



CAN PARENTS AFFORD TO WORK? CHILDCARE COSTS AND WORK INCENTIVES IN EU AND OECD COUNTRIES

ESRC Festival of Social Science Event
'What works for work incentives?'

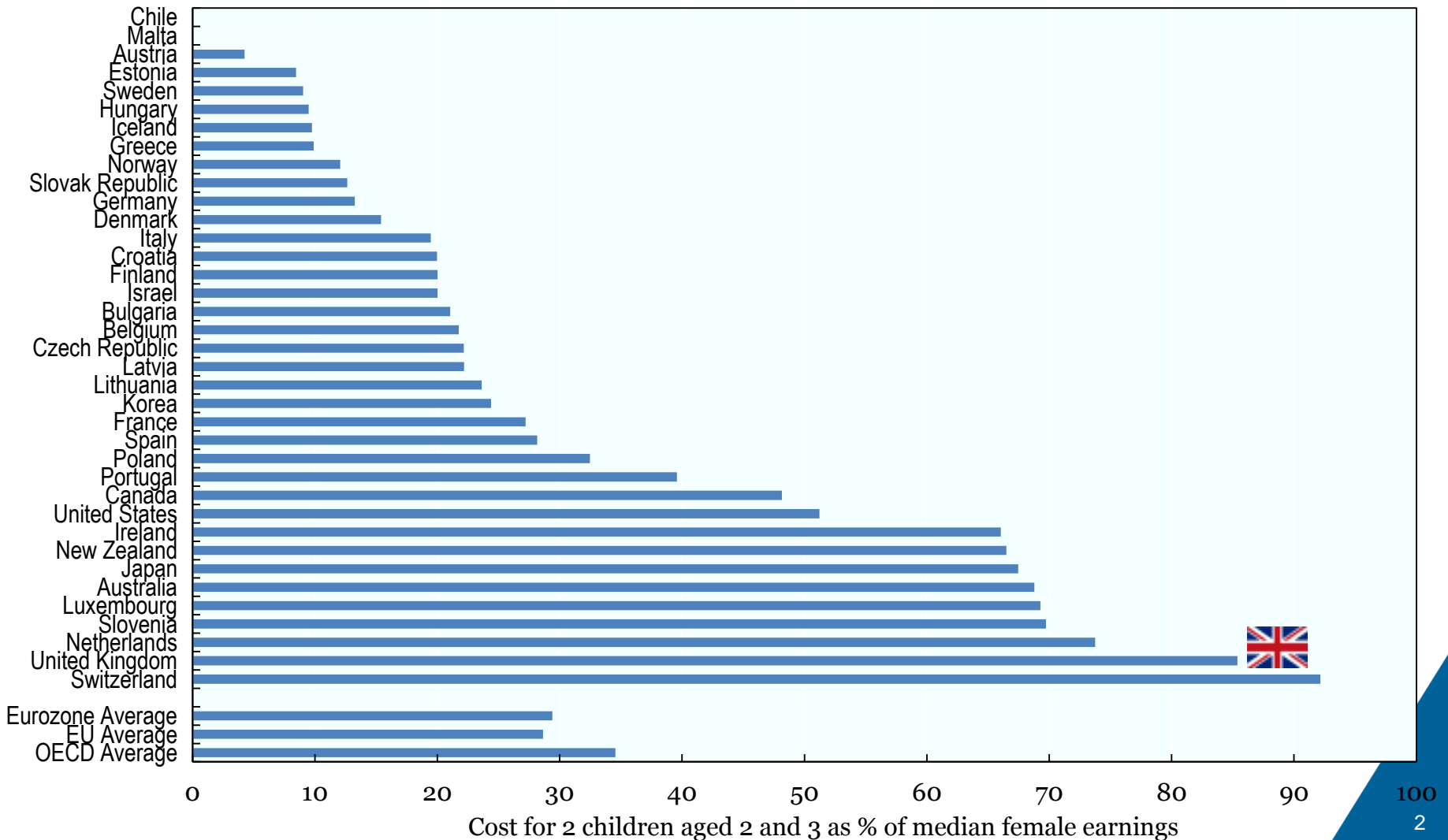
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www.oecd.org/els/soc/benefits-and-wages.htm



Gross childcare costs can be very high, reducing financial gain to work for parents





But to calculate work incentive impact, need to calculate *net* cost

- All OECD and EU countries have some policies in place to support parents with these costs
- Our research uses OECD tax-benefit model to calculate net cost of childcare and how these affect work incentives
 - ‘**out of pocket**’ cost to parents, after subsidised fees, childcare benefits & tax concessions taken into account
- All results focus on:
 - 2015 (latest year available)
 - Work incentives of women (primary carers in most countries)
 - **Full-time centre-based** childcare (for cross-country comparability)
 - Families with **two children aged 2 and 3** (evidence suggests benefits from childcare participation from age 2 onwards)



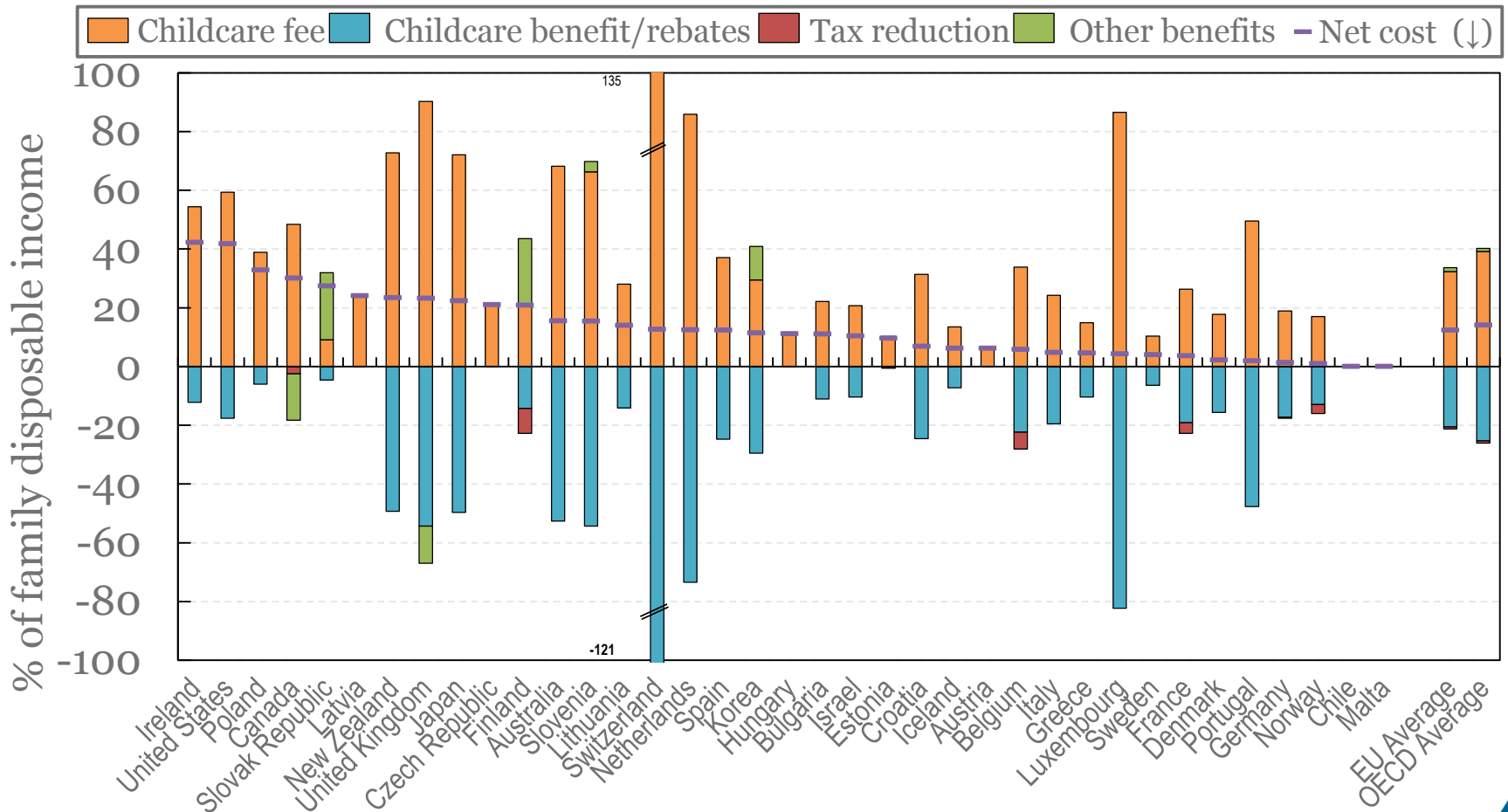
The OECD tax-benefit model (TaxBEN)

- <http://www.oecd.org/social/benefits-and-wages.htm>
- Incorporates detailed tax and benefit rules
- Tax burdens, benefit entitlements, childcare costs for different household situations. Captures interactions between policy areas
- Calculates disposable incomes (i.e. after childcare costs) with and without childcare costs (i.e. parental care) for policy-relevant household situations
 - Not for a representative sample of the whole population
 - Policy indicators rather than outcome indicators
- Assumptions / limitations:
 - Where policies vary across regions, typically one region selected
 - No supply-side constraints (i.e. places are assumed to be available to the family)
 - In countries where childcare centres are mostly publicly run, ‘gross’ fee is maximum any parent can be charged: cost may still be subsidised
 - Quality of provision does not show up in results but is key driver of parents’ choices



