



## Minnesota Child Care Choices: Families' Child Care Expenses and Sources of Financial Support

Kathryn Tout, Amy Blasberg, Elizabeth Davis, Caroline Carlin, Nicole Forry, and Tabitha Isner

### Introduction to the Minnesota Child Care Choices Research Brief Series

*The purpose of this Research Brief Series is to summarize key findings and implications from the Minnesota Child Care Choices study, a three-year longitudinal survey of a sample of parents with low incomes who have at least one child age six or younger, have applied to receive financial assistance through Minnesota's welfare or child care subsidy programs, and lived in one of seven participating counties at the time of the baseline survey. Telephone surveys are conducted by Wilder Research every 5-6 months, starting in August 2009, and include questions about families' characteristics, parents' child care preferences, the processes*

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### OVERVIEW

Child care expenses are a significant proportion of families' budgets, particularly among low-income families. According to national estimates, families spend over 6% of their monthly income on child care expenses, while families who are poor spend closer to 30% of their monthly family income on child care.<sup>1</sup> Estimates for families in Minnesota are similar to the national estimates, with nearly 30% of income going toward child care expenses among families with annual incomes below \$20,000 compared to 8% of income spent on child care among families with annual incomes above \$75,000.<sup>2</sup> National guidelines for child care affordability suggest that 10% of income is a reasonable benchmark for child care expenses.<sup>3</sup> Families with low incomes who pay for child care exceed this threshold, on average.

In Minnesota, a household survey conducted every five years (most recently in 2010) provides details about what families spend on child care and an analysis of how costs differ for families with a range of household incomes. The purpose of this Research Brief is to go beyond information from the 2010 Minnesota Household Child Care Survey by examining how families with low incomes pay for child care, including their use of child care subsidies. The Brief uses data from the Minnesota Child Care Choices Study (see text box) to identify four different "child care payment profiles" and how these profiles are linked to other aspects of child care such as the type of care that is used, parents' perceptions of quality and features of the child care search process. The Brief also analyzes the characteristics of families associated with each of the four payment profiles.

It is important to remember when reviewing these findings that the sample for the Minnesota Child Care Choices study was recruited from families at the time of application for financial assistance (Minnesota Family Investment Program [MFIP] and Diversionary Work Program [DWP]). Thus, this sample of families is more likely than other low-income families to be using financial assistance to help pay for their child care costs.

<sup>1</sup> Macartney, S. & Laughlin, L. (2011). Child care costs in the Current Population Survey's Annual Social and Economic Supplement (CPS ASEC): A comparison to SIPP. *SEHSD Working Paper Number 2011-1*. Washington DC: Housing and Household Economic Statistics Division, U.S. Census Bureau. Estimates include only those who pay for child care.

<sup>2</sup> Chase, R. & Valorose, J. (2010). *Child Care Use in Minnesota: Report of the 2009 Statewide Household Child Care Survey*. Wilder Research: St. Paul, MN.

<sup>3</sup> Federal Register / Vol. 63, No. 142 / Friday, July 24, 1998 / Rules and Regulations, p 39960.

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parents use to make child care decisions, parents' familiarity with and use of Parent Aware, Minnesota's pilot Quality Rating and Improvement System (QRIS), parents' perceptions of the quality of their child care, child care-related work disruptions, parental employment, and use of public assistance programs.

For each family, one child is designated as the focal child and detailed information is collected about the child care arrangements used for this child. In addition to the survey data, this study uses administrative data from the Minnesota child care subsidy program to track participants' use of subsidies and the type of subsidized care arrangements they use over time.

