



DESIGNING SUBSIDIES FOR THE ENTIRE CHILD CARE PROVIDER LANDSCAPE

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KEY FINDINGS

- **Family, Friend, and Neighbor (FFN) child care providers are a valuable part of the child care landscape.** Besides providing cost-effective and flexible care options, FFN providers are particularly good at meeting family needs such as having a trusting relationship with the provider; sharing a cultural background; and offering care outside of traditional business hours. FFN providers also play a crucial role in increasing capacity for infant/toddler care.
- **Child care policies largely overlook FFN providers.** Policies related to child care offer little support to FFN providers and are not well designed to meet their needs. From an equity perspective, resources should be spent supporting providers from varied backgrounds to provide care.
- **FFN providers face special barriers to participating in the child care subsidy and licensing system.** FFN providers can qualify to participate in the subsidy system, albeit at a very low level. But technical and procedural barriers make it difficult for many FFN providers to prove qualifications, receive payment when they are eligible, and become eligible for higher payment tiers.

INTRODUCTION

Child care subsidies are essential both for the well-being of families with low incomes trying to make ends meet and for promoting early development and learning for children receiving care. Federal and state policies have adapted in response to evidence that early childhood development is crucial for life outcomes. Yet strategies to support child-development through quality metrics such as caretaker education easily backfire, exacerbating affordability issues and unnecessarily excluding a class of providers known as Family, Friend, and Neighbor (FFN). By excluding these providers, policymakers systematically exclude minoritized communities from important support for care, potentially limiting the quality of available care in these communities. Rather than simply pushing families toward licensed care, policymakers and child care professionals should reform the treatment of FFN child care, providing context-appropriate support and training and adequate funding.

BACKGROUND

THE CHILD CARE AND DEVELOPMENT FUND

Originally enacted as part of welfare reforms in 1996, the Child Care and Development Fund (CCDF) is the largest federal funding source for child care. Designed to make it easier for parents with low incomes to work, CCDF funds promote child care quality improvement efforts and subsidize child care for families that meet income and work requirements or who have other qualifications. States receive a guaranteed minimum amount from the federal government based on a formula incorporating each state's percentage of children younger than 5, the share of children receiving free or reduced-price school lunch, and the state's per capita income. States also receive matching funds based on the state's spending on eligible programs and the current Medicaid match rate. The state must meet a certain threshold of its own prior spending, around \$25 million called "maintenance of effort," to qualify for matching funds.

The federal government sets certain guidelines for states' CCDF spending, and state agencies submit a plan detailing how they will implement that state's program and meet the federal requirements. As part of their plan, states have broad flexibility to set guidelines for families to qualify for subsidies, within bounds set by the federal government. To qualify for assistance, parents must have income under certain limits or meet other qualifications such as caring for children in foster care. The generosity of the subsidy from both state and federal levels depends on state and national policy trends and fiscal health.

In 2014, Congress reauthorized the CCDF, reaffirming its role in promoting parents' financial success, while also expanding its focus on early childhood education. Child development research over the past 20 years has demonstrated that a person's earliest years are significantly influential on their life outcomes.¹ Accordingly, reauthorization focused on providing low-income families with equal access to quality child care that promotes early learning. State subsidy policies must enable this goal. Other goals for CCDF funds include enhancing the quality of child care; increasing qualifications of the early childhood education workforce; and increasing the supply of quality care for infants and toddlers, including children in need of nontraditional hour care and children in underserved communities.²

THE CHILD CARE SUBSIDY AND MICHIGAN

States determine the conditions under which families qualify for a subsidy and how many hours of care they qualify to receive. The subsidy rate that child care providers receive from the state is based on their quality rating and their licensing status. Michigan just raised its entry income eligibility limit to receive the subsidy from 150% to 185% of the Federal Poverty Line, or \$3,386 monthly for a family of three.³ This moved Michigan from just under average to above average in the Midwest (\$3,130), and slightly below the national average (\$3,425).⁴ State reimbursement levels are meant to hit a benchmark of the 75th percentile of the market rate for child care, and all states are required to conduct an annual survey to determine the market rate. However, there are no ramifications if reimbursement levels do not meet these thresholds, and only seven states do. Prices for child care vary by geography, quality rating, and setting (licensed center, licensed home-based, and license-exempt home-based) and reimbursement rates set by the Michigan Child Development and Care Program vary by quality rating and setting. Increased reimbursements do not always track to increases in market prices; consequently Michigan's reimbursements range from only a few cents below the threshold average hourly market rate to more than a dollar below the market rate. The true gap between reimbursement and market rates varies by region and is highest in Kent County and Southeast Michigan, with the reimbursement rate often covering less than 60% of the market rate.⁵

