More Work to Be Done: An Analysis of Child Care Subsidies in Alberta

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Early learning and care policy has been changing in Alberta at a brisk pace since the beginning of the present year. One of the most important areas where change has taken place is the child care subsidy system, which helps make licensed and approved child care more affordable for some of Alberta's most economically vulnerable families with younger children. This paper provides an introduction to child care subsidies in Alberta, outlines and analyzes some of the recent changes to subsidies, provides suggestions for improving the subsidy system and affordability of early learning and care in general, and concludes with a call for a deeper understanding of the concept of affordability, along with some perspective on the role of affordability within a high-quality early learning and care system.

What Are Child Care Subsidies, and How Do They Work in Alberta?

A subsidy is a government program that provides a cash payment or discount to users to make an essential good or service available at a lower price. Child care subsidies are intended to provide financial assistance that helps families in need pay for child care for their children. These subsidies are important because child care fees are high relative to the household income of some families, yet many parents require reliable child care to participate in the workforce, obtain an education, or attend to special needs.

Many families in Alberta have difficulty affording high-quality, accessible, inclusive, and flexible early learning and care (ELC) programs that meet their needs. The first thing that comes to mind for most people when they think about "affordability" of child care[1] is monthly fees, but that is only half of the equation. "Affordability" in ELC actually includes two basic elements connected in a simple way: child care fees (*cost*) divided by the money that families have available to spend on it (*income*).[2] Anything that reduces child care fees, or increases family income, makes ELC more affordable, and subsidies reduce child care fees by offsetting a portion of the cost. Alberta's Child Care Subsidy program is administered

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[1] In this paper, "early learning and care" and "child care" are used interchangeably, though many experts see the term "early learning and care" to be a better reflection of what actually happens in high-quality programs.

[2] While this point might seem obvious, many public discussions of affordability in ELC tend to focus primarily on cost, often forgetting about income entirely. In addition, "income" is not as straightforward to measure and understand as it might seem, particularly in discussions about child care. This point is explored to some extent throughout this document, but for a longer discussion about measuring the affordability of ELC, see Buschmann, R. & Partridge, E. (2019). *A Profile of Edmonton Child Care in 2019*. Available at https://www.endpovertyedmonton.ca/posts/initiative-elcsc.

by the ministry of Children's Services, and is the major tool used by the Government of Alberta to assist lower-to middle-income Alberta families with paying for ELC.[3]

While subsidies help to alleviate the cost of ELC, the amount provided usually does not cover the entire fee charged by the program. A family receiving full subsidy is likely still paying out of pocket for ELC. This is because subsidies in Alberta are capped at a maximum monthly value that is below what licensed and approved ELC programs charge. For example, the current maximum monthly day care subsidy is $741 for an infant 18 months and under, $644 for a preschooler 19 months up to Grade 1, and $366 for a school-aged child in Grades 1 to 6.[4] Meanwhile, in 2019 the median monthly Edmonton centre fee was $1,100 for an infant, $950 for a toddler, and $875 for a preschooler.[5] Therefore, Edmonton families receiving the maximum subsidy in a centre charging the median monthly rate are paying $359 out of pocket for care for an infant, $306 for care for a toddler, and $231 for care for a preschooler.

Subsidies for child care in Alberta are designed for eligible families with children. Families must meet an income test to qualify for subsidy. The parent and their spouse or partner must also demonstrate a need for care by currently working, attending school, or looking for work, or if they have a special need or their child has a special need. The child must be 12 years of age or younger and not yet attending Grade 7. The child must have a secured spot in a licensed day care, out-of-school care, or group family child care, or an approved family day home. In addition, the parent, their spouse or partner, or the child receiving care must be a Canadian citizen or permanent resident of Canada and the parent or their spouse or partner must be an Alberta resident.[6] Families must submit an application form for subsidy to qualify for it and must renew their subsidy within a month of expiry to continue receiving it without a break in service.[7] The subsidy may be granted for a maximum period of 12 months and is paid directly to the licensed or approved child care program on a monthly basis.[8]

The amount of child care subsidy that an Alberta family is eligible to receive varies based on family gross income (minus any medical and education deductions), the ages of each child enrolled in care, the type of licensed or approved program accessed, and the number of hours of care attended. Families with an annual income of less than $50,000 can qualify for full subsidy, and families with an annual income between $50,000 and $74,999 can qualify for partial subsidy. No subsidy is provided to any families earning $75,000 or more.[9] Subsidy rates are set

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[3] Another provincial tool that currently assists lower-income families to access ELC is the Early Learning and Child Care (ELCC) Centres initiative, commonly referred to as the $25/day program because fees at ELCC Centres are capped at $25/day. Lower-income families enrolled in ELCC Centres can still access subsidies, meaning that some may actually pay nothing for ELC. This initiative is ending on March 31, 2021.

[4] Government of Alberta. (2020). *Child Care Subsidy.* Available at https://www.alberta.ca/child-care-subsidy.aspx.

[5] MacDonald, D., & Friendly, M. (2020). *In Progress: Child Care Fees in Canada 2019.* Available at https://www.childcarecanada.org/documents/research-policy-practice/20/03/progress-child-care-fees-canada-2019. Note that the data by age group in this report does not align perfectly with the subsidy model in Alberta. This report does not collect any information about the cost of care for school-aged children.

[6] Newcomer families that are not yet Canadian citizens or permanent residents are not eligible for provincial ELC subsidies in Alberta.

[7] In addition, families must report the following changes to their information in the same month they occur: change in reasons for child care, child care arrangements, marital status, contact information (including name and address), or decrease in income that may affect subsidy.

[8] Government of Alberta. (2020). *Child Care Subsidy.* Available at https://www.alberta.ca/child-care-subsidy.aspx.

[9] "Income" for Alberta's subsidy purposes means family gross income (Line 15000) from the most recent Notice of Assessment provided by Canada Revenue Agency, less any reported amounts for eligible education related expenses (Line 32000) and eligible medical related expenses for self and dependents (Lines 33099 and 33199). The current Canada Child Benefit (CCB)

for infants 18 months and under, preschoolers 19 months up to Grade 1, and school-aged children in Grades 1 to 6. For infants and preschoolers, there is a higher rate structure in licensed day care centres than for approved family day homes and licensed group family care centres. For school-aged children, rates are the same for licensed out-of-school care centres, approved family day homes, and licensed group family care centres. Maximum subsidy rates are based on full-time care, which reflects monthly attendance of 100 or more hours for infants and preschoolers and 50 or more hours for school-aged children. The school age subsidy rates have increased to match preschooler rates in July and August 2020 only, to reflect the increased hours those children attend care in the summer months when they are not in school.

The extended hours subsidy assists Alberta families with a demonstrated reason for 4 or more hours of care per month outside of the regular hours of 6:00 a.m. to 6:00 p.m. Monday through Friday or on weekends. Children must be attending a licensed or approved program that is approved to offer extended hours of care to qualify. Eligible families receive, in addition to the core child care subsidy, a flat rate of an extra $100 per month per child.[10]

What Has Changed About Subsidies in Alberta?

In the spring of 2019, the United Conservative Party (UCP) won a majority mandate to form the provincial government, taking over from the New Democratic Party (NDP). Since that switch, Alberta's subsidy program has undergone considerable change: Two smaller subsidy programs have been eliminated, and the formula for calculating subsidy amounts for the core subsidy program (which in 2019-2020 provided assistance to 28,729 children throughout the province)[11] has been significantly revised.

On January 1, 2020, two types of subsidies were eliminated entirely: The Kin Child Care subsidy and the stay-at-home parent subsidy. The Kin Child Care subsidy provided eligible families with money to support care by a relative who did not live in the same house as the child (for example, a grandparent).[12] The last public count for the number of children using the Kin Child Care subsidy provided by the Government of Alberta was over 5,300.[13] The stay-at-home parent subsidy provided up to $1,200 per year for eligible families with parents who were attending school or working part-time. This subsidy could also be used to help pay for half-day preschool programs. After the elimination of this subsidy, which affected approximately 500 children in preschools across the province, there is no longer any provincial government assistance for parents to pay for preschool programs.[14]

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and Alberta Child and Family Benefit (ACFB) are *not* included in Line 15000 and therefore do not count as income for Alberta subsidy calculations. See *Alberta Application for Child Care Subsidy*, available at https://formsmgmt.gov.ab.ca/Public/CDEV2127.xdp.

[10] Government of Alberta. (2020). *Child Care Subsidy.* Available at https://www.alberta.ca/child-care-subsidy.aspx.

[11] Government of Alberta. (2020). *Children's Services Annual Report 2019-2020.* Available at https://www.alberta.ca/government-and-ministry-annual-reports.aspx.

[12] The subsidy was $400 per month per child not yet attending Grade 1, and $200 per month for children in Grades 1 through 6. The reduced amount for older children reflected the decreased amount of care needed for children who were in school for most of the day (similar to the difference between centre-based full-day care and out-of-school care).

[13] Government of Alberta. (2018). *Children's Services Annual Report 2017-2018.* Available at https://open.alberta.ca/dataset/2371-9168/resource/4954b31c-add8-429f-91d5-57462c148cf9.

[14] Government of Alberta. (2020). *Children's Services Annual Report 2019-2020.* Available at https://www.alberta.ca/government-and-ministry-annual-reports.aspx.

On August 1, 2020, the Government of Alberta made two major changes to its core subsidy program. First, there was an across-the-board 18% increase to the maximum subsidy amounts, which had not been increased since 2008.[15] Those increases are detailed in Table 1; note that subsidy rates are somewhat higher for centre-based programs (day care and out-of-school care) than for programs based in homes.