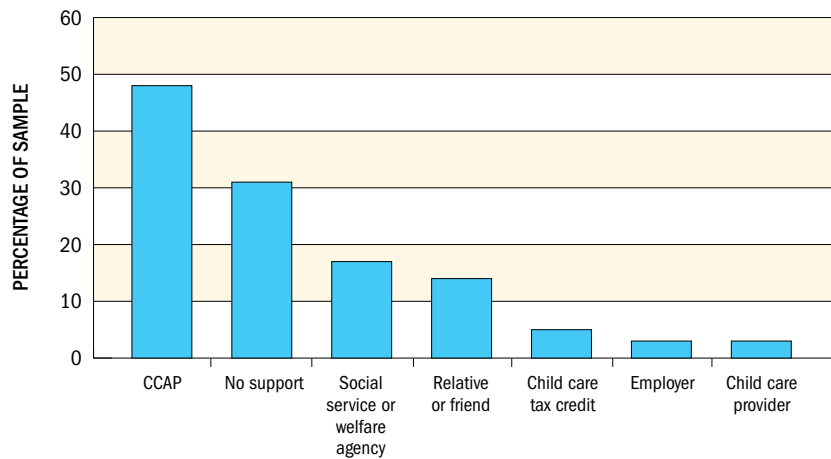
The Minnesota Child Care Choices Research Briefs are designed to answer questions of interest to state child care administrators, county agency staff and other early childhood stakeholders. The questions they have include: How do parents make decisions about child care arrangements? What factors affect whether a family uses child care subsidies? How will Minnesota's QRIS affect families with low incomes, particularly those eligible to receive a child care subsidy? What family, community, and child care characteristics affect child care stability and reliability, and parents' employment outcomes?

This brief is based on data from the baseline survey of the Minnesota Child Care Choices study. Readers who want additional details about the study design and the sample of parents who participated in the baseline survey are referred to the Study and Sample Description Brief. The entire series of baseline briefs is available online at: [www.mdmresearchpartnership.com](http://www.mdmresearchpartnership.com) and [www.childtrends.org](http://www.childtrends.org).

## Defining the Strategies Families Use to Pay for Child Care

In order to explore the role that cost and different payment strategies play in families' decision-making and use of child care, families in the Minnesota Child Care Choices Study are categorized into four groups. Identification of the four groups is based on two factors: 1) whether or not the parent reports paying anything out-of-pocket for the focal child's care and 2) whether or not the parent reports receiving any type of help for child care costs. These sources of financial support include the Child Care Assistance Program (CCAP), scholarships, the parent's employer, the child care provider, a social service or welfare agency, a friend or relative, or child care tax credits (see Figure 1).<sup>4</sup>

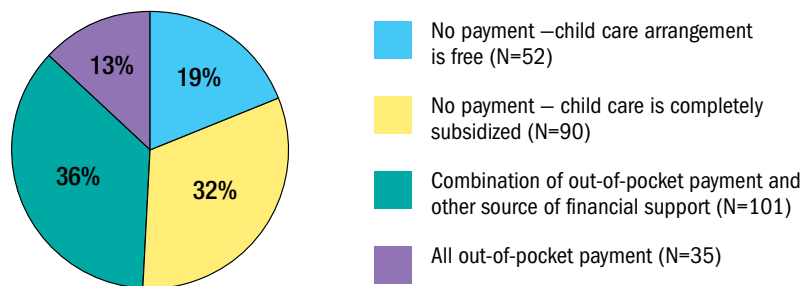
**FIGURE 1. FAMILIES' SOURCES OF FINANCIAL SUPPORT FOR CHILD CARE COSTS FOR THE FOCAL CHILD**



**SOURCE:** Minnesota Child Care Choices Wave 1 survey data

If a parent reports the use of only parental child care for the focal child (40 families) or does not report whether out-of-pocket payments are made for the focal child's care (5 families), the family was excluded from these groups. As a result, the total number of families in this analysis is 278 or 86% of the 323 of respondents in the sample. Figure 2 shows the distribution of families into four payment profiles.

**FIGURE 2. FAMILIES PAYING FOR FOCAL CHILD'S CARE USING DIFFERENT STRATEGIES**



**SOURCE:** Minnesota Child Care Choices Wave 1 survey data

<sup>4</sup> Only one family reported the use of a scholarship.

The first payment profile group (52 families) consists of parents who do not pay anything out-of-pocket for the focal child's care and do not receive financial help from any of the sources of support in Figure 1. These families are considered to be using "free care" for the focal child. Roughly one-fifth (19%) of families using some type of non-parental care were in this group (see Figure 2). Families in this group who have other children in addition to the focal child and pay for child care (N=11) pay an average of \$40 per week for child care; this dollar amount represents 14% of these families' weekly income.<sup>5</sup> On average, all families using free care for the focal child earn \$279 in total household income each week.

The second payment profile group (90 families) includes families who do not pay anything out-of-pocket for the focal child, but receive help paying for care from at least one source. These families use child care that is completely subsidized by either CCAP or another source and account for roughly one-third (32%) of the families in the sample. Families in this group who have other children and pay for child care (N=10) pay an average of \$7 per week for child care or 5% of their weekly income. On average, all families using care that is completely subsidized for the focal child earn \$260 in total household income each week.

