

The Affordability of Childcare in Ireland

Measuring regional disparities

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SUMMARY

Affordable childcare is an important policy tool to maximize an economy's employment rate and by extension its productive capacity by facilitating the participation of second-earners and lone parents in the labour force.

Prohibitive costs create barriers for labour market participation of second earners and lone-parents who tend to be mostly women. There is also widespread consensus among economists that as well as promoting fairness and social justice, there are real long-run economic returns to investing in pre-primary education, especially if it is affordable for disadvantaged families.

As shown previously in housing (Nugent 2017), there are clear regional disparities in the cost of childcare with prices in Dublin far above the rest. The cost of full-time childcare for one child in Fingal is about 40% of the take home pay of the median employee aged 25-34 and the cost of two children anywhere in Dublin is more than the take home pay of a full-time minimum wage worker. The cost in Leitrim for instance is under 60% of that in Dunleary.

KEY POINTS

- A universal subsidy of €20 a week for full-time childcare and €10 for part-time came into effect in September as did higher subsidies for certain groups, mostly for parents in receipt of some form of government welfare assistance. A planned income-based subsidy scheme has been postponed.
- The cost of childcare is highest in Dublin and the surrounding areas, followed by Cork City. Wide regional disparities are evident with the average cost of one child full-time at €755 a month.
- A 7% national figure for annual growth in full-time costs between 2015/16 and 2016/17 masks considerable regional differences.
- Ireland has some of the highest costs for full-time childcare as a share of disposable income in the OECD and one of the lowest spends on early childhood education as a proportion of GDP.
- Ireland has a low employment rate (70.5%) relative to the EU average (72.9%) and is way behind top performers such as Sweden (82.1%) and fares particularly badly when it comes to women (63.7%).

Childcare costs and median net wages

This paper will assess the affordability of childcare for single and dual wage earners across the country. Net, disposable, after-tax or take home pay (gross employee wages minus taxes on those wages) of young workers (24-35) and older workers (over 35) are considered relative to average prices for full-time and part-time childcare in all geographical areas in the Republic of Ireland for which data is available. The paper examines movements in prices in the past year and estimates the effect of the recent subsidy announced (€20 per week for full-time care and €10 for part-time) on affordability for parents. (From September 2017, certain parents are eligible for subsidies including a €145 weekly subsidy for full-time care for medical card holders on most social welfare schemes, €80 for those on Jobseeker's benefit/allowance or supplementary welfare allowance and €70 for those with medical cards but not in receipt of any of the welfare programmes mentioned above. These lower income groups are not considered here however.)

Graph 1 and 2 both illustrate the difference in costs of childcare between 2015/16 and 2016/17 as well as demonstrating the affect on affordability of the new universal subsidy by measuring costs against the take home pay of a selection of typical workers. It is important to note at this stage that regional differences in household income do exist in Ireland and that these are important when considering the burden of cost of childcare. However, up-to-date comparisons of regional wages are not available at present and national medians have been estimated. Although an average Dublin household had €3,000 euro more disposable income in 2012 than the national average, complicating factors such as regional unemployment rates and demographics which impact the broader income measurement make it difficult to make accurate assertions on wage differences.

It is clear from the data that the burden of full-time childcare costs is much higher in Dublin and surrounding areas, as well as Cork, than in the rest of the country. A 7% headline growth figure in national full-time

childcare costs between 2015/16 and 2016/17 masks considerable regional differences, with market prices outside of Dublin dropping significantly in some areas. Thus, by extension, the recently announced and available subsidy benefits parents outside of Dublin more in relative terms. It is important to note however, that prices outside of Dublin are still far in excess of what would be considered normal prices in other EU member states (OECD 2016), with the lowest price in Leitrim in the region of €150 euro a week for full-time childcare. The universal subsidy accounts for the biggest proportion of any area in Leitrim at 14%.

