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SOLVING BENEFITS CLIFFS IN CHILD CARE ASSISTANCE PROGRAMS

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Table of Contents

1	Executive Summary
2	Introduction and Program Overview
2	Purpose
2	Legislative Background
4	Administrative Implementation
6	Program Challenges
11	Solutions
11	Overview of Solutions
11	Reducing the Cost Through Regulatory Reform
13	Promoting In-Home Care
15	Creating Public-Private Partnerships
16	Eliminating Marriage Penalties
16	Being Smart When Tapering Benefits
16	Incentivizing Families to Choose Less Costly Settings
18	Conclusion
19	List of Acronyms



EXECUTIVE SUMMARY

This paper introduces solutions to the vexing problems of high earnings loss rates, benefits cliffs, inadequate supply, and insufficient funding in child care assistance programs (CCAPs). Since the 1960s, CCAPs have been critical for welfare-to-work reforms. The Child Care and Development Block Grant (CCDBG) Act of 1990 made child care assistance available to lower middle-income families as well. Congress gave states wide discretion to run their own CCAPs but still established parameters for the states to follow in exchange for receiving the block grants.

All states have set up their CCAPs by: emphasizing center care settings, contracting with referral services, using market surveys to determine provider reimbursement rates, providing benefits mostly to single adult-headed households, and establishing provider reimbursement systems to incentivize quality. However, states vary widely in many implementation details, such as whom they count in the assistance unit, what constitutes an acceptable work-related activity, and how they set up their sliding-scale cost-sharing requirements.

CCAPs face serious program challenges. For example, families experience high earnings loss rates and benefits cliffs when exiting the program. And since the enactment of the CCDBG, price inflation of child care services has been more than double the rate of general inflation, exacerbating the high cost of care and making it more difficult to solve benefits cliffs. Inadequate public funds have also forced states to ration benefits by using measures such as waitlists or priority lists for those benefits. In addition, most states do not include live-in partners of parents when counting income for eligibility, creating marriage penalties.

Ideally, benefits cliffs are solved by tapering benefits to zero as a family exits a program. However, the high cost of center child care services makes it impossible to taper benefits to zero without creating an elongated earnings range of continual benefits cliffs. A new solution must be found.

To solve these problems, the Georgia Center for Opportunity (GCO) recommends the following:

- ▶ Reduce the cost of child care services through regulatory reform.
- ▶ Promote in-home and relative care over center care.
- ▶ Make extensive use of public-private partnerships with employers and nonprofit organizations to leverage private funds and resources to provide child care services.

In addition, states need to ensure that their policies align with the following objectives:

- ▶ Eliminate marriage penalties by treating unmarried couples the same as married couples.
- ▶ Taper benefits smoothly and smartly. If the tapering to zero cannot be done without creating an elongated benefits cliff, then taper less aggressively.
- ▶ Revise cost-sharing sliding scales to incentivize families to choose less costly settings.

GCO recommends that the federal administration change regulations to align with federal law, allowing states to introduce price competition with their cost-sharing sliding scales. Congress can effectuate the change by clarifying the law to override those regulations.

INTRODUCTION AND PROGRAM OVERVIEW

Purpose

This paper introduces solutions to the vexing problems of high earnings loss rates, benefits cliffs, inadequate supply, and insufficient funding in child care assistance programs (CCAPs). A benefits cliff appears when a small increase in earnings leads to a sudden and sharp decrease in, or even a total loss of, benefits. CCAPs can generate perhaps the worst benefits cliffs of any safety net program.

The solutions introduced here provide cost savings by driving regulatory reform, promoting in-home care, aggressively pursuing public-private partnerships (PPPs), eliminating marriage penalties, smartly tapering benefits, and incentivizing families to choose less costly child care options.

Legislative Background

Child care assistance has become an important component of welfare policies and is especially related to welfare-to-work reform efforts beginning in the 1960s. These early efforts linked child care services to the traditional cash grants via the Aid to Families with Dependent Children (AFDC) program, which has roots in the Great Depression. In 1990, child care services were extended beyond AFDC families

to include families arguably defined as being on the lower end of middle income.¹ Later in the decade, the landmark welfare reform law of 1996—formally the Personal Responsibility and Work Opportunity Reconciliation Act—merged subsidized child care programs into federal block grants.² In parallel with subsidized child care programs, the federal and state governments also fund the Head Start program, pre-K programs, and dependent care tax deductions. This briefing focuses on subsidized CCAPs.

The Child Care and Development Block Grant (CCDBG) Act was enacted as part of the Omnibus Budget Reconciliation Act of 1990.³ At the time, there were three separate subsidized child care entitlements associated with AFDC: (1) families on AFDC, (2) families transitioning off AFDC, and (3) families “at risk” of being on AFDC if it were not for receiving the subsidized child care. These programs were run separately and presented a confusing landscape for potential recipients. When enacted, the CCDBG did not replace those three AFDC child care entitlements but instead extended non-entitlement subsidized child care benefits to other families when their income was less than 75% of the state median income.⁴

In its list of congressional findings, the welfare reform law of 1996⁵ lamented: (1) the near

1 – The Pew Research Center defines “middle class” as a category in which people’s income equals at least two-thirds of the state median income. However, researchers at the RAND Corporation argue that the middle-income tier includes people who earn at least 75% of the state median income. See Rakesh Kochhar, “The State of the American Middle Class: Who Is in It and Key Trends from 1970 to 2023,” Pew Research Center, May 31, 2024,; and Jeffrey B. Wenger and Melanie A. Zaber, “Most Americans Consider Themselves Middle-Class. But Are They?,” RAND Corporation (Commentary), May 14, 2021, <https://www.rand.org/pubs/commentary/2021/05/most-americans-consider-themselves-middle-class-but.html>.

2 – Sonya Michel, “The History of Child Care in the U.S.,” VCU Libraries Social Welfare History Project, Virginia Commonwealth University, January 19, 2011, accessed July 24, 2025, <https://socialwelfare.library.vcu.edu/programs/child-care-the-american-history>; Gina Adams and Monica Rohacek, “Child Care and Welfare Reform,” Welfare Reform & Beyond Initiative, Brookings Institution, Policy Brief No. 14, February 2002, <https://www.brookings.edu/wp-content/uploads/2016/06/pb14.pdf>; and Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Pub. L. No. 104–193, 110 Stat. 2105 (1996).

3 – Omnibus Budget Reconciliation Act of 1990, Pub. L. 101–508, 104 Stat. 1388 (1990).

4 – Karen E. Lurch, “The Child Care and Development Block Grant: Background and Funding,” Congressional Research Service Report, RL30785, January 30, 2014, 4–5, <https://www.fyf.org/wp-content/uploads/2014/05/RL30785-CCDBG-1-30-14.pdf>.

5 – Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Pub. L. No. 104–193, 110 Stat. 2105 (1996).

tripling of the number of people dependent on AFDC cash benefits over the past 30 years, (2) that 89% of children receiving benefits through AFDC lived in homes without a father present, and (3) that only 54% of single-parent families had child support orders. The law's first goal was to "provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives," and its fourth goal was to "encourage the formation and maintenance of two-parent families."

The law also repealed AFDC, along with its three child care programs, and replaced it with the Temporary Assistance for Needy Families (TANF) program. Because it was a block grant, states were and are allowed to use a portion of TANF funds for subsidized child care or to match TANF funds with their own spending on subsidized child care. To avoid the confusing pre-TANF subsidized child care landscape, the welfare reform law mandated transferring the administration of all subsidized child care to the state agency administering that state's CCDBG program. The welfare reform law also made other changes to the CCDBG, including extending income eligibility to 85% of state median income.⁶

On November 19, 2014, the CCDBG was reauthorized with overwhelming bipartisan support.⁷ The Senate passed the final bill 88-1, and it passed by voice vote in the House. The reauthorization made changes pursuant to health and safety (like requiring criminal background checks for child care workers), quality improvements (like setting aside a portion of funds for enhancing the quality of child care services), continuity of funding for families participating in the program, consumer

education requirements, and the use of federal funds to support child care resource and referral networks. The 2014 reauthorization provided funding through fiscal year (FY) 2020. Although Congress has not reauthorized the CCDBG since 2014, it has continued to fund the block grant on an annual basis.