Table 1: Maximum Subsidy Rates Before and After August 1, 2020

	Infant (18 months and under)		Preschooler (19 months up to Grade 1)		School-aged child (Grade 1 to Grade 6)	
Maximum Subsidy Rate Took Effect	Sept 2008	Aug 2020	Sept 2008	Aug 2020	Sept 2008	Aug 2020
Licensed Day Care and Out-of-School Care	$628	$741	$546	$644	$310	$366
Approved Family Day Home and Licensed Group Family Child Care	$520	$614	$437	$516	$310	$366

The second major change was to the method used to calculate subsidies (the "subsidy formula"). Specifically, the formula was simplified, with three factors that used to be included in the old subsidy formula (number of parents or guardians in the child's family, total number of dependents in the household, and geographic location) eliminated in the new formula. In addition, the new formula introduces sharply defined income thresholds at which the subsidy amount for each child decreases by specific amounts as a function of increasing income, whereas in the old formula subsidy amounts decreased in a more or less linear fashion with increasing family income (though the decreases were still quite dramatic, as illustrated below in Figures 1 and 3).[16]

As a result of these two changes, subsidy amounts have increased for virtually every family that makes under $75,000 per year in Alberta.[17] However, because children living in families making $75,000 or more are now no longer eligible for subsidies under any circumstances, some children who were formerly eligible for subsidies

[15] This increase did not apply to the extended hours subsidy, which remains at $100 per month. The extended hours subsidy is an additional subsidy for children who need to attend ELC programs beyond the usual hours (normally, 6 am to 6 pm on weekdays).

[16] Recall that "income" for Alberta's child care subsidy income thresholds includes family gross income, less specific medical and educational expenses. A family's net income is certainly more complex than that and involves numerous other important factors, including tax deductions, credits, and exemptions (such as the child care expenses deduction) and non-taxable government benefits (such as CCB, ACFB, and Income Support). These factors can have a significant impact for Alberta families, particularly those living in or near poverty.

[17] To be more precise, some children living in the Northeast region in families making less than $75,000 per year will see a reduction in their subsidy amounts. For example, under the old formula, a married couple with one infant and one preschooler was eligible to receive a monthly subsidy of $1,314 with an income of $55,000 or $1,106 with an income of $60,000. In the new formula, that same family configuration is eligible to receive $1,177 with an income of $55,000 or $1,039 with an income of $60,000. This means the monthly subsidy amount for these families has decreased by $137 (10.4%) and $67 (6.1%) respectively. The lower subsidy under the old formula is because children living in the Northeast region received a larger subsidy than children living elsewhere in the province; that increase has been eliminated in the new subsidy formula, as geography is no longer a factor.

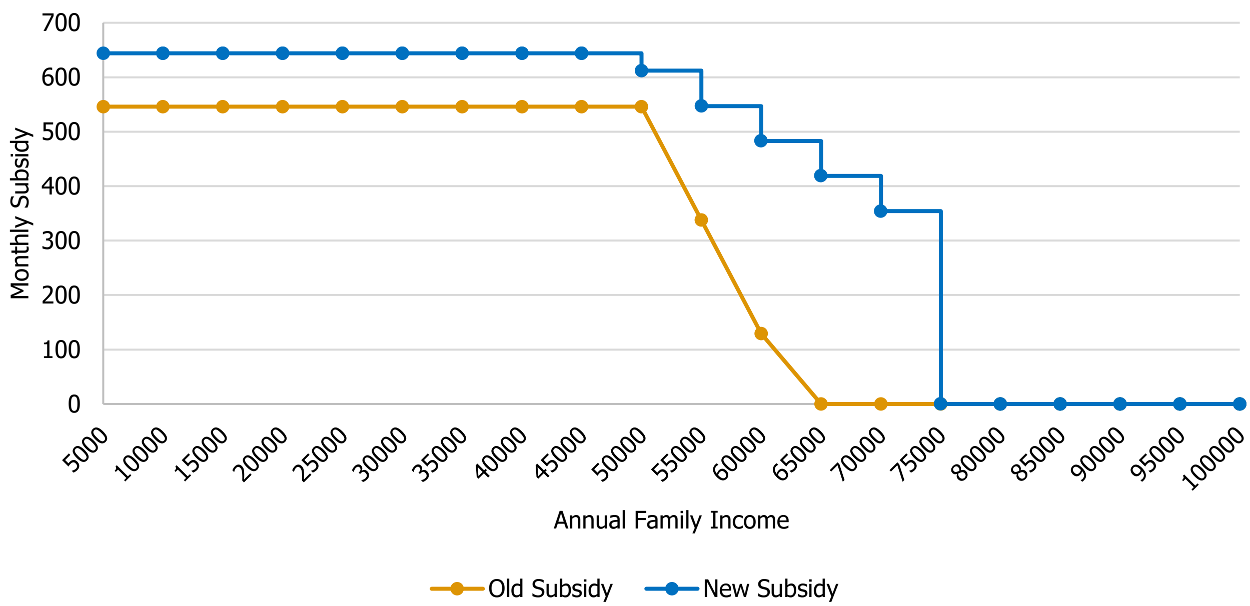
under the old formula no longer get them under the new formula.[18] To illustrate these effects more concretely, the figures below show how the recent changes to the core subsidy program play out for two different family types at various income levels.[19]

FAMILY #1: SINGLE PARENT, ONE CHILD

In Figure 1, subsidy amounts are compared for one child of preschool age (19 months to before Grade 1) in a single-parent home; this child is assumed to be attending a centre-based ELC program. There are several things of note in this figure.

First, under the new formula, families of this configuration are eligible for a higher subsidy at every income level.[20] In fact, at annual family income levels between $65,000 and $75,000, this child is actually eligible for a subsidy under the new formula, whereas they were not under the old formula.

Figure 1: Monthly Subsidy Amount for Couple Family with One Preschooler in Centre-Based ELC



[18] Children receiving subsidy who live in families at income levels of $75,000 and above when the change occurred are "grandfathered in" and will continue to receive their subsidy under the old formula until their subsidy period ends, which is at most a year. At that point these children will move to the new formula and lose their subsidy. The number of children in this situation appears to be small.

[19] The numbers in Figures 1-4 were constructed using Alberta's online child care subsidy estimator (https://www.childcaresubsidy.gov.ab.ca/ccs/ccs_public.nsf/Estimator?OpenForm). On July 30, 2020, the estimator switched from using the old formula to the new formula, so estimates using the old formula can no longer be obtained. These figures include family gross income and assume no deductions for medical or educational expenses on behalf of the child's family. This paper points at potential problems with the subsidy system that need to be explored. To truly understand how affordable child care is in Alberta, a deeper analysis is needed that includes all cost, income, and taxation factors. For example, very low-income families might be paying much less or perhaps nothing for ELC if that is part of the Income Support child care benefit they receive.

[20] Except at annual family income levels of $75,000 or more. At that income level, this child was not eligible for subsidy under the old formula either.

Second, for this family type, making less than $50,000 per year means the shape of the orange and blues lines are identical: flat. This flat line is caused by the cap on the maximum subsidy, which existed under the old formula and remains in the new formula; that is, this child receives the same subsidy amount whether their annual family income is $40,000 or $20,000.

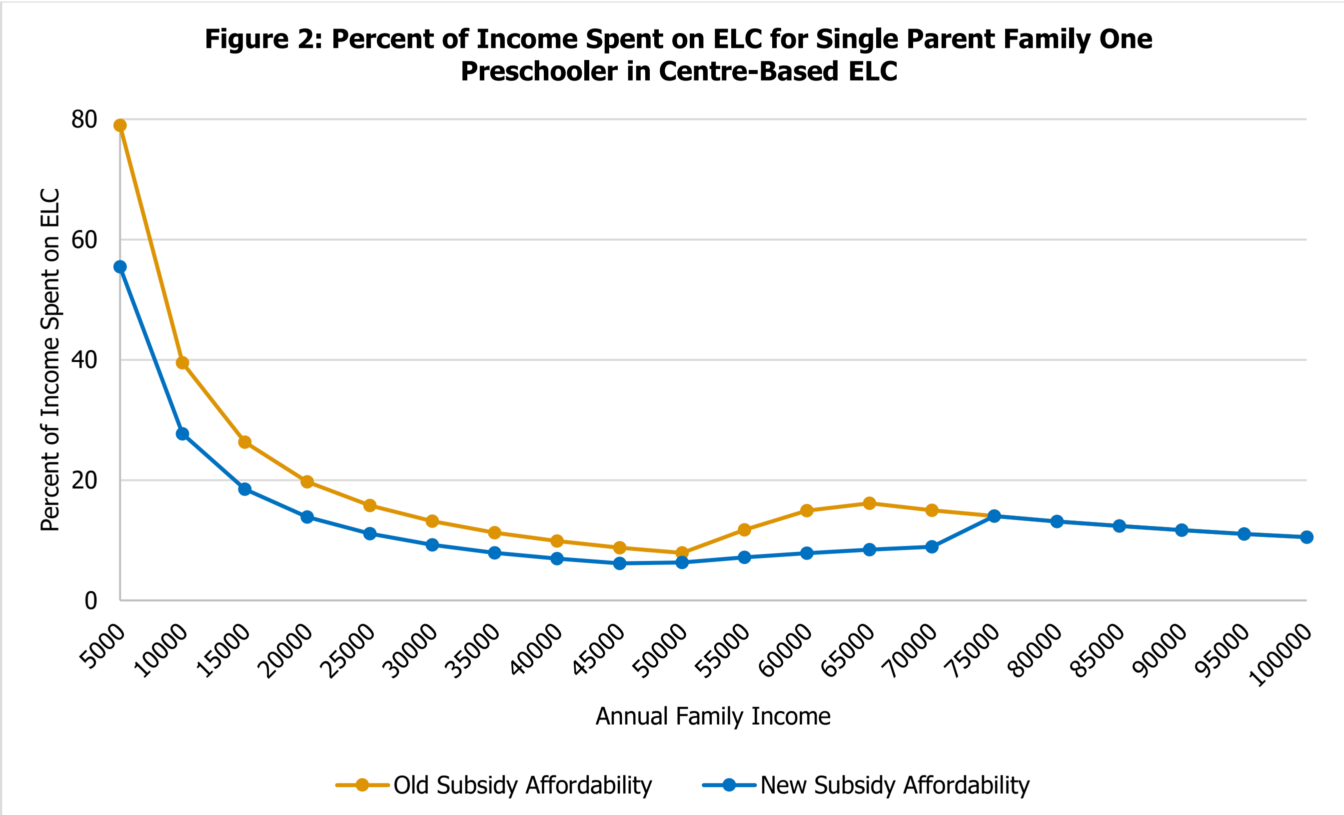
Third, for this family configuration, making more than $50,000 per year means the shape of the orange and blue lines differ. Under the old subsidy formula, this child's subsidy decreases at a steep but relatively consistent rate until it disappears at $65,000. Under the new formula, this child's subsidy decreases at a somewhat less steep rate until $74,999, but then immediately drops sharply to zero at $75,000. For the family type shown in Figure 1, this means losing $354 per month ($4,248 per year) in benefits as soon as their income reaches $75,000 per year. This "fall off the table" aspect of the new formula at $75,000 may have implications for the economic behaviour of families near the subsidy cut-off. (See the "Analysis" section below for more on this issue.)

