FAQ: Provider Reimbursement Rates

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FIRST FIVE YEARS FUND | CAP

Child Care Provider Reimbursement Rates Explained

Providing quality, affordable, and accessible child care is expensive. Well-qualified early childhood educators are essential to providing high-quality early learning and care opportunities for children from birth through age five. Due to the labor-intensive nature of their work, the true cost of providing child care is more than many families can afford. On top of this, providers are often reimbursed by the state government to offset the costs of serving children with subsidies at too low of a rate, making their already stark financial situation untenable. Low reimbursement rates can lead to low compensation for early educators, passing higher costs onto families, and ultimately forcing providers to perform a complex juggling act to remain financially afloat. These challenges result in an unstable system where early childhood educators leave the field entirely and families experience difficulty accessing the care they need.

Provider reimbursement rates are an essential part of ensuring eligible children have access to child care and that providers have the financial support they need.

How Reimbursement Rates Work

How are Subsidy Rates Determined?

The Child Care and Development Fund (CCDF)[1] is a federal funding source that provides child care subsidies to thousands of children from low-income families. When a child care provider serves a child who receives a subsidy, the provider is then reimbursed at an hourly rate. Federal regulations do not require states to pay specific rates. Rather, every three years, states conduct a market rate survey (MRS) that examines the fees that licensed and regulated child care providers charge. These rates depend on a number of factors, including the child's age, program setting, and amount of care (full-time, part-time, before-and-after, or summer care). The vast majority of states use the results of the MRS to set reimbursement rates.

States have the option to use a different methodology, such as a cost estimation model, which analyzes how much it costs to deliver child care services while taking a variety of factors into account. Some states/territories use a tiered reimbursement rate system with rates that increase as providers achieve higher quality ratings.

It is important to note that families who rely on informal care arrangements, such as paying family, friends, and neighbors (FFN) are not captured in the market rate survey.

What Does the 75th Percentile of Market Rate Mean?

Every three years, the Administration for Children and Families (ACF) requires the agencies that administer and implement CCDF (Lead Agencies) to submit a comprehensive plan outlining how CCDF will be administered in conformance with various regulations and guidelines. Within this plan, ACF ***recommends*** that each Lead Agency set provider reimbursement rates at the 75th percentile of the market rate. This is the price at which the lowest 75% of the child care programs included in the MRS report charging for child care services.

75th Percentile Based on Price and the Number of Slots per Provider[2]

