

The Validity of Child-Care Market-Rate Surveys

By Arthur Emlen for the Advisory Committee

States that provide child-care assistance survey the market every two years to learn the prices providers are charging for care in centers and family homes. The market-rate survey calculates the frequency and range of prices charged for infants, toddlers, preschoolers, and school-age children. To measure the range of rates, specific rates are reported at key percentiles such as at the 25th, 50th (median), and 75th percentiles, and even at the 90th to identify the point at which only ten percent are more expensive.

The federal government requires this survey because presumably it will provide guidance, helpful but not determining, in setting the amount states will pay in subsidizing care for low-income families. The policy is intended to peg child-care assistance at a level of subsidy high enough so that assisted parents can have wide access to child care in their own community. Federal policy speaks of providing “equal access” to the child-care market. Easier said than done. Since quite a range of rates is found across a state and within each community as well, a market survey is needed to report that variation and to estimate where the subsidy succeeds in positioning these parents in relation to prevailing community rates.

A burden, therefore, falls on the market-rate survey to produce valid data. As it turns out, that task is not so simple as it might seem. The child-care market is complex, and the validity of these data hinges on how a number of issues are dealt with:

- 1) ***How the “child-care market” is defined.*** If all kinds of care for all ages were lumped together, some kinds would skew the rates in unknown ways. So validity requires classifying the market into its submarkets that behave differently. Care in centers and family homes have different rates, as does the in-between category of group homes. It is even necessary to distinguish part-day preschool programs from full-day center care for preschoolers. Since providers charge more for care of infants than toddlers, toddlers than preschoolers, and preschoolers than school-age children, types of care must be classified by age. Each sub-category is distinguished and validated as a distinct sub-market when the survey finds a different range of rates at key percentiles.
- 2) ***How market rates include all the prices parents could encounter.*** Even if you know every provider’s listed charges, you’re not out of the woods yet. The prices listed by a large center would under-represent all the possible price transactions it has to offer parents for all the children it can serve. The idea of a market survey is to accurately describe the prices parents will encounter in seeking care. So if a center can serve a hundred children, its set of prices shouldn’t only be counted once. If big centers charge more, then counting them only once would depress the market rates. It makes sense to use an appropriate multiplier, such as data on the provider’s capacity. Unfortunately, this means that market rates are an estimation of market rates. At least such estimation improves the accuracy of

rates available to parents and the effect can be tested against the unadjusted data. How to arrive at an accurate estimation of realistic capacity is an issue, of course.

- 3) ***How the market is further defined by how providers charge.*** A more vexing problem in defining the child-care market arises from how providers charge for care: whether by the hour, day, week, or month. Why should that be a problem? Well, because how they charge creates different markets. This may seem just an artifact of language, but it's not. By-the-month care and by-the-hour care create price differentials that cannot validly be converted into one single rate by any a priori rational formula such as supposing a 9-hour day, 5-day week, or 23-day month. To the extent that a minority of providers report rates two or more ways, there is an empirical basis for estimating a conversion, and a survey has shown that providers can be successfully encouraged to give both an hourly and monthly rate. But one is stuck with a choice of obtaining multiple modes of charging, reporting all rates separately by mode of charging, or else converting and combining the rate data into an estimate with an unknown but significant amount of distortion. This validity issue is further complicated by variations in packaging part-time care at special monthly rates.
- 4) ***Why some considerations may be ignored in defining markets.*** Keep in mind that a market-rate survey cannot address a host of undefined issues, even issues such as quality of care or caring for a child's special needs. These may be important in terms of how providers represent themselves and how parents assess and choose, but they are issues best left to the market. The reason is that, because of their subtle complexity, these issues do not readily define separate markets. It's true that many states now pay a higher rate for care that meets higher standards (tiered reimbursement), but these higher rates come from rule making rather than emerging from market-rate surveys. With an objective measure of quality such as verified accreditation, one could explore whether or not accredited facilities made up a distinct market. Remember too that a market rate may not be the final price parents pay. Negotiation may follow, and many providers offer "two-fers" and other discounts when they meet the parents. Many providers also have charges in addition to the price; examples include registration and field trip fees, and meal or diaper charges.
- 5) ***How "community" is defined.*** Doing market rates by county doesn't work. In urban/rural counties, communities with very different child-care rates cannot validly be lumped together. To capture urban, suburban, and rural differences, one state has used zip codes and combined those zip-code areas having similar rates. The method is not perfect because even zip-code areas may contain diverse neighborhoods, as may adjacent small zip-code areas in the same city. Adjacent urban zip-code areas may have to be combined as a compromise for community consistency, aided by mapping to show contiguous areas. So the method is not perfect. All that can be said is that the method illustrates the need to find more valid ways of representing the community criterion for market rates than use of gross alternatives.

