



JOINT ECONOMIC COMMITTEE

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FACT SHEET

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INVESTING IN RAISING CHILDREN

The rising costs of childcare, healthcare, and education, coupled with stagnating wages, have made raising a child a financial high wire act for many American families. Unfortunately, much of the Bush tax cuts were designed to provide benefits to the people who don't need them, while middle-class families struggle to manage the expenses of raising a family — expenses which only increase with each new child. Targeted tax relief to middle-class families will help them to manage the crunch of balancing work and family, achieve their aspirations, and contribute to America's economic growth.

Families Are Sacrificing More to Have Children.

Having a child today can be a steep financial challenge for new parents. A family's first child adds over \$12,000 per year of expenses to a middle-income family's budget, and each additional child typically adds an average of about \$10,000 per year of expenses.¹ For the typical American family, the annual expense of raising a child represents nearly 20 percent of their pretax income, nearly twice that amount for families with two children under age 5.²

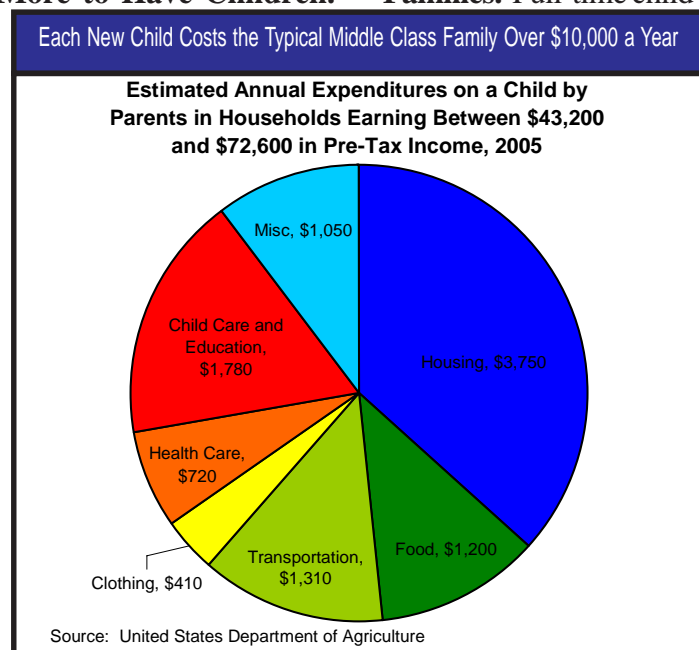
More Young Adults are Waiting Longer to Have Children.

The average age at which a woman has her first child has increased to 25 from 21 in 1970. Part of the reason for the increase has to do with rising educational levels and broader career opportunities for women, but the rising costs of raising a family also contribute to this trend.³

It Often Takes Two Incomes to Raise a Family. More mothers are working now than ever before: Seventy-one percent of women with children under age 18 and 62 percent of women with children under age 6 were in the labor force in 2004, compared with 47 and 39 percent, respectively, in 1975.⁴ Moreover, in an increasing number of families, women supply the majority of family income. In 2003, one-third of married women earned more than half of their family's income, compared with less than one-quarter of married women in 1987.⁵

Child Care Can Pose a Huge Financial Burden on Families.

Full-time child care costs average about \$7,300 per year in the United States,⁶ almost 20 percent of the median income of families with young children.⁷ In fact, having children doubles the chance that a married couple will file for bankruptcy and is the best predictor of financial difficulties for single women.⁸ On average, child care consumes about 15 percent of a working mother's income.⁹



Millions of Americans Are Struggling to Manage the Financial Crunch in Balancing Work and Family.

More than three-quarters of working parents who do not take unpaid leave for which they are eligible through the Family and Medical Leave Act report that they are unable to afford to take unpaid leave.¹⁰ And more than one-third of people who took leave through the Family and Medical Leave Act reported that they had to cut their leave short because of financial considerations.¹¹

Policy Proposals

The Middle Class Opportunity Act of 2007 (S. 614) would use existing tax provisions to help middle-class families maneuver the financial hurdles of raising children:

- **Double the Child Tax Credit in the First Year of a Child's Life.** Since 1997, many families with kids have received some welcome tax relief from the Child Tax Credit. Doubling the existing child tax credit from \$1,000 to \$2,000 in the first year of a child's life can help parents defray the steep expenses of a new baby and alleviate financial anxiety felt by new parents.
- **Expand the Dependent Care Tax Credit.** Under current law, working parents can claim the Dependent Care Tax Credit (DCTC) to offset a portion of their childcare expenses. The credit equals 35 percent of qualified childcare expenses for lower-income families and is reduced for families with higher income. But families earning \$43,000 or more get a credit of only 20 percent of their expenses. As a consequence, the maximum credit for most middle-class families with two or more children is only \$1,200. Increasing the DCTC to a full 35 percent of qualified childcare expenses for families earning up to \$75,000 can help the vast majority of families in the middle-income range who are struggling with high child care and education costs by increasing their benefit to \$2,100.

(Endnotes)

¹ U.S. Department of Agriculture, Center for Nutrition Policy and Promotion. *Expenditures on Children by Families, 2005*. Miscellaneous Publication No. 1528-2005, 2006, Table ES1, available at

<http://www.cnpp.usda.gov/Publications/CRC/crc2005.pdf>

² Demos Policy Brief, *And Baby Makes Broke: Raising a Family is a Young Adult Issue*, Winter 2007.

³ *Ibid.*

⁴ U.S. Department of Labor, Bureau of Labor Statistics, "Women in the Labor Force: A Databook,:" May 2005, Table 7, available at

<http://www.bls.gov/cps/wlf-table7-2005.pdf>

⁵ U.S. Department of Labor, Bureau of Labor Statistics, "Women in the Labor Force: A Databook,:" May 2005, Table 25, available at

<http://www.bls.gov/cps/wlf-table25-2005.pdf>

⁶ Runzheimer International, "How Much Will Child Care Cost You?," April 6, 2006, available at

<http://runzheimer.com/web/all/news.2006.04.06.aspx>

⁷ Median family income for families with children under age 6 in 2005 was \$50,371. U.S. Census Bureau, Table FINC-03, "Presence of Related Children Under 18 Years Old—All Families by Total Money Income in 2005, Type of Family, Work Experience in 2005, Race and Hispanic Origin of Reference Person, available at

http://pubdb3.census.gov/macro/032006/faminc/new03_001.htm

⁸ Elizabeth Warren and Amelia Warren Tyagi, *The Two-Income Trap: Why Middle-Class Mothers and Fathers Are Going Broke*, New York: Basic Books, 2003, p.6.

⁹ JEC Democrats calculations based on U.S. Census Bureau, "Who's Minding the Kids? Child Care Arrangements: Winter 2002" Detailed Tables (PPL-177), PPL Table 6.

¹⁰ Department of Labor, *Balancing the Needs of Families and Employers*, Table 2.17.

¹¹ Department of Labor, *Balancing the Needs of Families and Employers*, Table 4.8.