THE EFFECTS OF CHILD CARE SUBSIDIES FOR MODERATE-INCOME FAMILIES IN COOK COUNTY, ILLINOIS

Final Report

EXECUTIVE SUMMARY

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The findings and conclusions in this report do not necessarily represent the official positions or policies of the funders.

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Overview

Federal funding for child care subsidies has increased substantially since 1996. Although many more low-income families receive help paying for child care, there is little rigorous evidence to guide states' decisions on structuring subsidy programs. This is the final report of a random assignment study in Cook County, Illinois, that seeks to answer two policy questions: whether providing subsidies to families whose incomes are just over the state's eligibility limit affects their child care and employment outcomes, and whether extending the length of time before families must reapply for subsidies affects the receipt of subsidies and related outcomes.

This study included 1,884 families who applied for child care subsidies in Cook County, Illinois, between March 2005 and May 2006, and whose incomes exceeded the state's eligibility limits. Families were randomly assigned to a program group, which was approved to receive subsidies even though family income was above the usual eligibility limit, or to a control group, which remained ineligible for subsidies as long as family income was above the state guidelines. In addition, a random half of the program group was asked to confirm its eligibility for subsidies every six months (the state standard) while the other half was asked to reconfirm eligibility annually. Because families were assigned at random to the program and the control groups, any systematic differences that emerged after random assignment can reliably be attributed to the policy changes being studied.

The results suggest the following:

- **Approving families to receive subsidies did not lead to increased employment or earnings**. In large part this is because most study participants were steadily employed. Over the two-year follow-up period, program group families received subsidies for eight months longer than control group families. However, both the program group and the control group earned about $26,500 each year on average, and more than 85 percent of parents in each group worked in any quarter. Thus, there was little room for the program to have an effect on employment for families who were eligible for the study.

- **Child care subsidies affect a range of child care outcomes.** Compared with the control group, families in the program group reported greater use of center-based care, more stable child care, increased satisfaction with care, and fewer job-related problems due to child care.

- **Extending the eligibility period increased the use of subsidies but had few other effects.** Over the two years of the study, families who had to confirm their eligibility once a year received subsidies for 2.5 months longer than those who had to do it every six months. However, the longer redetermination period had few effects on other child care and employment outcomes.

The results suggest that child care subsidies might not be needed to support parental employment for the nonpoor families included in this study, but they do have a range of effects on child care outcomes that could lead to other, unmeasured effects, such as reduced parental stress and increased family well-being.

Acknowledgments

This report resulted from the collaboration of many people and organizations.

Illinois was chosen as a site in the evaluation after a rigorous national search for interesting and policy-relevant interventions in the child care subsidy system. A number of people contributed greatly to this search, including Jean Layzer, Ann Collins, Fred Glanz, and Allen Werner at Abt Associates Inc; John Wallace and Rob Ivry at MDRC; and Lee Kreader at Columbia University's National Center for Children in Poverty.

The study could not have been conducted without the support of a number of individuals in Illinois. Linda Saterfield helped conceive of the study in her role as Chief of the Bureau of Child Care and Development at the Illinois Department of Human Services (IDHS). Loretta Davis and Colette Ellenberg at IDHS made it possible for us to estimate the effect of the program by providing us with data from various state administrative records systems. At Illinois Action for Children, which administers child care subsidies in Cook County, executive director Maria Whelan lent her wholehearted support to the study. Chris Tokarski and Kim Kerbrat led "Team Y," which was responsible for reviewing and processing subsidy applications and obtaining consent for families eligible for the study. Other members of Team Y were Iwona Orlowska-Bolinsica and Sonia Suarez. David Alexander and Marcia Stoll reviewed and commented on the project from a research perspective.

The report was immeasurably strengthened by the excellent comments given by many reviewers. At MDRC, Fred Doolittle and Ginger Knox closely reviewed drafts of the report and had a strong influence on its focus, as did Howard Rolston, Ann Collins, and Steve Bell at Abt Associates Inc.

