Transcript
FedTalk: Childcare and Our Economy: Understanding Constraints and Possible Solutions
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Presentation

Speakers:

- Kyle Fee, Policy Advisor, Federal Reserve Bank of Cleveland
- Nancy Mendez, President and Chief Executive Officer, Starting Point
- Sarah Savage, Senior Policy Analyst and Policy Advisor, Federal Reserve Bank of Boston
- Tracey Mason - Assistant Vice President, Federal Reserve Bank of Cleveland

Tracey Mason:

Good afternoon, everyone. And thank you for joining us today. We welcome you to today's *FedTalk*. I am Tracey Mason, the assistant vice president of Outreach and Operations and Community Development at the Federal Reserve Bank of Cleveland. It is my pleasure to kick off today's *FedTalk* session titled Childcare and Our Economy: Understanding Constraints and Possible Solutions. *FedTalk* is the Cleveland Feds Speaker series in which we share research that is relevant to our community. Past events have covered subjects such as the racial wealth gap, access to the labor market, and financial literacy. All of our events can be found in our website at clevelandfed.org.

A few housekeeping items before we begin. During this event today, your microphone and camera are disabled. Please type and submit your questions for our panelists in the chat box. Also, in the event that the Zoom meeting drops, please use a dial-in feature provided in an invitation to join the call. Before we begin our program, I would like to state that the views shared today by myself and the panelists are our own and not necessarily those of the Federal Reserve Bank of Cleveland or the Federal Reserve System.

It is now my pleasure to introduce our panelists. Kyle Fee is the policy advisor in the Community Development department at the Federal Reserve Bank of Cleveland. Kyle conducts applied research and outreach related to economic and workforce development. Thank you, Kyle, for joining us today. We also have Nancy Mendez, president and CEO of Starting Point. Nancy is a dedicated leader in the human services field addressing community needs such as poverty, childhood education, and youth development. Thank you, Nancy, for joining us today. And lastly, we have Sarah Ann Savage who is senior policy analyst and policy advisor with the Federal Reserve Bank of Boston. Sarah conducts research on barriers to positive labor engagement with an intense examination of the role of childcare needs. Thank you, Sarah, for joining us. We will start the presentation with Kyle Fee, who is our policy advisor at the Federal Reserve Bank of Cleveland.

Kyle Fee:

Thank you very much, Tracey. And as I get the slides pulled up, in my role as a policy advisor, I conduct applied research on topics that we hear about from the community. Most often, that's in topics related to intersections of economic workforce development. But we're here today to talk about childcare. And coming out of the pandemic, the topic is something that we've consistently heard about a need from various stakeholders, both employers as well as parents and community leaders. This trend has continued and has perhaps increased. While childcare might not be within the realm of usual topics covered by the Federal Reserve Bank of Cleveland or the Federal Reserve System, there have been a few things done on the topic across the system, but the Federal Reserve Bank of Cleveland is a little bit earlier on in our efforts on the topic, which is why I'm pleased that we have Sarah here to join us from the Boston Fed. Now, I should be the first to admit I am not a childcare expert, so that disclaimer that Tracey mentioned a few moments ago I will reiterate that these are my views and not the views of the Federal Reserve Bank of Cleveland or the Federal Reserve System.

But I am here because I do have an interest in the labor market, specifically the lower half of the labor market and an interest in how people move or transition from occupation to occupation within that segment of the labor market. It's my way of adding a little bit of value to the childcare conversation is thinking more about the early childhood and education workforce more broadly. Now, more often when this conversation takes place, it focuses on the availability of services as well as the cost for parents, whereas my short time today will cover the workforce because I believe it deserves a greater attention as it's a key constraint to the childcare situation.

Now, when I talk about the early childcare and education workforce, I am referring to a group of occupations, specifically childcare workers who are your traditional childcare providers and servicers working with children from the ages of zero to three. And then I'm also going to highlight some trends as it relates to preschool and kindergarten teachers as a comparison. I will highlight that despite this being focused mostly on the early childcare and education workforce, a lot of the patterns I'm going to show today are typical of low-wage occupations. Next slide, please. Next slide, please.

The early childhood education sector is a labor-intensive one, so the workforce is a very vital component to basic day-to-day services as well as the quality and operations of those services. Now, we know also that a turnover has been raised as an issue. In a 2019 survey of early care and education found that roughly 1/3rd of centers had staff turnover rates of greater than 20% while almost half the centers had no turnover at all. There's clearly some underlying variation on what's going on within those centers. Next slide, please.

