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ABSTRACT

Described are principal options through which employers may address the child care concerns of their employees. Options fall into four general categories: financial assistance, time availability, direct care services, and provision of information. The principal options in the category of financial assistance are dependent care assistance plans and flexible benefits plans offering dependent care options. Employers may make additional time available or flexible for employees through parental leave policies, part-time work options, and alternative work schedules. The most familiar and visible of the child care options is the on-site or near-site child care center, but an increasingly popular option is corporate support of family day care homes or systems, in which four or five children are cared for by a provider in the provider's home. Employers choosing to provide information on work- and family-related issues for employees can effectively raise morale and help to reduce the stress of holding two full-time jobs (as parent and employee) simultaneously. These information options include child care information services and work and family seminars. (RH)

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CORPORATE CHILD CARE OPTIONS

A position paper by Catalyst

RR #1

CORPORATE CHILD CARE OPTIONS

There are a variety of options available to corporations interested in addressing the child care concerns of their employees. These options fall into four general categories:

- -- Financial assistance
- -- Time availability
- -- Direct care services
- -- Provision of information

Each option has its own advantages and disadvantages. The options that a company chooses should reflect the individual employer's benefits philosophy, identifiable problems in need of resolution, the financial and personnel resources available to implement the program, the preferences and needs of the present and anticipated employee population, and a knowledge of available community child care resources. The main options available to corporations are explained below.

Financial Assistance

The principal options through which employers may assist employees with child care expenses are dependent care assistance plans and flexible benefits plans offering dependent care options.

Dependent Care Assistance Plans (DCAPs)

The Economic Recovery Tax Act of 1981 provided for a new type of employee benefits plan called the Dependent Care Assistance Program. This plan permits an employer to reimburse an employee's dependent care costs for children under the age of 15 as well as for disabled dependents. The amount incurred by the employer under this plan is considered a tax free benefit for the employee, and the employer may designate and deduct any reimbursement payment as a necessary business expense. In addition, such payments are not subject to FICA taxes for either the employer or employee. Section 129 of the IRS Code pertaining to DCAPs stipulates that in order for programs to be valid they must be clearly stated in written form, broadly communicated to employees and nondiscriminatory in favor of officers, owners or highly compensated employees. The 1987 tax reforms have not affected this program.

The employer may provide this benefit to employees in a variety of ways. If the employer chooses to subsidize, options include:

- -- Establishment of a work-site child care facility. For example, in 1971 the Stride-Rite Foundation chose to provide start-up and maintenance costs for the Stride-Rite Children's Center, created at the company's main headquarters in Boston. Since then, Stride-Rite has developed a second center in Cambridge under the same arrangement.

-- Payment of employees' dependent care costs directly to the facility providing the service -- for example, a community-based day care center.

-- Direct reimbursement to employees for some portion of their dependent care costs. Polaroid Company, in Cambridge, for example, uses a sliding fee scale for reimbursement based on family income and family size. The plan is limited to those employees whose gross family income falls below $30,000 a year. Baxter Travenol Laboratories subsidizes child care at $3.50 per child per day for those employees enrolled at one of two child care centers. Each year about 70 employees avail themselves of this subsidy and save about $788 per year. The cost to the company totals $55,000 per year.

-- Subsidizing of employees' child care costs through a third party administrative organization. One example is 4C for Central Florida in Orlando, which processes a portion of dependent care costs on behalf of a number of local employers. The employer then reimburses 4C accordingly. Presently, employers subsidize from 25 to 50 percent of the cost of care, while parents pay the balance directly to the provider.

Flexible Benefits Plans

Flexible benefits plans may require extensive reorganization of a company's benefits policies or may be instituted on a much more limited basis. Also known as cafeteria benefits, these plans allow an employee to choose, from a variety of benefits, the options that best meet his or her needs at a particular time or stage in life.

An employee participating in an extensive flexible benefits program is usually given a core package of benefits along with flexible credits. The core provides an adequate, though minimal, level of coverage. An employee may use the credits to purchase additional amounts of core benefits or to choose from a package of supplemental benefits which may be altered periodically. Supplemental benefits may include additional or different medical coverage, or additional life insurance, for example. The dollar amount represented by the optional and core benefits taken together is determined by what the company is prepared to pay for any particular employee's benefits package, and may be based on that employee's position, length of time on the job, etc. A number of companies, including Primerica, offer a dependent care option as one choice in a flexible benefits plan. At Primerica, dependent care as well as other optional benefits may be "purchased" with flexible credits that are based on employer contributions, salary and length of employment.

