

PF12: Childcare support

Definitions and methodology

Parents pay childcare fees to childcare institutions (e.g. day-care centres, family day care) for the services they provide to them and their children. The data presented here concerns the amount payable for a two-year old and a three-year old, for one month of full-time care not accounting for periods where childcare may not be available or required (e.g. vacation). Where fee information is provided per hour of care, full-time care is assumed to cover 40 hours per week. ‘Fees’ are gross amounts charged to parents, regardless of the subsidy that providers may receive from public authorities or private donations. Gross fee payments also do not reflect the amount of childcare-related cash benefits, tax advantages or refunds/rebates that may be available to parents. Where prices depend on income of family characteristics, the maximum applicable fee is shown. Unless fees are rule-based or uniform across institutions, averages or “typical” fees are shown.

Net childcare costs as defined here include fees minus cash benefits, rebates and tax concessions. Subtracting the latter from the gross fee charged by the childcare provider gives the net cost to parents, i.e. the “out-of-pocket” expenses resulting from the use of a formal childcare facility. Calculations of net childcare cost relate to *full-time care for two children aged 2 and 3 in a typical childcare facility*. The results presented below do account for tax reductions, childcare benefits and “other benefits”, which are not primarily childcare-related (e.g. family or housing benefits) but nonetheless, influence household income position. Childcare costs may vary with family situation and earnings level. Information is presented for different household situations:

- A married couple where both spouses work full-time, one earning average wages (100% of AW) and the other one earning below-average wages (67% of AW).
- A full-time employed sole parent with below-average earnings (67% of AW).

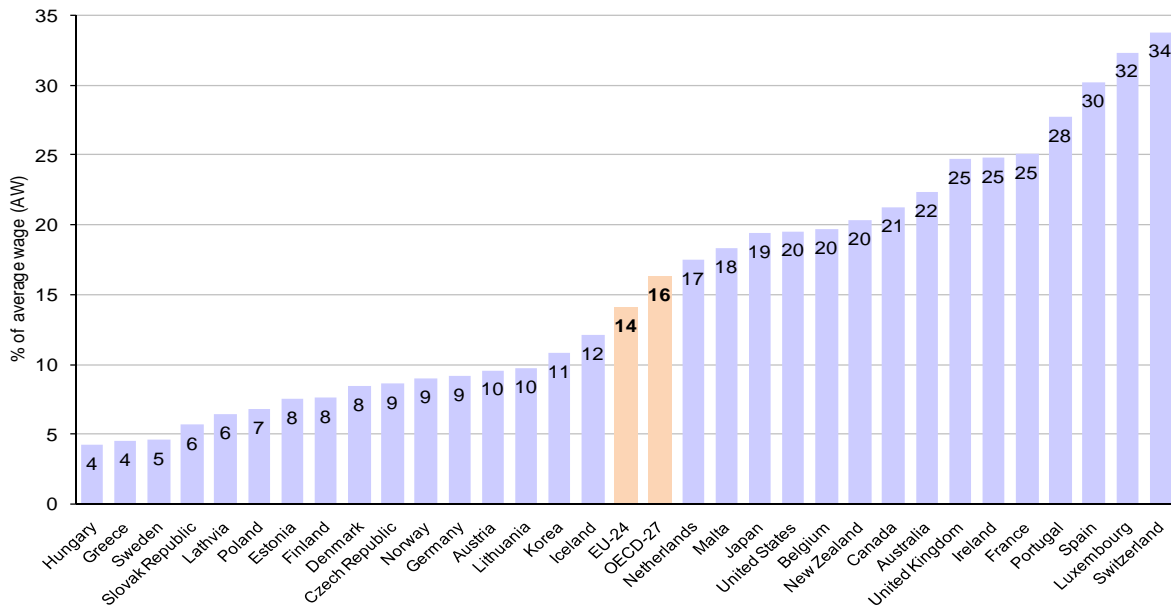
Key findings

The choice of childcare arrangements (parental, formal and/or informal care) is influenced by a large number of factors, with affordability being one of the most influential. Chart PF12.1 shows that across OECD countries, the average “typical” childcare fee paid for a two-year old in full-time care is just over 16% of average earnings with wide variation across countries. This amount ranges from less than 5% in Greece, Hungary and Sweden to above 30% in Luxembourg, Spain and Switzerland. The data here represent the “typical” fees charged by accredited childcare centres in the country, and ignore variation in childcare fees by type of care, region or municipality and characteristics of children or parents.