- 6) ***How rate data are collected.*** How rate data are collected affects what they mean. Logically what do they represent? Are they responses to an interview or actual advertised rates? The accuracy of interview responses depends on how well the respondent understands the purpose of the survey and trusts how the data will be used. Interviews have some advantages. They allow a greater amount of careful questioning and corroborating detail. Use of advertised rates also have their advantages. Most providers of center care publicly state the rates they charge, and a large proportion of those who provide care in family homes hang out their shingle and tell a community-based child-care resource and referral agency (an R&R) how much they will be charging. The agency enters the stated rates into their computer and uses them on-line in talking to parents looking for child care. Parents are given referrals and told what prices to expect. Thus, these rates are not what a provider told a survey researcher in interview; these are live rates. They are advertised rates put into motion in the child-care market. These two methods are amenable to comparison, and more such studies would be helpful.
- 7) ***How representative the data are of the state's population of all child-care providers who are "in the market."*** Theoretically, this divides into two issues: geographic representation across the state, and which kinds of care are being represented. As a practical matter, the issues are inseparable. The test for a market survey boils down to how you define and identify the population, reach all regions of the state where providers are found, and collect enough rate data or sample sizes to represent all communities. The U.S. Census goes everywhere, but they survey households not providers, and they don't collect such data. At the other extreme, a statewide random sample won't do the job of yielding a wide-reaching community-based analysis of rates if the sample is small. A telephone survey could do the job if it has a list of providers in the child-care market. The cost of calling all households to discover them would be prohibitive. The R&R has a handy list, and their population contains clear examples of providers who are in the child-care market. That list can be used for interview surveys, or the R&R data themselves are obtainable statewide in large enough numbers to produce a useful study of market rates.

However, questions still remain about the extent to which the R&R's listed providers or any interview survey will accurately represent the population of all, and only, providers "in the market." Even a state's list of centers may not be a complete list. Some centers may be exempt from licensing, and some small, unknown centers may not be licensed or listed with the R&R. Other centers may have exclusive clientele for their membership and may not be generally accessible to others, such as church centers or corporate on-site facilities. Likewise, not all providers of care in family homes open their doors to other than known friends or neighbors. They don't advertise or list with the R&R. They're not "in the market" in the sense of offering services. That doesn't mean they aren't a resource or don't provide care for pay. Many parents receiving child-care assistance turn to such providers. The point is that for many reasons the line demarcating the child-care market is not sharp. Lacking a complete list of the vast universe of child care of

varying shades of accessibility to parents, we are hard pressed to know precisely how representative any sample is of the population of providers defined as “in the market.” Obviously, further work is needed. We need to compare alternative methods and alternative samples of known composition, more fully described, and then analyze whether they produce reasonably close sets of market rates.

- 8) ***How relevant the market rate is to parents receiving child-care assistance.*** Assuming that a state has a valid method of collecting rate data that are reasonably representative of rates charged by providers “in the market,” how relevant or applicable are those market rates to parents receiving subsidy? As noted, many parents receiving child-care assistance turn to providers they know, including grandmothers, friends and trusted neighbors. If these providers tend to charge less than providers in the market, and if the market rates do not represent those kinds of paid but exclusively arranged child-care, then to that extent the higher market rates are not so applicable. On the other hand, when subsidized parents go beyond such family resources and seek care in the wider marketplace, then the market rates are indeed an applicable set of rates.
- 9) ***The extent to which federal subsidy policy results in “equal access” to the child-care market.*** Federal policy encourages states to identify the 75th percentile market rate and subsidize up to that level. Presumably that would enable parents receiving child-care assistance to purchase all but the top 25 percent of care available in a community. That is the widely accepted operational definition of providing “equal access.” But how do you measure whether that standard has been achieved? And what does “equal access” really mean?

