

In Search of a New Business Model for Infant and Toddler Child Care

The experiences that infants and toddlers have during their early years are built into their brains and bodies. The first few years of life are a critical developmental time that lay the foundation for all future health and learning. Babies who are in high quality learning environments are more likely to have positive health and learning outcomes long term.

Unfortunately, the current business model for providing high quality early education for infants and toddlers doesn't work. While the cost to families is too high for most to afford, the revenues provided by those fees are not enough to support the price tag of running infant and toddler classrooms. This results in infant and toddler child care deserts—communities in the state where there are not enough child care slots for the youngest children.



- ● ● ● ● The U.S. Department of Health and Human Services defines child care as being affordable when it does not exceed seven percent of family income.¹ Infant and toddler care in North Carolina currently costs between 11 and 17 percent of median income.²
- ● ● ● ● Child care subsidies help, but many eligible families don't have access to them. There are currently more than 31,000 children on the subsidy waitlist in North Carolina.³
- ● ● ● ● Subsidies do not cover the full cost of care to child care providers. In our state, there is a \$133 gap between the average monthly cost of infant care and the average monthly subsidy payment to an infant care provider.⁴
- ● ● ● ● Child care providers are forced to close infant and toddler classrooms when they cannot meet the costs. Ninety-nine of North Carolina's 100 counties qualify as infant and toddler child care deserts.⁵
- ● ● ● ● Across North Carolina, there are 5.3 young children for every infant and toddler slot, meaning that there are enough slots for just under 19 percent of infants and toddlers.⁶
- ● ● ● ● In North Carolina, 67 percent of children under age six have all available parents in the labor force.⁷

THE HIGH COST OF INFANT AND TODDLER CHILD CARE

Two 2018 publications from the Center for American Progress offer state-level data on the cost of providing care and the impact of child care fees on young families. The picture in North Carolina is similar to that of other states.

[Understanding the True Cost of Child Care for Infants and Toddlers](#) estimates for each state the average cost of infant and toddler care in centers and family child care homes and calculates what percent of the state's median income child care would cost. The model uses current licensing regulations on teacher/child ratios and the average child care teacher salary in the state.

- Teacher/child ratios in North Carolina require a minimum of one teacher for five infants ages 12 months and younger, one teacher for six toddlers ages 12 to 24 months, and one teacher for 10 toddlers ages 24 to 36 months.⁸
- The average infant/toddler teacher in North Carolina makes \$10 an hour. Because of these low wages, nearly 40 percent of early care and education teachers (of children birth through age five) receive some sort of government benefit, like Medicaid, food assistance or a child care subsidy.⁹

The report estimates the percentage of its income a family of four would pay for one infant or toddler in child care. It uses the median family income in North Carolina as estimated by the Census bureau for a family of four.

The following chart summarizes those data for North Carolina:

	CENTER-BASED INFANT CARE	CENTER-BASED TODDLER CARE	FAMILY HOME-BASED CHILD CARE
Estimated NC Monthly Cost per Child	\$1000	\$680	\$830
NC Median Income: \$72,694	17%	11%	14%

At between 11 and 17 percent of median family income, the cost is well above the recommended federal threshold of seven percent of income. North Carolina's numbers are similar to the national averages.

For families that are struggling economically, the percent of income is significantly higher.

- Nearly half of North Carolina's children (43 percent) live in families with incomes at or below 200 percent of the poverty level¹¹—that would be \$49,200 for a family of four in 2017.¹²
- One in five children (21 percent) live in families with incomes below the poverty level (\$24,600 in 2017 for a family of four).¹³ As the chart below shows, for these families, without a subsidy, child care for one infant or toddler would require between 30 to 50 percent of family income.
- In North Carolina in 2017, subsidy supported about 16 percent of eligible children ages birth through five.¹⁴

	CENTER-BASED INFANT CARE	CENTER-BASED TODDLER CARE	FAMILY HOME-BASED CHILD CARE
Estimated NC Monthly Cost per Child	\$1000	\$680	\$830
Twice Poverty: \$49,200	24%	17%	20%
Poverty: \$24,600	49%	33%	40%

THE ROLE OF CHILD CARE SUBSIDIES

Recognizing that child care is not a sustainable business in the free market, the government provides subsidies to low-income, working families to help bridge the gap between what families can afford to pay and what providers must bring in to keep the doors open. However, our current subsidy funding doesn't close the gap.