Current CCDBG law lists seven statutory purposes. All seven are not listed here, but the first purpose allows "each State maximum flexibility in developing child care programs and policies that best suit the needs of children and parents within that State." The second purpose is "to promote parental choice to empower working parents to make their own decisions regarding the child care services that best suit their family's needs." The fourth purpose is "to assist States in delivering high-quality, coordinated early childhood care and education services to maximize parents' options and support parents trying to achieve independence from public assistance."⁸ These purposes describe well Congress's intention to allow for state control, prioritize parental choice, develop high-quality child care, and help parents achieve independence from public assistance.

Although state flexibility is a goal, federal law still sets parameters on what states can do with the federal grant money.

- ▶ States must have in place licensing requirements for child care service providers.
- ▶ Exemptions for licensing are allowed, but the state must show how the exemptions do not endanger the health, safety, or development of children under care.

6 – Lunch, "The Child Care and Development Block Grant: Background and Funding," 4–5.

7 – Child Care and Development Block Grant Act of 2014, Pub. L. No. 113–186, 128 Stat. 1971 (2014).

8 – 42 U.S.C. § 9857(b). The remaining purposes are:

(3) to encourage States to provide consumer education information to help parents make informed choices about child care services and to promote involvement by parents and family members in the development of their children in child care settings;

(5) to assist States in improving the overall quality of child care services and programs by implementing the health, safety, licensing, training, and oversight standards established in this subchapter and in State law (including State regulations);

(6) to improve child care and development of participating children; and

(7) to increase the number and percentage of low-income children in high-quality child care settings.

- ▶ States must establish child-to-provider ratios, as defined by the state.
- ▶ State policies must serve children in underserved areas, infants and toddlers, children with disabilities, and children who receive care during non-traditional hours.
- ▶ Priority must be given to low-income families.
- ▶ Service rates must be set based on a market survey or an alternative methodology developed by the state.
- ▶ Cost-sharing must be based on a sliding scale.
- ▶ Child care services cannot be terminated mid-year.
- ▶ Family assets cannot exceed \$1 million, and income cannot exceed 85% of the state median income.
- ▶ Children must be under age 13, except to align with other federal laws allowing states to offer assistance to children with disabilities under age 19.⁹

Administrative Implementation

The federal government allocated \$11.3 billion from the Child Care Development Fund (CCDF)—the funding mechanism for the CCDBG—to the states and the District of Columbia (D.C.) to run their CCAPs in 2024. The state share to match the federal funding was an additional \$1.6 billion, and states added another \$0.9 billion in required spending to pull down the federal mandatory funds.¹⁰ In addition, states can transfer TANF funds to the CCDF, which could add another \$5 billion in spending to the total.¹¹ FY 2022

provides the most recent data for the number of recipients for the funding, showing that 1.4 million children from 860,000 households benefited from CCDF-funded child care services.¹²

Despite the “maximum flexibility” allowed for the states, all of them essentially have followed the same game plan in developing their subsidized child care programs. All 50 states use market surveys to establish provider rates that they will pay. Only D.C. has selected to use an alternative cost modeling process.¹³ All states and D.C. use some form of a quality rating system in a way that incentivizes providers to seek higher-quality ratings, such as allowing higher provider rates for quality-ranked settings. All states and D.C. also rely on Child Care Resource and Referral organizations to help inform potential customers and make referrals for service.

However, there are major differences among the states in how they implement their programs. Most states run the program statewide, although they normally break down cost and subsidy factors into substate zones. A few states have delegated the program to locally created entities. Thirty-seven states include married partners but exclude live-in, unmarried partners when determining income eligibility, which guarantees a marriage penalty.¹⁴ All states have work requirements, but 28 states have no minimum number of hours, followed by 10 states and D.C. with 20-hour minimums, and with the remaining 12 states having a different minimum number of hours. The states count work-related activities differently: 22 states count Supplemental Nutrition Assistance Program

9 – Federal regulations allow states to adopt the option to fund children under age 19 who are “physically or mentally incapable of caring for himself or herself, or under court supervision.” 45 CFR § 98.20.

10 – Office of Child Care, U.S. Department of Health and Human Services, “GY2024 CCDF Funding Allocations (Based on Appropriations),” accessed July 17, 2025, <https://acf.gov/occ/data/gy-2024-ccdf-allocations-based-appropriations>.

11 – In FY 2023, states spent \$1.3 billion of their TANF funds plus another \$2.8 billion of their own state funds on child care assistance. Another \$1 billion was transferred to the CCDF. Office of Family Assistance, U.S. Department of Health and Human Services, “TANF and MOE Spending and Transfers by Activity, FY 2023: United States,” September 12, 2024, accessed July 17, 2025, https://acf.gov/sites/default/files/documents/ofa/fy2023_tanf_moe_national_data_pie_chart.pdf.

12 – Office of Child Care, U.S. Department of Health and Human Services, “Quick Facts on CCDF Subsidies: Preliminary FY 2022,” https://www.acf.gov/sites/default/files/documents/occ/FY2022_Characteristics_Families_Children.pdf.

13 – District of Columbia, Office of the State Superintendent of Education, “Modeling the Cost of Child Care in the District of Columbia, 2023,” March 2023, with cover letter from Mayor Muriel Bowser, September 8, 2023, https://osse.dc.gov/sites/default/files/dc/sites/osse/page_content/attachments/Modeling%20the%20Cost%20of%20Care%20in%20the%20District%20of%20Columbia%202023.pdf.

14 – Erik Randolph, “How Congress Can Eliminate Marriage Penalties in the Tax Code and Safety-Net Programs,” Institute for Family Studies, May 2025, <https://ifstudies.org/report-brief/how-congress-can-eliminate-marriage-penalties-in-the-tax-code-and-safety-net-programs>.

(SNAP) Education & Training activities, 19 states count housing searches, 30 states count English as a Second Language courses, and 35 count Adult Basic Education courses. The states also have different rules on how to treat children and siblings in families and teen parents, and how to count various incomes and resources. In addition, states differ in how they define child care settings, how they group ages of children to receive care, how they treat part-time care, how they treat disabled children, and how they apply quality rating standards. States have different standards for applying and calculating cost-sharing obligations of the families as well, although these are subject to federal regulatory tests so as to not be burdensome on families, and they must be on a sliding scale. The states also give their cost-sharing schemes different names, like “family fees” or “copays.”¹⁵

A few states have begun experimenting with PPPs to leverage funds and resources or expand child care services above federal income limits. For example, New York is looking to use PPPs

to fund its subsidized child care program for families whose income exceeds the federal reimbursement threshold of 85% of the state median income.¹⁶

Out of the 860,000 households served in FY 2022, 81% were “single-headed” households; 13% were “not single-headed” households; and the remaining 6% were “child-headed” households, referring to those who are mostly in protective services. Of the 1.4 million children served, 77% were sent to child care centers, the most expensive setting option.¹⁷ Table 1 shows the national monthly costs for center care for infants, toddlers, preschoolers, and after-school care recipients compared to the national average minimum wage as of October 1, 2022, weighted by the number of CCAP participants. The table also shows the basic provider rate for subsidized child care services as well as the highest quality rating rate. For example, the national monthly cost for infants ranged from \$1,254 to \$1,441, or 72%-82% of the gross income from state-weighted full-time minimum wage employment.¹⁸

Table 1: National Weighted Monthly Child Care Center Prices, October 1, 2022

Center Care for	Basic Rate		Highest Quality Rating Rate	
	Cost	% Full-Time Minimum Wage	Cost	% Full-Time Minimum Wage
Infant	\$1,254	72%	\$1,441	82%
Toddler	\$1,026	59%	\$1,176	67%
Preschooler	\$941	54%	\$1,066	61%
After-School Care Recipient	\$525	30%	\$592	61%

Full-Time Minimum Wage	\$1,749
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15 – Most of these differences relied on the Urban Institute’s CCDF Policies Database as published in Kelly Dwyer, Danielle Kwon, Margaret Todd, and Sarah Minton, “Key Cross-State Variations in CCDF Policies as of October 1, 2022: The CCDF Policies Database Book of Tables,” OPRE Report 2023-270, Washington, D.C., Office of Planning, Research, and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services, <https://ccdf.urban.org/sites/default/files/CCDF%20Policies%20Database%202022%20Book%20of%20Tables%20%28final%29.pdf>.