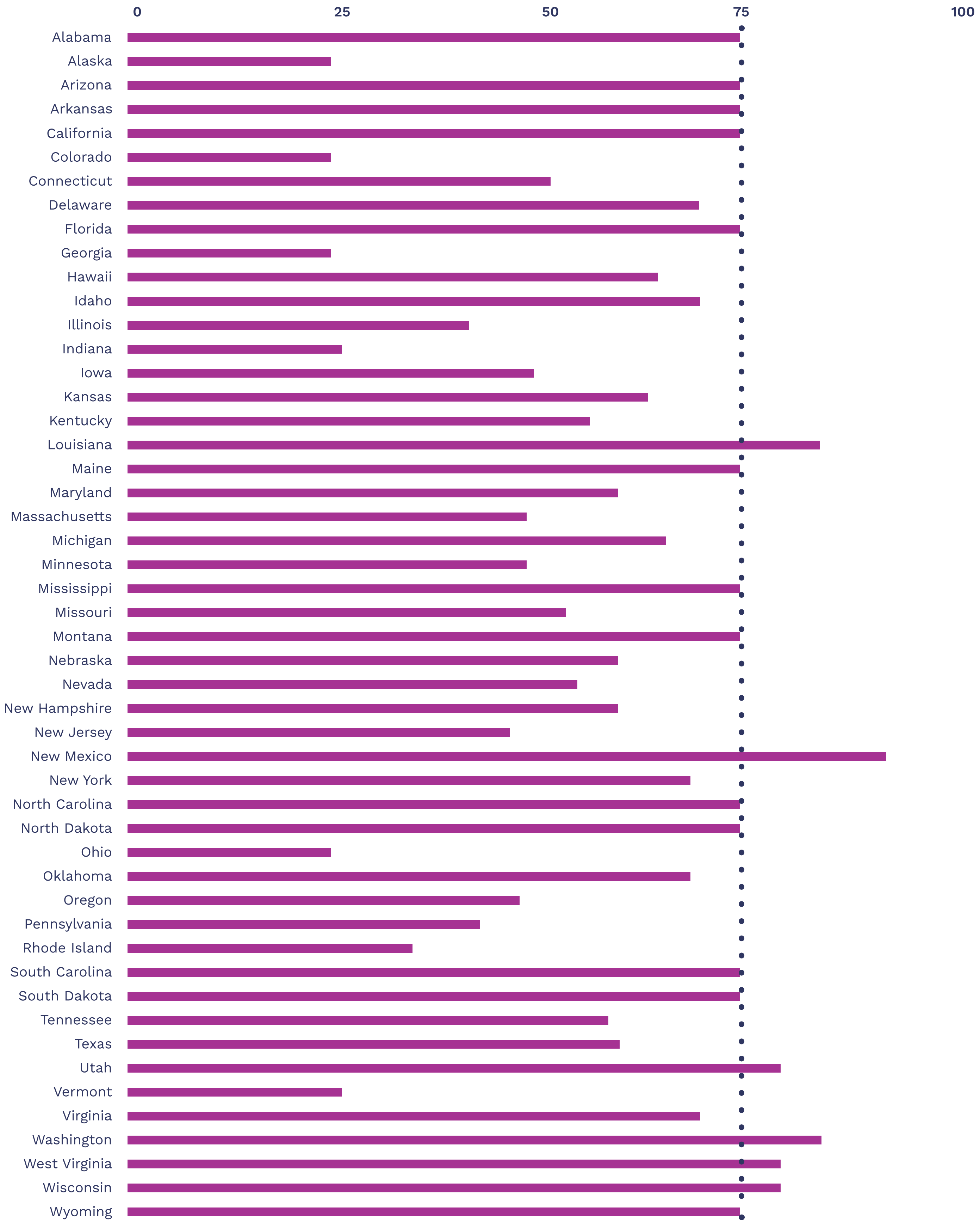
Number of Providers	Slots Per Provider	Total Slots (1,069 total)	Percent of 1,069 Slots	Hourly Price
1	32	1,069	100%	$7.00
1	30	1,037	97%	$6.00
1	30	1,007	94%	$5.00
1	25	977	91%	$4.00
1	20	952	89%	$3.75
1	35	932	87%	$3.75
1	40	897	84%	$3.00
1	60	857	80%	$2.75
1	75	797	75%	$2.50
1	100	722	68%	$2.00
1	55	622	58%	$2.00
1	60	567	53%	$2.00
1	35	507	47%	$2.00
1	80	472	44%	$1.75
1	50	392	37%	$1.75
1	65	342	32%	$1.50
1	45	277	26%	$1.50
1	40	232	22%	$1.50
1	30	192	18%	$1.25
1	26	162	15%	$1.25
1	44	136	13%	$1.15
1	42	92	9%	$1.10
1	30	50	5%	$1.00
1	20	20	2%	$1.00
24	1069	-	-	-

For example, this chart shows that the 75th percentile is $2.50 per hour because 75% of the 1,069 total slots are available at this price point. This percentile is used as a proxy to represent equal access, but in this instance, families who receive a subsidy can access child care through providers who receive an hourly reimbursement rate at or below $2.50. This is based on the assumption that a provider whose prices are higher than the $2.50 hourly reimbursement rate would accept private-pay families over families receiving subsidies.

However, even reimbursing at the 75th percentile is far from equitable because at this rate **one-quarter of providers operate at a loss for caring for children who receive subsidies over private-pay families.** Providers can experience financial hardship or be discouraged from participating in the subsidy system altogether if the reimbursement rate is not at least on par with what they could receive from private-pay families. Even the prices that private-pay families pay often do not cover the true cost of care.

According to an analysis of CCDF 2022-24 state plans conducted by the Center for American Progress, the vast majority of states report setting provider reimbursement rates **far lower** than the federally recommended 75th percentile, making it exceedingly difficult for providers to stay financially afloat and provide high-quality learning experiences, and forcing low- and middle-income working families to pay higher child care fees to compensate.

Reimbursement Rate Percentiles for Center-Base Infant Care



Data from CCDF FY 2022-24 state plans. Data on percentile of market rate was not provided for the District of Columbia, New Jersey, New Mexico, or Missouri. The District of Columbia and New Mexico rely on cost estimation models and do not create percentile estimates. Missouri and New Jersey did not provide the percentiles associated with their payment rates in their publicly accessible CCDF plan document.[3]

Why Reimbursement Rates Matter

How Are Reimbursement Rates Related to Program Quality?

When child care programs receive higher reimbursement rates, they are able to increase the quality of care. Programs already participating in the subsidy system can use the additional funds to improve quality, such as by giving programs the ability to raise compensation and thus retain quality early childhood educators. Additionally, higher-quality providers that do not accept children with subsidies have an incentive to do so when reimbursement rates are more comparable with what they charge private-paying families.