The 2019 survey also showed that turnover tended to be higher in centers that provided lower pay and that this high turnover was also linked to the combination of services offered at a center. For example, those offering more educational services tend to have less turnover because they were often associated with more dedicated funding sources. Next slide, please.

The picture's been painted a little bit that it's a wage issue, and I want to talk a little bit about the workforce that's implicated by this wage issue and turnover challenge that they're facing. The early childcare and education workforce broadly tends to be younger, primarily female, more diverse in terms of race and ethnicity in the broader workforce. And then childcare workers specifically tend to be younger, even further younger than preschool and kindergarten teachers, more likely to be a person of color, unmarried, and have lower levels of educational attainment.

Now, as I previously mentioned, this is a wage story, so I'd be at risk if I didn't lay out some facts about what we know about the prospective wages of each occupation. For childcare workers, they are the 10th lowest annual median wage for occupations with retreated data. They are an annual wage of about $28,000 in 2020 dollars, and that's just ahead of fast food counter workers, cashiers, and other similar low-wage occupations. And that's approximately $14 an hour. Switching to preschool and kindergarten teachers, they still rank within the lowest quartile or lowest quarter of all occupational median wages, but they're a little higher at about $40,000 a year. I should also mention that these annual estimates for wages are national estimates. Estimates for Ohio tend to be slightly lower. And most importantly, I should emphasize the pay for a childcare worker does not provide a living wage for single adult plus one child in any states. Next slide, please.

As I'm assessing the stability of the early childcare and education workforce, I'm asking myself these couple questions as I'm seeking a more robust idea or concept of turnover. How does the level of turnover compare to other occupations? How does the level of turnover compare with that of the other ECE occupations? Where are workers going when they leave an ECE occupation? And at what rate are workers coming into ECE occupations? And then for answering these questions, I and the report focuses on data from the current population survey. For more information, please check out the report. It's on the Cleveland Fed website. Next slide, please.

Okay, this slide shows the percent of employment in each occupation that leaves the occupation on average. The blue bar is the childcare workers, the green bar is the preschool and kindergarten teachers, and the gray line is the median occupation, and the dash lines represent the 10th and the 90th percentile. Now, on average, childcare workers exit the occupation at quite an elevated rate. From 2010 to 2022, about 15% of childcare workers left the occupation every month on average, whereas preschool and kindergarten teachers were about 8.5% To 9% more aligned with the median occupation. You can also tell from this graph that the rate at which childcare workers are leaving the occupation has increased slightly over time, going from about 14% to just shy of 16% in 2022. Also in 2022, turnover for childcare workers was roughly 65% higher than turnover in a typical occupation. This is turnover or flows that people are leaving the occupation in quite an elevated rate compared to what we would see in a typical occupation. Next slide, please.

Upon leaving the occupation, childcare workers... Again, this slide here presents the percent of people that are leaving and where they end up. This particular slide shows the percent of workers leaving the labor force. On average, about 50% of those childcare workers that do leave the occupation do end up leaving the labor force altogether. As you can tell from this picture, this is also quite an elevated rate and something that I've kept an eye on in the back of my mind as we continue to evaluate a churn of former childcare workers leaving the labor force. Next slide, please.

Now, as we transition to thinking about flows into the childcare worker professions and occupations, this slide shows the percent of employment that enters an occupation on a monthly average. Again, as you can see here, childcare workers have a relatively elevated rate of individuals entering the occupation, about an average of 9% of employment each month. And then again, once again, it's quite elevated compared to the median occupation or the preschool and kindergarten teachers. Next slide, please. Next slide. Oh, sorry.

And then when we figure out where those new childcare workers are coming from, we find that quite a majority of them come from out of the labor force. There's this pattern that sets up with childcare workers entering and leaving the labor force. And this is consistent churn that we see amongst the childcare workforce specifically. Again, preschool and kindergarten teachers are more consistent with the median occupation in these figures, but the emphasis here, again, is pointing on the churn amongst childcare workers in and out of labor force that needs further exploration. Next slide, please.

To conclude, in the stability and turnover within the early childcare and education workforce is primarily more of a problem in the provision of childcare than education services. Childcare workers have some of the highest outflow or turnover rates of all occupations while the rate for preschool and kindergarten teachers tends to be on par with that of the typical occupation. Thank you very much. And I look forward to your next questions. Nancy, I turn it over to you.

Nancy Mendez:

Thank you, Kyle. And I want to thank our local Federal Reserve Bank for this incredible research. It's really important that we have many different stakeholders helping us with getting the message out on the importance of what's happening in childcare and the crisis and some of the data behind it. Again, I want to introduce myself. My name's Nancy Mendez. I'm the CEO of Starting Point. Next slide.

