Executive Summary

Federal funding for child care subsidies, a strategy designed to support the employment and child care choices of low-income families, has increased substantially since 1996. Although many more low-income families are consequently receiving help in paying for child care, there is little rigorous evidence to guide states' decisions on how to structure these policies. This final report of a two-year evaluation in Washington State provides information on one key state policy decision: the amount families should contribute when they receive subsidies to help pay for child care, or copayments. The Washington program was one of four sites in the national Evaluation of Child Care Subsidy Strategies, which is funded by the Administration for Children and Families in the U.S. Department of Health and Human Services.

Description of the Evaluation

All families in the state of Washington that were approved to receive child care subsidies between October 18, and November 7, 2005 — a total of 5,106 families — were entered into the study. These families were randomly assigned to two groups: (1) a control group that was assigned the standard copayment schedule used in the state, and (2) a program group that was assigned an alternative schedule that reduced copayments for many families. Because families were assigned at random to the two groups, any systematic differences that emerged after random assignment can reliably be attributed to the alternative copayment schedule.

The Standard and Alternative Copayment Schedules

In its standard determination of copayments for families receiving child care subsidies, the state of Washington divides families into three groups, called tiers, based on their cash incomes: Tier 1 families have income below 82 percent of the poverty level, Tier 2 families have income between 82 and 137.5 percent of the poverty level, and Tier 3 families have income between 137.5 and 200 percent of the poverty level. In 2005, when this study began, the poverty level was $16,090 for a family of three and $19,350 for a family of four.

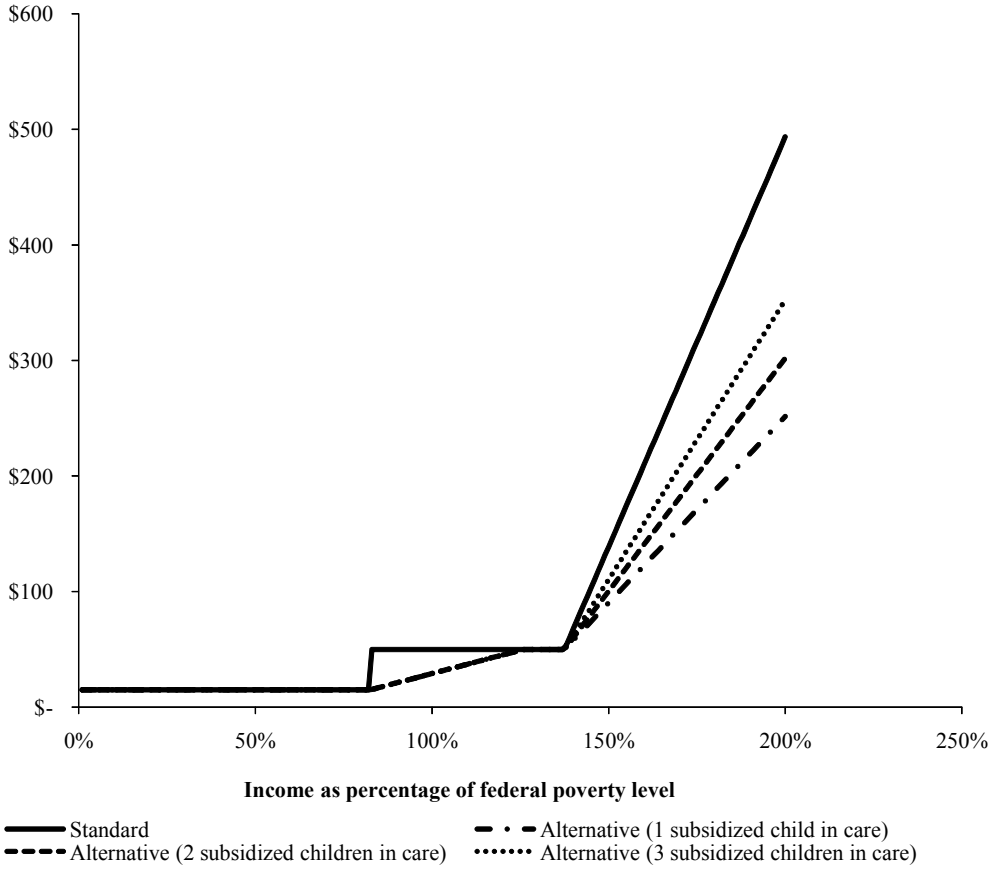
Figure ES-1 shows the standard and alternative copayment schedules for a family of four, which could be a two-parent family with two children or a single parent with three children.