16 – Aaron Merchen and Sasha Nicholas, “Childcare Innovation Through Public-Private Partnerships,” U.S. Chamber of Commerce Foundation, June 12, 2025, accessed July 19, 2025, <https://www.uschamberfoundation.org/education/childcare-innovation-through-public-private-partnerships#comparing-state-public-private-child-care-partnership-initiatives-2022-2025>.

17 – Office of Child Care, U.S. Department of Health and Human Services, “Child Care and Development Fund Statistics for FY 2022,” accessed July 18, 2025, <https://acf.gov/occ/data/child-care-and-development-fund-statistics>.

18 – The author calculated child care cost numbers using the prior source (CCDF statistics) for weighting and payment rates per Dwyer, Kwon, Todd, and Minton, “Key Cross-State Variations in CCDF Policies as of October 1, 2022.” Minimum wage data was also weighted and extracted from Wage and Hour Division, U.S. Department of Labor, “Changes in Basic Minimum Wages in Non Farm Employment Under State Law: Selected Years 1968 to 2024,” accessed July 20, 2025, <https://www.dol.gov/agencies/whd/state/minimum-wage/history>; and National Conference of State Legislatures, “State Minimum Wages” (table showing current rates as of January 1, 2025, and enacted future increases), updated June 30, 2025, accessed July 20, 2025, <https://www.ncsl.org/labor-and-employment/state-minimum-wages>.

The cost of care for two children can easily exceed the total earnings of the parent benefiting from the subsidy.

Program Challenges

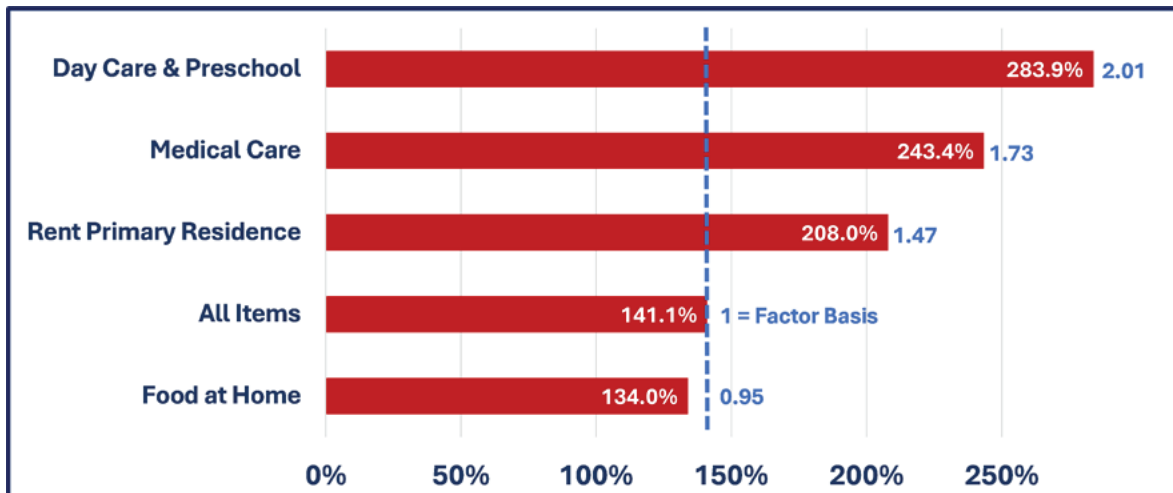
The high costs per CCAP recipient make it impossible to solve the problems of high earnings loss rates, also known as effective marginal tax rates, and benefits cliffs. Something must be done to make the CCDBG and its services sustainable and more accessible to families.

Since Congress passed the CCDBG in 1990, the cost of child care and preschool has risen at twice the rate of the general inflation rate. As measured by the Consumer Price Index for all items, inflation was 141.1% from December 1990 to June 2025, meaning prices were generally 2.4 times higher in June 2025 than in 1990. December 1990 was selected as the starting point because it is the first month when day care and preschool index data were made available. Over the same period, prices for day care and preschool rose 283.9%, meaning they were 3.8

times higher than their 1990 level. The day care and preschool inflation rate also outstripped inflation rates for medical care (243.4%) and rent for primary residences (208%), two areas addressed by other safety net programs (e.g., Medicaid and Section 8 rental assistance). By comparison, food-at-home prices—a proxy for SNAP benefits—increased 134% over the period, which was less than the general inflation rate. Figure 1 displays the cost data for these items.

CCAPs are rationed programs because funding levels are inadequate to fund all income-eligible families. A U.S. Government Accountability Office (GAO) report concluded that out of 8.6 million children eligible for CCAP subsidies in 2012, only 1.5 million—or 17%—received them. The report further noted that states use waitlists and other strategies to manage their caseloads.¹⁹ A more recent study in 2023 showed that the number of children served had worsened to 16% of those eligible under federal rules.²⁰ Additional strategies for managing caseloads include creating priority lists of circumstances faced by families—such as families experiencing domestic

Figure 1: Consumer Price Index for Selected Items from December 1990 to June 2025



19 – GAO, “Child Care: Access to Subsidies and Strategies to Manage Demand Vary Across States,” GAO-17-60, December 2016, <https://www.gao.gov/assets/gao-17-60.pdf>.

20 – GAO, “Child Care: Subsidy Eligibility and Use in Fiscal Year 2019 and State Program Changes During the Pandemic,” GAO-23-106073, March 2023, <https://www.gao.gov/products/gao-23-106073>, and <https://www.gao.gov/assets/gao-23-106073.pdf>.

violence, families with children with disabilities, families transitioning off TANF, or families who are homeless—to determine who may receive subsidized child care services.

