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THE STEEP COST OF CHILDCARE IN WISCONSIN

Kevin Dospoy, Deputy Director

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Access to affordable, quality childcare has become increasingly difficult in Wisconsin over the past seven to 10 years. Although many factors play a role, the state's growing worker shortage, which has pushed up wages for childcare workers and competing occupations, is a significant factor.

Historically, many people took jobs in a childcare setting because they were passionate about the work, even though wages were typically lower than in many other occupations. In 2015, median pay for a childcare worker was \$9.81 per hour. While median earning for these workers increased 29% from 2015-2022, wages for other occupations grew faster.

Of the 546 occupations for which data are available, childcare workers earned the 28th lowest median wage in 2015, the 18th lowest in 2020, and the 13th lowest in 2022. The median wage for cashiers, waiters and waitresses, bank tellers, and receptionists is higher now than the median for childcare workers. This may be the biggest barrier preventing the childcare field from attracting and retaining workers. Without competitive wages, the number of childcare workers in the state declined 16% during this period.

The limited availability of childcare has caused prices to rise. In 2021, the average cost for newborn care in Wisconsin ranged from \$10,400 (family care setting) to \$13,572 (center-based care) annually. The financial burden on households varies across age groups, with childcare consuming up to 36% of income for parents under the age of 25 and 18% for those aged 25-44. While costs decrease as children age, costs for two children can still reach as high as 70% of household income for some. Childcare for two costs more than the average rent or mortgage, and even more than the cost of sending two young adults to the University of Wisconsin-Madison.

Wisconsinites want the very best childcare workers and preschool teachers caring for their children, but that can be expensive. With families already using a significant share of their income to pay for childcare, many cannot afford to pay more. Even with additional funding through the CARES Act and Child Care Counts, wages for childcare workers have not kept pace with their peers.

Solving this crisis is difficult. If pay for childcare workers continues to lag, the number of workers in the industry will fall further, exacerbating the access problem. However, raising their pay to attract and retain workers will increase the cost of the service and make it even less affordable for young families.

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For decades, access to quality and affordable childcare has been a concern for Wisconsin families. In recent years, the issue has become more prominent for a variety of reasons including rising costs and fewer childcare slots available.

Providing affordable, quality childcare is a challenge. We want our providers to be experienced, skilled caregivers and teachers of our children. Generally, attracting high-quality employees requires higher wages and benefits, which increases the cost of the service. At the same time, families in need of this service are often young adults near the beginning of their work careers and are near the bottom of their lifetime earning cycle. This dichotomy is what makes this issue so difficult.

AFFORDABILITY

Childcare is expensive both in Wisconsin and nationally. In 2021, a Wisconsin family with a newborn typically would have paid between \$10,400 (family care setting) and \$13,572 (center-based care) for childcare. For parents under age 25 with a median income of \$37,323, infant childcare would have consumed as much as 36% of their income. For parents between 25 and 44 with a median income of \$75,932, infant childcare ate up 18% of income.

As the child ages, the cost decreases because toddlers and school-age children require less individual attention and can be cared for by fewer providers. State law requires one childcare worker for every four infants. This ratio increases to one worker for every 18 children over the age of 5. In 2021, the average cost for center-based care was \$12,272 per year for a toddler, \$11,125 for a child in preschool, and \$10,244 for a school-aged child. Thus, a typical family in the 25 to 44 age

group with an infant and a toddler would have spent 34% of their income on childcare. A typical family under 25 could not afford to have both a newborn and a toddler in childcare; it would consume almost 70% of their income.

Childcare Vs. Other Household Expenses

For most families, the largest monthly bill is typically rent or mortgage payments. Those under age 25 are more likely to rent, which averages \$914 per month (\$10,992 per year, see Figure 1 on page 6) in Wisconsin, or 29% of median household income for this age group. The typical monthly rent payment is less than the average cost of center-based infant childcare per month.

Families with parents between the ages of 25 and 44 are more likely to pay a mortgage, which averages \$1,491 per month (\$17,892 per year), or nearly 24% of the median household income for this age group. While childcare for one costs less than the mortgage, an infant and a toddler in daycare costs as much as 44% more. The combination of a mortgage and childcare would consume 58% of their income.

