prenatal-to-3 policy IMPACT CENTER

VANDERBILT Peabody College

State Policy Lever Checklist

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Child Care Subsidies

Child care subsidy programs provide financial assistance to help make child care more affordable for families who have low incomes. This assistance enables family members to participate in the workforce and pursue educational goals. Subsidy programs are funded through a combination of federal and state funds and states have considerable flexibility in how these programs are implemented. States can set eligibility requirements, establish child care provider reimbursement rates, determine the out-of-pocket costs for families, and dedicate more sustainable funding for child care. States should also consider strategies to stabilize the entire child care system (e.g., increasing child care educator wages, developing a stronger career pipeline, providing grants to open new programs) noting child care subsidy policy alone will only impact a portion of the system. Below is a list of policy options state leaders may consider when crafting child care subsidy policies. **States should consider the implications of these policy choices and their collective impact on equitable access to child care subsidy programs in their state.**

We use the following symbol to highlight where policy choices can promote greater equity.

Research shows that child care subsidy receipt and greater state per child subsidy spending increase maternal employment and are linked to improved access to formal child care and greater household resources.

This checklist covers the following components of implementing child care subsidy programs:

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To learn more about how states vary in their implementation of child care subsidies, please visit our State Policy Roadmap.

Eligibility Requirements

1. **At what income level are families eligible to receive child care assistance?**

   The initial and continuing income eligibility thresholds to receive a child care subsidy vary considerably across states. In making eligibility determinations, states often consider family size and structure, as well as income level—usually as a percentage of the federal poverty level (FPL) or the state median income (SMI). After meeting the initial eligibility threshold, families maintain eligibility until either their income surpasses the continuing eligibility threshold, or, until their eligibility is up for redetermination.

   Federal eligibility requirements restrict states from setting income eligibility thresholds for subsidies above 85% of the SMI, unless a state fully funds the program for families above this income threshold. As of August 2023, initial eligibility thresholds range from 42% to 166% of the SMI and from 127% to 400% of the FPL across states.

   Expanding initial and continuing eligibility thresholds can extend subsidies to more families, but because of limited funds, states must balance the actual availability of child care slots alongside any expansion of eligibility to ensure there are enough subsidized slots available for families with the greatest need.

   - ☐ Initial eligibility income threshold: ____________ % of SMI ____________ % of FPL
   - ☐ Continuing eligibility income threshold: ____________ % SMI ____________ % of FPL

2. **How often must eligible families re-apply to receive benefits?**

   The redetermination period is the time frame within which families must reapply to continue receiving subsidies after their initial receipt period—12 months is the federally-required minimum redetermination period. Some states extend the redetermination period for longer than 12 months under certain family circumstances, and some states also set income eligibility thresholds that are different from initial and continuing eligibility thresholds for families at redetermination.

   Lengthening the redetermination period can decrease the degree of administrative burden felt by families, allow for fewer points of failure within the system, and provide for continuity of care. Families with fewer resources may experience administrative burden at greater levels. Additionally, if eligibility thresholds rise significantly at redetermination, families in need may abruptly lose needed assistance.

   - ☐ Redetermination period: ____________ months
   - ☐ Income eligibility threshold at redetermination: ____________ % of SMI ____________ % of FPL
   - ☐ The redetermination period is extended for certain families, meeting the following criteria:

   ____

3. **Does your state have categorical eligibility?** Check all that apply.

Categorical eligibility automatically makes families eligible for child care subsidies if they receive other means-tested programs or if they belong to certain population groups.

Categorical eligibility can facilitate access to child care subsidies for the most vulnerable families by making it easier to apply for and receive subsidies. Categorical eligibility also reduces administrative burden for state agencies by making it easier to determine eligibility for certain families.

- [ ] Yes, the state uses categorical eligibility for families in other means-tested programs, including:
  - [ ] Medicaid
  - [ ] Supplemental Nutrition Assistance Program (SNAP)
  - [ ] Temporary Assistance for Needy Families (TANF)
  - [ ] Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
  - [ ] Other(s): ____________
- [ ] Yes, the state uses categorical eligibility for families in the following groups:
  - [ ] Children who are unhoused
  - [ ] Children in the child welfare system
  - [ ] Frontline workers
  - [ ] Child care workers
  - [ ] Children of incarcerated parents
  - [ ] Other(s): ____________
- [ ] No, the state does not have categorial eligibility.

4. **Which specific groups are given priority status for receiving child care assistance?** Check all that apply.

With limited resources, states prioritize particular populations for child care assistance. Federally, states are required to prioritize children with special needs and families with very low incomes, defined by each state. Beyond the federally mandated groups, some states have chosen to prioritize certain children and families—including families receiving Temporary Assistance for Needy Families (TANF), children of frontline workers, children in the child welfare system, children of child care workers, children of incarcerated parents, etc.

- [ ] Families with low incomes, defined as: ____________
- [ ] Children with disabilities, defined as: ____________
- [ ] Priority access is given/may be considered for the following populations:
  - [ ] Families receiving Temporary Assistance for Needy Families (TANF)
  - [ ] Children who are unhoused
  - [ ] Children in the child welfare system
  - [ ] Frontline workers
  - [ ] Child care workers
  - [ ] Children of incarcerated parents
  - [ ] Other: ____________

5. **What are the work and/or education requirements for families receiving child care assistance?** Check all that apply.

