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CHILD CARE SUBSIDY  
COPAYMENTS IN  
WASHINGTON STATE

Final Report

Executive Summary

OPRE 2011-2

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Executive Summary  
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## Overview

Federal funding for child care subsidies has increased substantially since 1996. Although many more low-income families are receiving help paying for child care, there is little rigorous evidence to guide states' decisions on how to structure subsidy programs. This is the final report of a two-year evaluation in Washington State focusing on one key state policy decision: how much families should contribute when they receive subsidies for child care (the copayment).

The study described in this report examined the effects of reduced copayments on child care subsidy use, employment and earnings, and receipt of Temporary Aid to Needy Families (TANF) and food stamps. Between October 18, 2005, and November 7, 2005, 5,106 families were randomly assigned to either a control group that was assigned the standard copayment amounts, or a program group that was assigned an alternative copayment schedule. Random assignment ensures that any systematic differences that emerged later could reliably be attributed to the alternative copayment schedule.

In determining how much families will be charged for copayments, Washington divides them into three income groups. In short, the alternative and standard copayment schedules were the same for families in Tier 1 (below 82 percent of the federal poverty level), diverged by \$35 each month for families at the bottom end of Tier 2 (between 82 and 137.5 percent of poverty), and differed the most for families in Tier 3 (between 137.5 and 200 percent of poverty). When they entered the study, Tier 2 families had an average monthly copayment of \$50 under the standard schedule but \$34 under the alternative schedule, and Tier 3 families paid \$211 on average under the standard copayment schedule but \$134 under the alternative schedule. Key results of the study are:

- **The alternative copayment schedule resulted in longer subsidy use.** In particular, program group families in Tier 3 received subsidies for 1.1 months longer than comparable control group families. The impact on subsidy receipt rates grew at around six months after families entered the study, when most of them would have had to reapply for subsidies and would have learned about changes in their monthly copayments.
- **The alternative copayment schedule did not result in more employment.** For Tier 3 families, for whom the alternative copayment differed most from the standard schedule, 77 to 88 percent of both the program and control groups worked in any given quarter after random assignment, leaving little room for the program to have an effect. The program also did not increase earnings or reduce use of food stamps or TANF.

These results should be interpreted cautiously. Although reduced copayments resulted in longer subsidy use, reliable information on child care arrangements and stability was not available for this study. It is therefore impossible to know whether reduced copayments helped families afford their desired form of child care or improved other outcomes related to child care. Although reduced copayments did not result in increased employment or earnings, as hoped, it is important to remember that copayments were reduced the most for the highest-income subsidy recipients, a group that worked steadily even under the standard copayment schedule, leaving little room to improve employment outcomes.



## Acknowledgments

This report resulted from the collaboration of many people and organizations beginning with the strong project leadership of Jean Layzer and Ann Collins at Abt Associates, Inc., the prime contractor for this study.

Washington State was chosen as a site in the Evaluation of Child Care Subsidy Strategies 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 was possible only because of the support of a number of individuals in Washington State. In her former role as Director of the Division of Child Care and Early Learning at the Department of Social and Health Services, Rachael Langen helped conceive the idea of testing an alternative copayment schedule. By providing data from various state administrative records systems to the research team, Laura Schrage and Andrei Bazdyrev at the Department of Early Learning (DEL) made it possible for the study team to estimate the effect of the program. Carla Gira helped make the project a reality by overseeing day-to-day activities within DEL and interacting with program staff around the state. Finally, Rick Lee was responsible for programming algorithms to conduct the random assignment process that was used in the study and to calculate copayments under the alternative copayment schedule that was tested in the intervention.

The report was immeasurably strengthened by the excellent comments from 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 and Ann Collins at Abt Associates, Inc.

Finally, the report could not have been produced without the invaluable support of many others at MDRC. Erika Lundquist was responsible for managing all aspects of acquiring and processing data files. She was assisted by Nina Castells, Noemi Altman, and Robin Phinney, and guided by senior data management advice from Richard Hendra. 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 with the assistance of Robert Weber.

