

The Economic Role of Paid Child Care in the U.S.

Executive Summary

One of the most fundamental roles played by child care is enabling parents to participate in the labor force. Most parents with young children are in the workforce. Among U.S. families with a child under age 5, 91% have a working parent. For married couple families, 98% have at least one working parent and 60% have both parents in the workforce. For families maintained by only one parent, 79% of mothers and 88% of fathers who head the household are employed.

To support employment, parents choose from a broad range of child care options, either paid or unpaid. This report focuses on the role played by paid child care services. Paid care provides parents with a market-based alternative to in-home parental care and other forms of non-paid care.

Paid care generally becomes an option for parental care when all parents in the household are working. Paid care is used disproportionately by families with higher incomes.

Developing a better understanding of the economic role played by paid care is important from a policy standpoint because it is used for over 20% of U.S. children of child care age, from birth to age 14. In 2019, paid child care use was nearly twice as high for children under age 5 (29.4%) compared to school-age children (16%). More than 75% of children in paid care are age 8 and under.

Paid options include both formal and informal care arrangements such as neighbors or friends, which may or may not be regulated by states but reflect child care arrangements for which parents pay for child care services. The child care market has become a large, productive component of the U.S. economy with U.S. households reporting total child care spending of \$60 billion in 2019.

What remains unclear is the exact economic role played by paid child care in the U.S. economy. Federal and state governments spent nearly \$20 billion in 2019 on direct subsidies and cost offsets (such as tax credits) to expand child care access. Paid child care plays a key role in federal and state policy efforts to provide support to low income families that need assistance in entering or remaining in the workforce. Child care paid for with subsidies and other cost offsets (such as tax credits) remains the key channel through which U.S. child care policy operates.

This report is the first of a four-part series related to the role played by paid child care services in the U.S. economy. The first report explores three topic areas:

- The first topic addresses who uses paid child care, how much it costs, and how its usage varies across the states. It includes a close review of the impact of the COVID pandemic on paid child care utilization in 2019 compared to 2020.
- The second topic area examines a range of economic, demographic, and child care market characteristics that influence the use of paid child care nationally and across the states.
- The third topic area examines the critical link between labor force participation (especially of women and mothers) and the use of paid child care services.

How is Paid Child Care Used in the U.S. and States?

How many children are in paid child care?

- Current Population Survey estimates suggest that there are approximately 60 million children in the U.S. under the age of 15 who potentially need paid child care services.
- An estimated 10 million of the 60 million children ages 14 and under in the U.S. were reportedly in paid child care while their parent(s) worked in 2020 (with about 4.7 million of these children under age 5).
- Most households with children in paid care have more than one child enrolled. Nationally, there were 1.56 children per household with a child ages 0 to 14 in paid care in 2019. Most states have between 1.40 and 1.65 children in paid care per household.

COVID Pandemic Impact: Number of Children in Paid Child Care

- The number of children under age 14 in paid child care declined from 12.2 million in 2019 to 10 million in 2020.
- The number of children under age 5 in paid child care declined from 5.7 million in 2019 to 4.7 million in 2020.
- The number of school-age children in paid child care declined from 6.5 million in 2019 to 5.2 million in 2020.

What are the trends in the share of children in paid care?

- Paid care continues to be used for approximately 20% or less of children under the age of 15. The share of children in paid care has fluctuated over time with a general rising trend the past two decades (e.g., rising from a low of 15.9% in 2005 to a high of 20.3% in 2019 before retreating sharply to 16.7% during the pandemic in 2020).
- The overall share averaged 19.4% across the most recent decade from 2011 to 2020 and 17.4% in the prior decade from 2001 to 2010.
- Among children under age 5, use of paid child care has risen from a low of 23.2% in 2005 to 29.4% in 2019 before declining to 25% in 2020.
- Among school-age children, use of paid child care has risen from a low of 12.2% in 2005 to 16% in 2019 before declining to 12.9% in 2020.
- The roughly 20% share of children in paid care implies that parental care or other forms of non-paid care remain the norm for most working parents in the U.S.

Across states, utilization of paid child care varies greatly by age group as well as by use of paid child care during the COVID pandemic. For example, in some states, use of paid child care greatly declined in 2020 compared to 2019. In other states, paid child care increased over the same period.

What is happening to the number of children of child care age?