In North Carolina, there is a \$133 gap between the average monthly cost of infant care and the average monthly subsidy payment to an infant care provider. That gap acts as a disincentive for providers to accept subsidy-eligible infants, since they are only reimbursed 87 percent of the cost for that child. Eleven states have a smaller gap than NC, but only three states—Hawaii, Indiana, and South Dakota—provide subsidies high enough to cover the actual cost of infant care.¹⁵

Compounding the problem for families, not every child who qualifies for a subsidy receives one. In North Carolina in 2017, subsidy supported about 40,000 of the 250,000 eligible children, ages birth through five, or about 16 percent of those eligible.¹⁶

As of December 2018, there were more than 31,000 children on North Carolina's subsidy waiting list.¹⁷

North Carolina—and other states—recognize that infant care costs providers more than preschool care, mainly because, for health, safety and learning reasons, teacher to child ratios are lower in infant classrooms than in preschool classrooms. To help meet that cost differential and incentivize centers to provide infant and toddler care, states pay providers more for infant and toddler subsidies than for preschool subsidies.

However, in every state, those increased payments to providers don't close the cost gap. For example, North Carolina pays 12 percent more for an infant subsidy than a preschooler subsidy—but the price tag of the infant slot is 62 percent higher than the preschool slot.¹⁸

THE RESULT OF A BROKEN BUSINESS MODEL: INFANT AND TODDLER CHILD CARE DESERTS

When the equation doesn't add up, providers cannot afford to keep infant and toddler classrooms open. The result is infant and toddler child care deserts—communities where there is not enough infant and toddler care available at any price to meet the needs of the families in that area.

Another [recent Center for American Progress study](#) considered the data and landscape in nine states—including North Carolina—to learn more about the prevalence of these infant and toddler care deserts. The study found that, according to the Center's working definition of an infant and toddler child care desert, (places where there are three or more young children for each licensed child care slot) more than 95 percent of the 535 counties studied in nine states would qualify, including 99 of North Carolina's 100 counties. (Clay County in the far western corner of the state, with a population of only 186 infants and toddlers, is the only NC county that does not qualify as an infant and toddler child care desert.)

Across North Carolina, there are 5.3 young children for every infant and toddler slot, meaning that there are enough slots for just under 19 percent of infants and toddlers in North Carolina. However, in North Carolina, 67 percent of children under age six have all available parents working.

When parents cannot access high quality care for their infants and toddlers, they either leave the workforce or piece together care from family members or unlicensed child care providers. These informal arrangements can put added stress on families and may not provide the quality and safety standards that protect children in licensed care.

POLICIES TO CONSIDER

The Center for American Progress proposes policies to address the high cost of infant/toddler care and child care deserts. How might these policies apply to North Carolina?

● ● ● ● ● ● **Improve data collection for infant and toddler child care.** North Carolina already does an excellent job collecting data, disaggregated by age, for children in licensed care. The state also collects data disaggregated by race and ethnicity on children receiving child care subsidies. Choosing to also collect and report disaggregated data on race and ethnicity of all children in licensed care—whether they receive a child care subsidy or not—would help the state better understand who is being served in licensed care and who is not.

● ● ● ● ● ● **Increase public investment in child care for infants and toddlers to reflect the cost of providing care.** A fall 2018 report to the NC General Assembly from the NC Department of Health and Human Services recommended providing subsidy payment enhancements to child care programs that employ lead teachers who have obtained a minimum of an Associate degree in child development or related field. Such a program would incentivize higher teacher education and compensation levels and also serve to close the gap between the subsidy reimbursement rate and true cost of quality care. In addition, North Carolina, like many other states, is exploring the opportunity to use an alternative methodology for subsidy reimbursement rates that reflects the true cost of high-quality early education, rather than the cost the market can bear.

● ● ● ● ● ● **Think beyond preschool.** Since teacher/child ratios for older children (three- and four-year-olds) are higher than for infants and toddlers, child care centers often use income from the older children to subsidize the cost of the younger classrooms. To facilitate this, North Carolina already uses a mixed delivery system for preschool, including through NC PreK, Head Start and licensed child care. These classrooms are in both public schools and community-based child care centers.

Even as North Carolina continues to grow its investment in preschool, investing at the same time in younger children's care will support an overall healthy early care and education system. Investing in high quality early education for the youngest children is critical for their development and also supports parents when they are most vulnerable financially.