Figure 2 presents a picture of what the subsidy changes mean for how *affordable* ELC is for this family configuration at different income levels. Recall that "affordability" here refers to the cost of ELC divided by income. Figure 2 assumes that the child in this family type is attending a centre-based program that costs $875 per month (the median for preschool-aged children in a centre-based program in Edmonton in 2019) and uses the same income assumptions as in Figure 1. Each line shows how the percentage of income for this family type changes as income increases, with the cost of ELC calculated as $875 per month less any subsidy for which these families qualify for under both the old formula (orange line) and the new formula (blue line).

Note that for both lines, the lowest point occurs at an income of $50,000; this is the "sweet spot" where these families are making just enough to still qualify for the maximum subsidy. Under the old formula, these families would be spending just under 8% of their annual income on ELC; under the new formula, this number is about 6%.[21]

Moving in either direction from the sweet spot of $50,000 on this graph means that ELC becomes less affordable. As these families make less than $50,000 per year, ELC becomes less affordable because the subsidy stays the same but income decreases; this produces a curve that becomes particularly pronounced at very low annual incomes.

[21] Technically, under the new formula, if this family were making $49,999, they would spend 5.5% of their income on ELC; at $50,000, they would spend 6.3%, because at $50,000, this family no longer qualifies for the full subsidy.



The increase in the percentage spent on ELC at incomes higher than $50,000 is a result of the reduction in subsidy, but this loss is offset somewhat by the increase in total family income, creating a gentler increase in percentage of income spent on ELC. Eventually, ELC becomes more affordable as the larger family income overwhelms any effects from the loss of the subsidy.[22]

FAMILY #2: TWO PARENTS, TWO CHILDREN

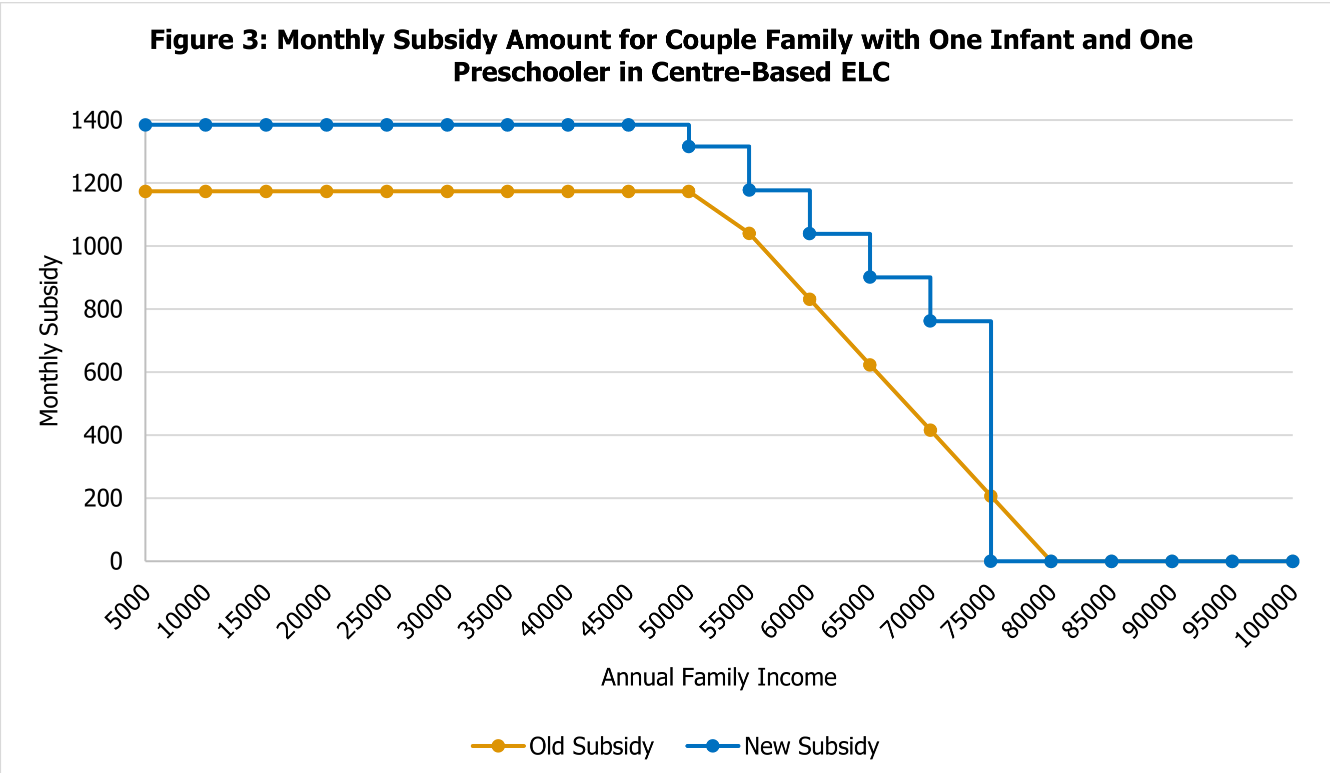
In Figure 3, subsidy amounts are compared for two children (one an infant, one of preschool age) who are living together in a couple-parent home; as with the previous family configuration, these children are assumed to be attending centre-based ELC programs.

Figure 3 is similar to the analog for a single-parent family with a single child of preschool age, Figure 1, in two ways. First, it can be seen that for this family type, as long as they are making less than $75,000 per year, the total subsidy amount for both children combined is again more under the new formula than under the old formula. Second, it can also be seen that in both figures, the shapes of the orange and blue lines are again flat for families making less than $50,000 per year, showing the effect of having a maximum subsidy cap.

There are also some key differences between Figure 3 and Figure 1. The first difference is that if these families made $75,000 to approximately $85,000 per year, their children would receive at least some subsidy under the

[22] For ELC to be as affordable as it is at the "sweet spot" of $50,000 (about 6% of annual income) without a subsidy, this family would have to make $175,000 per year.

old formula, but they receive nothing under the new formula.[23] The second difference is that the "shape" of the orange line changed under the old formula for families making more than $50,000 per year. Specifically, under the old formula, the reduction in subsidies as family income increased was more gradual in families with two children than for one child. In contrast, the shape of the blue line does *not* change between Figures 1 and 3.



Of particular note is that the "fall off the table" effect that occurs at an income of $75,000 per year is more pronounced in Figure 3 than in Figure 1; the height these families are falling from is much higher. Specifically, the family configuration shown in Figure 3 loses $762 per month ($9,144 per year) in subsidies as soon as they reach $75,000 in annual income. This "higher table, longer fall" effect increases as families have more children in care. (For more on this effect, see the section on "Shape of the Curve" below.)

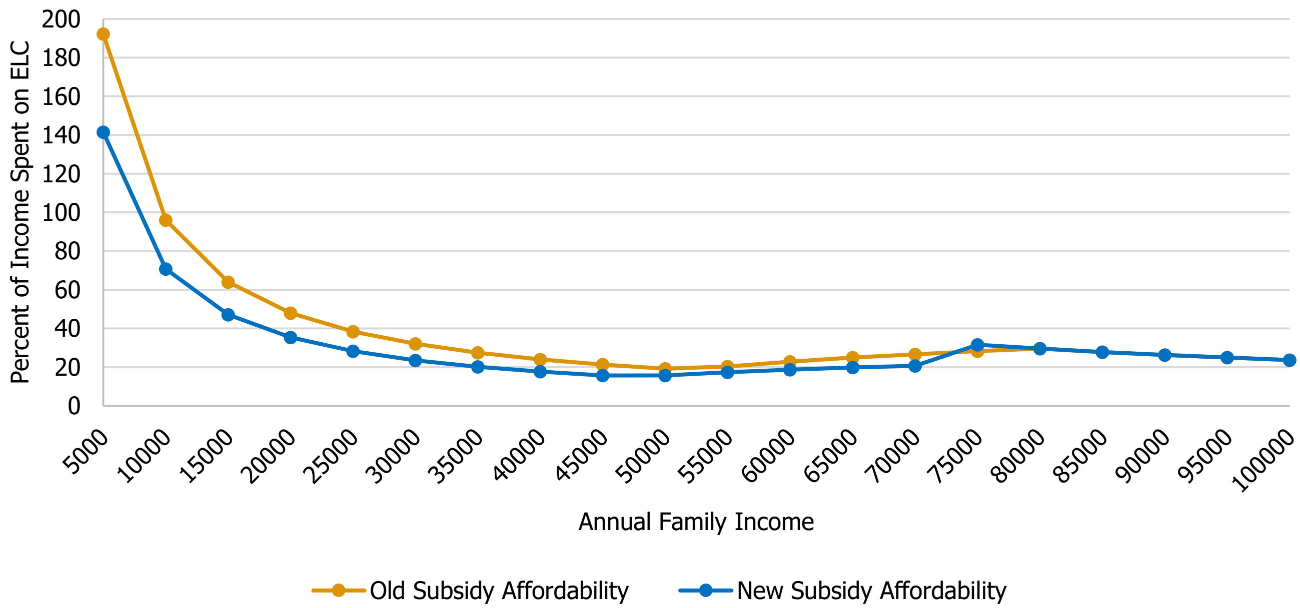
Figure 4 shows the affordability of ELC for family #2 at various incomes under both the old and new subsidy formulas. It contains both similarities to and differences from the analog for family #1 (Figure 2). In both figures, the "sweet spot" occurs at the same point ($50,000 of annual income), and the shape of the blue and orange lines are exactly the same to the left of the sweet spot, again reflecting the capped subsidy. For families above $50,000, the shape of the two curves are actually fairly similar as well, showing that for these family configurations, the new subsidy formula makes a relatively small improvement in affordability at incomes above $50,000 per year.