- Despite declining numbers of children under the age of 15 in recent years, both the number and share of children in paid child care increased over the past two decades. Growth in paid child care usage as a share of population was taking place despite declining numbers of children of child care age. This suggests increased relative demand for paid child care services in the period.

COVID Pandemic Impact: Percentage of Children in Paid Child Care

- Overall, the share of children age 14 or younger in paid child care declined from 20.3% in 2019 to 16.7% in 2020, a decline of nearly 20%.
- The percentage of children under age 5 in paid child care declined from 29.4% in 2019 to 25% in 2020.
- The percentage of school-age children in paid child care declined from 16% in 2019 to 12.9% in 2020.

The impact of the pandemic affected families and their use of paid child care in different ways.

For example,

- In Maine, 51.4% of children under age 5 were in paid care in 2019, declining to 11.8% in 2020.
- In Iowa, 38.9% of children under age 5 were in paid care in 2019, increasing to 49% in 2020.

Note: Given the influence of COVID-19 in 2020, there could be limitations related to sampling size across states.

Which children are most likely to be in paid care?

Children in paid child care are most likely to:

- be under age 5,
- have parents ages 25 to 34,
- live in households with higher education levels and higher income,
- live in an owned home,
- live in New England or the West North Central region, and
- have a full-time working parent or one pursuing part-time education.

Top 10 States in 2019 and 2020 by Utilization of Paid Child Care for Children Under Age 5					
Top 10 States in 2019			Top 10 States in 2020		
	2019 % Paid Care	2020 % Paid Care		2020 % Paid Care	2019 % Paid Care
Maine	51.4%	11.8%	Iowa	49.0%	38.9%
North Dakota	47.2%	32.2%	Nebraska	40.6%	47.0%
Nebraska	47.0%	40.6%	New Hampshire	40.4%	46.5%
New Hampshire	46.5%	40.4%	Virginia	39.9%	41.1%
District of Columbia	45.7%	31.0%	Minnesota	39.3%	39.5%
Virginia	41.1%	39.9%	Washington	39.2%	30.5%
South Dakota	40.5%	32.4%	Vermont	37.4%	29.8%
Oregon	39.7%	27.7%	Kansas	37.4%	30.0%
Minnesota	39.5%	39.3%	Wyoming	35.0%	26.5%
Connecticut	39.3%	24.9%	Illinois	34.6%	32.3%

Source: IPUMS USA - University of Minnesota, U.S. Census Bureau, and RegionTrack calculations

Children in Paid Child Care by Age (2019)				
Age(s)	Total Children	Children in Paid Care	Share of Children in Paid Care	Share of Category Total
0-14	60,398,184	12,290,034	20.3%	100.0%
0-4	19,426,241	5,714,728	29.4%	46.5%
5-14	40,971,943	6,575,306	16.0%	53.5%
0	3,648,062	666,331	18.3%	5.4%
1	3,930,038	1,177,187	30.0%	9.6%
2	3,917,062	1,254,490	32.0%	10.2%
3	3,936,914	1,277,685	32.5%	10.4%
4	3,994,165	1,339,035	33.5%	10.9%
5	4,000,469	1,172,713	29.3%	9.5%
6	3,999,750	904,835	22.6%	7.4%
7	4,099,680	851,902	20.8%	6.9%
8	4,003,962	807,682	20.2%	6.6%
9	4,131,331	691,738	16.7%	5.6%
10	4,050,042	685,007	16.9%	5.6%
11	4,109,861	555,878	13.5%	4.5%
12	4,284,100	398,134	9.3%	3.2%
13	4,122,180	245,427	6.0%	2.0%
14	4,170,568	261,990	6.3%	2.1%

Source: IPUMS USA - University of Minnesota, U.S. Census Bureau, and RegionTrack calculations

Are there demographic trends related to the use of paid care?

- Declining U.S. birth and fertility rates continue to weigh on the number of children of child care age. Measured in 2020 relative to the recent peak in U.S. births in 2007, the fertility rate is down 19.5% and the crude birth rate is down 23.5%. Relative to the peak in the 1950s, the fertility rate and crude birth rates are down by more than half.
- The aging of America is also closely intertwined with a falling birth rate and the declining number of children of child care age. Rather than viewed as simply

a “graying” problem, it is a combination of longer life expectancy and a declining birth rate.

Does paid care usage vary across the states?

