Early Care & Education Consortium

BCG BOSTON CONSULTING GROUP

Solutions to Achieve a More Equitable and Sustainable Early Care and Education System

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EXECUTIVE SUMMARY

High-quality early care and education is essential for children and families and is the foundation of a robust economy. In recognition of the benefits of high-quality early care and education, lawmakers have proposed major investments and changes that could significantly alter the early education system, in a positive or negative manner. We have a once-in-a-generation opportunity to provide robust funding to high-quality public and private providers that have the expertise, workforce, and capacity to offer the early care and education choices that families need. To be effective, it is essential that a solution include the requisite financial support to thoroughly address issues in our current system including quality, parent choice, equitable access, affordability, continuity of care, and improvements for the industry's workforce.

A mixed-delivery model is the best and most effective way to realize the opportunity to appropriately maximize resources to support children, families, and the economy. Any effort to expand early care and education should be cost-effective and leverage existing expertise and prior investment—maximizing the number of children and families served. For decades, private providers have invested in the early education workforce, program curricula, facilities, and infrastructure needed to offer high-quality care at scale. A mixed-delivery system leverages existing infrastructure in licensed center- and family-based child care programs, public schools, and community-based organizations to maximize access to high-quality, affordable options for all children through age five.

Mixed delivery also empowers parents with choice and access. Private providers typically operate on a full-day, year-round schedule, unlike many public-school counterparts that offer part-day, part-year care. A system that meets parents' needs must include options for parents that cover all working hours. Private providers also offer care for infants and toddlers, in addition to Pre-K and older children. Parents have critical needs and preferences that must be met, such as single drop-off locations for multiple young children, single settings for their child from infancy until Kindergarten, options closer to their place of employment as opposed to their home, etc. Across all family situations, a mixed-delivery system is the only option that provides parents with the ability to choose the program that is best suited for their child and family.

There would be significant negative unintended consequences to both small and large providers from limited private participation or a public-only delivery system, which would damage the existing early care and education landscape. Today, services in the birth-to-age-two space are almost wholly delivered by private providers, as are most programs for three- and four-year-olds. Private providers offset the high costs of serving infants and toddlers, who require lower adult-to-child supervision ratios, by serving older children at higher ratios. Any shift in Pre-K children from private to public settings would either force private providers to raise prices for birth to age two, rendering these services unaffordable for many families, or require them to close their doors due to financial strain. A poorly crafted model could collapse the infant and toddler care market and reduce optionality across all ages, which would be detrimental to working families. This would also exacerbate serious access issues in the current landscape, including widespread child care deserts where many families already struggle to find appropriate, affordable settings for their children.

An affordable, accessible high-quality early care and education system is achievable by efficiently and effectively leveraging existing infrastructure with enhanced funding. This paper outlines specific policy recommendations that promote high-quality early care and education options for all children and families. These recommendations are interconnected, as the issues are linked, and tackling one alone will not address the changes that are needed to ensure a high-quality, sustainable early care and education system.

Our policy recommendations are:

1. **Fund a robust mixed-delivery system that leverages existing expertise and infrastructure, which is essential to achieving parent choice, equitable access, affordability, and continuity of care:** A balanced public and private provider ecosystem, with strong participation from private providers across a range of settings, is the only way to ensure families have access to sufficient high-quality options and the

opportunity to choose the early care and education option that works best for them. To implement a mixed-delivery system that ensures broad participation across delivery settings:

- Make use of existing infrastructure by maintaining a family's ability to choose the licensed home-, faith-, and center-based private and public provider (including Early Head Start and Head Start) that meets their needs. This will ensure an immediate increase in accessibility to high-quality programs and will improve the availability of programs into the future.
- Leverage current funding mechanisms and administrative structures that have a demonstrated capacity to support a mixed-delivery system to provide early care and education services, without giving preference to one type of setting. Existing mechanisms and structures, such as the Child Care and Development Block Grant (CCDBG) administered by the Administration for Children and Families (ACF), promote a system of sustainable and scalable delivery options, avoiding the bifurcation of the birth-to-age-five continuum of care and establishing a duplicative system of support.

Building on the base of a robustly funded mixed delivery system:

2. Require accountability for high-quality practices to ensure families have access to programs that result in improved child outcomes: Hold all providers to quality standards as defined by external validation systems, provide multiple paths to achieve high-quality standards, and guarantee adequate funding to support high-quality practices. Allow validation of quality through both national accreditation and Quality Rating and Improvement Systems (QRIS).
3. Provide cost-effective solutions to improve affordability for low- and middle-income families, ensuring they have access to high-quality options: Expand CCDBG subsidy eligibility, increase the value of subsidies, and define reasonable parent copayments based on income level. Make permanent increases to the Child and Dependent Care Tax Credit (CDCTC), ensure credits are fully refundable so all families can use them, expand access to Dependent Care Assistance Plans (DCAPs), and provide advanced monthly payments to families of both the Child Tax Credit (CTC) and CDCTC to partially offset parent costs. Subsidies and tax credits need to be administered in concert to create a cost-effective funding solution that meets the needs of families across the income spectrum. Substantial increases to tax credits can help ensure that middle class families have assistance offsetting the cost of early care and education for the first time, benefiting millions of working parents.
4. Shift to a cost-of-care model to allow for increased investments in supply, educator wages, and quality: Utilize a cost-of-care study methodology, based on the known cost of providing full-day and year-round care, versus relying on regional market rate surveys—and determine appropriate direct-to-provider funding allocations. Cost-of-care calculations must be based on the enrollment of all children receiving subsidy, not just attendance. This is necessary because providers incur costs such as educator wages regardless of whether families are in attendance. A fully funded system that recognizes the true cost of care allows providers to invest in quality and raise educator wages and prevents reductions in options for families.
5. Solve the workforce crisis by improving wages and benefits for educators, resulting in higher quality programs: The solution to the workforce crisis starts with increasing reimbursement rates and direct funding to raise wages. The solution should also include providing an incentive to raise educator wages through a refundable payroll tax credit, establishing a student loan repayment program, and providing grants or tax credits to educators who are working in the early care and education field (e.g., T.E.A.C.H. scholarships).

High-quality early care and education is essential for both working families and our nation's economy. A robustly funded mixed-delivery system is the only mechanism that builds an ecosystem that meets the needs of children, parents, and society. We must take decisive action now to build an early care and education system that will support immediate economic growth and a better future for generations to come.