The Author





## Executive Summary

Federal funding for child care subsidies, a strategy designed to support the employment and child care choices of low-income families, has increased substantially since 1996. Although many more low-income families are consequently receiving help in paying for child care, there is little rigorous evidence to guide states' decisions on how to structure these policies. This final report of a two-year evaluation in Washington State provides information on one key state policy decision: the amount families should contribute when they receive subsidies to help pay for child care, or copayments. The Washington program was one of four sites in the national Evaluation of Child Care Subsidy Strategies, which is funded by the Administration for Children and Families in the U.S. Department of Health and Human Services.

### Description of the Evaluation

All families in the state of Washington that were approved to receive child care subsidies between October 18, and November 7, 2005 — a total of 5,106 families — were entered into the study. These families were randomly assigned to two groups: (1) a control group that was assigned the standard copayment schedule used in the state, and (2) a program group that was assigned an alternative schedule that reduced copayments for many families. Because families were assigned at random to the two groups, any systematic differences that emerged after random assignment can reliably be attributed to the alternative copayment schedule.

#### The Standard and Alternative Copayment Schedules

In its standard determination of copayments for families receiving child care subsidies, the state of Washington divides families into three groups, called tiers, based on their cash incomes: Tier 1 families have income below 82 percent of the poverty level, Tier 2 families have income between 82 and 137.5 percent of the poverty level, and Tier 3 families have income between 137.5 and 200 percent of the poverty level. In 2005, when this study began, the poverty level was \$16,090 for a family of three and \$19,350 for a family of four.

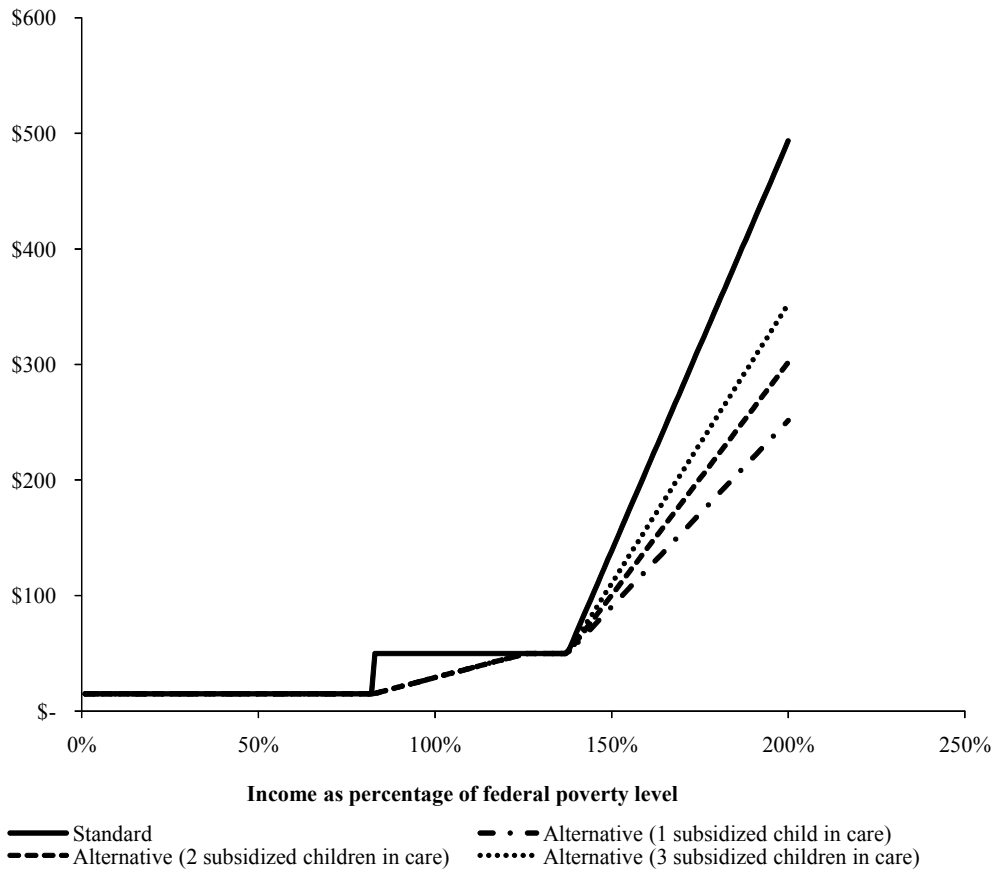
Figure ES-1 shows the standard and alternative copayment schedules for a family of four, which could be a two-parent family with two children or a single parent with three children.