States are required by law to have a quality rating and improvement system (QRIS), a structured approach to assess, improve, and communicate the level of quality in early learning programs. States can tie reimbursement rates to program quality by using a tiered reimbursement system that aligns with their QRIS. In a tiered system, programs with higher quality are usually reimbursed at a higher rate.[4] Some studies have shown that this type of system can incentivize programs to improve quality, when coupled with the right supports, such as professional development and training. According to FY22-24 CCDF Plans, 35 states provided additional payments for meeting higher-quality standards, such as QRIS level, accreditation standard, or specific licensing criteria.

What are the Consequences of Low Reimbursement Rates?

Setting reimbursement rates too low has negative consequences for providers, children, and families. Child care providers already operate with less than 1% profit margins.[5] If the subsidy rate is lower than what providers charge private-pay families, they are less likely to be able to accept children receiving subsidies as it could cause financial hardship.

Providers are often faced with the decision to either:

1. Turn away a child receiving subsidy in hopes they can find another family who can pay tuition (risking having an open slot)

OR

2. Care for a child at less than the true cost of care (which can be a financial net zero or sometimes even a loss).

Because the reimbursement rates are simply not high enough to financially break even, many child care providers turn down providing care for children who receive subsidies. This is particularly true for infants and toddlers as they are more expensive to care for. Those that do accept a subsidy lower than their private pay rate weaken their ability to compensate and retain high-quality teachers.

> **"We would like to accept infants but the [CCDF] rate is just too low to pay for staff in the [infant] room."**
>
> **Child Care Provider**

Current Challenges

What are the Problems with Using Market Rate Surveys (MRS) to Determine Provider Reimbursement Rates?

1. **Setting provider reimbursement rates based on market rate does not provide equal access because the market rate reflects what parents are paying, not the actual cost of providing care.** Child care providers often have to lower their prices to what local parents can afford because they need children to attend in order to keep their doors open. Child care is the prime example of a broken market because if providers charged prices that reflected the true cost of care, they would be unable to fill slots and families would be unable to access care. Without foundational federal investments, a significant portion of families would not be able to afford child care, leading to major economic inequality.

   On average, the true cost of licensed child care for an infant is **43% more** than what providers can be reimbursed. States' CCDF payment rates for infant care do not cover the prices charged by 59% of child care providers (from 2017). This limits access to care for low-income families receiving subsidies. Among providers whose prices exceeded CCDF payment rates, 18% charged at least 50% more than corresponding state payment rates.[6] Because providers have to charge what parents can afford, prices—and therefore subsidy reimbursements—are more likely to fall below the cost of providing care in low-income neighborhoods, as well as for family child care providers and providers in rural areas.

   As a result, far too many child care providers are financially constrained. This contributes to the mass exodus of the child care workforce, higher turnover rates, and a reduction in the number of child care programs available to families. **In an industry as under compensated as child care, market rate surveys capture prices that are only attainable by continuing to pay staff poverty wages without necessary benefits or advancement opportunities.[7]**

2. It does not account for inevitable future changes in price. MRSs look backward at what costs were during a specific period of time and lock future payments at that level, making them unresponsive to market or economic changes. By the final year the payment rates are used, the underlying data can represent the out-of-date child care market from five-years prior. As the costs of child care rise year-to-year, the strength of the subsidy decreases.[8]

Policy Levers, State Approaches, And Federal Funding

How Can States Use Reimbursement Rates to Support the Early Care and Education (ECE) Workforce, Young Children, and Families?

States have significant flexibility in how they implement CCDF funds. Raising provider reimbursement rates to fully cover the costs of providing high-quality care and reimbursing based on enrollment rather than attendance will help to support the ECE workforce, young children, and their families, and ultimately help stabilize the sector.

- **Raise Provider Reimbursement Rates**
  Raising provider reimbursement rates is critical to fully cover the costs of providing high-quality care and improve the financial stability of providers. Doing so can help to recruit and retain the ECE workforce—which is still missing 59,800 jobs since 2020—as well as improve access to child care for families.[9] According to their FY 2022-24 CCDF plans, Washington and Louisiana have the highest reimbursement rates for center-based infant care, both setting rates at the 85th percentile. Colorado, Ohio, Alaska, and Georgia have the lowest percentile for center-based infant care, setting rates at the 25th percentile of their market rate.

