

## Tiering's Effects on Program Targeting

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The objective of the tiered reimbursement structure was to focus CACFP benefits more closely on low-income children without requiring verification of each participating child's income eligibility. Basing the reimbursement rate on the low-income status of the provider's neighborhood and the provider's own household income would necessarily be less precise than a child-by-child eligibility determination. A key question for the study, therefore, was how much tiering reallocated program benefits among children of different income levels.

The analyses summarized below show that a substantial reallocation of program expenditures has occurred. An estimated 45 percent of meal reimbursement dollars in 1999 were for meals served to low-income children (those with household incomes at or below 185 percent of the Federal poverty guideline), compared with 21 percent in 1995. This shift occurred partly because the average per-meal reimbursement declined for higher income children, but mainly because the proportion of all children participating in the CACFP who are low income grew from 21 percent in 1995 to 39 percent in 1999.

The analyses described below are based on data from household surveys and CACFP administrative records. Household income data come from a 1999 telephone survey, conducted as part of the *Family Child Care Homes Legislative Changes Study*, of 1,200 parents or guardians of children served by CACFP family child care homes (576 in Tier 1 and 624 in Tier 2 homes). Parallel data come from a 1995 survey of 384 households of children in CACFP homes. Nationwide counts of meals and children served and program expenditures for meal reimbursement come from CACFP program records maintained by USDA-FNS. The analyses are presented in full in Crepinsek et al., E-FAN-02-006.

### Allocation of CACFP Reimbursement Expenditures by Income Category

Tiering was followed by a substantial reallocation of expenditures for meal reimbursements, shifting the emphasis toward low-income children. In 1995, 2 years before tiering was implemented, just 21 percent of reimbursement expenditures were for meals served to low-income children (those with household incomes at or below 185 percent of the Federal poverty guideline).<sup>10</sup> That figure more than doubled, to 45 percent, by 1999 (Exhibit 3). The share of expenditures for higher income children shrank correspondingly, from 79 percent in 1995 to 55 percent in 1999.

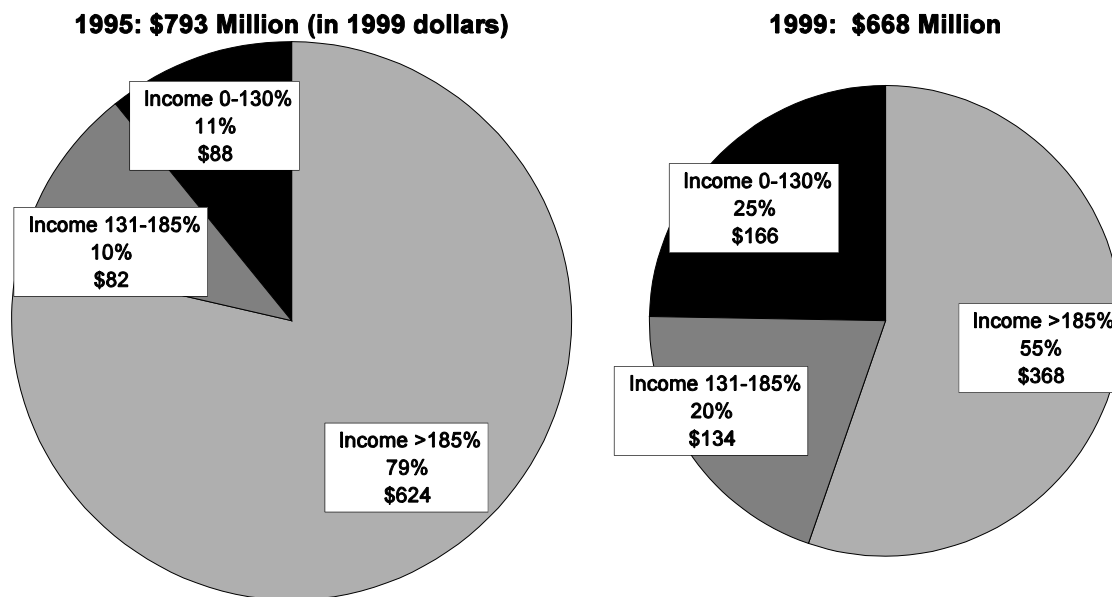
Tiering changed the allocation of expenditures across income groups in two ways, one direct and one indirect. The direct effect was simply that tiering reduced the average per capita reimbursement

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<sup>10</sup> The allocation of meal reimbursements in 1995 is based on the composition of the participant population found in Glantz et al., 1997.

