Why Invest in Child Care?

The National Association for the Education of Young Children (NAEYC) asserts in their 1995 Position Statement:

“All children have the right to attend good programs that promote their development and learning. High quality care and education programs have been documented to promote children’s development and learning, whereas poor quality programs may place children’s development, even their health and safety, at risk.”

For the Well-being of our Children

Early care and education significantly impacts how the rest of a child’s life will play out. Investments in early education are just as (and some professionals venture to say more) important than investments in K-12. There is evidence that regardless of family income, children who have participated in quality child care programs do better in school than their peers. Quality child care has been shown to contribute to:

• Reductions in special education costs.
• Lower school drop-out rates.
• Reduced level of criminal activity.
• Increased earning power, and reduced risks of poverty.

(The National Economic Impacts of the Child Care Sector Prepared by M. Cubed, Sponsored by The National Child Care Association, Fall 2002)

A groundbreaking study, From Neurons to Neighborhoods: The Science of Early Childhood Development conducted by the National Academy of Sciences in 2000 concludes:

• From birth to age 5, children rapidly develop foundational capabilities on which subsequent development builds. In addition to their remarkable linguistic and cognitive gains, they exhibit dramatic progress in their emotional, social, regulatory, and moral capabilities. All of these critical dimensions of early development are intertwined, and each requires focused attention.

The Education Commission of the States asserted in its 2001 publication, Starting Early, Starting Now:

The brain development that takes place before age 1 is rapid and extensive. By age 2, a child’s brain has twice as many synapses (connections) as an adult’s. These synapses are a fundamental basis of learning. Brain development is much more vulnerable to environmental influences than suspected. It’s not nature or nurture—it’s both. The brain changes and adapts to its environment (positive or negative) and begins to eliminate the excess neurons and synapses. A stimulating environment (reading, singing, talking and playing with a young child) is essential to brain growth. Conversely, a harmful environment (one with exposure to toxins, malnutrition and a lack of interaction with nurturing adults) can damage brain development. The influence of these experiences and environments in the first few years of life is long-lasting.
These scientific gains have generated a deeper appreciation of:

- The importance of early life experiences, as well as the inseparable and highly interactive influences of genetics and environment, on the development of the brain and the unfolding of human behavior.
- The central role of early relationships as a source of either support and adaptation or risk and dysfunction.
- The powerful capabilities, complex emotions, and essential social skills that develop during the earliest years of life.
- The capacity to increase the odds of favorable outcomes through planned intervention.

(From Neurons to Neighborhoods...)

For the Stability of the Early Childhood Profession

The ability of many early childhood programs to provide high-quality services is in jeopardy because providers lack sufficient resources to fully cover the costs of quality. As a result, the development and well-being of millions of children may be at risk.

A center-based child care provider in the United States earns a mean hourly wage of $6.61. A family child care provider receives a mean hourly wage of $3.94. (Urban Institute, 2001) Many child care professionals, and all family child care providers, receive limited, if any, insurance coverage, no retirement benefits, and very few paid vacation or sick days. It is no wonder that the turnover rate runs as high as 41% in some child care programs in New Hampshire. (The Governor’s Business Commission on Child Care and Early Childhood Education, June 2000) The chief causes of poor quality early care and education are high employee turnover and inexperienced staff, both of which can be attributed to poor compensation for child care workers.

Businesses can partner with child care providers to improve their programs. In addition to contributing technical, management, or financial assistance, the business sector can provide helpful information to child care professionals, advocate for the child care profession, and donate time and energy to the efforts to increase the quality of child care. When business leaders lobby on behalf of children, legislators tend to regard them as doing so not out of self-interest, a motive they often ascribe to child advocates. Rather, they view their concern as genuine and related to how the well-being of children might affect the community’s future well-being and economic strength. (Business Leaders as Legislative Advocates for Children, Blood, Margaret; Ludtke, Melissa 1999)

Quality child care is expensive. Nationwide, families pay approximately 60% of the total estimated expenditures for child care. In New Hampshire, the average family spends 18% of its annual income on childcare, with low income families spending nearly 25%. Families and providers cannot subsidize this fundamental service without the help of the entire community… including you. A good place to start is with the child care professionals who provide care for your own employees’ children.
For the Social and Economic Health of the Community

Accessible and affordable quality child care affords businesses the ability to become an employer of choice. Supporting child care is not a ‘do-gooder’ thing to do, but rather is a ‘hard-nosed’ business decision. Good child care equals good business.”