A limited flexible benefits plan may offer only one or two flexible choices, keeping the primary benefits package almost intact. One increasingly popular plan offers employees a choice of medical coverage that ranges from extensive to minimal. Dollars freed up by choosing a less extensive coverage (an appealing selection for an employee whose spouse has medical coverage for the entire family) may be placed in a Dependent Care Account from which child care or disabled dependent expenses may be drawn. These dollars are, of course, tax-free. If a company chooses to do so, the freed-up dollars may go into a more general account used not only for child care but also for specified legal expenses, deductibles for medical or dental expenses, etc.

One of the most popular methods of funding DCAPs has been through a salary reduction plan. Salary reduction, sometimes referred to as salary redirection, has attracted a great deal of interest among companies of all sizes. According to interpretations of Sections 125, 129 and 401(k) of the IRS Code, an employer can pay for dependent care, either directly to the child care facility or to the employee, and deduct the costs from the employee's pre-tax salary. This process conveniently converts a portion of the paycheck from a post-tax to a pre-tax amount, allowing employees to save on federal income tax, FICA charges and state income tax, and employers to save on FICA and FUTA.

Procter and Gamble, one of the first companies to include child care benefits within a flexible benefits plan, allows employees to allocate two to four percent of their pre-tax salaries toward their flexible benefits program. These dollars may be used to purchase vacations, dental expenses or life insurance, in addition to dependent care. The program is currently being expanded to allow employees to use up to $1,200 of their pre-tax pay, in addition to an amount they receive from Procter and Gamble, toward non-taxable benefits.

Chemical Bank, in New York, has also included an Employee Spending Account in its employee benefits package. This account, funded by employer contributions, a portion of profit-sharing funds, and the standard $5,000 limit on salary redirection, allows an employee to spend up to $5,800 on a number of benefits, one of which is dependent care. Employees are reimbursed from their accounts on a quarterly basis. General Foods has established separate spending accounts for health care and dependent care. Employees can now spend $1,800 and $5,800 in pre-tax dollars respectively on these two benefits.

In order for flexible benefits plans using salary reduction to be valid, employees must set aside the amount of salary to be reduced at the beginning of the plan year and forfeit any dollars that remain unused at the year's end. This requirement is referred to as the "use-it-or-lose-it" rule. Employees who overestimate the amount they think they will spend cannot keep the unused portion as cash, save the unused portion for similar expenses the next year or use the unspent portion for any expenses other than the type of expense designated for it. The law has not yet specified what employers must do with the forfeited reimbursement money other than stipulating that it cannot be returned to employees who lose it.

Time Availability

The traditional nine-to-five work day does not meet the needs of the entire employee population, especially working parents. Some flexibility allows employees more opportunity to balance work and family. Employers may make additional time available or flexible for employees through parental leave policies, part-time work options, and alternative work schedules.

Parental Leave

Parental leave is the first stage of child care and has, in recent years, become an increasingly important option to provide. The Pregnancy Discrimination Act of 1978 required that companies treat pregnancy like any other disability. This means that when a company offers disability benefits, these benefits must also be offered to the pregnant employee. A six to eight week medical leave, certified by a physician, is considered standard. In January 1987, the Supreme Court ruled in a landmark case, California Savings & Loan v. Guerra, that states may require companies to provide job-protected pregnancy leaves. Ten states currently impose such requirements: California, Connecticut, Hawaii, Illinois, Kansas, Massachusetts, Montana, New Hampshire, Ohio and Washington.

The Family and Medical Leave Act of 1987, if passed, would require companies with 15 or more employees to provide up to 18 weeks of job-protected unpaid family leave to care for a newborn, newly adopted or seriously ill child. Catalyst's national study of parental leaves revealed that 52 percent of survey participants offered women unpaid leave with a guarantee of a job upon return, and 37 percent of companies provided new fathers the same opportunity.

