FISCAL POLICY TRENDS

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ANALYZING CHANGES TO ALBERTA'S CHILD CARE SUBSIDY

Following a federal transfer of $45 million this summer, the Alberta government increased the amount of its Child Care Subsidy for the first time since 2008. As a result, most qualifying families will now receive a larger subsidy. However, closer analysis indicates that there are still changes that could be made to provide a better, more equitable system.

The Child Care Subsidy is the Alberta government's main policy tool for rendering Early Learning and Care (ELC) more affordable for lower- and middle-income families. Though the subsidies do not completely cover fees, they do alleviate some of the financial burden of accessing ELC. To qualify, families must meet an income test, demonstrate a need for care, and have secured a space in a licensed or approved program.

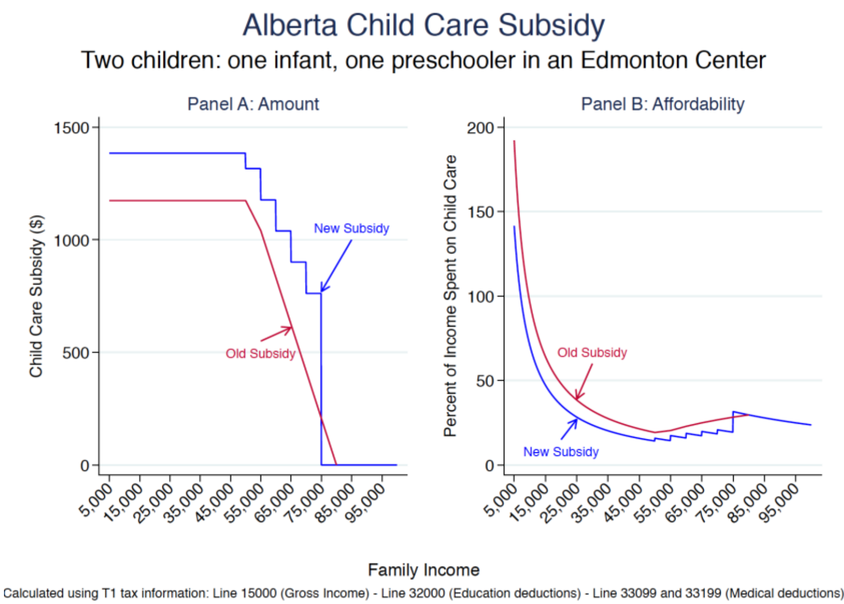
Recently, the province made several changes to the subsidy, effective August 1st 2020. First, subsidy amounts were increased across the board. For most families receiving the full subsidy whose children are enrolled in licensed ELC, this amounts to an 18% increase. Second, the subsidy formula was simplified. Third, the phase-out rate was changed. Previously, the subsidy was phased out linearly as family income (as defined in the figure) increased above $50,000. Now, the phase-out is done 'step-wise' for families with income of $50,000 or higher. Once income reaches $75,000, families no longer qualify. Panel A represents these changes for a family with two children in licensed ELC.

These adjustments are positive. The majority of families previously eligible under the program now receive a higher subsidy, and the affordability of ELC has also improved for many. As shown in Panel B of the figure, across all qualifying income levels, families with two children in full-time, licensed ELC will spend a smaller portion of their income on fees, assuming they pay median rates. An exception does exist for families earning between $75,000 and $85,000 with two or more children, as they will no longer qualify when their current subsidy agreement expires.

Good news aside, the province has failed to address broader issues with its subsidy program, as well as shortcomings of a subsidy-driven approach to expanding ELC access. Concerns include failure to index subsidy amounts, potentially negative labour supply effects of the subsidy design, and lack of focus on other policy tools.

1. Recent increases to subsidy amounts were not indexed to inflation

Historically, the subsidy has not been indexed to cost of living, and as a result, its actual value has fallen each year since 2008. Meanwhile, Albertans have seen ELC costs rise. The recent increases simply make up this difference: the subsidy is now equal in real terms to what it was in 2008. Without further government initiative to index subsidy rates, the value of the subsidy will decline again until the next reform.



Data source: author calculated using AB Child Care Subsidy Estimator & Child Care Fees in Canada 2019

2. The design of the subsidy could have gendered labour market participation effects

Given subsidy design, dual-income families may face disincentives to keeping both earners in paid work. For families with earnings just below $75,000, any salary increase would disqualify them from subsidy receipt—amounting to a potential loss of $9,144. In such a case, particularly if one partner significantly out-earns the other, the family may opt for the lower earner—often a woman—to leave work to provide care in the home.

3. The subsidy changes did not solve regressive ELC costs

Though the subsidy did improve affordability as illustrated in Panel B, ELC fees are still regressive. For example, family A earning $20,000/year and receiving the full subsidy of $1,385/month for two children pay 40% of their income in ELC costs. Comparatively, family B earning $60,000/year, three times more than family A, receiving a subsidy of $1,039/month for two children at the same Centre, pay 19% of their income in ELC costs, about half as much as family A. Future changes might focus on targeting regressivity through a universal model of care paired with progressive taxation.

UNIVERSITY OF CALGARY
THE SCHOOL OF PUBLIC POLICY

The School of Public Policy
University of Calgary Downtown Campus
906 8th Avenue S.W., 5th Floor
Calgary, Alberta T2P 1H9

Authors: Rob Buschmann, Jennifer Fischer-Summers, Gillian Petit, Anna Cameron, Lindsay M. Tedds
Author contact: rob.buschmann@ualberta.ca
www.policyschool.ca