And Starting Point is an organization that really does everything and anything to do with children outside of the school building. At our core, what we help is with childcare centers increasing quality and the environment and then connecting parents to that service and that childcare service in the community. Next slide.

And just a couple quick points on what we do. We work with over 24,000 families and children and professionals each year in four counties in northeast Ohio. We work with connecting, again, families to our different services. And we have over two dozen different types of services. We make over 11,000 refers to childcare centers through our navigators that not only connect families to childcare centers but then also provide a wrap around services and referrals to them as well. And then we work with over 12,000 childcare centers and homes with trainings, technical assistance and, again, an assortment of services. Our goal is always increase quality, increase access to every child. No child, regardless of their income, their zip code, their race, their ethnicity should not be able to access quality care and quality education. Next slide.

That was a little bit about Starting Points. Let's get specific to the topic that we're discussing here today. And to start, I just want to remind everyone how we got here to this crisis. We all know that the pandemic hit and it had a crippling effect on many sectors in our economy, but childcare in particular got incredibly hit hard. We were waiting for this tsunami of low enrollment and staffing issues to move on with everybody else, but what we saw was that our workforce issue just continued to really just continue to exacerbate.

And so what was happening, a couple of things. Our boomers that were really important to childcare workforce never came back after the pandemic. And at the same time, other sectors were increasing wages. And so what we saw was a huge loss of our boomers, about 20% of our locally of our teachers and childcare employees, and then wages started to increase in other sectors, and so we were having a really hard time attracting new staff. And so right now when we survey our childcare centers twice a year and 60% of those childcare centers and homes let us know that they are operating at a low enrollment and mostly because of staffing issues. And why is that important? If you want to be able to just break even as a childcare center, you need to have enrollment at 75%, and 70% of our childcare centers are below 75% right now, so they're really struggling. Next slide.

Again, I talked about wages and Kyle gave you some specifics, but just another reminder of what we're dealing with here. On average, our childcare employees that need a CDA certificate, and we're talking about hundreds of hours of training to be certified, state certified in Ohio, they're on average making about $15 an hour. And we have teachers with BAs that are making about $17 an hour. Now, there's retail and hospitality sectors that are offering folks with very to little no training receiving the same wages or even higher wages. Again, just to emphasize the crisis that we are facing here. Next slide.

How does this affect families? Well, just to hear some examples, that approximately 59% of parents that are not working full-time would choose to work full-time if they had childcare, if it was affordable to them. And that was according to a study from the U.S. Chamber of Commerce. And furthermore, 32% of women cited that their need to be at home to care for their children was a barrier to returning to work. And this was a study, I believe, done two years ago. And 90% of northeast childcare programs had to raise their tuition beyond annual expenses because of the need to attract new staff and the need to try to keep that wage at least at $15, $16 an hour. This is really all coming together where parents are struggling to afford childcare, therefore they can't go back to work because of childcare costs and an inability to access childcare. Next slide.

But here's the thing, that overall the community understands that there is a community greater good having childcare. We recently polled our Ohio voters, and 93% believe that affordable childcare is an incredibly important service to have and that it really affects the whole economy and the community. And furthermore, there's been some studies done again by the National Chamber of Commerce, and on average a state will lose at least $1 billion annually due to a breakdown in childcare, meaning that parents can't go back to work or they can only work part-time or it is disrupted because of childcare issues. And Ohio, our chamber is currently trying to put together that number, but I can tell you some of our neighbors already completed their studies, and Pennsylvania has lost an estimated $3.47 billion annually from its state economy as a result of childcare issues. And Michigan, our other neighbor here in Ohio, has an estimated loss of $2.8 billion. And we are very comparable. I wouldn't be surprised if we're looking at about $2 billion that we lose annually in Ohio due to breakdown in childcare or the inability to access childcare. We were able to complete a study in Cuyahoga County. And in Cuyahoga County, which again, one county out of 88 in Ohio, in Cuyahoga County alone, businesses miss out in $121 million a year due to a loss of workforce. Next slide.

