PF3.4: Childcare support

Definitions and methodology

This indicator uses data from the OECD’s Tax and Benefit Models to provide information on the costs of centre-based childcare and government support for parents using centre-based care. It presents information on both ‘gross childcare fees’ – that is, the gross amount charged to parents before any benefits or rebates – and on ‘net childcare costs’, or the actual ‘out-of-pocket’ costs of childcare after accounting for childcare benefits or rebates, plus any other changes in tax burdens or benefits received.

The data on gross childcare fees refers to the amount payable by parents with two children (aged 2 and 3) when both attend full-time care (at least 40 hours per week) in a ‘typical’ centre-based childcare facility. ‘Fees’ are the gross amounts charged to parents, regardless of any subsidy that providers may receive from public authorities or private donations, and do not reflect any amounts of childcare-related cash benefits, tax advantages or refunds/rebates that may be available to parents using childcare. Where prices depend on income or family characteristics, the maximum applicable fee is shown. Data are annualised, and do not account for periods where childcare may not be available or required (e.g. vacation). Unless fees are rule-based or uniform across institutions, averages or “typical” fees are shown.

Net childcare costs (or the ‘out-of-pocket’ cost of centre-based childcare) are calculated here as the difference in ‘family net income’ between a family that uses centre-based childcare services and an otherwise identical family that does not. ‘Family net income’ is the sum of gross family earnings plus cash benefits minus income taxes and social contributions paid by workers. The methodology used takes into account gross childcare fees (as above), childcare-specific supports designed to reduce the costs faced by parents, and the interaction between childcare specific policies and any other tax and benefit policies. In so doing, results also identify the impact of childcare use on tax burdens and “other benefits”, which are not primarily childcare related (e.g. family or housing benefits) but nonetheless may impact on the net cost of childcare. Results are shown for two model family types:

- A two-earner couple family with two children (age 2 and 3), with gross earnings for the first earner in the family set equal to 100% of average earnings (AW), and gross earnings for the second earner set equal to 67% of average earnings. Both partners are assumed to be working full-time.

- A single-earner single-parent family with two children (age 2 and 3), with gross earnings for the single-parent set equal to 50% of average earnings. The single parent is assumed to be working full-time.

Again, data are based on both children attending full-time care (at least 40 hours per week) in a ‘typical’ centre-based childcare facility. Results are presented in % of average earnings, and as a % of family net income (before deducting any childcare expenses). For further information on the methods and assumptions used and information on the policies modelled for each country, please see the OECD Tax and Benefit Systems website (www.oecd.org/els/soc/benefits-and-wages.htm).

Other relevant indicators: LMF1.2: Maternal employment; PF1.4: Neutrality of tax/benefit systems; PF3.1: Public spending on childcare and early education; PF3.2: Enrolment in day-care and pre-schools; PF4.1: Typology of childcare and early education services; and, PF4.2: Quality of childcare and early education services.
Key findings

Gross fees for care in a ‘typical’ childcare centre differ considerably across the OECD (Chart PF3.4.A). On average across OECD countries, the ‘typical’ gross childcare fee paid for two children (aged 2 and 3) in full-time centre-based care equates to just over 27% of average earnings, but this varies from as low as 3.1% of average earnings in Austria to 50% or more of average earnings in countries like Australia, Ireland, Luxembourg, the Netherlands, New Zealand, and Slovenia. In the United Kingdom, the ‘typical’ gross childcare fee paid for two children in full-time centre-based care works out at just over 64% of average earnings, while in Switzerland it reaches 70% of average earnings.

Chart PF3.4.A. Gross childcare fees

Gross fees for two children (age 2 and 3) attending full-time care at a typical childcare centre, as % of average earnings (AW), 2015

Note: ‘Full-time’ care is defined as care for at least 40 hours per week. Data for countries marked with an * are based on estimates for a specific region or city, rather than for the country as a whole. Average earnings/the average wage refers to the gross wage earnings paid to average workers, before deductions of any kind (e.g. withholding tax, income tax, private or social security contributions and union dues) (see OECD, 2007: 186-187). See the OECD Tax and Benefit Systems website (http://www.oecd.org/els/soc/benefits-and-wages.htm) for more detail on the methods and assumptions used and information on the modelled for each country.

Source: OECD Tax and Benefit Models 2015

Cross-country comparisons of gross childcare fees are not, however, always fully informative, at least not by themselves. Governments often look to provide financial support to parents using childcare, through various different means. For example, in many countries childcare fees are reduced for families with particular circumstances, such as single-parent families or families on low incomes. Countries may also provide a range of cash benefits, rebates and tax reductions to help reduce the cost of purchased childcare. As a result, the actual net or ‘out-of-pocket’ cost finally borne by the parents is often substantially lower than the gross fee.

Chart PF3.4.B shows net childcare costs for a two-earner two-child (aged 2 and 3) couple family with full-time earnings equal to 100+67% of average earnings, as well as a decomposition of the net cost into its various parts. On average across OECD countries, the net cost of childcare (for two children aged 2 and 3 in full-time centre-based care) for this two-earner couple family works out at just under 17.5% of average earnings, but there is substantial variation across countries (Chart PF3.4.B). Net childcare costs are low in countries where gross fees are already relatively low (Austria, Estonia, Germany, Greece, Hungary, Iceland, Norway, Sweden), plus also in countries like the Czech Republic, Korea, Portugal and Spain, where there is considerable state financial support. In these countries, net childcare costs for the two-earner
couple family are around or below 10% of average earnings. Centre-based care is most expensive for the two-earner couple in the English-speaking OECD countries (Australia, Canada, Ireland, New Zealand, the United Kingdom and the United States), plus also the Netherlands, the Slovak Republic and Switzerland. In all of these countries, the net cost of childcare for the two-earner couple works out at at least 25% of average earnings, rising to around 40% in New Zealand, and as much as 55% in the United Kingdom.

