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## Transforming the Financing of Early Care and Education

High-quality early care and education (ECE) for children from birth to kindergarten entry is critical to children's positive development, but it has been financed in such a way that it is only available to a fraction of the families who need and want it. The National Academies of Sciences, Engineering, and Medicine convened a committee of experts to study how to fund ECE that is accessible, affordable for families, and of high quality.

In its report, *Transforming the Financing of Early Care and Education* (2018), the committee concludes that transforming the financing structure for ECE to meet the needs of all children and families will require greater coordination among financing mechanisms, as well as significant mobilization of financing and other resources across the public and private sectors. The report offers specific recommendations for making ECE provided outside the home more affordable for families, linking funding to high-quality standards, and financing the transformation of the ECE workforce.



### THE EXISTING FINANCING LANDSCAPE

Currently in the United States, financing for ECE is a layering of separate programs with different funding streams, eligibility requirements, and quality standards. The financing structure places a large burden to pay for early care and education directly on families in the form of fees and tuition, making high-quality ECE prohibitively expensive for many families. Even for those families that qualify for subsidized programs, many are not receiving assistance due to inadequate funding. Moreover, the rates at which ECE programs are being used suggest that families with moderate incomes are unable to afford center-based services.

In addition, quality standards for ECE vary across programs and financing mechanisms (defined as the mechanisms by which funds are distributed to providers, families, or the ECE workforce). Typically, mechanisms do not offer incentives for attaining or maintaining high-quality care and education; whether a center or program receives funding is usually not linked to meeting high quality standards.

Nor are current financing mechanisms designed to ensure a highly qualified ECE workforce. Overall, compensation levels for ECE professionals are very low; although various programs and financing mechanisms have been used to supplement their wages, the temporary nature of these supplements does not create the steady salaries needed to recruit and retain a highly qualified workforce. In addition, financial supports for ongoing professional learning and higher education are generally limited and are not integrated with financing for delivery of services.

### ESTIMATING THE COST OF HIGH-QUALITY EARLY CARE AND EDUCATION

The flaws in the current financing structure are exacerbated by overall low levels of funding that are not sufficient to enable families at all income levels to access high-quality services. Drawing from existing literature on the costs of various elements of a high-quality ECE system, the committee produced a national, aggregate estimate of the total cost of providing high-quality ECE for all children, as well as an estimate of the costs of transitioning to this high-quality system over four phases of implementation.

Once fully implemented, the committee's illustrative estimate is that the total cost of providing high-quality ECE for all children is at least \$140 billion per year (from all sources public and private), equivalent to about three-quarters of 1 percent (0.75 %) of U.S. gross domestic product, or slightly less than the current average of 0.8 percent of GDP allocated to ECE for the nations in the OECD. Given the increased costs of a high-quality system, more families will need assistance in order to access and afford high-quality care, and public investments will need to grow over the four phases by at least \$5 billion (in phase 1) to \$53 billion (phase 4) a year above the actual current level of public investments.

### A VISION FOR FINANCING EARLY CARE AND EDUCATION

To realize the considerable potential benefits of ECE, an integrated framework of laws and policies that uses financing to bring about an accessible, affordable, and high-quality ECE system should be implemented. The financing structure should include adequate and integrated funding for service delivery, workforce supports, and system supports, including mechanisms for accountability and improvement. It should also provide flexibility

to reduce silos and facilitate nimble and efficient coordination of funding streams, standards, and requirements from disparate sources.

The report offers the following specific recommendations for implementing such a system. More detail on and discussion of the recommendations can be found in the report.

**Recommendation 1:** Federal and state governments should establish consistent standards for high quality across all early care and education (ECE) programs. Receipt of funding should be linked to attaining and maintaining these quality standards. State and federal financing mechanisms should ensure that providers receive payments that are sufficient to cover the total cost of high-quality ECE.

**Recommendation 2:** All children and families should have access to affordable, high-quality early care and education (ECE). ECE access should not be contingent on the characteristics of their parents, such as family income or work status.

**2a.** ECE programs and financing mechanisms (with the exception of employer-based programs) should not set eligibility standards that require parental employment, job training, education, or other activities.

**2b.** Federal and state governments should set uniform family payment standards that increase progressively across income groups and are applied if the ECE program requires a family contribution (payment).

**2c.** The share of total ECE system costs that are not covered by family payments should be covered by a combination of institutional support to providers who meet quality standards and assistance directly to families that is based on uniform income eligibility standards.

**Recommendation 3:** In states that have demonstrated a readiness to implement a financing structure that advances principles for a high-quality early care and education system and includes adequate funding, state governments or other state-level entities should act as coordinators for the various federal and state financing mechanisms that support ECE, with the exception of federal and state tax preferences that flow directly to families.

**Recommendation 4:** To provide adequate, equitable, and sustainable funding for a unified, high-quality system of early care and education for all children from birth to kindergarten entry, federal

and state governments should increase funding levels and revise tax preferences to ensure adequate funding.

**Recommendation 5:** Family payments for families at the lowest income level should be reduced to zero, and if a family contribution is required by a program, that contribution, as a share of family income, should progressively increase as income rises.

