



Issue Brief: Inequality & Mobility

# A review of the state of child care in the United States

April 2026 By Sam Abbott and Shira Markoff

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## Key takeaways

- This report explores major trends and opportunities in states' child care policies through the lens of key challenges at the national and state levels, including legislative trends and updates in child care policies.
- The COVID-19 era fostered significant investments by the federal government and key innovations in state-level child care policymaking, but it is unclear what will happen next because of the unpredictability of federal government support and financing for child care policies or state programs.
- Recent state-by-state approaches to child care interventions reveal a patchwork of strategies that are generally too small to be transformative. Several states continue to advance larger and more promising child care policies with potential nationwide applications.
- Comparing the potential impacts of these different state-level policy approaches could help to inform future child care policies and programs. This report offers a research agenda in support of child care policymaking at the state level and in service of future national action.



## Overview

Affordable, available, high-quality child care is essential for sustained, broadly shared economic growth and equitable access to workforce opportunities.<sup>1</sup> In most of the United States, however, child care fails this three-pronged standard. The child care market has been plagued by a troublesome math problem for decades: Care is too expensive for most parents, yet the industry is not profitable enough to deliver an adequate supply of care or competitive wages for child care workers.

Many economists have called for robust public investment to correct failures in the U.S. child care market.<sup>2</sup> In 2021 and 2022, federal policymakers got closer to delivering such investments when considering the Child Care for Working Families Act within the Build Back Better framework proposed during the Biden administration.<sup>3</sup> At the time, economists estimated this policy would have increased maternal employment by up to 10 percentage points and improved the quality of care, all while lowering out-of-pocket costs for most families.<sup>4</sup> But no such investment materialized after the legislation failed to advance in the U.S. Congress.

Today, momentum for federal investments in child care is largely stalled while failures in the child care market remain, leaving states struggling to fill policy gaps. State-level child care policymaking is inherently heterogeneous, with variations in funding reliability, local care infrastructure, and workforce requirements. Relying on states to solve this care crisis alone creates geographic policy variations that are likely to deepen national inequality in access to quality child care. Still, state actions can serve as important test runs for future public investment at a national scale, allowing states to pilot new ideas and develop critical care infrastructure.<sup>5</sup>

This report explores major trends and opportunities in states' child care policies. It begins with the key challenges around child care at a national level and background on federal child care policies and their state-level counterparts. Next, it discusses legislative trends at the state level, including updates in child care policies from recent legislative sessions. Finally, it offers a research agenda in support of child care policymaking at the state level and in the service of future national action.

## Child care challenges in the United States

In 2021, U.S. Department of the Treasury recognized child care as a failed market,<sup>6</sup> and there is little evidence that anything has improved since then. Within the existing system, families are constantly stretched thin, devoting substantial portions of household budgets to the costs of care. Meanwhile, profit margins in the child care industry are a scant 1 percent, and child care workers are some of the lowest paid in the overall U.S. labor force.

How can all this be true? The answer lies in a dual-sided liquidity—or cash flow—problem. Unlike Kindergarten-through-12<sup>th</sup> grade education, which is publicly funded, or higher education, which families have more time to save for and various financing options to choose from, the cost of child care falls mostly on young families with breadwinners early in their careers. Families typically incur these costs when their living expenses are high relative to their mostly low-to-moderate incomes and with little or no savings, meaning they can only afford so much for child care before substituting for other options, such as turning to family members for care or reducing their work hours. Providers are therefore discouraged from raising prices and wages too quickly.

At the same time, providers' costs are relatively fixed, with labor accounting for 60 percent to 80 percent of a provider's operating expenses.<sup>7</sup> To keep prices as low as possible, providers often squeeze labor costs. As quality and safety standards require providers to maintain minimum staffing levels, wages are the primary mechanism for keeping costs low.

This dual-sided liquidity constraint has yielded an untenable situation for everyone involved, but particularly for families and care workers. Child care is unaffordable for many families, and costs vary significantly based on location, type of care (home-based or center-based), and the child's age. Recent analysis using the National Database of Childcare Prices finds that child care costs families between 8.9 percent to 16 percent of their median income for full-day care for one child.<sup>8</sup> The typical standard of affordable child care is 7 percent of household income; some scholars estimate that child care costs exceed this threshold for most parents—68 percent—across the country.<sup>9</sup>



Availability is also a challenge. More than half of children in the United States live in areas that the Center for American Progress calls “child care deserts,” meaning that the number of slots in licensed child care facilities is lower than the number of children who need them.<sup>10</sup> Child care deserts particularly affect children in low- and moderate-income households, Latinos, and families in rural areas.

