



Employers & Child Care

HOW CAN YOU BENEFIT?

Prepared for



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Overview



WITH THE INFLUX of working parents into the workplace — especially mothers with young children — comes increased stresses and pressures for both employees and employers.

This has increased the mutual dependence between businesses and the family. Consequently, new employer strategies are emerging to strengthen both the family and the workplace. The family of the new millennium is profoundly affected by the workplace environment, and in turn, business is impacted by the concerns and responsibilities of employees.

There has been a dramatic increase in the number of women in the labor force since 1960. Women have traditionally borne the responsibility for child care, and as they increasingly join the ranks of the employed, new strategies are being developed to deal with the care of their children during working hours.

The following statistics give a clear picture of the dramatic change in the American workforce and the need for work policies which are supportive of families:

- ◆ In 1950, only 12 percent of mothers with children under age 6 were employed. By 1995, 61.5 percent were in the labor force.
- ◆ By 1992, 67.2 percent of married women were working.
- ◆ By 1998, 21.7 percent of married couples had a child under age 6; and 23.7 percent of single mothers had a child under age 6.



Arkansas families are balancing low wages and their desire for self-sufficiency. Quality early care and education programs provide opportunities for families to succeed and for their children to be successful.

Gov. Mike Huckabee

As more women work, men are beginning to share equally in child care responsibilities, and in increasing numbers, they are single heads of households with total responsibility for the children. The need for increased support for working families is not a totally-female problem.

Employers bear the burden of the shortage of child care and the problems associated with obtaining quality care for

children of employees. Financial problems and family demands, such as inadequate child care, invariably lead to absenteeism, turnover and low productivity. The company ultimately pays for the time lost trying to resolve these problems.

Affording quality child care is a challenge as well. For a family making less than \$20,000 with one pre-schooler, for instance, child care consumes nearly 10 percent of the average budget.¹

Little surprise, then, that in 1997, nearly one-third of employed parents with young children reported significant stress in dealing with work-family issues.²

In its policy statement, the Child Care Action Campaign — a coalition of leaders from corporations, the media, unions, the public sector, academia, and community, women's and religious organizations — asserts that "(i)t is a sound economic principle that those who share in the benefits of a particular good should share in the costs of providing it."³

This booklet provides some

Incentives

WHEN AN EMPLOYER offers benefits that support family-work issues, the employee is not the only one to gain — the employer does, also.

A 1997 study by the Families and Work Institute found that a supportive work place fosters in its employees higher levels of job satisfaction, more commitment to the company's success, greater loyalty to the company and a stronger intention to remain with the company.

This echoes 1988 findings by the Child Care Action Campaign. CCAC reported that companies offering some form of child care assistance experienced lower recruiting costs, higher retention rates, increased productivity on the job and reduced absenteeism.⁴

Employers may qualify for a number of tax benefits when they provide child care assistance. It is wise to discuss state and federal tax laws with your accountant or tax counsel to see how they apply to your organization.

In Arkansas

through the Day Care Facility Incentive Program, any workplace offering on-site day care that obtains certification from the Arkansas Department of Economic Development can claim a sales-and-use tax exemption for the initial cost of construction materials and furnishings purchased to build and equip the child care center.

Businesses qualifying for this program may choose a refund of the gross receipts tax paid on initial expenses, as well as an income tax credit of 3.9 percent of the annual salary of its workers exclusively to provide child care for the first tax year the business provides the facility to its employees.

Or the business may choose a refund on taxes paid on construction and equipment, and a \$5,000 income tax credit (in lieu of the 3.9% tax credit) for the first year of operation.

To qualify for the tax incentive program, a company must operate or contract a child care facility for the primary purpose of providing child care services to employees. The child care facility must be certified by the state's Division of Child Care and Early Childhood



I don't look at [employees'] as a perk or favor from the company. It's a terrific management tool that allows both of them to maintain balance in their lives and lets me keep two very valuable people in the company.

Patrick Mulhearn, vice president of communications
Bell Atlantic

Education. For more information, call the Division at 501/682-4891.

Federal regulations

provide the following additional benefits:

1 Business Expenses Amounts paid by an employer to provide a child care service for employees may be deductible as ordinary business expenses under IRC Section 162. Amounts paid by an employer to a welfare benefit fund, such as Voluntary Employees' Beneficiary Association (VEBA), may also be deductible.