- **Tier 1** families receiving subsidies paid \$15 each month for child care under both the standard and alternative copayment schedules.

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Figure ES-1

Standard and Alternative Child Care Copayments for a Family of Four



SOURCE: State of Washington Department of Social and Health Services.

- Tier 2** families paid \$50 each month under standard state rules. Under the alternative schedule, copayments increased by 5 percent of income above 82 percent of the poverty threshold until they reached \$50 a month.
- Tier 3** families paid a monthly copayment equal to \$50 plus 44 percent of the difference between their monthly family income and 137.5 percent of the federal poverty threshold under standard rules. Under the alternative schedule, the monthly copayment increased by 20, 25, or 30 percent of income with each additional dollar of income above 137.5 of the poverty line for families with one, two, or three or more subsidized children.

In short, the alternative and standard copayment schedules were the same for families in Tier 1, diverged by \$35 each month for families at the bottom end of Tier 2, and differed the most for families in Tier 3. For Tier 3 families, the alternative copayment schedule was particularly beneficial for families with one and two children in care. At the time of random assignment, Tier 2 families had an average monthly copayment of \$50 under the standard schedule but \$34 under the alternative schedule, while Tier 3 families had an average copayment of \$211 under the standard copayment schedule but only \$134 under the alternative schedule.

### **Study Sample**

Reflecting state rules on parents eligible to receive subsidies, the sample included three types of parents: working parents with family income below 200 percent of the federal poverty level, parents receiving Temporary Assistance for Needy Families (TANF) who were in approved work-related activities, and adult parents under age 22 who were pursuing a high school credential. Washington does not have a waiting list of applicants for subsidies, so all eligible parents who applied for subsidies were approved to receive them.

Most sample members were single parents. Most were white, but about 30 percent of the sample was black or Hispanic, and almost 11 percent identified themselves as either Asian, Native American, or from another racial or ethnic group. The average family had a monthly income of \$1,425. While about 70 percent of the sample had worked in any given quarter in the year before random assignment, about half had received TANF and three-quarters had received food stamps. In addition, nearly 80 percent had received child care subsidies in the year before entering the study and 65 percent were receiving subsidies when they entered the study.

There was considerable variation in economic circumstances by income tier. For example, average monthly income reported on the subsidy application ranged from \$666 for families in income Tier 1 to \$2,225 for families in Tier 3. On average, Tier 3 families earned more than \$15,000 and had an 82 percent employment rate in the prior year, while Tier 1 families earned only about \$5,000 and had less than a 50 percent employment rate. While 76 percent of Tier 1 families received TANF in the year before entering the study, only 27 percent of Tier 3 families received TANF during that year.

### **Hypothesized Effects**

Reducing copayments could have a range of effects on other outcomes. First, basic economic theory suggests that making families pay less for care when they receive subsidies will encourage them to receive subsidies for a longer period of time. By helping families pay for their desired form of care, increased subsidy receipt might help families achieve more stable

care, either by helping them afford inherently more stable care or by helping them pay for care on a regular basis. More stable care could in turn help parents stay employed. Likewise, reducing the amount that copayments increase when earnings increase could encourage parents to work and earn more, increasing their income and reducing their reliance on other forms of public assistance such as TANF and food stamps.

