

A person is reading a children's book. The book is open, showing a page with a colorful illustration of a yellow truck and a landscape. The text on the page is in Russian. The entire image is overlaid with a semi-transparent blue filter.

Childcare costs and poverty

Findings

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The Social Market Foundation is Britain's leading cross-party think-tank, standing proudly in the centre-ground of politics since 1989.

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Overview

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Outline and key findings

Our approach

- To support the launch of the SMF's Commission on Childcare, we have undertaken new analysis exploring how the cost of childcare contributes to poverty and lower wages.
- This includes through:
 - Childcare costs accounting for a high share of income. We define childcare poverty as spending $\geq 20\%$ of household income on childcare
 - Childcare costs pushing people (principally women) out of the labour market and derailing career trajectories.
- The SMF has undertaken new analysis of the longitudinal "Understanding Society" dataset to examine the earnings trajectory of women aged 25-35 that have had children versus women that have not, over a 10-year period.
- We have also used the Family Resources Survey (FRS) to explore spending and use of childcare by different groups.
- Data from the Childcare and Early Years Survey of Parents provides further insights into how childcare costs impact labour market outcomes.

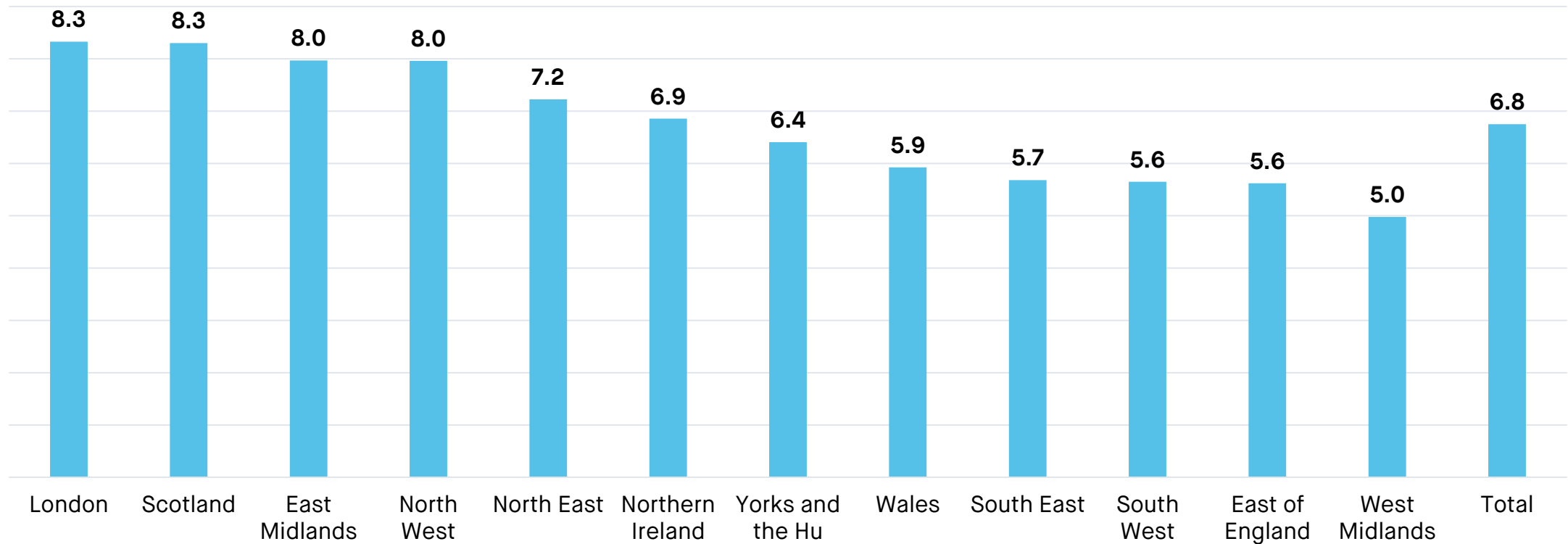
Key findings

- On average, childcare accounts for about 7% of household income among those paying for it, rising to 17% for those in the bottom income quintile.
- A third of childcare users in the bottom income quintile are in childcare poverty, spending $\geq 20\%$ of their household income on childcare.
- Reflecting the cost, higher income households are significantly more likely to use childcare. Three quarters (76%) of households with an income $\geq \pounds 45,000$ use formal childcare, compared with half (52%) of those with an income below $\pounds 10,000$ and about 60% among those with an income between $\pounds 10,000$ and $\pounds 45,000$.
- Half of part-time employed mothers that would want to work more hours said that affordable childcare would help.
- For about a third of mothers out of work with young children, childcare costs are cited as a reason for not working.
- Having a child has a significant and sustained impact on female earnings, with a substantial “motherhood pay penalty” compared with those without children.
- Lower earners see a sharper decline in hours worked following childbirth, leading to a greater pay penalty for mothers in the bottom half of the income distribution in early years of parenthood.

Spending on childcare

On average, childcare accounts for about 7% of household income among those paying for it...