To receive child care subsidies, states must require parents/guardians to work and/or pursue an education. However, states are given some flexibility to determine how stringent these requirements are.

Limited work and education requirements may benefit groups that are more likely to live in poverty, including single-parent households. Additionally, approving General Educational Development (GED) and English Language Learning (ELL) activities as subsidy-eligible may expand opportunities for traditionally underserved populations.

- ☐ Requires ________ hours of work per week to qualify for full-time care and ________ hours of work per week to qualify for part-time care.
- ☐ Requires ________ hours of education per week to qualify for full-time care and ________ hours of education per week to qualify for part-time care.
- ☐ Job search activities are allowable and qualify families for ☐ full-time care and/or ☐ part-time care.
    - ☐ Maximum time allowed for job search activities? ________ months
- ☐ Families may continue to receive subsidies for up to ________ months while on parental leave.
- ☐ Other activities are approved for eligibility, including:
    - ☐ General Educational Development (GED) preparation
    - ☐ English Language Learning (ELL) program
    - ☐ Self-employment
    - ☐ Registered apprenticeship program
    - ☐ Other: ____

Setting Reimbursement Rates and Provider Payments

1. **How does your state determine provider reimbursement rates?** Check all that apply.

   The federal government requires states to set provider reimbursement rates based on either a market rate survey (MRS) or an approved alternative methodology, such as a cost estimation model, conducted every 3 years. Most states conduct an MRS—a survey of what child care providers charge families—to determine the price of child care and set their rates based on a certain percentile of the market. The federal government recommends that states set their reimbursement rates at the 75th percentile of the MRS, which is considered the equal access target.

   Because market rate prices do not always account for the actual costs of providing high-quality care for children (e.g., providing livable wages and needed benefits to educators), leaders in some states are recognizing this incongruency and beginning to set reimbursement rates based on the estimated true cost of providing quality child care—using cost estimation models. Though several states are considering using cost estimation models to determine reimbursement rates in the near future, as of August 2023, only New Mexico, Virginia, and the District of Columbia have implemented this approach.

   ⭐ By surveying the availability of both state- and community-supported program sites, states can identify if there is universal access to programs or if access to programs is limited or inequitable compared to need. If the state identifies gaps in access, the state can take action to support programmatic growth in areas without access and with demonstrated need.

   - ☐ The state uses a market rate survey (MRS) to set reimbursement rates.
     - ☐ The most recent MRS was conducted in the year 20_____ .
       - ☐ The most recent MRS is used to set the current reimbursement rates.
       - ☐ An older MRS is used to set the current reimbursement rates, from the year 20_____ .
     - ☐ Provider reimbursement rates are set:
       - ☐ At the 75th percentile for all providers.
       - ☐ At the 75th percentile for some providers. The differences are based on:
         - ☐ Regional reimbursements
         - ☐ Quality ratings
         - ☐ Type of care
         - ☐ Age of child
         - ☐ Other: ____________________
       - ☐ Below the 75th percentile for all providers.
   - ☐ The state has requested/received approval of an alternative methodology.
   - ☐ The state is implementing/currently developing an alternative methodology (i.e., cost estimation model).

- ☐ The state uses a cost estimation model to set reimbursement rates.
  - ☐ The cost estimation model was developed in year 20_____ and last updated in year 20_____ .
  - ☐ The cost estimation model includes the following elements:
    - ☐ Adequate employee compensation
    - ☐ Educator benefits
    - ☐ Professional development
    - ☐ Staffing composition (e.g., lead teachers, assistant teachers, directors, administrators)
    - ☐ Additional staffing time/substitute teachers reserve
    - ☐ Staffing ratios and group size
    - ☐ Enrollment changes
    - ☐ Program size
    - ☐ Operating costs (e.g., materials, food, utilities, fees)
    - ☐ Facility costs (e.g., rent, mortgages, property taxes)
    - ☐ Operating reserve
    - ☐ Other(s): ______________________________

2. Does your state allow reimbursement rates to exceed private pay rates?

States that are moving towards reimbursing providers at higher rates may need to consider allowing reimbursement rates to exceed private pay rates. Currently, market rates (i.e., rates across the whole system) are set based on what providers can charge in a given area instead of the actual cost of providing quality care. Allowing differential rates will ensure that providers are paid at the true cost of care while families paying at the private rate are able to afford child care.

When state law prohibits reimbursement rates from exceeding private pay rates, providers may have to increase private pay rates to keep up with rising rate of reimbursement. This increase in private pay rates may effectively price middle-class families out of the market.

- ☐ Yes, reimbursement rates can exceed private pay rates.
- ☐ No, private pay rates must match reimbursement rates.

3. **What additional criteria are used to determine provider reimbursement rates?** Check all that apply.

In addition to setting reimbursement rates based on an MRS or an alternative methodology, states may increase reimbursement rates based on specific criteria.

Differential reimbursement rates might incentivize providers to accept subsidies for specific populations of children in need at higher rates.