**Recommendation 6:** A coalition of public and private funders should support the development and implementation of a first round of local-, state-, and national-level strategic business plans to guide transitions toward a reformed financing structure for high-quality early care and education.

**Recommendation 7:** Because compensation for the early care and education (ECE) workforce is not currently commensurate with desired qualifications, the ECE workforce should be provided with financial assistance to increase practitioners' knowledge and competencies and to achieve required qualifications through higher-education programs, credentialing programs, and other forms of professional learning. The incumbent ECE workforce should bear no cost for increasing practitioners' knowledge base, competencies, and qualifications, and the entering workforce should be assisted to limit costs to a reasonable proportion of postgraduate earnings, with a goal of maintaining and further promoting diversity in the pipeline of ECE professionals.

**7a.** Existing grant-based resources should be leveraged, and states and localities, along with colleges and universities, should work together to provide additional resources and supports to the incumbent workforce as practitioners further their qualifications as professionals in the ECE field.

**7b.** States and the federal government should provide financial and other appropriate supports to limit to a reasonable proportion of expected postgraduate earnings any tuition and fee expenses that are incurred by prospective ECE professionals and are not covered by existing financial aid programs.

**Recommendation 8:** States and the federal government should provide grants to institutions and systems of postsecondary education to develop faculty and early care and education (ECE) programs and to align ECE curricula with the science of child development and early learning and with principles of high-quality professional practice. Federal funding should be leveraged through grants that provide incentives to states, colleges, and universities to ensure higher-education programs are of high quality and aligned with workforce needs, including evaluating and monitoring student outcomes, curricula, and processes.

**Recommendation 9:** The federal and state governments, as well as other funders, should provide sustained funding for research and evaluation on early childhood education (ECE), particularly during the transition period to ensure efforts to improve the ECE system are resulting in positive outcomes for children and in the recruitment and retention of a highly qualified workforce.

**Recommendation 10:** The federal government should align its data collection requirements across all federal early care and education (ECE) funding streams to collect comprehensive information about the entire ECE sector and sustain investments in regular, national, data collection efforts from state and nationally representative samples that track changes in the ECE landscape over time, to better understand the experiences of ECE programs, the ECE workforce, and the developmental outcomes of children who participate in ECE programs.

## CONCLUSION

Reliable, accessible high-quality care and education for young children can be achieved, and there is great urgency in beginning the work to realize such a vision. This should be accomplished through greater harmonization and coordination among multiple financing mechanisms and revenue streams and through greater uniformity in standards to incentivize quality. It will require significant mobilization of financial and other resources shared across the public and private sector, including a more equitable distribution of the share from family contributions and a commitment to major increases in public investment.

## COMMITTEE ON FINANCING EARLY CARE AND EDUCATION WITH A HIGHLY QUALIFIED WORKFORCE

**LARUE ALLEN**, (*Chair*), Steinhardt School of Culture, Education, and Human Development, New York University; **CELIA C. AYALA**, Los Angeles Universal Preschool/Child 360; **DAPHNA BASSOK**, Curry School of Education and EdPolicy Works, University of Virginia; **RICHARD N. BRANDON**, Human Services Policy Center, University of Washington (retired); **GERALD M. CUTTS**, First Children’s Finance; **KIM DANCY**, Education Policy Program, New America; **ELIZABETH E. DAVIS**, Department of Applied Economics, University of Minnesota; **HARRIET DICHTER**, Early Education Services, ICF and Early Childhood Policy and Strategy Consultant; **KATHY GLAZER**, Virginia Early Childhood Foundation; **LYNN A. KAROLY**, RAND Corporation; **HELEN F. LADD**, Sanford School of Public Policy, Duke University (emeritus); **SHAYNE SPAULDING**, Income and Benefits Policy Center, Urban Institute; **MARCY WHITEBOOK**, Center for the Study of Child Care Employment, University of California, Berkeley; **EMILY P. BACKES**, *Costudy Director*; **SHEILA MOATS**, *Costudy Director*; **MARY GHITELMAN**, *Senior Program Assistant*; **EMILY BYERS**, *Christine Mirzayan Science and Technology Policy Graduate Fellow*.

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**For More Information . . .** This Consensus Study Report Highlights was prepared by the Board on Children, Youth, and Families based on the Consensus Study Report *Transforming the Financing of Early Care and Education* (2018). The study was sponsored by the Administration for Children and Families of the U.S. Department of Health and Human Services, Alliance for Early Success, Bill & Melinda Gates Foundation, Buffett Early Childhood Fund, Caplan Foundation for Early Childhood, Foundation for Child Development, Heising-Simons Foundation, Kresge Foundation, U.S. Department of Education, W.K. Kellogg Foundation. Any opinions, findings, conclusions, or recommendations expressed in this publication do not necessarily reflect the views of any organization or agency that provided support for the project. Copies of the Consensus Study Report are available from the National Academies Press, (800) 624-6242; [http://www.nas.edu/Finance\\_ECE](http://www.nas.edu/Finance_ECE).

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