The most important difference between Figure 4 and Figure 2 is the scale. With Alberta's current subsidy system, at any given annual income level, family #2 will spend a greater percentage of their annual income on child care

[23] Again, children in families with incomes of $75,000 or higher receiving subsidy under the old formula on August 1, 2020 will continue under the old formula until their subsidy contract runs out (at most, a year).

than family #1 simply because they have two children in ELC. At the "sweet spot" of $50,000, for example, family #1 spends about 6% of annual income on ELC, but family #2 spends about 16% under the new rules. At lower incomes, this difference becomes even more pronounced; at an income of $20,000, family #1 spends 14% versus 35% for family #2 under the new rules.[24]

Figure 4: Percent of Income Spent on ELC for Couple Family with One Infant and One Preschooler in Centre-Based ELC



This difference illustrates an important, and unavoidable, policy dilemma in the affordability of early learning and care: whether to focus on affordability *per child* or affordability *by family.* (This issue is discussed further in the "Analysis" section below.)

Analysis of the Changes to Alberta's Subsidies

The new subsidy formula has resulted in changes to the subsidy amounts, income thresholds for subsidies, the shape of the subsidy curves, and the affordability of ELC per child and per family. These changes have profound effects on the affordability of ELC for Alberta families, particularly for the 9.2% of Alberta children in families that are in low income.[25] As recent publicly available low-income data are not separated by age groups for children under 18 years, it is important to note that younger children are historically more affected by low income, in part

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[24] Very low-income families that require support for their basic needs, including child care, may be eligible to receive additional benefits to assist with the cost of their monthly ELC fees, after child care subsidy is deducted. In addition to applying for the Children's Services Child Care Subsidy program, these families can apply for assistance through the Community and Social Services Income Supports program. Recall that Income Support benefits have not been included in these calculations. For information about the Income Supports program, see: https://www.alberta.ca/income-support-what-you-get.aspx.

[25] For Edmonton and Calgary CMAs (Census Metropolitan Areas), 6.5% and 12.6% of children are in low income respectively. The percentages are for children under 18 years of age in 2018, based on the Market Basket Measure (MBM) with a 2018 base year. The data are available from Statistics Canada, Table 11-10-0135-01, *Low Income Statistics by Age, Sex and Economic Family Type:* https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1110013501.

because the incomes of new mothers tend to drop in the year of childbirth and for several years after. Evidence also suggests that the likelihood that a child is living in a low-income household generally increases with the number of children in their family.[26]

SUBSIDY AMOUNTS

The increases in the maximum subsidy rates made by the Government of Alberta were long overdue, and they are surely a relief for many Alberta families. As detailed in a series of reports by both the Childcare Resource and Research Unit and the Canadian Centre for Policy Alternatives, fees for ELC in Alberta have increased considerably since 2008, and subsidy rates were simply not keeping up at all.

That said, the 18% increase in the dollar value of the maximum subsidies should be put in some context. From 2008 to 2019, the Alberta Consumer Product Index increased 17.7%.[27] Accordingly, this means that if maximum subsidies had simply been keeping up with inflation in Alberta, they should have been 17.7% higher in 2019 than they were in 2008. The Government of Alberta's increase of 18% in 2020 has essentially brought the subsidies back up to the same relative dollar value that they had in 2008.[28]

There is an additional consideration here, however. Unlike many other government benefits, ELC subsidies can only be used to purchase one thing: an ELC space. When thinking about how much subsidies that can only cover one thing should be, it may make more sense to think about how much the cost of that one thing has changed since 2008 rather than the overall inflation rate, which factors in an entire range of goods and services.

Unfortunately, there is no consistent measure of the cost of ELC in Alberta going back to 2008 that could fully guide our thinking on linking increases in subsidies to increases in fees. To try to understand ELC costs in Alberta, then, data from two sources need to be considered together. The first source is a series of reports from the Childcare Resource and Research Unit (CRRU).[29] According to reports in this series, the average fee for early learning and care in Alberta as of March 2008 was $649 for a licensed day care centre and $511 for an approved family day home. Starting from this point, if fees had increased at the same rate as inflation in Alberta (17.7%), average fees in 2019 would have been $764 for a licensed day care centre and $601 for an approved family day home. However, by March 2016 (the most recent fee information from this source) average provincial fees had already reached $848 for a licensed day care centre and $680 for an approved family day home. This is an increase of 30.7% for licensed day care centre fees and 33.1% for approved family day home fees between 2008 and 2016 alone, well outpacing inflation. Based on data in this series of CRRU reports, even though subsidies recently increased to keep pace with inflation since 2008, it appears they are still not keeping pace with overall increases in ELC fees.

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[26] Zhang, Xuelin. Statistics Canada. (2017). *Census in Brief: Children Living in Low-Income Households:* https://www12.statcan.gc.ca/census-recensement/2016/as-sa/98-200-x/2016012/98-200-x2016012-eng.cfm.

[27] The Consumer Product Index (CPI) is the basis for calculating inflation rates. In 2008, the Alberta CPI was 121.6 and in 2019 (the latest year for which annual CPI is available), it was 143.1. The data is available from Statistics Canada, Table 18-10-0005-01, *Consumer Price Index, Annual Average, Not Seasonally Adjusted*: https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000501.

[28] Recall that the extended hours subsidy, introduced in 2006 and consisting of an extra $100 per month for children needing care outside regular hours, was not increased on August 1.

[29] The Childcare Resource and Research Unit (CCRU) reports for Alberta can be found on their website: https://www.childcarecanada.org/publications.

The second source of data on ELC costs is a series of reports from the Canadian Centre for Policy Alternatives (CCPA).[30] These reports focus on ELC fees in specific large cities rather than provinces, and results from these reports indicate that fees in Edmonton and Calgary have increased at a generally higher rate than inflation. Edmonton median fees for licensed and approved ELC between 2014 and 2019 (the years these reports cover) rose by 19.4%, 8.5%, and 17.3% for infants, toddlers, and preschoolers respectively, while inflation in Edmonton was 8.6%. While inflation grew at a slower rate (7.8%) in Calgary, ELC fees increased by 23.8%, 17.5%, and 16.3% for children in those same age groups.[31] In the past few years, ELC fees appear to have come more into line with inflation. Median centre-based ELC fees in Edmonton between 2016 and 2019 (the years these data are available) increased by 11.7%, 9.8%, and 6.1% for infants, toddlers, and preschoolers, while Edmonton inflation grew by 6.2%. Calgary centre-based ELC fees increased by 7.1%, 2.2%, and 3.4%, while inflation grew by 5.5%.[32] While the details vary somewhat, the CCPA reports suggest, like the CRRU reports, that ELC fees have been outpacing inflation in Alberta.

Options to Address Subsidy Amount Issues

While the core child care subsidy amounts were recently increased, there has been no indication from the provincial government that subsidies will be indexed to inflation in the future. As a result, the issues raised in the section above will arise again next year and every year thereafter. And for every year that subsidies remain the same while fees increase, ELC will become less affordable for lower- and middle-income families. The obvious solution is for subsidy rates in Alberta to be indexed going forward to prevent the discrepancy between fees and subsidies from increasing again. There are several options for indexing subsidies that would assist in helping lower- to middle-income families in Alberta pay for ELC.

First, subsidies could be indexed to inflation on an annual basis to help account for the rising cost of living. This method would prevent the Government of Alberta from having to revisit the issue every year and would provide some amount of assurance to families that their subsidies would increase annually. However, as noted above, ELC costs have been outpacing inflation in Alberta for the most part, so yearly inflationary increases likely would not cover the rate of increase for child care.

Second, rather than simply indexing subsidies to inflation it may make more sense to index them annually to the actual fees being charged by early learning and care programs. If subsidies increase proportionally with the service they pay for, families could potentially maintain similar purchasing power with respect to ELC fees over time.

Alternatively, it may make the most sense for subsidy rates to be indexed to some combination of inflation and ELC fees as a hybrid option. One fundamental drawback to indexing subsidies to anything more than inflation, however, is that ELC programs would have an incentive to increase their fees at a greater rate than they might normally, as they know that increases in subsidies would then follow shortly after.

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[30] The latest Canadian Centre for Policy Alternatives (CCPA) report is available at: https://www.policyalternatives.ca/publications/reports/progress. The previous CCPA reports can also be found on their website.

[31] See Table A in the Appendix for more details about ELC fees in Edmonton and Calgary between 2014 and 2019.

[32] See Table B in the Appendix for more details about centre-based ELC fees in Edmonton and Calgary between 2016 and 2019.

Finally, when indexing subsidies in Alberta, there is another variable to consider. There is some variation in ELC fees across the province,[33] so accounting for geographical location in subsidy amounts could help make child care more affordable for families in areas with higher costs.