### Exhibit 3

#### Allocation of CACFP Meal Reimbursements by Participant Income (Income as Percent of Federal Poverty Guideline; Reimbursement Dollars in Millions)



Source: CACFP administrative data; surveys of CACFP parents, 1995 and 1999.

for higher income children. That is, if tiering had been introduced without affecting anything other than the rate at which some meals were reimbursed, the share of dollars allocated to low-income children would have climbed from 21 percent to 27 percent.<sup>11</sup> This is about a quarter of the change that actually occurred.

Tiering's indirect effect was its influence on the composition of the participating population, in which the proportion of low-income children grew substantially from 1995 to 1999. This effect, discussed later in this section, accounts for three-quarters of the overall reallocation of reimbursements toward low-income children.

Total CACFP meal reimbursements in family child care homes declined by 16 percent from 1995 to 1999, after adjusting for inflation. The number of children receiving CACFP meals was nearly the same in the 2 years—just 1 percent smaller in 1999 than 1995. Thus, most of the reduction in expenditures resulted from the lower average reimbursement rates in 1999.

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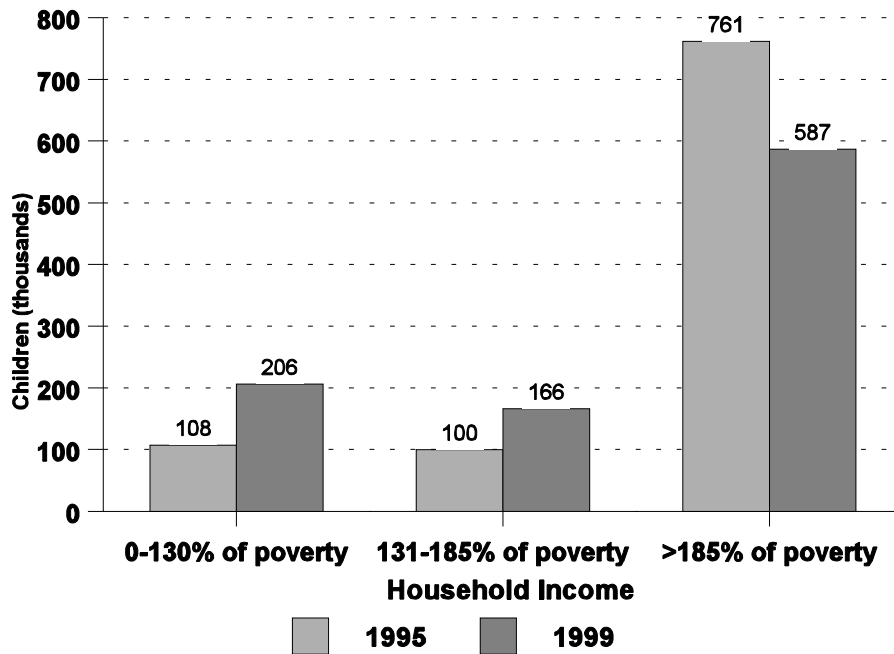
<sup>11</sup> This analysis combines program administrative data for 1995 and 1999 with data from surveys in the same years of the parents of children served by CACFP homes. The surveys provide data on the composition of participants by income category at the two points in time, while the administrative data give accurate counts of the total nationwide number of participants and amount of meal reimbursements. The survey proportions are applied to the national totals to estimate the number of children and reimbursement dollars in each income category. The 1995-99 differences in proportions in each of the income categories are statistically significant.

Nearly all of the meals reimbursed at lower rates were meals served to higher income children (95 percent). Some meals for low-income children in Tier 2 homes were reimbursed at lower rates, however. This occurred if the provider elected not to ask families to complete the application for CACFP eligibility or if the family never filed the application with the sponsor.<sup>12</sup> About 16 percent of children in Tier 2 homes in 1999 had household incomes at or below 185 percent of the poverty level, but only 11 percent of meals reimbursed in Tier 2 homes were reimbursed at the higher rate. The reimbursement of low-income children’s meals at the lower reimbursement rate accounts for only a small fraction of the reduction in reimbursements, however.