Childcare vs. College

Well before having children and starting a family, people understand that college will one day become a major expense. In 2021, the tuition at the University of Wisconsin Madison was \$10,766, or around \$900 per month. What is not widely understood is that childcare can be more expensive than college tuition. Indeed, in 2021, it was less costly for a family to send two children to UW Madison than it was to put an infant and toddler in center-based childcare. And those paying childcare are typically earning much less than the parents paying for college.

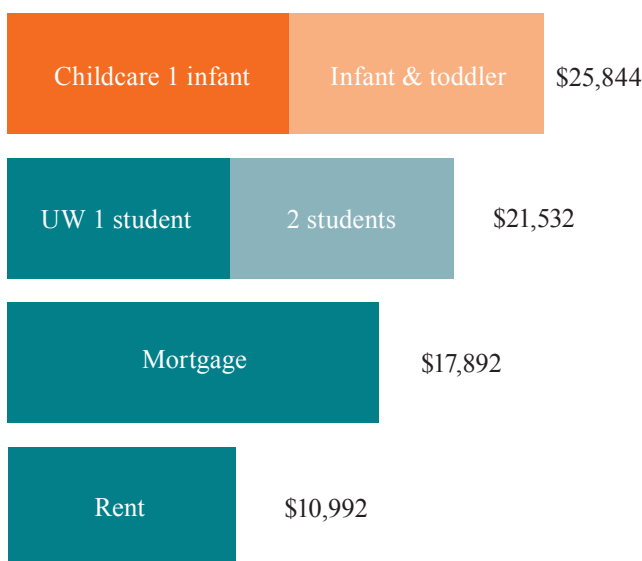
In Wisconsin, the \$13,572 average annual cost of infant childcare in 2021 was greater than the \$10,766 annual tuition at UW-Madison.

While college is very expensive, parents have 18 years to save. However, if parents are spending a large portion of their household income on childcare for the first four to six years of their child’s life, they may have to postpone saving, which can have a significant impact on the ability to afford college down the line.

The unfortunate irony is that childcare is so expensive and is necessary when the typical household is usually earning the least amount of money. Parents are asked to take on a large expense precisely when they can least afford it.

This raises an important question. Why is childcare, which is an essential service for young families, so expensive? Like any good or service, the cost is determined, at least in part, by demand and supply.

FIGURE 1: Major Household Expenses Compared



THE DEMAND FOR CHILDCARE

Typically, childcare demand is measured by the number of children under the age of six. Between 2010 and 2021, the population of this age group dropped by 7%, from over 415,000 to 386,382. However, that measure does not account for the workforce status of the parent(s). Many households with one parent not working are not in the market for childcare. Thus, this measure can overstate childcare demand.

This report uses a different measure from the U.S. Census Bureau that accounts for workforce status: the number of children under the age of six living in homes in which all parents are in the workforce. In 2010, there were over 300,000 such children in the state. By 2021, the size of this age group declined 5.7% to 283,376.

Both of these statistics are really measures of potential demand and are imperfect as not all kids need paid childcare. Some children spend time with grandparents or other relatives. Some parents or guardians work opposite shifts and therefore do not need to rely on childcare. And some families with one parent not in the labor force still rely on childcare. However, what is clear from these numbers is that with fewer young children, demand for childcare has fallen.

SUPPLY

The supply of childcare can be measured in several ways, but the two most common methods count the number of licensed “slots” available in a region or the number of slots per 100 children.

However, the number of licensed and regulated slots approved by the Wisconsin Department of Children and Families often differs from the number of slots actually offered. For a variety of reasons, a childcare provider may not be able to provide the total number of slots for which they are licensed.

A recent survey conducted by the Wisconsin Early Childhood Association (WECA) highlights this disparity. According to the survey, half of childcare providers that responded had unfilled childcare slots and a third had closed full classrooms due to staff shortages. The survey results should not be extrapolated to the county or even the state level, yet the results raise questions about these measures.

This report instead treats supply as the sum of all workers providing childcare in a region (non-spe-

cial education preschool teacher or childcare worker, as defined by the U.S. Bureau of Labor Statistics (BLS)). In 2010, there were 20,580 such workers. By 2015, that number had fallen to 18,080 and then to 16,060 in 2019. In 2021, Wisconsin had 15,210 such workers, a drop of more than 26% from 2010. The decline was driven largely by a 44% reduction in childcare workers.