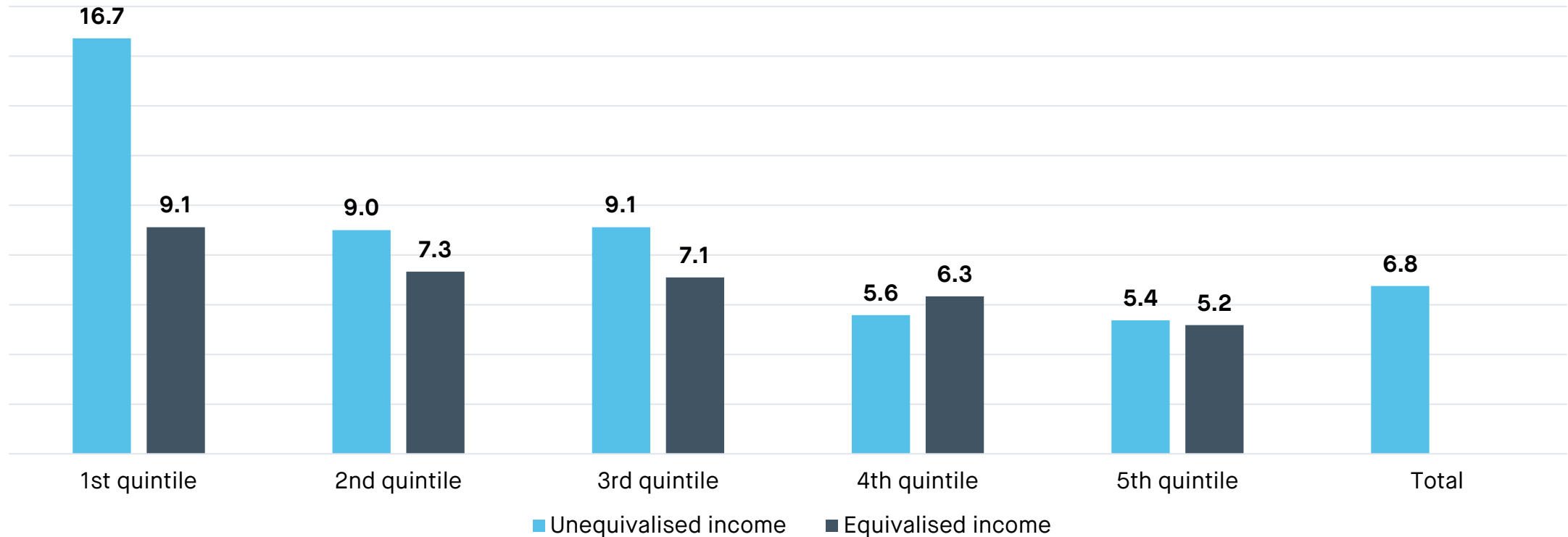
Figure 1: Mean spend on childcare, as a % of household income, childcare users



Source: SMF analysis of FRS

... rising to 17% for those in the bottom income quintile

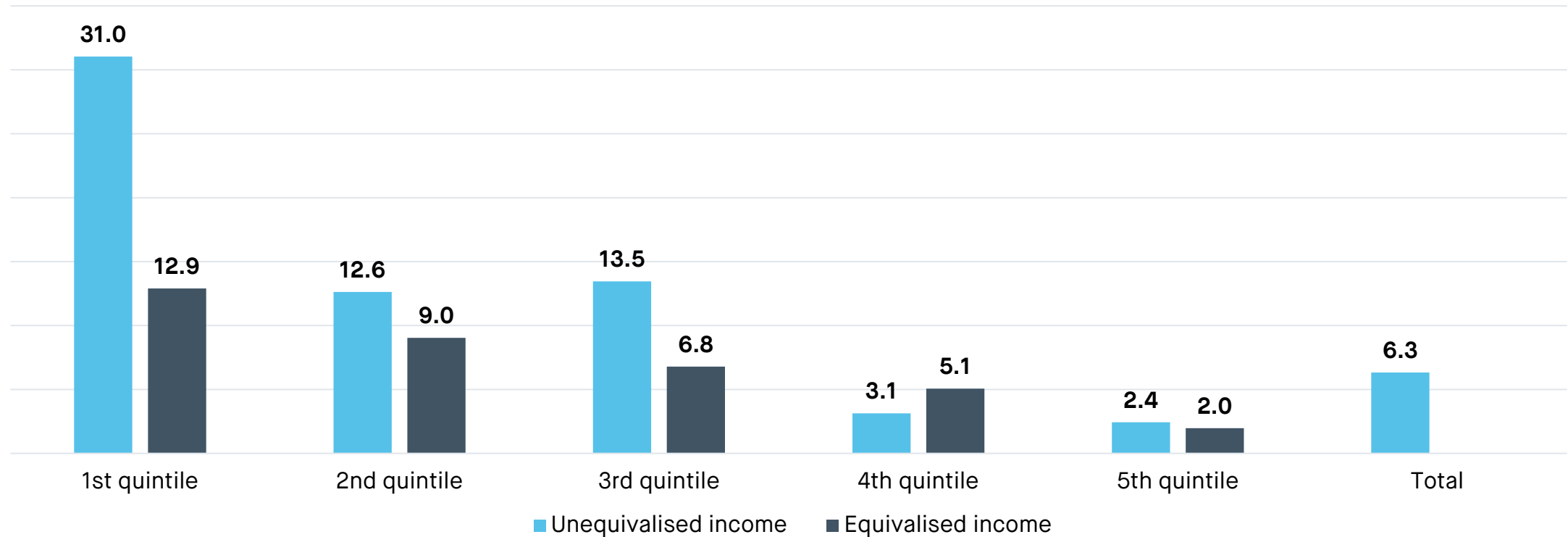
Figure 2: Mean spend on childcare, as a % of household income, childcare users



Source: SMF analysis of FRS

A third of childcare users in the bottom income quintile are in childcare poverty...