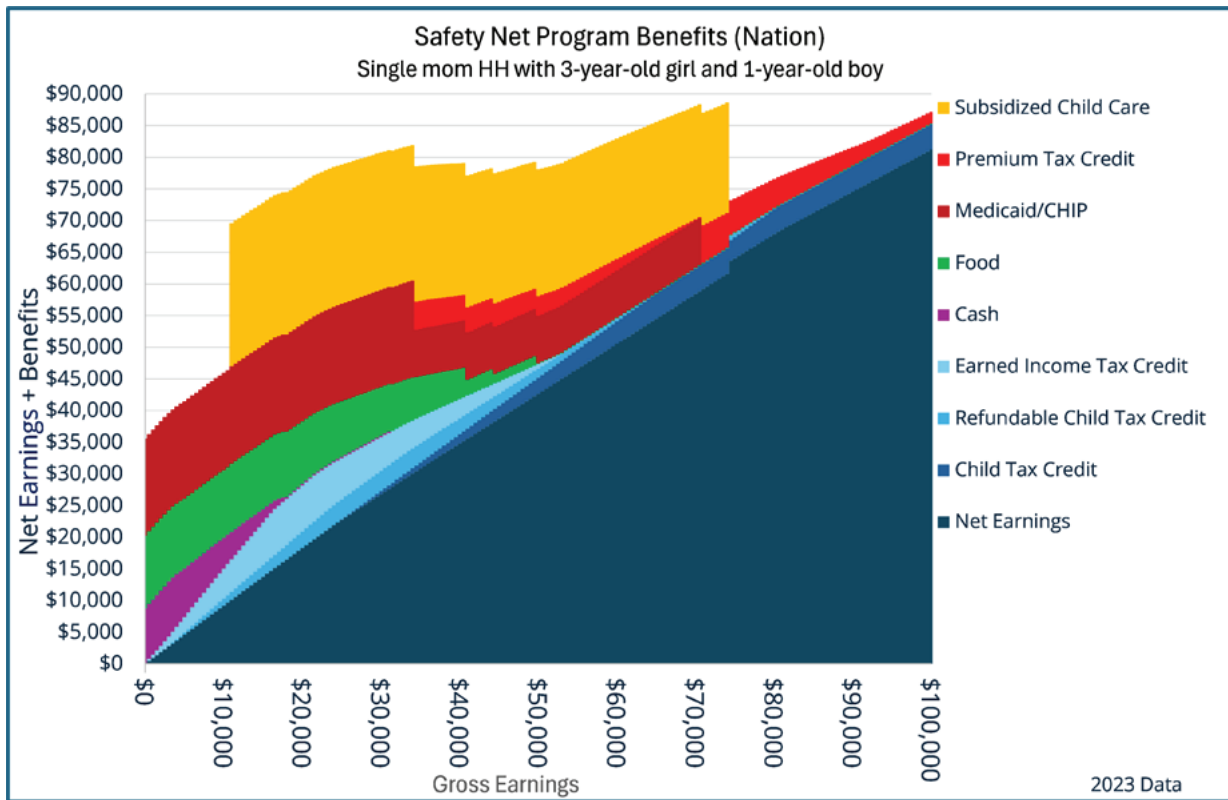
CCAPs may be the most problematic safety net programs when it comes to exacerbating high earnings loss rates and benefits cliffs. Figure 2 shows a nationally weighted example of benefits from basic safety net programs, including child care subsidies, for a single mom with a 3-year-old girl and a 1-year-old boy using 2023 data. In this scenario, subsidized child care provides the largest benefit amount: a maximum of \$22,620 compared to \$15,349 for Medicaid. It also creates the greatest benefits cliff: a loss of \$17,420 at

\$74,500 in gross earnings.

Figure 2 shows the likely benefits a family could receive, including:

- ▶ Net earnings (gross income less payroll and income taxes other than refundable tax credits)
- ▶ Child Tax Credit and the refundable portion of the Child Tax Credit
- ▶ Earned Income Tax Credit
- ▶ TANF cash assistance and the Low-Income Home Energy Assistance Program (LIHEAP)
- ▶ SNAP and other food assistance
- ▶ Medicaid and the Children’s Health Insurance Program (CHIP)

Figure 2: Benefits Cliffs Example Using 2023 Data



- ▶ Premium Tax Credit for health coverage through government health insurance exchanges
- ▶ Subsidized child care

Figure 2 is not an area graph but instead shows stacked columns that are difficult to see because the computer model calculates benefits based on \$500 increments in earnings. The top of the columns shows the cumulative effect of earnings and benefits. When a stacked column drops from one increment to the next, there is a benefits cliff. There are 21 such benefits cliffs in the graph. The causes of seven of them are easily identified—losses in LIHEAP; Medicaid; SNAP; subsidized school meals; nutrition packages per the Women, Infants, and Children (WIC) program; CHIP; and subsidized child care. The remaining 14 benefits cliffs do not have a single cause but result from the combined effects of the reductions in benefits from the various programs.

The flatness of the top of the columns indicates the problem of high earnings loss rates. These areas of work disincentives are also part of the

cliff effect, where earning additional income through work brings very little or no additional resources into the home. Table 2 shows GCO’s severity scale as a policy guide on earnings loss rates. Any rate over 100% is technically a benefits cliff, where the family loses more in net earnings and benefits than they gain from an increase in wages. A cliff ranks as prohibitive on the severity scale because it is punitive and has the most potential impact on behavior to avoid the loss. Any rate above 75% but less than or equal to 100% has an extreme severity with little to no incentive for earning more income. Rates above 50% but less than or equal to 75% have a high potential impact on behavior changes to avoid a loss. The severity scale also defines moderate, low, and negative severities.

Examining the range of income in Figure 2 up to \$74,000, which is the maximum benefit before the last benefits cliff resulting from the loss of subsidized child care benefits, 14.2% of the range has prohibitive severity earnings loss rates. Over the same range, 37.8% has extreme earnings loss rates as defined by the severity scale provided in Table 2. An additional 13.5% of the range has

Table 2: GCO’s Earnings Loss Rate (ELR) Severity Scale Policy Guide

Severity	Range	Description
Prohibitive	100%<ELR	A benefits cliff. Total disincentive, punitive, and most extreme potential impact on behavior to avoid loss.
Extreme	75%<ELR≤100%	Little to no incentive for gaining more income. Extreme potential impact on behavior to avoid loss.
High	50%<ELR≤75%	High potential impact on behavior to avoid loss.
Moderate	25%<ELR≤50%	Moderate potential impact on behavior to avoid loss.
Low	0%<ELR≤25%	Little to no potential impact on behavior to avoid loss.
Negative	ELR<0%	Benefit gain exceeds gain in earnings, creating significant potential impact on behavior to earn more.

high earnings loss rates. In total, 65.5% of the range has either prohibitive, extreme, or high earnings loss rates. In summary, the cliff effect results from both the technical benefits cliffs and the high or extreme earnings loss rates.