Charles Romeo, ConAgra Frozen Foods

Our shortage of quality child care in New Hampshire hurts business. In a recent NH survey, one-fourth of parents reported that at least one parent had to quit a job or switch from full-time to part-time work due to child care responsibilities. (Child Care in New Hampshire, Providian National Bank sponsored survey by Helms & Company, RKM Research and Communications, and Mary Jane Wallner.) New Hampshire businesses lose as much as $24 million a year because of child care related staff absenteeism and turnover. (New Hampshire Economy and Child Care Markets, Dr. Lisa K. Shapiro, Chief Economist for Gallagher, Callahan, and Gartrell, sponsored in cooperation with Providian Bank)

Accessible, affordable, and quality child care is essential to social and economic prosperity. Child care provides an essential infrastructure which enables parents to work outside of the home. By making this possible, the child care sector enables Americans to earn more than $100 billion annually. By the year 2010, approximately 85% of the labor force will consist of parents. Also by the year 2010, the U.S. is expected to add another 1.2 million children aged four and under, a 6% increase. If the child care sector does not increase its supply of quality care to meet this demand, parents will not be able to fully participate in the country’s economy. Growth will be slowed, and family incomes will decline. (The National Economic Impacts of the Child Care Sector, M. Cubed, The National Child Care Association, Fall 2002)

The wages supported by the licensed child care sector have a substantial impact on the national economy, engendering almost $580 billion in total labor income, approximately $69 billion in tax revenues, and supporting more than 15 million jobs. Every dollar spent on the child care sector alone generates $15.25 in additional earnings by parents.

Every dollar spent on quality early care and education saves $7 in negative outcomes such as school drop out, juvenile delinquency, special education, teen pregnancy, and long-term welfare dependency. (Annenburg Public Policy Center, February 2003) Both the social and economic implications of this fact are far reaching.

If quality early care and education is not provided for our children, we will fail to generate the necessary individuals to ensure the continued social and economic success for future generations of Americans.

“What the best and wisest parent wants for his own child, that must the community want for all its children.”

JOHN DEWEY 1910
Investing in Child Care Is Good Business

“The bottom line is that our efforts to support employees’ work-family priorities are good business. They are neither ‘perks’ nor ‘giveaways’. These tools will help us attract, motivate, and retain people who are more likely to be more dedicated, more focused, more innovative, and more productive.”

Randall L. Tobias, Chairman and CEO, Eli Lilly and Co.

The Changing Workforce

• Families have changed. In most two-parent families, both parents are in the workforce. More than 10 million employees are single parents. Over the next ten years, it is projected that 85% of the workforce will be working parents. (Marital & Family Characteristics of the Labor Force, Current Population Survey, Bureau of Labor Statistics, March 1997)

• Not only do more parents work, they also spend more time working than they did twenty years ago. Working parents with young children are experiencing increased work-family conflict. Today’s jobs not only consume more time, they also consume more physical and emotional energy.

New Challenges for Employers

• Companies have to work harder to attract and retain the talent they need to succeed in a competitive market place. According to the 1998 Business Work-Life study, two-thirds of employers find it difficult to fill vacancies for highly skilled jobs and two-fifths have difficulty filling entry-level jobs.

In light of current economic trends and changing workforce demographics, many businesses are concerned about child care. Employers are getting involved in child care issues in a wide variety of ways, including supporting community initiatives, offering child care information and referral services, providing subsidies for employees’ child care expenses, and creating child care centers. Through these efforts, companies are finding out that it’s good business to invest in child care.