Would allowing subsidies up to the 75th percentile provide equal access? Well, no. Subsidized parents still couldn’t afford the most expensive 25 percent. The goal of allowing 75 percent of prices is still a curtailed definition of “equal access.” But 75 percent of parents in the general market aren’t paying that top 25 percent of prices either. The market doesn’t have a single “going rate;” the market has a range of rates. The same goes for subsidized parents; they also select care at a range of rates, not necessarily choosing the more expensive care even if subsidized. The size of their copay may be one reason, but it’s not the only one. They may want the care next door. The point is that equal access doesn’t mean everybody’s equal; it means that the range of rates recipients of child-care assistance can enjoy are closely similar to the range of rates in the general market.

So, one method for assessing equal access is to compare general market rates with the prices of subsidized care parents chose (subsidy plus copay). How close are the two sets of rates for the various child-care submarkets in similarly priced communities? This comparison has limitations, because the subsidized price is the negotiated price, not necessarily an advertised market rate, and it may not even reflect the possibility that the provider waived the parent’s copay.

Another method is to examine what percentage of community rates subsidized parents could have access to at their level of subsidy and copay. Again, this method allows one to calculate separately for the various submarkets and communities. One could say, for example, that parent subsidies would allow them access to 20 percent of care in centers and 60 percent of care in family homes at current market rates for toddlers in designated communities.

These are indicators of equal access. They don't fully tell us about the parent's experience of equal access or lack of it. Even if the subsidy were high enough to create equality of access to the market, equal rates would not guarantee that child care is equally affordable. Parents in the wider market have a wider range of incomes on the high side. Recipients of child-care assistance have a lower and narrower range of household incomes and have limited capacity to purchase food, rent, transportation, clothes, books, or much of anything. Could this depressed economic context affect choice, subsidy notwithstanding? To understand how lack of equal access to market rates plays out for parents we need to study their circumstances and decisions, comparing those who use market care and those who use family members and other immediate relationships, as well as comparing subsidy and non-subsidy families at comparable child-care prices, such as at the 20th percentile and 75th, to see what happens at different subsidy levels.

One question for assessment might be whether equal access to market rates has any relationship to finding better quality of care. Some would make that assumption, though the matter would not be easy to test. Market rates have an empirical clarity one cannot claim for the subject of quality. Quite possibly some arguably excellent child-care programs are found at the top 25 percent of prices, beyond the reach of most, with or without subsidy. On the other hand, some of the lucky ones may be among those parents who, with or without subsidy, rely on family or other non-market care at lower cost and don't need to enter the marketplace in search of child care. Don't look for strong linear correlations between price and quality. All is not lost, however. It would be fair to say that the equal-access policy is designed simply to widen the choices available to parents and that the additional financial flexibility may lead to better choices and even create demand for the care parents want.

And it might help to understand how parents view their prospects. Despite forced hours of employment and child care and facing an uncertain future, parents in the child-care subsidy program are currently experiencing a federal subsidy policy that was designed to be forward-looking, anticipating an improved economic status. Possibly. Yet the prospect, after time is up on assistance, will quite likely be one of low-wage jobs without health benefits, job insecurity without savings or much safety net, and a tax-policy hazardous to the economic strength of families. If we were to study the longer-term effects of this sojourn with equal access to child care, then equality of opportunity in the larger context may be at issue.

In the meantime, child-care market rate surveys provide a useful perspective on a significant program. They aren't a piece of cake, and they require judgment, but they're not impossible to do with reasonable validity. They are a work in progress, however. We have much to learn about them and with them.

ACE, 11/29/05