2 Charitable Contributions An employer may be entitled to a charitable contribution deduction for donating to a qualifying tax-

exempt child care organization.

3 Capital Expenses Costs incurred for acquiring, constructing and/or remodeling a building to be used as a child care center can be depreciated over a 39-year period under the Modified Accelerated Cost Recovery System described in IRC Section 168. Costs of equipping the building can be depreciated over varying recovery periods depending on the type of business in which the center is located and the type of equipment. See IRS Publication 946 for specific depreciation instructions.

4 Start-up expenses Start-up and investment expenses incurred in the development of a new child care center may be amortized over 60 months or more under IRC Section 195. Eligible expenses may include costs for advertising, needs assessments, consultant services and staff training.

5 Tax-exempt Status An employer-sponsored child care center may be established as a tax-exempt 501(c)(3) organization. The organization providing child care services must apply to the IRS for tax-exempt status. The employer's contributions to the center may be deductible as charitable contributions. However, it is required that the center must also be open to the general public. An employer may also be able to deduct child care benefits provided through a (VEBA) 501 (c)(9).

6 Dependent Care Assistance Plan (DCAP) Though primarily a tax benefit for employees, DCAPs also provide a tax incentive to employers. A DCAP is a flexible spending account in which an employee sets aside a certain amount each month to pay for dependent care. Neither the employee nor the employer pays income or FICA taxes on the amount used for dependent care if the benefit

Options



is offered under a cafeteria plan as day, less days a week. defined in IRC Section 125.

AS AN EMPLOYER, studies show that you benefit when your employees feel they are valued and supported.⁵ A growing group of employees are in families in which they are a single working parent or are one of two working parents. They struggle daily to meet their job demands and to provide quality care for their children, so more and more employers are providing a variety of forms of child care supports for their employees who are parents of young children. When they do, they find that their organizations benefit from lower rates of turnover and higher rates of productivity.

Child care assistance is by no means confined to on-site day care centers. Below are a number of options employers can

Flexible Personnel Policies

choose from to help meet employees' needs:

Passage of the Family Medical Leave Act in 1993 has given many more parents the opportunity to spend those important first few months with their newborn. The law provides 12 weeks of unpaid, job-guaranteed leave for childbirth or adoption for employees who have worked at least 1,250 hours over the preceding year for an employer with 50 or more employees within a 75 mile radius of its worksite. It is estimated that 41 percent of employed mothers and 49 percent of employed fathers qualify.⁶

Many employers have introduced additional personnel policies that are both flexible and responsive to the needs of working parents. With the increased use of computers, for instance, options to telecommute from home are becoming much more common. Others include:

1 Compressed Time Work more hours a

2 Staggered Hours Flexible regular schedule of work hours based on worker's choice.

3 Flextime Flexible daily starting and stopping times based on worker's choice.

4 Job Pairing or Sharing Two or more people jointly responsible for filling one full-time job.

5 Variable Working Hours Employee contracts for a block of work and has the option of hours in which to complete the tasks.

6 Task Contracting Employee is responsible for completing work within a given time frame and need not specify the number of hours or particular hours worked.

7 Regular Part-time Part-day or part-week working hours, often involving pro-rated pay and benefits.

8 At-home Work Employee fulfills job duties at home, often by telecommuting via computers and online services.

EXISTING PROGRAMS

- Acxiom, Little Rock
- Arkansas Blue Cross Blue Shield Little Rock
- Arkansas Children's Hospital Little Rock
- Baptist Health, Little Rock

In addition, companies are being more flexible with sick and personal days allowing employees to use them when their children are ill. Some employers allow

Information Programs

workers to transfer unused sick days to others with long-term illnesses. Another benefit companies offer is allowing parents to take time off for school or child care functions.

Employers can provide a great deal of support to working parents simply by being a valued source of information about child care opportunities. This can be done in two ways:

Referral Systems These services help parents locate quality day care for their children, which can be especially helpful to parents who work far from home or during non-traditional work hours. Day care for infants, children with handicaps, or school-aged children during school vacations and summers can be difficult to find and access.