CURRENT STATUS

In a normal market, economists refer to the price at which supply and demand intersect as the “equilibrium” or the “market clearing price.” The childcare price is significantly higher than most families can afford. Since caregiver costs are the largest expense for day care centers, that price is related to a ratio of children per worker. This section looks at how that ratio has changed over time.

In 2021, there were 19 children under six with all parents working for every childcare worker in the state. This does not mean that in every childcare setting there were 19 children for every one worker. It is simply a measure of total demand, based on our measure, relative to supply.

Because the number of childcare workers are only reported regionally, childcare ratios are

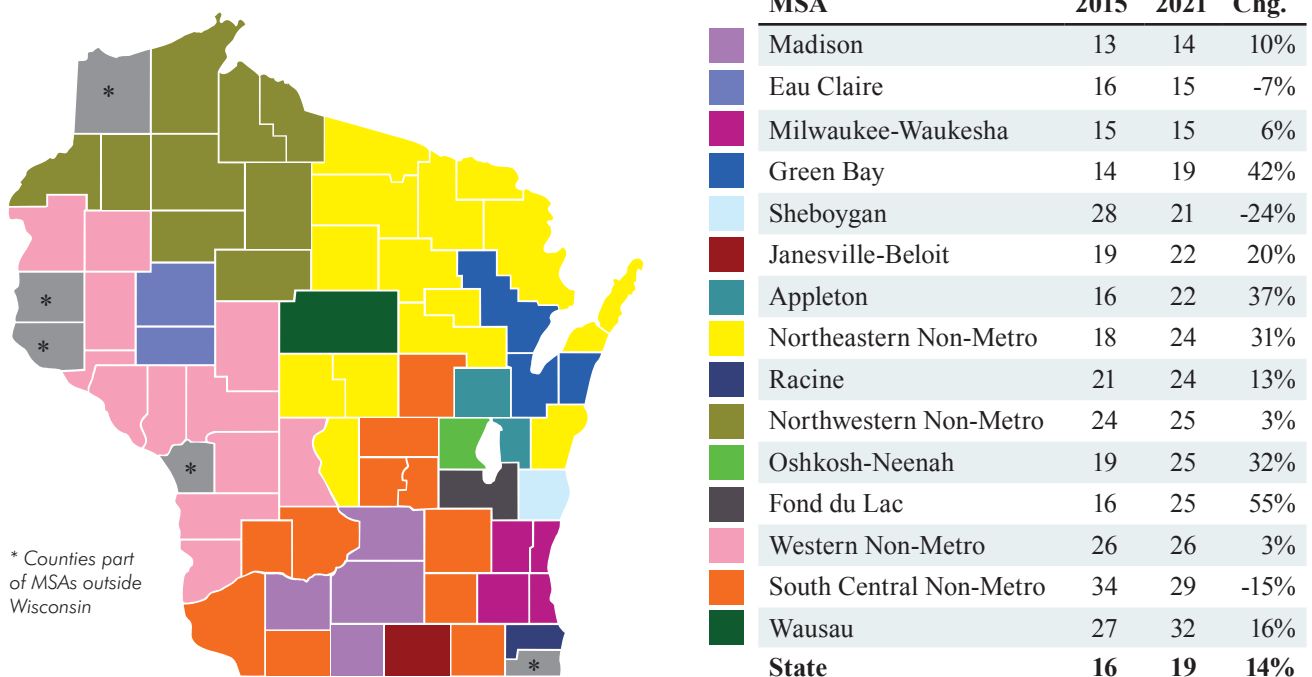
not available at the county level. However, the regional numbers based on childcare worker data from BLS are instructive.

In general, there were fewer children per childcare worker in urban areas in 2021, which implies that families in these areas have greater access to childcare compared to rural areas. The best performing areas—the areas with the fewest children per worker—were the Madison (14), Eau Claire (15), and Milwaukee (15) metro areas (MSAs). Each had fewer than the state average of 19 children per worker (see Figure 2).