In many countries childcare fees are often reduced for low-income families; are sometimes lower for sole parents; can differ by the number of children in care; and, often decrease with children’s age. The objective of these measures is to address equity concerns (ensuring accessibility of childcare for families with limited means) and/or demographic objectives (reducing the cost of children to larger families).

Other relevant indicators: LMF2: Maternal employment; PF4: Gender-neutrality of tax/benefit systems; PF10: Public spending on childcare and early education; PF11: Enrolment in day-care and pre-schools; PF13: typology of childcare and early education services; and, PF14: Quality of childcare and early education services.

Chart PF12.1 Childcare fees for a two-year old attending accredited early-years care and education services, 2004



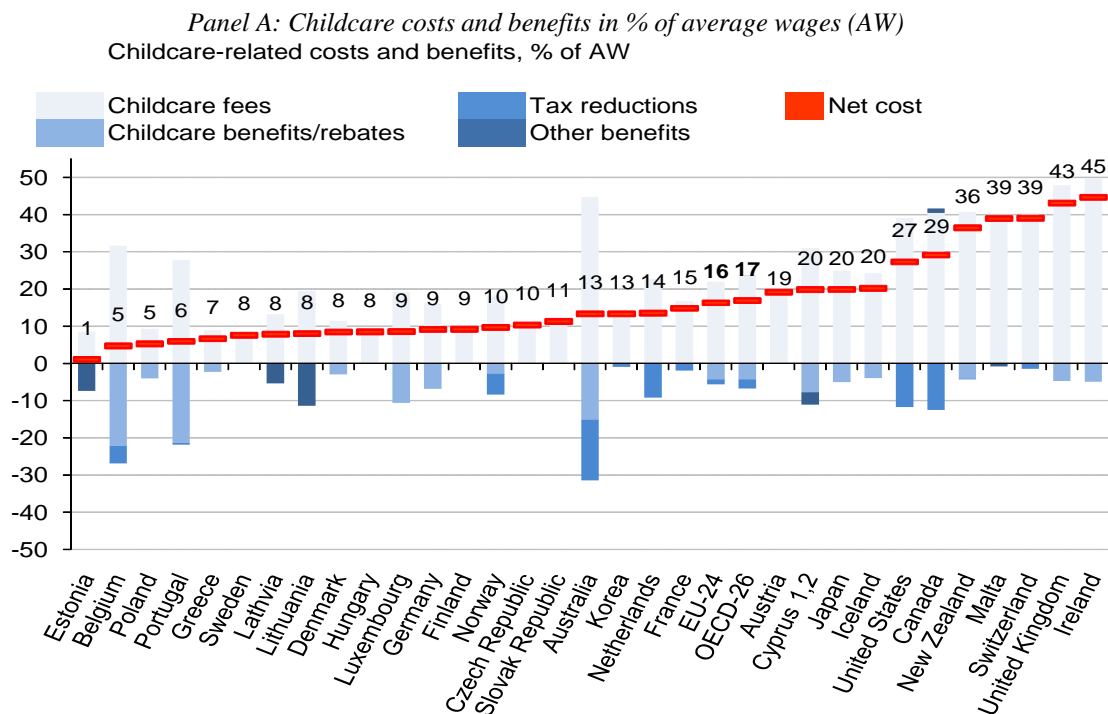
Note: The average wage reflects the earnings of an "average worker"; see OECD, 2007, pp. 186-7 for detail.
 Source: OECD (2007)

Country comparisons of gross childcare fees alone are, however, not very informative. *Net* childcare costs can be substantially lower. As mentioned before, childcare fees are often reduced for families in particular circumstances and these reductions can be both substantial and widespread. In addition, countries provide a range of tax reductions and cash benefits aimed at helping parents reduce the net cost of purchased childcare. Nevertheless, even after accounting for government support, in many countries overall costs remain high.

