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Employer-Supported Child Care Options for Philadelphia

Employer Options

from the Research & Evaluation Group at Public Health Management Corporation

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The Employer-Supported Child Care (ESCC) Project comprises a multi-disciplinary team, including early care and education practitioners and researchers from Public Health Management Corporation; members of the Chamber of Commerce for Greater Philadelphia and the Economy League of Greater Philadelphia; and Bill Grant, Child Care Consultant. This Summary serves as an overview of options for employers to support their employees in accessing high-quality child care; the full report is available upon request.

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Introduction

The Employer-Supported Child Care (ESCC) Project was convened with the generous support of the **William Penn Foundation** to identify and promulgate effective practices and financial strategies for employers to support their employees' early care and education needs, while at the same time strengthening their own bottom lines. The Project team engaged in a number of data collection and reporting activities to develop an understanding both of current practices relating to employer-funded models of care across the country, and to determine the current landscape in Philadelphia, including employee and employer interest and need. This document presents the ESCC options available to employers as well as the costs and benefits associated with each option.

Description of Options

While companies can and do modify basic ESCC models to meet their specific needs and goals, a few core policies characterize the majority of ESCC programs across the country. The list below outlines four popular, yet distinct, ESCC practices currently in use and mentions some of the variations/combinations that companies employ when structuring their programs.

Dependent Care Expense Accounts (DCEAs):

DCEAs are pre-tax accounts available to workers via their employers. Employees can contribute up to a cap of $5,000 annually, and can use the funds to pay for eligible expenses. (As the name implies, DCEAs cover not only child care but also other expenses for dependents, such as care of elderly or disabled relatives.) These accounts are favored by many employers for their low operational costs—employers need only develop the organizational systems and processes to operate a DCEA program, which are inexpensive—and because funds that employees contribute to their DCEAs in turn reduce employers' FICA liabilities.[1]

Child Care Resource and Referral (CCR&R):

CCR&R is a low cost form of ESCC that is primarily information-based; a CCR&R program could be as simple as a website or page run by an employer that documents and rates local child care providers. More extensive services can include employee education programs to help parents match their criteria—such as price, location, educational quality, and hours—with available options. CCR&R services might also educate parents on technical aspects of the child care process, such as application, financial planning, and tax benefit utilization.[2] Although many businesses provide these services to employees,[3] either in-house or via a contract with a consulting agency,[4] such services are provided free of charge in many areas by government and

[1] Kelly, Erin L. "The Strange History of Employer-Sponsored Child Care: Interested Actors, Uncertainty, and the Transformation of Law in Organizational Fields." *American Journal of Sociology* 109.3 (2003): 606-649.

[2] Child Care Aware of America. "About Child Care Resource and Referral." Retrieved from: http://www.childcareaware.org/parents-and-guardians/parent-information/about-child-care-resource-referral

[3] Galinsky, Ellen, et al. "National study of employers." *New York, NY: Families and Work Institute.* (2008).

[4] Care.com is one of the largest providers of commercial CCR&R services.

non-profit organizations. The Pennsylvania Department of Human Services runs a statewide network of CCR&R centers, including five in Philadelphia.[5]

On-site or near-site child care center:

The on- or near-site center can offer significant benefits to employees, from ease of use to financial accessibility; employers with on-site programs routinely offer services at below-market rates, while some even implement tiered pricing pegged to hours worked and/or income. Employers offering these types of programs range from the Department of Defense to clothing retailer Men's Wearhouse.[6,7] One of the downsides to on- or near-site centers is their cost and the size of the employee pool necessary to fill slots, which often makes such centers infeasible for smaller companies. The mechanisms used by employers to connect employees with on-site or nearby child care providers are diverse,[8] including:

- Constructing an on- or near-site center;
- Forming a consortium with nearby businesses to create an on- or near-site center, frequently in a business park or another business-dense area;
- Forming relationships with nearby childcare facilities to discount childcare for employees; and
- Contracting or reserving slots with one or more nearby existing centers or homes.

Company-provided vouchers:

A company-operated voucher system entails the employer bearing the direct costs of subsidizing employees' child care options. These vouchers are deductible expenses for employers, and allow employers to provide affordable child care services without the up-front costs, management responsibilities, and liability concerns of an on-site center. For employees, a voucher system offers the same flexibility in choosing a provider as DCEAs; vouchers can easily be paired with other ESCC initiatives, such as CCR&R and DCEAs. Furthermore, employers can tie voucher funds to quality standards (which may already be quantified as part of a CCR&R program) to ensure that employees utilize qualified providers.