- **Tier 1** families receiving subsidies paid $15 each month for child care under both the standard and alternative copayment schedules.

The Evaluation of Child Care Subsidy Strategies: Washington

Figure ES-1

Standard and Alternative Child Care Copayments for a Family of Four



SOURCE: State of Washington Department of Social and Health Services.

- **Tier 2** families paid $50 each month under standard state rules. Under the alternative schedule, copayments increased by 5 percent of income above 82 percent of the poverty threshold until they reached $50 a month.
- **Tier 3** families paid a monthly copayment equal to $50 plus 44 percent of the difference between their monthly family income and 137.5 percent of the federal poverty threshold under standard rules. Under the alternative schedule, the monthly copayment increased by 20, 25, or 30 percent of income with each additional dollar of income above 137.5 of the poverty line for families with one, two, or three or more subsidized children.

In short, the alternative and standard copayment schedules were the same for families in Tier 1, diverged by $35 each month for families at the bottom end of Tier 2, and differed the most for families in Tier 3. For Tier 3 families, the alternative copayment schedule was particularly beneficial for families with one and two children in care. At the time of random assignment, Tier 2 families had an average monthly copayment of $50 under the standard schedule but $34 under the alternative schedule, while Tier 3 families had an average copayment of $211 under the standard copayment schedule but only $134 under the alternative schedule.

Study Sample

Reflecting state rules on parents eligible to receive subsidies, the sample included three types of parents: working parents with family income below 200 percent of the federal poverty level, parents receiving Temporary Assistance for Needy Families (TANF) who were in approved work-related activities, and adult parents under age 22 who were pursuing a high school credential. Washington does not have a waiting list of applicants for subsidies, so all eligible parents who applied for subsidies were approved to receive them.

Most sample members were single parents. Most were white, but about 30 percent of the sample was black or Hispanic, and almost 11 percent identified themselves as either Asian, Native American, or from another racial or ethnic group. The average family had a monthly income of $1,425. While about 70 percent of the sample had worked in any given quarter in the year before random assignment, about half had received TANF and three-quarters had received food stamps. In addition, nearly 80 percent had received child care subsidies in the year before entering the study and 65 percent were receiving subsidies when they entered the study.

There was considerable variation in economic circumstances by income tier. For example, average monthly income reported on the subsidy application ranged from $666 for families in income Tier 1 to $2,225 for families in Tier 3. On average, Tier 3 families earned more than $15,000 and had an 82 percent employment rate in the prior year, while Tier 1 families earned only about $5,000 and had less than a 50 percent employment rate. While 76 percent of Tier 1 families received TANF in the year before entering the study, only 27 percent of Tier 3 families received TANF during that year.

Hypothesized Effects

Reducing copayments could have a range of effects on other outcomes. First, basic economic theory suggests that making families pay less for care when they receive subsidies will encourage them to receive subsidies for a longer period of time. By helping families pay for their desired form of care, increased subsidy receipt might help families achieve more stable

care, either by helping them afford inherently more stable care or by helping them pay for care on a regular basis. More stable care could in turn help parents stay employed. Likewise, reducing the amount that copayments increase when earnings increase could encourage parents to work and earn more, increasing their income and reducing their reliance on other forms of public assistance such as TANF and food stamps.