INTRODUCTION

Child care and early childhood education (ECE) have often been considered distinct services, with child care viewed as a support for working families, distinct from ECE in support of school readiness. However, an effective early care and education system jointly provides safe, caring environments and high-quality educational experiences for children through age five. Early care and education providers recognize this, and for years have designed high-quality ECE programs that simultaneously support early learning and working families, giving children the best chance to reach their full potential and allowing parents to fully participate in the workforce. We are committed to early care and education and the funding structures necessary to promote and sustain the high-quality care and learning environments that meet the developmental needs of young children as well as family needs and preferences.

Our existing early care and education system serves millions of children and families

Each week, about 12.5 million children under the age of six attend some type of early care and education program.[1] Of those in at least one weekly nonparental setting, 62 percent are enrolled in center-based care or Pre-K, 38 percent are cared for by a relative, and 20 percent are cared for in a private home by a non-relative.[a,2]

The sector consists of a diverse set of for-profit and nonprofit providers, including home-, faith-, and center-based providers, Head Start and Early Head Start, individual caregivers, and organizations that operate national or regional centers. This is a large industry. In 2016, 675,000 early care and education providers produced $47.2 billion in revenue.[3] Many of these operations are owned by or staffed predominantly by women and women of color.[4]

The average cost to provide center-based care for an infant in the United States is $1,230 per month—for home-based care, the average cost is $800 per month.[5] The cost of tuition does not reflect the true cost of providing high-quality care, which is often much higher. The primary federal funding mechanism that supports families in covering some of this cost is the Child Care and Development Fund (CCDF), which includes discretionary funding mandated by the Child Care and Development Block Grant (CCDBG) and an entitlement portion of mandatory and matching funds. People often refer to this program as CCDBG because that is the main source of funds states use to subsidize child care for low-income working families. Most of this assistance is administered through vouchers or certificates, which can be used by parents to select the provider or program that works best for their family. In 2018, 1.3 million children and 813,200 families were served by 258,000 programs that received funding through CCDBG.[b,6] However, due to insufficient funding, fewer than 1 in 6 families that are eligible for subsidies received support. Additionally, many working families today struggle to afford high-quality care but are not eligible under CCDBG requirements.[7]

Fewer than 1 in 6 families who are eligible for subsidized child care receive support due to lack of adequate funding

CCDBG is not the only method to offset the cost of care for low- and middle-income families. Provisions in the tax code also help families afford care, including the CDCTC and an exclusion from income for employer-provided child and dependent care assistance (DCAP). Additionally, the Earned Income Tax Credit and CTC are important components of the tax code for low-income families as they help bolster their incomes, thereby fostering financial stability. While legislators expanded the scope and magnitude of these programs for FY21—specifically, the expansions to the CDCTC have increased the maximum value of the credit from $2,100 to $8,000—policymakers should extend the changes to CDCTC, CTC, and DCAPs to help make early care and education more affordable for low- and middle-income families. For many middle-income families,

[a] Percentages do not add to 100% because children may be in more than one setting.
[b] In FY2018, $8.14 billion was appropriated to CCDF—this number rose slightly to $8.19 billion in FY2019; CCDBG can be used for children over the age of five, though this paper focuses on birth to age five.

the CDCTC is the only assistance they have to offset the cost of care. Recent legislation has also made the credit fully refundable for the first time. Since most low-income families pay little to no federal taxes, refundability is key to ensuring they will be able to claim the credit even if they do not have any tax liability. Any policy changes to address the affordability of child care must extend increases to the CDCTC as part of a comprehensive solution.

High-quality early learning experiences are essential for children, families, and communities

CHILDREN develop during their earliest years the cognitive, social, emotional, physical, and language skills that serve as the foundation for lifelong learning. Early brain development is built through strong, consistent relationships with caring, responsive adults and establishes the foundation for children to be better prepared for school and thrive as they grow into adulthood.[8] Research shows that a child's brain grows significantly during the first three years of life, developing more than one million neural connections per second.[9] At the same time, brain cell pruning—the elimination of unused synaptic connections to maintain efficient neural transmission—occurs most rapidly during a child's earliest years.[10] This "use it or lose it" aspect helps explain why a child's earliest experiences can have long-lasting implications. Quality early care and education can reduce the need for subsequent interventions and lead to better health outcomes and increased self-sufficiency and productivity later in life.[11] Such high-quality early care and education programs can also produce positive economic outcomes.

PARENTS require access to early care and education programs in order to participate in the workforce. Unfortunately, many families lack access to high-quality early care and education options. In 2018, 83 percent of parents with children under age six reported challenges finding affordable, quality child care.[12] The negative impacts of limited access is most acutely borne by low-income families and has historically been the primary reason parents from these families do not participate in the workforce.[13] Lack of affordable education and care can result in issues for working women in particular, as one study notes that a 10 percent rise in early care and education costs would elicit a 7.4 percent decline in married women's workforce participation. Alternatively, government supports and subsidies have been associated with higher workforce participation, particularly for single mothers.[14] COVID-19 exacerbated these problems, as mothers with children ages 12 and under lost 2.2 million jobs between February and August 2020—more than twice as many jobs as those lost to fathers over the same period.[15] Widespread availability of affordable, quality early care and education can help break the cycle of poverty within families by allowing both women and men with young children to fully participate in the workforce, while giving their children the skills they need to succeed.[16]

2.2 million mothers of young children **lost their jobs** in the first 6 months of the COVID-19 crisis

EMPLOYERS benefit from a robust early care and education sector. High-quality, widespread early care and education options lead to a better-prepared and more-productive workforce as parents can focus on work, education, and training. The economic benefits are clear: A 2019 Ready Nation study reports that the economic impact of insufficient early care and education for children under age three on businesses and taxpayers was a combined $20 billion annually.[17] Rigorous longitudinal analyses of high-quality early care and education experiences for children show a $7–$12 return for every $1 originally invested.[18,19] Investment in a robust early care and education sector can also lead to lower unemployment rates and a more productive economy,[20] while setting employers up to thrive both now and in the future.