- **Reimburse Based on Enrollment Rather Than Attendance**
  Currently, most states reimburse providers based on daily attendance rather than funding based on overall enrollment. This makes funding unpredictable for providers who have fixed costs based on the number of children enrolled. It can also be detrimental to families because providers may choose to decline services to families with inconsistent attendance, which are often low-wage workers with last-minute schedules. Reimbursing providers based on enrollment instead of attendance has been shown to have a stabilizing effect because it allows for predictable and stable funding.[10] States such as Massachusetts and California have recently taken action to begin paying providers based on enrollment rather than attendance.[11]

- **Base Payment Rates on Future Prices of Care**
  As of fiscal year 2022, 49 states were using a methodology that sets future maximum payment rates based upon past market rates charged, making them unresponsive to market or economic changes.[12] In the FY 2022-24 CCDF plan, when asked whether they believed the market rate data they gathered adequately reflected the child care market at the time they were submitting the plan given the impacts of COVID-19, 21 states responded, "no".[13] Instead of basing payment rates on what the price of care was in the past, states can use statistical projection to base rates on the future price of care. This will support providers and help more families access care.

- **Use a Cost Estimation Model or a Cost Study or Survey**
  More states have been utilizing alternative methodologies that rely on the cost of providing care as the basis for analysis. Developing a cost model is a way to take into account all factors that impact the business of child care: rent and utilities, staffing requirements and ratios, compensation and benefits, local cost of living, and more. For the FY2022-24 CCDF plan period, only the District of Columbia and New Mexico use a cost estimation model. Conducting a cost study or survey involves collecting extensive data from a sample of child care programs and measuring the costs of delivering care. Major cost studies were conducted in Maine in 2004 and Massachusetts in 2001. States such as Arkansas, Maine, and South Carolina pursued a hybrid approach, conducting a market rate survey for their reimbursement rates and using an alternative methodology to complete their narrow cost analysis.[14]

How Did States Approach Reimbursement Rates in their FY2022-24 CCDF Plans?

- Across infants, toddlers, and preschool-aged children, reimbursement rates were set between the **5th and 90th percentile of market rates,** depending on the state, type of care (center-based or family child care), and age of child.[15]
- When considering all categories of care for children under the age of five, **15 states** set base rates in their FY22-24 CCDF plans equal to or greater than the ACF recommendation for all ages and types of care. An additional **eight states** meet the ACF recommended 75th percentile in at least one combination of age and type of care.[16]
- Most states (34) adjusted their rates based on geographic criteria (which included a variety of approaches, such as county-level rates, tiers or regions, and urban/rural) but 17 states provided one rate for all areas.[17]
- **35 states provide additional payments for meeting higher quality standards,** such as a QRIS level, accreditation standard, or specific licensing criteria. Some state plans allowed for other adjustments to reimbursement rates, such as additional payments for non-traditional hour care or serving a child with special needs.[18]

Why is Increased Federal Funding Essential and How Can it Help Improve Provider Reimbursement Rates?

According to a 2019 report from the Department of Health and Human Services, **36 states** reported that limited federal funding presented challenges in setting payment rates that provide equal access to child care services. Given these budgetary constraints, states have been forced to make tradeoffs, such as increasing payment rates even though it means serving fewer families or vice versa. The child care sector is in crisis as the critical funding from the American Rescue Plan Act is set to expire in September 2024. Approximately **half of all states** reported using American Rescue Plan Act funds to increase or supplement their reimbursement rates, yet these essential investments will run out when funding is exhausted. This means that states will likely end up decreasing their reimbursement rates without increased federal funding.[19] Federal funds are the primary source of funding for public early care and educational programs, and sustained increases in funding are therefore foundational in supporting states, families, and child care providers, particularly as they navigate the economic after-effects of COVID-19.

1. CCDF consists of discretionary funding authorized by the Child Care and Development Block Grant (CCDBG) Act and an entitlement portion of mandatory and matching funds made available under Section 418 of the Social Security Act
2. Administration for Children and Families, "CCDF Payment Rates — Understanding the 75th Percentile"
3. CAP, "States Can Improve Child Care Assistance Programs Through Cost Modeling"
4. Urban Institute, "Are Higher Subsidy Payment Rates and Provider-Friendly Payment Policies Associated with Child Care Quality?"
5. CAP, "The Child Care Sector Will Continue To Struggle Hiring Staff Unless It Creates Good Jobs"
6. 2019 U.S. Department of Health and Human Services, "States' Payment Rates Under the Child Care and Development Fund Program Could Limit Access to Child Care Providers"
7. CAP, "States Can Improve Child Care Assistance Programs Through Cost Modeling"
8. Ibid.
9. Center for the Study of Child Care Employment, "Child Care Sector Jobs"
10. Child Care Aware of America, "Child Care Payments: Attendance v Enrollments"
11. Ibid.
12. CAP, "States Can Improve Child Care Assistance Programs Through Cost Modeling"
13. Ibid.
14. Ibid.
15. CAP, "States Can Improve Child Care Assistance Programs Through Cost Modeling"
16. Ibid.
17. Ibid.
18. Ibid.
19. Ibid.