INCOME THRESHOLDS FOR SUBSIDIES

While maximum subsidy rates in Alberta were recently increased, the new subsidy system did not raise the income eligibility for maximum subsidy. The annual family gross income threshold to qualify for full subsidy in Alberta was last raised effective April 1, 2012, from $35,100 to $50,000.[34] If this threshold were indexed to 2019 Alberta inflation, it would now be $56,294.[35] Instead, the current threshold for full subsidy remains essentially the same now (at $49,999) as it has been for over eight years.

Every year, inflation moves families with an annual income of $49,999 or less closer to the poverty line—or for some, further below it.[36] In 2012, the threshold for the reference family (two adults and two children, like family #2) in current dollars was $35,870 in Edmonton and $37,874 in Calgary. By 2018 (the most recent year for which these data are available), the threshold had increased to $38,584 in Edmonton and $40,452 in Calgary.[37]

Similarly, a family with an annual income of $74,999 or less (the cutoff for partial subsidy) is gradually moving further away from middle-income status as the median income increases. The median total family income in 2012 was $96,030 in Edmonton and $98,300 in Calgary. By 2018 (the most recent year for which these data are available), median total family income had reached $103,190 in Edmonton and $104,270 in Calgary.[38] One implication of this is that families that qualify for partial subsidy today have to be poorer, compared to everyone else, than families that qualified in past years. To an increasing extent, families that qualify for partial subsidy are, in fact, lower-income families. By setting the threshold for partial subsidy below $75,000, and leaving it there, the new subsidy system leaves out many middle-income families in need of support, and will continue to do so in the future.

Options to Address Income Threshold Issues

With no indication that any income thresholds for subsidy will be shifted in the future, inflationary pressures will push Alberta families in need up and out of eligibility for subsidy over time. To prevent this from happening, the

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[33] For example, the CCPA reports from 2014 to 2019 show median ELC fees in Calgary have consistently been higher than in Edmonton. The 2019 report also included Lethbridge for the first time and fees there were lower than both Calgary and Edmonton.

[34] Government of Alberta (2013). *Human Services Annual Report (Volume 1) 2012-2013.* Available at: https://open.alberta.ca/publications/1929-5901.

[35] Between 2012 and 2019, Alberta's CPI increased by 12.6%. The data is available from Statistics Canada, Table 18-10-0005-01, *Consumer Price Index, Annual Average, Not Seasonally Adjusted*: https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000501.

[36] Canada's official poverty line is based on the Market Basket Measure (MBM), which is based on the cost of a specific basket of goods and services that represents a modest, basic standard of living.

[37] The thresholds are for Edmonton and Calgary CMAs with a 2008 base year. The data are available from Statistics Canada, Table 11-10-0066-01, *Market Basket Measure (MBM) Thresholds for the Reference Family by Market Basket Measure Region, Component and Base Year*: https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1110006601.

[38] The median total family incomes are for Edmonton and Calgary CMAs. The data is available from Statistics Canada, Table 11-10-0009-01, *Selected Income Characteristics of Census Families by Family Type*: https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1110000901.

obvious answer is again indexing, though in this case it is the income brackets themselves rather than the amount of the subsidy, and the indexing only needs to be matched to Alberta's inflation rate to reflect general income increases. This could be designed in a similar manner to how Canada's personal income tax bracket thresholds are increased.[39] It is worth noting that *both* the income brackets *and* the subsidy amounts should be indexed, as they actually serve different purposes in subsidy calculations: The first determines the income eligibility and the second determines the subsidy amount.

SHAPE OF THE SUBSIDY CURVE: FAMILIES MAKING LESS THAN $50,000 PER YEAR

In the new Alberta ELC subsidy formula, just as in the old one, any child living in a family that makes under $50,000 receives the maximum subsidy.[40] This rule has two big advantages: It is simple to understand and apply, and it allows some of the poorer families in Alberta to earn more money without seeing their subsidy reduced in any way. This can be seen in the "flat" shape of the subsidy graphs in Figure 1 and 3 above.

This "flat" shape, however, comes with drawbacks. Perhaps the most important is that the poorer families in the $0 to $49,999 income range have to make do with the same subsidy as the (relatively) richer ones. The "flat" shape also means that the second big advantage from above is actually a disadvantage as well: Just as a poor family can earn more in this range and not lose subsidy, a family that experiences a loss of income within this range does not gain any increased subsidy to help make up for that loss. What this creates is not a subsidy system that prioritizes the families most in need; rather, it results in a subsidy system that prioritizes families that can manage to earn just enough to stay below the maximum subsidy cut-off line—the "sweet spot" referred to above.

It is important to remember that Alberta families with an income of less than $50,000 are increasingly living in or near poverty. Depending on where families live in the province, the poverty line threshold for the reference family (two adults and two children, like family #2) as of 2018 was between $38,584 and $41,598.[41]

With all families earning less than $50,000 and receiving child care subsidy provided the same maximum rates, the very low-income families end up paying a greater proportion of their income on ELC compared to other low-income families (Figures 2 and 4). This reality likely affects many Alberta families receiving full subsidy. Of families with children in Alberta in 2018 (the most recent year for which data are available), 17.7% had a total family income under $50,000.[42] Of those families with incomes below $50,000, 14.5% earned under $10,000, 13.3% earned $10,000 to $19,999, 20.4% earned $20,000 to $29,999, 23.9% earned $30,000 to $39,999, and

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[39] Government of Canada (2020). *Indexation Adjustment for Personal Income Tax and Benefit Amounts.* Available at: https://www.canada.ca/en/revenue-agency/services/tax/individuals/frequently-asked-questions-individuals/adjustment-personal-income-tax-benefit-amounts.html. These adjustments are made to avoid exactly the kind of "bracket creep" described above.

[40] Most of the children receiving subsidy in Alberta (approximately 80%) are receiving the maximum subsidy; see Government of Alberta. (2020). *Children's Services 2019-2020 Annual Report.* Available at https://www.alberta.ca/government-and-ministry-annual-reports.aspx.

[41] These thresholds are with a 2008 base year. The data is available from Statistics Canada, Table 11-10-0066-01, *Market Basket Measure (MBM) Thresholds for the Reference Family by Market Basket Measure Region, Component and Base Year*: https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1110006601.

[42] The proportion of families with children earning less than $50,000 is slightly lower in the Edmonton and Calgary CMAs, at 17.2% and 16.3% respectively.

27.9% earned $40,000 to $49,999.[43] Based on these numbers, a significant portion of Alberta families with children earning below the maximum subsidy threshold (27.8%) could be very low income families (below $20,000). A comparable share of Alberta families with children (27.9%) could be lower-income families with incomes closer to the maximum subsidy threshold ($40,000 to $49,999).[44]

For example, think of a single parent with one infant (0-18 months) in centre-based care with an income of $20,000 per year who is eligible for the maximum subsidy of $741 per month. A single parent with one infant and with an income of $40,000 per year is eligible for the same $741 subsidy per month. Assuming both families are paying the median fee for an infant space in centre-based care in Edmonton ($1,100 per month), this means that the person making $20,000 spends nearly 22% of their income on child care per month and the person making $40,000 spends about 11%.[45]

Similarly, a couple with two children (one infant and one preschooler) in centre-based care with an income of $20,000 per year is eligible for the maximum subsidy of $1,385 per month. A couple with two children with an income of $40,000 per year is eligible for the same $1,385 subsidy per month. If these families are paying the median fees for an infant and preschooler in centre-based care in Edmonton ($1,975 per month), the family making $20,000 spends over 35% of their income on child care and the family making $40,000 spends about 18%.

While increasing the maximum subsidy amounts does make licensed and approved child care more affordable for the families that qualify, a fundamental problem remains unchanged between the new and old subsidy formulas: When there is a hard cap on the maximum subsidy in a large income bracket, the lowest income families end up paying the greatest share of their incomes.[46] Rather than concentrate solely on adjusting subsidy amounts and indexing brackets, when it comes to helping the families and children most in need to afford ELC, it may ultimately be more useful to change the *shape* of the subsidy curve.

[43] Of those Edmonton families with incomes below the maximum subsidy threshold, 13.2% earn under $10,000, 13.2% earn $10,000 to $19,999, 20.9% earn $20,000 to $29,999, 24.2% earn $30,000 to $39,999, and 28.5% earn $40,000 to $49,999. For Calgary families, these numbers are 15.7%, 12.4%, 18.7%, 23.9%, and 29.2% respectively.

[44] This information about total family income includes couple families and lone-parent families with children of all ages (including children aged 18 years and over), not just those families with children aged 0-12 that could be eligible for subsidy. In addition, not all families with children aged 0-12 would be attending child care and therefore not all would be receiving subsidy. The data are available from Statistics Canada, Table 11-10-0013-01, *Census Families by Total Income, Family Type and Number of Children*: https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1110001301.

[45] A key consideration here is that in lower-income families, child care costs are more likely to be competing with basic necessities, such as food and housing—and this only gets worse as family income decreases. If "family income" is thought of as "family income outside of basic necessities"—a reasonable and humane way to think of family income—then these percentages can skyrocket very quickly for poorer families. For example, if an apartment for both these families costs $1,000 per month, and "income" means "family income outside of housing,", then these percentages increase to about 15% for the family making $40,000 per year, and a disturbing *54%* for the family making $20,000 per year for a single infant in care. Of course, very low-income families may be receiving greater social assistance benefits (such as Income Support benefits for child care) and housing benefits to offset some of those costs. Incorporating those benefits is beyond the scope of this analysis, but it should be considered in the future if "affordability" in ELC is a goal for governments in Alberta.

[46] There is some evidence that lower-income families are more likely to utilize unlicensed care compared to upper-income families, in part due to the cost of licensed care. See, for example: Varmuza, P., Perlman, M. & White, L.A. (2019). Understanding early childhood education and care utilization in Canada: implications for demand and oversight. *International Journal of Child Care and Education Policy* 13, 7 https://link.springer.com/article/10.1186/s40723-019-0063-8.