- ☐ Type of care (e.g., center-based care or family/home-based child care).
- ☐ Age of the child
- ☐ Quality rating
- ☐ Specific populations
- ☐ Nontraditional hours
- ☐ Other: ____________________

4. **How are providers paid to provide care for qualifying children?**

States have flexibility to determine how and when providers are paid to provide subsidized care, which has the potential to increase or decrease provider stability. Reimbursement rates calculated based on children's attendance can create a degree of uncertainty and instability for providers because children's attendance at child care on any given day may vary for reasons outside the provider's control, and the provider must continue to incur the cost of the absent child regardless of attendance. As a result, some states have moved toward calculating subsidy reimbursements based on enrollment, rather than attendance. Additionally, states can reduce provider burden by providing prompt payments or contracting for slots. Paying providers before services are rendered improves economic security, allowing providers to pay staff on time and hire new staff as demand increases. Contracted slots–an agreement between the subsidy program and child care providers to designate slots for subsidy-eligible children–ensures certain enrollment changes do not affect the program's economic stability.

Reimbursing providers based on enrollment rather than attendance and paying providers promptly or ahead of services provides a more stable source of funding and eliminates some degree of uncertainty for child care providers.

The state reimburses providers for care based on:

- ☐ Attendance
- ☐ Enrollment

Providers are paid: Check all that apply.

- ☐ Through some contracted slots
- ☐ Before services are provided
- ☐ ______ days after services are provided

Family Contribution

In most states, families that receive a subsidy are required to contribute a copayment—or a portion of child care costs—to their provider. Federal guidance indicates copayments should be capped at no more than 7% of a family's income to ensure affordability. As of August 2023, 28 states have set family copayments at or below 7% of a family's income.

1. **How are family copayments determined?** Check all that apply.

   All states determine family copayments based on family size and income. Some states use additional criteria to calculate the copayment–including number of hours in care, type of child care program, quality rating, location of the child care program, etc.

   - ☐ The state caps copayments at a percentage of a family's income. Describe: ____________________

     ____
   - ☐ The state waives copayments below a certain level of income (_____ % of the FPL/SMI).
   - ☐ The state waives copayments for certain families based on criteria other than income.
     - ☐ Children with special needs
     - ☐ Children who are unhoused
     - ☐ Children in the child welfare system
     - ☐ Families receiving TANF
     - ☐ Families with very low incomes
     - ☐ Other: ____________________
   - ☐ Other factors are used to calculate copayments in the state:
     - ☐ Number of hours in care
     - ☐ Type of child care program
     - ☐ Quality rating
     - ☐ Location of the child care program
     - ☐ Other: ____________________
   - ☐ Copayment calculations vary based on number of children:
     - ☐ The same fee is charged for each child
     - ☐ Additional children have a reduced fee
     - ☐ The copayment does not increase with additional children

2. **Does your state allow providers to charge families additional fees?**

   In addition to a copayment, 40 states allow providers to charge families the difference between the reimbursement rate and provider private pay rate—also known as additional fees. This additional cost burden can be significant for families. Although 11 states do not permit providers to charge families additional fees, states should consider whether providers are then absorbing those financial losses.

   The cost burden on families with low incomes that receive subsidies can be alleviated by lowering copayments and/or eliminating additional fees.

   - ☐ Yes, providers are allowed to charge the difference between the reimbursement rate and the private pay rate.
   - ☐ No, providers are not allowed to charge families additional fees.

Funding

1. **How is your state planning to address the funding cliff?**

   States have made policy changes in the last few years resulting from the influx of federal relief funds into the child care sector. Relief funds allowed states to increase subsidy eligibility, reduce family copayments, increase provider reimbursement rates, and improve educator compensation. As stabilization funds expire, states will have to develop funding solutions to ensure these expansions are sustained and child care programs remain open. Check all that apply.

   - ☐ The state is developing a new funding source dedicated to early care and learning (e.g., increasing a payroll tax, creating a trust fund) through legislation.

     Describe: ____________________
   - ☐ The state is increasing state budget allocations from pre-existing funding sources (e.g., expanding general fund allocations, increasing appropriations from a trust fund).

     Describe: ____________________
   - ☐ The state is planning use state funds to sustain temporary policy changes made with the use of federal relief funds.
   - ☐ The state has taken no substantive action to address the funding cliff resulting from the expiration of federal relief funds.

2. **What percentage of child care slots are subsidized?**

   In states with high rates of subsidized slots, subsidy changes will more heavily impact the overall market and have a greater opportunity to guide the market towards a more sustainable business model. The percentage of subsidized slots will depend on the funds available, the state's eligibility criteria, and other policies that encourage or discourage providers from accepting child care subsidies.

   - ☐ How many total licensed or regulated child care slots are in your state? ________
   - ☐ How many children receive child care subsidies? ________
   - ☐ How many children are eligible to receive child care subsidies? ________
   - ☐ What percentage of eligible children receive child care subsidies? ________ %
   - ☐ Is there a child care subsidy waitlist?
     - ☐ Yes, there are ________ children on the subsidy waitlist
     - ☐ No