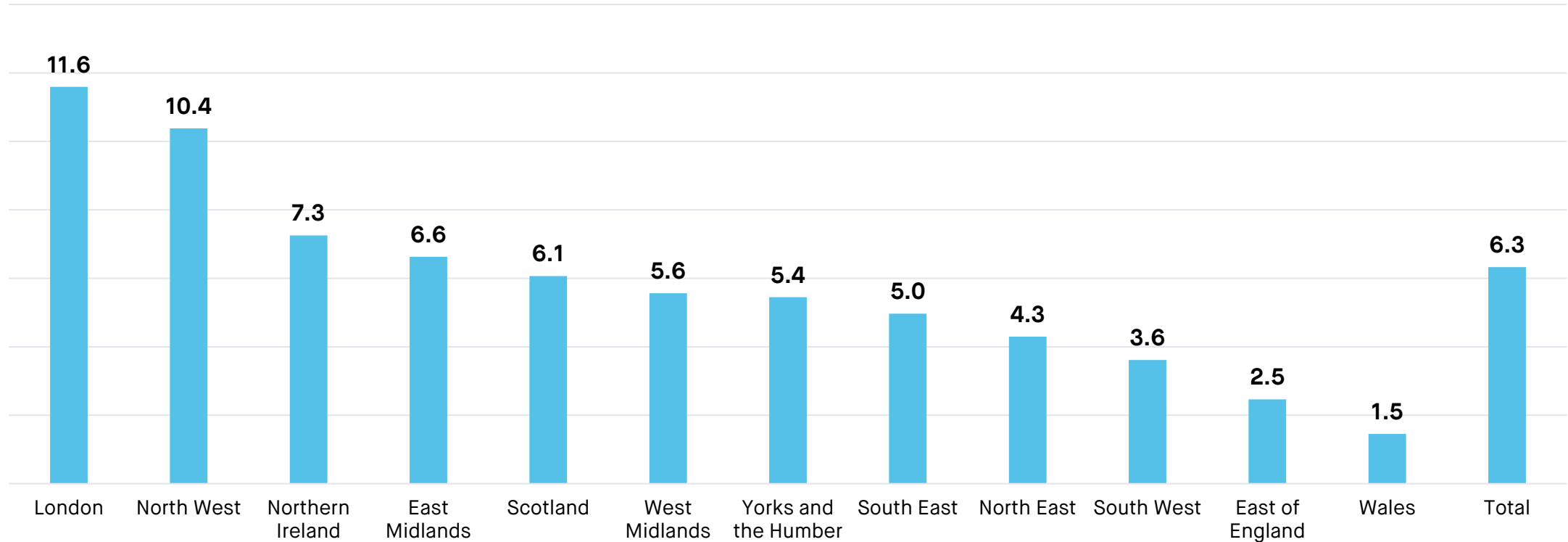
Figure 3: % of childcare-using households in childcare poverty



Source: SMF analysis of FRS

... as are over one in ten childcare-using households in London and the North-West

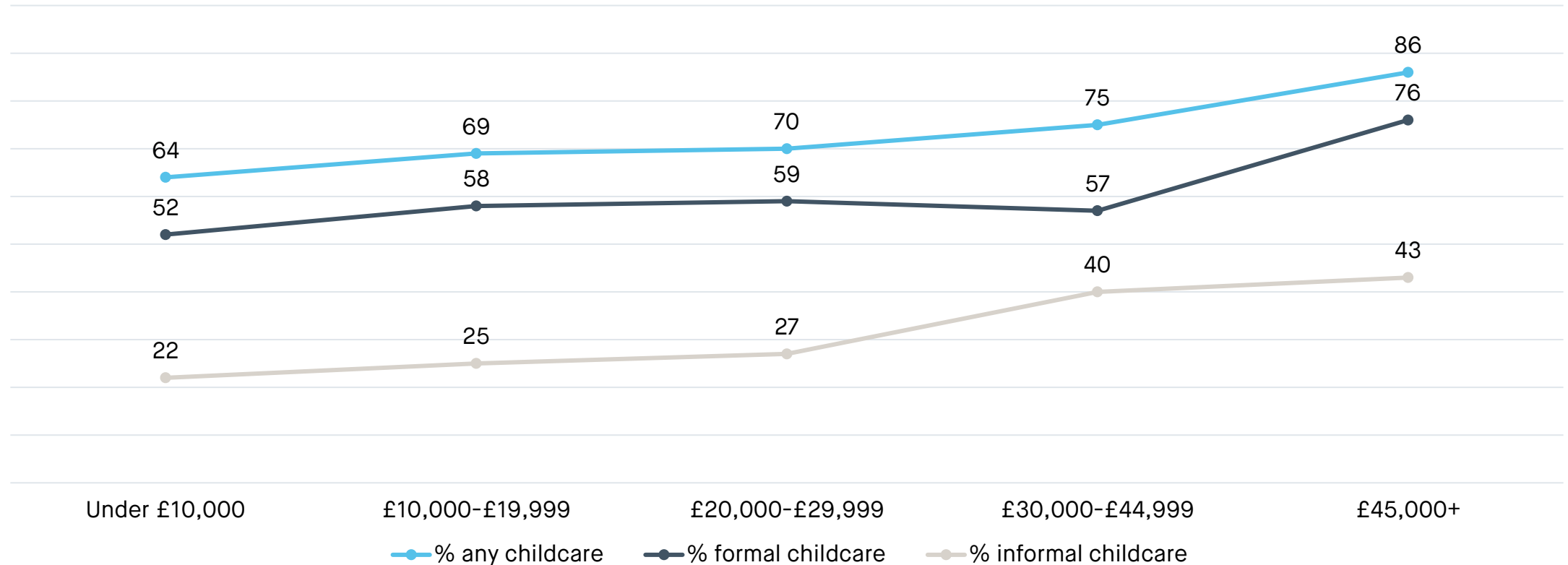
Figure 4: % of childcare-using households in childcare poverty