- Paid child care usage for children of all ages varies greatly, with states including Alaska, New Mexico, Utah, and West Virginia having less than 11% of children ages 0 to 14 in paid care in 2019.
- States with a more than 30% share in paid care include Connecticut, Maine, Nebraska, New Hampshire, and North Dakota plus the District of Columbia.

Top 10 States in 2019 and 2020 by Utilization of Paid Child Care for Children Ages 0-14					
Top 10 States in 2019			Top 10 States in 2020		
	2019	2020		2020	2019
New Hampshire	35.1%	25.6%	Vermont	29.6%	22.0%
District of Columbia	34.3%	27.1%	Nebraska	27.9%	30.2%
Maine	33.4%	16.7%	District of Columbia	27.1%	34.3%
Connecticut	32.4%	19.7%	Virginia	26.9%	28.7%
North Dakota	31.7%	24.6%	Rhode Island	26.4%	27.4%
Nebraska	30.2%	27.9%	New Hampshire	24.6%	35.1%
South Dakota	29.3%	21.4%	North Dakota	24.6%	31.7%
Virginia	28.7%	26.9%	Minnesota	24.3%	23.1%
Oregon	28.0%	19.1%	Iowa	24.2%	26.8%
Rhode Island	27.4%	26.4%	Washington	23.0%	26.8%

Source: IPUMS USA - University of Minnesota, U.S. Census Bureau, and RegionTrack calculations

How did the pandemic affect paid child care usage?

- The pandemic weighed heavily on paid child care usage in 2020. The number in paid care dropped nearly 20%, from 12.3 million reported in 2019 prior to the onset of the COVID-19 pandemic, to 10 million in 2020.
- The pandemic period also highlights that the share of children in paid care is sensitive to the business cycle. Steep drops in the share of children in paid care are found during the extended hiring slump following the 2001 recession, in 2009 during the Great Recession, and in 2020 in response to the pandemic-induced recession.
- Most states reported a loss in the share of children in paid care during the pandemic. Four states reported declines of approximately 10% or more in the overall share of children in paid care in 2020.
- However, the impact of the pandemic was not uniform across states. In seven states, the percentage of children age 14 and younger increased in paid child care.

How much do families report spending on paid child care?

- Expenditures per household reached a record high of \$7,602 in 2019 before declining by 7.2% to \$7,058 in 2020 during the pandemic.
- Expenditures per child also reached a record high of \$4,880 in 2019 before falling 6.8% to \$4,548 in 2020.
- The median state expenditure of \$6,878 is far lower than the average of \$7,602 per household in 2019.
- Across all U.S. households reporting children in paid care, child care expenditures averaged 5.2% of household income over the 2009 to 2020 period. On a per child basis, expenditures averaged 3.4% of household income over the 2009 to 2020 period.
- Prior to the decline in per child spending to 3.0% during the pandemic, per child spending tracked in a narrow range from 3.3% to 3.6% of household income from 2009 to 2019.
- Total expenditures in most states are roughly evenly distributed across a range of \$4,000 to \$9,000.
- At the state level, total expenditures ranged from 3.0% of income in Hawaii to 7.8% in Maryland. On a per child basis, the expenditure share of income ranged from 1.9% in Arizona to 6.3% in Maryland.

COVID Pandemic Impact: States with an Increase of Children in Paid Child Care

State	2019	2020
Alaska	10.3%	11.4%
Delaware	15.2%	17.3%
Minnesota	23.1%	24.3%
Montana	16.8%	18.4%
Pennsylvania	18.1%	22.1%
Vermont	22%	29.6%
West Virginia	6.7%	14.3%

How is income tied to the use of paid child care?

- Households with children in paid care reported average income of \$149,926 in 2020, \$30,713 higher than the average income of families with children -- \$119,213. Over the 2009 to 2019 period, those with children in paid care had household income of approximately 125% of the overall average.
- An even greater income differential is present between households using paid child care and those with children but none in paid care in 2020. The \$149,926 average income for those with children in paid care is \$39,049 greater than the average income of households with children but not using paid care.

