

Impact of Tiering on Income Targeting of CACFP Participation and Benefits

The intent of tiering was to focus the benefits provided through CACFP family child care homes on low-income children. This chapter examines the extent to which participation patterns and patterns of meal reimbursement expenditures changed between 1995 and 1999. The analysis shows striking growth in the proportion of participating children whose families have low incomes, and even greater growth in the proportion of program dollars allocated to low-income children.

Change in the Percentage of Low-Income CACFP Children

A key finding of the *Early Childhood and Child Care Study* was the large proportion of higher-income children participating in CACFP family child care homes in 1995. Data from the current study indicate that although the majority of CACFP participants still have household incomes above 185 percent of the Federal poverty guideline, there has been a sizeable increase in the percent of low-income children served by the program.

Exhibit 1 shows that 22 percent of children participating in 1999 had family incomes at or below 130 percent of the Federal poverty level. Another 18 percent had a household income between 131 and 185 percent of poverty. These figures combined represent nearly a doubling of the proportion of participating children who are low-income, from 21 to 39 percent. The proportion of higher-income participants (i.e., household incomes in excess of 185 percent of poverty) shrank from 79 percent in 1995 to 61 percent in the 1999 study.⁷

The income distribution of participants in CACFP child care centers, where reimbursement is based on household means tests, provides a useful point of comparison for the participants in family child care homes. In 1995, 39 percent of children in CACFP centers had family incomes of 130 percent or below poverty and another 14 percent had incomes from 131 to 185 percent of poverty.⁸ Using this benchmark, it appears that tiering has moved the share of low-income children in CACFP homes closer to that seen in centers. The proportion of low-income children in family child care homes in 1999 was about halfway between the 1995 proportions for homes and centers.

⁷ The survey questions asking for income information were almost identical in 1995 and 1999 (see Appendix B, Question 15 for the 1999 version). The wording of the introductory question differed slightly, with more specifications in 1999 about including income for all members of the household and including particular types of income (for example, “cash withdrawn from savings” was specified in 1999 but not mentioned in 1995). If any bias were to result from these differences in wording, one would expect the 1999 income responses to be biased upward. Both years’ questions asked about income in intervals of \$5,000. For this analysis, each respondent’s income was taken as a randomly chosen value within the \$5,000 range.

⁸ Glantz *et al.*, 1997.

Exhibit 1
Household Income Relative to the Poverty Guideline for Children Served by CACFP Homes:
Percentage of Children in Each Income Category

Household Income as Percent of Federal Poverty Guideline	1995	1999	Difference 1999-1995	1999		Difference Tier 2-Tier 1
				Tier 1	Tier 2	
185% and below	21.4%	39.1%	17.8%***	49.7%	15.5%	-34.2%***
0-130%	11.1	21.7	10.6**	27.5	8.6	-19.0***
131-185%	10.3	17.5	7.2**	22.2	6.9	-15.3***
Above 185%	78.6	60.9	-17.8***	50.3	84.5	34.2***
Unweighted sample ^a	360	1,167		561	606	

a The full number of respondents for 1999 is 1,200 (576 in Tier 1, 624 in Tier 2). The full sample for 1995 is 384 for that portion of the survey dealing with income questions and 246 for other parts of the survey. Sample numbers reported in tables indicate the number who provided usable responses for the items in the table. Respondents who did not provide usable information are excluded from the calculation of percentages unless otherwise noted.

Significance levels:
 * = .10
 ** = .05
 *** = .01

The tier status of the family child care provider is clearly related to the income level of the participating families, although the correlation is by no means perfect. About 85 percent of families with children in Tier 2 homes have household incomes above 185 percent of poverty. Among families with children in Tier 1 homes, 50 percent have incomes above 185 percent of the poverty guideline—considerably less than the proportion in Tier 2 homes, but certainly not zero. Similarly, 16 percent of children in Tier 2 homes are low-income.⁹

The tiered reimbursement structure reduced the incentive to participate in the CACFP for family child care homes that would be classified as Tier 2. As a result, the number of Tier 2 homes has declined since tiering was implemented, while the number of Tier 1 homes has increased.¹⁰ Because Tier 1 homes serve larger proportions of low-income children, this shift in participating homes led to a higher proportion of low-income children receiving CACFP benefits.

Changing national patterns of child care probably also contributed to the increased proportion of low-income children in CACFP homes. From 1995 to 1999, the percentage of poor children in nonrelative home care grew slightly, from 9 to 10 percent. Meanwhile, among children with household incomes above poverty, the proportion in nonrelative home care shrank from 17 to 15

⁹ Recall, however, that these children's meals may be reimbursed at the Tier 1 rate if the provider asks the sponsor to determine the child's eligibility and the child's parents provide the necessary information to the sponsor.

¹⁰ Hamilton *et al.*, E-FAN-02-002.

percent.¹¹ Although these trends would account for only a portion of the observed population shift for CACFP homes, they indicate that forces beyond tiering were contributing to the realignment.

Change in the Number of Low-Income CACFP Children

The total number of children receiving CACFP meals in family child care homes was almost the same in 1999 as it was in 1995, with average daily attendance of 959,181 and 968,581 children, respectively.¹² The number of low income children grew, however, while the number of higher-income children shrank.