### **Data Sources**

To investigate the effects of reduced copayments on these outcomes, this report uses data from three administrative records sources: the child care subsidy system, which provided information on each form of care for which families used subsidies for each child in the family; the unemployment insurance (UI) system, which provided information on earnings and hours worked for each employer; and the public assistance system, which provided information on TANF and food stamps benefits. UI and public assistance data have the advantage of providing information on outcomes even when families stopped receiving child care subsidies. Although a survey was planned to capture information on child care arrangements and other outcomes, it was not used in this report because only 34 percent of individuals targeted for the survey responded to it.

### **Main Findings**

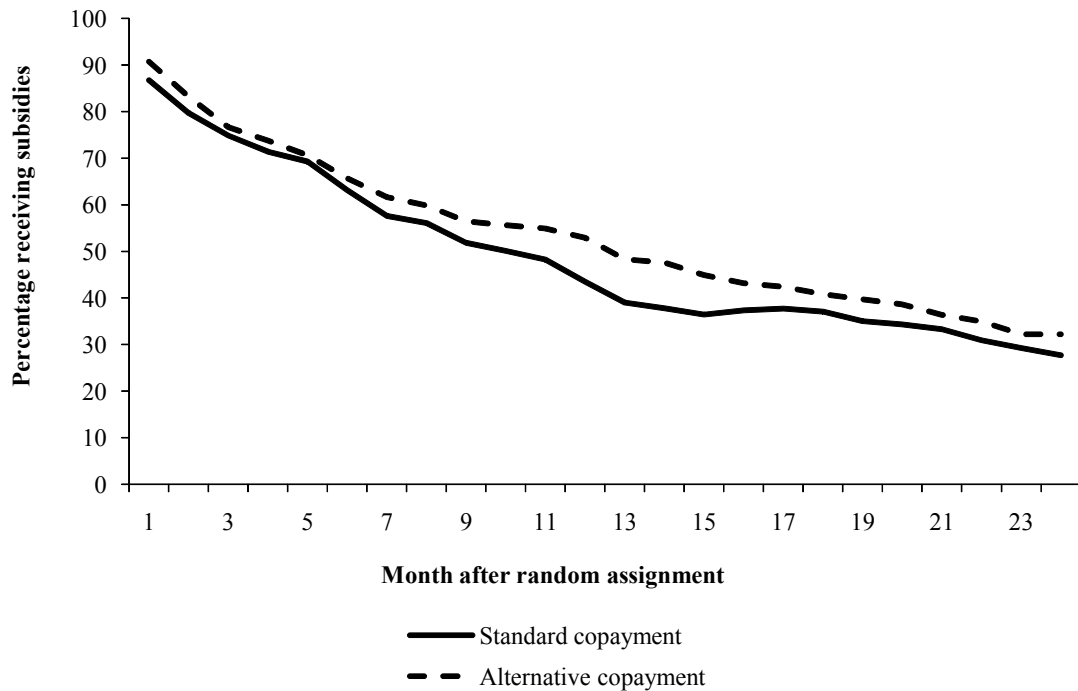
Key results from the study are:

- **Tier 3 families facing the alternative copayment schedule were more likely than similar control group families to receive subsidies.** As Figure ES-2 shows, while the percentage of families that received subsidies dropped to about 90 percent just after random assignment for both the alternative copayment and standard copayment groups over time, it decreased less for the alternative copayment group. In particular, the gap in subsidy receipt between the two groups grew around six months after random assignment, when most families would have had to reapply for subsidies and would have learned about any change in their copayments. In the latter part of the second year, however, the differences between the alternative and standard copayment group diminished.
- **The alternative copayment schedule did not result in more employment for Tier 3 families.** Figure ES-3 shows that 80 to 90 percent of both groups were employed after random assignment, and there was no difference in employment rates between the two groups. The program also did not increase earnings. The high rate of employment for Tier 3 parents suggests

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Figure ES-2

Estimated Impacts on the Percentage of Families Receiving Child Care Subsidies for Families in Income Tier 3 at Random Assignment



SOURCE: MDRC calculations from State of Washington administrative records.