What are some of the solutions? And I know we'll talk more in depth in terms of the types of different solutions that were out there, but there's some really good work being done both locally and nationally. Locally, we have a collaborative that Starting Point is very proud to be a partnership with our county to provide universal pre-K. It's not exactly universal. We do help families that are 300% of the federal poverty rate and below with scholarships to access pre-K. And then we also fund high quality pre-K programs in our county, which is about 4,000 to 5,000 seats depending on the year. We also are proud partners with our city, and we're able to access some of the federal ARPA dollars where we have been for the last two years providing scholarship dollars to families earning, again, 300% of the federal poverty level and below, and also bonus and retention bonuses and dollars to childcare staff. Total, we've been distributing close to $5 million in the last two years helping both families access childcare and be able to afford childcare and then helping childcare centers keep and retain staff, be able to attract and retain staff in these childcare centers. We're trying to do our best to help stabilize this system. Next slide.

Lastly, I wanted to give you really a good example of some of the national work. There's this group out of Colorado called the Executives Partnering to Invest in Children, EPIC. And it's a private sector partnership that played a pivotal role in passing Colorado's childcare contribution tax credit and childcare family friendly communities. And both of these different programs allowed for private-public partnerships in businesses being able to contribute, but not having to pay and be the solution to childcare but at least have some skin in the game and working in collaboration with local government to be able to make childcare accessible and more affordable. Next slide. And with that, I am passing along to Sarah.

Sarah Ann Savage:

Thank you, Tracey. I'm sorry. Thank you, Nancy. Great. Next slide. And next slide, please. Thank you for having me. I'm excited to be a part of this conversation. I'm not from Ohio or the Cleveland Fed, I'm from the Boston Fed. And it's been great working with Kyle as part of our Early Care and Education Work Group, which is a system work group and just getting to know more about the Cleveland Fed's work. But my remarks are mostly national, so I think they'll be relevant to this conversation.

I just wanted to talk a bit about how the Boston Fed got into this space. And part of supporting working parents and thinking about what working parents need is justified by part of our dual mandate. Part of the dual mandate of the Fed is maximum sustainable employment. Supports for working parents fit that mandate, align with that mandate pretty well.

Some of our work started in what I would call a narrative shift space: describing childcare as an economic issue, pointing out the downstream effects, talking about it as something that should be a part of the workforce infrastructure since so many parents needed to work. And that seems less of a novel thing to say since the pandemic happened because that made that point so abundantly clear that it's an economic issue. Some of our work also involved quantifying problems and patterns, which we still do. We interviewed mothers about childcare decision making before the pandemic. And in the recovery, we surveyed parents across New England to ask about childcare needs, usage, and employment and how those intersect. And we continue to do more work in this area. And more recently and more relevant to this conversation is our work in the solution space and in particular thinking about the role that employers can play. Next slide, please.

There's a real business case for employers to support childcare. And I just want to emphasize the question really isn't whose responsibility is it? But in whose best interest it is. And there's a real business case for employers. And I think Nancy was pointing to some of this case as well when talking about the billions in loss of productivity due to childcare challenges. There have been different studies that have worked to estimate the cost of unmet childcare need or unmet needs regarding childcare.

And the Council for Strong America has done a couple of reports, the most recent one in 2022 estimating the cost of the economy of childcare breakdowns is $122 billion and the cost specifically to employers of $23 billion. The U.S. Chamber Foundation has something called its Untapped Labor Potential Series where they've estimated the cost of productivity problems in at least eight states and have estimated that the costs are in the billions in terms of those productivity losses. And yet, while this may be the case, there seems to be a disconnect between how some employers and employees see this. For instance, there's a report from Harvard Business School where 80% of employees thought that their caregiving needs affected their performance while only 24% of employers thought this to be the case.

In terms of emergent opportunities, we saw unprecedented experiments during the pandemic with regards to different employer policies, remote work, flexibility, and maybe the use of sick time for caregiving needs. And some things have been scaled back, some things have been made permanent and some things some workers consider as benefits that they would look for and getting new jobs or reasons they would keep current jobs. We've also seen, and actually at the federal level with failed legislation at attempts to have sweeping change with regard to childcare, leaving it more to states and localities to figure out. And then we've seen a nod towards expecting employers to do something here. For instance, the CHIPS Act, which is federal funding for semiconductor manufacturers, a condition of that funding is making sure that workers have access to affordable and quality care. Next slide, please.

I want to talk about some national trends that is a bit of a somber picture just in terms of what are employers doing? Is this very common? But I will follow that with some momentum and innovations that might not be captured by these aggregate numbers, but I still think it's interesting to look at these. Next slide, please.