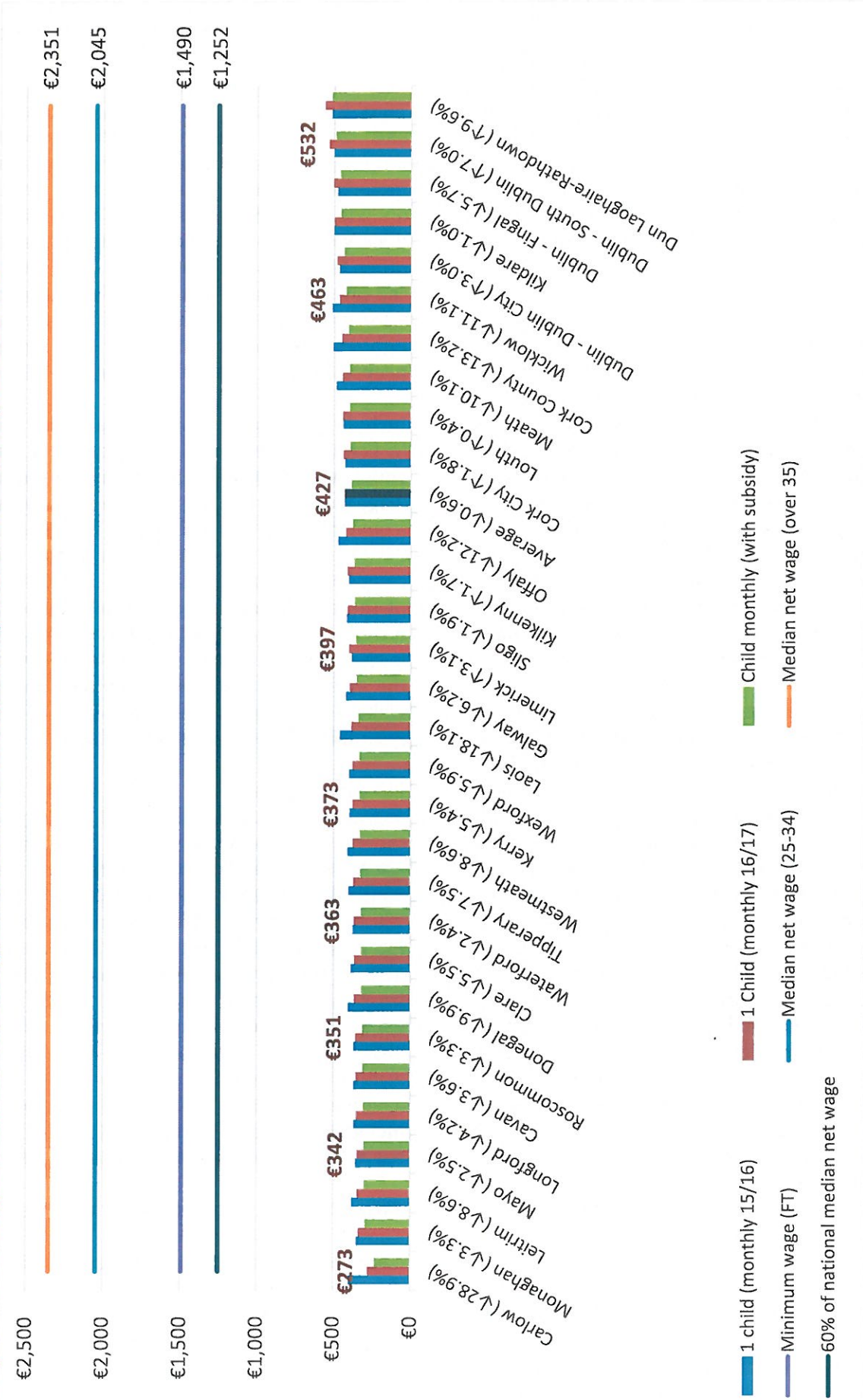
Including the new subsidy the average cost in Leitrim comes to €530 a month for one child, over one-third of a full-time minimum wage worker's take home pay and more than a quarter of the take home pay of the median 25-34 year old wage earner. In Dublin City centre, the average cost for one child is 49% of the take home pay of a minimum wage full-time worker. Dún Laoghaire-Rathdown is the most expensive area in Ireland with the average cost over 40% the median net wage, including the subsidy, which covers just under 9% of the cost in that area.

For part-time care (3.5 -5 hrs), the national average has actually fallen in the past year though prices in most areas in Dublin have risen with Dún Laoghaire-Rathdown and South Dublin seeing increases of 9.6% and 7% respectively. In Carlow, the average price for part-time childcare dropped by almost 30% in the past year. Prices charged range from €230 (Carlow) a month to €558 (Dún Laoghaire-Rathdown), translating to costs of about 15% and 37% of the take-home pay of a full-time minimum wage worker. The average cost is €427, which, with the subsidy included comes to a cost of €384 (or 17% of the net pay of the median Irish wage earner).