Options to Address Shape of the Subsidy Curve Issues for Families Making Less than $50,000 per Year

To address the issues raised above, the subsidy formula could simultaneously decrease the income threshold for maximum subsidy while increasing the maximum subsidy amounts. Put simply, the flat part of the curve needs to turn into a "slide."

Perhaps the simplest option for creating this slide is to significantly raise the maximum subsidy rate (to something more in line with what child care programs are currently charging for child care) and apply it to much poorer families. Then, as family income increases, subsidy rates could decline in a relatively linear fashion. For example, subsidies for preschoolers in centre-based care could be set at a maximum rate based on current fees for families making up to $5,000 per year. Then, as family income increases, the monthly subsidy amount for that child would gradually phase out.[47] If the maximum rate was set high enough, this option could make ELC essentially free for the poorest families, and subsidies would go down and up as family income increases and decreases respectively. This approach would help cushion families who experience income losses while providing a consistent and predictable relationship between income and subsidies for all families, without too many sudden losses or gains at particular income thresholds.[48] One critical requirement, however, is that this system depends on regular monitoring of ELC fees in Alberta, and regular adjustment of subsidies in response to those fees.[49]

A second option is to extend the existing threshold system for partial subsidies for families who are in the $0 to $49,999 income range, again starting with a much higher subsidy rate for much poorer families. For example, subsidies for infants in centre-based care could again be set at a monthly maximum rate based on current fees for families with an income of less than $5,000. Then, for families with an income of $5,000 to $9,999, the monthly subsidy rate could be reduced by a certain amount, and at each subsequent $5,000 income threshold, the monthly subsidy amount could decrease by that amount. While the basic idea is similar to the first option, this option would create more of a staircase than a slide. It creates "steps" that families may have to more closely consider if they are weighing options for increasing their work hours or income, or that they might "fall off" if they find their income suddenly reduced.[50]

Finally, a third option is to focus primarily on affordability per family rather than specific subsidy amounts and thresholds on a per child basis. In this option, the fundamental question that would determine subsidies would be: how much does the subsidy need to be to make sure this family pays only a certain percentage of their income on ELC? For example, if a rule were adopted that "no family making less than $50,000 per year will pay more than 10% of their annual income per child in ELC," then that rule would make it relatively straightforward to

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[47] This is similar to how the Alberta Seniors Benefit amounts are calculated. The Alberta Seniors Benefit provides a maximum annual benefit for recipients with an income of $0, and uses a "phase-out rate" for incomes above $0 that causes a gradual reduction of benefit as income approaches the income threshold (in this case, there is a $0.16 reduction in benefit for every $1 increase in income). For more details about the Alberta Seniors Benefit, see: https://www.alberta.ca/alberta-seniors-benefit.aspx.

[48] Numbers are for illustration only. In addition, the phase-out rate could be changed as income increases in order to change the steepness of the slide at certain points. See Figures 5 and 6 below for a visual example of how this might work in practice.

[49] This is to a greater or less extent true of all three of these options. In addition, if subsidies were truly responsive, subsidy rates would need to vary by geography, as there is ample evidence that ELC fees in Alberta vary from place to place (Calgary, for example, appears to consistently have higher fees than Edmonton).

[50] Again, these numbers are for illustration only. This option is "simpler" in the sense that exact subsidy amounts for any child income level can be visualized in a table, rather than a line on a graph. Both of these options are in reality quite simple.

determine subsidy amounts, as long as ELC fees were known.[51] This kind of subsidy system could be quite useful to parents, as it would be responsive not only to annual changes in parents' income, but to changes in ELC fees, and would therefore reflect a greater attempt to make ELC more *affordable* for lower-income families.

SHAPE OF THE SUBSIDY CURVE: FAMILIES MAKING $50,000 PER YEAR OR MORE

Under the new subsidy formula, partial subsidies are provided only for children in families making between $50,000 and $74,999. The step model sets different subsidy rates at increments of $5,000, unlike the old subsidies that declined in a more linear fashion as families earned more income.[52] Once a family's income reaches $75,000, regardless of the number of parents or guardians and children in that family, the family no longer qualifies for any child care subsidy. This characteristic of the subsidy formula results in a potentially dramatic loss of subsidies for families just above the cut-off income threshold of $75,000—a "fall off the table" effect.

It is important to remember that Alberta families with an income of $75,000 are increasingly lower-income families rather than middle-income.[53] These families are making well below the 2018 median income for families with children in Alberta ($101,780) and Canada ($87,930).[54] The parents may work in jobs or industries where it can be difficult to secure income through consistent full-time hours and where they may have variable shifts that require them to find flexible child care arrangements outside of the regular hours for ELC programs.

The new subsidy formula creates a situation where families making around $75,000 are incentivized to earn just below the income threshold in order to avoid losing their partial child care subsidy. For example, this could be a married couple working as a grocery store clerk and a home health care aide.[55] If both are parents working 35 hours per week, their annual incomes would be about $32,000 and $40,000 respectively. With a combined income of approximately $72,000, they would qualify for a partial subsidy. However, if both parents work 37 hours per week, their incomes would be about $34,000 and $42,000. Now with a combined income of around $76,000, they would no longer be eligible to receive any subsidy.

Table 2: Sample Family Loss of Centre-Based ELC Subsidy at "Table Height"

Children in Family	Value of Subsidy Lost at $75,000 ("Table Height")
1 preschooler	$354 ($4,248 per year)

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[51] For example, under this kind of rule, an infant in centre-based care from a family making $36,000 per year ($3,000 per month) would need whatever subsidy would ensure that the cost of ELC was no more than $300 per month. If fees for infants were $1,200 per month, then the subsidy would be $900 per month.

[52] The maximum rates for full and partial subsidy under the new subsidy step model are available at: Government of Alberta. (2020). *Child Care Subsidy:* https://www.alberta.ca/child-care-subsidy.aspx.

[53] Middle-income class is defined by the Organization for Economic Cooperation and Development (OECD) as households earning between 75% and 200% of the median national income. Households earning below 75% are lower-income class and those earning above 200% are upper-income class. For further details, see: OECD. (2019). *Under Pressure: The Squeezed Middle Class*: https://www.oecd.org/social/under-pressure-the-squeezed-middle-class-689afed1-en.htm.

[54] The data are available from Statistics Canada, Table 11-10-0009-01, *Selected Income Characteristics of Census Families by Family Type*: https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1110000901.

[55] The average wage for grocery store clerks (NOC 6622) in Alberta is $17.77 and the average wage for health care aides (NOC 3413) in Alberta is $21.98, according to the *Alberta Wage and Salary Survey 2019*, available at: https://alis.alberta.ca/occinfo/.

1 infant, 1 preschooler	$762 ($9,144)
2 preschoolers, 1 school-aged child	$909 ($10,908)
2 preschoolers, 2 school-aged children	$1,110 ($13,320)

If this example couple in Table 2 has a family income of $72,000 per year and one preschooler in centre-based ELC, they qualify to receive a monthly subsidy of $354 ($4,248 per year). But if this couple increases their income to $76,000 per year, the subsidy for their child disappears entirely. For this family, increasing income by $4,000 results in a *loss* of $4,248 in annual subsidy, or an overall loss of $248. Under the new formula, this family in this (admittedly quite narrow and specific) situation may actually have an incentive to refuse additional income or work hours.

However, as illustrated in Table 2, this "fall off the table" effect becomes more concerning, and more potentially behaviour altering, for larger families with a greater number of children in ELC. Using the same example couple in Table 2 with a family income of $72,000, but now with two preschoolers and two school-aged children, their monthly centre-based ELC subsidy is $1,110 ($13,320 per year). If their income is $76,000, earning $4,000 more results in a *loss* of $13,320, or an overall loss of $9,320. This couple needs to earn an income of over $85,000 to break even as a result of losing partial subsidy.

The table becomes even higher for those families who require child care during non-standard hours. If a family receiving the core child care subsidy also qualifies for the extended hours subsidy, they are eligible to receive an additional $100 per month ($1,200 per year) for each child in ELC. This means that the example couple with a family income of $72,000 and one preschooler now receives monthly subsidies of $454 ($5,448 per year). If their income increases to $76,000 per year, the $4,000 increase in income results in a *loss* of $5,448 in annual subsidies, or an overall loss of $1,448. If this example couple has a family income of $72,000 with two preschoolers and two school-aged children, then the monthly subsidies they receive are $1,510 ($18,120 per year). If their income increases to $76,000 per year, now increasing their income by $4,000 results in a *loss* of $18,120, or an overall loss of $14,120. This couple now has to make over $90,000 to make up for the loss of subsidies.