Source: SMF analysis of FRS

Higher income households are significantly more likely to use childcare...

Figure 5: Use of childcare (%), by family annual income, all children aged 0-4 in England



Source: Childcare and early years survey of parents 2019

... and more likely to use childcare for longer hours

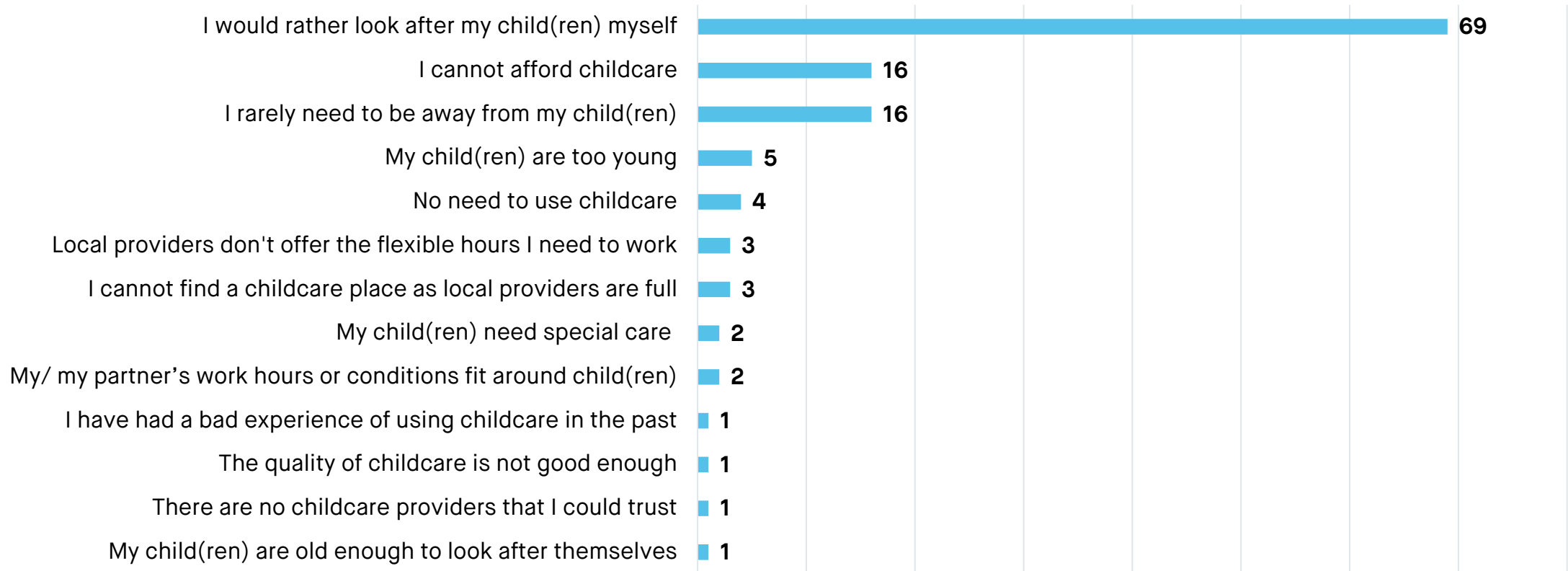
Figure 6: Odds ratio for using 19+ hours of formal childcare (compared with those with family income £45,000+)



Source: *Childcare and early years survey of parents 2019*

Cost cited as a reason for not using childcare in one in six instances..

