

Subsidy Payment Rates and Access to High Quality ECE for Families

Elizabeth E. Davis

University of Minnesota

Child Care and Early Education Policy Research
Consortium (CCEEPRC) 2017 Annual Meeting

March 2, 2017, Washington, DC

Acknowledgments

- My presentation today is informed by discussions and feedback from a subgroup of the ECE Access and Choices Workgroup, which is convened by Child Trends.
- I would like to thank the members of this subgroup, including Kathryn Tout, Bobbie Weber, Lynn Karoly, and Pia Caronongan but also state that they are not responsible for the final version of this presentation.

ECE Access and Choices Workgroup

Definition of access

“Access to early care and education means that parents, with reasonable effort and affordability, can enroll their child in an arrangement that supports the child’s development and meets the parents’ needs.”

- What determines **access** for families receiving CCDBG subsidies?
 - Affordability for parents (copays, differential)
 - Payment rates
- Are providers willing to care for children receiving subsidies? Do these providers meet parents’ needs and support child development?
 - Work and care schedules, location
 - Quality to support the child’s development

Federal Policy on Subsidy Payment Rates

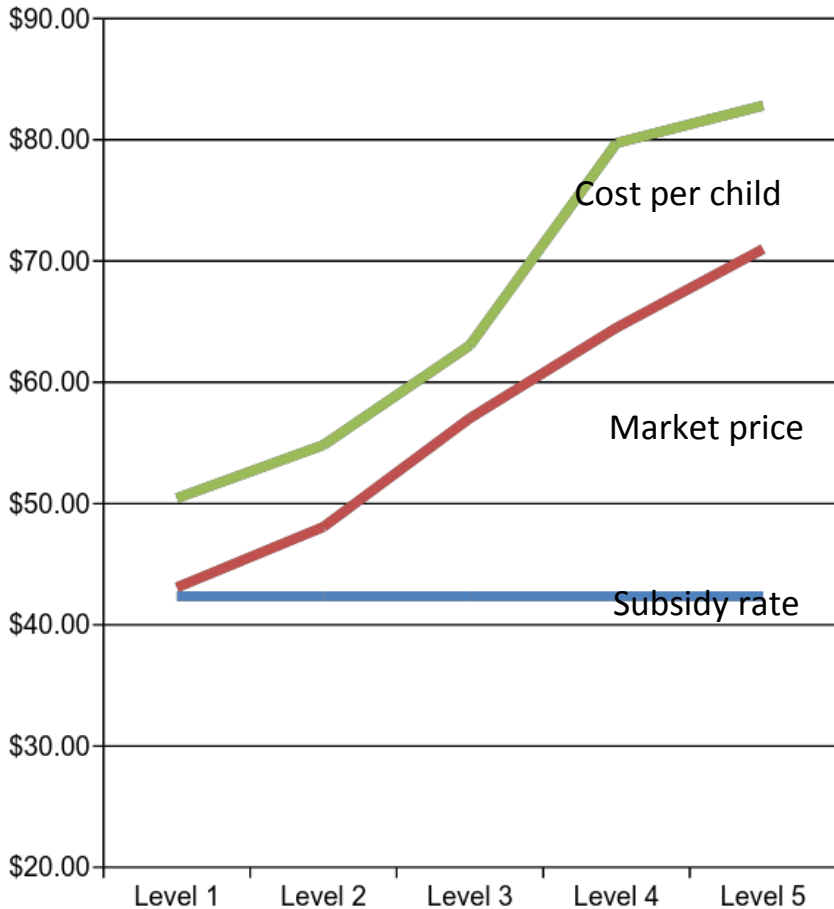
- Since the 1988 enactment of the Family Support Act, federal subsidy policy has required that payment rates ***be informed by market prices*** based on the rationale that associating payment rates with prices would support parental choice and access.
- The CCDBG Reauthorization Act of 2014 renewed the language of equal access and expanded the options to include the use of alternative methodology that takes ***provider costs*** into consideration when setting payment rates.
- *Will expanding the use of alternative methods and/or taking provider costs into consideration improve parental access and support parent choice?*

Price and cost: what's the difference?