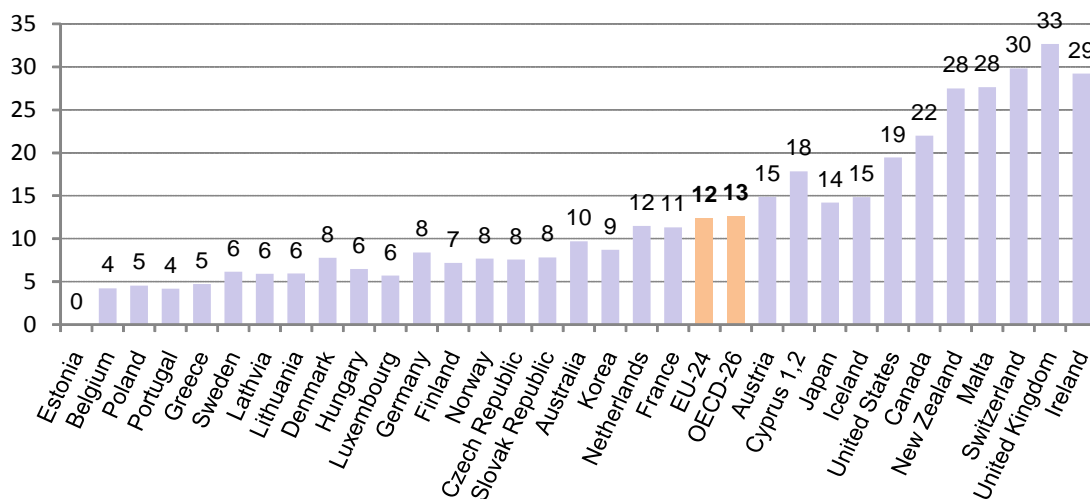
For dual-earner couples with earnings at 167%, the average out-of-pocket expenses for two children in full-time care are around 17% of average earnings (Chart PF12.2, Panel A) with wide variation across countries. Net childcare costs are low in countries where gross fees are relatively low and in Belgium and Portugal, where there is considerable (income-tested) childcare benefit support. In these countries, net childcare costs for families with two children are close to or below 10% of overall family net incomes (Chart PF12.2, Panel B). By contrast, centre-based formal care is most expensive for working couples in Switzerland (city of Zürich) and most English-speaking countries (data do not cover the low-cost domestic service market in the US). In Ireland and the United Kingdom, where net childcare costs for a working couple with 167% of average earnings are highest at about one-third of family budgets. Calculations, not presented here, for dual-earner families with household earnings equivalent to 133 and 200% of average wages, generate results similar to those presented in Chart PF12.2.

Unless they can rely on informal care arrangements, sole parents need to have access to formal childcare to be able to participate in the labour market. For sole parents with earnings at 67% of average wages net childcare costs are around half that faced by dual-earner families, that is 8% of average wages (Chart PF12.3, Panel A). Compared to dual-earner families, childcare fees for sole parents are significantly lower in Belgium. In other countries, in particular, Australia, New Zealand, Portugal, the United Kingdom and the United States (Michigan) net cost reductions are achieved through targeted childcare benefits and rebates. Despite this support, out-of-pocket costs for sole parents are above 40% of average wages in Ireland and the United Kingdom. Furthermore, childcare costs are more than half of the family net income in Ireland. The latter has implications for incentives to work and thus for the risk of suffering from poverty.

Chart PF12.2 Net childcare costs for a dual earner family with full-time arrangements of 167% of the average wage, 2004