As expensive as child care is, families are still receiving an effective discount at the expense of underpaid child care workers, who are 95 percent women and are more likely to be Black or Latino compared to the overall workforce.<sup>11</sup> The median hourly wage for child care workers as of 2023 was \$14.60, which falls in the bottom 5 percent of all occupational wages in the United States. Not surprisingly, then, the turnover rate in the child care sector is higher than for workers in the economy as a whole. Of the 12 percent of workers who left the child care sector each month from 2019 to 2023, 6.5 percent left the workforce entirely and 4.7 percent moved mainly to other low-wage jobs, such as home care aides, cashiers, and housekeepers.<sup>12</sup> (See Figure 1.)

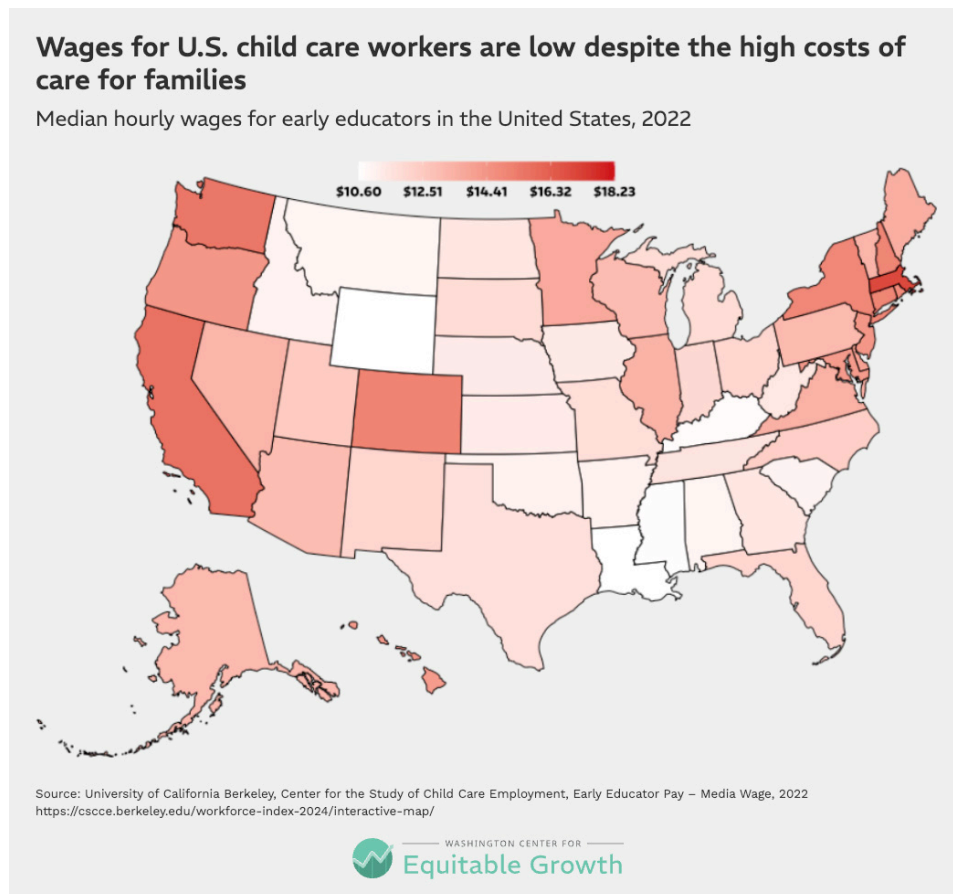


Figure 1

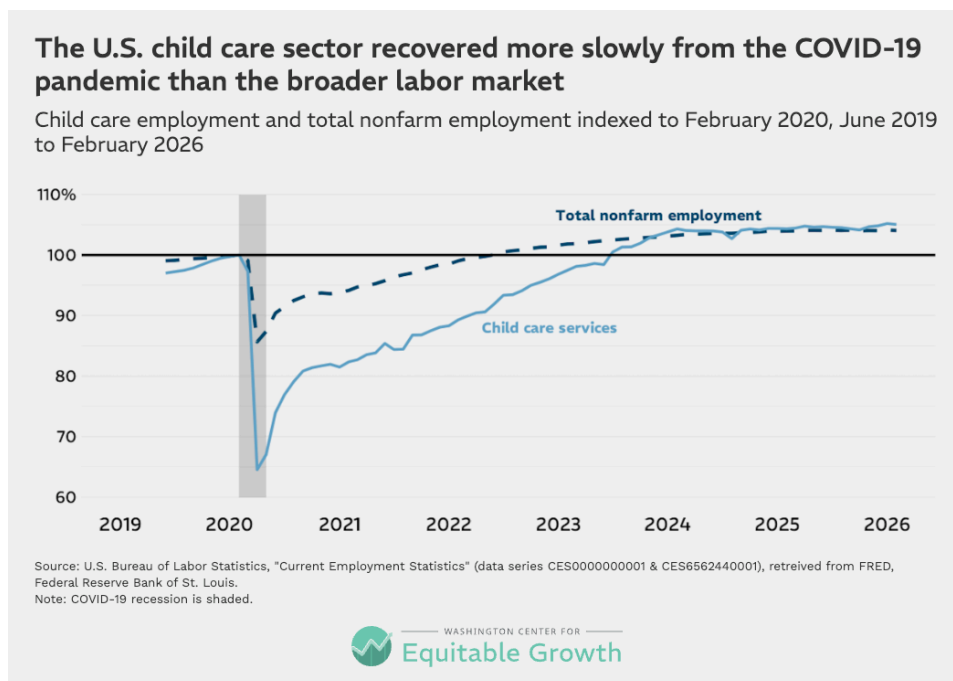
The needs of care workers and families are obviously in tension. Indeed, when child care wages do rise—as they do after increases in state and local minimum wages<sup>13</sup>—researchers find that the supply of child care tends to shrink while prices rise. Robust public investment could help relieve this pressure.

## Effects of the COVID-19 pandemic on child care

The COVID-19 pandemic exacerbated many of the longstanding issues in the child care sector. Child care was one of the hardest-hit industries during the pandemic. Employment for child care workers decreased 33.9 percent from April 2019 to April 2020,<sup>14</sup> compared with a 15.7 percent reduction in employment nationally.

Even as demand for child care services increased as the pandemic waned, the industry had a shortage of workers. While wages for most low-wage jobs rose in 2022 amid a then-tight labor market, wages for child care workers increased less than others, making those jobs less attractive.<sup>15</sup> The child care sector did not fully recover from COVID-19-related job loses until the summer of 2023, a full year after the broader labor market had recovered. (See Figure 2.)

Figure 2



In response to the COVID-19 pandemic, the U.S. Congress appropriated more than \$40 billion to stabilize the industry, with states granted wide flexibility for the use of these funds.<sup>16</sup> States also could also apply part of the \$350 billion they received under the State and Local Fiscal Recovery Funds of the American Rescue Plan Act of 2021 for child care or early childhood programs.<sup>17</sup> Many state policymakers chose to subsidize the demand for child care by capping families' copays or increasing the amount of care subsidies families could receive. Others piloted supply-side interventions to induce new providers into the market.