TABLE 1: CHILD DEVELOPMENT AND HOURLY CARE REIMBURSEMENT RATES

PROVIDER TYPE	STAR RATING	INFANT-TODDLER (BIRTH TO AGE 2½)	PRESCHOOL (AGE 2½-5)	SCHOOL AGE (OVER AGE 5)
Child Care Center	Base rate ☆	\$5.60	\$4.00	\$3.85
	★	\$5.60	\$4.00	\$3.85
	★★	\$5.95	\$4.30	\$4.20
	★★★	\$6.60	\$4.95	\$4.85
	★★★★	\$6.90	\$5.30	\$5.15
	★★★★★	\$7.55	\$5.95	\$5.80
Group Child Care Home	Base rate ☆	\$4.50	\$3.85	\$3.75
	★	\$4.50	\$3.85	\$3.75
	★★	\$4.85	\$4.20	\$4.05
	★★★	\$5.50	\$4.85	\$4.70
	★★★★	\$5.80	\$5.15	\$5.05
	★★★★★	\$6.45	\$5.80	\$5.70
License Exempt-Related and License Exempt-Unrelated	Base rate Level 1	\$2.30	\$2.30	\$2.30
	Level 2	\$3.90	\$3.45	\$3.45

Note: Rates calculated from the Michigan Child Development and Care Handbook and Michigan Public Act 87 of 2021.⁶

Subsidy generosity, and access to subsidies, are dependent not only on family income and provider qualifications, but also on changes in states' financial situations and shifting attitudes toward early child educators. For example, some states limited spending during the Great Recession by limiting the maximum number of hours that children could be eligible for care. In Michigan, the maximum number of hours fell from 90 biweekly to 80 per child; this has since risen back to 90. In the early 2000s, it was as high as 140 hours per biweekly pay period.⁷

FFN CHILD CARE SHOULD BE THE STARTING PLACE FOR CHILD CARE POLICY THAT SEEKS TO REDUCE OUTCOME DISPARITIES

Awareness of a high level of unmet need for reliable, quality, and affordable child care has been growing over recent years and has increased even more since the onset of the COVID-19 pandemic. "Child care deserts," attributed partially to lack of public funding, have received attention from Forbes, the Center for American Progress, Slate and countless local news outlets.⁸ Attempts to solve one problem—for example, quality—often exacerbate another issue, like affordability.

Washington, D.C., recently passed a city ordinance, based on correlational studies between provider education level and child care quality, requiring child care workers to have at least a bachelor's degree. It is not clear how workers will be compensated for the higher cost of their education. With child care costs already posing high cost burdens on families with moderate incomes, it is difficult to see how wages for child care workers will rise significantly. Child care is already a low-paying job, with many child care workers depending on public assistance for their own needs. Failing to raise compensation will exacerbate the shortage of child care workers as many will pursue other career paths in search of a way to make a living. Child care professionals struggle to develop workers who remain in child care amidst these challenges. But they may be overlooking a potential talent pipeline; FFN providers are not often considered as an opportunity to develop the early childhood education workforce.⁹ However, FFN providers are already providing care for a large number of children not in parental care. FFN providers care for 15% of children receiving the CCDF subsidy across the U.S. and fully 30% of children 0-5 receiving the subsidy in Michigan. Rather than forcing providers through a one-size-fits-all qualification process that potentially burdens them with high student debt loads, Michigan and other states should support and develop FFN providers through more accessible frameworks.

Supporting FFN providers is not just a smart choice for talent development, it also supports high-quality care across more family situations. Parents choose FFN child care for many reasons. Often, the kinds of jobs that pay low enough wages for families to qualify for the subsidy require non-traditional hours, when very few licensed child care providers are open. Frequently, private child care centers are based in wealthy suburban areas, as these are the locations where they will be able to charge high enough rates to cover the costs of providing center-based care, and often families with low incomes do not have the transportation required to reasonably access these centers. Other times, families simply prefer to leave their children with a relative, someone they know well, or someone who shares cultural characteristics. No matter the reason, families in different circumstances choose FFN care, and these providers should be invested in and supported as an essential component of the child care landscape.

THE SUBSIDY SYSTEM IS INACCESSIBLE TO MANY LOW-INCOME PROVIDERS

Despite their importance in providing care for many families with low incomes, FFN child care providers are excluded from child care policies in many ways. In some ways this is a byproduct of a system designed for formal licensing. State subsidy systems, including payment and billing administration and training opportunities, are set up for licensed child care centers with administrative resources. FFN child care

providers often need to do all of their business administration such as billing using a cellphone due to lack of access to technology. Sometimes payment practices are more onerous for FFN providers than for licensed centers. For example, in Michigan, subsidy payments are sent directly to licensed providers, whereas for FFN providers, they are sent to the parent who then must pass them on to the provider. This extra step creates unnecessary loss in the system. Providers that the Provider Empowerment Program in Flint have worked with have noted that often up to 20% of the check value is lost when it is cashed at a corner store. Other times providers have had to take the parents to court to receive payment. Some providers choose not to participate in the subsidy program at all and remain completely unpaid and unsupported because of the hassle and cost of processing these payments.

