

Childcare costs hit middle-income families ^[1]

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EXCERPTS:

Middle-income families are only £38 a week better off after paying childcare and housing costs than those on low-incomes, according to new research.

The analysis, an update on last year's research carried out by the Resolution Foundation on the cost of childcare for low and middle-income families, shows that the picture is even bleaker after taking into account housing costs.

While middle-income families start off 79 per cent better off than low-income families, after housing and childcare costs they only have £1,700 extra in disposable income a year, the equivalent of £38 a week. For middle-income families in London, compiled in a separate analysis, this falls to £1,569 better off a year, or £30 a week than low-income families.

The reason given for the small difference in middle and low-income families' disposable income is that middle-income families receive less support towards living costs than a low-income family.

A low-income family is referred to as two parents working full-time on the minimum wage. A middle-income family has a gross income of £43,400. The main earner is assumed to earn 50 per cent more than the second earner. Both households have two children under five in full-time daycare, 42.5 hours a week.

The research shows that a low-income household outside of London with a gross income of £24,207, which increases to £36,131 after taxes, tax credits and benefits, is left with £17,543 after childcare and housing costs. A middle-income household with a gross income of £43,400 and net income of £41,856 is left with £19,243 after childcare and housing costs.

The cost of childcare is assumed equal to the national average of £3.95 per hour, based on Daycare Trust figures for 2012.

Middle income households are presumed to have an estimated average annual housing expenditure of £9,084, while low-income families are estimated to be paying £5,059.

For families living in London, the cost of housing is considerably more, with middle-income families with a net income of £47,993, paying around £13,331 a year and low-income families with a net income of £40,517, paying £7,424 per annum.

The analysis also shows the take-up of childcare vouchers according to household. It reveals that in 2010-11, nearly 50 per cent of households receiving vouchers were among the richest 20 per cent of working age households.

Alex Hurrell, senior analyst at the Resolution Foundation, said, 'We have long known that the costs of childcare in the UK are high compared to other countries and act as a major barrier to mothers staying in work. But this new analysis shows that the reality for families is even harsher than we imagine, with childcare costs eating up over third of the disposable income of middle income families once they have paid their rent or mortgage. With female employment more important to family living standards than ever, shutting women out of the workforce through unbearably high childcare costs is poor economic as well as social policy.'

'With the Government announcing additional tax relief for childcare this week, our analysis suggests that this will do little to help those families on low and middle incomes for whom childcare represents an enormous barrier to work. Based on what we know about the take up of childcare vouchers that currently provide some tax relief for childcare costs, an extension of tax relief will only benefit better off households. This is hardly a policy for the 'strivers' that the government claims it wants to support.'

Related link: The costs of childcare after housing costs ^[2]

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