These policy improvements proved to be ephemeral. Rather than acting as a down-payment in preparation for long-term public investment, the last of the COVID-19 relief funds expired in December 2024, after which states have made disparate decisions about whether and how to sustain the programs they funded as they finish their required spend-downs of pandemic funds through December 2026.<sup>18</sup>

## Federal child care policies in the United States

Child care policies at the federal level in the United States typically serve two primary functions: to ease the supply- and demand-side liquidity constraints described above and to ensure minimum health, safety, and quality for child care services. This section describes the main federal policy levers that impact the affordability, accessibility, and quality of child care and their state-level counterparts.

### Direct spending and subsidies

The federal government provides funding and support for child care and early childhood education primarily through two programs: Head Start and the Child Care Development Fund, both of which are administered by the U.S. Department of Health and Human Services' Administration for Children and Families.<sup>19</sup> For Head Start, the U.S. Department of Health and Human Services directly funds school districts, nonprofit organizations, faith-based institutions, and other organizations to operate Head Start programs for 3- to 5-year-olds and Early Head Start programs for birth through 3 years of age.

In the context of state child care policies, the Child Care Development Fund is more relevant than Head Start. Under this program—which is composed of the Child Care Development Block Grant and the Child Care Entitlement to States programs—the federal government provides funds to states to administer child care assistance programs. In general, assistance takes the form of block grant voucher subsidies to low-income families to offset the cost of care or direct contracts with providers. States have wide latitude for how they use their block grant funds so long as they remain in compliance with minimum federal standards.

The federal government's eligibility requirements for child care subsidies are that:



- The child must be under the age of 13.
- Their parent(s) must be working or in a job-training or an education program.
- The household income must be below 85 percent of the state's median income.

Depending on state policy, families participating in block grant programs usually have to contribute some of their own money toward their children's care on a sliding scale based on income.

As part of the Child Care Development Fund, funding for the Child Care and Development Block Grant is discretionary, meaning the U.S. Congress must authorize spending for it each budget cycle. It is combined with mandatory funding from the Child Care Entitlement to States program, which is authorized under the Social Security Act. These funds are also meant to cover a wide range of needs, including the Temporary Assistance to Needy Families program.