Nominal public investment has led to a fragmented, fragile system for funding and promoting high-quality early care and education

High-quality early care and education for children from birth to age five is essential, but has long been under-resourced in the U.S. While private providers have served families well despite significant challenges, several issues have contributed to a structure that functions less productively than it can and should, including:

High-quality early care and education is expensive for parents to afford and for providers to offer

Many of the current problems facing both families and providers in the early care and education space stem from difficulties with the basic economic model. The cost of quality is more than many families can afford. Provider expenses include rent, food, curricula, specialized equipment, and most of all, educator wages. In 2018, the national average cost to provide center-based infant care was more than $14,750 annually for programs that met basic quality standards and over $27,100 for high-quality programs.[c] These costs exceed average prices charged to families and would amount to 18 percent and 32 percent of annual income, respectively—far greater than the U.S. Department of Health and Human Services' (HHS) own definition of affordable early care and education (7 percent of family income).[21]

The largest operating costs for any early care and education program are educator wages. For example, educator pay accounts for 68 percent and 52 percent of average costs for center-based infant and Pre-K programs,[d] respectively.[22] To keep costs down for families, providers are often forced to maintain low wages (on average, early childhood educators make only $12.24/hr[23]). Educator wages make up such a large portion of center-based providers' expenses because of the many hours centers serve families and the number of educators needed to maintain appropriate educator-to-child ratios.[e,24] These ratios are important to deliver high-quality experiences for children, and investment in funding that supports appropriate ratios is necessary.

Educator pay accounts for **68%** and **52%** of average costs for center-based infant and Pre-K programs, respectively

Early care and education programs rely on revenue from parent fees and public funding streams such as child care subsidies. Government subsidies do not typically cover the full cost of care across any age range,[f] which forces providers to increase fees for families that do not receive subsidies in order to pay educators more and invest in their programs. Cost-to-price gaps are often most significant for infants, whose cost of care is equal to 1.6 times the cost of care for Pre-K children (driven primarily by low infant-to-educator ratios) and is often not covered by either parent tuition rates or government subsidies.[25] Providers are able to care for infants by offsetting net revenue losses with revenue generated by providing care to Pre-K children, and, even so, small and large providers are just making ends meet. For many providers, particularly small providers, this disruption can threaten their families' livelihoods.

[c] The cost of quality is not equal to tuition prices. Providers often charge less than the true cost of quality care.
[d] In this document, we use "Pre-K" to refer to Pre-K and preschool children (3- and 4-year-olds).
[e] Private providers are often open year-round for 11 to 12 hours per day. While maximum mandated ratios of educators and children vary by state, recommended high-quality ratios for children ages birth to five are between 1:3 and 1:10, while most kindergarten programs operate at ratios of 1:20 or more.
[f] Additional detail on how subsidy rates are set can be found in Appendix A.

CCDBG is chronically underfunded

For decades, federal and state lawmakers have underfunded early care and education. While child care subsidies have increased since 2018, there still are not enough resources to meet the needs of children and families. For example, in 2019, only 15 percent of children eligible for early care and education subsidies had access to those funds or programs, largely due to funding constraints.[26] For those families that do have access to subsidies, these often cover only a portion of the cost of care. Moreover, government reimbursement models are often based on attendance, which is problematic, as providers must still pay all fixed costs and fully staff classrooms for the children who are enrolled. Reimbursements based on enrollment are necessary to cover the ongoing costs of care.

Historically when we have not adequately funded quality improvements, we have not seen desired results

There were new funding and quality requirements introduced in the 2014 Reauthorization of CCDBG that were well-intentioned and necessary, but only partially addressed funding issues and were not fully complied with. Recent analysis shows that no states were implementing all policies required by the reauthorization at the time they submitted their 2019–2021 plans for CCDBG, in part due to insufficient funding.[27] Substantial increases in funding are crucial for states to make significant progress in offering high-quality care options.

There is insufficient high-quality supply

Only 17 percent of parents with children under age six report no serious problems accessing high-quality, affordable care nearby, and 51 percent of families live in child care deserts, which are areas with an inadequate supply of licensed-care capacity.[28,29] Child care deserts are most common in rural areas where families would benefit from additional high-quality small-setting, home-based options. They are also found in urban areas where the cost to operate care settings is high and subsidies are not robust enough to cover the cost of care, leaving parents unable to afford care. These child care-desert statistics also focus on the availability of licensed care, not necessarily high-quality care as defined by external validators (e.g., national accreditation, state QRIS). Inadequate funding, inconsistent educator training, and inconsistent regulation and enforcement of quality standards are barriers to providing *high-quality* options for all children and families—and budget restrictions limit the number of children who can be served.

51% of families
live in child care deserts

Only 17% of parents
with children under six reported no serious problems accessing high-quality, affordable care

There is high educator turnover

Due to low teacher-to-child ratios, extended hours, and costs to provide care exceeding what families can afford, providers are unable to offer higher wages and benefits. Coupled with other factors, such as insufficient government funding of the early care and education sector, it is not surprising that turnover rates are as high as 40 percent.[30]

COVID-19 highlighted the importance of the early care and education industry as providers quickly adapted their practices so frontline workers and families could continue to work

The important role of the early care and education industry was evident as providers fought to stay open during the COVID-19 pandemic so that the nation's workforce could continue to work. At the height of the pandemic, the reduction of women in the workforce due to the erosion of care and in-person education had the potential to cost the U.S. economy an estimated $64.5 billion. Analysis conducted from April to August 2020 finds that even if mothers with a child under age six reduced their hours slightly (full-time hours by 4.5 percent and part-time hours by 7.2 percent) there would be $16.4 billion in lost wages for families.[31] The critical nature of providing affordable care to families so that parents—and mothers in particular—can stay in the workforce cannot be overstated.

Just as the pandemic was an upheaval for families, early care and education providers had to quickly adapt to ensure the safety of children, families, and staff. To operate in a COVID-19 environment, providers had to reduce their capacity, lower ratios, restrict enrollment into fixed pods, and invest in personal protective equipment (PPE). The industry rose to the challenge and implemented major changes in order to operate in a COVID-19 environment, and in doing so incurred new operating costs as revenues diminished. Two in five providers took on personal debt and/or dipped into personal savings to pay for increased costs to remain open for families, and 56 percent of center-based providers say they lost money every day they remained open.[32]

This period highlighted how essential early care and education infrastructure is to maintain a productive workforce, and how fragile the system is without sufficient funding. COVID-19 relief packages delivered industry-saving funds to early care and education providers, the most recent example of which is the March 2021 American Rescue Plan Act (ARPA), which both provided $39 billion in direct funding for providers and families and expanded the CDCTC and CTC, while also increasing allowable contributions to Dependent Care Flexible Spending Accounts.[g] While these relief funds are critical to sustain the industry in the short term and to spark longer-term investments, a full recovery and continued growth will require further investment and thoughtful, comprehensive solutions.