Corning Glass Works, in Corning, New York, offers a combination of maternity disability leave and child care leave up to a maximum of five months, with a guarantee of the same or a comparable job upon return. An employee who returns to work within 12 weeks may work on a part-time basis for a period of up to 20 weeks.

American Telephone and Telegraph offers a policy called Anticipated Disability and Care of Newborn Child Leave. Under this policy the mother is given up to eight weeks paid leave and the mother and father (if both work for AT&T) can take up to a year unpaid leave between them. Almost all AT&T employees who take advantage of this option return to work within six months, however, since AT&T will not guarantee a comparable position to the returning employee beyond this time.

Part-Time Work

This can be an effective solution for parents who want or need to spend more time with their young children. Managers and non-managers alike are taking advantage of the option to work part-time. Illinois Bell, in Chicago, currently has 10 employees, all in management positions, who have switched to part-time work hours. The company considers it the responsibility of the employee to propose a schedule redesign which is subject to management approval. These employees receive full health coverage, prorated vacations and pension benefits. Control Data Corporation works with an entirely part-time workforce. They employ mothers for five hours during the school day and students work the additional three hours. Ameritrust Corporation in Cleveland has also decided to address its child care concerns using part-time schedules. They currently employ over 20 professionals on a part-time basis with employees working two, three or four day work weeks.

Flextime

Under a typical flextime schedule, employees are given some control over the starting and ending times of their work day. They must, however, be present during a specified core period (usually 10 a.m. to 3 p.m.) and must work a specific number of hours during the week. Merck & Co., Inc. implemented flextime as a result of a pilot program created in 1981, and has implemented the program in all its domestic locations. Not only does this program benefit employees, but Merck has reported lower absenteeism, less tardiness, and fewer requests for personal time off. Employees may begin their days anytime between 7 a.m. and 10 a.m. Scheduling is arranged at the discretion of supervisors.

Job-Sharing

Job-sharing, a variation of part-time scheduling, allows sharing of a full-time position between two employees. Catalyst discussions with companies that have instituted job-sharing programs indicate that their advantages include lowered absenteeism, heightened productivity and a built-in system for covering the work of a woman on maternity leave. However, job-sharing is not yet an established option and it may require more initiative and commitment than most companies are ready for at this time. Catalyst's latest study of 1,500 of the largest companies in the country indicates this: although 61 percent of the companies surveyed favored the option of job-sharing, only 17 percent have programs currently in place.

Quaker Oats provides a job-sharing program that allows job-sharers to maintain a "salaried" employment status. This ensures that their attitude toward their responsibilties continues to reflect high commitment and that they continue to be considered as professionals. Employees remain on a monthly pay schedule with a prorated benefits plan.

Direct Care Services

Child Care Centers

The most familiar and visible of the child care options is the on-site or near-site child care center. Despite wide publicity, on-site company sponsored facilities are still not very common. Work-site child care models differ according to their administrative arrangements which reflect the type of relationship they maintain with the sponsoring company. Variations of this option include:

- **A center as a new non-profit corporation.** This separately incorporated organization may receive start-up and initial operating funds from the sponsoring company. An example of this arrangement is Merck & Co., Inc.'s relationship with the Employee's Center for Young Children. Merck funded start-up costs and covered the expected deficit of the child care center for three years. The Center is now self-supporting and Merck no longer is involved in its daily operation or maintenance. The Center is supported by parent fees and fund-raising activities. An alternative to this arrangement is the subsidizing of a separately incorporated center by the sponsoring organization's charitable foundation. A grant from the Corning Glass Works Foundation created the Corning Children's Center. Parents pay a portion of the child care fees and the balance is subsidized by the Foundation. This kind of arrangement does not jeopardize the status of the foundation provided that the center is open to the community.

-- **A center managed as a separate division or department of the company.** The Roche Child Care Center, for example, is a division of Hoffman-LaRoche. Employees at the Roche Center are paid by the company and receive company benefits. The company's management believes that by making the center staff employees of the company, they will attract a better and more committed staff.