The third payment profile group (101 families) also represents about one-third of the sample (36%) and is comprised of families who pay something out-of-pocket (regardless of how much) and also receive some form of financial support. On average, families in this group pay \$37 dollars per week toward child care expenses for the focal child, \$67 per week toward child care expenses for all children (if they have other children, N=55) and have total household earnings of \$338 per week. On average, families in this group pay 15% of their weekly income to child care expenses.

The fourth payment profile group (35 families) includes those families that pay completely out-of-pocket for the focal child's care arrangements. This group is the smallest of the four groups and is comprised of 13% of families in the sample. Families in this group pay an average of \$61 per week for the focal child's care and families with other children (N=14) pay \$93 each week for child care. On average, families paying for the focal child's care completely out-of-pocket earn \$313 each week and spend 28% of their weekly income on child care expenses.

In the next sections of the Brief, these child care payment profiles are analyzed in more depth to understand how they are linked to other family characteristics, child care characteristics, features of the child care decision-making process, and parental perceptions of child care quality. Unless otherwise stated, the results presented in this Brief are statistically significant with a p-value less than 0.05.

## Family Characteristics

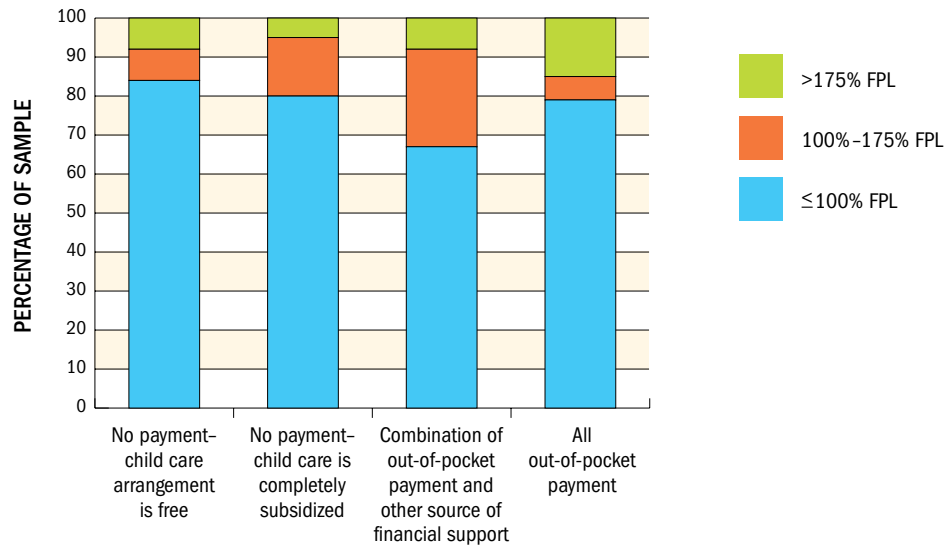
Families using different child care payment strategies did not differ on characteristics such as the number of children in the family, the age of the focal child, the respondent's marital status, or the respondent's perception of his/her financial situation. However, there were statistically significant differences between families using different payment strategies on other family characteristics including income, the reported ease of paying for child care, and the respondent's employment status.

### *What are the income characteristics of families using the four different payment types?*

Household incomes differ by payment profile (see Figure 3). Families using free care are the most likely (84%) to have household incomes at or below the federal poverty level (FPL) compared to 80% of families using completely subsidized care and 79% of families paying completely out-of-pocket. Two-thirds (67%) of the families using care that is partially subsidized are at or below the federal poverty level, while a quarter of the families in this group have incomes between 100% and 175% of FPL. The group of families that pays completely out-of-pocket for the focal child's care has the largest proportion of families earning at least 175% of FPL (15%).

<sup>5</sup> Families who reported higher child care costs per week than their household's weekly earnings (N=6 across the entire sample) were excluded from the calculation of average weekly child care costs and the proportion of household income that pays for child care. If a family reported that their household income was zero, their child care costs are included in the average, but they were excluded from the average proportion of income spent on child care expenses.