[g] Additional detail on ARPA can be found in Appendix B.

LEGISLATIVE SOLUTIONS MUST DELIVER HIGH-QUALITY OPTIONS THAT ARE ACCESSIBLE FOR FAMILIES

Several factors are essential to deliver early care and education

Federal action is vital, and policymakers will need to consider several critical factors to build on and improve the current system. The elements of a high-quality early care and education system are interdependent; therefore, federal policy must address them in concert to create an early care and education system wherein children and families can thrive.

1. **Quality** | External validation and evidence of maintaining quality standards are essential to ensure that children benefit from early care and education experiences.
2. **Parent choice** | Families need equitable access to high-quality, safe, affordable, and convenient options that meet their needs and preferences.
3. **Affordability** | Early care and education must be made affordable through a combination of subsidies, tax credits, and reasonable parent pay.
4. **Continuity of care and education** | Options must leverage a care continuum that minimizes disruptions for children from birth to age five.
5. **Industry workforce** | Increased educator wages are critical in order to attract and retain talent, while investment in ongoing professional development is needed to ensure a skilled workforce.
6. **Robust funding** | Each critical element depends on robust public funding to support a high-quality early care and education system.

Quality

Families can identify high-quality child care through a combination of licensing, national accreditation standards (e.g., NAEYC[h], Cognia), and state QRIS. Systematic regulations should be the minimum expectation for a child care provider. However, 24 percent of children in the United States spend time in unlicensed, nonrelative care settings.[33] While licensing provides critical health and safety monitoring, it does not typically require the highest quality standards or educationally and developmentally appropriate best practices. Other systems such as state QRIS or national accreditation delineate higher standards of program quality. While these systems are currently voluntary, it is important that they and similar systems provide an independent assessment of program quality, a roadmap to help providers achieve these standards, and a mechanism to help parents choose the program that best meets their needs.

There are a variety of approaches to provide quality care. And while they may differ in specific pedagogy, curriculum, and classroom structure, they all share certain characteristics that are indispensable to high-quality programs, including:

Mutual, positive relationships between children, their peers, and adults
An effective teaching environment provides emotional support, classroom organization, and instructional frameworks. A caring, responsive adult is necessary for healthy child development and learning and contributes to the development of neural synapses in the developing brain.

Program components that produce positive child outcomes
Effective early care and education programs require strong program leadership, qualified educators, ongoing professional development, and competitive wages and benefits. Children need appropriate adult-to-child ratios that support supervision and responsive interactions, an evidence-based curriculum, and a developmentally appropriate learning environment. Purpose-built facilities support such a learning environment that is developmentally appropriate and inclusive.

A data-driven approach to ensure continuous improvement for children
Providers need support and resources to allow them to make better use of data systems. Effective programs use data to better understand programmatic/system-level data and results. Using data results, high-quality programs adjust their curricula and teaching practices, thereby designing a more effective learning environment for children.

[h] National Association for the Education of Young Children.

Parent choice

Families need equitable access to options that support the educational needs of their children near their home or work, for the whole workday, during nontraditional hours, and throughout the year. Some may need convenient care weekends or evenings, prefer specific learning philosophies, or be looking for programs that incorporate faith-based programming. Whatever the situation, families must have access to multiple high-quality early care and education options that allow them to make the best choice for their family. Current issues dramatically impact a parent's ability to choose, including insufficient supply (e.g., child care deserts) and insufficient funding (i.e., parents having a care option, but not being able to afford it out of pocket or with subsidy support).

Affordability

As noted previously, an effective early care and education system would balance provider costs with a family's ability to pay. As an illustration, a family earning between $50K and $100K yearly uses, on average, 14 percent of their salary on early care and education. This increases to 35 percent for low-income working families.[34] The economic burden of early care and education for most families is obvious, especially when compared with HHS's definition of affordable child care of "costing less than 7 percent of a family's income." Some families are able to afford care through government assistance via the CCDBG. But many families that struggle to afford care do not meet the eligibility requirements, subsidies are only available to about 15 percent of the eligible population, and subsidy rates do not cover the true costs of care.[35]

Early Care & Education Consortium analysis shows current proposals are costly and inadequately funded

To analyze the incremental cost implications of proposed changes to the current subsidy reimbursement model, ECEC used data from member companies, the National Women's Law Center, Bureau of Labor Statistics, and the Census. Using these data, the current state assumptions for the sector are given below. Note that the SMI eligibility rate of 59.9 percent is significantly below the expected eligibility rate of 85 percent as calculated using NWLC data.

Participation Rate	17.0%	*(1/6 eligible children)*
SMI Eligibility	59.9%	
Reimbursement Rate	59.4%	
Wages	$12.24	

The Child Care for Working Families Act and the American Families Plan inform our assumptions of the future state in the model (150 percent State Median Income (SMI) eligibility and minimum wage levels of $15 per hour). Reimbursement rates made to providers were increased from current state of 59.4 percent of the cost for families not receiving subsidy to 80 percent in order to establish a subsidy reimbursement rate needed to support quality and encourage providers to accept subsidy children. The model also assumes that the participation rate of eligible children remains constant at 17 percent, however the number of children served would significantly increase.

Under these assumptions, there was a projected $68 billion increase in the cost from the approximately $9 billion in CCDBG funding today. The primary driver of these increased costs comes from the shift in SMI eligibility from current thresholds to 150 percent and the resulting threefold increase in children served assuming an unchanged 17 percent participation rate.

The sensitivity of the factors included in the model to improve quality, affordability, and access are presented in the table below. For example, every 1 percent increase in participation rate from the current rate of 17 percent of eligible families would cost an additional $0.51 billion ($510 million). Similarly, every dollar increase in average wage for the workforce from the current $12.24 would cost approximately $3.07 billion annually.