-- **A center, usually on company property, which is operated by a day care organization, management firm or consultant through a contractual agreement with the company.** In this kind of arrangement the company is usually responsible for the cost of renovating appropriate space, but not responsible for other child care costs. Cardiac Pacemakers Incorporated, located in St. Paul, Minnesota, opened such a center in 1981 by contracting with Busy Bees. CPI covered remodeling costs; Busy Bees provided start-up costs. The center is a separate corporation, supported by parent fees and available exclusively for CPI employees. Another company, Campbell Soup, contracts with Resources for Child Care Management to operate its on-site child care facility in Camden, New Jersey. The company pays 50 percent of the tuition expenses and provides facility and space costs on an in-kind basis. With the help of developers, Prospect Hill Parents and Childrens' Center in Waltham, Massachusetts, was created as a nonprofit organization. It is supported by the Prospect Hill Executive Office Park (PHEOP) for its employees. Full fees are paid by parents while PHEOP subsidizes the operational costs.

Family Day Care Networks

An increasingly popular option is corporate support of family day care homes or systems, in which four or five children are cared for by a provider in the provider's home. Many parents prefer this home-like setting for their infants and toddlers. In fact, 40 percent of all working parents place their children in family day care homes, making it the most popular option for child care.

In 1986, the American Express Company contributed funds to Child Care Inc., in New York City, for the development of family day care networks. Child Care Inc. identifies potential community network sponsors and works with them on recruitment and training. A 1981 Steelcase pilot program also led to the establishment of a day care network. This network presently contains three hundred family day care providers, who provide service both to Steelcase and to the community as well.

The Connecticut Consortium for Child Care is a unique public-private partnership formed in Hartford in 1982. The Consortium membership, led by The Travelers Companies, includes 13 companies as well as volunteer organizations. The Consortium provides a statewide resource and referral network to aid employees in finding child care. It is available to their employees as well as the community.

The California Child Care Initiative is a consortium of 17 private and public entities led by the BankAmerica Foundation. The goal of the Initiative is to create more child care by providing resource and referral agencies with the staff, tools and training to identify areas of child care need, and to recruit and train new providers. The California Child Care Initiative has raised over $2 million from the public and private sector. Nearly 1,200 new child care spaces were created in the program's first year.

Provision of Information

Working parents often lack an accessible and reliable source of information on work and family related issues. Employers choosing to provide such information for employees can effectively raise morale and help to reduce the stress of holding two full-time jobs -- as parent and employee -- simultaneously. Options for providing this information are becoming increasingly popular, partly because they are relatively low-cost and low-risk.

Child Care Information Service (CCIS)

Many employers address their employees' need for information and guidance in finding affordable and quality child care through a CCIS. Some companies hire a staff to provide this information, as does Steelcase, in Grand Rapids, Michigan. In most cases, however, the employer contracts with a third party organization to provide the service for their employees. For example, corporations contract with Child Care Inc., in New York City, to provide information and assistance to their employees in making child care arrangements. Member clients include International Paper Company, Time Inc., American Express, Bristol Myers and Bankers Trust. To address the child care needs of employees, IBM has contracted with Work/Family Directions in Boston to establish a national CCIS serving IBM employees across the country. IBM's contribution has been significant in expanding the capacity of local CCIS's and in creating referral systems where they hadn't existed previously. IBM has also helped to support recruitment and training of new family day care providers. A CCIS is often, but not necessarily, the first step a company takes in addressing work and family issues. It serves as an excellent assessment tool, a way to accurately document employee child care needs over an extended period of time.

Work and Family Seminars

Companies may also respond effectively to employee needs for information about parenting and child development by organizing work and family seminars. Seminar topics might include "Strategies for Finding Child Care", "Issues in Child Development" or "The Stresses of Working Parents." Employers may decide to address concerns of special employee groups (i.e. single parents) or broaden the scope of the seminars to appeal to all employee groups (i.e. coping with elderly parents). Seminars provide employees with valuable information in a supportive environment, as well as the opportunity to network with other employees in similar situations.

Member companies of the Connecticut Consortium for Child Care sponsor four to six seminars each year as part of their support of Info-Line (a CCIS). Texas Commerce Bank, Honeywell, Citibank and Exxon are among the many companies that sponsor in-house work and family seminars. Time Inc. has offered general seminars on balancing work and family, as well as specialized seminars on aspects of child development, single parenting and planning maternity leaves.

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