Finally, the report could not have been produced without the invaluable support of many others at MDRC. David Navarro helped set up the experiment and explain random assignment procedures to Action for Children staff; Robin Phinney helped process and analyze survey data and took the lead on creating a public use file; Noemi Altman helped process administrative records; and Richard Kwong assisted with statistical programming, coordinated document production, created tables and figures, and checked the accuracy of the exhibits and text. Finally, Susan Blank edited the report and Stephanie Cowell prepared it for publication.

The Author

Executive Summary

In order to support the employment and child care choices of low-income families, federal funding for child care subsidies has increased substantially since 1996. Although many more low-income families are consequently receiving help paying for child care, there is little rigorous evidence to guide states' decisions on how to best structure their subsidy programs to meet the twin goals of supporting parental employment and helping families afford their preferred form of child care. This is the final report of a random assignment study in Cook County, Illinois, that seeks to answer two policy questions: whether providing subsidies to families whose income exceeds the state's usual income eligibility limit affects their child care and employment outcomes, and whether extending the time before families have to reapply — the redetermination period — affects their receipt of subsidies and related outcomes.

The results suggest the following:

- Providing child care subsidies to families who otherwise would have too much income to be eligible has a range of effects on child-care-related outcomes, including changing the types of care families use, increasing the stability of the care, improving parental satisfaction with care, reducing job-related problems due to child care, and changing the out-of-pocket costs of care.

- Lengthening the redetermination period from six months to a year increases the length of time families receive child care subsidies but has effects on few other outcomes.

- Neither approving families to receive subsidies nor lengthening the redetermination period has a notable effect on employment or earnings. In large part, this is because most parents in the study maintained steady, full-time employment, making it difficult for either intervention that was used in the study to affect employment or related outcomes.

Policy Context

The federal Child Care and Development Fund imposes a number of requirements on states' child care subsidy policies, but it also provides flexibility to let states set policies that fit local needs. Among other factors, states are allowed to determine the maximum income for families to be eligible for subsidies and the length of time that families can receive subsidies before they have to be recertified.

With regard to income eligibility limits, federal regulations allow states to provide subsidies to families whose incomes are 85 percent of state median income (SMI) or less. In Illinois, the income limit until September 2007 was 50 percent of SMI, or about $2,000 per month for a single parent with one child. In comparison with many other states, this income limit is low: 29 states set their subsidy eligibility ceiling above 55 percent of SMI, and only six set it below 45 percent of SMI.[1] However, Illinois is committed to providing subsidies to all eligible families who apply, while 14 other states maintain a waiting list.

Regarding eligibility periods, in 2006, a majority of states required that families be recertified every six months but 18 states had one-year redetermination periods, and two required redetermination more than twice a year. In Illinois, most families are required to reapply every six months.[2]

Description of the Evaluation

Between March 2005 and May 2006, all families who applied for child care subsidies in Cook County, Illinois, whose incomes were between 50 and 65 percent of SMI were invited to participate in the study. Half of those who agreed to be in the study were randomly selected to be approved to receive subsidies even though they had too much income under usual state rules. People in this group could receive subsidies for the next two years as long as their incomes remained below 65 percent of SMI and they met other state eligibility requirements. The other half of families in the study formed a control group that could receive subsidies only if their incomes fell below 50 percent of SMI. Among those selected to be approved to receive subsidies, half were randomly assigned a one-year redetermination period (that is, they would not have to reapply for subsidies for a full year), while the other half had to follow the usual state rules and reapply for subsidies every six months. In all, 1,884 families were successfully recruited for the study: 470 of these families were assigned to the six-month redetermination program group, 470 were assigned to the 12-month redetermination program group, and 944 were assigned to the control group.

Because families were assigned at random to the three groups, any systematic differences that emerged after random assignment can reliably be attributed to the policy changes being studied. In particular, differences between those in the program group who were approved to receive subsidies with a six-month redetermination period and members of the control group indicate the effect of providing subsidies to families who otherwise had too much income to be

[1] Administration for Children and Families, *Child Care and Development Fund: Report to Congress* (Washington, DC: Administration for Children and Families, 2006).

[2] Administration for Children and Families, *Child Care and Development Fund: Report to Congress* (Washington, DC: Administration for Children and Families, 2006).

eligible. Differences between the members of the two program groups, who were approved to receive subsidies with different redetermination periods (12 months or six months), indicate the effect of increasing the redetermination period among families who were approved to receive subsidies.

