Executive Summary

The Child Care and Development Fund (CCDF) provides access to child care for low-income families so they can work, attend school, or enroll in training to improve the well-being of their families and support early learning and development of their children. Research generally has demonstrated the employment benefits of providing child care, but studies of the effects of child care policies on parents’ employment outcomes have mostly been conducted in non-U.S. contexts (e.g., Quebec, Norway, Argentina) or were conducted using data from prior to and just following welfare reform in the 1990s. This study provides policymakers and researchers with recent data on the effects of CCDF funding and policies on U.S. maternal labor force participation and employment outcomes.

In examining different CCDF policy\(^1\) and expenditure parameters, we hypothesized that higher levels of spending on child care subsidies\(^2\) would result in a higher employment probability among potentially eligible women, defined as having family incomes less than 85 percent of state median income (SMI) and with children ages 0 to 12. We hypothesized that more generous subsidy policies – in particular, lower copayments and higher income eligibility thresholds – would draw more potentially eligible women into the workforce by providing lower out-of-pocket payments. We also expected that allowing job search as a qualifying activity for initial eligibility would give parents a better chance of successfully finding a job and thus be associated with a higher probability of employment. Additionally, we expected that a longer redetermination period would be associated with a higher probability of employment by providing greater child care stability.

To test these hypotheses, we merged demographic and state-level data on income and employment from the Current Population Survey Annual Social and Economic Supplement (2003-2012) with CCDF expenditures from ACF-696 data and CCDF policy parameters from the CCDF State Policies Database (2003-2012; 2009-2012 only for job search policy and redetermination period). In order to estimate the effects of changes in CCDF expenditures and policies on maternal employment outcomes, we used a difference-in-differences approach and accounted for state fixed effects, national trends over time, and other factors. This approach takes advantage of many years of data on state CCDF policy changes and overcomes several methodological challenges in isolating the effects of CCDF on employment.

While the CCDF program should not have affected employment among ineligible women, it is possible that CCDF policy changes could have been correlated with omitted state policies or variables that affect all residents, even after controlling for measureable contaminating factors. It is also possible that states could vary their CCDF parameters in response to employment rates. By comparing changes in employment rates among the potentially eligible population to those likely ineligible in states, we are able to identify the differential impact of a change in CCDF policy or funding on the employment outcomes of eligible, relative to ineligible women.

As hypothesized, we found that higher CCDF expenditures increased employment rates of mothers potentially eligible for subsidies. The elasticity of employment with respect to CCDF expenditures is .05 for women with children ages 0 to 12, and .07 for women with children ages 0 to 3. That is, a 10 percent

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1 Data are from 2003-2012, prior to the 2014 reauthorization of the Child Care and Development Fund (CCDF)
2 Spending on child care subsidies takes into account the number of children ages 0 through 12 in each state.
increase in expenditures predicts a 0.5 and 0.7 percent increase in employment among potentially eligible women with children ages 0 to 12 and ages 0 to 3, respectively. These effects are comparable to elasticities reported in prior research. In absolute terms, if current CCDF expenditures were tripled, we estimate that the number of women newly employed would be:

- 652,000 among women below 85 percent of SMI with children ages 0 to 12
- 376,000 among women below 85 percent of SMI with children ages 0 to 3

Income eligibility thresholds and copayment policies were related to employment outcomes, but the relationships were not robust across analytic samples. In states with lower income thresholds, the probability of maternal labor force participation increased among potentially eligible mothers with family incomes under 85 percent of SMI, as well as among potentially eligible mothers under 70 and 50 percent of SMI. Possible explanations could be that lower income eligibility thresholds allow states to target funds to those most in need of employment support, or that states with more generous income eligibility limits are more likely to serve mothers who are already more stably employed. However, income thresholds were not related to the labor force participation of two subgroups: single mothers and mothers with young children.

We also found that requiring lower family copayment rates decreased the probability of employment and the probability of labor force participation among potentially eligible mothers with family incomes under 85 percent of SMI, as well as among potentially eligible mothers under 70 and 50 percent of SMI. We initially hypothesized that lower copayments would further decrease the cost of child care for families, thus encouraging maternal employment. However, because CCDF funding is limited, setting higher copayment rates may allow states to lower state subsidy rates and stretch resources to provide subsidies to a greater number of potentially eligible mothers. These findings are particularly notable because there is little published research on the effects of state CCDF income eligibility thresholds and copayment policies on employment. However, similar to the finding for income thresholds, copayment rates were not related to the labor force participation samples of two subgroups: single mothers and mothers with young children.

Finally, we found that neither allowing job search as an activity for initial CCDF eligibility nor lengthening redetermination periods affected the employment probability of potentially eligible mothers. Note that for these two parameters we only had data from 2009 to 2012.

This study faced several limitations. First, the measure of CCDF expenditures used in this study only captures a portion of total state child care subsidy investments (states can also directly invest Temporary Assistance for Needy Families (TANF) and Social Service Block Grant (SSBG) funds to support child care). Second, women who are not working, but whose family income would have made them ineligible had they been working, are nonetheless considered “potentially eligible” in this study. Third, the study constructs a “potentially eligible” group based on child age (0 to 12 years) and family income (under 85 percent of SMI, then 70 percent and 50 percent). However, in practice, states have much more detailed

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3 For example, consider a two-parent household where the mom does not work, but the working dad’s income puts the family at 80 percent of SMI. This family would be considered “likely-eligible” under the current analysis. However, if the mom were to gain employment, the family would almost certainly become income ineligible.
rules governing eligibility determination. Despite these limitations, the findings are robust to different modeling assumptions.

These findings have important implications for child care policies, and employment policies in general. Not only do they suggest that increasing expenditures on subsidized child care can increase employment among low-income mothers, but also that child care subsidies should be considered as one approach to increasing employment.

**Key Findings**

- Higher child care expenditures increase the employment rates of potentially eligible mothers.
- Consistent with prior research, the elasticity of employment with respect to CCDF expenditures was .05 for women with children ages 0 to 12 and .07 for women with children ages 0 to 3.
- Higher copayment rates and lower income eligibility thresholds (that is, less generous child care policy) increased the employment rates of potentially eligible mothers. However, these relationships were not robust across some subsamples of women (i.e., single women; women with young children).
- The employment rates of potentially eligible mothers were unrelated to allowing job search as an activity for initial CCDF eligibility and also unrelated to the length of CCDF eligibility redetermination periods.