This is the percentage of civilian workers with access to childcare. These data are from the Bureau of Labor Statistics National Compensation Survey. And I have it broken down by the size of firms. A couple of things stand out to me here. Well, first of all, there's been relatively little change over time in terms of access to childcare defined here as full or partial reimbursement for childcare costs, whether for on-site care or otherwise. There's been relatively little change. It's flat by firm size. But also, it's also quite low. Even among workers at firms with 500 or more workers, it still hovers around 25% over time that have access to childcare supports. And the firms that are smaller than that really are significantly less in terms of access to childcare. This does not include dependent care flexible spending accounts, but on the next slide you can see that that's much more common. Workers at the larger firms now we're looking at right over 70% that have access to dependent care flexible spending accounts. But again, not much change over time, and it really does track again by firm size. And dependent care flexible spending accounts are when workers can set aside up to $5,000 of pre-tax income to apply towards dependent care, which is a benefit for both employers and employees.

We also need to think about, from a worker's perspective, childcare might be one slice of their childcare equation. There's other things and policies that employers can do that might mitigate the need for childcare. On the next slide, this is looking at the percent of workers with access to paid family leave. We can see that especially since 2016, we've seen an increase in access to paid family leave. But this is interesting because when we think about infant care, which is the most expensive and least available, the more family leave one has access to after a newborn, the less of that very expensive, unavailable care that parents will actually need. And I will note that care for children with special needs is also highly unavailable. But in terms of by age, this is a very unaffordable and not highly available type of care.

Another benefit that employers can offer that can mitigate childcare needs on the next slide are flexible work hours. This only started to be asked on the National Compensation Survey starting in 2020. And you see it really leveling off, this isn't many years of data, but for the larger firms starting in 2021 and a more steady increase among the smaller firms and potentially because this is something they can do that doesn't necessarily require as much investment, but I'll get into that with more examples as we proceed. The next slide, please.

This is a table from a private organization survey, Mercer, their health and benefits strategies for 2023. And I have to admit this is not in that report. I had to request this since the report was only limited to firms with 500 or more employees. But they were able to give me this to show me the smaller firms as well. But a couple of things that stand out to me here, even among organizations with 5,000 or more employees, its childcare offerings are pretty low. On-site childcare is at 10%, subsidized childcare is at 16%, and then when you go to the smaller firms, they're all in the single digits. I think the big picture takeaway from these data in the previous slides is that it's relatively uncommon, but there are a lot of innovations and momentum that I want to point to as we move forward. The next slide, please. We'll talk about emergent trends here. Next slide, please.

This is a visual from the U.S. Chamber Foundation's Childcare Roadmap for Employers. And I want to say that there have been a lot of efforts of bringing employers to the table to think about what they can do with regard to childcare supports and working to inform them and empower them on this issue. And I've been a part of that in my district. I've been a part of convenings with business leaders in three of our states and another one happening in the fall in a fourth state and really talking about what are the different options? And I just want to make the point that employer-supported childcare doesn't equal on-site care. That's one thing of many that employers could do. And this list here is not exhaustive either, but I think this is a nice visual that categorizes different things employers could do by complexity. And if you were to pull up this report, it also has the potential impact of these different options. Some quick wins: Working parent support, flexible scheduling, some internal investments, backup care, childcare vouchers and subsidies and on-site care, and community investments such as advocacy and expanding community capacity. I'm going to give some examples that I've encountered from just either watching webinars, listening to people, contacts I've made.

On the next slide... And I apologize for not organizing these to match that previous categorization, but in the quick wins category, a couple that I'll pull out, the Pioneer Institute is a manufacturing firm in Illinois. And I listened to the CEO talk about not just offering flexibility to workers but also committing to a culture shift. When thinking about supporting workers in that previous slide and the quick wins, flexibility is one thing, but committing to a culture shift of not penalizing workers for having to make early and... sorry, late drop-offs or early pickups, things like that. Badger is a manufacturing organization in New Hampshire, and they have a bring your baby to work program for the first six months. These are things that small businesses are doing that might not require investments per se, though they might have cost. And then other examples, Dr. Bronner's a soap company offered stipends, but they also surveyed staff to figure out what to offer employers. And there's cost sharing models such as the Michigan Women's Commission that's the anchor for their tri-share model where the state employees and employees split the cost of care at licensed providers. There's a report by mass taxpayers that... A link can be shared with you that has examples of other cost sharing models you might be interested in.

And just one more that I'll pull out here. There's three sawmills in Aroostook County, Maine that are in the process of partnering together to create a nonprofit for an on-site childcare facility. And this is interesting because they're three small businesses that by themselves might not have been able to do this, but by partnering together they're able to share some resources. And they also applied for a grant to get that off the ground. There's many more examples here, this is just the tip of the iceberg.