In general, states and nonprofit organizations prioritize referring families to licensed center-based care, rather than focusing on helping FFN providers improve their care.¹⁰ State agencies can rationalize this decision based on arguments that FFN providers often demonstrate lower levels of quality indicators or that FFN care may lead to poorer outcomes for children compared to children in other settings.¹¹ Some organizations and state agencies responsible for supporting providers have reported difficulties engaging with FFN providers.¹² All of these factors make it easier for state administrators to push families receiving the subsidy to licensed child care. But these challenges do not eliminate the reasons why families choose FFN child care in the first place. To respect family choice and increase accessibility for families with unmet child care needs, states must develop a new pipeline for the child care workforce and immediately address gaps in child care access. State and federal policy should be designed to be inclusive and supportive of FFN providers.

States that fail to support FFN providers systematically underinvest in some of the highest-need areas. FFN providers typically have a similar income level to the family for which they provide care.¹³ By not supporting FFN care—and failing to otherwise provide accessible, affordable, high-quality care in urban and rural low-income communities—states hinder children from opportunities for early development and increase the challenges for parents with low incomes and providers seeking to make a living.

RECOMMENDATIONS TO DESIGN A SUBSIDY SYSTEM THAT HELPS FFN PROVIDERS

1. DESIGN TRAINING SYSTEMS SPECIFICALLY FOR FFN PROVIDERS

In Michigan and in many states, training provided by the state quality system is designed for licensed providers. But these trainings are often not effective or attractive for FFN providers, who do not necessarily respond to “professional

development.”¹⁴ However, there are evidence-based training approaches that have success improving child care quality in FFN settings. Two successful models are home visiting and Play and Learn Groups.

In a home visiting model, staff from an organization or government agency visit providers’ homes (or the parent home where the provider is working) to develop a relationship and offer guidance and support, including modeling activities with children. Early childhood professionals pursued home visiting for providers after successful evaluations of parent visiting programs. These models can adopt a variety of curriculums and provide flexibility to meet the needs of providers. Evaluations have found improved provider mental health, higher-quality interactions with children, increased time spent on literacy activities, better routines, and increased quality on several measures.¹⁵

In Play and Learn Groups, providers and children meet in a facilitated group setting that includes play time between the provider and the children in their care. Evaluations of Play and Learn Groups found increased school readiness, decreased feelings of isolation, improved parent-provider relationships, and increased connection to community resources.¹⁶

These models can be implemented together or separately in a unified program. They should be supplemented with workshop approaches and targeted distribution of well-developed resources such as literacy kits. These workshops will be most effective if they are developed specifically for providers’ home-based environments. Other early childhood education programs serving low-income populations should also include connections and services for FFN providers. Many children in programs like Head Start or Early Head Start are also in FFN care, and these programs could include providers in the same types of outreach they provide for parents.

Regardless of setting or style, programs to support FFN providers should be built on respecting FFN providers’ assets and strengths. Rather than focus on a possible lack of provider education or potential safety challenges, these programs should acknowledge FFN providers’ strengths, including their accessibility for parents in terms of both hours and location, exceptional child-to-caretaker ratios, cultural competency, and community embeddedness. Programs that honor these strengths will almost certainly find more success engaging with providers.

2. INCLUDE EXPLICIT PATHWAY PLANS FOR FFN PROVIDERS TO REACH LICENSING

While some FFN providers only plan to provide care for as long as a specific friend or relative needs their help, others are interested in becoming licensed. Programs assisting FFN providers should provide information with clear steps to make this happen. The recent redesign of the application for Medicaid and other kinds of assistance in Michigan can provide a model for this, making the requirements as clear and simple as possible. By providing good support for quality care and making a career pathway clear and obvious, states could develop a talent pipeline for child care providers that improves situations for both children and other adults in their communities.

3. INCREASE SUBSIDY RATES FOR ALL PROVIDER CLASSIFICATIONS, AND PAY PROVIDERS DIRECTLY

In Michigan, a FFN license-exempt provider taking no vacation, earning the base subsidy rate of \$2.30 per hour per child, and caring for a child approved for the maximum 90 hours per pay period would earn just over \$5,300 in a year for working more than full time. If they completed 10 hours of approved training that year to reach a Level 2 classification, they could earn about \$9,100. Both of these income levels are far less than the minimum wage. A license-exempt provider at the base level classification would need to care for five children, each averaging more than 37 hours of care per week to earn more than minimum wage. Raising subsidy rates even higher than their recent increase is essential to even come close to adequately compensating license-exempt providers for their work.

Many FFN providers do not even attempt to qualify for the license-exempt status necessary to receive subsidies, because they consider the hassle of retrieving the subsidy from parents to be too great. Increasing the subsidy rate and paying providers directly, as many states do, could increase participation of providers in the subsidy system, allowing them to receive training to deliver better care, an opportunity for a career path, and compensation for their work.

Low levels of subsidies and support for FFN providers will not encourage families to place their children in licensed care or increase the supply of licensed providers. Rather, it means providers who are making sacrifices to care for children will not be as supported as they should be. Children, families, and providers in under-resourced communities in particular, with parents working chaotic schedules, will continue to have inequitable access to quality, affordable child care. A better way would be to support parental choice and provide adequate support for families and communities who need it by equitably supporting and funding FFN providers.

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ENDNOTES

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