Federal funding levels for these block grants to the states—and public spending on U.S. children in general—are below existing needs and have not kept pace with inflation. Among the 38 member nations of the Organisation for Economic Co-operation and Development, the United States ranks in the bottom three in terms of early care and education spending as a percent of Gross Domestic Product, spending 0.3 percent, below the average of 0.7 percent.

What's more, due to the discretionary nature of the funds and the diversity in state priorities, the amount spent directly on care varies by state, and eligible families are not guaranteed participation. While almost 6.5 million children under the age of 5 qualify for subsidy funds across the United States, only about 921,000 receive them.<sup>20</sup>

## Health, safety, and quality standards

The Child Care and Development Block Grant was reauthorized in 2014 to include updated health and safety standards that child care providers must meet in order to qualify for subsidies. Primarily, the 2014 reauthorization required providers to undergo annual monitoring,

relicensing inspections, health and safety trainings, and background checks. Relatedly, states were also required to provide accessible health, safety, and quality information to families.

The reauthorization included no guaranteed funding increases, contributing to state block grant programs becoming further underresourced.<sup>21</sup> These resource constraints contributed to delays and challenges in states' compliance with the 2014 law.<sup>22</sup> Beyond these minimum health and safety requirements, additional standards are set at the state level.

## Taxes and child care policies

The federal tax code contains two provisions intended to offset the cost of child care or encourage the provision of child care services: the Child and Dependent Care Tax Credit and the Employer-Provided Child-Care Credit.

The Child and Dependent Care Tax Credit allows families to claim a percentage of their work-related child and dependent care expenses as a tax credit. The maximum credit value is \$3,000 for one child and \$6,000 for two or more children. Beginning in 2026, Public Law 119-21 (also known as H.R. 1 or the One Big Beautiful Bill Act of 2025) increased the tax credit calculation from 35 percent to 50 percent of qualifying care expenses, though the maximum credit values remain unchanged. Importantly, the Child and Dependent Care Tax Credit is nonrefundable, meaning low-income families who have a smaller tax bill often receive less than the full credit amount for which they may otherwise qualify.

The Employer-Provided Child-Care Credit, sometimes referred to as Section 45F, allows businesses to claim a percentage of qualified child care expenses related to providing or locating child care for their employees.<sup>23</sup> Recently, H.R. 1 significantly increased the size of this credit, allowing businesses to claim up to 50 percent—up from 25 percent—of qualifying expenses for a maximum credit of \$600,000, up from \$150,000, for small businesses.



## State child care policies in the United States

States and the District of Columbia leverage their use of federal funds for child care in different ways on both the demand and the supply side of the child care market. Some states also supplement federal funds and offer child care tax credits. This section of the report highlights these differences and how states are adapting to the end of the federal COVID-19 child care funding.

### Direct spending and subsidies

States are responsible for administering child care assistance using funds from the Child Care and Development Block Grant program. So long as they comply with the federal eligibility and quality rules, states have discretion in how they run their programs. States, for example, can set a lower income requirement than 85 percent of the state median income. They also can choose whether to give parents child care vouchers to defray costs or pay providers directly to provide slots for eligible children.

Many states have local child care programs and provide additional resources that go beyond the federal block grants. The District of Columbia, for example, has the [Early Childhood Educator Pay Equity Fund](#) that uses city revenue to provide awards to child care providers to increase the wages of their workers.<sup>24</sup> Many states also used some of their COVID-19 pandemic relief funds to shore up and enhance child care assistance in their states.

Now that states are no longer receiving pandemic relief funds and their budgets are tighter, there is a looming question as to whether pandemic-era state enhancements to child care can be retained. Those decisions will come quickly this year. The District of Columbia's wage subsidy program, for example, was amended to [reduce required pay rates](#) for care workers in January 2026, and the program is not funded [past fiscal year 2027](#) due to budget shortfalls.<sup>25</sup>

## Health, safety, and quality standards

Child care regulations are primarily established at the state level, with substantial variation across states and care settings (center-based care or in-home care).<sup>26</sup> Regulations typically pertain to health and safety standards, including immunization and food safety requirements, class size and child-to-staff ratios, and staffing qualifications, including educational requirements. Research suggests that state regulations are fairly static with infrequent policy changes, with the exception being the emergency phase of the COVID-19 pandemic.<sup>27</sup>

Evidence generally shows that more stringent regulations reduce the number of child care establishments, child care slots, job postings, and the size of the child care workforce.<sup>28</sup> Evidence is mixed on whether regulations impact child care use and household expenses.<sup>29</sup> Because such standards are some of the only tools that states have to ensure acceptable safety and quality levels, robust public investment and resources are needed to help providers meet these standards while minimizing unintended consequences on care workers and families.