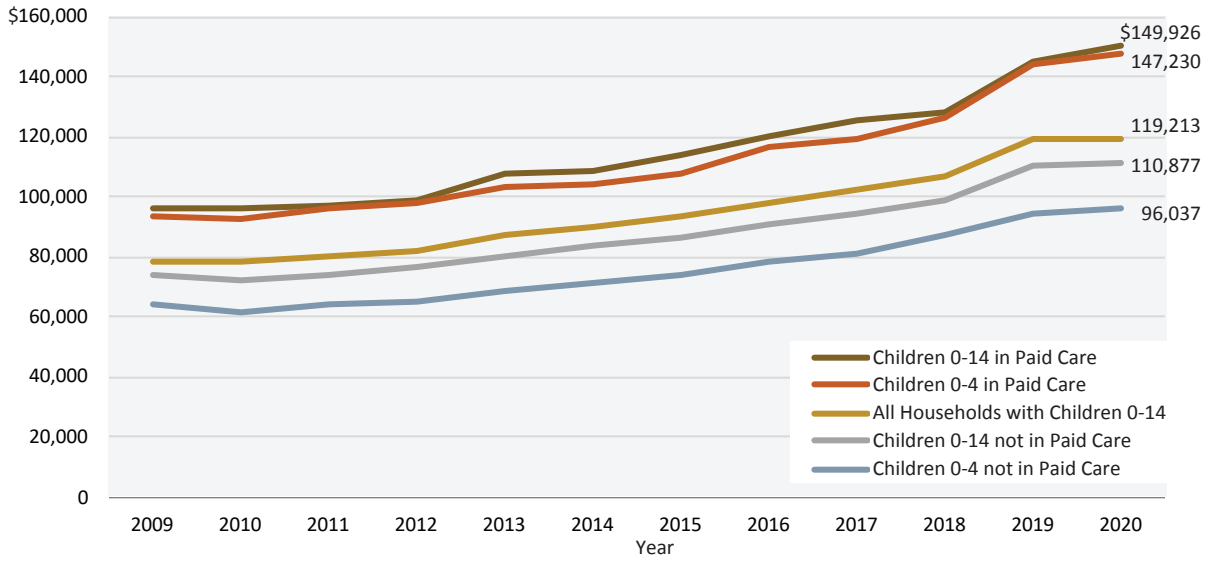
COVID Pandemic Impact: Families Using Paid Care During COVID Had Higher Incomes

- In 2020, the average income of families using paid care was \$149,926.
- In 2019, the average income of families using paid care was \$144,780.

How much do U.S. households collectively spend on paid child care?

- Total reported expenditures reached \$60 billion in 2019 before dropping by nearly one-fourth (24%) in 2020 to only \$45.6 billion.

Household Income of Children in Paid Care (2020)



Source: IPUMS USA - University of Minnesota, U.S. Census Bureau, and RegionTrack calculations

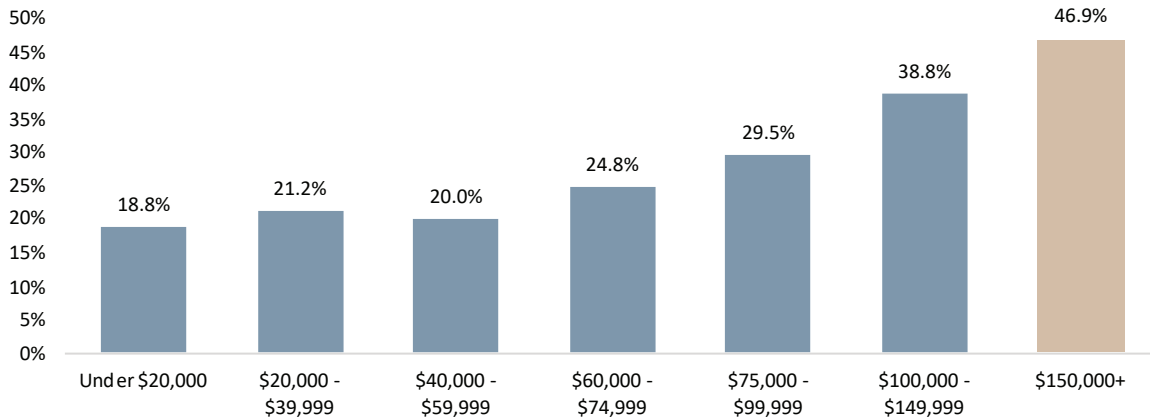
What Factors Explain Paid Child Care Usage?

Findings from existing child care research, economic theory, and analysis of child care data at the state level suggest that economic and demographic factors and characteristics of child care markets at the state level are believed to be closely intertwined with the use of paid child care.

Three key economic and demographic factors have a fundamental influence on paid child care usage:

1. labor force attachment (particularly for mothers),
2. household income, and
3. educational attainment.