Figure 7: Reasons for not using childcare in the last year

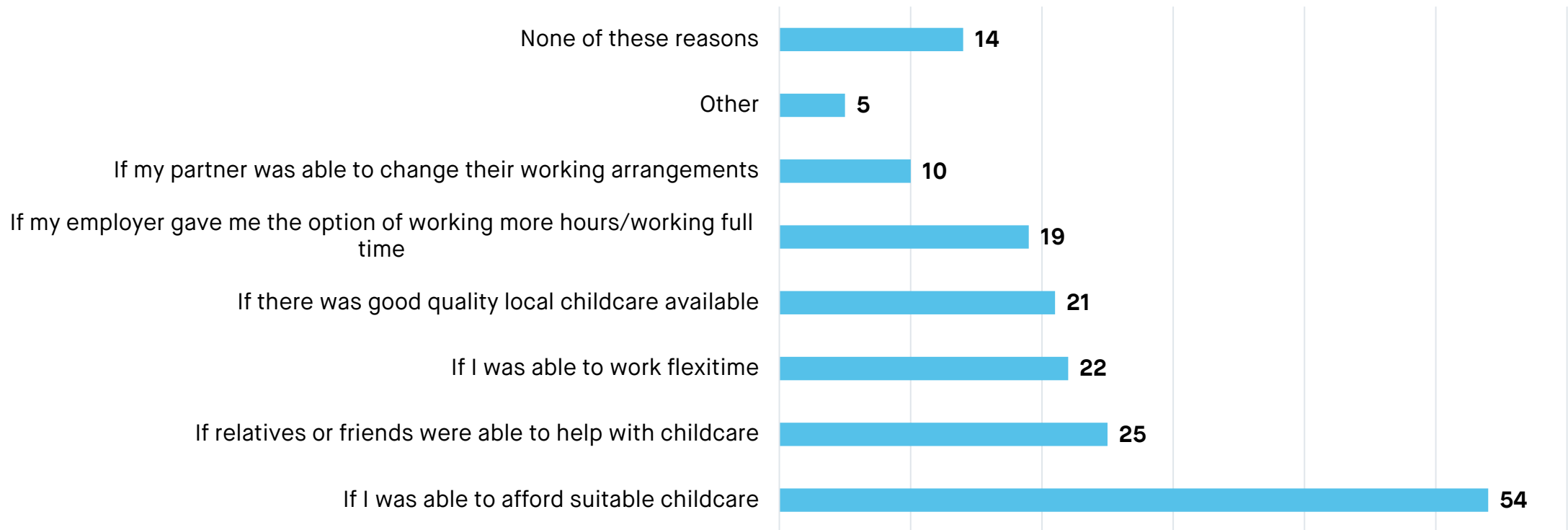


Source: Childcare and early years survey of parents 2019

Childcare and work

Half of part-time employed mothers that would want to work more hours said that affordable childcare would help

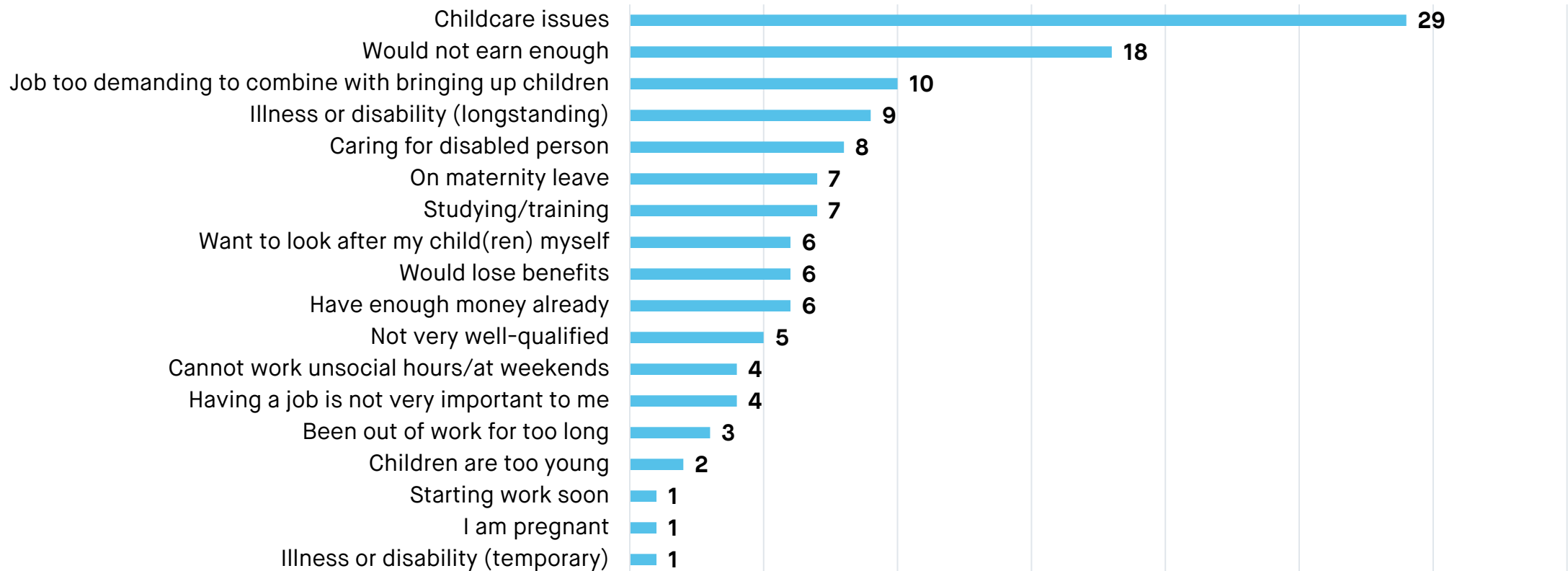
Figure 8: Factors that would help mothers change their working hours. All mothers working part time who would like to increase their hours, or work full time



Source: Childcare and early years survey of parents 2019

For about a third of mothers out of work with young children, childcare costs are cited as a reason for not working

Figure 9: Reasons for not working, all mothers not working and with child(ren) aged 0 to 4



Source: Childcare and early years survey of parents 2019

Analysis of the Understanding Society survey

- The following slides present new SMF analysis of the longitudinal Understanding Society survey to examine how having children may have affected the career trajectory and income of women between 2009/10 and 2018/19.
- To do this we have compared wages and hours worked of women that had no children over this time period, with those of women that had their first child in 2010/11 and 2011/12.
- We focus on women aged 25-35 in 2009/10.
- We segment the analysis by income group (whether above or below median income) to explore in particular the implications for lower earners.