Two children and median net wages

Though no official statistics exist, it is common that childcare providers will give a discount on a second child in the region of 5-10%. Graph 3 tells a very similar story to Graph 1 but with an assumed discount of 10% for a second child. At the lower end in Leitrim, the cost of two children in full-time

Graph 2: Net wages and the cost of part-time childcare, 2016/2017. One child, one earner



*note: Net wages are monthly and for two employees. Changes reported are for average market prices 2015/16 - 2016/17. *technical note: Net employee wages are calculated from SILC 2015 and estimated for 2017 with recorded movements in earnings reported in EHECS for 2016, 2017.*

childcare is €1,011 a month. This is over two-thirds of the take home pay of a full-time worker on the minimum wage and just shy of 50% of the median take home pay of a 25-34 year old employee. In Cork City, South Dublin, Fingal and Wicklow the cost is over €1,400 a month for two young children or 60% of the median take home pay of a wage earner over 35. There would be less than €100 a month left over for a full-time minimum wage worker sending two children to full-time childcare in these areas.

Though no average figures have yet been published, there is evidence to suggest that many childcare providers are already 'pricing in' the amount of the universal subsidy for the 2017/2018 year, such that providers benefit at the expense of parents.

Spending on Childhood Education

In 2014, Ireland was one of the lowest spenders on Early Childhood Education as a proportion of GDP in the OECD, at the same time as having the highest fertility rates in the EU for the past decade.

This underinvestment has translated into higher market prices. The net percentage of family income spent on full-time childcare in Ireland is 27.4% compared to 9.7% in France and 4.4% in Sweden where these services are heavily subsidised (OECD 2016). This is a likely factor in Ireland's underperformance in employment rates, particularly in the employment rate of women (63.7 compared to 77.5% for men and over 6 percentage points lower than both Portugal and Spain).

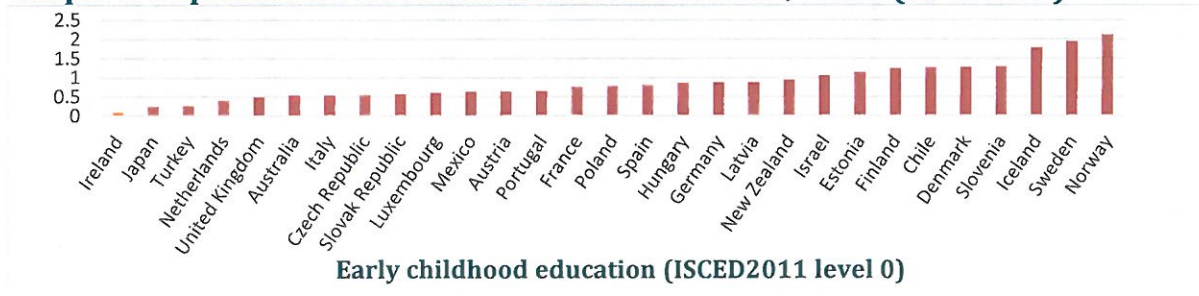
Note: The Single Affordable Childcare Scheme announced in Budget 2017 was due to come in to force in September but has been delayed.

The proposed scheme involved income-based subsidies for childcare to target those parents on lower incomes. It was proposed that any household with a net income of €22,700 or lower would be eligible for the maximum subsidy (€5.11 an hour for a child less than 12 months, €4.37 between 12 and 23 months, €4.18 between 24 and 35 months, €3.95 if older than 35 months and €3.76 if enrolled in school). This subsidy would then be tapered down to a maximum household net income of €47,500 where households would only be eligible for the minimum universal subsidy of €0.5 an hour. The proposal also includes a provision which increases the income threshold for additional children. The proposed scheme takes no account of regional differences in prices facing parents. Should this scheme be implemented it would most likely have a positive impact on the living standards of parents, gender equality and long-term productivity of the Irish economy through increased participation of women as well as on participation rates of children from disadvantaged backgrounds.

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Graph 4: Expenditure on Educational Institutions, 2014 (% of GDP)



Source: OECD (2014)