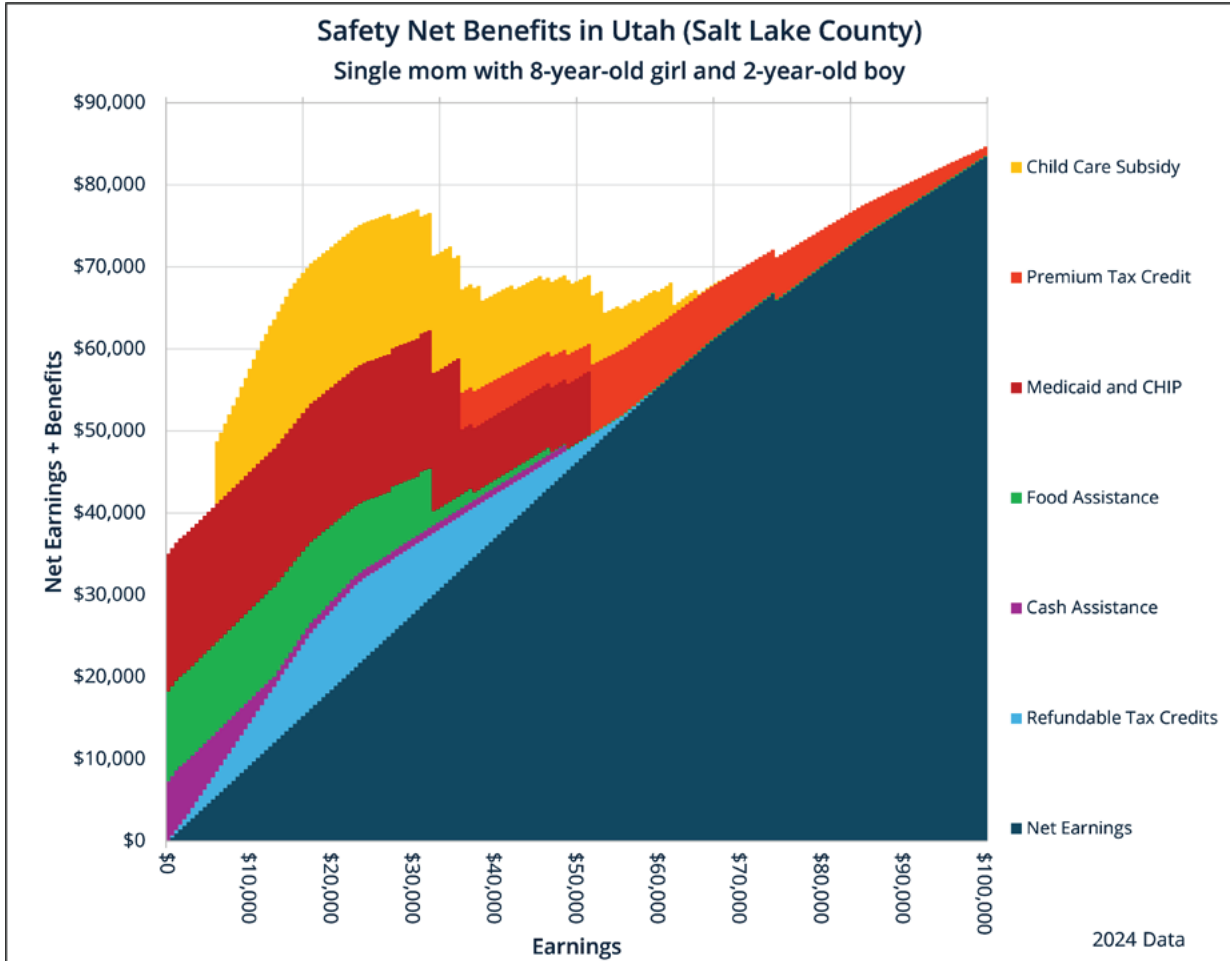
Attempting to taper benefits to zero with the same exit point will not work as a solution. The benefits are too large in magnitude relative to the family budget for income-eligible families, requiring either an extreme tapering of benefits that is too steep and does not solve the problem or an extension of the benefits far above the 85% state median income threshold for eligibility. For the latter case, extending benefits above current thresholds would add significantly to program costs or cause further rationing of benefits. Additions to program costs must be paid from state tax revenue or federal expenditures or both. Given the current federal fiscal situation, increased spending would add to federal budget deficits and the national debt. Alternatively, further rationing of benefits means longer waitlists and other measures that restrict availability to more families.

Consider, for example, the national-weighted case in Figure 2. If a solution were attempted by tapering the benefits at the peak, which is \$34,000 in this case, until the exit point of

\$74,500, the graph would show an elongated downward sloping line of continual benefits cliffs over a wide range of \$40,500 in earned income. The slope of the line would be -0.44 , meaning for each dollar earned, the family would lose \$0.44 in net earnings and benefits.

Figure 3 provides a more specific example for Salt Lake County using the same safety net programs but 2024 data. Utah's CCAP design does indeed taper benefits in phases until they reach zero. However, it makes little difference. As Figure 3 shows, there is no advantage to earning more than \$30,500 unless the family can earn more than \$84,000. Of the 20 benefits cliffs in the Salt Lake County example, 13 are caused by the stepping down of CCAP benefits. Even if the tapering of benefits were smoothed out until the subsidized child care benefits zeroed out at \$68,000, it would look like the national example—an elongated downward sloping line with a downward slope at -0.23 , which means for each dollar earned, there would be a loss of \$0.23 in net earnings and benefits. As both cases show, it is impossible to solve the cliff effect with costly center care by only implementing a tapering of benefits to zero.

Figure 3: Salt Lake County Example Using 2024 Data



SOLUTIONS

There are important reasons to solve these vexing problems of subsidized child care services. Foremost, it helps parents financially to be employed during their prime working years, which furthers upward economic mobility and secures a better financial future. It also benefits businesses that employ these workers, stimulating economic growth and societal prosperity.

Overview of Solutions

As designed, developed, and currently promoted, the cost of child care services subsidized by CCAPs is an impediment to solving the cliff effect and limits the number of families the program can help. Cliffs discourage higher wages among CCAP recipients, and rationing prevents income-eligible families from benefiting from the programs. As shown, the solution cannot be tapering benefits more aggressively because that will not solve the cliff effect problem. It also cannot be solved simply by extending the eligibility income threshold above the federal limit because that would make the program financially unsustainable or add even more families to waitlists. Therefore, beyond the principle of tapering benefits, the solution must also involve a combination of three strategies that focus on reducing the cost of the service and leveraging private funds to match public funds dedicated to CCAPs.

The three strategies states should adopt are as follows:

- ▶ Reduce the cost of child care services through regulatory reform.

- ▶ Promote in-home and relative care over center care and spend the federal funding set-aside for quality to improve in-home and relative care.
- ▶ Make extensive use of PPPs with employers and nonprofit organizations to leverage private funds and resources to provide child care services.

In addition, states need to ensure that their policies align with the following objectives:

- ▶ Eliminate marriage penalties by treating unmarried couples the same as married couples.
- ▶ Taper benefits smoothly and smartly. If the tapering to zero cannot be done without creating an elongated benefits cliff, then taper less aggressively.
- ▶ Revise cost-sharing sliding scales to incentivize families to choose less costly settings and taper benefits smartly.

Reducing the Cost Through Regulatory Reform

Government regulations can lead to increased costs for businesses, and it is no different for child care providers. For example, economic research has shown that rigid staff-to-child ratios increase costs but not necessarily the quality of care. Increasing the ratio of infants per staff member by one infant could reduce costs by 9%-20%. Likewise, mandating high school degrees for lead teachers is associated with a 25%-46% increase in the cost of care.²¹

According to the State Childcare Regulations Database, the median staff-to-child ratio for

21 – D. Gorry and D. W. Thomas, "Regulation and the Cost of Childcare," *Applied Economics*, 49(41), 2017, 4138–4147, quoted in Conor Norris, Miranda Spindt, Edward Timmons, and Will Flanders, "Reforming Childcare in Wisconsin: Reducing Regulatory Burdens to Expand Access" (Washington, D.C.: Archbridge Institute and Wisconsin Institute for Law & Liberty, May 28, 2025), accessed July 19, 2025, https://www.archbridgeinstitute.org/wp-content/uploads/2025/05/Reforming-Childcare-in-Wisconsin_2025.pdf.

Table 3: State and D.C. Child-to Staff Ratios, Giving the Number of Children per Each Staff Person

	0 to 1 Year	1 to 1.5 Years	1.5 to 2 Years	2 to 2.5 Years	2.5 to 3 Years	3 to 4 Years	4 to 5 Years
Low End	3	3	3	4	4	7	7
Average	4.28	5.04	5.52	7.18	7.71	10.78	12.59
Median	4	5	5.5	7	8	10	12
High End	6	9	9	12	12	15	20

Source: State Childcare Regulations Database 2025, Archbridge Institute

infants is 1:4, and the average is 1:4.28. On the low end, four states have a ratio of 1:3: California, Kansas, Maryland, and Massachusetts. On the high end, three states have a ratio of 1:6: Georgia, Idaho, and New Mexico. Table 2 summarizes the ratios for children up to the age of 5.²²

Given this data, states could review their child-to-staff-ratio regulations to determine whether higher ratios are warranted, which could significantly reduce costs. The CCDBG law requires states to set child-to-staff ratios,²³ but it does not mandate what those ratios must be, leaving the determination to the states. If a state determines that higher ratios do not sacrifice safety or quality, it will incur savings provided the new ratios are ultimately incorporated into provider rates allowable by the state's CCAP.