EXISTING PROGRAMS

- Baptist Health, Little Rock
- Regions Bank, Little Rock
- 1199/Employer Child Care Fund New York

Referral services may be in-house systems or contracted with independent firms supplying these services. A firm may contribute to or contract with a local agency, join a consortium of companies to jointly underwrite the service, or develop an in-house system.

To develop an in-house system, it is important to develop and continually update a list of day care providers classified by geographic location; gather specific information about each center, such as hours of operation, costs, ages of children served, number of available slots, etc.; publish this data in map and brochure form; and establish an administrative procedure to keep the list up-to-date, answer employees' questions and potentially assist in securing day care for employees' children.

Parenting Education Seminars focusing on parenting issues are an easy way to offer support to working parents, and can be easily scheduled for lunch hours or other regularly scheduled times. Topics can

Financial Assistance

range from family stress management to dealing with adolescents. One recent study showed that one quarter of today's companies are providing workshops and seminars addressing parenting issues, child development, care of the elderly or work-family problems.⁷

Many families spend at least 10 percent of their income to pay for child care services. In single-parent or low-income families, that percentage can be quite a bit higher. Not surprisingly, the high cost of child care forces some families to select child care arrangements that are less than optimal for their children thus increasing the amount of stress they bring to the workplace each day. Employers can help families with child care costs in a variety of ways:

1 Dependent Care Assitance Plan (DCAP) Money is set aside from an employee's gross salary into a nontaxable spending account to pay for child care. Neither the employer nor the employee pays taxes on the amount of salary set aside for child care. The employee is able to pay for child care expenses with tax-free dollars.

2 Flexible Benefit Plans Also called "cafeteria plans," these plans allow employers to offer a range of benefits. Employees choose from a menu of benefits and customize their benefits package. For example, some employees may have health insurance provided by a spouse's employer so they forego health care coverage but may still choose a child care benefit.

EXISTING PROGRAMS

- Arkansas Blue Cross Blue Shield
Little Rock
- Baptist Health, Little Rock
- Conagra Refrigerated Foods
Geneva, Ill.
- Levi Strauss & Co., San Francisco

3 Child Care Reimbursements An employer offers workers a child care allowance or subsidy that families can use toward a child care arrangement of their choice. The employer contribution can be a percentage of the total cost of care, a flat amount for all participating employees, or determined by a sliding scale based on a family's income.

4 Child Care Vendor Plan An employer or group of employers contracts with a local child care program to reserve slots for company employees. The employers

pay a portion of the employee's child care costs directly to a child care program.

Direct Services 5 Charitable Donations

An employer donates monetary gifts or in-kind (furnishings, computers, administrative and financial services, etc.) and creates a relationship with a chosen provider that can influence how affordably its employees receive services.

Employers can do a lot for their employees by offering child care support services themselves. For instance, when employers identify a shortage of child-care in the area — either of facilities, programs or open slots for children — it may be best to create or support those services themselves. A number of other opportunities exist as well:

1 On-site or Near-site Child Care Center An employer develops a new child care center on or near company premises. Employers subsidize the construction and/or operating costs of the center, which is often run by an outside provider.

2 Partnering with Other Employers Employers join with other employers in the area to share the expenses of operating a child care center for their employees. This works especially well for smaller companies, downtown businesses, industrial parks and shopping malls.

3 Family Child Care Family child care is offered for a small number of children in the provider's own home. Companies can form or fund networks of family child care homes to provide child care for their employees or members of the community. The employer may also recruit and train providers to meet specific child care needs for their company. Such networks are well suited

to businesses that require employees to work early, late, or weekend shifts.

4 Back-up or Emergency Care Employers provide choices for short-term care of employees' children when normal care arrangements fall through, such as when the provider is sick or during unexpected school closings.

5 Sick Child Care Employers provide in-home or center-based care for children who are mildly ill or recovering from a health problem that keeps them from attending school or their usual child care arrangements.

6 Odd Hour Care Employers provide in-home or center-based care for children during non-traditional hours, such as during a late shift or on weekends.

7 Before/After School Programs Employers provide supervised activities for school-age children before school, after school and during school holidays and vacations. These programs can be housed in various buildings around the community.

Community Grants Many employers also provide transportation between the company, the programs and the schools the children attend.