Panel B: Childcare cost in % of family net income



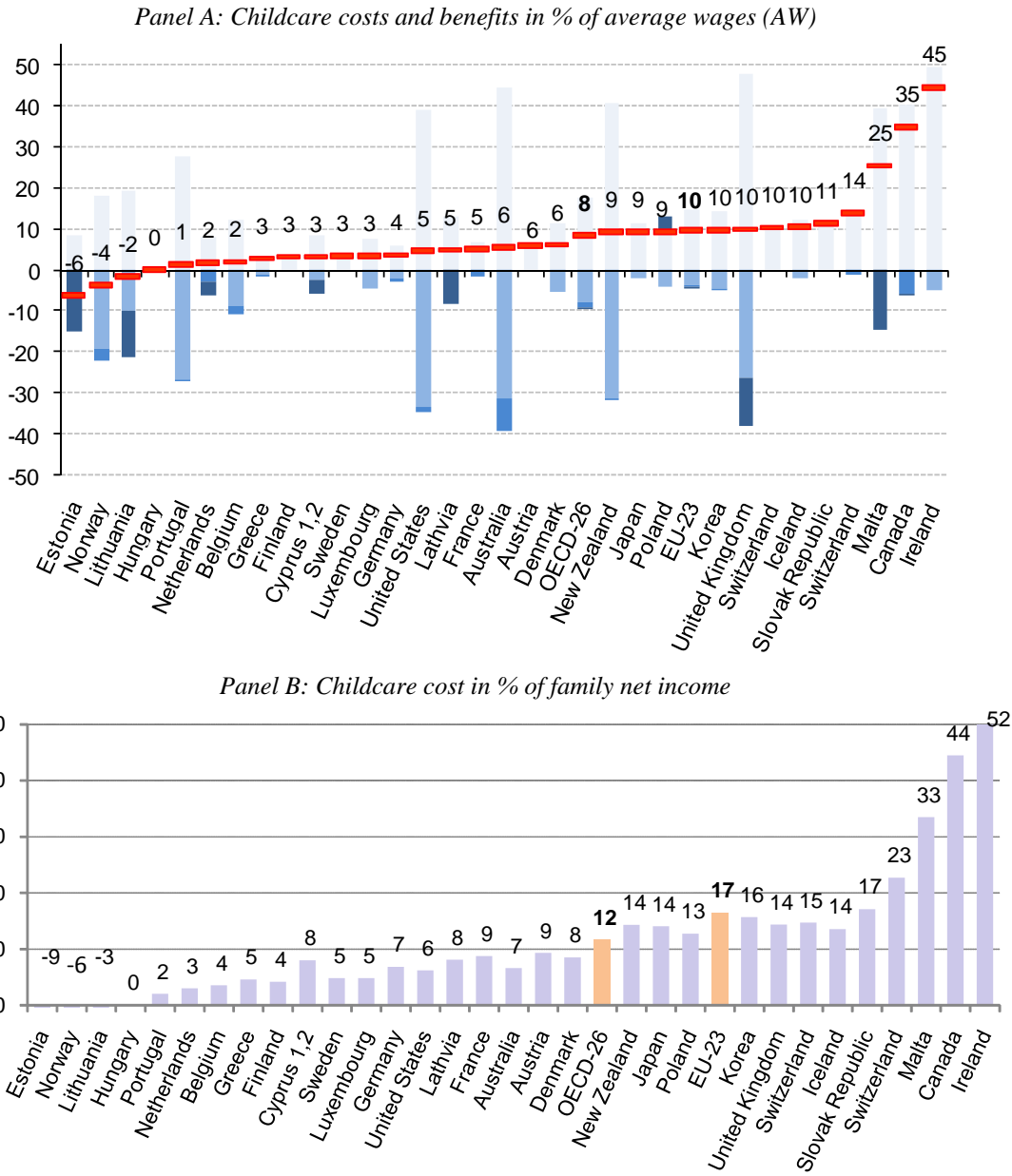
Note: The average wage reflects the earnings of an "average worker"; see OECD, 2007, pp. 186-7 for detail.

1) Footnote by Turkey: The information in this document with reference to « Cyprus » relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognizes the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

2) Footnote by all the European Union Member States of the OECD and the European Commission: The Republic of Cyprus is recognized by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: OECD (2007).

Chart PF12.3: Net childcare costs for a sole-parent family with full-time earnings of 67% of the average wage, 2004



Note: The average wage reflects the earnings of an "average worker"; see OECD, 2007, pp. 186-7 for detail.
 1, 2 See notes 1 and 2 to Chart PF12.2.
 Source: OECD (2007).

Comparability and data issues

In an effort to provide a meaningful international comparison in an area which is characterised by heterogeneous policy arrangements, the OECD collects data on “typical” fees charged by *accredited childcare centres for children aged two and three*. Inevitably, assumptions had to be made on the age of the children, family status, different earning levels, the overall fee paid by parents and the intensity of childcare use (see above).

The calculations assume that fees are paid for full-time care, whereas in reality, there is considerable variation in the intensity of participation across countries and children. For example, childcare use in Sweden is typically for 30 hours per week, whereas in the Netherlands childcare participation is often on a part-time basis. These differences should be kept in mind when interpreting the results.

In a number of countries, available fee information relates to a particular region or municipality: Austria (Vienna), Belgium (*Wallonia*), Canada (Ontario), Germany (*Nordrhein-Westfalen*), Iceland (Reykjavík), Poland (Olsztyn), Switzerland (Zürich), and the United States (Michigan).

Sources and further reading: OECD (2007), *Benefits and Wages*, OECD, Paris.