Combining the survey results with administrative data, we estimate that the average number of low-income children receiving CACFP meals increased from 1995 to 1999 by about 165,000 children, from 207,000 to 372,000, an increase of 80 percent (Exhibit 2). A large component of this change occurred among children with family incomes below 130 percent of the Federal poverty level, where the number of children receiving CACFP meals almost doubled. The increase in low-income participants was offset by an approximately equal decrease in the number of children from higher-income families. From 1995 to 1999, the number of higher-income children declined by 175,000, or 23 percent.

Exhibit 2
Estimated Average Daily Number of Children Served by CACFP Family Child Care Homes, by Income Category^a (in thousands)

Household Income as Percent of Federal Poverty Guideline	1995	1999	Percent Difference
185% and below	207.3	372.3	79.6%
0-130%	107.5	206.1	91.7
131-185%	99.8	166.2	66.6
Above 185%	761.3	586.8	-22.9
Total	968.6	959.2	-1.0

a The average number of children is based on national CACFP administrative data on daily attendance. The number of children in each category is estimated by applying the distributions shown in Exhibit 1 to the administrative data totals. The distributions are applied separately for Tier 1 and Tier 2 in 1999 and then aggregated.

¹¹ Federal Interagency Forum on Child and Family Statistics, 2000. Percentages are based on children from birth through third grade.

¹² For more information on trends in the number of participating children, see Hamilton *et al.*, E-FAN-02-002.

Change in Total Meal Reimbursements for Low-Income and Higher-Income Children

Total meal reimbursement expenditures for the family child care portion of CACFP in fiscal year 1999 were approximately \$668 million, according to program administrative data. This represents a reduction of about \$125 million, or 16 percent, from expenditures in fiscal year 1995 (adjusted for inflation using the Consumer Price Index). The total number of participating children declined by only 1 percent, so most of the reduction in expenditures was caused by the lower reimbursement rates for Tier 2 meals.

Meal reimbursements declined by \$256 million, or 41 percent, for children whose family incomes exceed 185 percent of the poverty level (see Exhibit 3). This large reduction reflects both the smaller number of higher-income children in CACFP homes and the lower reimbursements for these children's meals in Tier 2 homes. As a result, reimbursements for higher-income children made up only 55 percent of the 1999 total, as compared with 79 percent in 1995.

At the same time, total reimbursements for low-income children grew by \$131 million, a dramatic 77-percent increase. This approximates the 80-percent increase in the number of low-income children participating in the program. Because some meals for low-income children in Tier 2

Exhibit 3
Estimated Distribution of CACFP Meal Reimbursement Dollars to Child Care Homes Across Income Categories of Children Served^a

Household Income as Percent of Federal Poverty Guideline	Millions of 1999 Dollars (% of total dollars)		Percent Difference
	1995	1999	
185% or below	\$170 (21%)	\$301 (45%)	77.0%
0-130%	88 (11)	166 (25)	88.9
131-185%	82 (10)	134 (20)	64.2
Above 185%	624 (79)	368 (55)	-41.0
Total	\$793	\$668	-15.8%

^a Total meal reimbursements are based on CACFP national administrative data. For 1995 and for Tier 1 in 1999, dollars in each income category are estimated by applying the proportions in Exhibit 1. For children in Tier 2 homes, reimbursements at the Tier 1 rate are allocated only to low-income children, and are allocated between the two low-income categories proportional to the distribution in Exhibit 1. Reimbursements at Tier 2 rates are allocated to higher-income children in Tier 2 homes based on the proportions in Exhibit 1, adjusting for the proportion of meals reimbursed at the Tier 1 rate.

homes are not reimbursed at the Tier 1 rates, total reimbursements for low-income children grew slightly less than the number of low-income participants.¹³

Two factors contributed to the greater allocation of expenditures to low-income children. First, simply reducing the reimbursement for some higher-income children (those in Tier 2 homes) increased the proportion, though not the absolute amount, allocated to low-income children. This is the direct effect of the tiered reimbursement structure. Second, with a growing number of low-income children and a shrinking number of higher-income children, the proportion of expenditures for low-income children would increase even if all children’s meals were reimbursed at the same rate. This is the indirect effect of tiering, assuming that tiering caused much or all of the shift in the composition of CACFP participants.

The changing composition of participants, tiering’s indirect effect, had by far the greater impact on the allocation of expenditures. If the reimbursement rate had changed but the participant composition had remained unaltered, the proportion of expenditures allocated to low-income children’s meals would have climbed by just 5.6 percentage points, as shown in Exhibit 4. This amounts to slightly less than a quarter of the observed increase. The remaining three quarters of the difference stemmed from the change in the income composition of the children participating in CACFP family child care homes.

**Exhibit 4
Influence of Changed Reimbursement and Changed Participant Composition on Allocation of Expenditures**

Household Income	Proportion of 1995 Reimbursement Expenditures	Change in Percentage Points Resulting From:		Proportion of 1999 Reimbursement Expenditures
		Lower Reimbursement Rate Only	Participant Composition Only	
At or below 185% of poverty	21.4%	5.6%	18.0%	45.0%
Above 185% of poverty	78.6	-5.6	-18.0	55.0

¹³ Survey results indicate that 15.5 percent of children in Tier 2 homes have family incomes at or below 185 percent of the Federal poverty guideline. Program administrative records show that 10.7 percent of meals in Tier 2 homes are reimbursed at Tier 1 rates. Meals for a low-income child are reimbursed at the lower Tier 2 rate if the provider elects not to have the family fill out an application for Tier 1 reimbursement or if the provider makes the request but the family fails to provide the information to the sponsor.