Increasing the child-to-staff ratio is one example of a regulatory change that could reduce costs. State legislatures could make regulatory changes directly or authorize their CCAP administering agency to do so. The governor could also direct the agency, within the constraints of the law, to rework its regulations more broadly with the

stated purpose of identifying those regulations that are unnecessary or could be amended to lower provider costs.

Some states are already moving in this direction. For example, the North Carolina legislature passed H.B. 412, which became law on July 1, 2025. The law addresses staff-to-child ratios and makes other regulatory reforms intended to reduce costs.²⁴ As another example and pursuant to a directive in state law, the Tennessee Advisory Commission on Intergovernmental Relations produced a report in January 2025 to address regulatory barriers to grow and support the state's child care industry.²⁵

The next step for the states would be to ensure the regulatory reforms are reflected in their provider payment rates, which would require a new market rate study or an alternative study such as a cost estimation model.²⁶ If a market rate study is used, it may take longer before the new regulations impact market prices. For a market rate survey to be effective, there must be sufficient market price competition uninfluenced by the impact of governmental subsidies.

22 – Conor Norris, Edward Timmons, Christine Bretschneider-Fries, and Yimin Wang, "State Childcare Regulations Database 2025," (Washington, D.C.: Archbridge Institute, June 9, 2025), accessed July 19, 2025, <https://www.archbridgeinstitute.org/state-childcare-regulations-database>. Data for Hawaii was unavailable for ages 0 to 2 years and was therefore excluded in the average and median scores.

23 – 42 U.S.C. § 9858c(c)(2)(I).

24 – North Carolina House Bill 412, State Law 2005-36, (2025), <https://www.ncleg.gov/BillLookup/Index/2025/H412/True>.

25 – Tennessee Advisory Commission on Intergovernmental Relations, "Improving Policies and Addressing Barriers to Grow and Support Tennessee's Child Care Industry," January 2025, https://www.tn.gov/content/dam/tn/tacir/2025publications/2025_Childcare.pdf.

26 – 42 U.S.C. § 9858c(c)(2)(B)(i).

Relying exclusively on regulatory reform to lower the cost of child care services incurs the risk that not enough savings will be found to solve the child care assistance benefits cliffs problem. Since state regulatory reform actions have been too few and too recent, there is a lack of empirical evidence showing what savings can be achieved. However, there are numerous examples in which regulatory reforms reduced prices in other industries, in some cases significantly. These industries include airlines, trucking, railroad freight, telecommunications, nursing, and those requiring occupational licensing.²⁷ However, each industry has a different structure with unique characteristics. While regulatory reforms will assuredly produce savings in the child care service industry, the amount of savings is still unknown. It cannot be assumed that the reforms will be sufficient to solve the benefits cliffs problem.

In reviewing the regulations for reform, a state would want to assess whether the proposed

changes adversely impact safety or quality, which could limit the speed at which regulatory reform can be adopted. Nevertheless, the uncertainty of how much savings could be obtained and the speed by which those reforms could be adopted should not deter states from undertaking the effort. Any reduction in price would help reduce the cliff effect, help expand supply, and free up funds to subsidize child care expenses for more families.

Promoting In-Home Care

Across the board, in-home care—defined as care provided by family, friends, and neighbors in the home of the child or the caregiver—is the least expensive setting for state CCAPs. In fact, using weighted national averages, in-home care costs are 51%-65% of center care costs, which makes the cliff effect far less significant. States could also extend program benefits to more families if in-home care were to become the dominant setting chosen. This also aligns with the first goal of TANF:

Table 4: Comparing Nationally Weighted Averages for In-Home Care Rates and Center Care Rates

Description	Infant Care		Toddler Care		Preschooler Care		Before-and-After-School Care	
	Basic Rate	Highest Quality Rate	Basic Rate	Highest Quality Rate	Basic Rate	Highest Quality Rate	Basic Rate	Highest Quality Rate
In-Home Care	\$686	\$736	\$622	\$660	\$596	\$624	\$343	\$363
Center Care	\$1,254	\$1,441	\$1,026	\$1,176	\$941	\$1,066	\$525	\$592
Percent In-Home to Center Care	55%	51%	61%	56%	63%	59%	65%	61%

27 – There are many sources on deregulation for the cited industries. For selected studies, see GAO, “Airline Deregulation: Reregulating the Airline Industry Would Likely Reverse Consumer Benefits and Not Save Airline Pensions,” GAO-06-630, June 9, 2006, <https://www.gao.gov/assets/gao-06-630.pdf> for the airline industry; Jerry Ellig, “Forty Years After Surface Freight Deregulation,” The Regulatory Review, December 14, 2020, <https://www.theregreview.org/2020/12/14/ellig-forty-years-after-surface-freight-deregulation-for-trucking-and-railroad-freight-reform/>; Lusine Poghosyan et al., “The Economic Impact of the Expansion of Nurse Practitioner Scope of Practice for Medicaid,” Journal of Nursing Regulation, 10(1), April 2019, 15–20, [https://www.journalofnursingregulation.com/article/S2155-8256\(19\)30078-X](https://www.journalofnursingregulation.com/article/S2155-8256(19)30078-X) for the impact of expanding the scope of nurse practitioners on the cost of medical care; and Morris M. Kleiner and Robert T. Kudrle, “Does Regulation Affect Economic Outcomes?: The Case of Dentistry,” Journal of Law & Economics, 43(2), October 2000, 547–582 (National Bureau of Economic Research Working Paper No. 5869 (January 1997), <https://www.nber.org/papers/w5869>) for the example of less stringent occupational licensing requirements on the cost of dental care.

to care for children in their homes or relatives' homes.²⁸ Table 4 compares the weighted national averages for in-home care and center care rates by age group as of October 1, 2022.²⁹

Promoting in-home care will likely receive pushback from child care center providers. An entire industry has evolved around subsidized child care, and nearly 80% of children are placed in center care. These providers have a political interest in maintaining the status quo and have invested their time, energy, and resources in creating those centers. Therefore, policymakers should be informed about the pros and cons of center care versus in-home care so they can make the best policy decisions on how to prioritize and invest public money that helps the most families needing child care assistance.

Opponents will argue that high-quality center care is best for the development and safety of children, and policymakers need to be equipped to address those claims. When it comes to the advantages of formal care versus informal care, which is essentially the same as in-home care,³⁰ the academic research is mixed.³¹ A study released in 2022 by Hyejoon Park and Shinwoo Choi showed that working moms in the rural Midwest prefer relative care over formal care

for a variety of reasons. They cited "children's safety, the trustworthiness of caretakers, doubt in the quality of daycare, and relative care's affordability. All mothers were satisfied with the activities offered by relative care. Outcomes supported that relative care helped mothers' psychological, emotional, and economic well-being."³² A study by Sharon Hicks-Bartlett on the experience of African-American mothers in urban areas emphasized the difficulties in raising children in areas rife with violence and police corruption. "It is the kinship networks that become the lifelines of the urban poor [and] ... who [also] provide ... childcare service," among other needs.³³

Some international studies may be more on point. A United Kingdom study of 15,696 infants found that receiving care from extended family members lowered the risk of developmental delays.³⁴ A Canadian study in 2022 by Gabrielle Garon-Carrier and others found statistical associations showing that children in informal care were overall more likely to pursue higher education. However, formal care may increase the odds for children from economically disadvantaged families.³⁵ Another Canadian study by Marie-Claude Geoffroy and others in 2010 found that children from low-income

28 – Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Pub. L. No. 104-193, 110 Stat. 2105 (1996).