Having a child has a significant and sustained impact on female earnings

Figure 10: Mean annual income of women by whether had children – findings of longitudinal analysis tracking same individuals over time

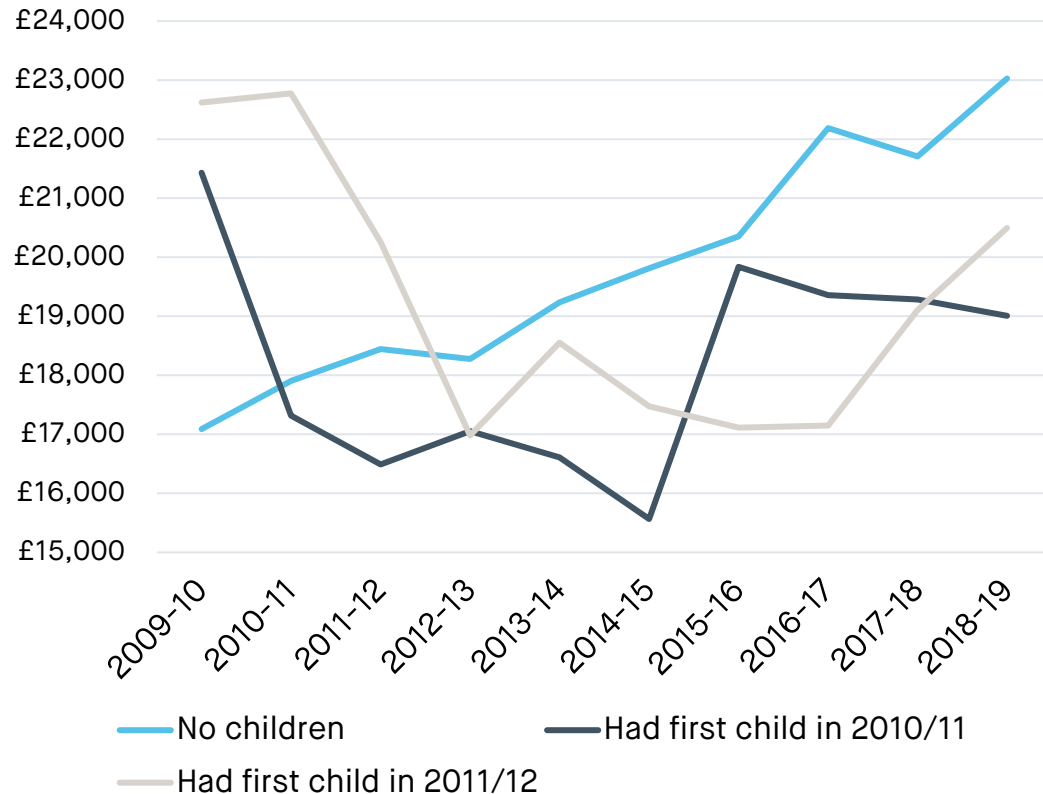
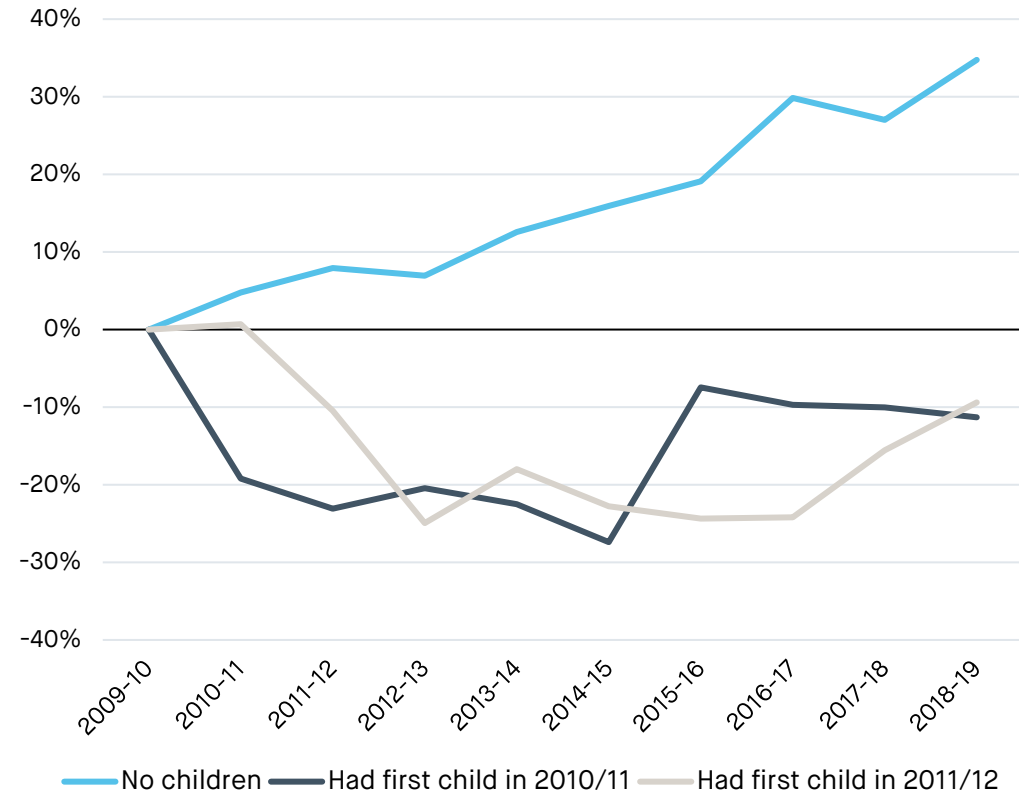