## Child care and tax policies

Twenty-nine states and the District of Columbia have state-level Child Care and Dependent Tax Credits that build upon the federal tax credit.<sup>30</sup> Maximum credits range from \$345 (Virginia) to \$18,000 (Oregon). In 16 states and District of Columbia, this credit is refundable.

As of tax year 2025, Colorado, Louisiana, and Nebraska also provide child care and early education workforce credits to help offset the low wages prevalent throughout the early care and education sector. The remainder of U.S. states offer no child tax credits.



## State-level approaches to child care policies

Both New Mexico and Vermont have identified dedicated funding sources to make comprehensive investments in their child care systems, which we detail below. For states that lack these funding models—for economic or political reasons—a patchwork approach to child care’s many unique challenges is more common. Recently enacted and pending state legislation on child care runs the gamut, showing how states are trying a patchwork of solutions to shore up their child care sectors, stabilize their child care workforces, and address affordability for families in their states.<sup>31</sup> The sampled policies outlined below are categorized into demand-side policies that support families and supply-side policies that impact the structure of the child care market.

Underpinning these diverse efforts are the political and economic viability of their funding models. While some states have been successful in finding dedicated funding or new tax revenue, others have relied on expected federal payments or macroeconomic trends that have not proved to be very stable.

## Leading child care policy models

### New Mexico

New Mexico has made both substantial policy changes and a massive investment in child care and early childhood education beginning with the onset of the COVID-19 pandemic. In 2020, the state launched the Early Childhood Education and Care Department, creating the Early Childhood Education and Care Fund with \$320 million in general appropriations, which is supplemented annually with oil and gas revenue.<sup>32</sup> As of 2025, the fund has \$10 billion.

In 2022, voters also passed a constitutional amendment that permanently directs funds from the state’s Land Grant Permanent Fund—a sovereign wealth fund that is constitutionally mandated to provide funding for education and other specific beneficiaries—to early childhood care and education.<sup>33</sup> Child care assistance in the state is now heavily state funded and not as reliant on federal funding as other states.

Also in 2022, New Mexico expanded subsidy eligibility to families at or below 400 percent of the federal poverty level, and, in 2025, policymakers created the first universal child care program in the United States, expanding eligibility to all families with no copays or income limits.<sup>34</sup> Through this phased-in expansion, the number of eligible children has risen by 98 percent, from 98,000 to 194,000. Roughly 20 percent of eligible children are served through the program.

Importantly, New Mexico's universal child care program includes supply-side interventions to accommodate the anticipated demand for slots.<sup>35</sup> The state has increased reimbursement rates, established a low-interest loan fund to support physical care infrastructure needs, and has engaged in several recruitment and licensing efforts. Since 2019, licensed child care slots in New Mexico have risen 22 percent, from 58,523 to 71,509.

While the funding structure underpinning New Mexico's universal child care program is unique, it serves as an important programmatic test case for other states. Already, the composition of children served in New Mexico's system has shifted younger, with infants and toddlers rising from 29 percent of the child care caseload to 38 percent. Younger children require more labor-intensive care and are therefore costlier for providers. Fees for preschool and school-age children—which cost providers much less to care for—are often used to subsidize the care of younger enrollees.<sup>36</sup> If and how the state absorbs these shifting costs will be instructive to policymakers in other states and at the federal level.

## Vermont

Vermont also has made significant public investments in child care to cover most families within the state. In 2021, the legislature passed Act 45.<sup>37</sup> On the demand side, the new law increased subsidy eligibility for families earning up to 350 percent of the federal poverty line and waived copayments for families below 150 percent of the poverty line.<sup>38</sup> On the supply side, the law established scholarships and student loan assistance for new early child care and education providers.



In 2023, Vermont also passed [Act 76](#), which implemented a new payroll tax to help fund child care expansions.<sup>39</sup> The act increased the income eligibility for child care and early childhood tuition assistance up to 575 percent of the federal poverty line and waived copays for families at 175 percent of the federal poverty line or lower. To support child care providers, the law increased reimbursement rates and introduced financial bonuses for providers that increase or renew their state quality ratings, among other provisions.

Researchers are still examining the effects of Vermont's public investment in child care, but early evidence finds promising increases both in families served and active providers. Since implementation of Act 76, the [number of families receiving child care subsidies](#) has increased 48 percent, rising from approximately 5,400 families to 8,000 families.<sup>40</sup> On the supply side, yearslong [declines in available providers have begun to reverse](#).<sup>41</sup> Between January 2020 and July 2023, the number of child care providers declined nearly 9 percent across all program types, but the provider market has since stabilized, increasing 2.4 percent since the law's implementation.