Chart PF3.4.B. Out-of-pocket childcare costs for a two-earner couple family

Net childcare costs for a two-earner two-child (aged 2 and 3) couple family with full-time earnings at 100+67% of average earnings, as a % of average earnings (AW), 2015

Data reflect the costs of full-time care in a typical childcare centre for a two-earner two-child couple family, where both parents are in full-time employment and the children are aged 2 and 3. Gross earnings for the two earners in the family are set equal to 100% of average earnings for the first earner, and 67% of average earnings for the second earner. 'Full-time' care is defined as care for at least 40 hours per week. Average earnings/the average wage refers to the gross wage earnings paid to average workers, before deductions of any kind (e.g. withholding tax, income tax, private or social security contributions and union dues) (see OECD, 2007: 186-187). Data for countries marked with an * are based on estimates for a specific region or city, rather than for the country as a whole. See the OECD Tax and Benefit Systems website (http://www.oecd.org/els/soc/benefits-and-wages.htm) for more detail on the methods and assumptions used and information on the policies modelled for each country.

Source: OECD Tax and Benefit Models 2015

Single parents and parents on low incomes are often entitled to additional financial support which result in net childcare costs that are often lower than those faced by families with higher incomes – in absolute terms, at least. On average across OECD countries, for a full-time employed single parent with earnings equal to 50% of average earnings, the net cost of childcare (for two children aged 2 and 3 in full-time centre-based care) works out at 10.7% of average earnings (Chart PF3.4.C) – not far of half that for the two-earner couple family on 100+67% of average earnings. Looking across countries, net costs are again lowest in countries with relatively low gross fees (Austria, Greece, Germany, Iceland, Norway, Sweden), plus also countries like Belgium, Denmark, France, Portugal and especially Luxembourg, where financial support is considerable. They are highest, at more than 20% of average earnings, in Canada, Ireland and the United States, where targeted benefits are lacking or relatively low, plus also the Slovak Republic, where the net ‘cost’ of childcare is inflated by the loss of the parental allowance once children are no longer cared for at home.
Chart PF3.4.C. Out-of-pocket childcare costs for a single-parent family

Net childcare costs for a two-child (aged 2 and 3) single-parent family with full-time earnings at 50% of average earnings, as a % of average earnings (AW), 2015

<table>
<thead>
<tr>
<th>Childcare fee</th>
<th>Childcare benefit/rebates</th>
<th>Tax reduction</th>
<th>Changes in other benefits</th>
<th>Net cost</th>
</tr>
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Net childcare cost:

As % of AW: 0 0 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39

As % of family net income: 0 0 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39

Note: Data reflect the costs of full-time care in a typical childcare centre for a two-child single-parent family, where the single parent is in full-time employment and the children are aged 2 and 3. Gross earnings for the single parent are set equal to 50% of average earnings. 'Full-time' care is defined as care for at least 40 hours per week. Average earnings/the average wage refers to the gross wage earnings paid to average workers, before deductions of any kind (e.g. withholding tax, income tax, private or social security contributions and union dues) (see OECD, 2007: 186-187). Data for countries marked with an * are based on estimates for a specific region or city, rather than for the country as a whole. See the OECD Tax and Benefit Systems website (http://www.oecd.org/els/soc/benefits-and-wages.htm) for more detail on the methods and assumptions used and information on the policies modelled for each country.

Source: OECD Tax and Benefit Models 2015

Comparability and data issues

In an effort to provide meaningful international comparison in an area which is characterised by heterogeneous policy arrangements, the OECD collects data on “typical” fees charged by centre-based services for children aged two and three years. Inevitably, assumptions have 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. For example, the results shown above are based on calculations that assume fees are paid for full-time care, whereas in reality the intensity and duration of childcare use varies considerably. In countries like Iceland, Latvia, and Portugal, for instance, children in formal childcare attend services for an average of not far off 40 hours per week, whereas in the Netherlands childcare participation is more often on a part-time basis. These differences should be kept in mind when interpreting the results.

Childcare costs (and sometimes also financial supports) also often vary within countries (i.e. across regions or municipalities). Where national averages are not available or appropriate (such as where there is significant regional variation in the supports available), it is necessary to model childcare costs for specific regions, rather than for the country as a whole. In the results presented above, data for the following countries refer to particular regions or municipalities: Austria (Vienna), Belgium (Wallonie), Bulgaria...
(Sofia), Canada (Ontario), Finland (Helsinki), Germany (Hamburg), Iceland (Reykjavík), Japan (Tokyo), Poland (Warsaw), Switzerland (Zürich), United Kingdom (England) and the United States (Michigan).

It should be noted that, for the data shown in Charts PF3.4.B and PF3.4.C, to aid transparency, the individual components of net childcare costs are identified and separated out as far as is possible. For example, wherever possible, refunds are shown separately from fees, even if they are normally incorporated into the fee and deducted ‘at source’. For people familiar with the childcare cost situation in a particular country, the fee components may thus appear higher than expected if they are used to seeing them net of refunds. The important point is that all relevant components are counted one way or another and that net costs therefore accurately reflect the situation in each country.

As noted in the definitions and methodology section, all the data presented in this indicator are based on information and results from the OECD’s Tax and Benefit Models. For more information on the OECD’s Tax and Benefit Models in general, and for more detail on the assumptions and information used to model childcare costs in particular, please see the OECD Tax and Benefit Systems website.