Because program group families were able to receive subsidies with more income than under the usual state eligibility rules, the state had to devise new amounts for copayments (the payment that families are expected to contribute toward the cost of care). Under the extension of the existing copayment schedule, families receiving subsidies for one child with income between 50 and 65 percent of SMI were asked to make weekly copayments ranging from $49 to $61. In comparison, providers receiving subsidies to care for children in these families received a total amount ranging from $47 for unlicensed home care (such as care provided by a relative or neighbor) to $169 for center care for a child younger than 2.5 years old. Thus, a family receiving subsidies paid the entire cost of care if that family used unlicensed care, but the state contributed most of the cost of center care. For families receiving subsidies for two children, the weekly copayment ranged from $84 to $104, while reimbursement to providers ranged from $95 for unlicensed care to $338 for center care for children under 2.5 years old.

To examine the effects of the program, data were collected from both administrative records systems and surveys of study participants. Data from administrative records systems include information from an application form completed shortly before random assignment, monthly data from the child care subsidy system, unemployment insurance records on employment and earnings, and records from the food stamp and Temporary Assistance to Needy Families (TANF) programs. One follow-up survey collected a range of information not available through administrative records, including a detailed history of each child care provider the family used, and information on the respondents' levels of satisfaction with the child care situation and on the reliability of the care, job problems related to child care, and out-of-pocket costs of child care.

Key Findings

- **Enhanced subsidies temporarily increased the use and stability of subsidy receipt but did not increase families' employment or earnings, in large part because most study participants were steadily employed.**

Table ES-1 shows the effects of approving families to receive subsidies on months of subsidy receipt, employment, earnings, and months of receipt of TANF and food stamps over the two years of the program. Not surprisingly, the program led to greater subsidy receipt. Over the two-year follow-up period, program group families received subsidies for eight months

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Table ES-1

Estimated Impacts on Outcomes from Administrative Records

Outcome	Program Group	Control Group	Difference (Impact)	Standard Error
Year 1				
Months of subsidy receipt	7.7	2.1	5.6 ***	0.2
Quarters of employment	3.6	3.6	0.0	0.0
Earnings ($)	26,438	26,727	-289	441
Months of TANF or food stamp receipt	1.8	1.8	-0.1	0.1
Total measured income ($)	27,007	27,316	-309	429
Year 2				
Months of subsidy receipt	4.5	2.1	2.4 ***	0.2
Quarters of employment	3.4	3.4	0.0	0.0
Earnings ($)	26,367	26,790	-423	589
Months of TANF or food stamp receipt	2.1	2.2	-0.1	0.2
Total measured income ($)	27,076	27,549	-473	574
Total				
Months of subsidy receipt	12.2	4.2	8.0 ***	0.3
Received subsidies for 7 consecutive months (%)	64.2	21.6	42.6 ***	2.0
Received subsidies for 13 consecutive months (%)	36.1	11.4	24.7 ***	1.8
Quarters of employment	7.0	7.0	0.0	0.1
Earnings ($)	52,805	53,516	-711	926
Months of TANF or food stamp receipt	3.8	4.0	-0.2	0.3
Total measured income ($)	54,072	54,854	-782	902
Sample size (total = 1,884)	940	944		

SOURCE: MDRC calculations from State of Illinois administrative records.

NOTES: To assess differences across research groups, two-tailed t-tests were used.
Statistical significance levels are indicated as follows: *** = 1 percent; ** = 5 percent; * = 10 percent.

longer than control group families. In addition, the program increased the stability of subsidy receipt, tripling the number of families receiving subsidies for a year or more.

Over time, however, the effect on subsidy receipt greatly diminished. Although on average program group families received subsidies for 5.6 months more than control group families in the first year, the difference was only 2.4 months in the second year. By the end of the two years, the difference in the extent of subsidy receipt was close to zero, with about 20 percent of each group receiving subsidies at that time (not shown in the table). Thus, most families approved to receive subsidies at the beginning of the study had stopped receiving them two years later. Such reductions in subsidy receipt have been found in other studies and could have occurred for many reasons, which include children entering school and therefore requiring fewer hours of child care, parents earning too much to continue to receive subsidies, or parents deciding that copayments were too high to warrant continuing to receive subsidies. The last reason may have been especially true for parents using unlicensed care, for which parents receiving subsidies paid most of the cost of care. For those parents the cost of paperwork involved in applying and reapplying for the help might have been greater than the benefits they received.

