



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



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This is a summary paper of “More Work to Be Done: An Analysis of Child Care Subsidies in Alberta”, which provides an introduction to child care subsidies in Alberta, outlines and analyzes some recent changes to subsidies, identifies several key issues with subsidies, provides multiple options for improving the subsidy system and the general affordability of early learning and care in Alberta, and concludes by providing some perspective on the role of affordability within a high-quality early learning and care system.

## Issues with Alberta’s Current Child Care Subsidy System

### SUBSIDY AMOUNTS ARE NOT INDEXED, SO THEY LOSE REAL VALUE

The core child care subsidy amounts were increased on August 1, 2020 for virtually every family making under \$75,000 per year in Alberta. This was a welcome relief for many families, as subsidy amounts had not been increased since 2008. However, there has been no indication that subsidies will be indexed in any way in the future. For every year that subsidies remain the same while inflation and child care fees increase, early learning and care (ELC) will become less affordable for lower- and middle-income families.

### INCOME THRESHOLDS ARE NOT INDEXED, LEAVING FAMILIES IN NEED OUT

While subsidy amounts recently increased, the new subsidy system did not raise the income eligibility threshold for maximum subsidy (having an annual family income of \$49,999 or less), which has been essentially the same since 2012. This means that, because of normal yearly inflation, families that qualify for subsidy today are poorer in real terms than families that qualified in past years. 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, for similar reasons. By leaving the threshold for maximum subsidy untouched—and not indexing thresholds in any way—the new subsidy system leaves out many families in need of support and will continue to do so in the future.

### MAXIMUM SUBSIDY CAP DISADVANTAGES THE LOWEST-INCOME FAMILIES

A fundamental problem remains unchanged between the new and old subsidy systems: The hard cap on the maximum subsidy a family can receive means that the lowest income families end up paying the greatest share of their incomes on ELC. With all families in the \$0 to \$49,999 income range provided with the same subsidy amounts, very low-income families end up paying a greater proportion of their income on ELC compared to other low-income families. What this creates is not a subsidy system that provides the greatest benefit for the families most in need; rather, it results in a subsidy system that prioritizes the families that can manage to earn just enough to stay below the maximum subsidy cutoff.

## SUBSIDY CAPS MAY ENCOURAGE SOME FAMILIES TO REFUSE WORK

In the new subsidy formula, once a family's income reaches \$75,000, the children in that family no longer qualify for any child care subsidy. The decision to have the partial subsidy disappear entirely at this subsidy cap for all families—which is part of the new subsidy system, but was not part of the old subsidy system—results in a potentially dramatic loss of subsidies for families just above the cutoff income threshold. Families, especially larger ones with more children in ELC, may refrain from earning more for fear of losing government benefits. This creates a subsidy system where families with incomes just below the partial subsidy cutoff are incentivized to work just enough to remain there in order to avoid losing their child care subsidy.

## Options for Improving Child Care Subsidies and Affordability

### ADDRESS SUBSIDY AMOUNTS

**The Government of Alberta should index subsidy rates to inflation, fee increases, or perhaps some combination of the two, to prevent the discrepancy between fees and subsidies from increasing.**

Subsidies could be indexed to inflation on an annual basis to help account for the rising cost of living. However, 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. Rather than simply indexing subsidies to inflation, it may make more sense to index them annually to the actual fees being charged by ELC 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.

### ADDRESS INCOME THRESHOLDS

**The Government of Alberta should index income thresholds to qualify for subsidies to inflation.**

With no indication that income thresholds will be shifted in the future, inflationary pressures will slowly push Alberta families in and out of eligibility over time. In this case, the income brackets could be indexed to be matched to Alberta's inflation rate to reflect general income increases. 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.

### ADDRESS SUBSIDY CAPS

**The Government of Alberta should consider raising the maximum subsidy cap, especially for very low-income families, and implementing a more predictable phase-out of benefits.**

For subsidies to help make ELC more affordable, Alberta's subsidy formula could simultaneously decrease the income threshold for maximum subsidy while increasing the maximum subsidy amounts. Rather than having the current maximum subsidy cap, the subsidy system could significantly raise the maximum subsidy rate (to something more in line with actual ELC fees) and apply it to much poorer families. Then, as family income increases, subsidy rates could decline in a relatively linear fashion. 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. Correspondingly, partial subsidies could go down and up in a similar fashion with family income, eliminating dramatic loss or gain of benefits at specific income thresholds. This approach would provide a consistent and predictable relationship between income and subsidies for all families,

helping to cushion families who experience income losses and helping to prevent families from refusing work to avoid sudden losses in benefits at particular income thresholds.

## CALCULATE SUBSIDIES BASED ON AFFORDABILITY FOR THE FAMILY

**The Government of Alberta should consider basing its subsidy system on specific affordability goals for families.** Instead of the current subsidy system where subsidy amounts and thresholds are calculated on a per-child basis, subsidies could be calculated based on affordability on a per-family basis. In this kind of subsidy system, 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 so that no family is spending more than what is affordable, regardless of the number of children in ELC in the family. This would be responsive to both annual changes in family income and the changes in ELC fees. A subsidy system like this would therefore make ELC more affordable for all Alberta families, including larger families and the lowest-income families.

## CONSIDER A UNIVERSAL PUBLIC SYSTEM

**A universal public system of early learning and care could quickly solve affordability problems for families with younger children in Alberta.** As an entirely separate option, a publicly funded ELC system with a space for all children (similar to Alberta’s K-12 school system) would make maintaining a system of subsidies—with all the administrative complexities and tricky dilemmas that come with it—unnecessary. All children would have a space in this system, regardless of the size of their family, and parents would not have to directly pay for spaces on a per-child basis, rendering subsidies unnecessary.

## Looking Ahead

The main purpose of child care subsidies in Alberta is to make ELC affordable for lower-income families while ensuring that families 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, or caps on fees in combination with subsidies, or other policy tools to accomplish the goal of affordability while maintaining choice. A universal public system could also make ELC very affordable (mostly or entirely free) while avoiding some of the complications associated with a subsidy system. In short, affordability can be achieved through means other than relying purely on subsidies.

The Edmonton Council for Early Learning and Care believes that increasing the availability, affordability, and quality of early learning and care is a key element in our community’s effort to reduce and eliminate poverty. The affordability of ELC in Edmonton and Alberta is a high priority, especially for our lowest-income families. However, concentrating entirely on affordability while neglecting those other elements of a high-quality ELC system may well result in a low-cost system that serves parents and children poorly.

This summary 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@ecelca.ca](mailto:info@ecelca.ca).