Percentage of Children Under Age 5 in Paid Care by Household Income (2019)



Source: IPUMS USA - University of Minnesota, U.S. Census Bureau, and RegionTrack calculations

Labor Force Attachment. One of the primary roles of child care, both paid and unpaid, is its role in facilitating a parent’s participation in the workforce. Specifically, it is the labor force participation of mothers that is believed to be most closely tied to paid child care usage given that most in-home parental care is traditionally provided by mothers.

For mothers ages 18-54 with a child ages 0 to 4, a 1% increase in the labor force participation rate of mothers is associated with a 0.89% increase in the share of children ages 0 to 4 in paid care across the states.

The states with the highest maternal labor force participation rates have a more than 20% higher share of children in paid care on average than those with the lowest participation rates.

Household Income. Households with higher income are far more likely to have a child in paid child care.

- Households with children in paid care had average reported household income of \$149,926 in 2020, and \$144,780 in 2019. As income increases, use of paid care increases, particularly for children under age 5.
- Across the states, the share of children in paid child care is highly sensitive to income differences. Each \$1,000 of additional real income per capita is associated with a 0.7% increase in the share of children in paid care.
- An additional \$10,000 in real income per capita in a state is associated with a 7% average increase in the share of children in paid care.
- Lower income states with real per capita income of about \$45,000 annually typically have about 17% of children in paid care. Higher income states with real per capita income of approximately \$55,000 typically have about a 22% share of children in paid care.

Educational Attainment. Above average use of paid care is generally found where the primary householder has a bachelor’s degree or higher.

- An additional 0.1 years of schooling across the states is associated with a 1.4% higher share of children ages 0-4 in paid care.
- Many of the highest education states have a full year of additional schooling on average relative to the lowest education states. This is associated with an additional 14% share of children ages 0 to 4 and 11% share of children ages 0 to 14 in paid care, on average, across the states.
- States with the highest education levels tend to have a share of children in paid care that is roughly double the share in states with the lowest education levels.

The structure of the child care market in each state is believed to influence the level of paid child care usage. Three important characteristics of state child care markets include:

- 1. child care expenditures as a share of income (or cost burden),**
- 2. federal and state child care subsidies and cost offsets (such as tax credits) as a share of income, and**
- 3. the availability of alternative sources of publicly provided care (primarily preschool).**

These three factors reflect current child care policy concerns including the effect of the high cost of care, the effectiveness of public funding of child care, and the effect of alternative public care options such as pre-K on the use of paid care.

Top 10 States in 2019 and 2020 by Percentage of Income Spent on Child Care for Children Ages 0-14					
Top 10 States in 2019			Top 10 States in 2020		
	2019	2020		2020	2019
Maryland	7.8%	4.1%	Delaware	7.0%	5.0%
North Dakota	7.4%	6.4%	Oklahoma	6.9%	6.0%
Vermont	7.1%	5.1%	Tennessee	6.8%	4.4%
Montana	7.0%	6.6%	Montana	6.6%	7.0%
Oregon	6.9%	5.1%	Colorado	6.6%	3.4%
Louisiana	6.8%	3.5%	Florida	6.5%	5.4%
Kansas	6.8%	4.4%	North Dakota	6.4%	7.4%
Idaho	6.5%	4.6%	Nebraska	6.3%	5.5%
District of Columbia	6.4%	5.2%	Iowa	5.8%	5.9%
Indiana	6.3%	3.5%	Minnesota	5.5%	4.7%

Source: IPUMS USA - University of Minnesota, U.S. Census Bureau, and RegionTrack calculations

Child Care Expenditure Share. Child care costs have long been viewed as the major obstacle to the wider use of paid child care services while parents worked.

- Child care costs are most effectively measured as the amount of expenditures on paid child care as a share of household income.
- In 2019, Current Population Survey estimates suggest that U.S. households with children ages 0 to 14 in paid care spent an average of \$4,880 per child on paid care, or 3.4% of household income.
- In 2019, the share per child varied widely across the states, from 1.9% in Arizona to 6.3% in Maryland.

Child Care Subsidies and Cost Offsets. The net cost of child care to U.S. households is often determined by the receipt of a range of federal and state subsidies and other cost offsets. These subsidies and offsets are viewed as a potential key determinant of the share of paid child care usage across the states.

