours.

A report by the U.S. Department of Health and Human Services found that the number of licensed small family child care homes fell by 52% from 2005 to 2017.[28]

Although current federal law and regulations do not clearly prohibit a family child care provider from receiving a child care subsidy to care for her own child while she is working to provide child care services to other families, many states have prohibited it. To halt the decline in family child care homes and to expand the supply, states may want to consider policy strategies that support mothers who operate their own business providing child care services.

As stated above, each state sets its own rules based on federal regulation. This includes child-to-adult ratios and group sizes. When licensed

CHILD CARE AND DEVELOPMENT FUND (CCDF) FINAL RULE, 2016

§ 98.50 Child care services.

(e) Not less than 70% of the Mandatory and Federal and State share of Matching Funds shall be used to meet the child care needs of families who:
(1) Are receiving assistance under a State program under Part A of title IV of the Social Security Act;
(2) Are attempting through work activities to transition off such assistance program; and
(3) Are at risk of becoming dependent on such assistance program.

§ 98.46 Priority for child care services.

(b) Lead Agencies shall prioritize increasing access to high-quality child care and development services for children of families in areas that have significant concentrations of poverty and unemployment and that do not have a sufficient number of such programs.

Source: Child Care and Development Fund (CCDF) Program, Final Rule. 45 CFR Part 98 (2016).

family child care providers have young children of their own in care, many states count the provider's own children in the total number that can be cared for in the home. This means that a provider's child is taking up a slot that would otherwise represent revenue.

In Kentucky, family child care providers are eligible for child care subsidy if they send their children to someone else's program, but they are not eligible if their child is in their own care.

In Georgia[11] and Maine,[13] access to subsidy as part of a child care recruitment and retention strategy is allowed for individuals working in family child care homes—including business owners who are caring for their own children. From a policy perspective, this could help stop the decline of family child care homes and increase the supply. Both initiatives are temporary with review underway related to the recruitment and retention of individuals working in child care.

USE OF STATE AND/OR FEDERAL FUNDING

Some states have invested state funding in policies that allow child care workers to access child care subsidies. They do this by utilizing federal funds to pay for child care subsidies for workers with income up to 85% state median income and state funds to pay for subsidy for workers above that level.

As in the case of Kentucky, the state can budget for child care worker assistance. Beyond state funds, there could be other sources of funding.

For example, about $6.4 billion in Temporary Assistance for Needy Families (TANF) funding was unobligated as of fiscal year 2022, the most recent data publicly posted. Unobligated balances ranged from $1.1 billion in New York to $548,810 in Alaska.[29] States could review their unobligated TANF funds to see if some of those dollars could be invested in the child care workforce to support all families, including low-income families.