Net childcare costs

% of income for a lone mother with low earnings



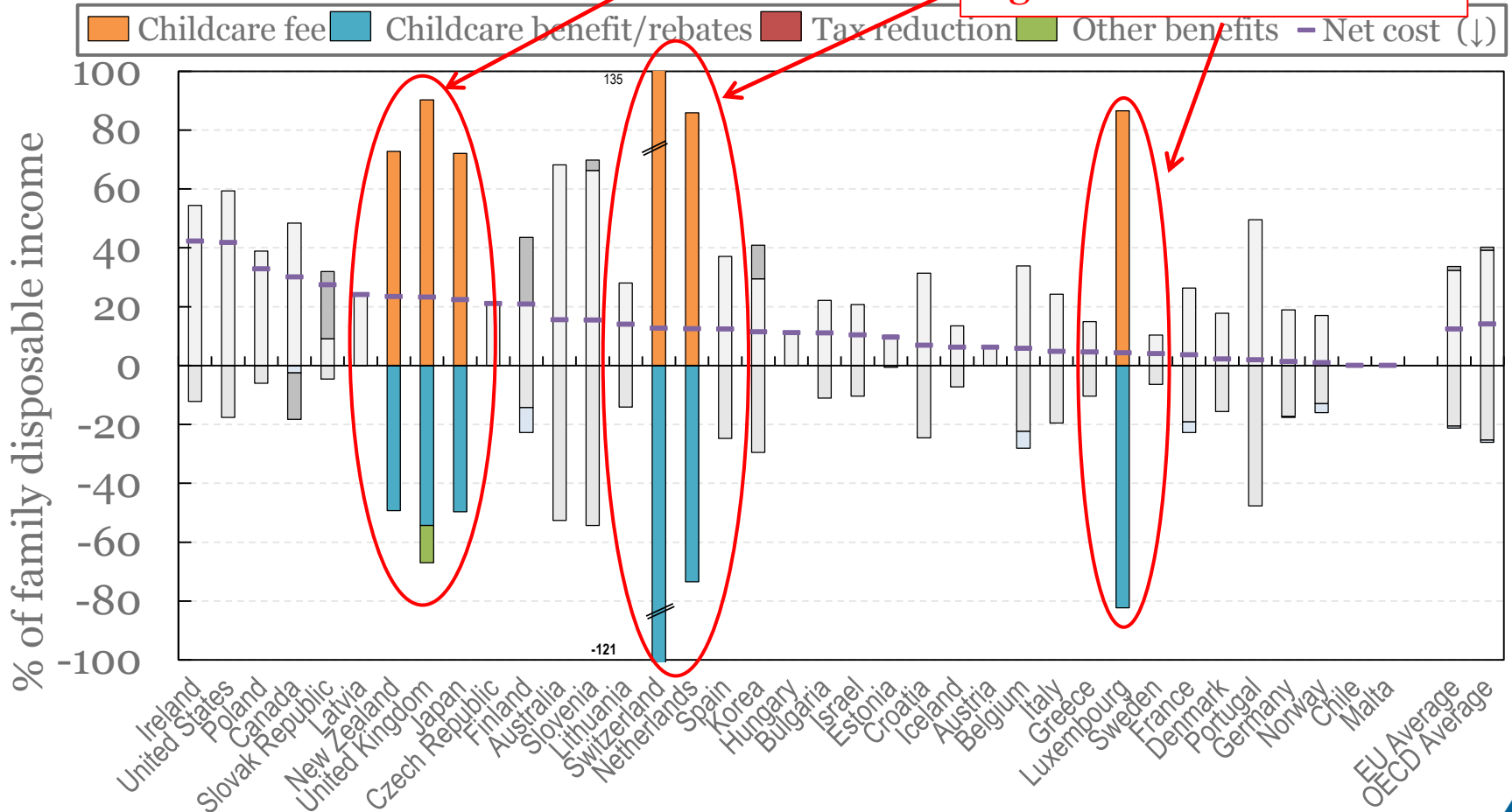
Note: earnings at the 20th percentile of the full-time female earnings distribution.



Net childcare costs

% of income for a lone mother with low e

Those with highest fees don't have highest net costs: substantial support often offered, e.g. UK

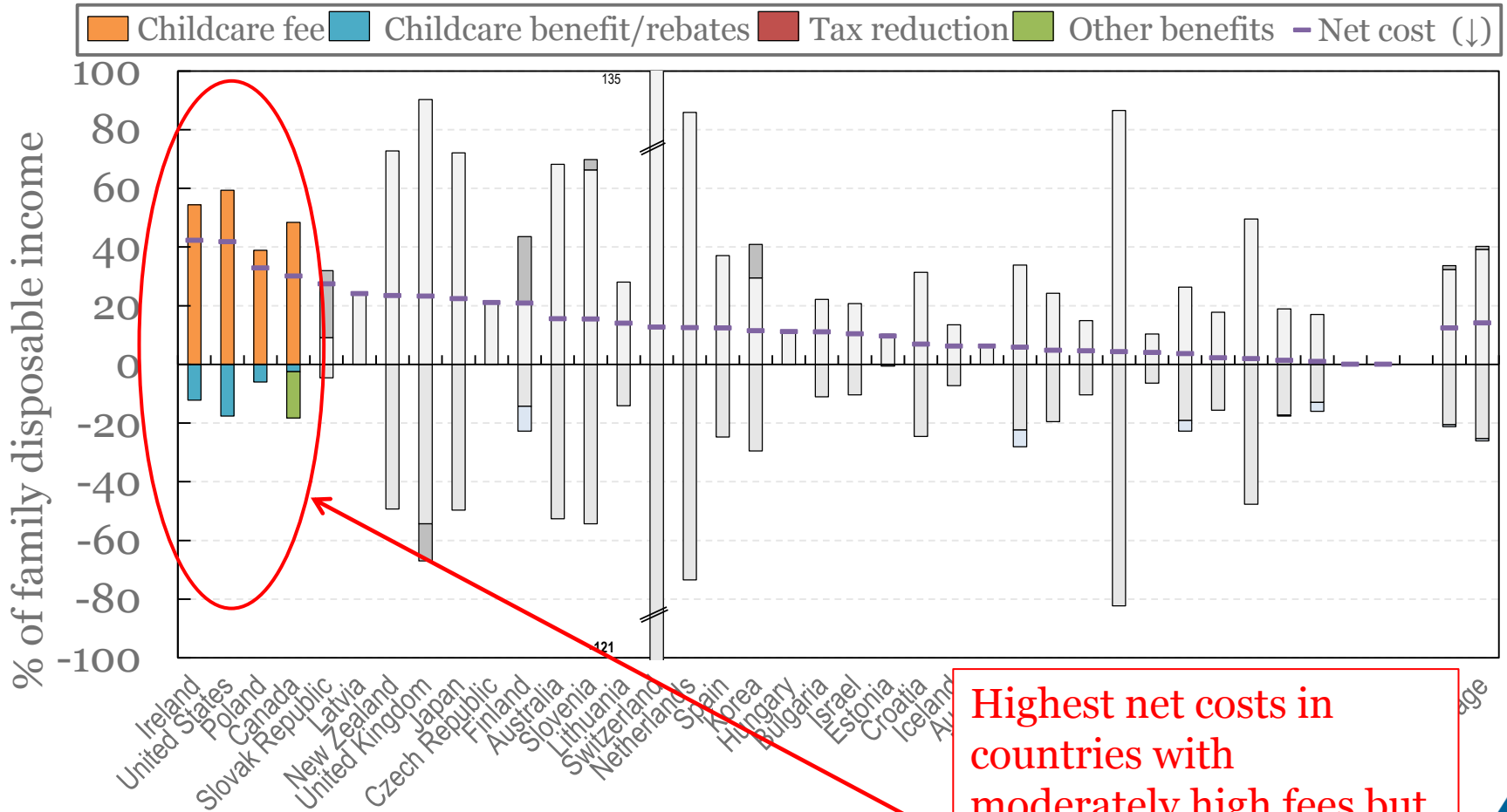


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Net childcare costs

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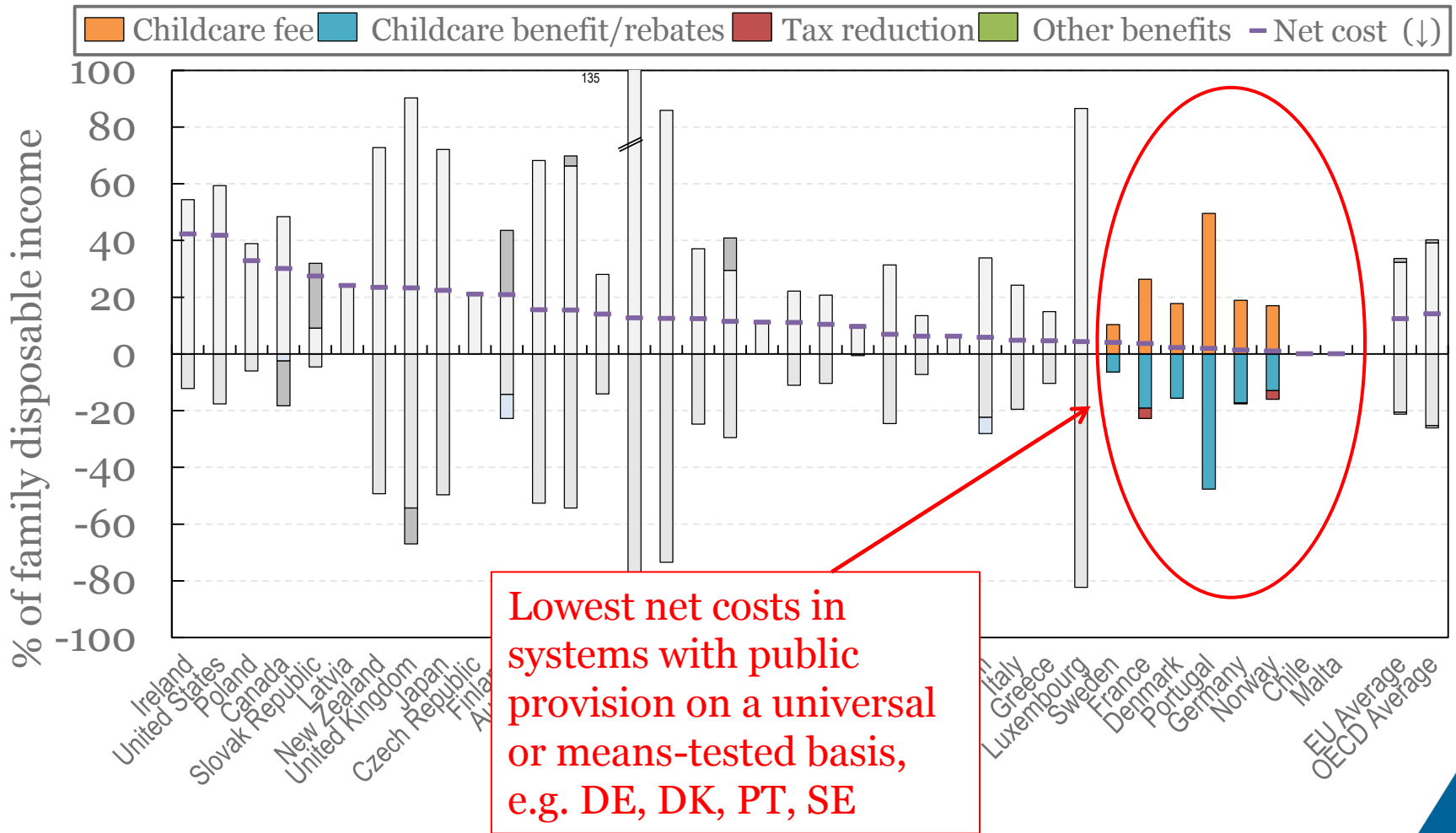
Highest net costs in countries with moderately high fees but little support for parents, e.g. Ireland, Poland, US