Making program group families eligible for subsidies did not lead to any changes in their employment, earnings, the extent of public assistance receipt, or their incomes compared with the control group. It is important to note that compared with typical subsidy recipients, families in the study had more income, quite stable employment, and low rates of receipt of public assistance. For example, control group parents worked for an average of seven of eight quarters in the two years after they entered the study and had earnings that were consistent with full-time work over this period. On average, they received food stamps in only four months in the two-year follow-up period.

- **Enhanced subsidies had a range of effects on child care outcomes, including changing the type of child care families used, increasing the stability of child care and parents' satisfaction with child care, and changing the distribution of the out-of-pocket costs of care.**

As Table ES-2 shows, approving families to receive subsidies had a number of effects on outcomes related to use of child care. To start, more program group families than control group families used center care following random assignment, while fewer used home-based care provided by either relatives or nonrelatives. The finding that program group families opted for more expensive center care is consistent with the subsidy system's goal of helping families afford their preferred form of care.

Perhaps because the program helped families afford their preferred care, the program also increased the stability of care: 92 percent of program group children versus 89 percent of control group children never experienced an interruption in their primary care arrangements. In addition, the intervention decreased by over 3 percentage points the percentage of program group children who were ever cared for by more than one care provider in a given month.

Table ES-3 shows that approving families to receive subsidies increased their satisfaction with child care and reduced job problems due to child care. In particular, access to subsidies increased a rating of parental satisfaction with child care by more than 7 points (on a scale of 100 points).This outcome was calculated by comparing the average proportion of "agree" answers to a composite of 10 child care-related statements that were made by program group members with answers made by control group members.

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Table ES-2

Estimated Impacts on Type and Stability of Child Care Arrangements, in Year after Random Assignment, for Children under Age 6 at Random Assignment

Outcome	Program Group	Control Group	Difference (Impact)	Standard Error
Ever used as primary provider (%)				
Any nonparental care	62.3	63.0	-0.7	3.0
Center care	44.8	38.2	6.6 **	3.1
Home care, relative	14.4	18.5	-4.1 *	2.4
Home care, nonrelative	5.5	9.8	-4.3 ***	1.6
Average number of months as primary care provider				
Center care	4.4	3.6	0.8 **	0.3
Home care, relative	1.5	1.6	-0.1	0.2
Home care, nonrelative	0.5	1.0	-0.5 ***	0.2
Sample size (total = 1,237)	664	573		

SOURCE: MDRC calculations from Illinois Child Care Subsidy Evaluation survey.

NOTES: To assess differences across research groups, chi-square tests were used for categorical variables, and two-tailed t-tests were used for other variables.

For categorical outcomes, statistically significant impacts are identified with one set of stars, located above the impact estimates.

Statistical significance levels are indicated as follows: *** = 1 percent; ** = 5 percent; * = 10 percent.

See Appendix A for detailed notes on the construction of these outcomes.

Standard errors are adjusted to correct for clustering of children within families. Standard errors of impact estimates on categorical outcomes are not adjusted for clustering.

In the table, the estimated impacts on the types of care ever used by children in the sample are examined separately because each child could have used more than one type of care. However, a chi-square test was also used to test the intervention's effects on the overall distribution of types of care used by program and control group members. The test found statistically significant differences (p-value < 0.001).

Approving families to receive subsidies also reduced the proportion of program group members who experienced job problems by about one-quarter, from 51 percent of the control group to 38 percent of the program group (although, as noted earlier, this reduction in job problems did not result in a reduction of job losses for the program group).