Bottom-Line Benefits for Employers

Child care is central to the economic well being of families, businesses, and communities. According to recent surveys, businesses with child care programs report workplace improvements and bottom-line savings in the following areas:

• Employee Recruitment: Eighty-five percent of employers report that providing child care services improved employee recruitment. About one in three working parents is willing to change employers or trade salary and benefits for work-family programs that fit their needs.

• Employee Turnover: Almost two-thirds of employers found that providing child care services reduced turnover. Depending on the type of child care program offered, businesses reduced turnover by 37% to 60%.

• Employee Absenteeism: Child Care breakdowns leading to employee absences cost businesses $3 billion annually in the United States. New Hampshire alone loses $24 million annually due to child care related staff absenteeism and turnover. Fifty-four percent of employers report that child care services had a positive impact on employee absenteeism, reducing missed workdays by as much as 20% to 30%.

• Increased Productivity: Forty-nine percent of employers report that child care services had helped boost employee productivity.

• Business Image: Communities value and support businesses that address the needs of their employees and the larger needs of the community in general. In one national survey, 85% of the employers that offered child care programs reported more positive public relations. (The Childcare Partnership Project, Childcare Bureau of the US Dept. of Health and Human Services, Dec 1998.)
Our Children are the Workforce of Tomorrow

An investment in quality child care doesn’t just benefit the workforce of today. It’s an investment in the workforce of the future. Research indicates that high quality care for young children (care that is provided by well-trained staff and includes age-appropriate educational programs) directly affects the productivity of both the current and future workforce.

Quality child care plays a vital role in healthy brain development. Several studies indicate that high quality child care can prevent social problems such as juvenile violence and delinquency, teenage pregnancy, welfare dependency, and school failure. For every dollar spent on early care and education, seven dollars are saved on future intervention services.

Community Economic Development

Vital communities are essential for strong businesses. Communities with necessary services such as child care are better able to attract and retain employees. Strong communities with thriving businesses also contribute to a healthy society. By working with Child First to find child care solutions, you are not only serving the needs of your employees, you are helping to make your community a better place to live and work.

Child Care Options Are Good Investments

The 1997 National Study of the Changing Workforce by the Families and Work Institute found that:

- Two-thirds of employers report that benefits of child care programs exceed costs or that the programs are cost-neutral.
- Three-quarters of employers who offer flexible work schedules find that benefits exceed costs or that the costs are cost-neutral.
- Of those employers with family leave policies, three-quarters find that the benefits exceed costs or that the programs are cost-neutral.

By subsidizing care for employees’ sick children, an average business with 250 employees can save $75,000 per year in lost work time.

Getting Started: Begin with Careful Planning

Keene area businesses can help address local child care issues in two ways: employers can offer family-friendly work policies that provide greater flexibility to working parents and business leaders can act as community resources to help local child care providers build their own capacity to deliver quality, affordable child care.

The first step in developing policies and programs in your company or in your community is to determine your objective. It’s not a matter of how many policies you offer, but what policies and programs will work for you, your employees, and your community.

The planning process requires you to develop knowledge about:

- Your business
- Your employees’ needs
- The resources and needs in the community

This toolkit contains a Business Self-Assessment Checklist to help you define your corporate needs and current policies, determine your workforce profile, and consider management issues. Also included is an Employee Needs Assessment form to help you establish the child care related needs of your employees. Child First can inform you of the resources and needs in the community.

Assessing Costs and Benefits of Child Care Investments

By comparing estimated costs with expected benefits, you can begin to get an idea of the cost-effectiveness of various policies. Cost benefit analysis provides a useful tool to evaluate a proposed child care policy. This type of analysis works well to assess the impact of child care policies and programs on factors that are easily quantifiable. Some quantifiable factors are reduction in turnover and absenteeism, and gains in productivity. A Cost-Benefit Analysis worksheet for calculating the costs of turnover and absenteeism is included for your use.