Note: earnings at the 20th percentile of the full-time female earnings



Net childcare costs

% of income for a lone mother with low earnings

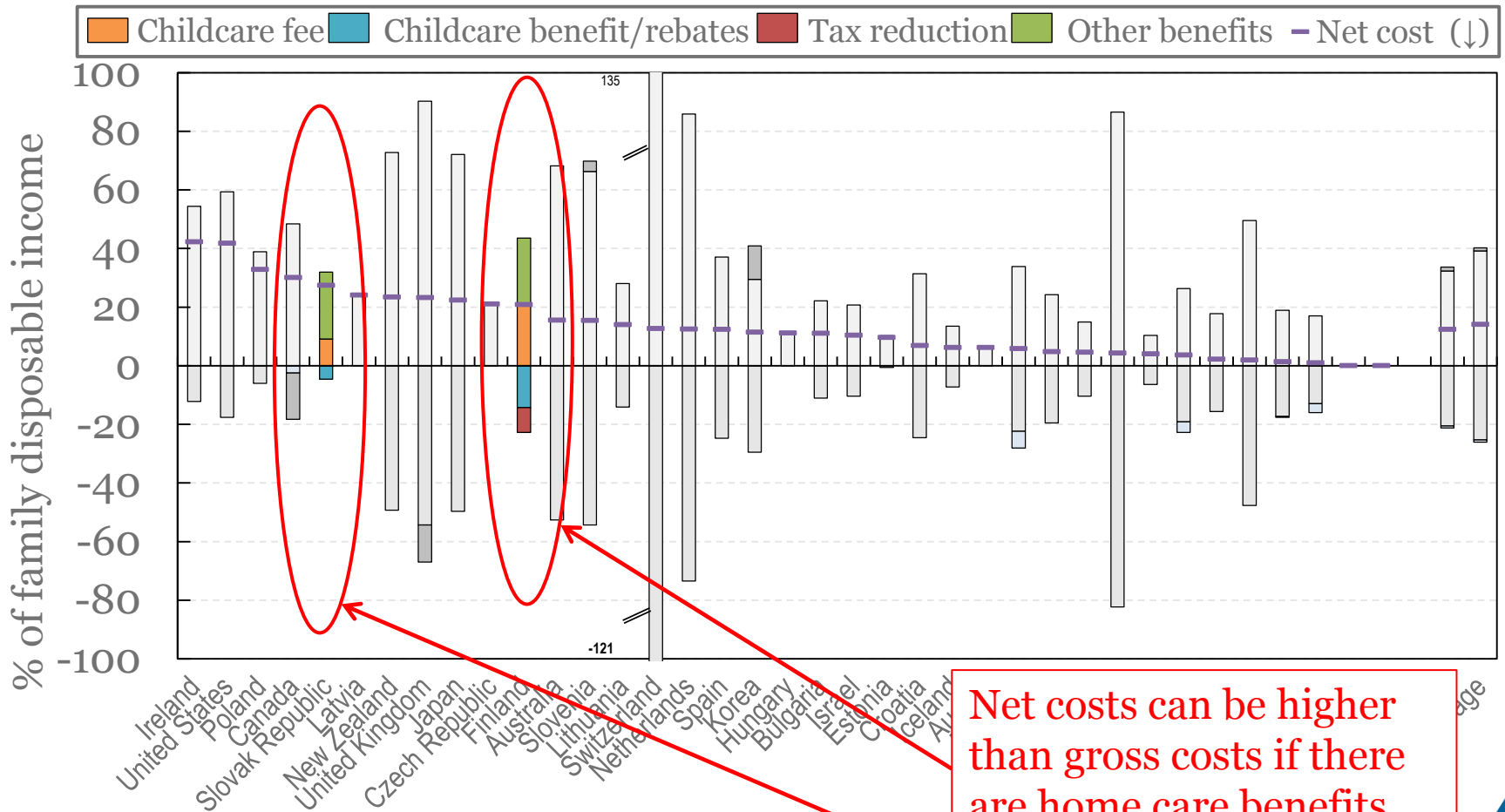


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Net childcare costs

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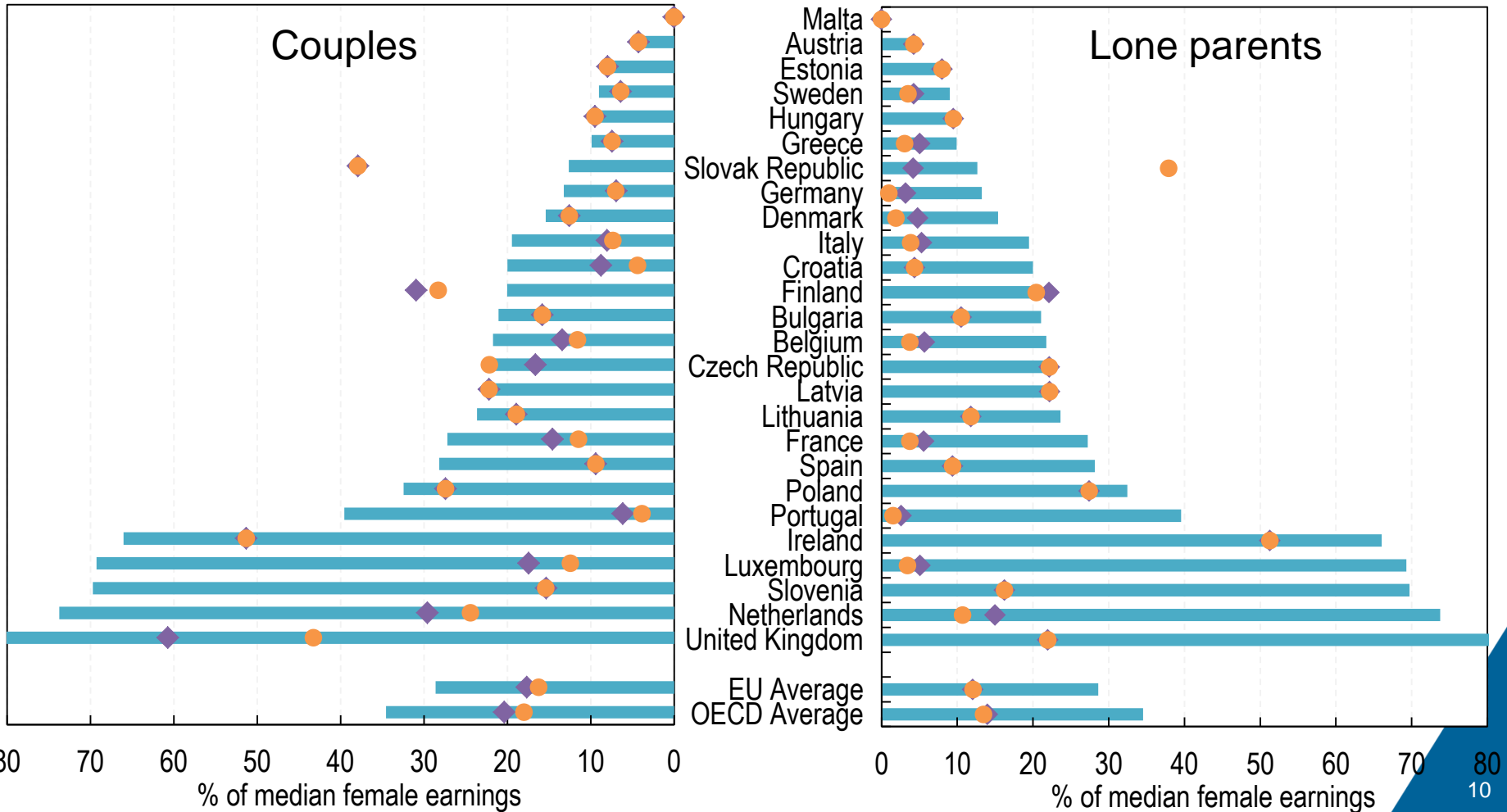
Net costs can be higher than gross costs if there are home care benefits conditional on not using childcare, e.g. FI, SK

Note: earnings at the 20th percentile of the full-time female earnings



How do net costs vary for different families?

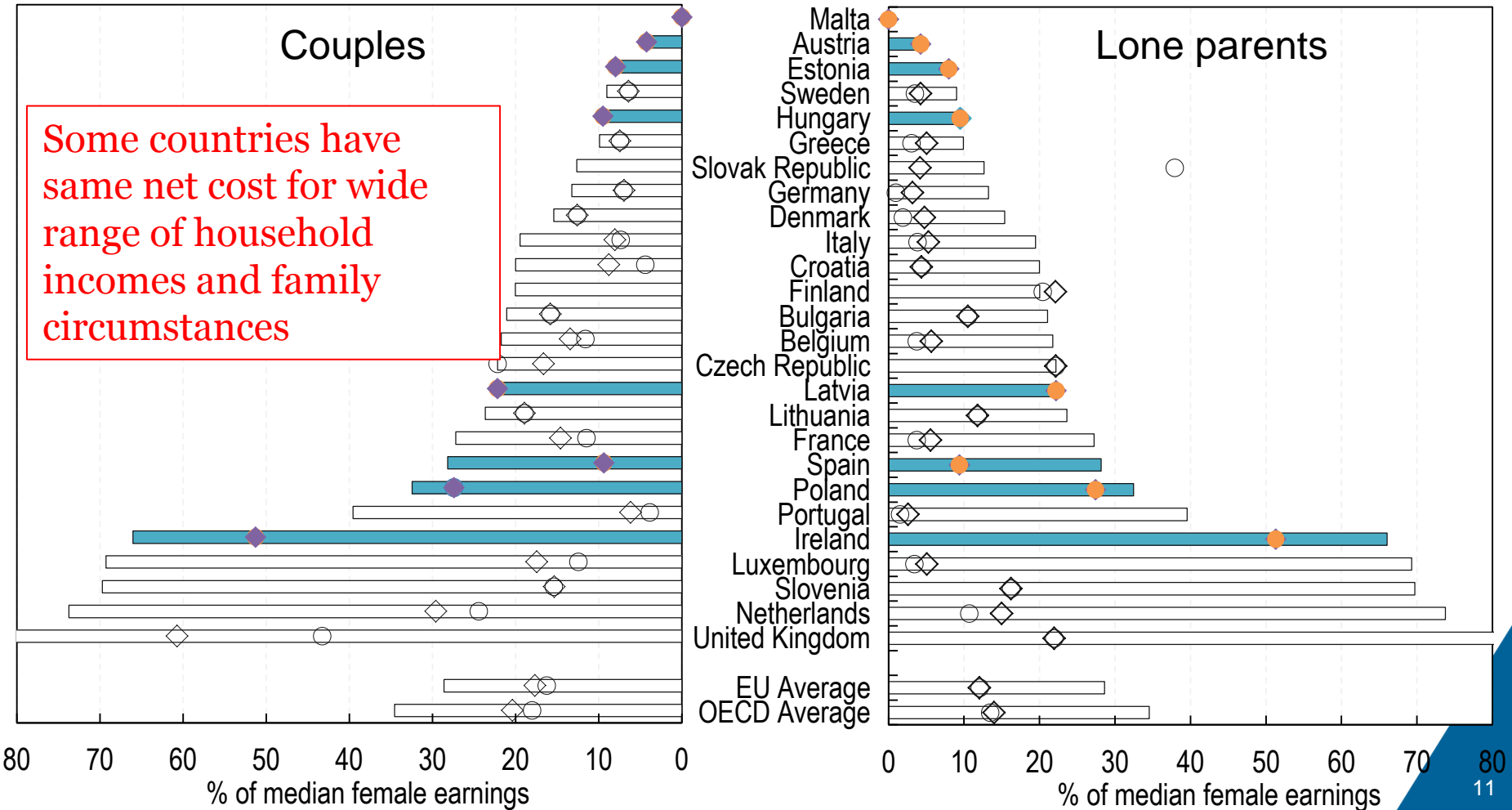
■ Gross childcare fees
 ◆ Net cost, median earnings
 ● Net cost, low earnings