**FIGURE 3. FAMILIES' INCOME BY PAYMENT TYPE**



**SOURCE:** Minnesota Child Care Choices Wave 1 survey data

In addition to differences in household income, there were differences in families' perceptions of how easy or difficult it is to pay for child care for all children depending on their child care payment profile. Nearly half (48%) of families who receive free care for the focal child reported that paying for child care was very easy, while 42% of families receiving completely subsidized care reported it was very easy.<sup>6</sup> In contrast, families who paid out-of-pocket and received some type of financial support for child care reported more difficulties paying for care: 20% said paying for care was very difficult, 31% said paying for care was somewhat difficult, 23% said paying for care was somewhat easy and 27% said paying for care was very easy. None of the families paying completely out-of-pocket said paying for care was very easy; the largest proportion (37%) of this group reported that paying for child care was somewhat difficult.

### *What are the employment characteristics of the respondents using the four payment types?*

Parent respondents were asked a series of questions about employment status including whether the respondent was working for pay, holding a job but not working, looking for a job, in school, in a job or training program, at home full-time, or unable to work due to a disability. Respondents could be participating in multiple employment activities; thus, these response categories were not mutually exclusive.

Parents who pay out-of-pocket for the focal child's care are more likely to be working for pay than parents who do not pay anything. About one-third of parents using free care (35%) or using completely subsidized care (32%) report working for pay, while over half of parents whose care is partially subsidized (58%) or who pay completely out-of-pocket (46%) report working for pay.

In contrast, parents who did not pay out-of-pocket for the focal child's care were more likely to be looking for a job than parents who did pay out-of-pocket. Just under half (48%) of respondents using free care were looking for a job, and 58% of respondents using completely subsidized care were looking for a job. Smaller percentages of families paying out-of-pocket for the focal child's care reported looking for a job; roughly 37% of both groups were looking for jobs.

<sup>6</sup> Parents may be paying for care for another child in the family, but families using free or completely subsidized care had high proportions of parents informing the interviewer that they do not pay for child care (31% and 36%, respectively).

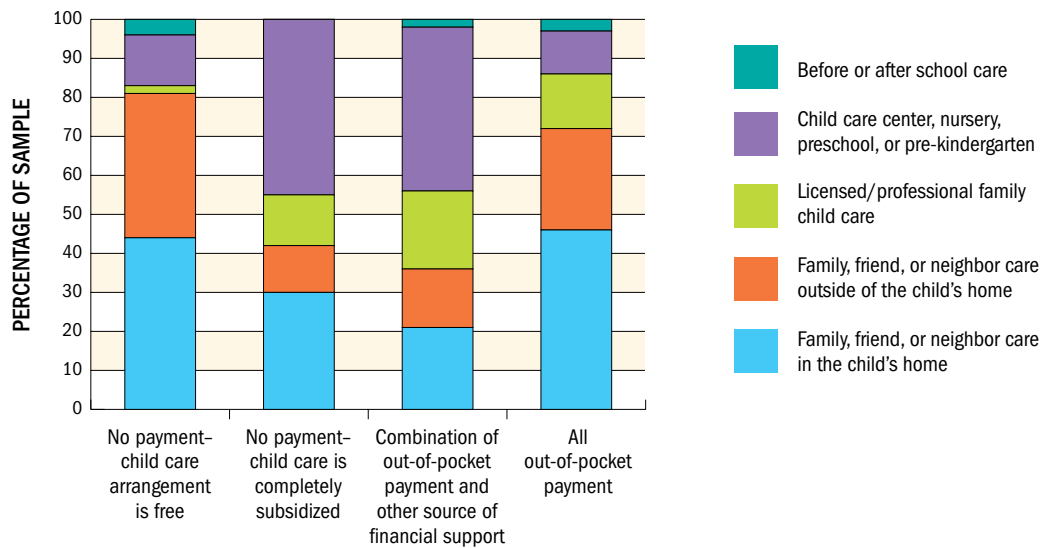
The correlation between whether the family pays for the focal child's care and whether or not the respondent is working for pay is an interesting pattern that warrants exploration in future work. It is possible that families in which the parents work for pay have higher incomes and are either able to pay more for child care or have higher co-pays than families where the respondent is not working. However, it is also possible that families in which the parent is working for pay need more child care and are less able to find free options than families where the respondent does not work.