29 – The author calculated child care cost numbers using the Office of Child Care, U.S. Department of Health and Human Services, "Child Care and Development Fund Statistics for FY 2022," for weighting and payment rates per Dwyer, Kwon, Todd, and Minton, "Key Cross State Variations in CCDF Policies as of October 1, 2022."

30 – In-home care is a listed category of the CCDF that distinguishes the setting as provided for within the child's own home as opposed to a facility such as a child care center (45 CFR § 98.2 – Definitions). Informal care implies unregulated care but can also mean services provided by a relative, friend, or neighbor within the child's own home or the caregiver's home. However, despite the regulatory definition, in-home care is normally administered in either the child's own home or a caregiver's home and is usually informal as well. The federal Office of Child Care defines informal in-home child care to mean "care provided in the child's or caregiver's home by a person who is a relative, friend, neighbor, babysitter, or nanny. This type of care may also be known as family, friend, and neighbor care and is not usually regulated by states or territories." Office of Child Care, U.S. Department of Health and Human Services, "Informal In-Home Child Care," accessed October 17, 2025, <https://childcare.gov/consumer-education/what-are-my-child-care-options/informal-home-child-care>.

31 – GCO gratefully acknowledges the provision of a literature review on formal care versus informal care by the Institute for Humane Studies, George Mason University, delivered by Reed Dhein on January 16, 2025.

32 – Hyejoon Park and Shinwoo Choi, "Understanding the Perceptions of Low Income American Working Mothers in Rural Areas: Exploratory Analysis of Relative Care," *Journal of Family Studies*, 29(3), January 2022, 1154–1179, <https://doi.org/10.1080/13229400.2022.2032797>.

33 – Sharon Hicks-Bartlett, "Between a Rock and a Hard Place: The Labyrinth of Working and Parenting in a Poor Community," in *Gender in Cross-Cultural Perspective*, 8th ed., edited by Adrienne E. Strong and Richard Powis (London: Routledge, 2024), <https://www.taylorfrancis.com/chapters/edit/10.4324/9781003398349-35/rock-hard-place-sharon-hicks-bartlett>.

34 – David Waynforth, "Alloparental Support and Infant Psychomotor Developmental Delay," *Human Nature*, 35(1), February 2024, 43–62, <https://doi.org/10.1007/s12110-024-09468-4>.

35 – Gabrielle Garon Carrier, Arya Ansari, Marie Josée Letarte, and Caroline Fitzpatrick, "Early Childcare Enrollment and the Pursuit of Higher Education: A Canadian Longitudinal Study," *Learning and Instruction*, 80, August 2022, <https://doi.org/10.1016/j.learninstruc.2022.101615>.

families who attended formal care were more school-ready for vocabulary, reading, and math than those cared for in their homes.³⁶

The effect of informal care on children from low-income families is a valid concern. However, state policymakers could positively impact quality by targeting more resources to help in-home care providers. A few states are already doing this. For example, Nevada contacts in-home providers “four times a year to offer assistance with training, health & safety requirements, materials and curriculum, and support toward licensure.”³⁷ Minnesota likewise provides in-home providers with “resources, training, connection to peers, access to activities, and financial supports.”³⁸ The CCDBG earmarks state grant dollars for quality while allowing states to define what quality means. To promote more in-home care, states could allocate more of these quality dollars and other technical assistance to in-home care.

Emphasizing in-home care does not mean eliminating subsidies for all other forms of care. There may still be circumstances in which in-home care is inadvisable. However, promoting in-home care as the first option, coupled with resources to increase quality, could be beneficial for children and their parents or caretakers. This strategy reduces the cliff effect for those families switching to an in-home care setting and allows more families to benefit from subsidized child care programs.

Creating Public-Private Partnerships

PPPs could be the game-changer needed to truly solve the severe cliff effect problem, increase supply, reduce costs, and make child care services more widely available without increasing government spending. PPPs are typically long-term contracts between governments and private entities to build or operate public infrastructure or deliver public services. They have been successfully used around the world,³⁹ including for Chicago’s Skyway,⁴⁰ Spain’s Radial Motorways,⁴¹ the Program of All-Inclusive Care for the Elderly,⁴² and the Nurse-Family Partnership home visiting program.⁴³

Under a subsection in the U.S. Code titled “Public-private partnerships,” the CCDBG mandates the following:

The [State] plan shall demonstrate how the State encourages partnerships among State agencies, other public agencies, Indian tribes and tribal organizations, and private entities, including faith-based and community-based organizations, to leverage existing service delivery systems (as of the date of the submission of the application containing the plan) for child care and development services and to increase the supply and quality of child care services for children who are less than 13 years of age, such as by implementing voluntary shared services alliance models.⁴⁴

Other than some focused applications, states have not taken full advantage of creating PPPs

36 – Marie Claude Geoffroy et al., “Closing the Gap in Academic Readiness and Achievement: The Role of Early Childcare,” *Journal of Child Psychology and Psychiatry*, 51(12), December 2010, 1359–1367, <https://pubmed.ncbi.nlm.nih.gov/20883519/>.

37 – “Quality Progress Report (QPR) for Nevada, FFY 2023,” January 1, 2024, 12, <https://www.nevadachildcare.org/static/b3d5cfe7b689080c5db0922da188b8c/ACF-218-QPR-FFY23-submitted.pdf/>.

38 – “Child Care and Development Fund (CCDF) Plan for State/Territory Minnesota, FFY 2025–2027, Initial Plan,” November 11, 2024, 76, https://dcyf.mn.gov/sites/default/files/2025-02/25_27_Plan_Approved_version_111224.pdf.

39 – World Bank Group, Public-Private Partnership Resource Center, <https://ppp.worldbank.org/public-private-partnership>.

40 – Federal Highway Administration, U.S. Department of Transportation, “Infrastructure Case Study: Chicago Skyway Bridge,” accessed July 22, 2025, https://www.fhwa.dot.gov/ipd/pdfs/value_capture/case_studies/chicago_skyway_bridge.pdf.

41 – Federal Highway Administration, U.S. Department of Transportation, “Chapter 3: PPP Project Programming and Delivery,” in “Public-Private Partnerships for Highway Infrastructure: Capitalizing on International Experience,” March 2009, <https://international.fhwa.dot.gov/pubs/pl09010/03.cfm>.

42 – Centers for Medicare & Medicaid Services, “Private, For-Profit Demo Project for the Program of All-Inclusive Care for the Elderly (PACE),” accessed July 22, 2025, <https://innovation.cms.gov/innovation-models/pace>.

43 – David L. Olds, “The Nurse-Family Partnership: An Evidence-Based Preventive Intervention,” *Infant Mental Health Journal*, 27(1), January 2006, 5–25, accessed July 22, 2025, <https://pubmed.ncbi.nlm.nih.gov/28640426>.

44 – 42 U.S.C. § 9858c(c)(2)(P).

using the CCDF to leverage private-sector money and resources to increase the supply of child care services and reduce government costs. If states dedicated more resources to PPPs, they could reap big dividends in the long run. States could work directly with large and medium-sized employers to provide child care facilities for their employees, which could be located close to the place of employment, making it convenient for working parents. Instead of or in addition to administering the program as currently done by providing subsidies to child care providers, the state could also contract with employers to have the service provided. This model would work well for employers that rely on low-income parents as part of their labor supply. The partnership agreements would need to guarantee quality of care and would cost the government significantly less than the current structure of subsidizing child care providers on behalf of each family participant.

