



ISSUE BRIEF | Center for the American Worker

Childcare to Support the American Worker

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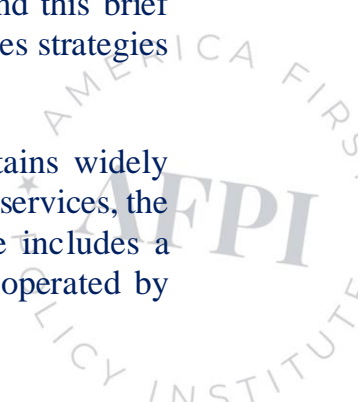
TOPLINE POINTS

- ★ Policymakers could incentivize arrangements for employee childcare without imposing government mandates or creating new taxpayer-funded entitlements.
- ★ An essential way to increase the availability and decrease the cost of childcare is by reducing costly regulations that limit the number of available childcare workers.
- ★ Encouraging skills-based hiring will make it easier for educators and caregivers to gain the competencies needed to provide high-quality care and allow for compensation consistent with market demands.

Introduction

While some parents are able to stay home and care for their children, millions of American families rely on childcare to facilitate work outside the home. In 2021, 32.8 million American families, which equates to approximately 40 percent of the United States, had a child under 18 in their household. The COVID-19 pandemic exposed the stress points of closing schools and leaving parents with no alternative options for childcare. The families hit hardest by the pandemic are the same families that struggled with low-quality and inadequate care for their children before it occurred. This issue brief examines the state of childcare for the American worker and considers ways to support the American worker through affordable and accessible childcare. The America First Policy Institute has conducted a thorough examination of existing childcare policy proposals, and this brief also examines what employers have done to offer childcare, as well as proposes strategies to incentivize employer-provided care without government mandates.

The childcare industry in the United States is often fragmented and maintains widely varying governing structures. While these structures traditionally seek to align services, the focus remains on programs instead of families. The childcare marketplace includes a diverse set of for-profit and nonprofit businesses, including larger centers operated by



national or regional companies, services provided in the owner's home or faith-based setting, and private childcare. Multiple agencies manage childcare licensing standards and reporting requirements within states, all of which have established processes for changing and deregulating as needed.

Thirty percent of women were in the labor force in 1950, which has grown to 56.8 percent in 2022. While employers in the United States today often offer ample benefits packages regarding health and wellness, providing childcare as a benefit is less common. In fact, according to one recent study, only 6 percent of employers offer childcare benefits. Even before the COVID-19 pandemic, the Harvard Business Review estimated that “inadequate childcare was costing working parents \$37 billion a year in lost income and employers \$13 billion a year in lost productivity.” Historically, the only fully funded federal childcare program was established during World War II, known as the Lanham program. Created by Congress, this program provided childcare for women who began working in factories as their husbands fought in World War II, and it eventually ended shortly after the war in 1946.

With nearly \$40 billion in federal aid allocated for childcare in the United States today, states must decide how best to align and utilize this funding. Compared to other nations, the United States spends less on childcare than other wealthy nations. However, solutions beyond government financial assistance exist to provide childcare to the American workforce. The landscape of federal resources for childcare is vast.

Employer-Sponsored Childcare

Some businesses recognize that paid leave, childcare, and other family-friendly policies are important ways to recruit and retain workers. Employer-sponsored childcare is rare, with only 11 percent of all workers receiving some childcare benefit. However, these family-friendly benefits have nearly tripled since 1996 and can include referral services or flexible spending arrangements.

According to a recent survey from the U.S. Chamber of Commerce Foundation, only 38 percent of workers think their employer provides benefits for childcare needs. However, 89 percent of employers surveyed responded that they are aware of employees' childcare needs. These survey results reflect the disconnect between employer and employee when assessing childcare needs.

For example, Walmart recently announced its plans to build a childcare center for up to 500 children across the street from its new home office. While new projects are in the queue, companies like Patagonia have offered on-site childcare since 1983. The impact on Patagonia's workforce has been significant, with one study citing “100 percent of mothers return to work after having a child, compared to the national average of 80 percent...” The



report notes that Patagonia recoups approximately “91 percent of costs [by supporting workforce childcare] and that including intangible benefits would raise their return on investment to 115-125 percent.” While providing this benefit has benefited other large companies, it remains a challenge for small and medium-sized businesses. For example, the average cost of childcare in the United States was \$10,174 in 2020. Large corporations are better equipped financially to bear such costs, but this amount, or even a portion of it, could be an exorbitant cost for a small business with less income than a large company.