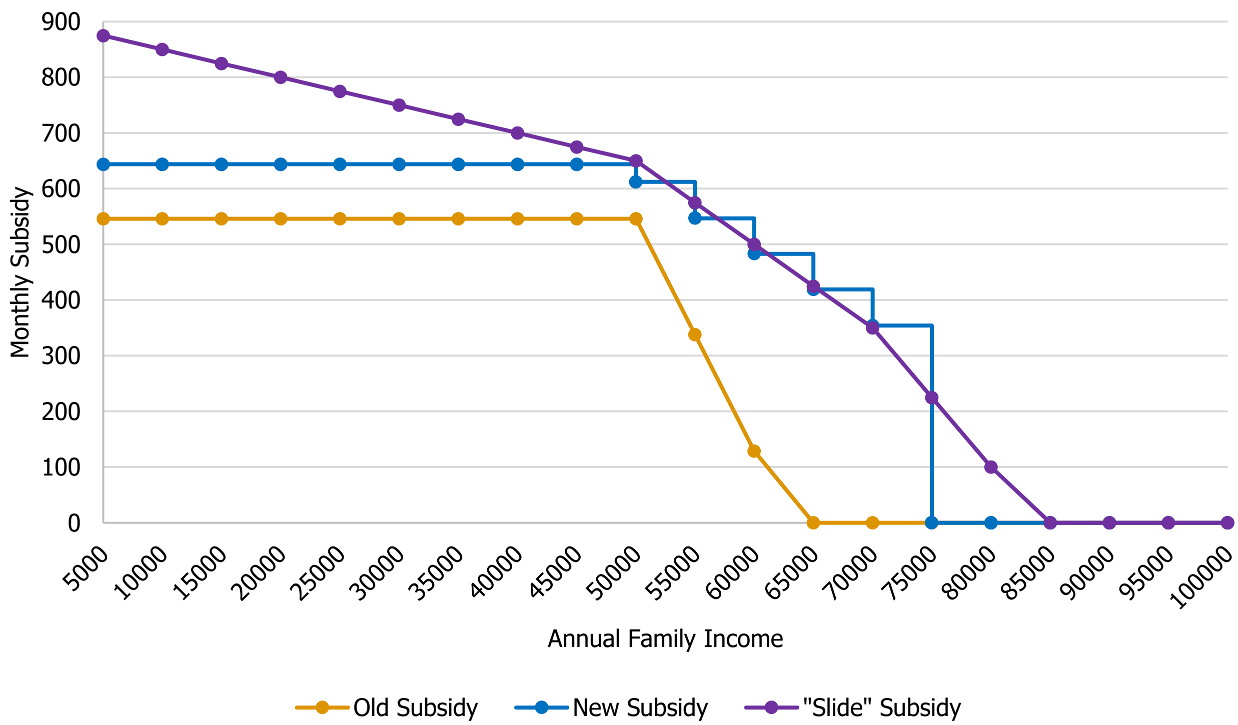
As this example demonstrates, there is a "higher table, longer fall" effect that results from setting one income threshold at which a significant amount of partial subsidy completely disappears. The more children that a family has in care, the higher the partial subsidy they receive at $74,999, and the greater the loss they experience with a family income of $75,000 or above.

Options to Address Shape of the Subsidy Curve Issues: Families Making $50,000 per Year or More

The choice to have the partial subsidy disappear entirely at $75,000 for all families—which is part of the new formula, but was not part of the old formula — encourages families, especially larger ones with more children in care, to refrain from earning more for fear of losing government benefits. This is easily avoided by replacing the "table" at $75,000 per year with a "slide." By creating a slide, partial subsidies would go down in linear fashion as family income increases (and go up as family income decreases), eliminating dramatic loss or gain of benefits at specific income thresholds. Having a sloped and consistent reduction in subsidy amounts, rather than thresholds, removes the strange incentives that happen at the threshold points.

Figure 5, below, presents a graphic illustration of a "slide"-style subsidy formula compared to both the old subsidy formula and the new one.[56] In this formula, the monthly subsidy cap is set much higher for much poorer families—in this case, $875 for families making $5,000 or less per year. Then, for every $200 a family makes above $5,000, the monthly subsidy is reduced by $1 (equating to a monthly reduction of $25 for every additional $5,000 in annual income). After $50,000, the slide gets steeper, with a monthly reduction of $3 for every $200 in additional yearly income, and after $70,000, it gets steeper still, with a $5 reduction for every $200 in additional income. Under the "slide" formula, the subsidy phases out near a family income of $85,000, which is still well below the median family income in Alberta from 2018 ($101,780).

Figure 5: Monthly Subsidy Amount for Single Parent Family with One Preschooler in Centre-Based ELC

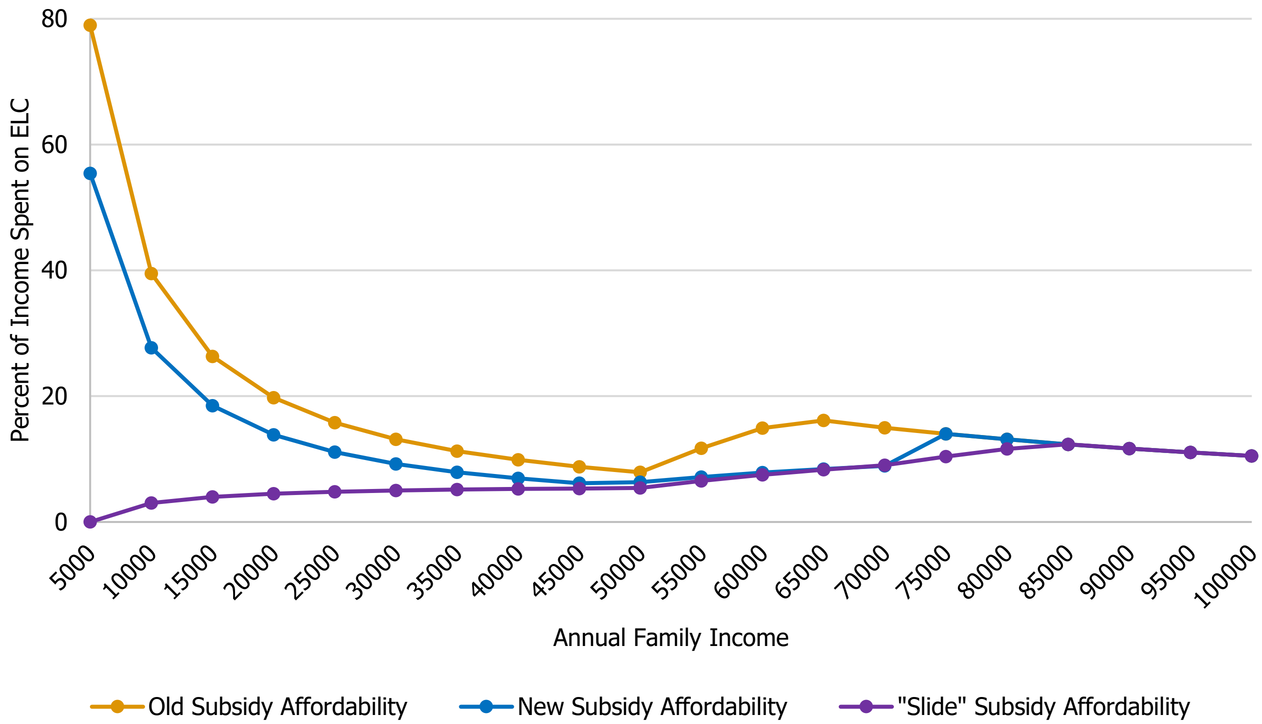


It is in Figure 6, however, that the positive effects on affordability of the "slide" formula can really be seen, particularly for families with lower incomes. By moving and raising the maximum subsidy cap, and having the subsidy phase out at a very gradual rate for lower-income families, ELC has become much more affordable, especially for families making $25,000 or less per year. The "slide" formula has also essentially eliminated the jumps up in percent of income spent on ELC that happened in the old formula, and still does to some extent in the new formula, at higher income levels, instead replacing it with a more predictable and gentler increase that

[56] Figure 5 is a reproduction of Figure 1, with an illustration of a "slide"-style subsidy formula added using the same assumptions as in Figure 1. Figure 6 is likewise a reproduction of Figure 2 with the slide formula added.

peaks when the subsidy phases out.[57] In other words, this type of slide formula mitigates problems created by the current formula for both very poor families and middle-income families.

Figure 6: Percent of Income Spent on ELC for Single Parent Family with One Preschooler in Centre-Based ELC



Another slide-style option (not pictured) is to provide partial subsidies at additional "step" increments above $75,000. This option would extend the staircase created in the new subsidy formula by providing progressively smaller partial subsidies at some income levels higher than $75,000, rather than having the one high table that all families "fall off" of abruptly at $75,000. Similar to the slide, this approach also has the added benefit of providing subsidies to more families in need of support to afford ELC.

Alternatively, subsidies could be calculated based on affordability on a per family basis, instead of the current system of per child rates for full and partial subsidy. In this type of formula, an affordability goal would be specified (for example, "no family will pay more than 10% of annual income on ELC") and subsidy rates would be set accordingly. This would ensure the affordability of ELC for all Alberta families, including those larger families above the $75,000 income threshold that need support. This option, though potentially very helpful in particular to lower-income families and to larger families, brings up a tough, and possibly unavoidable, dilemma in setting ELC subsidy rules.

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57 Under the formula illustrated here, these benefits to families would come at a higher cost to the Government of Alberta, as subsidy amounts are higher at every income level.

AFFORDABILITY: THE PER CHILD VS. PER FAMILY DILEMMA

If subsidies entirely "follow the child," as they do now in Alberta after the recent changes, then families with more children will always pay more for child care in proportion to the number and ages of children they have. A family with two preschoolers in ELC will pay twice the amount of the same family with only one preschooler in care. On the surface, this makes sense, as it is the same as what happens with non-subsidy families.

However, many discussions of affordability are focused on the impact of ELC costs *on the income of the family as a whole* rather than on a per-child basis. These discussions address how much a family could reasonably be expected to pay for all of their child care together, with target figures generally coming in around 10% of annual income. For example, an Ontario study considers child care affordable if the family can access it for less than 10% of after-tax, after-benefit family income.[58] Scotland's Commission on Child Care Reform asserts that no family should spend more than 10% of net household income on child care, and that some families may need support to reduce costs below 10%.[59] The U.S. Department of Health and Human Services has established a federal benchmark for affordable child care at 7% of family gross income.[60] It is worth noting that the two studies using a 10% benchmark are for *net* family income, while the lower 7% figure from the U.S. is for *gross* family income.

This type of discussion is familiar from other areas with respect to affordability such as housing, where often a figure of 30% of income is used as a benchmark for how much families should be spending on rent or mortgage payments.[61] However, to keep all families (which, of course, can have any number of children) under a given affordability threshold, subsidies would need to shift from the current Alberta system of "following the child" to one where subsidies "follow the family." Consider two families making the exact same income, but one family has one preschooler and the other family has two preschoolers. To ensure that *both* families spend only 10% of their annual income on ELC, the value of the subsidies for the family with two children would have to be twice that of the family with one child.