## Demand-side policy interventions

Many state and federal child care policies are centered on reducing the cost burden for families through vouchers and subsidies. The Child Care and Development Block Grant program provides states with wide flexibility on the structure of these subsidies, and states can pursue additional funding to expand the scope or amount of these subsidies.

State-level policies aimed at supporting families focus on expanding child care assistance and providing tax credits for child care, including:

- **Increasing the income eligibility threshold for child care assistance:** In 2024, [Maine raised its income eligibility](#) for child care assistance from 85 percent of the state median income to 125 percent.<sup>42</sup> In 2025, [Alaska](#) likewise raised its income eligibility to 105 percent of the state median income.<sup>43</sup>

- **Increasing the amount of subsidies or capping family copays:** In 2025, Connecticut created the Early Childhood Education Endowment to fund 16,000 additional child care slots by 2030 with no copays for families earning less than \$100,000 and copayments capped at 7 percent of income for higher-earning families.<sup>44</sup>
- **Expanding categorical eligibility for child care assistance:** Indiana recently expanded eligibility to foster parents, while Mississippi and New Jersey considered, but did not pass, legislation to expand access to parents in high school or college and full-time graduate students, respectively.<sup>45</sup>
- **Creating or expanding dependent care credits:** Georgia recently expanded its Child and Dependent Care Credit to equal 50 percent of the federal tax credit amount.<sup>46</sup> Overall, 29 states and the District of Columbia have a state-level dependent care credit to offset care costs.<sup>47</sup>

There is robust research evidence that demand-side interventions increase child care participation for eligible families and support parental labor force participation. Most state-level demand-side interventions, however, are too small in scale to meet the needs of all eligible families or induce a supply-side response necessary to improve affordability and accessibility more broadly.

Demand-side subsidies absent sufficient supply-side supports can, at least in the short term, contribute to a shortage of care slots or higher prices for unsubsidized families, as was observed in the rollout of Minnesota's Child Care Assistance Program.<sup>48</sup>

## Supply-side policy interventions

States rely on a patchwork of supply-side interventions to stabilize or grow their local child care markets and invest in their child care workforces. Other policies under states' purview, including quality regulations, have potential supply-side implications as well. Policymakers may pursue these policies at any time to address weaknesses or quality concerns within their child care markets, or they may be paired with increasing demand-side investments to account for the growing needs of families in their states.



A growing body of research demonstrates that supply-side supports can lead to better-quality child care and increased maternal employment, but most supply-side policies to date are, once again, too narrowly targeted to be transformative. Below are several examples of encouraging supply-side supports at the state level.

### Provider-oriented interventions

Several states have used the federal Child Care and Development Block Grant program and supplemental state funds to increase subsidy payments rates, provide low-interest development loans, and organizational support to providers entering the child care market. Such provider-oriented interventions include:

- **Amending reimbursement rates to reflect the true cost of high-quality care:** Iowa is considering legislation to raise provider payment rates in alternative care situations, and California will be adopting a new reimbursement methodology to establish a single-rate structure that considers providers' costs.<sup>49</sup>
- **Making more predictable payments:** Missouri is considering legislation that will make reimbursement payments based on children's enrollment status rather than children's actual attendance, which can fluctuate more widely over time.<sup>50</sup>
- **Supporting day-to-day operating expenses:** The Massachusetts Commonwealth Cares for Children grants provide \$475 million in funding to support care providers' operating and workforce costs.<sup>51</sup>
- **Preempting regulatory barriers to entry:** New Hampshire is considering legislation that requires local zoning authorities to allow the operation of qualified child care centers by right on commercially zoned land, with limited exceptions.<sup>52</sup>

### Worker-oriented interventions

During the COVID-19 pandemic, many states looked for ways to stabilize their child care workforces, and some states have continued to enact or consider policies designed to support the recruitment and retention of child care workers. These policies include:

- **Making child care workers eligible for child care assistance:** Since 2022, child care workers in Kentucky have been automatically eligible to receive child care subsidies for their own children, regardless of household income.<sup>53</sup>
- **Boosting workers' pay:** The District of Columbia created the Early Childhood Educator Pay Equity Fund in 2021, which uses city revenue to provide awards to child care providers to increase the wages of their workers.<sup>54</sup> But, as noted above, future appropriations to this fund are uncertain.
- **Increasing benefit eligibility for child care workers:** In 2025, Connecticut established the Early Childhood Education Endowment, which will provide health insurance premium subsidies for child care staff.<sup>55</sup>
- **Providing grants to repay student loans:** Arkansas recently considered, but did not enact, legislation that would have extended student loan repayment assistance of up to \$10,000 per year for 5 years to people teaching in a public early childhood education program.<sup>56</sup>
- **Supporting or subsidizing education and credentialing:** Oregon recently considered legislation that would have provided funding to community colleges and public universities that have early childhood education degree and certificate programs.<sup>57</sup>
- **Providing income tax credits for child care workers:** Colorado, Louisiana, and Nebraska provide a child care and early education workforce credit to help offset the low wages prevalent throughout the early care and education sector.<sup>58</sup>

Overall, these state investments in the child care workforce are associated with better-quality service, reduced staff turnover, and higher compensation, though families' costs also are expected to rise absent complementary demand-side investments.<sup>59</sup>

### Quality regulations with supply-side implications

State policymakers establish health, safety, and quality standards that providers must meet to obtain licensing and qualify for subsidies. As stated above, researchers generally find that without additional resources, such regulations can have a negative effect on the number of child care establishments, slots, and job postings, putting upward pressure on prices for families.<sup>60</sup>



Policymakers must therefore balance the importance of guaranteeing safe, high-quality care with the potential unintended consequences of imposing new standards. By providing technical and material support to providers in meeting regulatory requirements, state policymakers can ensure safety and quality standards while minimizing potential negative ramifications for families and care workers alike. Some approaches include:

- **Subsidizing providers' capital improvements:** Arizona is considering the establishment of a child care infrastructure fund to help providers cover construction or renovation costs, which may be necessary to meet licensing standards or offer additional services.<sup>61</sup>
- **Providing regulatory consultation and technical assistance:** Washington state is considering expansions to prelicensing supports to individuals interesting in becoming a licensed care providers.<sup>62</sup>
- **Decoupling reimbursement from quality:** North Carolina is developing a new payment structure to reimburse subsidized providers based on market rates, separate from quality ratings.<sup>63</sup> The change could allow child care providers who receive a lower rating to work on improving their quality without incurring a financial penalty.

## Employer-oriented interventions

States also have enacted or proposed policies to incentivize employers to support child care affordability and access for their employees. Motivated by the tremendous economic benefits that businesses receive from the U.S. child care industry—including a larger and more diverse labor force—many policymakers believe firms must have financial stakes in providing child care.<sup>64</sup> These policies, which can have supply- and demand-side implications, include:

- **Creating so-called tri-share models, in which the state government, employers, and employees share the cost of child care:** Michigan rolled out the first state tri-share model in 2021.<sup>65</sup>

- **Offering tax credits to businesses to provide subsidies to employees, contract with child care providers, or run their own child care program:** Pending legislation in West Virginia would provide employers with a tax credit for operating a child care center for employees or contracting with a child care center to provide slots for their employees.<sup>66</sup>

Employer-sponsored child care can address tricky coverage gaps for workers with the greatest needs, including those who live in low-coverage areas or work nonstandard hours.<sup>67</sup> There is evidence however, that employer-provided benefits for child care can stifle employees' mobility in the U.S. labor market, as they fear losing critical benefits.<sup>68</sup> Some child care advocates have also raised concerns about employer-first policy solutions leading the child care market further down the path of privatization and away from robust public investments.<sup>69</sup>



## Outlook for child care policies in 2026 and beyond

State child care policymaking faces significant headwinds over the next few years.<sup>70</sup> First, many states are experiencing tighter budgets with the expiration of pandemic relief funds. A number of states made significant tax cuts in the past few years using budget surpluses as justification—even though those surpluses were often the result of temporary infusions of federal pandemic relief.<sup>71</sup> These states are more likely to be facing potential cuts to child care funding than making new investments.

Second, states are facing significant uncertainty around federal funding for critical programs and services, including child care. Legislatively, the One Big Beautiful Bill Act significantly shifts health care and social service costs to states.<sup>72</sup> While the U.S. Congress has not cut Child Care and Development Block Grant funds, slashing federal funds for other programs puts a tremendous strain on state budgets and could cause states to cut state funding for child care assistance.

The Trump administration has also taken an unpredictable—and at times punitive<sup>73</sup>—approach to federal funding cuts, cancelling previously awarded grants that policymakers had already incorporated into their state and local budgets.<sup>74</sup> In early 2026, the administration announced a freeze on funding for the Child Care Development Fund, Temporary Assistance for Needy Families program, and the Social Services Block Grant in five blue states, citing broad and often-unsubstantiated claims of fraud.<sup>75</sup> A federal judge has temporarily blocked this freeze pending litigation, allowing child care payments to continue.<sup>76</sup>

In this uncertain funding environment, states that made substantial investments in child care in the past few years are likely to be focused on retaining those expansions, rather than passing new policies requiring additional funding.