- Public child care funding comes primarily from shared federal and state expenditures through the Child Care and Development Fund (CCDF) and Temporary Assistance for Needy Families (TANF) programs along with the federal Child and Dependent Care tax credit.
- Funding from the three sources totaled approximately \$19.3 billion nationally in fiscal year 2019 – CCDF \$10.3 billion, TANF \$5.1 billion, and the federal Child and Dependent Care tax credit \$3.8 billion.
- The \$19.3 billion in fiscal year 2019 support is equal to approximately 37% of the total child care expenditures reported by U.S. households in CPS data in 2019.
- Nationally, subsidies and offsets per child ages 0 to 14 from these sources totaled approximately \$320 in

2019, or 0.46% of U.S. median household income. This equates to 6.6% of the average per child expenditure of \$4,880 on paid care in 2019.

- The dollar amount of child care subsidies and offsets per child in paid care varied widely (\$149 in Tennessee to \$828 in the District of Columbia) across the states in 2019, as did subsidy spending per child as a share of household income (0.23% in Arizona and Utah to 0.97% in Delaware).

Public Child Care Options (Preschool). The availability of other publicly funded child care options may influence the demand for paid child care within a given state. In many states, the primary alternative to paid care for 3- and 4-year-olds is preschool.

- Greater availability of public preschool options in a state implicitly provides a fully subsidized option for care (for at least some hours of the day). The share of children in preschool is expected to be inversely related to the use of paid care.
- Measured by the National Institute for Early Education Research (NIEER) as the share of all children ages 3 and 4 in preschool, 29.7% were reported as enrolled in preschool in fiscal year 2020. Public preschool options serve about 44% of 4-year-old children and 17% of 3-year-old children.
- The number of children in preschool increased steadily from a recent low of 2.21 million in 2013 to 2.45 million in 2019 but posted a slight decrease in 2020. The share varied widely across the states in 2020, with the District of Columbia and Vermont serving about 84% of 4-year-olds and Vermont far surpassing all other states serving 64.9% of 3-year-old children. Idaho had the smallest share of children in public preschool programs, serving 12.5% of 4-year-old chil-

Top 10 States in 2019 and 2021 by Labor Force Participation by Mothers with Children Ages 0-14					
Top 10 States in 2019			Top 10 States in 2021		
State	2019	2021	State	2021	2019
South Dakota	86.4%	79.2%	Iowa	86.9%	80.4%
Wisconsin	85.7%	79.2%	Rhode Island	82.1%	78.6%
Minnesota	83.3%	75.1%	North Dakota	81.2%	78.4%
New Hampshire	82.8%	78.0%	Nebraska	80.3%	81.3%
District of Columbia	81.9%	73.2%	Missouri	80.0%	75.4%
Colorado	81.4%	73.3%	Wisconsin	79.2%	85.7%
Nebraska	81.3%	80.3%	South Dakota	79.2%	86.4%
Massachusetts	80.8%	74.0%	Montana	78.2%	74.6%
Iowa	80.4%	86.9%	Vermont	78.2%	74.7%
Rhode Island	78.6%	82.1%	New Hampshire	78.0%	82.8%

Source: IPUMS USA - University of Minnesota, U.S. Census Bureau, and RegionTrack calculations



dren and 8.4% of 3-year-old children. States without a public preschool program relying instead on Head Start tended to serve the smallest percentage of either 3- or 4-year-old children.

Paid Child Care and Labor Force Participation

The high cost of child care has long been recognized as the key obstacle to the use of more paid care by working families. States with the highest maternal labor force participation rates have a more than 20% higher share of children in paid care on average than those with the lowest participation rates.

Across economic and demographic factors, the share of children in paid care across states is most closely tied to the labor force participation rate of mothers. With use of paid care closely tied to household income, this is not surprising.

Reports in the Series

This report is the first of a four-part series related to use of paid child care and labor force participation of mothers. The report details who uses paid child care, what percent of household income is spent on child care for those families who pay for it, and what characteristics are associated with families who pay for child care (e.g., maternal labor force participation, reported expenditures for child care, household income, level of education, and age of children in paid care) across states.

More detailed tables, figures, bar charts, and state information can be found on CED's web site at www.ced.org. The data can be filtered by year, variable (such as labor force participation rate of mothers with young children or children age 0-14) and by state.

The second report in the series will review the labor force participation of mothers in greater detail (across income, race, and major occupations). A third report will explore economic growth associated with increasing levels of maternal labor force participation and access to paid child care. The final report in the series will provide a data primer for those interested in learning more about Current Population Survey data utilization.