This comparison shows the dilemma: To make ELC affordable at a family level—to be able to say that "no family will spend more than 10% of its income on ELC"—then the value of each child's subsidy has to increase as family size increases. This could reasonably be seen as unfair to families with fewer children. On the other hand, to make ELC affordable at a per-child level—saying that "no family will spend more than 10% of its income on ELC *per child in ELC"*—results in subsidy values that are always the same, regardless of family size. This choice, however, results in larger families paying a potentially much larger percentage of their income for ELC, and as

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[58] Cleveland, G. (2018). *Affordable For All: Making Licensed Child Care Affordable in Ontario, Final Report.* http://www.childcarepolicy.net/wp-content/uploads/2018/03/AFFORDABLE-FOR-ALL_Full-Report_Final.pdf

[59] The Commission for Childcare Reform. (2015). *Meeting Scotland's Childcare Challenge: The Report of the Commission for Child Care Reform.* https://hub.careinspectorate.com/media/1267/meeting-scotlands-childcare-challenge-the-report-of-the-commission.pdf.

[60] U.S. Department of Health and Human Services, Administration for Children and Families (2016). *Child Care and Development Fund (CCDF) Program.* https://www.federalregister.gov/documents/2016/09/30/2016-22986/child-care-and-development-fund-ccdf-program

[61] For example, with respect to housing affordability, the Community Housing Program provides subsidies for rental housing for eligible low-income families based on 30% of the household's total annual income. Further details of the program are available at: https://www.alberta.ca/affordable-housing-programs.aspx. However, there is a key difference here, of course: most families have only one rent or mortgage payment, whereas the majority of families with children in Canada have more than one child.

has been noted elsewhere in this paper, has some disturbing implications for low-income families in particular, as the money that they would have to spend on ELC would almost certainly compete with necessities like food and shelter.

Options to Address the Per-Child vs. Per-Family Dilemma

To some extent, this dilemma is unavoidable in any subsidy system that attempts to assist families with the purchase of more than one of any given thing. This makes ELC subsidy discussions diverge in an important way from discussions of housing subsidies. The general assumption in housing is that subsidies will only go toward the purchase of only one place to live per family, and that subsidies will not provide families assistance with rent or the purchase of a second (or third) apartment or home.[62] This assumption of "one per family" eliminates any kind of "per-house versus per-family" dilemma in housing subsidies, so discussing the percentage of family income that should be spent on housing becomes easier. With children, of course, this is not the case; there is no rule in Alberta that each family only gets an ELC subsidy for a maximum of one child, and one child only.

The old subsidy formula attempted to solve this dilemma by splitting the difference and incorporating family size into subsidy calculations for families receiving partial subsidy.[63] For some families, this made subsidy calculations more complex, and could be seen as "unfair" to smaller families on partial subsidy, but had the advantage of attempting to mitigate any potential negative effects of a strictly per-child system. However, for families making $50,000 per year or less under the old subsidy, the difference was *not* split; they received the maximum subsidy per child with no allowance for family size—which is exactly the same as the current subsidy system. One option to try to address this dilemma would be to re-introduce into the subsidy formula a factor for overall family size, possibly extending to all families, including those on maximum subsidy.

There are several ways to key subsidies off of affordability for the family directly. This could look like providing subsidies to eligible families so that no family is spending more than what is affordable, for example 10% of the family's income. A related subsidy calculation could be to configure a graded affordability goal based on the number of children in care, with a "discount" for every additional child. For example, subsidies could be calculated so that no family with one child spends more than 10% of annual income, with two children not above 18%, with three children not above 25%, and so on. The province would have to start including the total number of dependents in the household in the calculation again.

It should be said, however, that there may be no way to adequately "solve" this dilemma in the existing subsidy system. But there is a highly relevant example in Alberta of how to solve—or simply avoid—this dilemma entirely: the publicly funded K-12 school system. All children have a space in this system, regardless of the size of their family, and parents do not have to directly pay for spaces on a per-child basis, rendering subsidies unnecessary and therefore this entire dilemma moot. In other words, having a publicly funded system with a space for all children makes maintaining a system of subsidies, with all the administrative complexities that come with

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[62] While it could be argued that larger families will require larger homes (and therefore larger subsidies), the degree to which an additional child raises child care costs is almost certainly much greater than the degree to which an additional child tends to raise housing costs.

[63] For example, under the old system, a single parent making $55,000 per year with one preschooler in centre-based ELC received $338 per month; that same parent with two preschoolers in centre-based ELC received $959 per month (which comes to $379.50 per child).

managing that system, balancing its tricky dilemmas, and serving families with unique or complicated child care situations, unnecessary.

Conclusion

The recent increases to the subsidy amounts for early learning and care are undoubtedly welcome news for many families and are long overdue. And the new subsidy formula is certainly easier to understand than the old one. Many lower-income families with young children in ELC in Alberta are, no doubt, better off today than they were before August 1, 2020.[64]

Higher subsidy amounts and easier formula calculations, however, should not be equated with a better or fairer subsidy *system*, especially for lower-income Alberta families. Indeed, there are several built-in issues with the existing subsidy system that the recent changes did not address, or even made somewhat worse:

- The lack of indexing for both subsidy amounts and income thresholds virtually ensures that with each passing year, fewer families will qualify for subsidies and subsidies will be effectively worth less than the previous year.[65]
- The existence of a maximum subsidy cap for families making $0 to $49,999 creates a situation where the lowest-income families in that range are likely to be disadvantaged compared to families in the top of that range.
- Income thresholds as currently constructed may encourage some middle- or lower-income families to refuse work or income increases so they do not lose subsidy.

The options presented above are meant to address or mitigate those specific issues. But any subsidy system for early learning and care will face the "per-child versus per-family dilemma" described above—which does not appear to have a particularly good solution as long as subsidies are the primary tool used to deal with affordability. There are other issues that arise with subsidy systems that have not been explicitly raised here.[66]

In closing, it is worth putting this entire discussion in the context of two important larger ideas. First, the main purpose of child care subsidies in Alberta is to make ELC affordable for lower-income families while ensuring that families still have choices. Subsidies can accomplish this task, if they are designed well, but they are not the only way to do so, and they are not clearly the *best* way to do so. Other jurisdictions use caps on fees to keep ELC affordable, for example, or caps on fees in combination with subsidies, or other policy tools to accomplish the goal of affordability while maintaining parent choice.[67] As noted above, a universal public system, similar to the K-

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[64] The exceptions to this statement are low-income families with children on subsidy who were attending ELCC Centres ($25/day programs). With the ending of those programs, these families—some of which were paying nothing or nearly nothing for high-quality licensed ELC—will almost surely see their fees increase, despite the increase in subsidy amounts.

[65] Additionally, some methods of indexing subsidies could produce perverse incentives that result in child care programs raising rates to match subsidy increases, thereby leaving the parent portion of the monthly payment the same.

[66] These include ensuring that all eligible families are able to enroll in the program, ongoing administrative burdens on families and programs, whether to include or exclude certain populations (such as foreign workers on work permits), and how to react to temporary program closures due to COVID-19 or other diseases.

[67] For example, Manitoba's funded child care programs must not set fees above the provincial daily maximum fee, can enroll subsidized children, and may receive other provincial operating grants and smaller funds. See Prentice, S. (2020). *Progressive Pricing: Making Child Care More Affordable in Manitoba.* Available at https://www.policyalternatives.ca/publications/reports/progressive-pricing.

12 system, would also make ELC very affordable (mostly or entirely free) while avoiding some of the complications associated with a subsidy system.[68] Second, "affordability" is important, but it is not the only thing that matters in early learning and care. There are other key elements, such as availability, quality, flexibility, and inclusiveness, which must exist in a high-quality ELC system. Concentrating entirely on affordability while neglecting those other elements may well result in a low-cost system that serves parents and children poorly.

> This paper is part of a series of documents created by the Edmonton Council for Early Learning and Care to address current topics in early learning and care that impact Edmonton. Rob Buschmann is a Research Associate at the Community-University Partnership for the Study of Children, Youth, and Families (CUP) at the University of Alberta. Jennifer Fischer-Summers is a Research Assistant at CUP. Correspondence can be sent to info@ecelc.ca.

[68] Creating such a universal system would, of course, bring with it an entirely different set of issues and problems to be solved. It would, however, largely solve affordability issues, and in particular affordability issues among lower-income families. It should also be noted that Edmonton's K-12 school system is both affordable *and* provides parents with choice; universal systems do not automatically lead to a lack of choice.

Appendix

Table A: Edmonton and Calgary Inflation and ELC Fees, 2014-2019[69]

City	CPI Increase (%)	Infant (Under 2)			Toddler (Age 2-3)			Preschooler (Age 4-5)		
		2014 Fee	2019 Fee	Fee Increase (%)	2014 Fee	2019 Fee	Fee Increase (%)	2014 Fee	2019 Fee	Fee Increase (%)
Edmonton, ELC Fees	8.6%	$900	$1,075	19.4%	$845	$917	8.5%	$746	$875	17.3%
Calgary, ELC Fees	7.8%	$1,050	$1,300	23.8%	$936	$1,100	17.5%	$924	$1,075	16.3%

Source: For CPI increases, Table 18-10-0005-01; For fees, CCPA report; and author's calculations.

Table B: Edmonton and Calgary Inflation and Centre-Based ELC Fees, 2016-2019

City	CPI Increase	Fee Increase, Infant (Under 2)	Fee Increase, Toddler (Age 2-3)	Fee Increase, Preschooler (Age 4-5)
Edmonton	6.2%	11.7%	9.8%	6.1%
Calgary	5.5%	7.1%	2.2%	3.4%

Source: For CPI increases, Table 18-10-0005-01; For fees, CCPA report; and author's calculations.

[69] The CPI in Table A and B is for Edmonton and Calgary CMAs (the finest geography for which annual CPI is available). The fees are for the cities of Edmonton and Calgary.