8 Summer Camp and School Holiday

EXISTING PROGRAMS

- Axciom, Little Rock
- Baptist Health, Little Rock
- Heritage Co., Sherwood
- Arkansas Children's Hospital
Little Rock
- Siloam Springs Children's Center
Siloam Springs
- Butterball Turkey Co., Huntsville

EXISTING PROGRAMS

- Conagra Refrigerated Foods
Batesville
- Levi Strauss & Co., San Francisco
- Early Childhood Investment Fund
Albany, N.Y.
- State of Florida
- State of Texas

Care Employers offer or sponsor programs on-site or in the local community to



Flexible Personnel Policies

provide care for children during summer vacation or on school vacation days.

Through grants, gifts and private-public partnerships, businesses can individually or collectively help create, expand or enhance child care services in areas where such services are scarce.

Information Programs

Can reduce company's overtime expenses

- ◆ Improves worker morale and reduces absenteeism and turnover
- ◆ Allows mothers of school-aged children to work and still care for the children
- ◆ Allowances made for sick children reduce stress, worry and guilt for employees

- ◆ Makes existing day care facilities more available to employees

Financial Assistance

- ◆ Meets employees' particular needs
- ◆ Is highly visible public relations effort
- ◆ Provides an effective recruiting tool as an employee benefit
- ◆ May stimulate additional day care in communities where demand is greater than supply
- ◆ Helps to develop support systems and identify community resources

DCAP and Flexible Benefit Plans

- ◆ Allows employees to select benefits that are most suited to their current needs
- ◆ Good recruiting tool
- ◆ Can be tailored to meet diverse demands of all age groups and employment levels

Vendor Program

- ◆ Increases availability of child care for employees
- ◆ Subsidizes tuition costs of employees' children
- ◆ Requires no initial capital

In an ultra-competitive labor market, companies strive to hire and retain talent. ... The big story is that these companies are trying to help employees balance their home and work lives. More and more offer perks such as flexible schedules and day care.

Fortune Magazine

- ◆ investment for facility or program
- ◆ Company has no management responsibility
- ◆ Protects company from potential liability
- ◆ Ideal for small companies with low need

Voucher Program

- ◆ Respects parents' choices of day care facilities
- ◆ Offers flexibility to employees
- ◆ Helps employees meet the rising cost of day care
- ◆ Beneficial to the employer who has many small locations
- ◆ Capital investment not required

Direct Services

- ◆ Protects company from liability
- ◆ Requires no participation in management from the company

Charitable Donations

- ◆ Often requires only participation of designated corporate giving officer
- ◆ Reduces duplication of services and strengthens existing community resources
- ◆ Provides incentives for community groups to offer needed services
 - ◆ Provides tax advantages under allowable charitable deductions

On-site Centers

- ◆ Provides access to children by their parents during breaks in work schedules
- ◆ Is highly visible public relations effort
- ◆ Gives parents security because the child is near to the work site
- ◆ Provides quality control for the company and ensures a quality developmental program for employees' children

Partnering with other Employers

- ◆ All companies share the risks, costs and liabilities of operating the center
- ◆ Increases availability of resources for developing a quality day care program
- ◆ Serves a greater segment of the community and decreases under-utilization of the facility because the center draws from a broader base
- ◆ Subsidizes tuition costs for low-income employees; can serve as a



Flexible Personnel Policies

- ◆ match to draw federal dollars
- ◆ Allows parents to have children near their place of employment

Family Child Care

- ◆ Less costly than on-site or

Information Programs

- ◆ consortium centers
- ◆ Allows flexibility for employees
- ◆ Increases needed community resources
- ◆ Usually is a less expensive form of care for employees
- ◆ Works particularly well when employees are scattered over a large geographical area

Financial Assistance

- ◆ Some difficulties in managing different work schedules
- ◆ Difficulties in administering employee benefit packages
- ◆ Possibility for abuse by some employees
- ◆ Challenging to keep information current
- ◆ Some cost involved in gathering and publishing information
- ◆ Consortium requires cooperation of companies involved to keep the system functioning
- ◆ In-house systems can result in unnecessary repetition of efforts

- ◆ of other companies
- ◆ Seminars require coordination of work schedules and a contracting procedure with an out-of-company source

DCAP and Flexible Benefit Plans

- ◆ Can cause employee confusion in selection of benefits

Vendor Program

- ◆ Difficulty arises in purchasing slots in locations preferable to

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82% of employers offering child care report higher worker morale; 54% report reduced absenteeism; 52% report increased productivity; 37% report lower turn-over.