Finally, having access to subsidies decreased the variation in families' out-of-pocket child care expenses at the time of the survey. Compared with control group families, program group families were both less likely to pay under $50 per week and less likely to pay over $100 per week but were more likely to pay between $50 and $100 per week. This finding is consistent with copayment amounts, which were between $49 and $61 for a program group family receiving subsidies for one child and between $84 and $104 for a family receiving subsidies for two children. The fact that more control group families than program group families were paying under $50 per week for child care suggests that more control group families were using

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Table ES-3

Estimated Impacts on Child Care Satisfaction, Job-Related Problems, and Costs

Outcome	Program Group	Control Group	Difference (Impact)		Standard Error
Child care satisfaction and job-related problems since random assignment					
Satisfaction with primary care provider (scale of 0 to100)	78.3	71.0	7.3	***	1.2
Ever had job problems due to child care arrangement (%)	37.7	51.4	-13.7	***	2.7
Child care costs at time of survey (%)					
Average weekly out-of-pocket costs for child care				***	
Under $50	28.1	30.4	-2.3		
$50 to $100	32.1	28.3	3.8		
Over $100	33.3	37.7	-4.4		
Don't know/refused	6.6	3.7	2.9		
Sample size (total = 1,330)	699	631			

SOURCE: MDRC calculations from Illinois Child Care Subsidy Evaluation survey.

NOTES: To assess differences across research groups, chi-square tests were used for categorical variables, and two-tailed t-tests were used for other variables.
For categorical outcomes, statistically significant impacts are identified with one set of stars, located above the impact estimates.
Statistical significance levels are indicated as follows: *** = 1 percent; ** = 5 percent; * = 10 percent.
See Appendix A for detailed notes on the construction of these outcomes.

less expensive forms of care, such as relative care, at the time of the survey interview. The fact that control group families were more likely than program group families to be paying over $100 per week for child care suggests that some control group families who were not receiving subsidies were using types of care whose costs were more expensive than they would have been if the family had been eligible for child care subsidies.

- **Lengthening the redetermination period increased subsidy receipt but had a smaller effect than approving families to receive subsidies.**

Randomly assigning families to 12-month and six-month redetermination periods allows the study to isolate two separate effects: (1) the effect of providing subsidies with a standard redetermination period (comparing the six-month redetermination group with the control group) and (2) the effect of a longer redetermination period among families who were approved to receive subsidies (comparing the 12-month redetermination group with the six-month group).

These comparisons indicated that lengthening the redetermination period did increase the use of subsidies and the stability of subsidy receipt. Over the two-year follow-up period, families in the 12-month redetermination group received subsidies for 2.5 months longer on average than those in the six-month redetermination group. In addition, extending the redetermination period increased the proportion of families who received subsidies for seven consecutive months by 18 percentage points.

Extending the redetermination period had less of an effect than making families eligible for subsidies in the first place. For example, families approved to receive subsidies with a six-month redetermination received subsidies 6.8 months longer over two years than control group families, while families approved to receive subsidies with a 12-month redetermination period received subsidies for 2.5 months longer than families who were approved with a six-month redetermination period.

The longer redetermination period generally did not affect other outcomes, including employment, child care arrangements, job-related problems, or out-of-pocket expenses. However, it did appear to increase satisfaction with child care.

- **The program's effects were generally similar across several subgroups that were examined, although there were some differences.**

Findings for the full sample can mask differences across groups of families. To investigate this possibility, the effects of the program were estimated for three sets of subgroups: (1) those who were reapplying for benefits at redetermination when they entered the study versus those who applied for the first time or after a break in subsidy receipt (new applicants), (2) those receiving subsidies for one child at the beginning of the study versus those receiving subsidies for two or more children, and (3) those who were applying for unlicensed care, licensed home care, or center care when the study began.

There might have been differences in impacts for these different subgroups of families for a number of reasons.

- Families coming into the study at redetermination lost their eligibility for subsidies if they were in the control group because their incomes exceeded the usual ceiling. By contrast, new applicant program group families were approved to receive subsidies for the first time (or after a break in subsidy receipt). Thus, comparing new applicants with redetermination applicants contrasts the effects of losing subsidies with the effects of gaining them. In addition, families who came into the study at redetermination were presumably more familiar with the program's rules and probably had an ongoing relationship with a child care provider.

