

# CD15.2 Attachment

## City of Toronto Licensed Child Care Demand and Affordability Study

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## Executive Summary

This report presents the methods and findings of the Licensed Child Care Demand and Affordability Study commissioned by the City of Toronto. The challenges of how to set appropriate targets for growing Toronto's licensed child care system, and what policies will best support that growth are not easy to solve. The Licensed Child Care Demand and Affordability Study provides information that can help the City of Toronto begin to navigate these planning challenges.

The study uses data from Statistics Canada and the City of Toronto to build an economic model of demand for licensed child care in 2015. Models were built for two separate age groups: ages 0 to 5 and ages 6 to 9. These models were used to better understand parental decisions for using licensed child care compared to other arrangements. The study also created two measures of affordability for licensed child care. More information about the methods and data sets used to build these models can be found in the Technical Report.

These models can be updated by the City of Toronto on an ongoing basis to predict demand for licensed child care based on changing conditions, such as new federal and provincial funding, changing demographics, or as new data becomes available (such as the 2016 Census data).

### CURRENT (CONSTRAINED) DEMAND

Parental decisions about whether to enter the workforce and what child care arrangements to use are closely linked, and depend on a number of different factors. This study found that some of the most important factors impacting a family's demand for licensed child care are:

- Affordability (i.e., child care fees and parents' incomes)
- Number of children
- Age of youngest child
- Sole parent vs. two parent family
- Immigration (Number of years in Canada)
- Family's ethno-cultural background

## AFFORDABILITY

Because child care costs in Toronto are very high, affordability is the most significant factor that impacts demand for licensed child care. According to this study, licensed child care is considered either unaffordable or completely unaffordable for 75% of families in Toronto. The Family Income Affordability Measure calculates the ratio of the net price of licensed child care to the net income of the family, for each family in a data set that is representative of the City of Toronto. The average value of the Family Income Affordability Measure (FIAM) is almost exactly 25%. In other words, the average Toronto family with children 0-5 would have to spend 25% of their total net income in order to purchase licensed child care services for their young children.

An alternative measure (the Caregiving Parent Affordability Measure or CPAM) compares licensed child care fees to the expected income of the main caregiving parent in the family. A typical Toronto family would need to spend more than half of the after-tax after-benefit income contribution earned by the main caregiving parent if they wanted to purchase licensed child care for their young children.

Affordability affects what families do. Currently, 63% of families are likely to use licensed child care if its total cost is less than 10% of net family income. However, only 15% of families will use licensed child care if child care costs more than 20% of net family income. Affordability is truly a barrier to the use of licensed care for many families.

**Table A**

**Affordability Measured by Family Income Affordability Measure – Percent of Toronto Families and Probability of Using Licensed Child Care**

	<b>Percent of families</b>		<b>Probability of using licensed child care (%)</b>
<b>Affordable (Less than 10% of net family income)</b>	25		63
<b>Unaffordable (Between 10% and 20% of net family income)</b>	25		38
<b>Completely Unaffordable (More than 20% of net family income).</b>	50		15

Because affordability is such an important driver of demand, fee subsidies can significantly improve access to child care for many families. For families who do not receive fee subsidy (full-fee families), the high costs of licensed child care are often a considerable financial burden. This is especially true for middle-income families but can also be true for higher-income families as well, depending on their child care costs and number of children.

## **GROWTH**

If conditions of affordability do not change, this study finds that there is limited room for growth in the licensed child care system across all age groups – approximately 4,000 spaces for 0-5 year olds, and 3,250 spaces for 6-9 year olds.

**Table B**

**Current Supply and Estimated Demand for Licensed Child Care Spaces, by Age Category and Total**

<b>2015</b>	<b>Current Supply</b>	<b>Demand</b>	<b>Difference</b>
<b>Licensed spaces (0-5)</b>	47,136	51,205	4,069
<b>(Percent of population)*</b>	(28)	(31)	(3)
<b>Infant</b>	3,311	3,710	399
<b>Toddler</b>	9,087	10,510	1,423
<b>Preschool</b>	22,769	23,415	646
<b>Kindergarten</b>	11,969	13,570	1,601
<b>Licensed spaces (6-9)</b>	18,728	21,975	3,247
<b>(Percent of population)*</b>	(17)	(20)	(3)
<b>Total licensed spaces</b>	65,864	73,180	7,316
<b>(Percent of population)*</b>	(24)	(27)	(3)

\* Based on the following child populations in 2015: 167,545 children aged 0-5, 107,355 children aged 6-9, for a total population of 274,900 children aged 0-9.