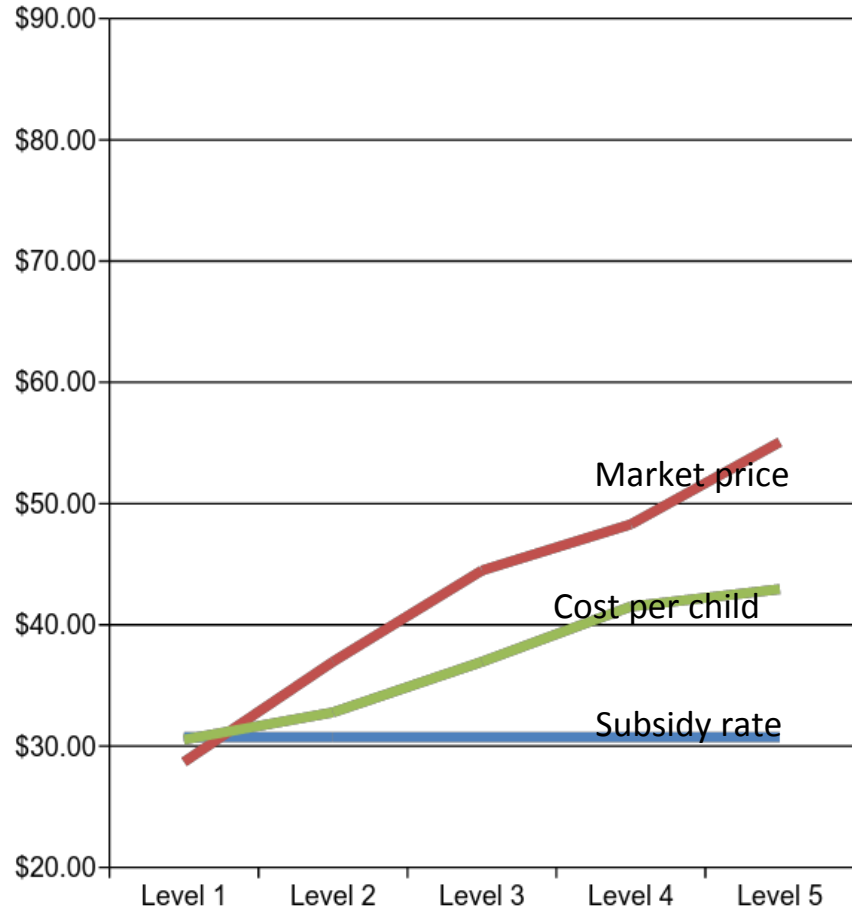
- The ***price*** is the amount a provider charges for providing child care services, also called a fee, tuition, or rate. It is what unsubsidized parents pay. In a market, prices are determined by supply and demand factors.
- The ***cost*** of child care services is the total expenditures providers incur to deliver those services, including salaries and fringe benefits, supplies, rent and utilities, insurance, etc. Costs vary across providers due to differences in costs of inputs (e.g., salaries) and cost structures (e.g., number and age groups of children).

Cost Modeling Example: How do Costs and Prices Compare?

0-12 months



3 - 4 Year Olds



Outline: Issues to consider in implementing new CCDBG rule

Issues/challenges related to

- Market rate studies
- Alternative methodologies that take provider costs into account
- Rate setting and determining access

Question for Researchers: What's the role of prices and costs in determining access for subsidy families?

Market rate studies and subsidy payment rate setting

- A **market rate survey** (MRS) is a **study** of the prices or fees that child care providers charge parents for child care services in the market. Also called a market price study.
- **Rate setting** is the **process** by which provider payment rates are set for the child care subsidy program in a particular state (or sub-state regions).
- *There is **not** a direct link between a market rate survey and rate setting in most states.*

Federal policy on setting payment rates

- Prior to 2014 CCDBG Reauthorization, Lead Agencies were required to conduct a market price study every two years and use the information to inform setting payment rates.
- Payment rates set at the 75th percentile of prices from a recent market price study (MRS) were considered evidence of providing equal access.
- However, very few states set payment rates that meet this recommendation.

Why are payment rates low?

Rate setting is a political process/political decision

- Most states aren't using the 75th percentile of a recent MRS as a benchmark.
- States are making trade-offs in how to spend limited resources.

Limitations of the MRS approach

- Potential problems with the study design, methods or analysis.
- Potential problems with using market price information as the basis for rate-setting.

