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IDEAS

Newsletter | Vol. 1 | No. 7



Rate Setting in Reality: Moving Beyond the Myth of Market-Based Pricing

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Advocates seeking to increase state child care reimbursement rates often use market prices as the benchmark for success, and focus efforts on increasing “the market rate.” What these well-meaning leaders fail to recognize is that market prices vary widely and are actually more likely to reflect the incomes of families in the area than the actual cost of running a child care program. The COVID pandemic has exposed many child care business challenges, widened the cost vs price gap and turned market demand on its head. Now is the time to question long-held assumptions and forge new pathways. Indeed, even conducting market price survey under current conditions is likely to be futile. Perhaps 2020 is the year public child care rate-setting policies should change

altogether.

The notion of linking public reimbursement rates for child care subsidy to market prices dates back to the late 1980's, when the federal government enacted welfare reform legislation that included funding for child care. Recognizing that the child care system in the US was a private, fee-for-service system in which parents act as consumers when purchasing care, policymakers wanted to ensure that low-income families who received child care vouchers were able to purchase the same care as non-subsidized families. Requiring that states conduct a bi-annual market price survey, and base reimbursement levels on the price of care in local markets, appeared to be a good way to accomplish this goal. Initially it was. Following enactment of the law, child care reimbursement rates rose steadily, and significantly.

But now—thirty years later—the market-based approach to rate-setting is no longer effective. A deeper look at rate policy underscores significant systemic problems that must be addressed, most especially inequities for infants and toddlers and rural or under-resourced communities. Driving these inequities are several deep-seated beliefs. A new [issue brief](#), from [Opportunities Exchange](#), highlights seven myths that shape child care rate policy, explores underlying assumptions, suggests alternative policy approaches and makes specific recommendations for reform.

[Click here to read the issue brief.](#)



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