One state's experiment in working with employers demonstrates the power of PPPs. Begun in 2021, Michigan's Tri-Share Child Care program splits the costs of care three ways—with the employer, the employee, and the state—although Michigan used general tax revenue instead of the CCDF. In addition, the pilot program receives philanthropic support. A 2024 evaluation of the program received positive feedback from employers, who gained better job retention, and from employees, who experienced reduced financial stress and better achievement of career goals. The program served 550 employees and 203 employers in March 2024. Michigan expanded its program in 2025.⁴⁵

PPPs are not limited to large employers. The state can work with chambers of commerce or networks of employers, including small employers,

to do the same. Perhaps just as promising would be working with nonprofit organizations, including faith-based organizations, that can recruit volunteers and solicit private donations to offset the costs of child care.

When establishing a PPP, the state should consider setting up an arrangement in which employees (or beneficiaries of agreements with nonprofits) still pay a sliding scale service fee.

Eliminating Marriage Penalties

Marriage is regarded by many as the best tool to avoid poverty, and children growing up in stable, married homes statistically experience the best outcomes for education, physical and mental health, and future earnings. However, most states impose marriage penalties with their CCAPs because they ignore unmarried partners when determining eligibility for the subsidies. States could change their laws or regulations so that married couples are not put at a disadvantage when determining eligibility. Congress also has the power to eliminate the marriage penalty across states by mandating that state eligibility systems must not show favoritism to unmarried couples.⁴⁶

Being Smart When Tapering Benefits

Ideally, benefits need to taper gradually to zero so that there is no benefits cliff when the family loses eligibility. This also means that the sliding scales used for determining the cost-sharing obligations of participating families should be gradual and not involve steps that create multiple benefits cliffs instead of just one big cliff when eligibility ends.

However, as shown, it is impossible to taper center care benefits to zero given the

45 – “MI Tri-Share Child Care,” Michigan Department of Lifelong Education, Advancement, and Potential, accessed September 9, 2025, <https://www.michigan.gov/mileap/early-childhood-education/mi-tri-share-child-care>; “Affordable and Accessible Childcare: Michigan’s Tri-Share Program,” Results for America, August 13, 2025, accessed September 9, 2025, <https://catalog.results4america.org/case-studies/affordable-and-accessible-childcare-michigans-tri-share-program>; and Public Sector Consultants, “MI Tri-Share 2024 Evaluation Report: Findings and Recommendations,” October 2024, <https://www.michigan.gov/mileap/-/media/Project/Websites/mileap/Documents/Early-Childhood-Education/MI-Tri-Share/MI-TriShare-FY24-Eval-FULL-REPORT-final-10312024.pdf>.

46 – Randolph, “How Congress Can Eliminate Marriage Penalties in the Tax Code and Safety-Net Programs.”

current high costs. During the time when the recommended strategies have not yet been fully implemented, or if the costs do not come down far enough, the state should consider adopting the policy of selectively approving center care. When center care is the only feasible option for the family, the benefits need to taper in a way that still encourages earning more income, even if there is a significant benefits cliff at the end of the range in which a family's income reaches the eligibility threshold. At least in this situation, there is not an elongated range of income with disincentives to earning more money. It is better to encourage economic mobility over the widest portion of the income range in which the family is eligible to receive the benefit.

Incentivizing Families to Choose Less Costly Settings

The current CCAP structure adopted by the states encourages families to select the most expensive settings. The sliding scales adopted by the states for cost-sharing have the same costs for families no matter which provider is selected. For example, a family's obligation is often a fee based on family income and does not vary by the cost of the service.

The CCDBG law mandates that states establish and revise on a regular basis a sliding fee scale that does not present barriers to families receiving assistance. A sliding fee scale is defined as "a system of cost sharing by a family based on income and size of the family."⁴⁷ However, while the regulations state that the fee can also be based on other factors, they include the stipulation that those other factors cannot be derived from the cost of care or the amount of the subsidy payment.⁴⁸ Unfortunately, this eliminates the ability of states to introduce price competition into the system, whereby program participants could benefit by selecting a less expensive setting.

The interpretation likely comes from the regulatory agency's belief that incentivizing price competition somehow threatens the equal access provision for provider payments, which says:

*The State plan shall certify that payment rates for the provision of child care services for which assistance is provided in accordance with this subchapter are sufficient to ensure equal access for eligible children to child care services that are comparable to child care services in the State or substate area involved that are provided to children whose parents are not eligible to receive assistance ...*⁴⁹

However, price competition does not negate the principle of equal access. Congress could easily override this interpretation by clarifying that the equal access clause does not imply the elimination of price competition and states may use their sliding scales to incentivize program participants to select less costly providers. Also, because this interpretation is only in the regulations and not the law, the federal administration could reverse its position and remove these restrictions from the regulations.

Even under the current regulations, states can still incentivize parents to select certain settings. For example, the regulations stipulate that the sliding scale cannot be based on the cost of care or subsidy amount. However, they do not stipulate that the sliding scale cannot be based on the setting. Therefore, a state could adopt a sliding scale scheme that encourages families to choose in-home care over center care. Similarly, the sliding scale could also be used to incentivize employer-sponsored care.

47 – 42 U.S.C. § 9858n.

48 – 45 CFR § 98.45(l)(2).

49 – 42 U.S.C. § 9858c(c)(4)(A).

CONCLUSION

CCAPs have the greatest benefits cliffs and cliff effects, and there have never been enough funds to serve all families who qualify. Since 1990, the cost of child care has risen at twice the rate of inflation, and today it is likely the costliest benefit a family can receive, especially if the family chooses child care centers as the setting for their children, as most participants do. Because of the high cost of the program, it is impossible to solve the cliff effect without extending benefits above the income eligibility threshold, which is set at 85% of state median income by federal law. Given persistent federal deficits and the magnitude of the national debt, it would also be fiscally irresponsible to extend benefits above the current threshold.

The CCDBG law *requires* states to use PPPs, which provide states a mechanism to solve the challenging problems of benefits cliffs, lack of supply, and inadequate public funding. PPPs may provide the best opportunity for states to leverage private funds by working with employers and nonprofits, extending benefits to other families, and addressing the cliff effect. In addition, states could emphasize the in-home child care setting, which includes relatives, friends, and neighbors, over the costliest setting of child care centers. This would reduce the cliff effect while freeing up funds that could be used to sponsor more PPPs, reduce waitlists, and loosen restrictive priority lists.

States should also scrub through their child care regulations to find ways to reduce costs

without sacrificing safety and quality. For example, increasing child-to-staff ratios can create substantial savings, and at least one study concluded it can be done without sacrificing quality. Any reduction in provider costs would reduce the cliff effect and allow more families to receive subsidized child care services. However, it is unknown whether regulatory reform alone will be enough to reduce the cost of child care to the levels necessary to solve the cliff effect, which is why PPPs and the promotion of in-home care should be adopted simultaneously.

States could also eliminate marriage penalties within their CCAPs by adjusting their eligibility rules to ensure married couples are not put at a financial disadvantage. Congress could solve the marriage penalty problem by mandating the same for all states.

States could use their sliding scales to incentivize less costly in-home and relative care settings, but the federal administration needs to change its regulations to allow for incentivizing price competition. Congress also has the power to override the regulations to allow for price competition. In doing so, lower prices would allow more families to receive child care assistance benefits.

Finally, states should make efforts to ensure that benefits taper to zero, but this principle might need to be averted if it results in an elongated range of earnings disincentives.

LIST OF ACRONYMS

AFDC	Aid to Families with Dependent Children
CCAPs	Child Care Assistance Programs
CCDBG	Child Care and Development Block Grant
CCDF	Child Care Development Fund
CHIP	Children’s Health Insurance Program
D.C.	District of Columbia
ELR	Earnings Loss Rate
FY	Fiscal Year
GAO	U.S. Government Accountability Office
GCO	Georgia Center for Opportunity
HH	Household
LIHEAP	Low-Income Home Energy Assistance Program
PPPs	Public-Private Partnerships
SNAP	Supplemental Nutrition Assistance Program
TANF	Temporary Assistance for Needy Families

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