Less populated areas, specifically the South Central non-metro area (which includes Sauk, Marquette, Jefferson, and Walworth Counties, among others), the Western non-metro area, and the Wausau MSA (Marathon County) fared worse in terms of the number of children per worker, at nearly double their urban counter parts.

Some areas have shown improvement in recent years. Since 2015, three regions experienced a decrease in the number of children per worker. The Sheboygan MSA went from the second worst area in the state at 28 children per worker to 21. The South Central non-Metro area improved, yet still remained one of the state’s worst areas

FIGURE 2: Childcare Access Declines
Changes In Number of Children Per Childcare Worker by MSA and Non-MSA, 2015-2021



at 29 children per worker. The Eau Claire MSA remained one of the best areas of the state at 15 children per worker.

However, since 2015, access to childcare has become more challenging for the majority of Wisconsin. The number of children in need increased from 16 per childcare worker to 19 in 2021. The northeast part of the state experienced the most severe decline in availability. The number of children per childcare worker increased by 42% in the Green Bay MSA, 37% in the Appleton area, 55% in the Fond du Lac area, and 31% in the Northeastern non-metro area.

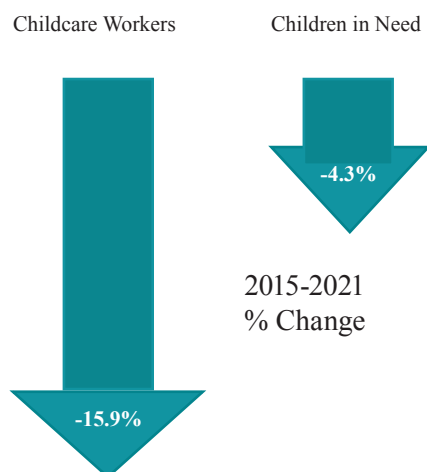
WHAT IS DRIVING THE CHANGE?

Since the children-to-worker ratio is determined by both supply and demand, there must be a change in either the population of children under age 6 with all parents in the workforce (demand), the number of workers in the childcare field (supply), or both.

Any change in demand for childcare would be evident by a change in the population of children in need. From 2015 through 2021, the number of children under six with all parents working declined 4.3% from 296,044 to 283,376.

A change in childcare supply is evident by a change in the workforce size of the workforce. In 2015, there were 18,080 workers employed as childcare workers or preschool teachers statewide. By 2021, that number declined almost 16% to 15,210 (see Figure 3).

FIGURE 3: Decline in Workers Outpaces Drop in Potential Childcare Demand
Change in Number of Childcare Workers and Children, 2015-2021



This decline is almost four times the decline in the population aged 0-6 with all parents in the workforce, meaning the supply of childcare (the number of childcare workers) is driving the increase in the childcare need per worker.

Supply-Side Changes

With a near-record low unemployment rate of 2.5% in June 2023, the job market both in Wisconsin and nationally is as competitive as ever. Employers in nearly all industries are offering higher pay, benefits, and flexible work schedules to attract and retain workers.

According to the WECA survey discussed above, 60% of childcare providers surveyed were unable to fill full-time staff positions and 65% indicated that wages were the largest contributing factor to not attracting or retaining staff. So how has the childcare field kept up?

CHILDCARE WAGES LAG

Childcare workers and preschool teachers are fairly well educated. Nationally, 52% of preschool teachers had a bachelor's degree or more in 2022. Another 34% had an associate degree or some college. Among childcare workers, those percentages were 20% and 37%, respectively.

And yet, pay is relatively low. According to BLS, the 2022 median wage was \$28,517 (\$13.71 per hour) for a childcare worker and \$35,339 (\$16.99 per hour) for a preschool teacher. In Wisconsin, those figures were \$26.33 (\$12.66) and \$29,869 (\$14.36), respectively. By comparison, median pay nationally among all workers with a bachelor's degree was \$33 per hour and \$22 for an employee with some college but no degree.

There can be many reasons for this discrepancy between education and pay. For certain workers, the explanation may be what economists refer to as the passion vs. paycheck dichotomy. This describes workers who are willing to earn less than their similarly educated peers because they have a passion for the work. In other words, there is a non-pecuniary benefit to the job that is not being measured. However, as wages for other jobs rise, the value of that benefit shrinks.