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[5] PhiladelphiaChildCare.org. "Finding Child Care." Retrieved from: http://www.philadelphiachildcare.org/finding-child-care/

[6] Floyd, Major Latosha, and Deborah A. Phillips. "Child care and other support programs." *The Future of Children* 23.2 (2013): 79-97.

[7] Fortune. "100 Best Companies to Work For 2012: Best Benefits, Child Care." Retrieved from: http://archive.fortune.com/magazines/fortune/best-companies/2012/benefits/child_care.html

[8] U.S. Dept. of Labor, Women's Bureau. "Employers and Child Care: Benefiting Work and Family." (1989). Retrieved from: https://books.google.com/books?isbn=0788102907

Table 1. Comparison of ESCC Policies on Employer and Employee Expenditures

	Costs to Employer	Benefits to Employer	Benefits to Employee	Notes
Dependent Care Expense Account	Minimal	Moderate-High	Minimal-Moderate	Operation may be contracted out; employer may save money overall due to FICA reductions
Child Care Resource & Referral	Minimal-Moderate	Minimal	Minimal	Redundant with many existing services in PA; no direct financial return to employer, but decreased absence and turnover
On-site Child Care Center	High	Moderate	Moderate-High	Very positive element for employer's PR and HR; does not work with small or distributed workforces; can be very expensive
Company-Provided Vouchers	Minimal-High	Minimal-High	Minimal-High	Costs and benefits depend on voucher value; tax deductible and reduces FICA obligations

Financing and Cost Modeling

Table 2, below, models how various child care benefit combinations impact the take home of a hypothetical employee and the total cost to his/her hypothetical employer. When no benefits are provided, employer costs are high, while employee take-home pay is low. The DCEA offers employers the lowest cost of the three options, while also increasing employee take-home pay. The DCEA and voucher combination is the most costly for employers, but the voucher is more efficient than a comparable salary increase (i.e., raising the employee's salary to $47,000) because employers can take advantage of a 25% tax credit, and because this voucher may be tax deductible.

Table 2. Comparison of ESCC Policies on Employer and Employee Expenditures (continued on next page)

Type of Benefit	Employee Take-home Pay	Employer Expense
None	Salary = $45,000 - Taxes ($9,559)[9] + DCTC ($600)[10] - Child Care ($7,128)[11] **Total = $28,913**	Salary = $45,000 + FICA ($3,443)[12] **Total = $48,443**

[9] Estimated using SmartAsset's Pennsylvania Income Tax Calculator for Pennsylvania, FICA, and federal taxes.

[10] For those earning over $43,000, the Dependent Care Tax Credit (DCTC) is calculated as 20% of eligible expenditures, which are capped at $3,000 for one child or $6,000 for two or more children. This example reflects costs of care and tax savings for one eligible child.

[11] $7,128 is the average annual cost of child care for a four-year-old in family child care in Pennsylvania. This cost is approximately $1,600 less than the same care at a child care center (Child Care Aware for America, 2014).

[12] FICA, or the Federal Insurance Contributions Act, includes a 6.20% Social Security tax and a 1.45% Medicare tax.

DCEA[13]	Salary = $45,000 - DCEA ($5,000) - Taxes ($8,272) - Child Care ($2,128)	Salary = $45,000 + FICA ($3,060)[14]
	Total = $29,600	**Total = $48,060**
DCEA + Voucher	Salary = $45,000 - DCEA ($5,000) - Taxes ($8,272) - Child Care ($2,128) + Voucher ($2,000)	Salary = $45,000 - Credit ($500)[15] + FICA ($3,060) + Voucher ($2,000)
	Total = $31,600	**Total = $49,560**

Table 3, below, itemizes the savings to an employee and to his/her employer, assuming that the employee uses his/her DCEA up to its maximum of $5,000/year. Employees save in relation to their marginal tax bracket; an employee in the lowest tax bracket saves less than an employee in the highest, although employees in lower tax brackets save a greater percentage of their total income. For employers, savings are the result of eliminating FICA contributions on a portion of the employee's salary, and as such are unconnected to the employee's tax bracket.