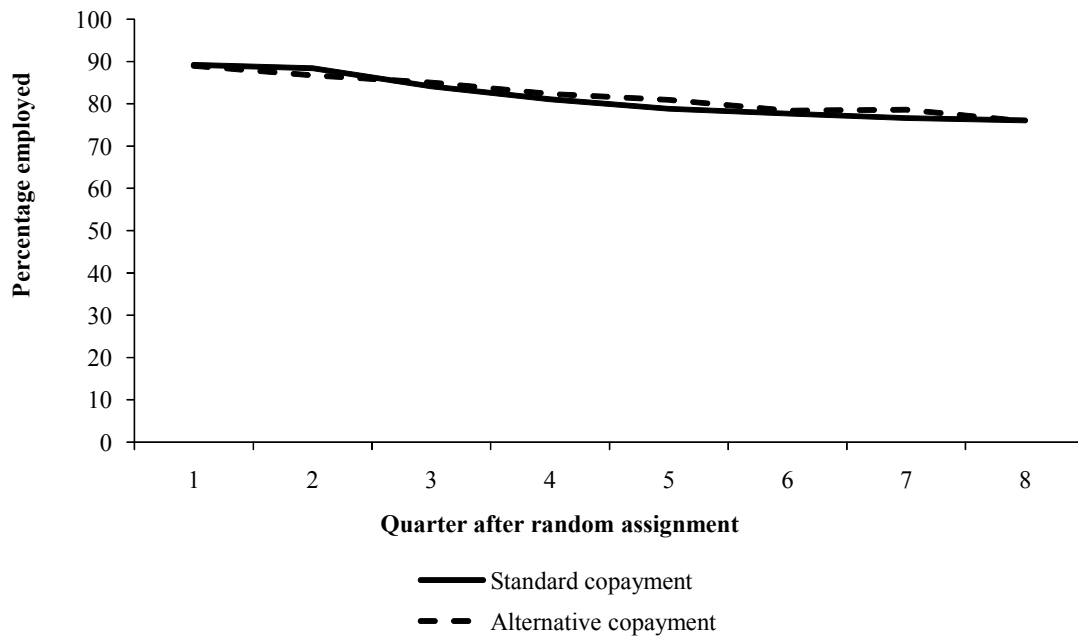
that subsidies had little room to increase employment levels among these parents.

- **The alternative copayment also affected subsidy receipt rates for families in Tiers 1 and 2, but the effects were smaller than for Tier 3 families.** For example, Tier 1 and Tier 2 families assigned the alternative copayment schedule received subsidies for 0.6 months more on average than comparable families in the control group, while the comparable difference for Tier 3 families was 1.1 months. However, there was little effect on employment, earnings, or use of public assistance for families in any income tier.

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Figure ES-3

Estimated Impacts on Quarterly Employment Rates for Families in Income Tier 3 at Random Assignment



SOURCE: MDRC calculations from State of Washington administrative records.

## Discussion of Results

The results presented above indicate that a reduced copayment schedule led families to receive subsidies for a longer period of time. This was especially true for higher-income subsidy recipients, for whom the alternative copayment represented the largest reduction in their copayment amounts. Reducing copayments did not appear to affect employment, however.

These results should be interpreted cautiously for several reasons. First, while the study provides credible evidence on the effects of a reduced copayment schedule in Washington, it might not represent what would happen within another state context. Second, for many of the families in the study, especially for those in Tier 1 and Tier 2, the differences in copayment amounts were not substantial; larger differences in copayments between the two groups may have had an impact. Third, although copayment amounts differed most for Tier 3 families, most

of those higher-income parents worked following random assignment even under the standard copayment schedule, leaving the program little room to alter employment rates. Finally, it was not clear that families were aware of how their employment decisions may have affected their assigned copayment amounts; if families had been more aware of the consequences of their employment decisions, effects on employment and earnings might have been larger.

In addition to suggesting caution when interpreting the study's results, it is also important to be clear about impacts that the study did not measure. By including only families that had already applied for benefits, the study does not capture the possibility that reduced copayments might encourage parents to apply for child care subsidies. In addition, the study did not provide any information on outcomes related to the impact of the alternative copayments on the type and attributes of the child care used by families in the study because reliable data were not available.

## 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.