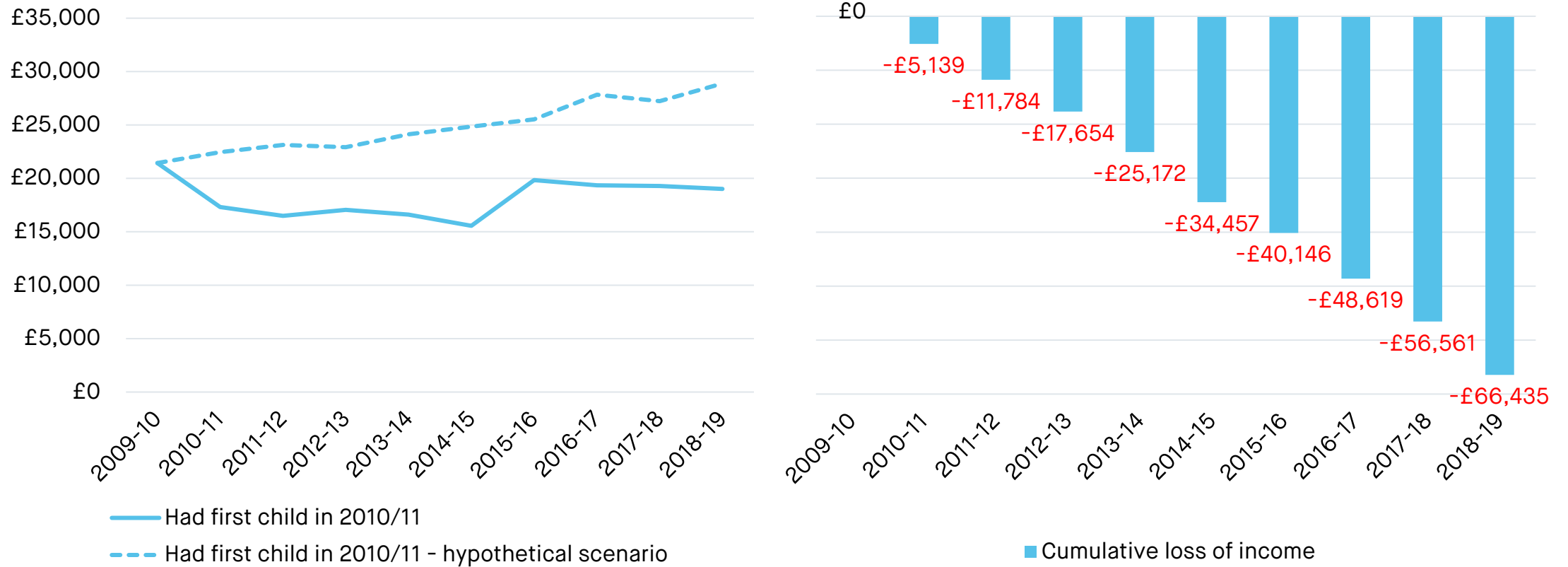
Figure 11: % change in female wages compared with 2009/10



Source: SMF analysis of Understanding Society. Analysis of women aged 25-35 in 2009/10

A cumulative income loss of close to £70,000 compared with wage growth paralleling the “no children” group