## Child Care Characteristics

### *What types of primary care arrangements are associated with different payment profiles?*

The majority of families who do not pay for care for the focal child use family friend or neighbor care, either inside the child's home (44%) or outside the child's home (37%) as their child's primary care arrangement. In contrast, among families with either completely or partially subsidized care, nearly half of the children in each of these groups attend centers as their primary arrangement. Families who pay completely out-of-pocket for the focal child's care look similar to the group of families whose care is free in their use of family, friend, and neighbor care (72% and 81% respectively), the most frequently used primary arrangement for these groups. However, a larger proportion of the group paying completely out-of-pocket uses a licensed/professional family child care as their primary arrangement (14%) than those whose care is free (2%). (See Figure 4 for more detail about each group's care arrangements.)

**FIGURE 4. FAMILIES' PRIMARY CARE ARRANGEMENTS FOR FOCAL CHILD BY PAYMENT TYPE**



**SOURCE:** Minnesota Child Care Choices Wave 1 survey data

### *Does time spent in primary care arrangements vary by payment strategy?*

There are significant differences in the amount of time children spend in their primary care arrangement depending on the payment strategy their families use. Children using care that was completely or partially subsidized spent significantly more time in their primary arrangement per week (on average, 25 hours and 26 hours, respectively) than children using care that was free (on average, 14 hours per week).

## Child Care Quality

### *Does parental perception of child care quality vary by payment type?*

When asked whether or not they would recommend their provider, parents in each of the payment profile groups had no doubts about their provider and rarely said they would advise someone against using their provider. Parents who did not receive any outside financial support were less likely to “strongly recommend” their providers than families who did receive outside financial support. Fifty-six percent of families using free care strongly recommended their provider and 52% of families paying completely out-of-pocket strongly recommended their provider. Families who received some form of financial help were more likely to strongly recommend their provider (72% of those in completely subsidized care and 65% of those in partially subsidized care).

Parents were asked a series of questions about how often their primary provider met certain quality standards. There were statistically significant differences by payment type in response to four of these questions: 1) how often the provider uses a curriculum or planning tool, 2) how often the provider has a lot of books and learning materials, 3) how often the provider has staff with formal education and training to work with young children, and 4) how often the provider enrolls children of different backgrounds. Families receiving some form of financial support reported that these indicators occurred more frequently in their focal child’s arrangement than families who did not receive any financial support. For example, families whose care was subsidized, either partially or completely, were most likely to report that the caregivers “usually” had staff with formal training and education. Families whose care was not subsidized were most likely to report that the provider “never” had staff with formal training or education. Of those families using free care, 64% reported that the provider did not have staff with training. Fifty-three percent of families paying completely out-of-pocket reported that the provider did not have staff with education or training to care for young children. Similar trends held across the four quality indicators.

Thus, there is a clear linkage between parent reports of quality, the type of primary care arrangement they are using for the focal child and the payment strategy they are using. Families whose care is subsidized – fully or partially – are more likely to be using center-based child care and to report that their provider meets quality standards typically associated with higher quality in center-based settings (use of curriculum, use of books and learning materials, staff with training and education). Understanding more about the relationship between preferences for quality features, selection of care with these features, and use of financial supports for child care will be a topic of future work.

### *What other types of arrangements are families using?*

When looking across all arrangements rather than just the primary arrangement, families who receive some form of financial support to pay for the focal child’s care are more likely to enroll their children in center-based care than those families who do not receive any outside help. Roughly half of families receiving some form of financial support (50% of families whose care is completely subsidized and 46% of families whose care is partially subsidized) have children who attend centers. Families who do not have any outside source of financial support are less likely to enroll their children in centers; only 17% of the group using free care and of the group paying all out-of-pocket use center-based care.

Families who use free care are less likely than other families to use a licensed/professional family child care as one of their out-of-home arrangements. Only 4% of families whose care is free use a licensed/professional family child care; families whose care is completely subsidized and families whose care is partially subsidized use licensed/professional family child care settings at a higher rate (39% for each group). Twenty-three percent of families who pay completely out-of-pocket use a licensed/professional family child care as one of their care arrangements.

## Child Care Decision-Making

### *What is the relationship between payment profile and characteristics of the child care search process?*

Across all of the payment types, families were most likely to first learn about their primary care arrangement through a relative. Families using free care and families paying completely out-of-pocket were most likely to hear about their primary arrangement from a relative (79% and 60%, respectively). Families using completely and partially subsidized care were less likely to hear about their care arrangement from a relative (36% and 35%, respectively). For families receiving some form of financial help, the second most common source of information was friends, co-workers, or neighbors. Eighteen percent of families whose care was completely subsidized heard about their care from a friend, co-worker, or neighbor in comparison with 25% of families who paid for some portion of the focal child's care. Families who received some form of financial help were also much more likely to learn about their primary arrangement on their own by walking or driving by (9%) than families who did not receive any form of help (roughly 2%).