To address some of the employers’ costs for providing these benefits, in 2001, Congress created the “Employer-Provided Child Care Credit.” This incentive-based legislation offers a 25 percent tax credit for employers who utilize qualified childcare expenditures for employees, capping out at \$150,000. In other words, employers may be eligible to reduce the taxes owed by taking a credit for expenses incurred for providing a childcare facility to employees. At the same time, the employees may be eligible to claim childcare expenses to reduce their taxable wages. According to the most recent data available on the utility of this credit, in 2016, the Internal Revenue Service (IRS) “estimated 169 to 278 corporate income tax returns claimed an aggregate estimated \$15.7 to \$18.8 million.” This is compared with 2018 (the most recent year available), where the IRS “estimated corporate returns reported \$144.7 to \$154.8 million in qualified childcare facility expenses, and less childcare resource and referral expenses.” The rationales espoused as to why this credit is underutilized include lack of employer awareness and meaningful impact of the credit itself. Stated differently, employers did not find the amount the credit offered to be worth the costs the employer incurred. The Government Accountability Office study went on to note that employees working at companies that do participate report increased levels of engagement and productivity.

Policy Recommendation #1: Make It Easier for Businesses to Provide Childcare

While it is not the role of a state or federal government to mandate that businesses provide childcare services for employees, policymakers could incentivize arrangements without imposing government mandates or creating new taxpayer-funded entitlements. One recommendation would be to develop more technical assistance and best practices around employer-sponsored childcare models that could be more widely distributed to employers and employees. Another way to support employers’ efforts to provide childcare assistance is to expand the rule exclusions in the Fair Labor Standards Act (FLSA) that do not count the cost of employer-provided benefits from pay calculations. This exclusion currently applies to things like health and life insurance. However, it does not extend to childcare costs, resulting in the need for employers to pay additional overtime for the benefit of on-site childcare and childcare subsidies. Amending the FLSA accordingly would likely affect the employer’s ability to afford this cost.

Policy Recommendation #2: Reduce and Streamline Unnecessary Regulations



Another way to increase the availability and decrease the cost of childcare is by reducing costly regulations that limit the number of available childcare workers. Licensing, regulatory, and monitoring frameworks are the basis for ensuring that childcare settings are healthy and safe for children. However, policies regulating childcare health and safety are created separately at the federal, state, and local levels and can result in contradictory and overburdensome requirements. In Wisconsin, for example, the licensing rules for family childcare providers are more than 37 pages long and have over 400 requirements to be reviewed at least every two years. The statewide requirements extend beyond the health and safety of the children and into maximum timeout length and square footage regulations.

Relevant regulatory bodies should provide reporting frameworks and monitoring practices that do not unreasonably increase costs upon or decrease access to stakeholders and ensure opportunities for faith-based or home-based family childcare providers.

Policy Recommendation #3: Promote Childcare Apprenticeships

Childcare providers' compensation, especially those who care for infants and toddlers, is generally low. Still, federal and state-level policymakers have increased credentialing and degree requirements. Apprenticeship models provide a viable credentialing option for the early childhood education workforce, as childcare apprenticeship models are an excellent way to highlight and train individuals considering a career in this field. This policy change would also assist with the current workforce shortage in the childcare sector. Several states have already launched successful childcare apprenticeship programs, including

Requiring childcare staff to have a college or other degree does not necessarily advance the relevant caregiver skills and presents entry-level hurdles of costs and debt. Encouraging skills-based hiring will make it easier for educators and caregivers to gain the competencies needed to provide high-quality care and allow for compensation consistent with market demands.

Conclusion

Childcare is critical, and policymakers must make progress on to support our fellow citizens. By testing and implementing creative strategies that incentivize employer participation, minimize operational and regulatory burdens on participants, and encourage industry apprenticeship models, we can increase business engagement and support employee retention. The thoughtful application of these policy recommendations could be greatly impactful for the American worker.

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