It costs 75% to 150% of the average annual salary to replace a working parent, but only 32% to provide parental leave.

Friedman, Dana, et al., Parental Leave and Productivity: Current Research Families and Work Institute, 1992

Elements for Developing Successful Child Care Programs

- Clear statement of the organization’s commitment to the program or policy by top executives
- Dialogue among managers
- Dialogue with a cross section of the workforce
- Establishment of written policies
- Communication of new policies
- Management training in the use of new policies
- A plan to evaluate the implementation of the new policies or programs
- Management participation
**Overcoming Challenges**

Some employers wonder why they should establish a child care assistance program if few of their employees have children. Yet in the current labor market, skilled workers are in short supply. An employer-supported program can help fill vacant positions and it can also build staff morale and loyalty, creating the stable workforce needed by all successful businesses. Offering child care assistance can also expand the potential pool of employees by bringing into the labor force those who otherwise would be unable to work.

**Liability**

Liability and cost of insurance is another concern of employers. However, liability insurance for employer-sponsored child care services is both available and affordable, and should not be a barrier to employer-sponsored child care.

Liability issues are limited if you are only providing educational materials to employees, offering family-friendly policies, or connecting them with Southwestern Community Services Child Care Resource & Referral. An on-site or near-site child care center will raise different liability considerations. Your business may already have adequate liability coverage for an on-site child care. One way to reduce liability risk is by having another organization operate the center. As with any insurance policy, you should thoroughly review your liability risks and research insurance options to ensure that your coverage meets your particular needs.

**Costs**

The cost of child care assistance varies according to the type of program provided. Providing Child Care Resource & Referral services is free. Offering a dependent care assistance spending account involves minimal administrative costs that are often recovered in savings in federal income and FICA taxes. Establishing an on-site child care center requires a significant level of investment.

Questions of costs can often be answered by conducting a cost-benefit analysis that compares the costs of various child care options to the savings realized in reduced turnover and absenteeism and lower recruitment and training expenses. This toolkit includes a cost-benefit analysis worksheet for your convenience.

**Benefits**

As many companies have found, small investments in child care can yield large benefits. Flex-time and leave policies can provide significant benefits for both employees and employers with relatively little cost. There are child care options available at every level of investment that can be tailored to meet the needs of your company.
Tax Benefits

Child care assistance provided by an employer is a tax-deductible business expense. You should further discuss the relevant tax laws highlighted below with your accountant and/or tax counsel. You should also explore tax incentives and programs relating to the provision of child care that are specific to your state, county, and/or community.

Business Expenses

Amounts paid by an employer to provide a child care service for employees may be deductible as ordinary business expenses under IRC Section 162 as the services reduce absenteeism and turnover; aid in recruitment and retention of employees; and increase productivity for the employer. Amounts paid by an employer to a welfare benefit fund, such as a Voluntary Employees’ Beneficiary Association (VEBA), may also be deductible.

Charitable Contributions

An employer may be entitled to a charitable contribution deduction for donating to a qualifying tax-exempt child care organization.

Capital Expenses

Costs incurred for acquiring, constructing, and/or remodeling a building to be used as a child care center can be depreciated over a thirty-nine year period under the Modified Accelerated Cost Recovery System described in IRC Section 168. Costs of equipping the building can be depreciated over varying recovery periods depending on the type of business in which the center is located and the type of equipment. See IRS Publication 946 for specific depreciation instructions.

Start-Up Expenses

Start-up and investigatory expenses incurred in the development of a new child care center may be amortized over 60 months or more under IRC Section 195. Eligible expenses may include costs for advertising, needs assessments, consultant services, and staff training.