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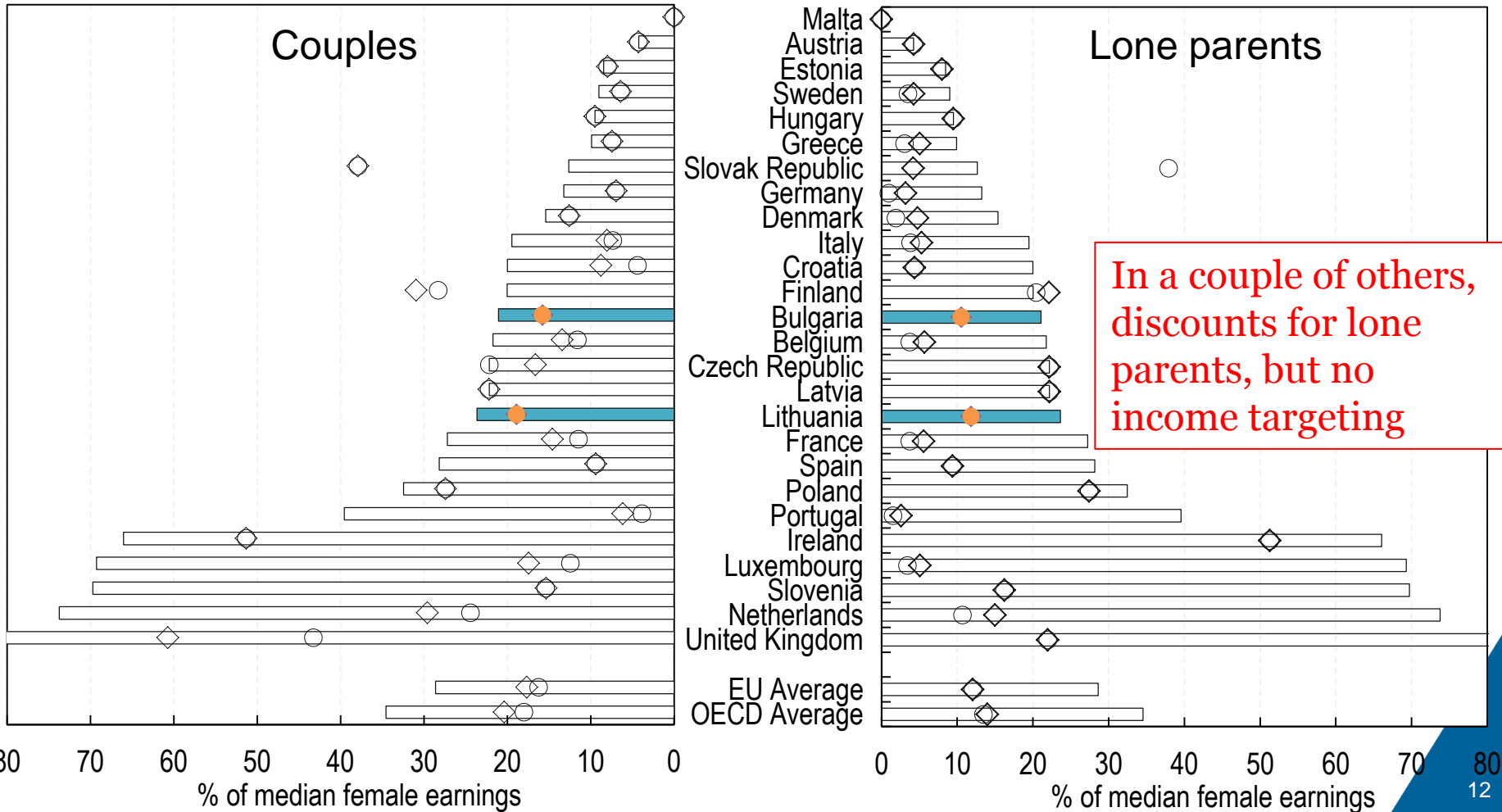
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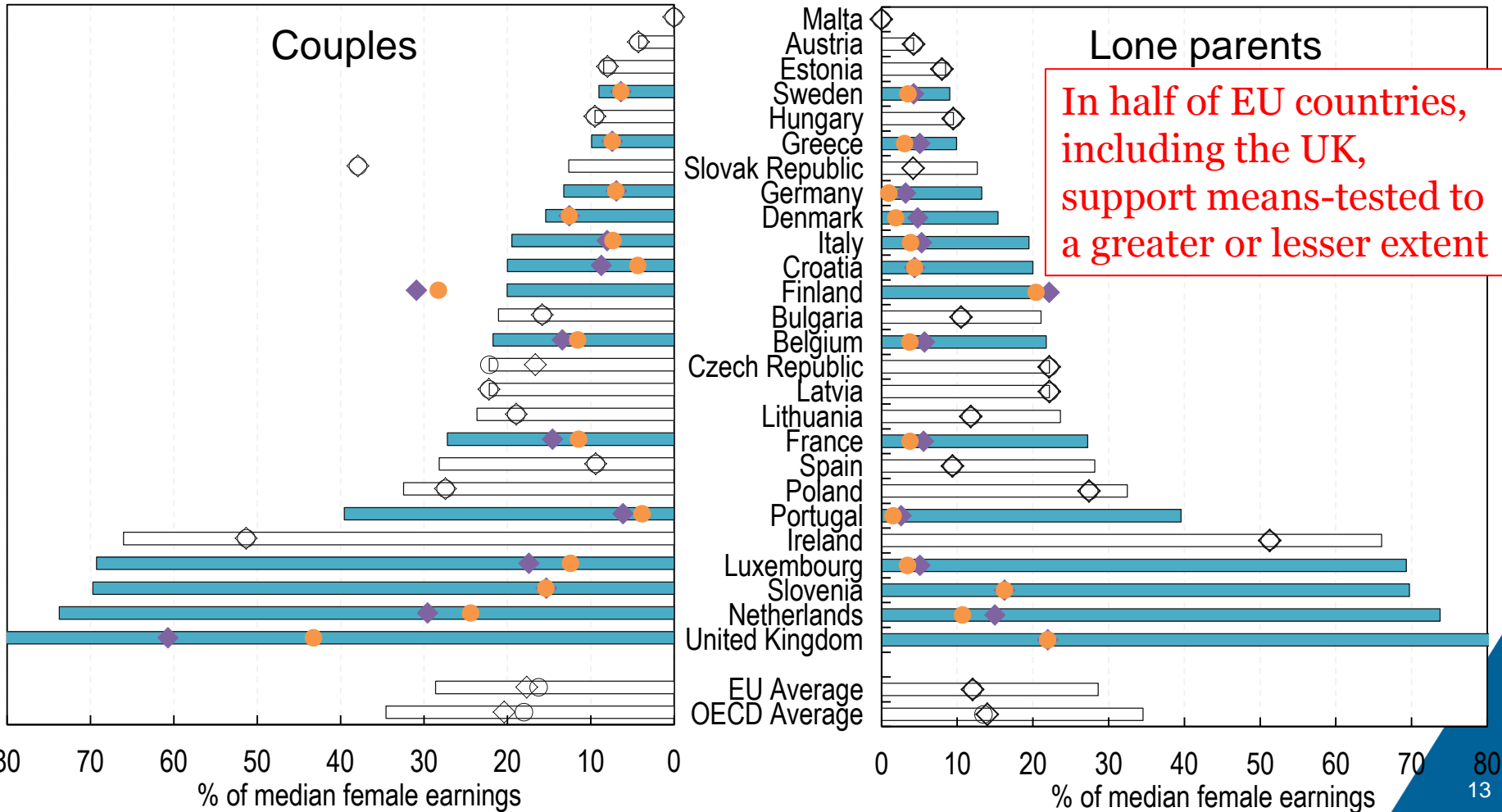
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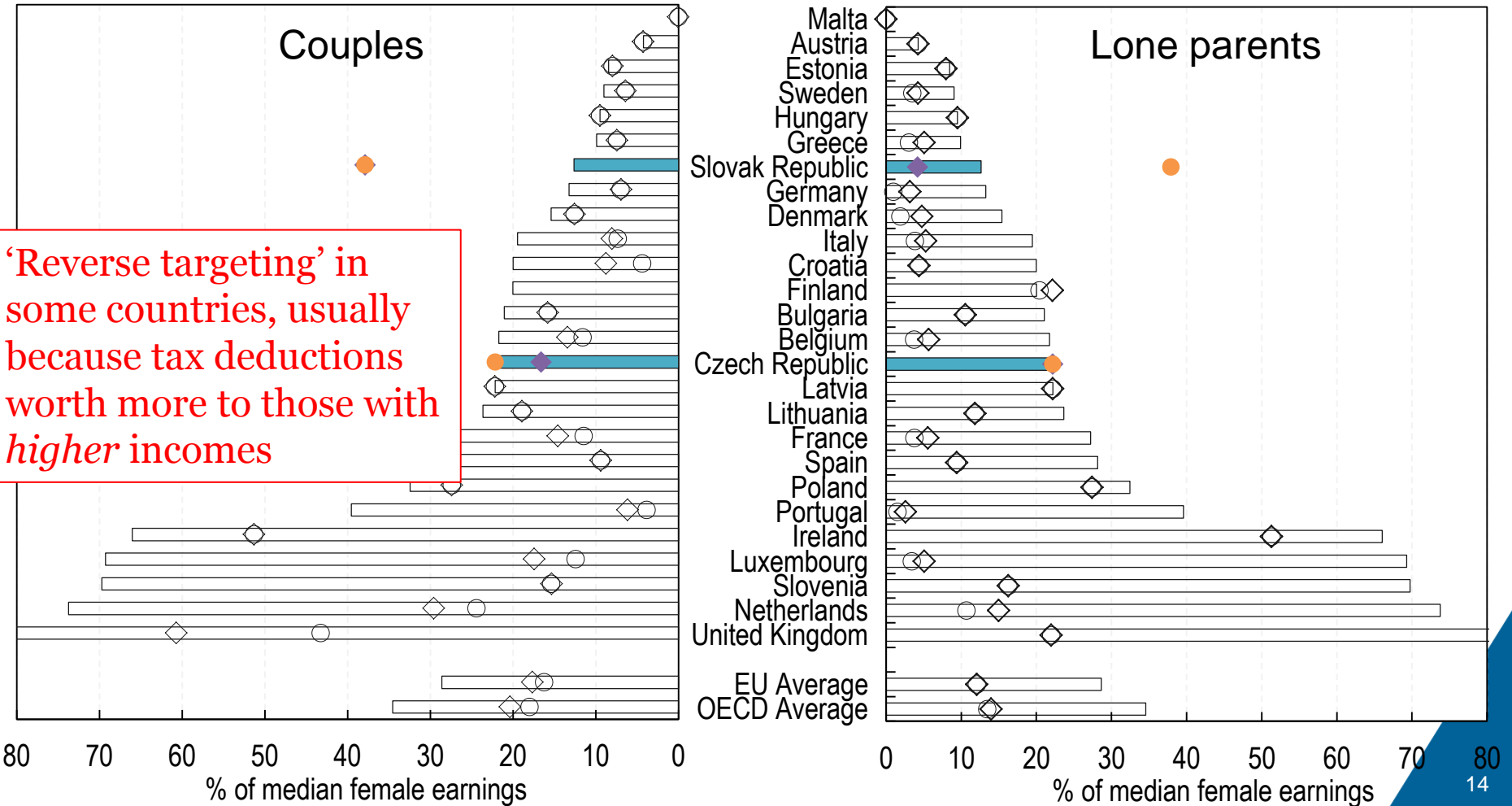
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■ Gross childcare fees ◆ Net cost, median earnings ● Net cost, low earnings