One way to highlight this dichotomy is to compare childcare wages to occupations in which workers have similar education levels. Using national data on education levels for more than 500 occupations, we identified the 50 occupations with average education levels most similar to

childcare workers and preschool teachers. This gives a sense of how attractive the occupation is for prospective workers—that is, those who are still choosing what field to pursue or study. The level of education and potential salary of any occupation acts as an incentive. A low-paying job that requires many years of schooling is typically not attractive.

For both childcare workers and preschool teachers, we compare (separately) median Wisconsin wages with the 50 occupations having similar educational characteristics. The childcare workers' \$26,333 median salary ranked 49th of the 51 occupations. Chefs, postal service mail carriers, dental assistants, taxi drivers and telemarketers all earned a higher median annual salary. The only occupations that earned less were hosts, hostesses and bellhops.

For preschool teachers, their \$29,869 annual pay ranked second to last among their peer occupations. Insurance sales agents, photographers, and proofreaders earned more. The only occupation that earned less was gambling cage workers.

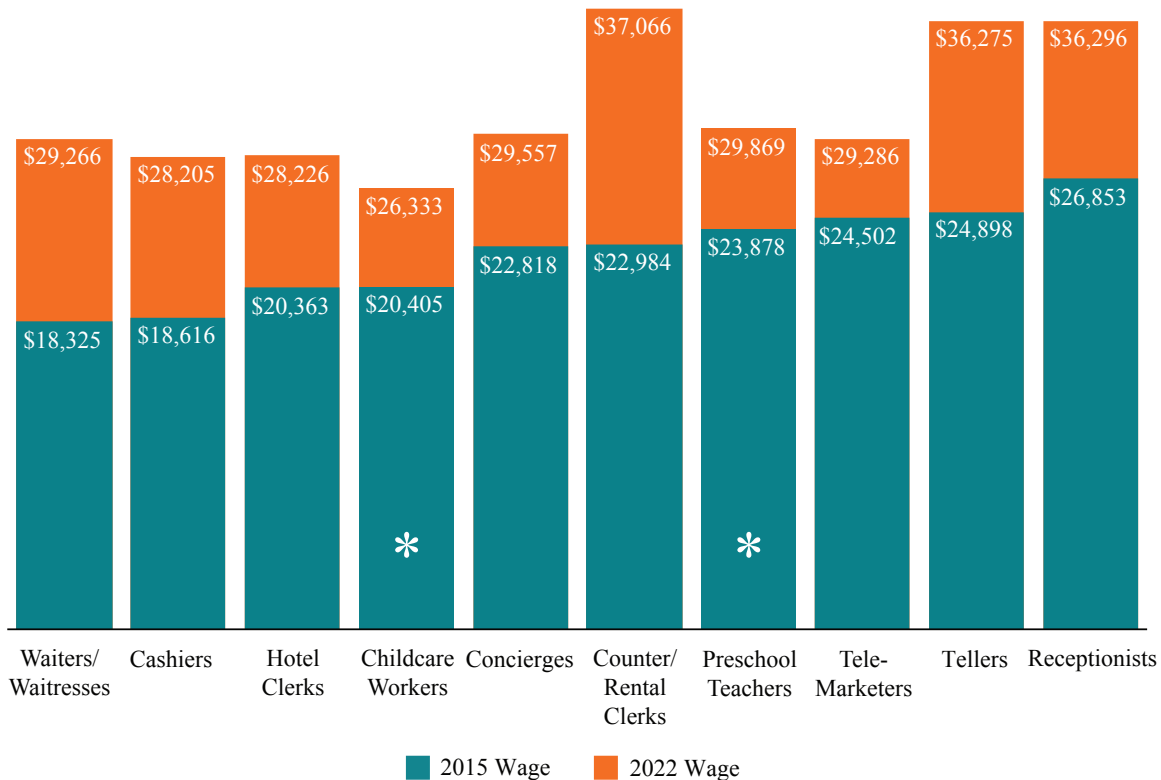
As prices for everyday goods, rent, and tuition increase, and wages for occupations that do not require advanced training or education increase, the pay differential may become less acceptable.