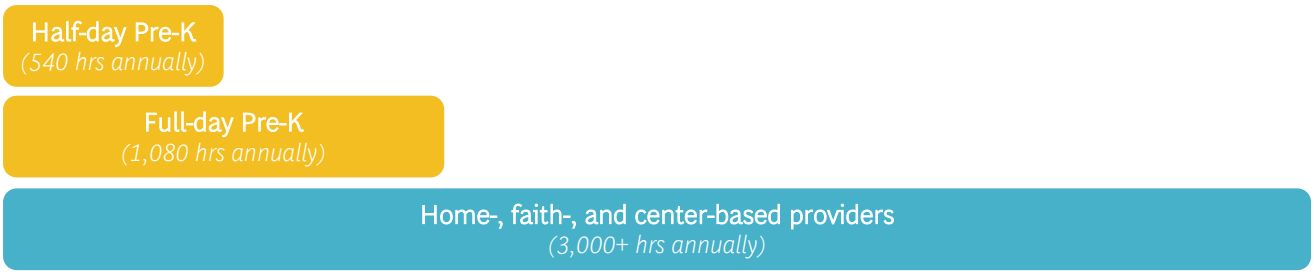
Participation Rate (1% increase in participation)	$0.51B
SMI Eligibility (1% increase in eligibility)	$0.33B
Reimbursement Rate (1% increase in rate)	$0.15B
Wages ($1 increase)	$3.07B

Our analysis indicates that a program that increases eligibility, reimbursement rates and wages, would cost approximately **$68 billion** over current annual federal child care funding

These increases do not consider other important efforts to improve quality beyond wages such as enhancing benefits for teachers, reducing teacher-to-child ratios, or increasing professional development, facility enhancements, or other ongoing investments in programs or the workforce.

Continuity of care and education

Access to programs that offer full-time care and education for all children birth to age five is an essential component of a high-quality system. Some caregivers work in a standard 9 to 5 setting or only require part-time outside care, while others work 12-hour shifts at various times of day or night. Many existing public Pre-K programs only offer part-day programs—2.5 to 3.5 hours—which are insufficient for most working families. Even full-day programs—5.5 to 6 hours—fall short of a standard workday. These programs typically last for nine months, while working families often require care and education year-round, and may require nontraditional hours as well. In these cases, families must still find additional hours of care for their children. Without access to full-time care and education, families are left with inconvenient options that are not appropriate or ideal—such as children being bused between settings or parents forced to take off work to provide transportation. Working families with multiple children ages birth to five at the same provider also save time by securing care for their children in the same location.



While some policies propose using secondary "wraparound" care for the (many) hours in the day that Pre-K may not cover, this is not in the best educational and developmental interest of young children. Continuity and familiarity with the same caring adults throughout the day have been shown to reduce stress from disruption and change, which is critical in supporting healthy brain development during a child's most critical and vulnerable years.[36]

Industry workforce

The early care and education industry struggles with a challenging financial model that limits a provider's ability to pay educators wages commensurate with the importance of their work while at the same time maintaining affordable parent fees. Wages for educators are the largest expense for providers and the cost of increased wages cannot be passed on to families that are already often stretched to afford the current cost. It is therefore unsurprising that the average early care educator earns $12.24/hr and the average turnover rate in the industry is between 30 and 40 percent per year.[37,38,39] Low wages contribute to this turnover.

30-40% educator turnover is common across the early care and education space

To retain and recruit top talent, and increase wages, the industry needs to more consistently provide benefits and incentives to educators. These can include traditional benefits such as health insurance as well as additional benefits such as loan-forgiveness programs, scholarships for education, and opportunities for professional development. Indeed, several mixed-delivery systems in different states have expanded such benefit programs to attract and retain talent in the early care and education space.[i]

Any attempts to improve the workforce must address issues for educators across the birth-to-age-five continuum. If those who work in Pre-K programs earn more than educators who work with children through age two, then turnover for those who educate and care for our youngest children will accelerate. This could create a workforce shortage for infant and toddler care if credentialed and experienced educators shift to working with older children.

[i] Additional detail on example policies can be found in Appendix C.

Robust funding to support low- and middle-income families

Each element of a high-quality early care and education system depends on robust public funding. While funding for child care systems varies by state, federal resources should establish a baseline of support for low- and middle-income families nationally.

To create a quality, accessible system of early care and education, government investments need to reduce the economic burden of families. To do this, the government would need to increase subsidy reimbursement rates and/or provide additional direct support to providers. Many of the recently released policy proposals suggest both a cap on the percentage of income that families would pay for early care and education and an expansion of eligibility levels for subsidies. This would, in theory, make child care more affordable for more parents. However, if a higher proportion of families are dependent on receiving subsidies, reimbursement rates would need to be raised significantly so providers would not be further challenged by accepting subsidized families at inadequate rates and would have resources to invest in teacher wages and quality programs. To improve the state of the early care and education workforce, lawmakers must also address the root causes of high turnover rates (such as low wages and a lack of benefits and incentives) and provide adequate funding to providers to address these issues.

It is also imperative that funding be distributed equitably. Today, states are required to provide a match to child care funds in order to receive the money according to their Federal Medical Assistance Percentages (FMAP) rates.[j] The FMAP is computed from a formula that takes into account the average per capita income for each state relative to the national average, but by law, it cannot be below 50 percent or above 83 percent. The intent is to provide higher reimbursement to states with lower per capita incomes relative to the national average. States such as New York and Wyoming, which have low FMAP rates of 50 percent and match rates of 50 percent, are less likely to have the resources to put toward their high match rates and have access to the full funds.[40] As policymakers release plans on how to provide subsidies and benefits to families, they must ensure that funds are equitably divided and each state has access to the full federal funding allotted to it.

[j] These rates are used to determine the amount of matching funds the federal government annually allocates to states for certain medical and social service program.

A MIXED-DELIVERY SYSTEM IS THE MOST SUSTAINABLE AND EFFICIENT SOLUTION TO MEET POLICY OBJECTIVES

The best and most viable way to build a system that serves children and families is through an appropriately funded mixed-delivery system that draws on the decades of expertise and existing infrastructure in the early care and education sector.

A mixed-delivery system administers funds across licensed center- and home-based child care programs, Head Start, Early Head Start, public schools, and community-based organizations to ensure access to high-quality, affordable options for children through age five and their families. The years of experience, high-quality programming, and purpose-built spaces of private providers should be leveraged with public providers' broad reach to address the limitations of the current early care and education system.

A mixed-delivery system leverages existing infrastructure and expertise and supports parent choice

- Promotes educational continuity

Children benefit from continuity of experience with the same caring adults throughout the day, week, month, year—and across years. Private programs, whether home-, faith-, or center-based, provide a continuous experience for children and families throughout the day and over long periods of time, which is a well-recognized best practice. Parents with multiple children at a single site also save time and stress by not having to provide midday transportation.