But on the next slide, I just want to mention that there is only one federal tax incentive for employers to support childcare. Some states have different tax incentives in place. Nancy mentioned one that EPIC worked to get past expanding a tax credit in Colorado. But the federal tax incentive to be aware of is referred to as 45 F. It's a tax credit up to $150,000 for investments in childcare facilities, working with childcare providers or covering expenses that employs to find childcare services. But the uptake is really low. It's claimed on 1% of corporate tax returns. And there are some reasons why that's thought to be the case, such as the cost that the credit doesn't offset, difficulties projecting employee take up, and just the complexity of running childcare facilities and potentially the lack of employer awareness.

On my last slide, and I realize I'm over time here, I just want to talk about a couple of barriers to think about when it comes to employer supported childcare. There seem to be challenges for small businesses. I think that comes out in some of the earlier slides. There's a potential exclusion of low wage workers. For instance, something like backup care tends to be offered by organizations with highly skilled workers and how to include those outside the labor market if we're relying on employers to support some care since it would exclude them. There could be portability problems, which might be good for employers since it could help with retention, but it might be bad for some employees who are terminated or need to leave and are connected to their employer's childcare. There's a lack of technical assistance. There are good examples. I think EPIC that Nancy pointed to is one that really can help employers put things in place, but all in all, there's not a lot of places for employers who want to do something to really plug into to get something off the ground.

Also, just that once going down a path of employer support and dependence on employers for certain support, that can be hard to undo, such as what we see with employer sponsored health insurance, and then just the lack of incentives. On the one hand, I mentioned the one federal incentive, but on the other hand the fact that this can be in the best interest of employers should be an incentive in itself. I will stop there and hand it back to Tracey. Thank you.

Tracey Mason:

Thank you. Thank you all for sharing your insight and expertise. I have a few follow up questions for each of you before we take questions from the audience. I'm going to start with Kyle. We received several comments, and all three of you touched on wages for our childcare workers, which seems like a simple solution to most people, but Kyle, can you just shed some light in terms of why don't we just increase their wages?

Kyle Fee:

Of course. Thank you, Tracey, for the question. I think it's not as simple or straightforward as we think because households already pay higher than the recommended federal guidelines right now. The true cost of licensed infant childcare is estimated to be 40% more than the current price that we charge to parents. You can't really just pass that extra cost onto parents, unfortunately, at this stage. You're going to need some other ways to fund those raising wages.

Tracey Mason:

Thank you for that. Nancy, you sound like you were in agreement or might want to add something to that.

Nancy Mendez:

And our childcare centers have been struggling with this. They absolutely know that they need to increase wages if they want to stabilize their workforce, if they want to attract employees. But if they enable to increase wages, they need to increase tuition, which if they do that, then they'll have low enrollment. And with low enrollment, they will close their door. There's chicken and egg thing here that's going on that they really just can't solve. The bottom line is childcare, it's a greater good. It's good to the economy. And it really cannot be solved by the traditional market; it must be subsidized. And that is why we're looking at public-private types of solutions because childcare is important, but the traditional business model will not work. We must accept that. And then from there, we can then really look at solutions. Yes, it's a cost, but we already know what the cost is to states and to our community if we don't afford it. And so I think that's where the conversation has to have with some real examples of real solutions, but just simply increasing the cost of childcare means that then families will not be able to access and we're in the same place that we're in today.

Tracey Mason:

Just as a follow-up to your comments, Nancy, can you talk a little bit about how your organization is collaborating with other organizations and businesses to drive economic and system change to meet the critical needs of families, childcare providers in the overall workforce?

Nancy Mendez:

Let me begin by saying that I really got into this because I love children and youth and want them to be able to access the best education possible because right now we're talking about the workforce, but let's not forget that when a child has access to quality education, we know that when they go to quality childcare, studies after studies have shown you see increased graduation levels from high school, higher rates of children attending college, lower rates of those children needing public assistance, and lower rates of those children ending up incarcerated. This is a greater good today. It helps people work today. It helps people work and helps the workforce of the future.

I came in. And Tracey and I go back. We've done work in Cleveland for years, and she was a board member of the United Way I worked in. My heart passion as children and youth and trying to give them opportunity, but as I more and more got into this, it really also I had to talk about economics, I had to talk about workforce. And I had to really learn about it and understand that I had to push Starting Point and organizations like Starting Point beyond helping human services and reach out to the business community and to organizations like the Federal Reserve to help us with these solutions. That's where the solution's going to be. It can't be health and human services and government, it has to be a collective of foundations, the business community, universities with their data. There are solutions there, we just have to roll up our sleeves and expand the table in terms of who's going to help us get to those solutions.