Summary: childcare costs for different family types

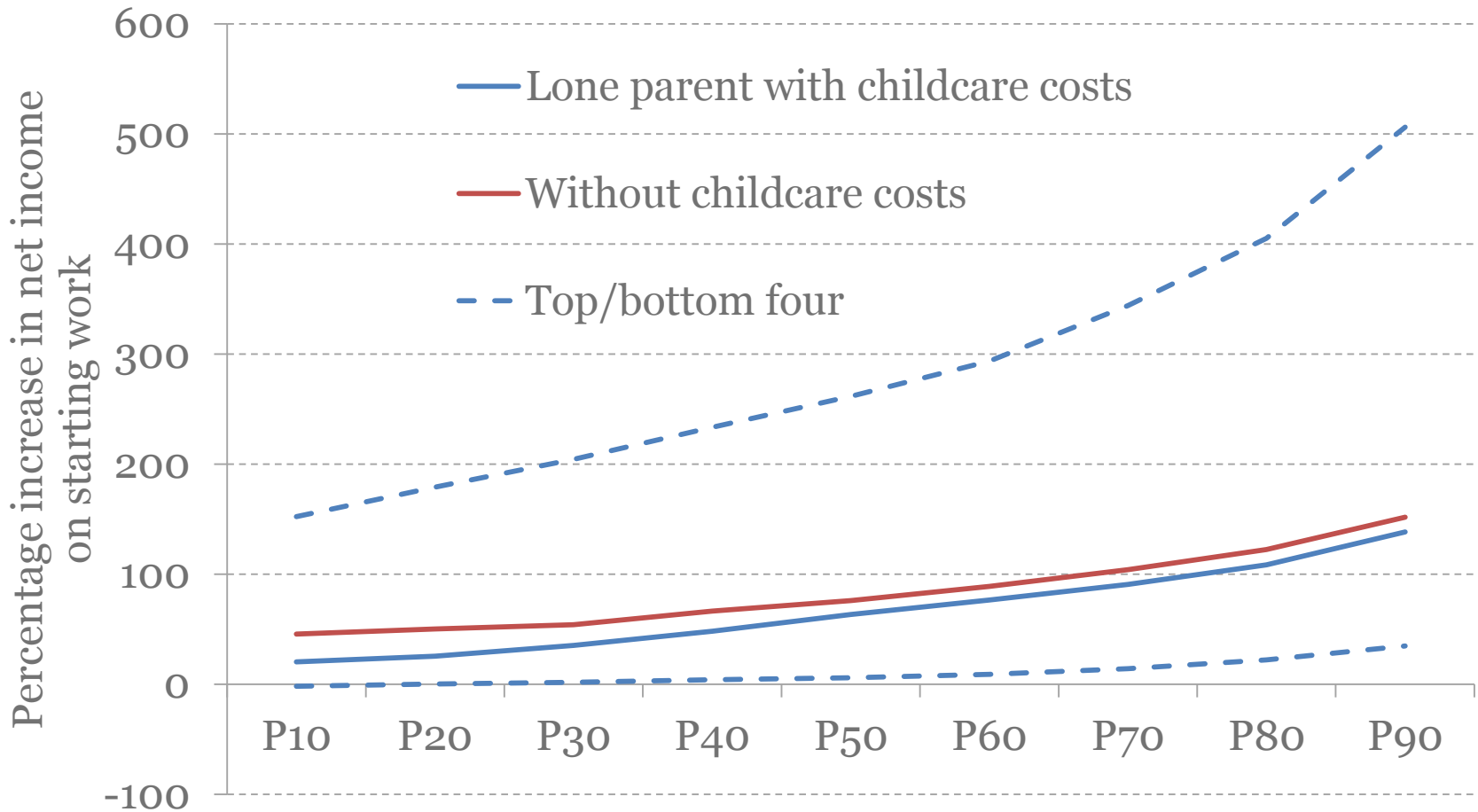
- Gross childcare costs high, > 30% of median wage in a quarter of EU Member States
- Net costs can be more than 20% of disposable income for low income families where support is low
 - And can be *higher* than fees charged by providers if some benefits (home-care allowances) are withdrawn when child participates in childcare
 - But much lower in countries with subsidised public pre-school systems where fees are often income related
- Support means-tested in most EU countries, including the UK
 - Targets support on most in need, but net costs still take up substantial share of income even for those with higher earnings
 - Can weaken incentives to increase earnings
- ‘Reverse targeting’ in some countries: higher-income families benefit more
 - Usually the result of tax provisions that are worth little or nothing to low-income households

**Impact of childcare
costs on
work incentives**



Work incentives: Can parents afford to work?

Median EU country, and top/bottom four

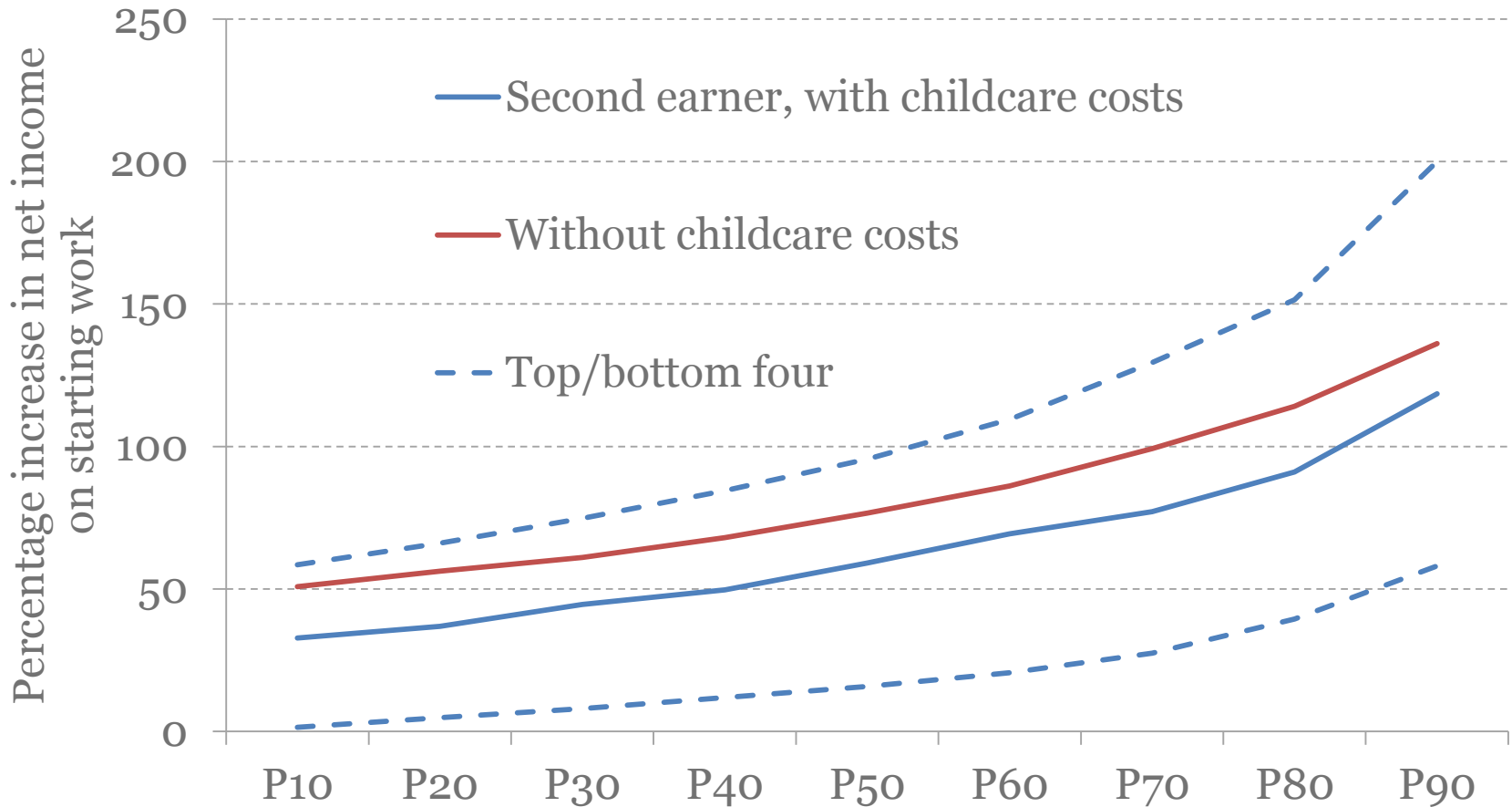


Note: Percentiles of female full time earnings distribution.



Work incentives: Can parents afford to work?

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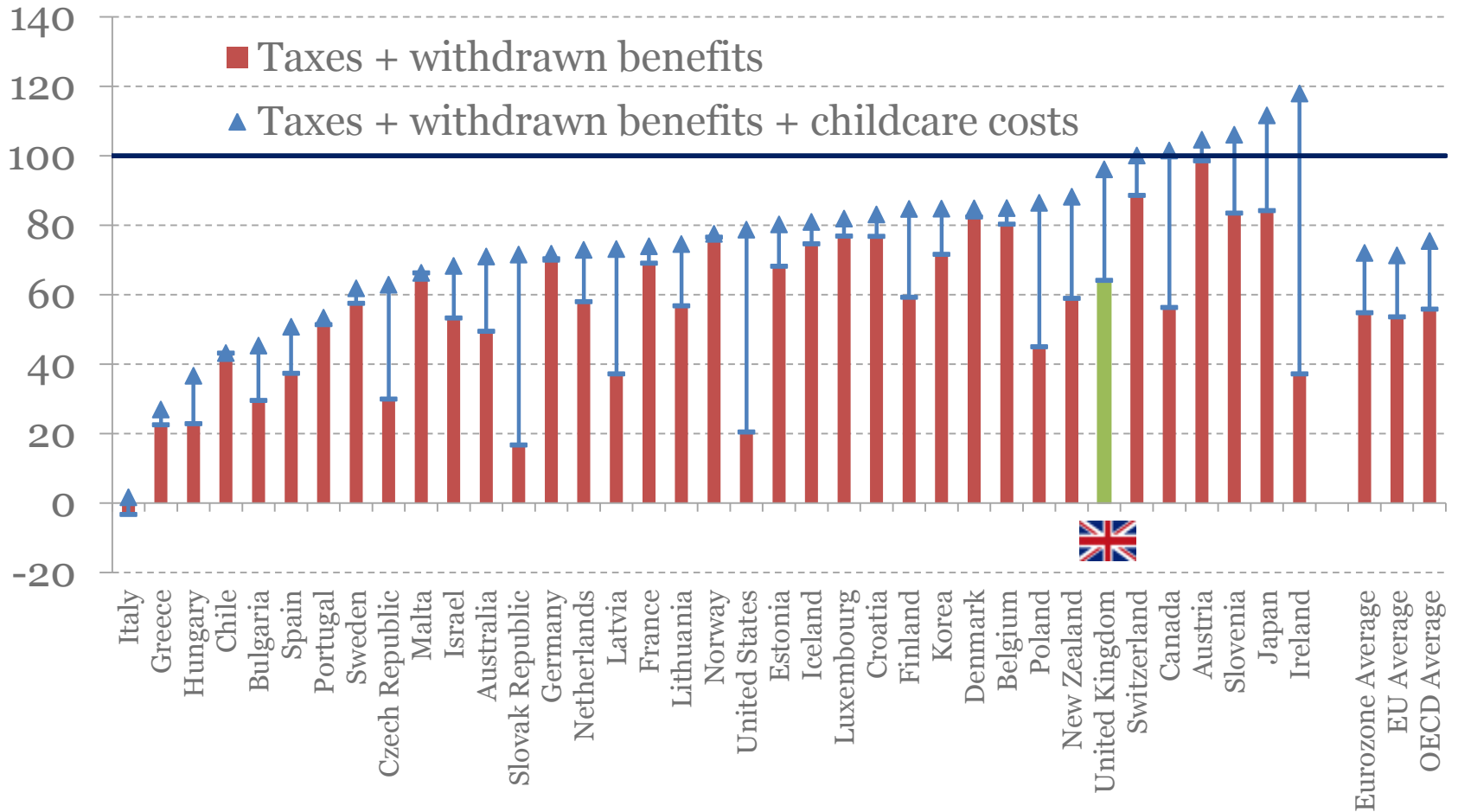


Note: Percentiles of female full time earnings distribution. First earner always earns at 20th percentile of male full-time earnings distribution.