Data Sources

To investigate the effects of reduced copayments on these outcomes, this report uses data from three administrative records sources: the child care subsidy system, which provided information on each form of care for which families used subsidies for each child in the family; the unemployment insurance (UI) system, which provided information on earnings and hours worked for each employer; and the public assistance system, which provided information on TANF and food stamps benefits. UI and public assistance data have the advantage of providing information on outcomes even when families stopped receiving child care subsidies. Although a survey was planned to capture information on child care arrangements and other outcomes, it was not used in this report because only 34 percent of individuals targeted for the survey responded to it.

Main Findings

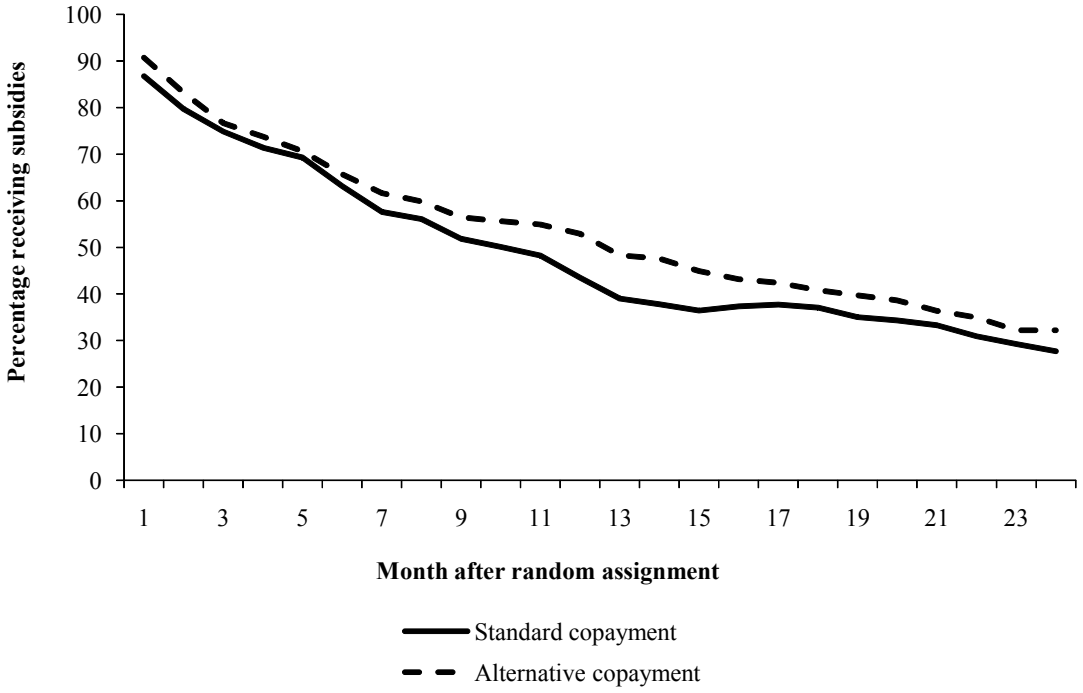
Key results from the study are:

- **Tier 3 families facing the alternative copayment schedule were more likely than similar control group families to receive subsidies**. As Figure ES-2 shows, while the percentage of families that received subsidies dropped to about 90 percent just after random assignment for both the alternative copayment and standard copayment groups over time, it decreased less for the alternative copayment group. In particular, the gap in subsidy receipt between the two groups grew around six months after random assignment, when most families would have had to reapply for subsidies and would have learned about any change in their copayments. In the latter part of the second year, however, the differences between the alternative and standard copayment group diminished.

- **The alternative copayment schedule did not result in more employment for Tier 3 families**. Figure ES-3 shows that 80 to 90 percent of both groups were employed after random assignment, and there was no difference in employment rates between the two groups. The program also did not increase earnings. The high rate of employment for Tier 3 parents suggests

Figure ES-2

Estimated Impacts on the Percentage of Families Receiving Child Care Subsidies for Families in Income Tier 3 at Random Assignment