- The value of the subsidy should have been higher for families with more subsidized children because the unsubsidized cost of care is greater for these families. This suggests that effects would be greater for families with more subsidized children.

- Finally, program group families applying for unlicensed care would find that their copayments covered most or all of the cost of care. This might encourage them to change to a more expensive form of care or discourage them from receiving subsidies because they would decide that the size of the benefit they would receive to apply to unlicensed care was not worth the effort involved to apply for and maintain it. By contrast, families applying for subsidies for licensed care might see larger reductions in their out-of-pocket costs.

In many respects, the results were consistent with these hypotheses. For example, the program increased child care stability more for families at redetermination than for new applicants, supporting the hypothesis that losing subsidies at redetermination can be disruptive for children's care arrangements. In addition, the program increased subsidy receipt least for families applying for unlicensed care, which is consistent with the hypothesis that these families might decide that it was not worthwhile to apply for subsidies since their copayments would cover so much of the cost of care. However, there were few other differences in impacts across the subgroups.

Discussion of Results

A primary goal of the child care subsidy system is to support employment. By allowing families to use subsidies for a wide range of care, the system also helps parents to afford the type of care that they prefer for their children. For the families included in this study, the results suggest that subsidies are achieving the second goal but are not needed for the first one. In particular, approving families to receive subsidies affected a range of child care outcomes. In addition to increasing use of subsidies, it encouraged the use of center care, which was presumably unaffordable for many families unless they received subsidies. By helping families afford their preferred care, subsidies also led to greater satisfaction with care, more stable care, and fewer problems at work related to child care. Finally, subsidies reduced the out-of-pocket costs of care for some families.

At the same time, enhanced eligibility for child care subsidies did not affect employment, earnings, public assistance receipt, or income. This reflects the fact that most parents in the study were steadily employed both before and after they entered the study, regardless of whether they were approved to receive subsidies. It is important to remember that study participants had too much income to be eligible for subsidies under the usual state rules, and that subsidies might still be an important employment support for lower-income families.

The study also found that lengthening the redetermination period from six months to a year increased the use of subsidies and the stability of their receipt. However, these effects were rather small and did not generally translate into the other benefits that came from approving families to receive subsidies in the first place.

Finally, it should be noted that the measured effects of the program might have led to other, unmeasured effects. For example, increased satisfaction with care, reduced job-related problems, and reduced out-of-pocket costs may all have reduced parental stress and increased family well-being. And on the assumption that parents are the best judges of what is best for their children, allowing parents to choose their preferred form of care might have benefited their children.

About MDRC

MDRC is a nonprofit, nonpartisan social and education policy research organization dedicated to learning what works to improve the well-being of low-income people. Through its research and the active communication of its findings, MDRC seeks to enhance the effectiveness of social and education policies and programs.

Founded in 1974 and located in New York City and Oakland, California, MDRC is best known for mounting rigorous, large-scale, real-world tests of new and existing policies and programs. Its projects are a mix of demonstrations (field tests of promising new program approaches) and evaluations of ongoing government and community initiatives. MDRC's staff bring an unusual combination of research and organizational experience to their work, providing expertise on the latest in qualitative and quantitative methods and on program design, development, implementation, and management. MDRC seeks to learn not just whether a program is effective but also how and why the program's effects occur. In addition, it tries to place each project's findings in the broader context of related research — in order to build knowledge about what works across the social and education policy fields. MDRC's findings, lessons, and best practices are proactively shared with a broad audience in the policy and practitioner community as well as with the general public and the media.

Over the years, MDRC has brought its unique approach to an ever-growing range of policy areas and target populations. Once known primarily for evaluations of state welfare-to-work programs, today MDRC is also studying public school reforms, employment programs for ex-offenders and people with disabilities, and programs to help low-income students succeed in college. MDRC's projects are organized into five areas:

- Promoting Family Well-Being and Children's Development
- Improving Public Education
- Raising Academic Achievement and Persistence in College
- Supporting Low-Wage Workers and Communities
- Overcoming Barriers to Employment

Working in almost every state, all of the nation's largest cities, and Canada and the United Kingdom, MDRC conducts its projects in partnership with national, state, and local governments, public school systems, community organizations, and numerous private philanthropies.