**POTENTIAL DEMAND**

There is high potential demand for licensed child care in Toronto if affordability were improved. The Age 0-5 demand model was used to simulate how the following three policy changes would impact demand for and affordability of licensed child care in Toronto:

- Providing fee subsidies for all eligible families
- Capping costs at 10% of family income
- Capping fees at \$20 per day per child

## IMPACT ON DEMAND

In all three policy simulations, demand for licensed child care would increase significantly across all age groups. Providing subsidies for all eligible families would increase demand from 28% of the child population to 45%. Alternatively, capping fees at 10% of net family income would increase demand to 48%, and the \$20/day per child simulation would increase demand to 52%.

**Table C**

### Current Supply and Potential Demand for Licensed Child Under Three Alternative Policy Simulations

	Supply	Simulation 1: Subsidies for all eligible families	Simulation 2: Cap of 10% of family income	Simulation 3: Cap of \$20/day per child
<b>Children 0-5 years</b>	47,136	76,135	79,775	86,625
<b>Increased demand</b>	--	+ 28,999	+ 32,639	+ 39,489
<b>(Percent of population)</b>	(28)	(45)	(48)	(52)

Each of these simulations has a substantial effect increasing the demand for licensed child care and increasing the amount of parental employment. The distribution of the effects on demand and affordability is different across these three simulations.

However, each of the policies simulated would substantially improve the affordability of licensed child care services.

## IMPACT ON AFFORDABILITY

Capping fees at 10% of after-tax family income would clearly have the most significant impact on affordability because it uses the affordability benchmark to set the maximum fee payable. The maximum fee of \$20/day per child has the next largest impact on affordability by bringing 76% of families into the affordable range (see Table D). Providing fee subsidies for everyone eligible would also improve affordability considerably; it brings over 60% of families into the affordable range.

However, there are tradeoffs. Providing subsidies for all eligible families does the most to improve licensed child care use and employment for lower-income families. Lowering licensed child care fees to \$20 per day has the biggest overall impact on parental employment, particularly full-time employment.

**Table D**

### Effects on Affordability: Three Alternative Policy Simulations

Degree of Affordability	Actual %	Simulation 1: Subsidies for all eligible families %	Simulation 2: Cap of 10% of family income %	Simulation 3: Cap of \$20/day per child %
Affordable (<10% of net family income)	25	60.5	100	76
Unaffordable (10%-20% of net family income)	25	27	0	20
Completely Unaffordable (>20% of net family income)	50	12.5	0	4

## IMPACT ON ACCESS

When we compare the probability of using licensed child care by expected household income, we can see variation in the impacts of each policy simulation. Providing fee subsidies for all eligible families will have the greatest impact on helping households that make less than \$50,000 to access licensed care. On the other hand, the \$20/day simulation will create a more even playing field across income levels, it is the households that make over \$100,000 that will see the biggest improvement in access.

Table E

### Projected Use of Licensed Child Care by Household Income Under Three Alternative Policy Simulations

Expected Household Annual Income (Before Tax)	Probability of using licensed child care			
	Base Case %	Simulation 1: Subsidies for all eligible families %	Simulation 2: Cap of 10 of family income %	Simulation 3: Cap of \$20/day per child %
Less than \$50,000	38	62	56	54
\$50,000 - \$99,999	29	41	45	50
\$100,000 or more	33	34	44	59

## CONCLUSION

Growth in Toronto's licensed child care system requires addressing affordability. Results from the Licensed Child Care Demand and Affordability Study show that many families struggle to afford the costs of licensed child care. If policies that significantly reduce those costs were implemented, Toronto would see dramatic increases in the demand for licensed child care and dramatic increases in parental employment. While there is still room for growth in Toronto's child care system, under current conditions there are limits to the access to licensed child care. This is true both for families who are eligible for child care subsidies but still on the waiting list, and for full-fee families who are not eligible for child care subsidies.