Although the length of time it took families to choose their primary arrangement did not differ based on payment type, the main reason that families decided to use their primary arrangement did differ. Overall, families receiving some form of financial help paying for child care, regardless of whether they paid out-of-pocket or not, look more similar to each other than families who did not receive any help. Families receiving some form of financial support were most likely to cite quality as the main reason they chose their primary arrangement. One-quarter (26%) of parents whose care was completely subsidized cited quality and 31% of families whose care was partially subsidized cited quality. A large number of families in each of these groups also cited knowing or feeling comfortable with the provider (21% of families paying nothing and 27% of families paying something).

Families who did not receive help in any form were most likely to base their decision on knowing or feeling comfortable with the provider (33% for those using free care and 31% for those paying completely out-of-pocket). Families using free care also cited schedule (15%), convenience (15%), and cost (13%). Families who paid completely out-of-pocket were more likely than any other group to cite cost (17%). They also cited convenience (17%) and quality (14%).

Families using free care were less likely than families using other payment types to seriously consider other options when choosing their primary child care arrangement. Only 23% of families using free care considered other options compared to 42% of families using completely subsidized care, 51% of families using partially subsidized care, and 57% of families who pay completely out-of-pocket. While the consideration of multiple options for child care did vary significantly by payment type, the number of other options that was considered did not.

## CONCLUSION

The findings in this Brief provide a descriptive portrait of whether and how families with low incomes pay for child care and how the type of payment strategy they use relates to other characteristics about the family and the child care arrangement.<sup>7</sup> Key findings include:

- Families using free care are more likely than other families to use care provided by family, friends or neighbors. The majority of families using free care are looking for work or in school. They report that they did not consider options other than the primary arrangement they are using, and they report that they selected their arrangement because they knew or felt comfortable with the provider. The schedule, convenience and cost of the arrangement were also cited as key factors in the decision to use free care. These families report a smaller weekly income than other families and are the most likely to be living in poverty.
- Families using care that is completely subsidized look similar to those using free care in some ways and are strikingly different on other characteristics. They too are likely to be looking for work or in school and report the smallest weekly income among the families in the sample. However, this group is more likely than other

<sup>7</sup> As a reminder, participants in the Minnesota Child Care Choices study were selected because they were seeking financial assistance. Thus, the patterns described in this Brief are relevant for families with low incomes who seek financial assistance.

groups to be using center-based care for the focal child. They cite quality as a key factor in the choice of their primary arrangement and report higher perceived quality on dimensions of care such as staff training, use of curriculum and provision of books and learning materials.

- Families using care that is partially subsidized are distinct from other groups in important ways. This group has the highest weekly income, and nearly two-thirds of the respondents report working for pay. Similar to those using fully subsidized care, they are more likely to use center-based care than the groups using free care and those paying completely out of pocket. They are also more likely than any of the other groups to use a licensed/professional family child care provider. They cite quality as a primary factor in their child care selection and report higher perceived quality of their provider than other groups. Unlike the families who use free care or completely subsidized care, over half of the families in this group report that paying for care is somewhat or very stressful.
- Families who pay all child care expenses out of pocket have incomes that are similar (albeit slightly lower) than families with partially subsidized care. They are likely to be working for pay, and the majority report that paying for care is somewhat or very stressful. Unlike families whose care is partially or completely subsidized, however, this group of families is the least likely to use center-based care. They look similar to families using free care in their use of care provided by family, friends and neighbor caregivers. They were likely to cite knowing or feeling comfortable with the provider as the primary reason for their selection, with smaller percentages citing cost, convenience or quality.

While the design of this study does not permit causal conclusions to be drawn about the factors that influence child care decisions, clear linkages between the use of financial support and the use of center-based care are evident. Future work on this study will include in-depth interviews with families to determine how preferences and priorities for care influenced both the type of care chosen and the take-up of child care subsidies. As Minnesota and other states continue to invest in promoting and improving the quality of early care and education, it will be important to understand the points at which providing information about child care quality and access to financial supports can be most helpful for families with low incomes as they make decisions about child care arrangements.