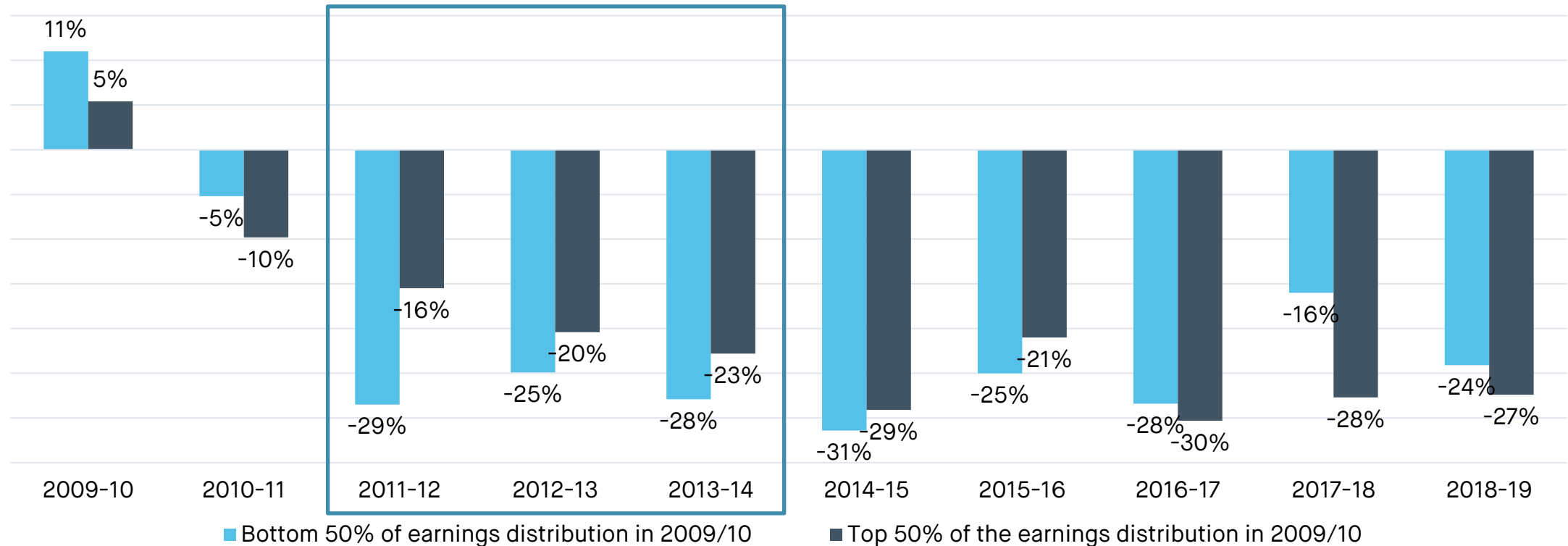
Figure 12: Annual pay – women that had first child in 2010/11 versus hypothetical situation where they experienced the same wage growth as women with no children



Source: SMF analysis of Understanding Society. Analysis of women aged 25-35 in 2009/10

The “childcare penalty” appears similar at the bottom and top of the income distribution by 2018/19, though lower earners face more of a penalty in early years of parenthood – a childcare effect?

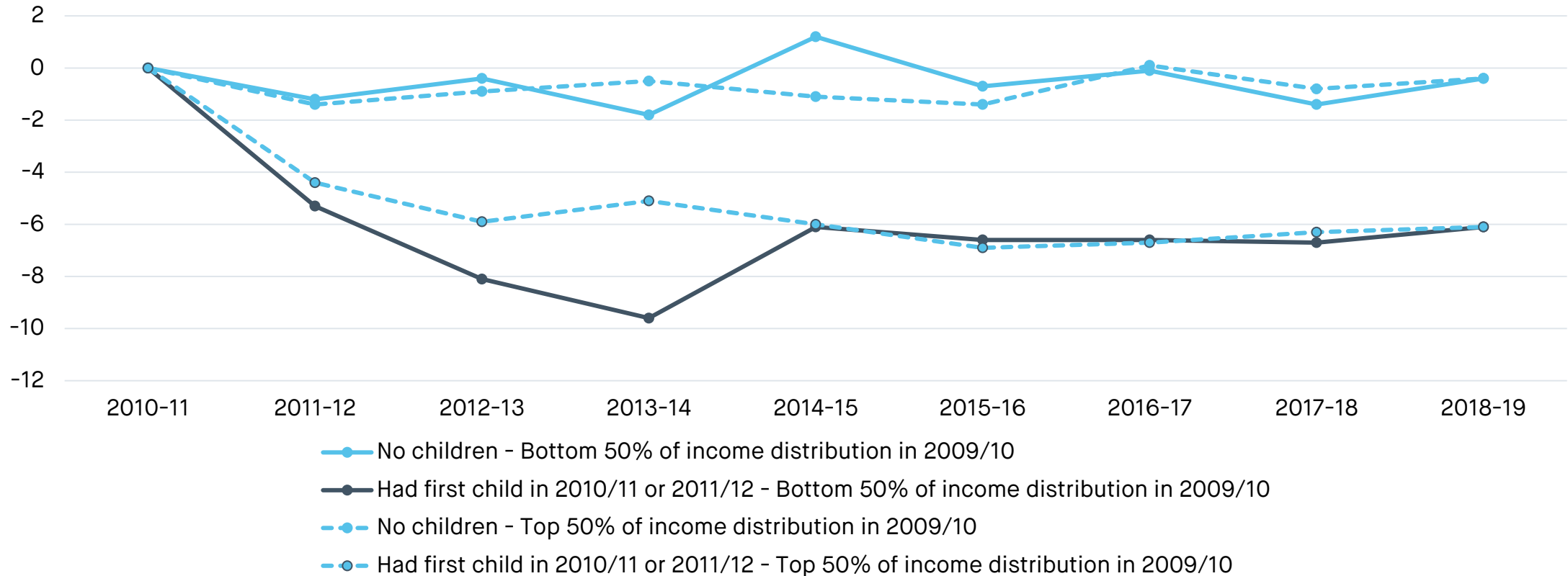
Figure 13: % difference in female wages – those that had first child in 2010/11 or 2011/12, versus those that had no children over entire time period



Source: SMF analysis of Understanding Society. Analysis of women aged 25-35 in 2009/10

Lower earners see a sharper decline in hours worked following childbirth

Figure 14: Change in mean hours worked among women aged 25-35 in 2009/10, by whether had children



Source: SMF analysis of Understanding Society. Analysis of women aged 25-35 in 2009/10

Next steps

To support the **next phase** of the project – setting out policy recommendations to reform childcare – the SMF will be gathering evidence from expert stakeholders.

We will be publishing a policy report in Autumn 2022.