Tracey Mason:

Excellent. Thank you. Sarah, I have a follow-up question for you as well. You've talked about momentum as far as employers engaging in addressing childcare access gaps. How much of this innovation is really about early childhood education versus solving their own workforce challenges?

Sarah Ann Savage:

I think there have been examples of both. And one thing I didn't mention in my remarks is the Louisiana school readiness tax credit. That's really framed around early education and childhood outcomes. And that is employers can get tax credits for contributions to childcare or their workers' childcare. But then there are other efforts that are really framed around the workforce. And which ones have the most longevity and are better able to get employers to the table? I think it can depend on the labor market. When we're in a labor shortage and there are really significant hiring and retention problems, that labor force argument for supporting parent workers is going to have a lot of, I think, it's just going to be a very salient thing to employers. And so I think it can really vary in terms of whether employers are at the table for early childhood or at the table for labor force. And it can be cyclical.

But on the other hand, this is something that comes up a lot, just whether these overlap or handled separately or whether they should overlap or be handled separately. And the only thing I will say there is if the outcome of interest is cognitive development, childhood development, you're going to set up something different potentially than if the outcome of interest is the labor force participation of parents. Because then you're thinking about, well, when is it available? What does it cost? And if we continue to overlap, then I think sometimes we tend to see that it can hinder progress when you would set something up differently for those different outcomes. And I just urge stakeholders in this space to think about those outcomes separately and what goes into achieving those outcomes because it might not always be the same thing.

Tracey Mason:

Thank you for that. Now we're going to take questions from our audience. Okay, I'm going to start with this question. What policy interventions are needed across different levels of government to address this market failure within the childcare industry? Is there anything more that cities or states could do to address the needs of this industry? I'm going to give this question to Sarah.

Sarah Ann Savage:

Thank you. I think the big word that comes to my mind is untether. How do we untether what childcare workers make from what parents pay? And when we think about cost sharing models, I alluded to that a bit with the Michigan tri-share model. New York state has a pilot of cost sharing. I think in theory that's maybe an attempt to untether those things because if one is dependent on the other, like Nancy said, you're going to drive down enrollment or you can't attract workers. They're so tied together that they somehow need to be untethered. And when thinking about funding, the untethered and subsidized, thinking about what can reasonably be covered by parents and then what needs to cover the true cost of care so that there's quality. How can subsidies be used in a way so that those aren't sensitive to each other so that worker wagers aren't sensitive to what parents pay? And I think because they're so interlinked, we just can't get away from this tension between what parents pay and what workers get paid.

Tracey Mason:

Thank you. Okay, here's another question. How do we scale up the early childhood education workforce quickly while maintaining or improving the quality of the professionals in this space? How do we address equity in under-resourced neighborhoods? I'm thinking, Kyle, you might be able to respond to that question.

Kyle Fee:

I can definitely give it my best effort, Tracey. I think when we're talking about financing investments, and you throw out quickly in there, those are two things that don't generally always go together. I don't really have a great answer for you, but I still think that it's important and imperative that we continue to make those investments because we're still hearing that that's an issue. And it's going to continue to be an issue until we make some improvements and look to try and address it. And I would also mention to the equity side and standpoint of it too, we know that this childcare issue is also experienced more by our African American and Hispanic communities and populations. If we're thinking about at a local level on how to encourage participation and employment amongst those ranks, that's a a key lever when we're thinking about broader racial equity and inclusion programs that have become top of mind for folks these days.

Nancy Mendez:

I can give you an example, Tracey. Our organization, it is part of our responsibility to provide technical assistance, training, and walk through... Provide all the training for individuals to be able to receive a CDA, which is necessary for a license for being a childcare employee. It takes about anywhere from three to six months and you can get your certification. We can do this quickly if we have the individuals that are interested in coming into childcare. They're not going to be interested to go through all this training, at the very least receive a certification, and then their reward is a $13, $14 an hour position. It's about wages.