- Ensures flexible hours and year-round care

Private providers offer full-day, full-year early care and education options from birth to age five, unlike public Pre-K programs that do not typically support infants and toddlers and have more limited hours (e.g., 90 percent of the state Pre-K programs in Oklahoma are situated in public schools, where Pre-K is offered during the traditional school year for either 2.5 or 6 hours a day[41]). Public programs also do not typically operate during the summer months or over extended holiday breaks. As a result, private providers are better positioned to serve the needs of working families whose schedules do not map to the school day or annual calendar.[42] For families with nontraditional hours, including those that are part of the healthcare or service sectors, securing care and education for young children can be difficult. Quality home-based providers are especially helpful in these situations, as they are most likely to be available for some nonstandard hours (34 percent are open either weekday evenings, overnight, or weekends).[43]

- Prioritizes equitable access

Alongside their public counterparts, private providers can ensure that numerous options exist for children, especially in educationally at-risk areas. Mecklenburg County, North Carolina, uses a mixed-delivery system in which Pre-K is offered through qualifying licensed providers, which has resulted in a 38 percentage point increase in the number of four-year-olds enrolled in locations of their choice.[k,44] Similarly, in a pilot mixed-delivery program in Minnesota intended to expand to low-income and vulnerable populations, 57 percent of participants had utilized unlicensed care facilities before the pilot, but all children utilized quality rated programs at the conclusion of the program.[45] Building on Mecklenburg County and Minnesota as examples, a well-coordinated mixed-delivery option would allow for greater access to high-quality options for all children and families. Mixed delivery would also encourage care options to flexibly match demand (e.g., home-based options in rural locations that don't require a large center or school). More options allow parents, at all income levels and across geographies, the ability to choose which programs are best suited for their children and family needs.

[k] By 2019, 5,254 four-year-olds attended Pre-K in the location of their choice, an increase of 1,448 enrolled since 2017 (+38%).

Offers a fast and economical path to expansion

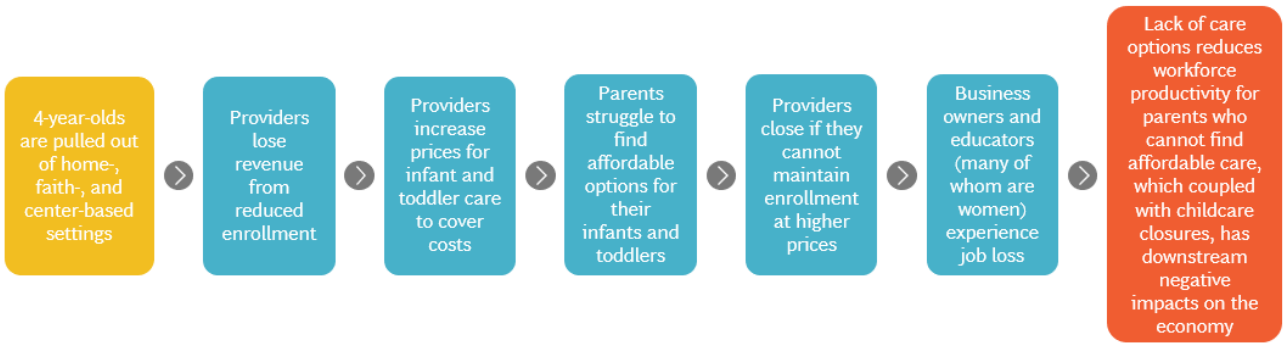
For decades, private providers have invested in the early education workforce, educational programs, facilities, and the infrastructure needed to offer high-quality care at scale. Policy proposals should consider and leverage this expertise and prior investment. In order to avoid wasting taxpayer money, an expanded system of early care and education should build on existing private infrastructure and staff, not unnecessarily replace it. A 2018 New Mexico analysis of statewide early care and education expansion notes that 631 classrooms would need to be remodeled and 1,791 new classrooms would need to be built to support full participation in state Pre-K programs, for $874.5 million.[46] That significant figure is only for one small state and only covers the cost of the physical space, not the necessary investment in curricula, professional training, and other elements necessary to deliver a high-quality early learning experience. A mixed-delivery system takes advantage of both public and private expertise and infrastructure to provide the most options for families, in the shortest timeframe and at the lowest cost to taxpayers.

There are significant negative unintended consequences of limited private participation or a public-only delivery system

Current funding structures support the provision of a mixed-delivery system for early care and education but require significant additional funding. We encourage the federal government to maintain those channels and avoid introducing preferences for either public or private delivery.[l] The current flow of funds supports Head Start, Early Head Start, and home-, faith-, and center-based providers that deliver almost all infant and toddler care and the majority of options for children through age five.

We need to build upon the mixed-delivery system that we have now, capitalize on the existing infrastructure and expertise of private providers, and create a system that works for families. If we abandon the mixed-delivery model that exists today, there will be severe unintended consequences—leaving families paying more for, or without access to, quality early care and education.

Unintended consequences of a poorly designed system without robust private provider participation



[l] Prioritizing the administration of funds through school districts would limit access to funds for private and nonprofit providers and would result in the breakdown of the mixed-delivery system.

Program closures

Early care and education for infants and toddlers costs significantly more than Pre-K programs because of necessary lower child-to-staff ratio requirements. Private providers can offer infant and toddler care by offsetting narrow margins or losses on these programs by serving older children at higher ratios. If most Pre-K children were displaced from their existing programs, private providers would need to raise prices significantly for the infants and toddlers, thereby rendering these services unaffordable for many families. Under heavy financial strain, some providers would have no choice but to close their doors. For others, financial strain would affect their ability to provide quality services for families, which in turn could have long-term negative consequences on individuals and the economy. Financial difficulties would make it all but impossible for private providers to deliver affordable services to children, especially for the 34 percent of infants and toddlers in the country who rely on home- and center-based care at least once a week.[47]

Child care shortages

Widescale closures of private providers would cause a massive early care and education shortage—beyond the shortages that already exist today in child care deserts across the country. Washington, D.C. ranks first out of 50 states and D.C. in terms of cost of child care in the U.S., with infant care costing an average of $24,243 per year and care for a four-year-old costing an average of $19,112 per year.[49] In Washington, D.C., whose Pre-K system is often lauded, the birth-to-age-three market for early care and education has already contracted due the difficult economics of offering care and education to that cohort without children ages four and five.[50] Many private providers also deliver wraparound care to school-age children, so a child care shortage would impact families with children of all ages. A shortage of this magnitude could exacerbate COVID-19 workforce trends, wherein parents of young children, and especially women, dropped out of the workforce in large numbers due to inadequate care and education options.[51,52] And because full-day public Pre-K is only 2.5–6 hours a day, working families with children enrolled in these programs would still need access to care and education to bridge the gap from end of school day to end of workday.