Table 3. Estimated Savings of a $5,000 DCEA by Tax Bracket[16,17]

Federal Income Tax Brackets	Social Security Tax[18]	Employee Savings	Employer Savings[19]
15%	7.65%	$1132.50	$382.50
25%	7.65%	$1632.50	$382.50
28%	7.65%	$1782.50	$382.50
33%	7.65%[20]	$2032.50	$382.50
35%	8.55%	$2177.50	$427.50
39.6%	8.55%	$2407.50	$427.50

DCEAs represent a pragmatic, low-risk approach for employers to support their employee's child care needs: DCEAs have low start-up and ongoing costs, but confer significant savings to

[13] The DCTC and DCEA benefits are exclusive, with the exception of an employee who has over $5,000 in eligible expenses and is claiming two dependents (and therefore has a $6,000 limit to eligible expenses); such an employee could contribute $5,000 towards her DCEA, and claim the remaining expenses, up to $1,000, under the DCTC.

[14] FICA expenses are reduced with the DCEA because the employee's effective taxable salary is smaller.

[15] This represents the 25% Credit for Employer-Provided Childcare Facilities and Services.

[16] 2016 tax brackets are listed.

[17] Table 2 assumes that the DCEA contribution falls within only one tax bracket. If an employee's income puts him/her just over the threshold of a tax bracket, savings from his/her DCEA might be slightly lower than projected.

[18] The Social Security tax rates represent the combined rate for Social Security (6.20%) and Medicare (1.45%). While the Social Security portion of this rate is flat across all incomes, the Medicaid rate increases by 0.9% for income over $200,000.

[19] Employer savings are calculated based on forgone FICA payments, which are the same as the employee's Social Security (including Medicaid) tax payments.

[20] Earners in this tax bracket may pay a higher marginal social security tax (8.55%) if they earn over $200,000; figures represented in this row reflect a marginal rate of 7.65%.

both the employer and the employee by virtue of reducing the share of employees' salaries that are taxable. For employers who are interested in offering expanded child care supports to employees, combining DCEAs with vouchers further limits employees' after-tax expenses on child care; employers also receive a 25% credit through the Credit for Employer-Provided Childcare Facilities and Services, which helps to defray this additional expense.

In Summary

1) **Different types of ESCC are best suited to different types of organizations.** On-site centers can be effective and provide high-quality care, but small organizations often are unable to afford the costs of a center and/or are unable to fill all of the slots.

2) **ESCC programs are not mutually exclusive.** The military successfully runs a network of on-site centers, and supplements the slots in these centers (which quickly fill up) with subsidized slots in off-site centers and family day care homes. Other potential combinations might involve Child Care Resource and Referral (CCR&R) services in conjunction with Dependent Care Expense Accounts (DCEA) or company-sponsored vouchers.

3) **In order to go beyond nominally providing ESCC benefits, employers need to consider the quality of care available to employees**. CCR&R services can be a low-cost method for providing parents with information about local child care providers; a better solution may be to link benefits (DCEAs or vouchers) to qualifications and standards, such that employees can only use their ESCC benefits at well-rated providers. The military has an accreditation process built into its child care system, but employers in Pennsylvania may be able to use the Office of Child Development and Early Learning's Keystone STARS rating system as a unified measure of a provider's quality.

4) **Creating a fee schedule that is tied to employee income may help to limit costs to the company while maximizing benefit to employees.** A sliding fee structure can reduce the burden of child care for lower income families, who otherwise spend a significantly larger portion of their income on child care than do wealthier families.[21,22]

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[21] Fraga, Lynette and Michelle McCready. "Parents and the High Cost of Child Care." Child Care Aware of America. (2014).

[22] Laughlin, Lynda. "Who's Minding the Kids? Child Care Arrangements: Spring 2011." Current Population Reports, P.70-135. U.S. Census Bureau. (2013).

Menu of Options For Employers

Employer Supported Child Care

- Discounts for employees who select high quality childcare for their children (i.e. vouchers)
- Employee education programs on selecting high quality childcare
- Employer sponsored on-site childcare for employees
- Employee education programs about dependent care tax credits
- Pre-tax deductions (Dependent Care Assistance Programs)
- Relationships between employers and local childcare facilities to prioritize/hold slots for employees
- Relationships between employers and local childcare facilities to discount childcare for employees