## Key takeaways and recommendations

**The COVID-19 era fostered significant investments and innovations in state child care policies, but it is unclear what will happen next.** Although child care affordability and availability was an issue prior to the COVID-19 pandemic, the pandemic forced the crisis to the fore. It showed in stark relief just how critical child care is to the ability of parents, especially mothers, to work and for the functioning of the U.S. economy. Many states responded to the crisis, supported by the influx of federal pandemic relief funds, with bolder action and bigger investments in child care. Now that states have run out of these funds, it is uncertain whether they can or will use state funds to maintain these expansions.

**The unpredictability of the federal government is an impediment for advancing child care policies.** Several states have political conditions that could have been favorable to making significant advances in child care policies this year and next year. Yet the threats to federal funding for state-administered programs, including child care assistance,<sup>77</sup> means that state officials are facing uncertain legal and budgetary landscapes. Given such uncertainties, as well as strained coffers,<sup>78</sup> it is difficult to imagine many states making child care policy changes that would require significant new investments or that could expose them to costly legal challenges. It is more likely that they will focus on preserving existing child care programs rather than starting new programs.

**Research and evaluation are needed on newer policies.** Many of the trending child care policy ideas, such as tri-share and pay supplements for child care workers, are too new to have been the subject of extensive research and evaluation. Still, states continue to propose and enact these policies in search of solutions to their child care crises. Research on the effectiveness of these policies would help policymakers determine which of these ideas should be replicated or scaled up.



**Comparing the potential impact of different policy approaches could be helpful for policymakers.** Current policies tackle child care issues from the standpoint of providers, families, workers, and employers, but little is known about the comparative impact of these different approaches or how they interact with one another. Is subsidizing child care providers more effective at lowering costs than providing vouchers to parents, or are both approaches needed, and at what levels? To the extent that it is possible to compare the potential impacts of different policy approaches, such research would help state policymakers understand which types of policy interventions would be best for addressing specific challenges faced in their state.

**State-by-state approaches to child care interventions reveal a patchwork of strategies that are generally too small to be transformative and can have unintended consequences.** In the absence of federal public investments, states have done what they can, pursuing a variety of policy approaches to ease the cost burden on families, boost worker pay, and induce new providers into the child care market. Yet these policies are often limited in scale, failing to make transformative change across their child care markets outside the limits of their specific scope. Further, without a holistic approach, policy options that address a problem on the demand side may worsen a problem on the supply side—and vice versa.

State policymakers can fill critical gaps, but robust federal investments remain a necessary condition for an accessible, affordable, and high-quality child care system with the potential to grow a more equitable economy.

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## Appendix: Outstanding research questions on the child care state landscape

### Evaluation needs:

- An evaluation of newer policies and pilot programs, such as tri-share, supplementing child care worker pay, and categorical eligibility for child care assistance
- An evaluation of outcomes in states that are making significant investments into child care more affordability and accessibility, such as New Mexico and Vermont
- A comparison of the impact of different policy approaches, such as operational grants to child care providers versus direct subsidies to parents for care costs or to employers to provide child care assistance

### Research needs:

- Data on the effective rate paid by families receiving assistance for child care, as compared to what providers charge

### Research questions:

- Do robust child care assistance programs help to keep families in a state or locality?
- What is the cost-benefit analysis of state investments in child care? How does investing in child care affect economic output? What is the cost to states of not investing adequately in child care?
- How do the wages of child care workers affect the quality of care for children? Do children have better outcomes in settings where child care workers are paid better?

- How do subsidies affect the overall child care market in an area, given that government-provided child care subsidies are only a small percentage of the market? How would changes in subsidies affect the overall market?
- How would a universal child care program compare with the current patchwork of child care support in terms of efficiency, costs/benefits, and outcomes for children and parents?
- What are the effects of child care assistance on women's labor force participation (i.e., either staying in the workforce or returning to the workforce)?
- What is the impact to the child care system as a whole when states implement school-based pre-Kindergarten classes? How does it impact the bottom line for child care providers when they have a higher concentration of infants and toddlers and fewer pre-K students?
- Does the quality of infant and toddler care have positive outcomes for children? Does child care and education for very young children have positive impacts on children beyond the value of allowing their parent or parents to work?
- What has the impact been for providers, families, and states in states that have implemented alternative methodologies for calculating provider reimbursement based on the true cost of care, even though none have fully funded the true cost?



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