Tax-Exempt Organizations

An employer-sponsored child care center may be established as a tax-exempt 501 (c)(3) organization. The organization providing child care services must apply to the IRS for tax-exempt status. The employer’s contributions to the center may be deductible as charitable contributions. However, it is required that the center must also be open to the general public. An employer may also be able to deduct child care benefits provided through a (VEBA) 501 (c)(9).

Dependent Care Assistance Plan (DCAP)

Though primarily a tax benefit for employees, DCAPs also provide a tax incentive to employers. A DCAP is one type of flexible spending account in which an employee sets aside a certain amount each month to pay for dependent care. Neither the employee nor the employer pays income or FICA taxes on the amount used for dependent care if the benefit is offered under a cafeteria plan as defined in IRC Section 125.
Dependent Care Assistance Account
A Dependent Care Assistance Account Plan (DCAP) is an account set up by an employer that allows an employee to pay for dependent care expenses with pre-tax dollars. The employer also receives tax benefits from such an account.

How Does It Work?
A DCAP is one type of flexible spending account in which an employee sets aside a certain amount of pre-tax dollars each month, usually in the form of a salary reduction plan, to pay for dependent care. Such an arrangement allows the employee to avoid paying income and FICA taxes on the amount used for dependent care assistance. Employers receive a tax advantage as well and do not have to pay Social Security, federal employment, and most state and local payroll taxes on the amounts provided for dependent care.

After the employee accumulates dependent care expenses, they submit receipts for these expenses to the dependent care account. The account then reimburses the employee up to a maximum of $5,000 per year for these expenses. This payment is not subject to either income or FICA tax because it is technically a benefit, not compensation. The employee cannot receive payment for any expenses that are more than the amount that they have set aside in the dependent care account. Unused set aside amounts in the account are lost. A salary reduction DCAP can be offered alone or as part of a flexible benefit program under which employees have more than one benefit option.

What are the Requirements for the Employer?
A DCAP offered under a salary reduction plan must meet the requirements of section 125 and 129 of the Internal Revenue Code.

1. The employer must formally sponsor the DCAP. This requires a written document that satisfies Section 129 in the Internal Revenue Code.

2. The employer must obtain a signed authorization from the employee before each plan year begins that specifies a fixed contribution amount.

3. The employer must report the amount of dependent care expenses in a special box on the employee’s W-2 form.

The Internal Revenue Code also requires that plan benefits do not discriminate in favor of highly compensated employees or their dependents. The average benefit for lower-paid employees must be at least 55 percent of the average benefit for highly compensated employees. The maximum set aside for a family is $5,000 a year or $2,500 for each parent if a married couple is filing separate tax returns.

What are the Requirements for the Employee?

1. The dependent care account must be accumulated during the plan year in which the employee contributes to the DCAP. Old expenses are not allowed, and leftover account balances cannot be carried forward and used in the future.

2. Dependent care expenses can only be reimbursed if they were incurred to allow both the employee and his/her spouse to work.

3. Dependent care expenses are only reimbursable if they are for dependent children up to age 13 or for disabled children who live with the employee.

4. In order to be reimbursed, the employee must submit a receipt for all expenses, including the tax identification number of the dependent care provider.

Generally, the DCAP will provide greater tax savings to those employees whose income exceeds $25,000. Employees with
income below $25,000 will realize greater tax savings through the federal child care tax credit. Employees can use both the dependent care account and the federal tax credit if dependent care expenses claimed total less than $4,800. The amount received from a DCAP reduces the available tax credit by the same amount. For example, if you put $3,000 into a DCAP at the beginning of the year, but accumulated $4,800 in child care expenses, you could claim the $1,800 difference as a tax credit.

**Benefits of a DCAP**
- Assists employees with a wide range of dependent care needs.
- Tax advantages to both the employee and the employer.
- Simple administration through payroll deduction.
- Gives employees flexibility.

**Considerations of a DCAP**
- Unused set aside amount is lost.
- DCAPs generally do not benefit employees with annual income of $25,000 or less, because these employees often cannot afford to set aside any of their gross or net earnings.