The Conference Board,
a business membership and research network

Direct Services

- ◆ employees discriminate against providers in the community
- ◆ Program has small public relations value because of low visibility
- ◆ Requires commitment for spaces on part of employer without assurance of use by employees

Voucher Program

- ◆ Day care may not be available in ample supply or during hours which match employer's work schedule
- ◆ Requires some administrative procedures

- ◆ The sliding fee scale will require additional administrative costs

Charitable Donations

- ◆ Does not give the company as much direct control over the program it supports
- ◆ Often requires establishment of corporate giving policies within the company and designation of a corporate giving officer

On-site Centers

- ◆ Costs must be weighed against benefits to determine if operation of an on-site center is financially feasible and cost effective for a company
 - ◆ Usually requires a large initial financial investment and a commitment for continued funding
 - ◆ Have not been consistently successful, with the following reasons cited for discontinuing the operations: company went out of business or moved; under-utilization by employees; too expensive; recession
- ◆ Requires detailed planning and extensive surveys to adequately determine need
- ◆ Requires a long-term

1. Reisman, Barbara, May J. Moore and Karen Fitzgerald, *Child Care: The Bottom Line, An Economic and Policy Paper*, Child Care Action Campaign, 1988.

2. Shore, Rima, *Ahead of the Curve*, Families and Work Institute, 1998.

3. Reisman.

4. Ibid.

5. *Ahead of the Curve Executive Summary*, Family and Work Institute, 1999.

6. Ibid.

7. Ibid.

Conclusion

PROVIDING CHILD CARE assistance to employees has proven to be a win-win situation. Employers benefit greatly when their employees are able to work free of the stress and distraction of child care concerns.

Much more often than not, these parents become more productive in their jobs and are less likely to take time off or even leave their place of

employment, thus reducing absenteeism and rates of turnover. What's more, in recent years, the federal and state governments have provided tax benefits to businesses that offer child care assistance.

Interestingly, recent research on brain development shows that proper nurture and care early in a

child's life is critical to that child reaching his or her potential as a human being. Employers should keep in mind that today's children are tomorrow's work force. Therefore, the benefits of providing assistance that will guarantee quality child care for the children of current employees will impact productivity not only in the present, but in the future as well.

Resources

Child Care Partnership Project Toolkit, available from National Childcare Information Network (NCCIC)
1-800/616-2242

Child Care: The Bottom Line, An Economic and Child Care Policy Paper, Barbara Reisman, Amy J. Moore and Karen Fitzgerald, Child Care Action Campaign, 1988.

The Corporate Reference Guide to Work-family Programs, Ellen Galinsky, Dana E. Friedman and Carol A. Hernandez, Families and Work Institute.

Financing Child Care in the United States, An Illustrative Catalog of Current Strategies, Anne Mitchell, Louise Stoney and Harriet Dichter for the The Ewing Marion Kauffman Foundation and The Pew Charitable Trusts, 1997.

The 1997 National Study of the Changing Workforce, James T. Bond, Ellen Galinsky and Jennifer E. Swanberg, Families and Work Institute, 1998.

The 1998 Business Work-Life Study: A Sourcebook, Ellen Galinsky and James T. Bond, Families and Work Institute, 1998.

Arkansas Advocates for Children & Families
501/ 371-9678 <http://www.aradvocates.org>

Arkansas Governor's Family Friendly Initiative
501-407-0720 or 501-682-9699

Arkansas Head Start Association
501/ 371-0740 <http://www.arheadstart.org>

ASU Childhood Services 870/ 972-3055
<http://chs.astate.edu>

Childcare Action Campaign 212/ 239-0138

The Conference Board <http://www.conference-board.org>

Division of Child Care and Early Childhood Education
501/ 682-4891 <http://www.arkansas.gov/childcare>
1-800-445-3316

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212/ 465-2044 <http://www.familiesandwork.org>

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Work/Family Directions 617/ 278-4000

Work and Family Connection <http://www.workfamily.com>