Proportion of earnings lost to...

Lone parent, low earnings

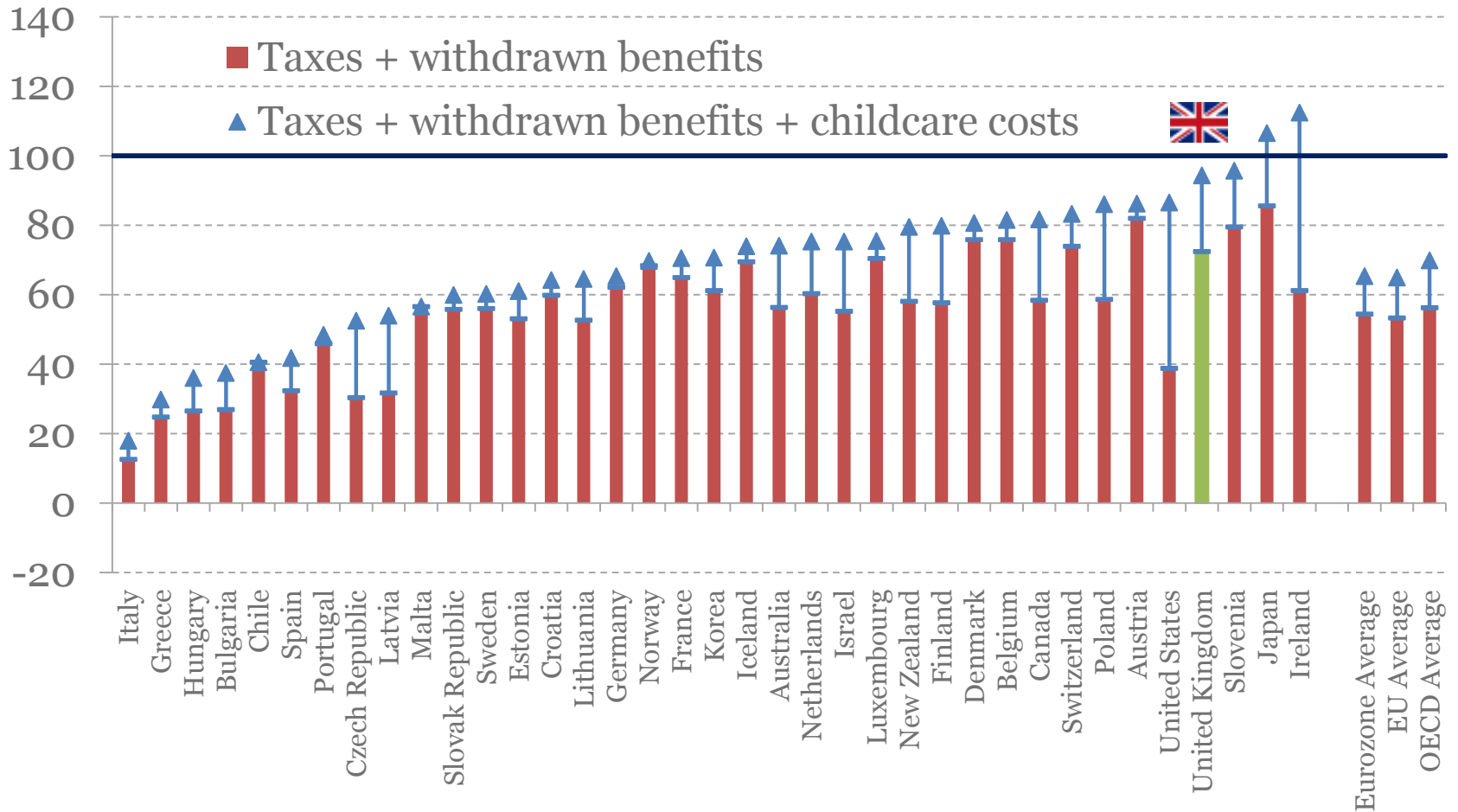


Note: earnings at 20th percentile of female full-time earnings distribution



Proportion of earnings lost to...

Lone parent, median earnings

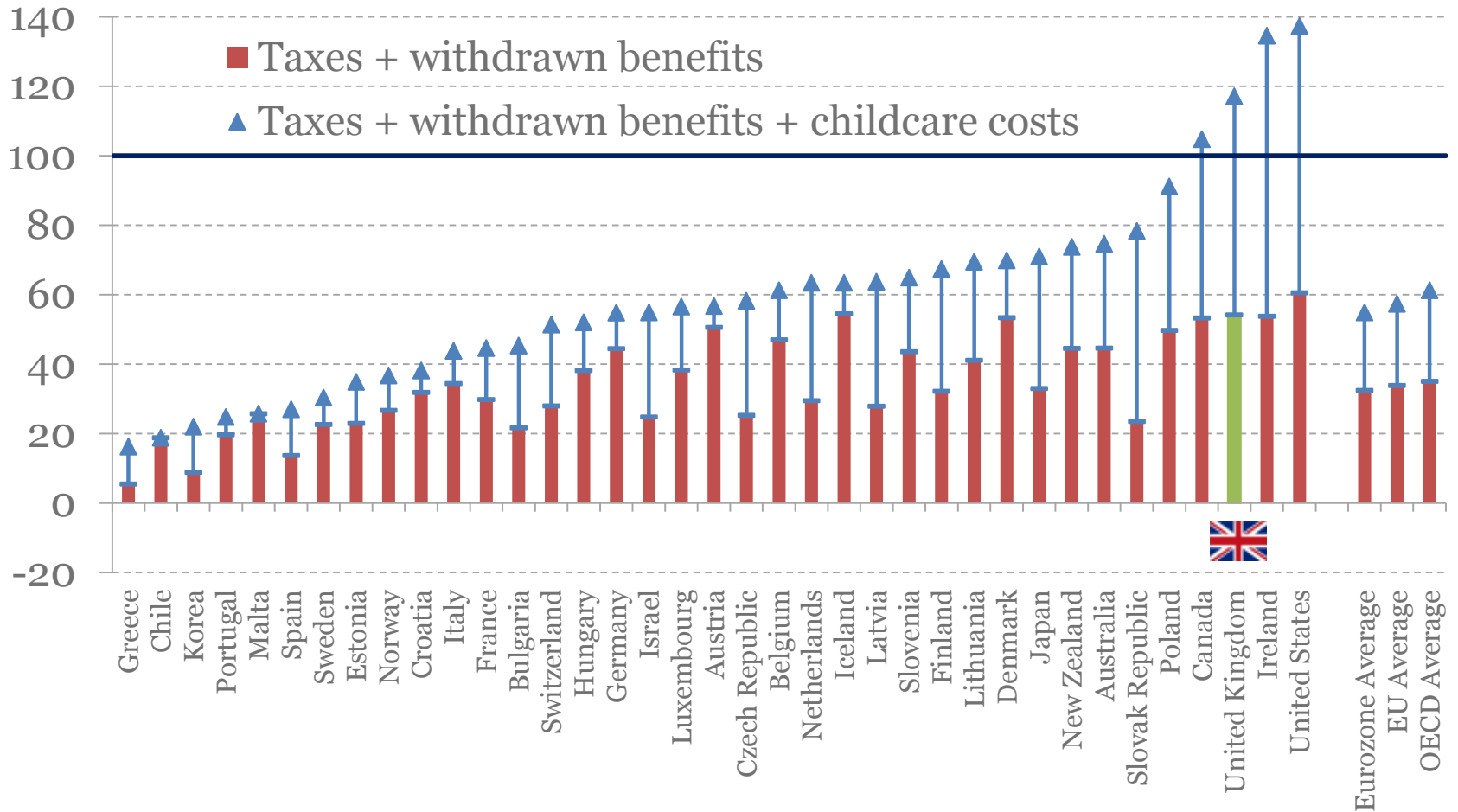


Note: earnings at 50th percentile of female full-time earnings distribution



Proportion of earnings lost to...