Slow-growing wages

While wages for childcare workers and preschool teachers are low relative to their peers, recent growth in wages have not kept pace. Of the 546 occupations for which data are available, in 2015 childcare workers earned the 28th lowest annual wage at \$20,405. While median pay rose to \$23,816 in 2020, their rank fell to 18th lowest.

In 2020, the federal government passed the CARES Act in response to the COVID-19 pandemic. This legislation provided funding in Wisconsin for Child Care Counts, which, in part, gave additional funds to childcare providers to increase wages and pay one-time bonuses. Due partly to this program, wages for childcare workers grew to \$26,333 per year in 2022. Yet, wages for these workers again declined relative to other occupations, dropping from 18th lowest in 2020 to 13th lowest in 2022.

FIGURE 4: Childcare Wages Fall Further Behind
Median Wages 2015 and 2022, Selected Occupations



Child Care Counts funding also boosted pay for preschool teachers. Their wages grew slightly to \$29,869 per year in 2022. Pay for these workers increased at nearly the same rate as all other occupations. They were paid the 40th lowest in 2020, and with the funding from childcare counts, they were paid the 44th lowest compared to other occupations in 2022.

Figure 4 on page 9 shows wage growth for childcare workers, preschool teachers, and seven selected occupations that typically have few barriers to entry. These are occupations that childcare workers can transition into almost immediately. From 2015 to 2022, the median wage for cashiers increased from \$18,616 to \$28,204 per year, surpassing the median wage for childcare workers. Pay for tellers, receptionists and information clerks in 2015 was slightly higher than for preschool teachers. However, with their large gains over the ensuing seven years, those jobs paid almost \$7,000 more in 2022.

Put another way, over the past seven years wages for childcare workers grew due partly to Child Care Counts funding. Still, other occupations with few barriers to entry grew faster. This increased the incentive for childcare staff to leave for significantly higher pay. It also makes it much more difficult for daycare centers to attract workers.

ARE THERE SOLUTIONS?

Solving Wisconsin's childcare crisis is a difficult task. As mentioned, this is a service primarily for young adults at the beginning of their working years when their pay is modest. Yet, we want the best childcare workers and preschool teachers caring for our children, and that can be expensive.

The crisis could be significantly lessened by raising wages for childcare workers, which would help to retain and attract staff. However, that would exacerbate the cost problem.

Wisconsin law requires one teacher for every four infants. A childcare worker earning the Wisconsin median wage costs the business almost \$30,000 since the employer pays part of the social security and Medicare taxes, unemployment taxes, and other costs. Moreover, this assumes no health insurance, retirement, or other benefits. The wage cost alone is \$7,500 per infant. If,

in order to attract and retain workers, childcare providers started paying \$40,000 per teacher, the cost for a family would rise by \$2,500, an amount many young families cannot afford to pay.

Some smaller scale solutions are currently occurring, such as employers providing on-site day care for their employees' children. While this practice may provide childcare options for some families, small- and medium-sized businesses typically cannot afford this type of benefit.

Employers offering flexible schedules or work-from-home options for their employees with children can help alleviate some demand for childcare. Yet, this option is not available to large numbers of workers as many jobs cannot be done remotely and must be on a set schedule.

A Worsening Crisis?

As the labor market tightens and demand for workers remains strong, occupations on the low-end of the pay scale will continue to see wage gains. Childcare providers will continue to compete with nearly every other occupation for workers. As childcare becomes increasingly unaffordable for families, some will choose, out of necessity, to remain on the sidelines of the labor force, further exacerbating the worker problem.

Fewer workers in the labor force causes employers to struggle to fill low-wage jobs. To fill these jobs, employers typically offer better benefits and higher pay to compete for workers in a relatively small pool of labor. This draws more and more workers away from positions that cannot offer higher pay (such as childcare). As fewer childcare workers remain in the field, the service becomes more expensive and less available. When workers leave the labor market because they cannot afford childcare, the labor pool becomes smaller, thus continuing the cycle.

With record low unemployment, Wisconsin cannot afford to have people who want to work sitting on the sidelines because childcare is too expensive. Federal dollars from the CARES Act and Childcare Counts helped wages for childcare workers grow, but not by enough to keep pace with peer occupations. More importantly, this funding was part of a one-time package. Without a consistent source of funding, childcare will remain understaffed and unaffordable.