Impact on educators, small business owners, and the economy

Program closures and child care shortages would negatively impact the economy as industry jobs are lost and parents are forced to drop out of the workforce. The sector employs 1.5 million people across both center- and home-based programs, while supporting over 500,000 employees in related industries.[54] Closures would dramatically impact early educators, 90 percent of whom are women and 40 percent are women of color.[55,56] The Committee for Economic Development also estimated that the market-based child care industry in the U.S. has a $99.3 billion impact on our economy ($47.2 billion in revenue and $52.1 billion in spillover to other industries). Closures would therefore have a notable impact on both the industry and spillover contributions to the economy.[57]

TULSA

In Tulsa, Oklahoma, where free public Pre-K accounts for the vast majority of preschool programming, costs of early care and education increased 33 percent overall from 2008 to 2018, with spikes of up to 55 percent for infants and toddlers. And from 2005 to 2018, 43 percent of all licensed early care and education providers in Oklahoma closed.[48]

NEW YORK CITY

In New York City, a system many see as the model for universal 4-year-old Pre-K, one study points to as much as a 20% reduction of available infant and toddler care after the implementation of universal Pre-K in 2014. Furthermore, all lost slots were found to be in high-poverty areas, and the decline was not offset by an increase in provision in the home day care market.[53]

CALIFORNIA

California saw the number of home-based providers decrease by almost 30 percent from 2008 to 2016, largely due to the increase in state funded four-year-old Pre-K programs. And ECEC analysis shows that if four-year-olds are pulled out of their current settings as part of the expansion, providers anticipate having to raise prices in the birth-to-age-three space by ~40 percent.[58]

AN AFFORDABLE, ACCESSIBLE HIGH-QUALITY EARLY CARE AND EDUCATION SYSTEM IS ACHIEVABLE BY LEVERAGING EXISTING INFRASTRUCTURE WITH ENHANCED FUNDING

In order to create an early care and education system that meets the needs of children and families, we must:

1. Fund a robust mixed-delivery system that leverages existing expertise and infrastructure, which is essential to achieving parent choice, equitable access, affordability, and continuity of care: A balanced public and private provider ecosystem, with strong participation from private providers across a range of settings, is the only way to ensure families have access to sufficient high-quality options and the opportunity to choose the early care and education option that works best for them. To implement a mixed-delivery system that ensures broad participation across delivery settings:
    - Make use of existing infrastructure by maintaining a family's ability to choose the licensed home-, faith-, and center-based private and public provider (including Early Head Start and Head Start) that meets their needs. This will ensure an immediate increase in accessibility to high-quality programs and will improve the availability of programs into the future.
    - Leverage current funding mechanisms and administrative structures that have a demonstrated capacity to support a mixed-delivery system to provide early care and education services, without giving preference to one type of setting. Existing mechanisms and structures, such as the Child Care and Development Block Grant (CCDBG) administered by the Administration for Children and Families (ACF), promote a system of sustainable and scalable delivery options, avoiding the bifurcation of the birth-to-age-five continuum of care and establishing a duplicative system of support.

Building on the base of a robustly funded mixed delivery system:

2. Require accountability for high-quality practices to ensure families have access to programs that result in improved child outcomes: Hold all providers to quality standards as defined by external validation systems, provide multiple paths to achieve high-quality standards, and guarantee adequate funding to support high-quality practices. Allow validation of quality through both national accreditation and Quality Rating and Improvement Systems (QRIS).
3. Provide cost-effective solutions to improve affordability for low- and middle-income families, ensuring they have access to high-quality options: Expand CCDBG subsidy eligibility, increase the value of subsidies, and define reasonable parent copayments based on income level. Make permanent increases to the Child and Dependent Care Tax Credit (CDCTC), ensure credits are fully refundable so all families can use them, expand access to Dependent Care Assistance Plans (DCAPs), and provide advanced monthly payments to families of both the Child Tax Credit (CTC) and CDCTC to partially offset parent costs. Subsidies and tax credits need to be administered in concert to create a cost-effective funding solution that meets the needs of families across the income spectrum. Substantial increases to tax credits can help ensure that middle class families have assistance offsetting the cost of early care and education for the first time, benefiting millions of working parents.
4. Shift to a cost-of-care model to allow for increased investments in supply, educator wages, and quality: Utilize a cost-of-care study methodology, based on the known cost of providing full-day and year-round care, versus relying on regional market rate surveys—and determine appropriate direct-to-provider funding allocations. Cost-of-care calculations must be based on the enrollment of all children receiving subsidy, not just attendance. This is necessary because providers incur costs such as educator wages regardless of whether families are in attendance. A fully funded system that recognizes the true cost of care allows providers to invest in quality and raise educator wages and prevents reductions in options for families.
5. Solve the workforce crisis by improving wages and benefits for educators, resulting in higher quality programs: The solution to the workforce crisis starts with increasing reimbursement rates and direct funding to raise wages. The solution should also include providing an incentive to raise educator wages through a refundable payroll tax credit, establishing a student loan repayment program, and providing grants or tax credits to educators who are working in the early care and education field (e.g., T.E.A.C.H. scholarships).

CONCLUSION

A high-quality early care and education system is critical for children, families, and our economy. For decades, private providers have understood the significance of their work and invested in the workforce, program curricula, facilities, and infrastructure needed to offer high-quality care at scale.

Policymakers must enact legislation that appropriately funds a mixed-delivery system, as that is the only way to effectively provide families with cost-effective access to early care and education. Any reduction in private participation, would cause significant harm to the existing landscape, resulting in increased costs and reduced access for working families. A public-only model would cause even further damage, would be incredibly costly, cause delays in access to care, and lack capacity that families require. It would also mean creating two settings for one child, who need full workday and year-round care, instead of creating more settings for children who do not have access today. A mixed-delivery system avoids these issues.

Implementation of a mixed-delivery model, combined with our recommendations on quality accountability, affordability, cost and increased investments, and educator workforce supports, should be the path forward.