MAINE CHILD CARE EMPLOYMENT AWARD

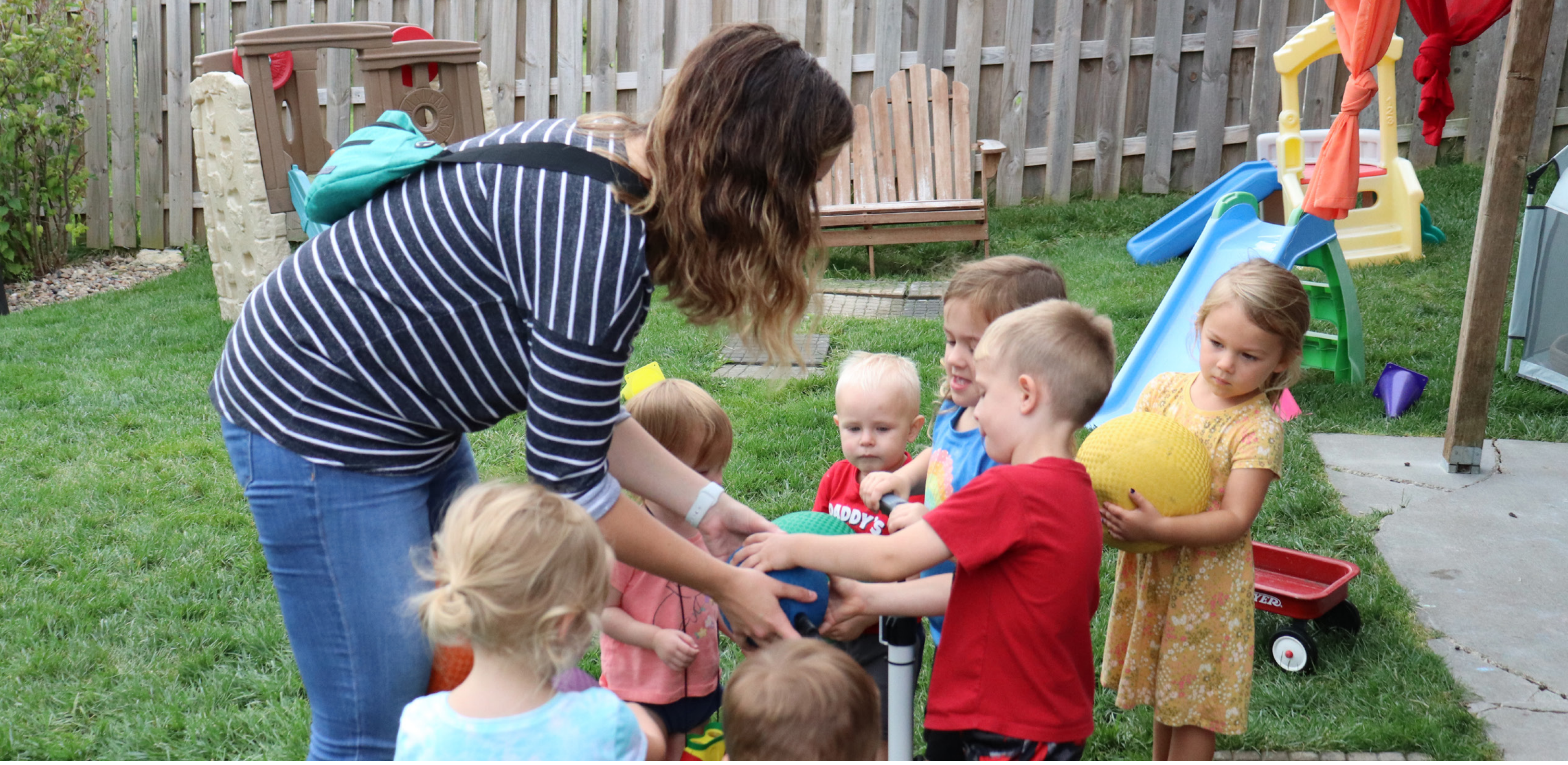
The Maine Child Care Employment Award is a two-year pilot program designed to provide a workplace benefit for staff working in licensed child care programs. All staff employed by licensed child care programs are eligible to apply to help cover the cost of child care for their child(ren). This includes all staff roles and all types of licensed programs, including family child care.

An applicant's child(ren) can be enrolled at the child care program where the staff member works or at another licensed child care program in Maine. For owners of licensed child care programs, where children are enrolled in the same program where the owner works, the employment award can support no more than two of the owner's children.

The state legislature appropriated $2.5 million per year out of state general revenue funds, July 2024 – June 2026. Since the money is capped, if there is a waiting list, there are priority rules.

The policy went into effect (began accepting applications) on July 1, 2024.

Source: Maine Department of Health and Human Services. (2024, June 26). CCAP Child Care Employment Award.



Summary

Providing child care assistance for the child care workforce is one policy strategy that can help address recruitment and retention. At the same time, it is not a magic wand that fixes the child care business model.

Currently, we do not know, in Kentucky or nationally, how many individuals working in child care have young children or the ages of the children. Despite a growing need to understand the child care workforce, data systems continue to be a challenge.

It is clear that a significant public investment and additional strategies are needed to ensure that working parents have access to child care—strategies that address the supply, affordability, and quality of child care.

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