



Insight

# Child Care and Paid Family Leave Proposals

BEN GITIS | SEPTEMBER 14, 2016

Donald Trump announced a series of proposals to reduce the out-of-pocket cost of child care to families and guarantee six weeks of paid maternity leave. This comes months after Hillary Clinton announced her intention to limit the family spending on child care to a small portion of household income and provide 12 weeks of paid family leave. Predictably, neither candidate has provided much detail about these proposals, leaving many analysts scratching their heads about how these proposals would impact workers, families, the economy, and the federal budget. Given the information we do have, however, there are several important takeaways from (and questions about) each of the proposals.

## Donald Trump's Proposals

Mr. Trump has released a [large array of policy proposals](#) to lower out-of-pocket spending on child care and provide paid leave for new mothers.

**Child Care Proposals:** To reduce how much families spend on child care, Mr. Trump proposes to allow workers to deduct child care expenses from their taxable income. The deduction would be capped at the average cost of child care in the state of residence and only individuals with income under \$250,000 (\$500,000 if filing jointly) would be eligible. In addition, the candidate proposes to use the Earned Income Tax Credit (EITC) as a vehicle to provide child care tax rebates to low-income households (the rebates would be as large as \$1,200 per year for a family). Finally, a Trump Administration would encourage workers to set aside their own money for child care by creating a new Dependent Care Savings Account, contributions to which would be tax deductible. The government would match half of a low-income family's first \$1,000 deposited to the account each year.

**Analysis:** The combination of these proposals raises several questions.

First, what would happen to the current child care assistance system? Between the Child Tax Credit and the Child and Dependent Care Tax Credit, the United States already spends [\\$50 billion to \\$60 billion](#) every year to help families afford child care. Would Mr. Trump scrap the current system entirely and implement these new proposals or would these policies exist in addition to the current programs?

Second, how would Trump pay for these proposals? Mr. Trump provides no indication for how much these proposals would cost the federal government and has no details about how his administration would pay for these new benefits.

Third, under Mr. Trump's tax deduction, stay-at-home parents would also benefit from the deduction. If no parent is working, does this mean that the family would still be eligible to claim the deduction?

Fourth, how would the child care rebate for low-income households affect the EITC's mission? The EITC is one of [the most effective anti-poverty programs](#) in the United States because it is well targeted on low-income

families and encourages work. To pay for the rebate, would Mr. Trump somehow scale back the EITC? Moreover, while the EITC is very effective, it does suffer from a [25 percent](#) improper payment rate, meaning that a quarter of spending on the credit goes to households that are not actually eligible for it. How would the child care rebate avoid this issue?

**Paid Maternity Leave Proposal:** Mr. Trump would guarantee six weeks of paid maternity leave using the unemployment compensation system. The benefit would only be available to workers at businesses that do not offer paid maternity leave. Mr. Trump proposes to offset the cost of this new paid maternity leave program by reducing spending on unemployment benefits.

**Analysis:** While most proposals to expand access to paid family leave are for male and female workers who need time away from work care for an infant, recover from a major medical condition, or care for a family member with a severe medical condition, Mr. Trump's program would be only available for working mothers to care for newborn children. His proposal to combine paid maternity leave with unemployment compensation and pay for the program by reducing unemployment compensation payments raises some serious concerns. American Action Forum (AAF) [previously found](#) that if all female workers who gave birth receive six weeks of paid time off and that their pay while on leave equal their regular weekly pay, it would cost \$7.1 billion annually. According to the [Congressional Budget Office](#), in 2015 the federal government spent \$32 billion on unemployment compensation. If \$7.1 billion of those funds were to go to paid maternity leave, then the benefits available for laid off workers would fall by 22 percent. This would substantially reduce the budget and reach of the unemployment compensation system.

Mr. Trump's paid maternity leave program would only be available to workers in businesses that do not provide the benefit. This is problematic because it could provide incentive for employers to not provide paid leave on their own and may result in even less paid leave in the private sector.

## Hillary Clinton's Proposals

Secretary Clinton has two main proposals to reduce the out-of-pocket expenses on child care and provide paid family leave, neither of which are complete.

**Child Care Proposal:** Secretary Clinton would limit the pocketbook cost of child care to [10 percent](#) of household income by using a combination of tax credits and child care subsidies. However, the campaign has not provided any more detail on how they would accomplish a 10 percent cap on household child care spending or on the tax credits or subsidies they would employ.

**Analysis:** This is a fairly ambitious goal given that many low-income households spend a large portion of their income on child care. According to the [Center for American Progress](#), in 2010 households with incomes below \$18,000 spent half of their earnings on child care. The cost of child care also varies substantially by state. For instance, in 2015 the [annual average cost](#) of full-time infant child care ranged from \$4,822 in Mississippi to \$17,062 in Massachusetts. These figures all indicate that Secretary Clinton's goal to lower the family spending on child care to 10 percent of household income would likely come with a steep price tag. A Moody's Analytics [report](#) found that the combination of Clinton's early childhood proposals (including universal pre-K) would cost the federal government about \$20 billion per year over the next ten years.

**Paid Family Leave Proposal:** Secretary Clinton would create a [new government program](#) to provide up to 12 weeks of paid time off from work. The Secretary has embraced most of Senator Kirsten Gillibrand's [FAMILY Act](#)

as a way to provide up to 12 weeks of paid family leave to care for an infant, recover from a major medical condition, or care for a family member with a severe medical condition. Under the FAMILY Act, for the 12 weeks of leave the federal government would provide benefits equal to two-thirds of regular earnings, with a minimum monthly benefit of \$580 and a maximum monthly benefit of \$4,000. While the FAMILY Act would finance these benefits with a 0.4 percent payroll tax split between employers and employees, Secretary Clinton would pay for the program by taxing high income households. However, the Secretary has not provided any details about this specific tax on high income households.

Analysis: This proposal would essentially provide paid family leave for every employed person in the United States. As AAF [previously found](#), this blanket approach would be extremely expensive. We estimated that the FAMILY Act would annually cost the federal government between \$85.9 billion and \$997.4 billion. Moreover, the 0.4 percent payroll tax proposed by the FAMILY Act would only raise \$30.6 billion in revenue. This means that the payroll tax at most would only cover 35.6 percent of the program's promised benefits. As a result, to pay for this program, Secretary Clinton's ambiguous tax on high income households would need to raise a lot more revenue than would the FAMILY Act's payroll tax.

## Conclusion

As the proposals from both candidates indicate, helping families provide sufficient care for their children and take time away from work for family and medical issues is a goal shared on both sides of the aisle. Unfortunately, the proposals outlined by the candidates are extremely expensive, potentially undermine the effectiveness of other important federal safety net programs, introduce counterproductive incentives into the labor force, and/or lack very important details.