Second earner in couple, low earnings

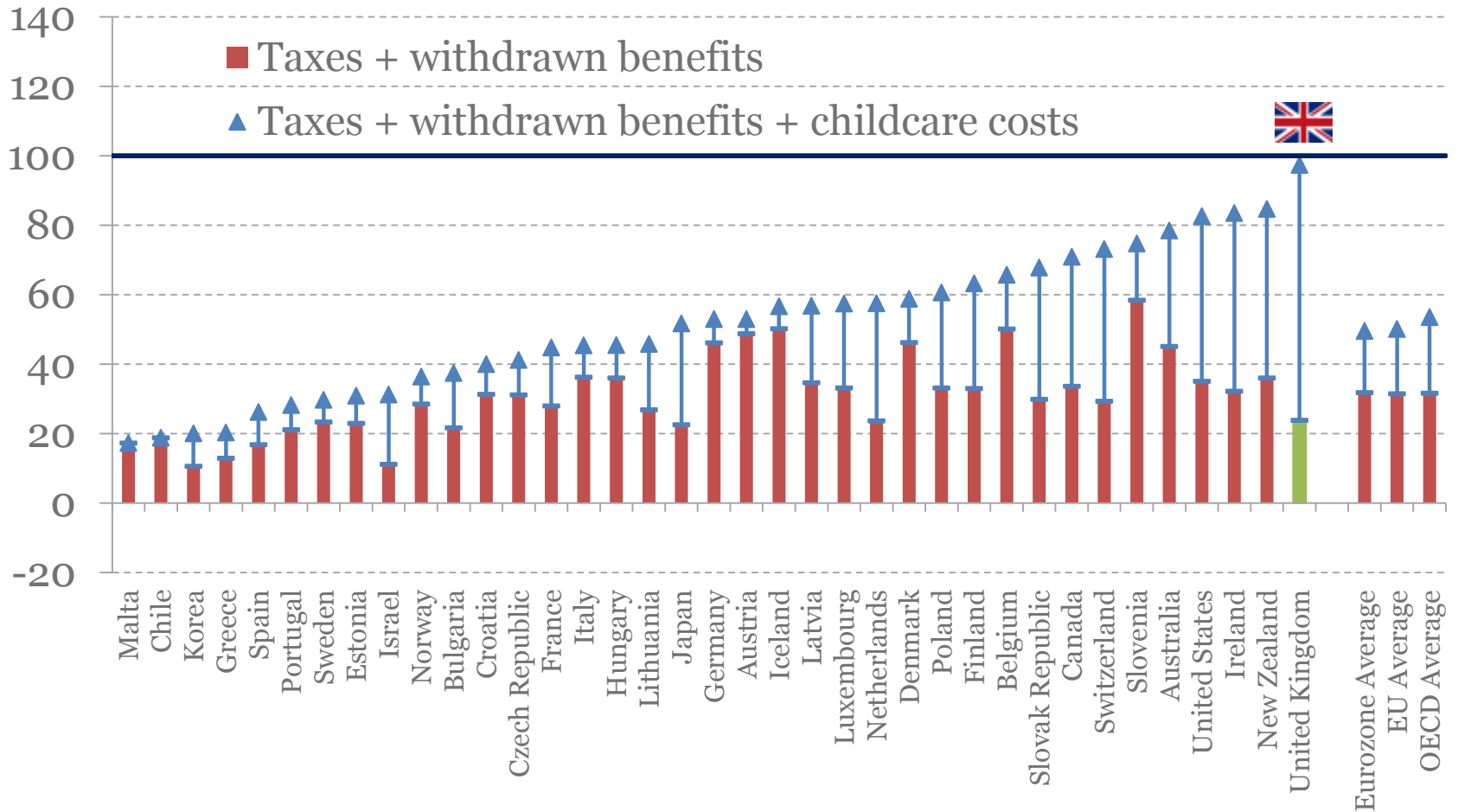


Note: earnings at 20th percentile of female full-time earnings distribution. Partner works full time at 20th percentile of male full-time earnings distribution.



Proportion of earnings lost to...

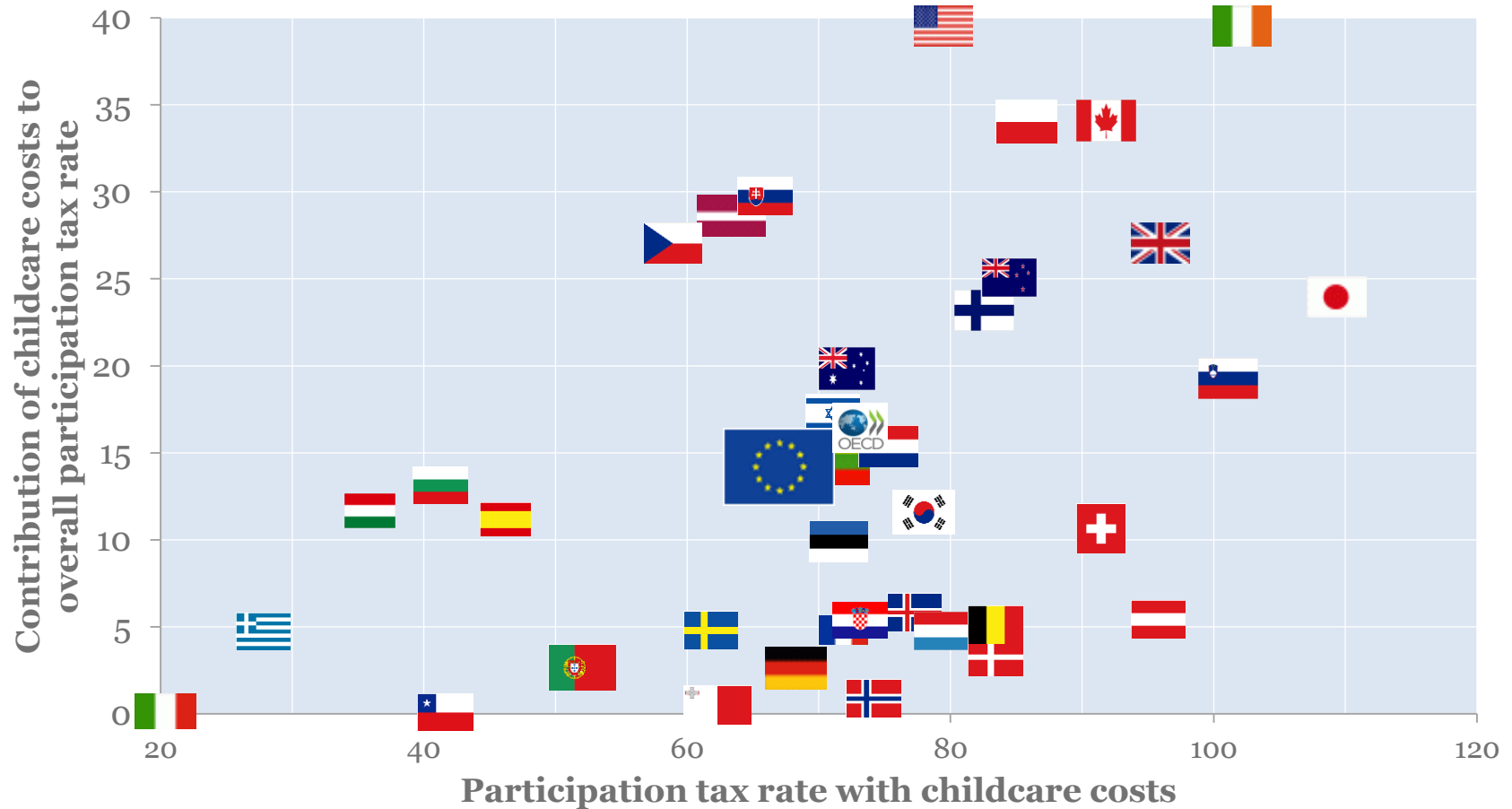
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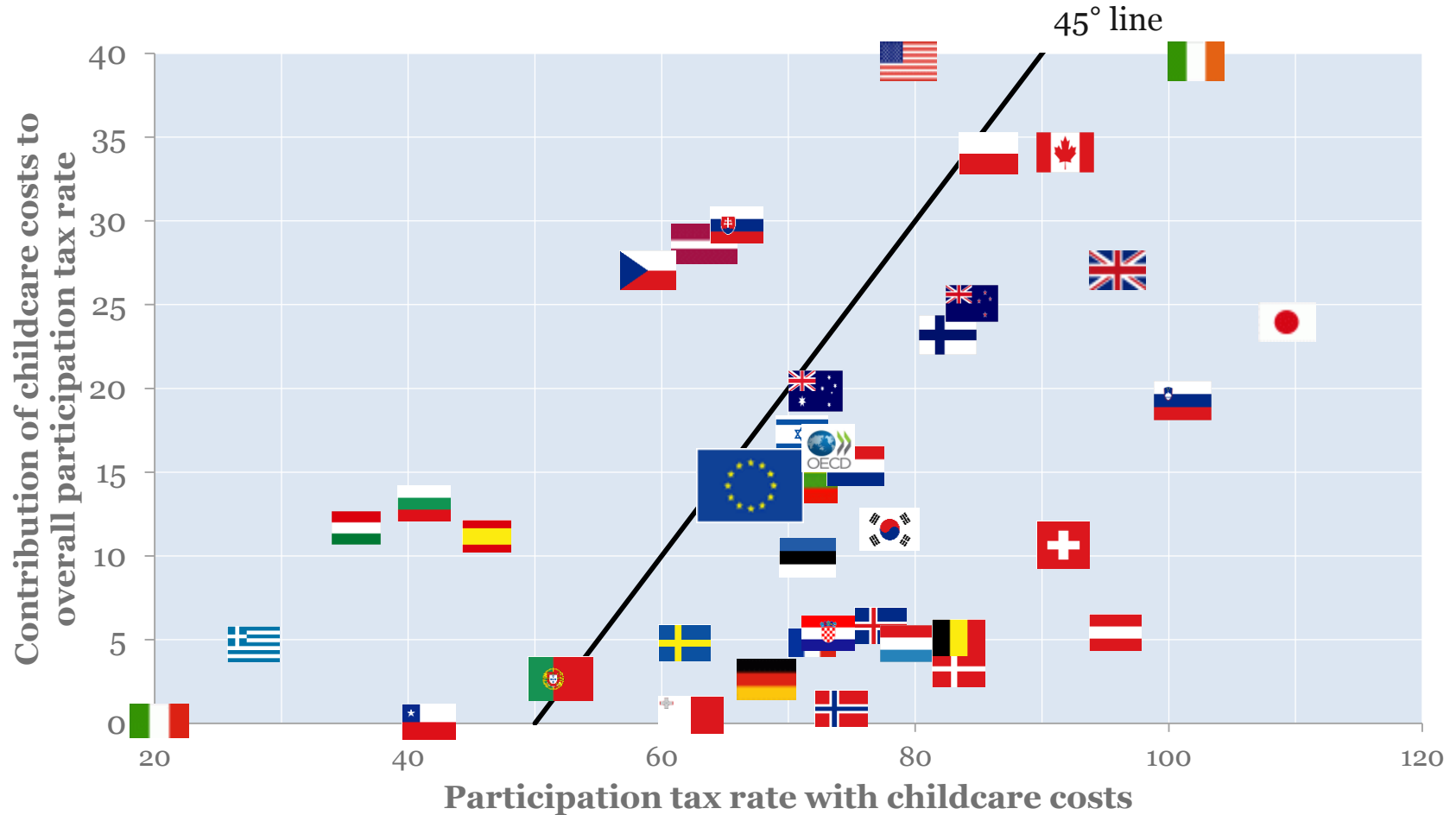
Childcare costs not the only reason for weak work incentives for lone parents...