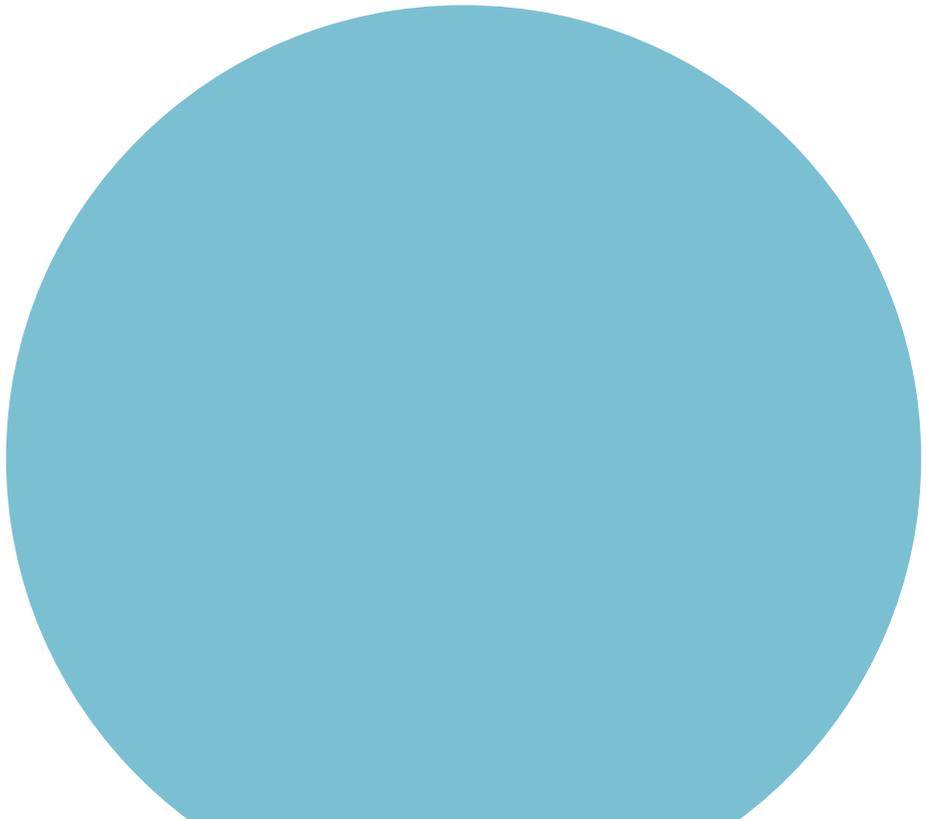
To that end, the [Pathways to Grade-Level Reading initiative](#) and the Think Babies™ NC initiative propose increased subsidy investments, including for infant and toddler subsidies. Think Babies™ NC also proposes a policy change—managing the subsidy waiting list by age and awarding slots proportionally for infants and toddlers would ensure equity of access to subsidy dollars for the youngest children.

● ● ● ● ● ● **Provide paid family and medical leave.** Supporting parents to stay home with their babies during the critical first weeks and months of life can provide health and safety benefits to babies, facilitate bonding between parents and newborns, and reduce demand on the early care and education system to provide expensive care to infants. It can also improve businesses' bottom line.

Pathways to Grade-Level Reading urges North Carolina's businesses and communities to think about how to create family-friendly employment policies and ensure that low-wage, part-time, and seasonal or occasional workers have access to these policies. Examples may include paid sick leave, parental leave, or reliable work schedules. Think Babies™ NC proposes establishing pregnancy accommodations and paid family and medical leave to state employees as a first step. NC's Governor [released an executive order](#) in December 2018 establishing pregnancy accommodations for many state employees.

NCECF's [Family Forward NC Initiative](#) works with employers to learn how they approach family-friendly workplace policies, help them understand the importance of these policies to children, families and business outcomes, and encourage them to adopt family-friendly policies. The [Family Forward NC research guide](#) outlines the research that shows that family-friendly policies improve outcomes for children, families, and employers alike.

● ● ● ● ● ● **Implement a comprehensive solution to support the early childhood education system, including investing in child care infrastructure.** Recent federal funding increases for the Child Care and Development Block Grant (CCDBG), which funds child care subsidies and quality improvement activities, were an opportunity to improve the overall early childhood education system. The NC General Assembly used the federal dollars to replace state dollars rather than add to the overall investment in early childhood education. This was a lost opportunity for more families to access high-quality child care.



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