### Changes in the Composition of CACFP Participants

The number of low-income children participating in the CACFP grew 80 percent between 1995 and 1999. Counting all children with household incomes at or below 185 percent of the Federal poverty guideline, the number of low-income children grew from about 207,000 to 372,000 (Exhibit 4). Growth in the number of children with household incomes at or below 130 percent of the poverty line was especially strong, nearly doubling the 1995 number.

**Exhibit 4**  
**Children in CACFP Family Child Care, By Year and Income Category**



Source: CACFP administrative data; surveys of CACFP parents, 1995 and 1999.

<sup>12</sup> Measurement error could also play a role, since the survey measured income at a different time and in a different way than it would have been measured for purposes of Tier 1 eligibility determination.

While the number of low-income CACFP children grew by 165,000, the number of higher income children shrank by 174,000, leaving total attendance in 1999 at about 1 percent below the 1995 level. This change in income composition of the CACFP participants can be attributed largely, though not entirely, to tiering.

The tiered reimbursement structure reduced the incentive for family child care homes that would be classified as Tier 2 to participate in the CACFP. The result, discussed later in this report, was a reduction in the total number of homes participating in the CACFP. In 1998 and 1999, after tiering was in place, the number of Tier 2 homes declined while the number of Tier 1 homes increased. 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 in the total population of children enrolled in CACFP family child care homes.

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 nationwide percentage of below-poverty children in nonrelative home care grew slightly, from 9 to 10 percent.<sup>13</sup> Meanwhile, among children with household incomes above poverty, the proportion in nonrelative home care shrank from 17 to 15 percent. Although these trends would account for only a portion of the observed shift for CACFP children, they indicate that factors beyond tiering were contributing to the realignment.

The shift in income composition was not accompanied by other large changes in the CACFP participant profile. CACFP children in 1999 came from families with a slightly larger number of children, on average, than those in 1995. The 1999 group may also have included somewhat more school-age children (age 6-12) and more Black and Hispanic children, but conclusions on these points are impeded by differences between the 1995 and 1999 surveys.<sup>14</sup>

## Targeting Efficiency of the Tiering Mechanism

Many programs, including the child care center component of the CACFP, direct benefits to low-income people on a household-by-household basis, using a means test to determine the income eligibility of each beneficiary. The tiering policy that PRWORA mandated for the child care homes portion of CACFP is an indirect mechanism for approximating the same result. By classifying family child care homes based on their location or the provider's household income, tiering is intended to direct the higher subsidy levels mainly to low-income children. This approximation cannot be expected to place all low-income children in Tier 1 homes, so PRWORA specified the fallback

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<sup>13</sup> Federal Interagency Forum on Child and Family Statistics, 2000. Percentages are based on children from birth through third grade.

<sup>14</sup> The 1999 survey followed the 1997 OMB guidelines for questions on race/ethnicity, which allow the respondents to name more than a single racial/ethnic group. The 1995 survey asked for a single group designation, so the responses are not fully comparable. The 1995 and 1999 surveys were conducted in the spring and summer months, respectively, and children ages 6-12 may be more likely to be in child care in the summer months.

provision that Tier 2 providers may receive meal reimbursements at the Tier 1 rate for any low-income children in their care, based on a means test of each child's family income.

Because tiering is intended to approximate the results of an individual means test, it is important to ask how effectively tiering matches low-income children to the higher reimbursement rate and higher income children to the low reimbursement rate. The analysis indicates that the tiering policy is very effective in getting low-income children's meals reimbursed at the higher rate. It is somewhat less effective at limiting higher income children to the lower subsidy level.

About 88 percent of low-income children participating in the CACFP in 1999 were in Tier 1 homes, and therefore received meals reimbursed at the higher rate (Exhibit 5). Another 7 percent were in the care of Tier 2 providers who said that they received the higher reimbursement rate for one or more children's meals (the available data do not indicate the reimbursement level for individual children in Tier 2 homes). Thus, around 95 percent of low-income children in CACFP homes have their meals reimbursed at the higher rate.

All higher income children in Tier 2 homes have their meals reimbursed at the lower rate, but they account for only 42 percent of all higher income children participating in the CACFP. The other 58 percent are in Tier 1 homes, and their meals are therefore subsidized at the higher level. Thus, to the extent that the tiering mechanism falls short of perfect classification, it is more likely to apply the higher subsidy rate to higher income children than to apply the lower rate to low-income children.

**Exhibit 5**  
**Children in CACFP Family Child Care, by Income and Meal Reimbursement Level**