Challenges to using market price studies to inform subsidy payment rates

1. Insufficient market information – no or limited price data— for example, when there are:
 - Too few providers in an area
 - Providers who don't charge a market price (for example, those who enroll only children receiving subsidies)
 - Specialized services for which supply is limited, e.g., evening or weekend care, special needs children, infants
2. Costs may not be fully covered by prices charged to parents
 - For example, providers may use grants or donations to cover the full costs of providing care
3. Market prices reflect inequities and variation in families' ability to pay for child care across local areas

Option to use an alternative methodology

- The CCDBG Reauthorization Act of 2014 includes the option to use **an alternative methodology that takes provider costs into consideration** when setting payment rates.
- Researchers may be able to help states decide whether to use an alternative methodology, how to determine which method to use, and evaluate the reliability and validity of the method.
- Regardless of whether the state uses an alternative methodology, the 2014 Reauthorization includes new requirements for Lead Agencies about providing information on provider costs of care.

Requirements for Lead Agencies

- States and territories must include, as part of the detailed report, the ***estimated cost of care*** (including any relevant variation by geographic location, category of provider, or age of child) necessary to support: 1) child care providers' implementation of the health, safety, quality, and staffing requirements; and 2) higher-quality care, as defined by the Lead Agency using a quality rating and improvement system or other system of quality indicators, at each level of quality.
- Additionally, in regards to rate setting, the final rule (Section 45 CFR 98.45(f)(2)) requires states and territories to ***take into consideration the cost of higher quality child care***, including how rates for higher quality relate to the estimated cost of care at each level of quality.

Challenges for states to consider and how researchers might help

- Understanding the data needs for a cost-based approach (cost study, cost modeling)
- Evaluating and selecting an alternative methodology
 - Different methods include cost surveys (cost studies) and cost modeling or cost estimation
- Understanding link between costs and quality
- Accounting for variation in costs
 - Final rule requires LA's to take into account variation by geography, age of child and type of care.
 - Costs vary with other factors as well

Challenges with conducting cost surveys

- Some issues are similar to those with conducting market rate surveys
 - Ensuring a representative sample
 - Ensuring the information collected is valid and reliable
- Some issues are specific to cost surveys
 - Information requirements to fully measure cost are demanding
 - Many providers do not have accurate information on resources used to provide care or the cost of those resources
 - Cost information is easier to collect for a provider in aggregate; more challenging to measure costs per child or per child-hour, by age group, etc.

Challenges with using cost models

- Cost models are based on assumptions
 - How inputs are combined to deliver child care
 - Relevant costs to attach to each type of input
- Key issue is validity of those assumptions for the model application
 - Reflect local licensing requirements (e.g., group sizes, ratios) and other regulatory or program requirements (e.g., Head Start, state preschool, QRIS)
 - Relevance of assumed input structure for specific providers or provider types
 - Relevance of cost structure for local conditions

Challenges to consider when taking provider costs into consideration **when setting payment rates**

- Converting cost data or cost estimates into payment rates
 - Cost modeling typically yields an annual cost estimate – how to convert this to a per child, per unit time estimate?
- Accounting for variation across geography, type of care, and age group
- Incentives and unintended consequences
- How will a cost-based approach affect access?

**Key CCDFBG objective in Final Rule:
Ensure equal access to high quality child care
for low-income children**

The CCDF plan shall provide a summary of data and facts relied on by the State/Territory to certify that payment rates are sufficient to ensure equal access.

(658E (c)(4)(A)) Equal access is not limited to a single percentile alone but is inclusive of various metrics or benchmarks that would offer children receiving CCDF access to the same services (type of care, quality of care) as children not receiving CCDF.”

Measures of Access in Price and Cost-based Approaches

- A market price study (MRS) is the most direct way to determine how much a parent would need to pay for child care services in the local market.
 - The 75th percentile of prices in the market provides a measure of access that links directly to parents' experience.
- The relationship between prices and costs is not constant. It varies by child age, provider characteristics, location, quality level, and other factors.
- Using a cost-based approach to inform rate setting does not directly link to parent access. Families in high-price areas potentially could have less access if payment rates are based on provider costs.

Using cost information to inform setting payment rates for high-quality care

- Information from cost studies/cost estimation may be particularly useful for informing setting rates for higher quality care
 - Demonstrate tiered payment rates with a sufficient differential to support higher quality, considering the cost of quality using a cost estimation model or other method
 - Report the participation rate of high-quality providers in the subsidy system and the percentage receiving differentials or add-ons to base rates

The Future of Access: Role of Research

- How to measure access is a ongoing question:
 - Parents face prices in local markets, this fact cannot be ignored in setting payment rates.
 - The willingness of providers to accept subsidy is a key component of access for CCDBG families. Adequacy of payment rates is a key consideration for providers.
- Should the total number of children receiving subsidies be part of the measure of access?
- There is considerable uncertainty about market responses to potential changes related to subsidy policy both from families and providers.