We have a once-in-a-generation opportunity to invest in a system that truly meets the needs of our children and families. If we leverage the extensive experience and infrastructure that exists across public and private home-, faith-, and center-based providers, we will make significant impact on children, families, and our economy today—and pave the way for a better future.

BACKGROUND

The Early Care and Education Consortium (ECEC) is a nonprofit alliance of the leading multi-state/multi-site child care providers, key state child care associations, and premier educational service providers, representing over 6,500 programs in 48 states, the District of Columbia, Puerto Rico, and select international locations. ECEC members serve as the unified collective voice for providers of high-quality programs and services that support families and children from diverse cultural and socio-economic backgrounds. They are advocates for federal and state policies that bring cost-efficient, results-driven quality to scale. The ECEC team can be contacted at ECEC@ECEConsortium.org.

Boston Consulting Group (BCG) is a global management consulting firm. At the heart of BCG's Education, Employment, and Welfare (EEW) practice are early-childhood education, K–12 education, higher education, vocational education, education technology and services, and lifelong learning. BCG also provides education strategy consulting services to related organizations, including education institutions, governments, nonprofits, foundations, education publishers, digital learning providers, corporate universities, investors, and early care providers. Their education experts help organizations and institutions set a bold ambition, cultivate talent, and deliver proven technology and innovation initiatives, all while managing costs. Authors of this paper include Managing Directors and Senior Partners J. Puckett and Daniel Acosta, Managing Director and Partner Kelsey Clark, and Project Leader Nicole De Santis. The BCG EEW team can be contacted at education@bcg.com.

APPENDIX A: CCDBG AND MARKET RATE SURVEYS

The CCDBG Act of 2014 revised the requirements for conducting market rate surveys, which set the reimbursement rates for providers that serve families that pay for child care with CCDBG subsidies. Per CCDBG, the goal of this rate-setting methodology is to ensure equal access to child care, and the benchmark for equal access established by ACF Office of Child Care is the 75th percentile of the current child care market. Unfortunately, the market rate survey does not necessarily guarantee equal access. Federal law does not require that payments be set at this rate, nor that states use the most current market survey when setting rates.[59] Additionally, because market profiles are developed by considering variables such as median income and demographics in an area, their use in the survey methodology institutionalizes inequitable payment rates; child care providers in those areas charge lower rates to reflect the price parents they serve can afford to pay.[60]

In 2020, across 50 states and D.C., only Maine reimbursed providers at or above 75 percent of the regional market rate, derived from market rate surveys. For the entire nation to simply reach the 75th percentile benchmark, states would require substantial additional CCDBG funding.[61] Any additional expansions in subsidy eligibility, as suggested in numerous recent proposals, would increase the number of children at subsidy rates and would thus require even more funding to be funneled to providers to cover the cost of care.

A study conducted by the University of New Mexico analyzes the cost of providing quality care by considering the increasing equipment, supply, curriculum, administrative, labor, and other costs associated with a provider's transition to higher quality designations. However, the market rate survey revealed that the rates providers charge do not systematically increase with increases in star-level designation, revealing a misalignment between the cost of increased quality and the revenue that can be earned from delivering quality.

APPENDIX B: AMERICAN RESCUE PLAN ACT

The $1.9 trillion American Rescue Plan Act (ARPA), passed in March of 2021, includes direct funds to support early care and education, including:

- **$15 billion investment in Child Care and Development Block Grant (CCDBG) for essential workers:** ARPA expanded CCDBG—which traditionally defrays the cost of early care and education for low-income families—so that they now apply to all essential workers.
- **$24 billion of stabilization to early care and education providers:** These funds are meant to help keep care providers open at a time after many suffered financial hardships due to COVID-19. Providers can use funds allocated to early care and education stabilization in many ways, including for personnel, rent/building costs, and support for educators and children.
- **$3.55 billion for Child Care Entitlement to States (CCES):** This includes a $633 million expansion to funding over prior levels.[62]

Moreover, the bill expands two tax credits to aid working families—the Child and Dependent Care Tax Credit (CDCTC) and the Child Tax Credit (CTC)—while also increasing allowable contributions to Dependent Care flexible spending accounts (FSAs).

- **CDCTC**: ARPA's expansion of the CDCTC makes it so that each family earning up to $125,000 in 2021 with one child can claim a credit of up to $4,000 (increased from $600 prior to ARPA); families with two or more children can claim a credit of up to $8,000 (increased from $1,200 prior to ARPA). The credit rate decreases for annual family incomes of between $125,000 and $183,000, and plateaus at a credit of up to $1,600 for one child and $3,200 for two or more children for incomes between $183,000 and $400,000. The credit rate decreases again before it reaches $0 for annual family incomes more than $438,000.[63]
- **CTC**: For 2021, ARPA temporarily expanded the CTC so that for head of household filers earning up to $112,500 or joint filers earning up to $150,000, the tax credit for children birth-to-age-five is $3,600 per child, and for children ages 6–17 is $3,000 per child (tax credits for both age ranges were $2,000 per child before ARPA). For many families, the tax credit phases down for head of household filers earning between $112,500 and $144,500 and joint filers earning between $150,000 and $182,000 until it reaches and plateaus at $2,000 per child. The credit then phases down to $0 for head of household filers earning between $200,000 and $240,000 and joint filers earning between $400,000 and $440,000.[64]
- **Dependent Care FSAs**: ARPA increased the maximum tax-free contribution in 2021 for employer-sponsored dependent care FSAs from $5,000 to $10,500.

APPENDIX C: STATE-LEVEL INDUSTRY WORKFORCE SUPPORT

Louisiana's School Readiness Tax Credit: Directed at educators, center directors, parents, and the business community, this credit encourages quality early learning by increases based on educator education level and site performance, as determined by outside evaluation.[65]

REWARD/INCENTIVES: Wisconsin and Georgia also have the REWARD[66] and INCENTIVES[67] programs, respectively, which distribute payments to early care and education workers who meet education and tenure requirements.

T.E.A.C.H. grant program: Administered through the states, this program receives funding through grants from businesses, foundations, and government—and provides scholarships to educators while requiring a commitment to continue working in their present early care and education program.[68]

WAGE$: Administered out of the T.E.A.C.H. national center, WAGE$ is an evidence-informed model that advances the education level of early educators, increases their compensation levels, and results in the retention of a qualified early care and education workforce. They provide wage supplements in nine states, and have, for example, reduced turnover in North Carolina to 11 percent annually.[69]

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