Note: Average of 20th and 50th percentile of female earnings distribution



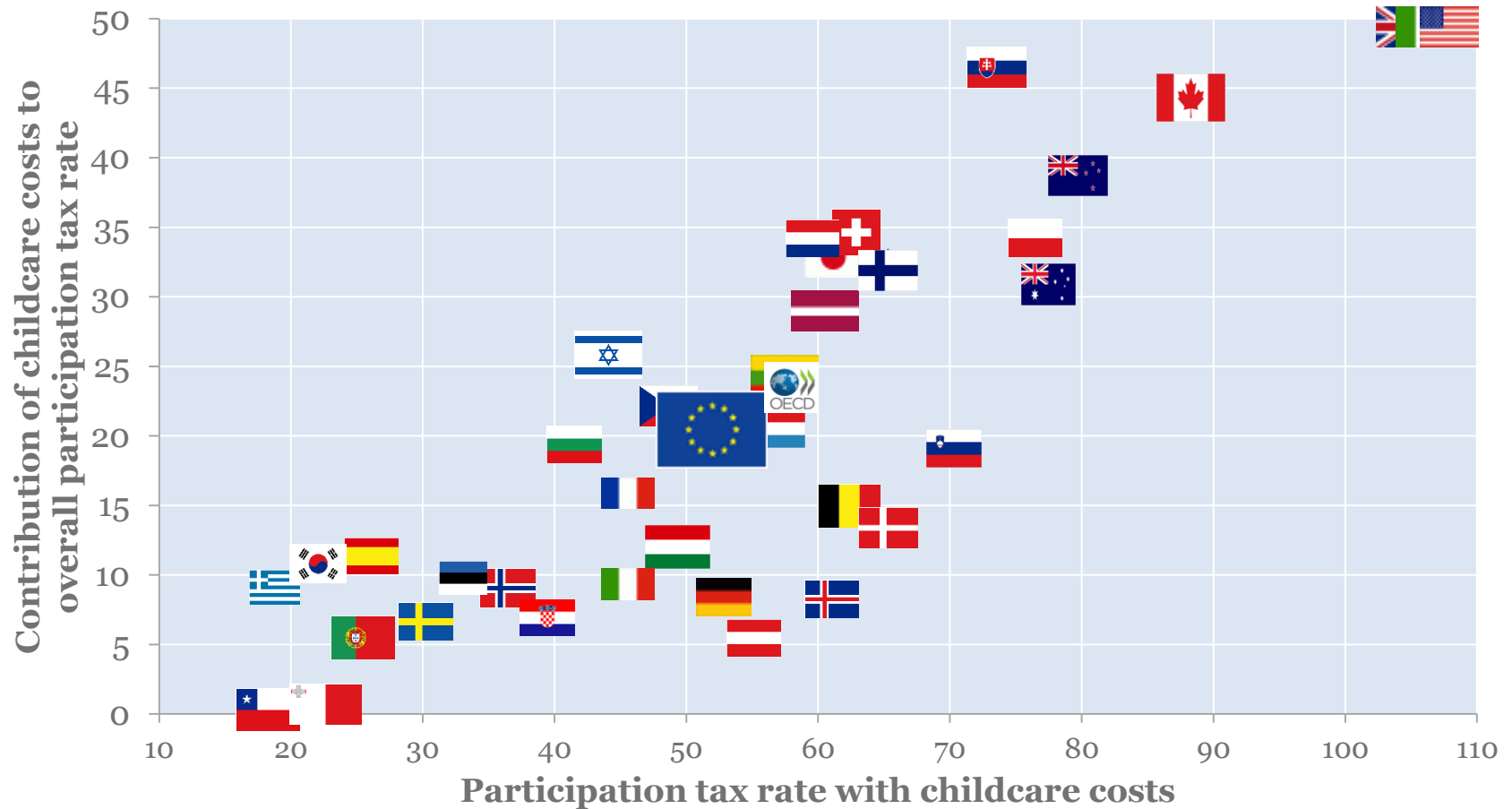
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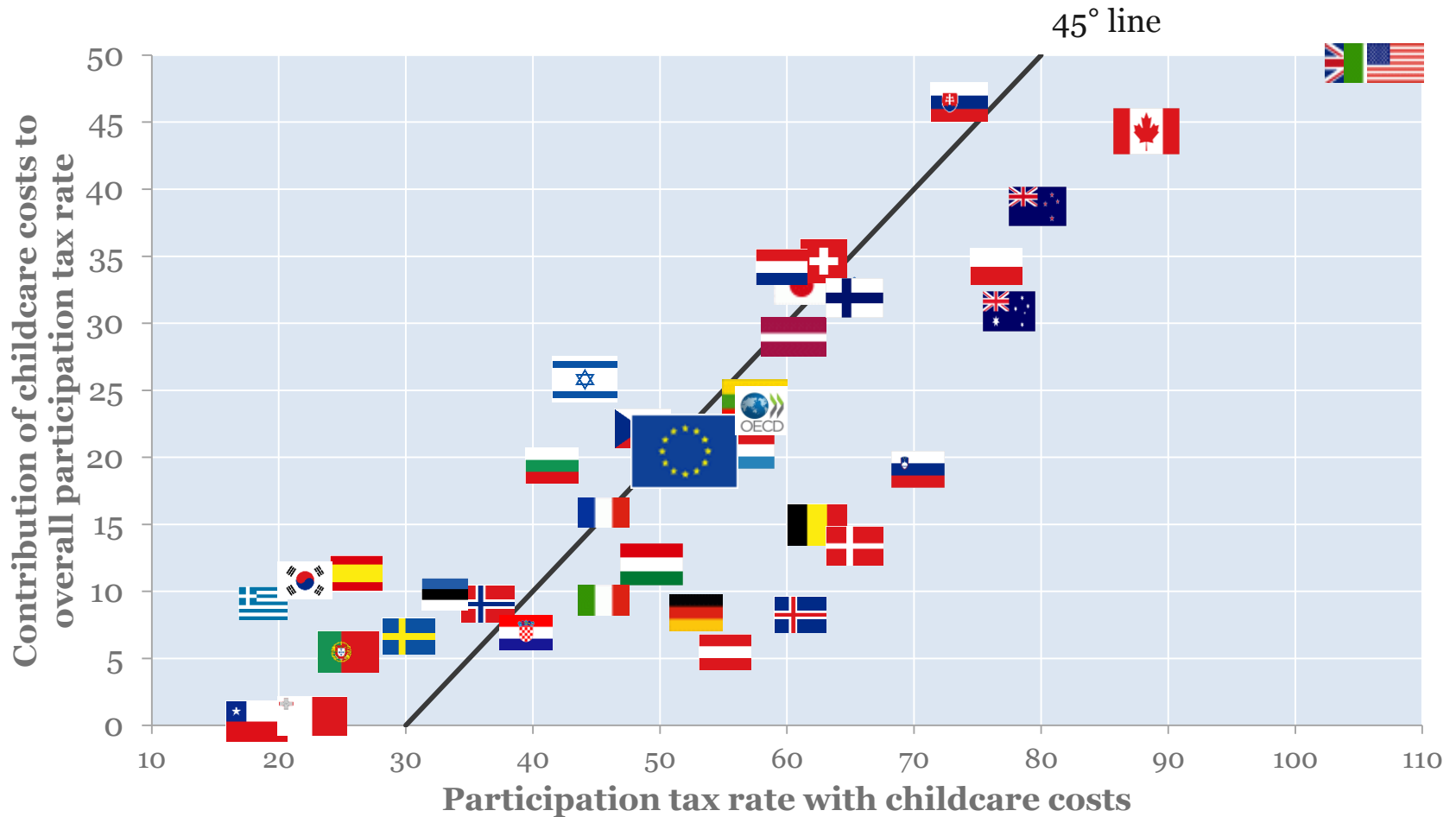
...but are a key driver of work incentives for women in couples



Note: Average of couple where parents earn at the 20th percentile of their gender-specific earnings distribution and where they earn at the 50th percentile of the gender-specific earnings distribution.



...but are a key driver of work incentives for women in couples

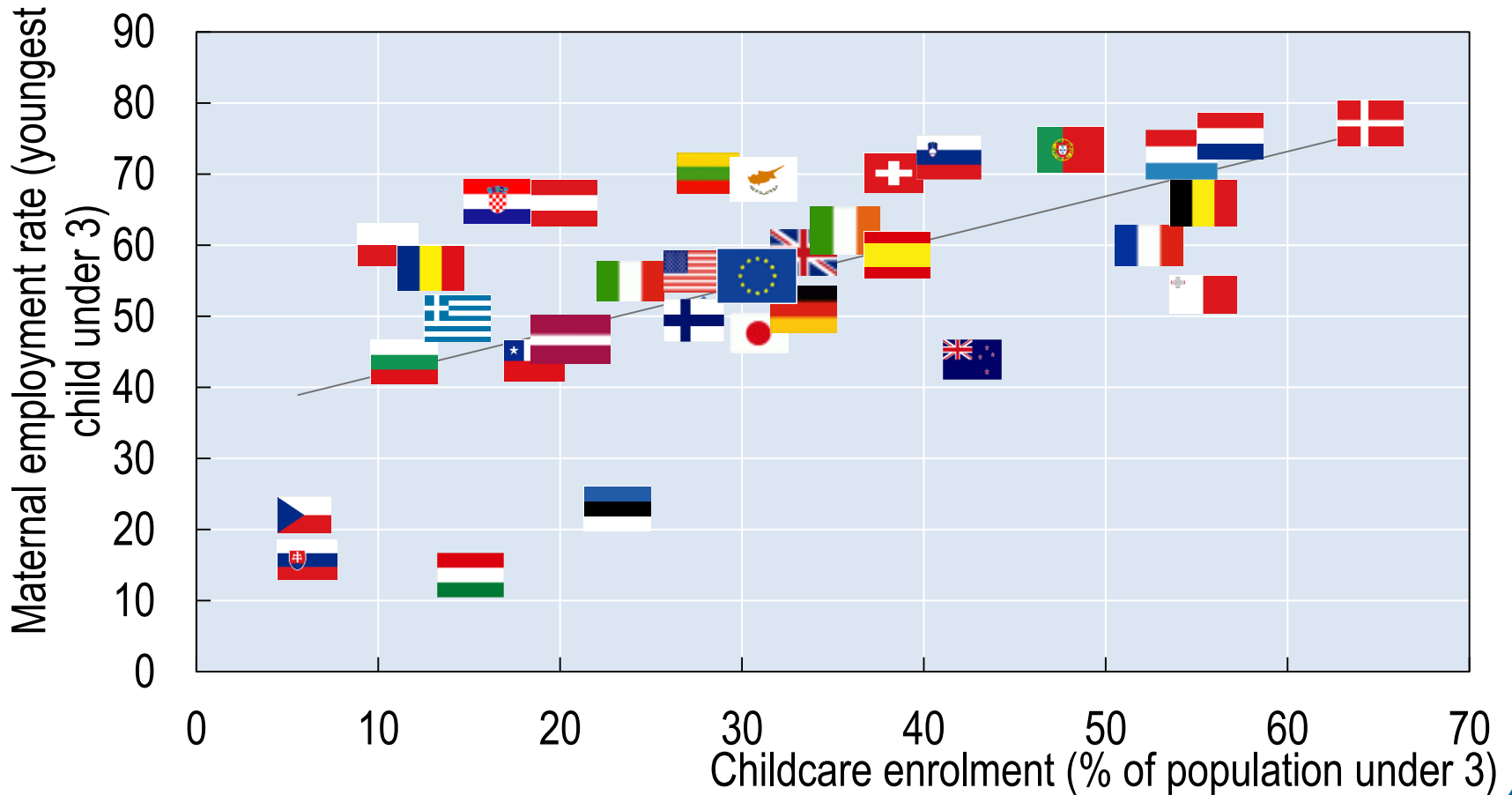


Note: Average of couple where parents earn at the 20th percentile of their gender-specific earnings distribution and where they earn at the 50th percentile of the gender-specific earnings distribution.



Seems to be important for outcomes:

Higher enrolment associated with higher maternal employment rate



Source: OECD Family Database



Summary: impact of childcare costs on work incentives

- Childcare costs substantially reduce the financial returns to paid work for mothers
 - Especially at low levels of earnings: by half for lone mothers and one third for mothers in couples
 - But sizeable variation across countries depending on size of net childcare costs
- In a number of countries, including the UK, can make it not financially worthwhile to undertake paid work
- But not the only reason for weak work incentives among lone parents
 - Steep benefit withdrawal on entering work → weak incentives even in some countries with low childcare costs
- A key driver of weak incentives for mothers in couples though
- And childcare enrolment seems to be important for mothers' employment decisions