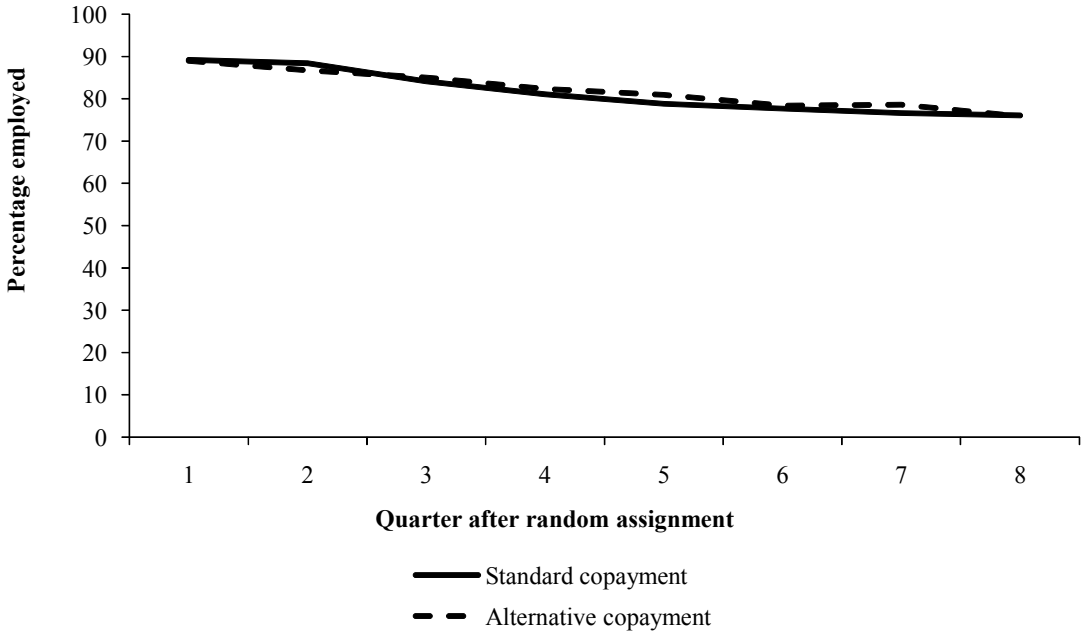
SOURCE: MDRC calculations from State of Washington administrative records.

that subsidies had little room to increase employment levels among these parents.

- **The alternative copayment also affected subsidy receipt rates for families in Tiers 1 and 2, but the effects were smaller than for Tier 3 families.** For example, Tier 1 and Tier 2 families assigned the alternative copayment schedule received subsidies for 0.6 months more on average than comparable families in the control group, while the comparable difference for Tier 3 families was 1.1 months. However, there was little effect on employment, earnings, or use of public assistance for families in any income tier.

Figure ES-3

Estimated Impacts on Quarterly Employment Rates for Families in Income Tier 3 at Random Assignment



SOURCE: MDRC calculations from State of Washington administrative records.

Discussion of Results

The results presented above indicate that a reduced copayment schedule led families to receive subsidies for a longer period of time. This was especially true for higher-income subsidy recipients, for whom the alternative copayment represented the largest reduction in their copayment amounts. Reducing copayments did not appear to affect employment, however.

These results should be interpreted cautiously for several reasons. First, while the study provides credible evidence on the effects of a reduced copayment schedule in Washington, it might not represent what would happen within another state context. Second, for many of the families in the study, especially for those in Tier 1 and Tier 2, the differences in copayment amounts were not substantial; larger differences in copayments between the two groups may have had an impact. Third, although copayment amounts differed most for Tier 3 families, most

of those higher-income parents worked following random assignment even under the standard copayment schedule, leaving the program little room to alter employment rates. Finally, it was not clear that families were aware of how their employment decisions may have affected their assigned copayment amounts; if families had been more aware of the consequences of their employment decisions, effects on employment and earnings might have been larger.

In addition to suggesting caution when interpreting the study's results, it is also important to be clear about impacts that the study did not measure. By including only families that had already applied for benefits, the study does not capture the possibility that reduced copayments might encourage parents to apply for child care subsidies. In addition, the study did not provide any information on outcomes related to the impact of the alternative copayments on the type and attributes of the child care used by families in the study because reliable data were not available.