And the example I wanted to give is that during the COVID pandemic event, time period, there was dollars made available to childcare centers that was part of the ARPA stabilization dollars. A lot of our childcare centers, even though they were told not to do this because it wasn't long-term, they used those dollars to increase their wages. Not only were they able to stabilize their centers, but they did attract new staff. As soon as those dollars dried up, we saw at least 2,000, or I believe the number was 2,500 childcare center employees leave after those bonus retention and additional wage dollars disappeared. It really, if we want to attract talent to childcare centers, we need to be able to provide a competitive wage. If you're going to earn the same amount of dollars sitting at a cash register or working in retail, then you would do taking care of someone's most precious thing, their child, and you are having to go through hundreds of hours in training to do so, this is not a hard decision. It'll go retail and sometimes make even more money. We just have to put the value into what these employees, many of them Black and brown women, we have to put value into what they're doing. They're creating a foundation for our children to succeed in life. And that should be worth more than $14 an hour.

Tracey Mason:

Thank you, Nancy. I have another question. Can the Feds suggest policies that could give businesses incentive to offer better childcare funding to employees? Sarah, you want to take a stab at that?

Sarah Ann Savage:

I'm glad that there's inquiry into the 45 F legislation and why there's such low uptake and more states trying to see if they can have state level tax credits to motivate employer involvement. And we also have some different attempts, without pointing to specific legislation, different attempts in different states to try to support employers who want to do more in the childcare support space. I think it's something that there's inquiry into see how to make these things work better for employers, but the piece... Rather, the incentives... Because there are employers that have tremendous resources and desire to do something; not all, but there are some. But without childcare expertise, without technical assistance or knowing where to turn, getting something off the ground is unlikely. Sometimes the incentives can help, but if they want to do something, sometimes being able to plug into something... And I know EPIC, for instance, gets calls from employers. They've gotten calls from, I think, semiconductor manufacturers. "We need to put something in place. Can you help us?" Having a source for employers to plug into may be more important than incentives, which can help. I think it's good to figure out the incentives piece, but figuring out the technical assistance piece seems, in my mind-

Sarah Ann Savage:

Sorry, I launched my Siri. But that seems to be a bigger issue that needs attention.

Tracey Mason:

Perfect.

Nancy Mendez:

If I could just add to that point, one thing I want to just shout out, we're having our annual event in September and the CEO of EPIC will be our speaker. If you're in Ohio, come on by. We'll get the invite out.

But one of the things that came out of our work with reaching out to the business community, we asked about the difference between what employers say about the importance of childcare and what their employees are saying. The employees are saying, "This is a huge issue," employers are saying, "I never hear about this. I don't think it's a big issue." And so we asked the question to a couple of CEOs that we really had a good relationship with, and they said, "Nancy, the problem is that we're not going to be honest unless we have a solution. We're not going to ask the question. We're not going to open up this can of worms that we do not have a solution for." We have to reach out to this community. I think some really do want to provide this as the benefit or at least be a part of the solution.

But to your point, Sarah, organizations like Starting Point, we have to let them know, "We're here. We'll partner with you, we'll collaborate. We'll help you from licensing your space all the way through licensing your staff or providing different types of solutions and working with you to do it." We can't just say, "Here's a problem; fix it," we have to work, again, in a collaborative way to help our corporations be part of the solution.

Tracey Mason:

I was going to ask a final question. And I don't know how much you might have to add. And that is what do you believe is the most important takeaway for today's audience? You guys have provided such incredible information and research that they will receive when they receive the link for this video. I'll punt it to Kyle. What do you believe is the most important takeaway for our audience today?

Kyle Fee:

For me, I would say the most important takeaway is, I'm going to steal Sarah's, word untethered. I think the untethering of the wages and tuition paid to parents is something that we need to figure out and think very deeply about.

Tracey Mason:

Sarah.

Sarah Ann Savage:

I would say that, and not in the way that I presented today, but employers need to be part of the solution. Not necessarily just fixing things or offering things to their workers, but if employers aren't at the table, to Nancy's point, I don't think sweeping change and really moving the needle on this issue is possible. How to have them be partners, whether it's for their workers or the larger community or even broader than that, I just don't see how it's possible without their partnership.

Tracey Mason:

Yeah. Nancy, who would you like to-

Nancy Mendez:

Other than the understanding that the traditional childcare business model is broken and we must subsidize, we must find different solutions, I would just remind our audience that childcare is pro-employee, childcare is pro-workforce, childcare is pro-family. It is a greater good and it is worth having many people at the table and figuring out long-term solutions to be able to help families get back to work and help our children be successful adults in the future.

Tracey Mason:

Well, thank you all so much. So appreciate the research and your expertise that you share with us today. Also want to thank our community practitioners and business leaders for joining us. Information about today's program will be sent in a follow-up email. A recording of the event will also be posted on our website at clevelandfed.org. And again, thank you all for joining us today, and have an amazing day. Thank you, everyone.