

# Reimbursement Tiering Improves Targeting but Decreases Participation in the Child and Adult Care Food Program

## Food Assistance Research Brief

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**Issue:** The tiered meal reimbursement system instituted in 1997 within the child care homes portion of the Child and Adult Care Food Program (CACFP) has refocused the program on low-income children. It has also reduced the number of child care homes participating in the program. Is the two-tiered reimbursement system effectively targeting low-income children? Is it driving homes out of the program?

**Background:** The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) established a two-tier meal reimbursement rate structure for CACFP family child care homes. As of July 1997, homes located in low-income areas or run by low-income providers were designated as Tier I. An area is considered low-income if 50 percent or more of the children at the local elementary school have been approved for free or reduced-price school meals or if 50 percent or more of the children in the area are in families with incomes at or below 185 percent of the Federal poverty guidelines, as measured by the most recent decennial census. A provider is low-income if family income is below 185 percent of the Federal poverty guidelines. Tier I meal reimbursement rates are comparable to the rates that existed for all CACFP homes before PRWORA. Family child care homes that do not meet the low-income criteria are designated as Tier II. Tier II homes receive lower reimbursements, although they can be reimbursed at Tier I rates for meals served to low-income children, given appropriate documentation (table 1).

**Findings:** The Economic Research Service's Family Child Care Homes Legislative Changes Study found that CACFP family child care homes serve fewer children, but more of them are from low-income families. Comparison of 1995 and 1999 survey results shows that, prior to the tiering of meal reimbursements, 21 percent of children served were from low-income families and 79 percent came from middle- and high-income families. Post-tiering, 45 percent of children served now come from low-income families, with a corresponding drop to 55 percent of children from middle- and high-income families (fig. 1). The reallocation resulted from three factors: 1) the number of low-income children served by CACFP homes grew by 165,000 (80 percent); 2) the number of higher-income children fell by 174,000 (23 percent); and 3) meals for nearly all low-income children were reimbursed at the higher rate, while meals for 42 percent of higher income children were reimbursed at the lower Tier II rate. More than half of higher income children receive Tier I reimbursed meals because they are cared for by Tier I providers.

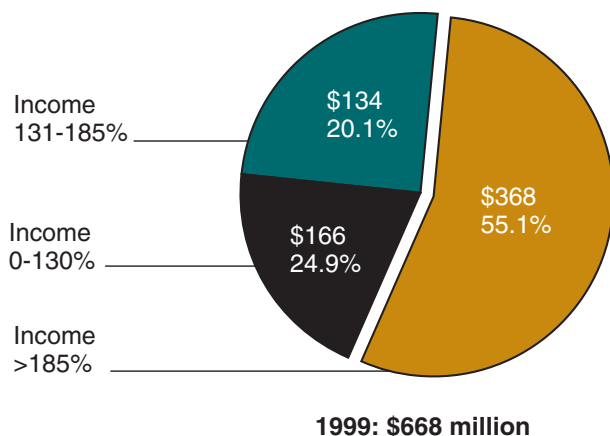
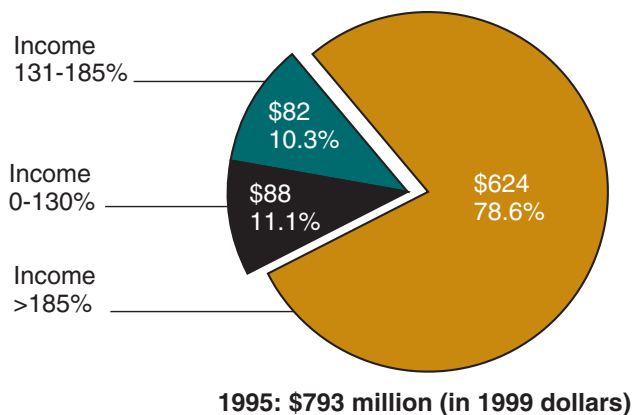
The Legislative Changes Study also found that tiering reduced the number of family child care homes participating in the CACFP. The number of CACFP family child care homes declined by 10 percent from 1996 to 1999 (fig. 2). Projections based on economic and demographic trends indicate that the number of homes would have grown in the absence of tiering. The number of participating homes continues to decline, falling from an FY 2000 average of 171,708 to an average of 167,479 in FY 2001.

**Table 1. CACFP Child Care Home Meal Reimbursement Rates, July 1, 2002–June 30, 2003**

	Breakfast		Lunch and supper		Supplement (Snack)	
	Tier I	Tier II	Tier I	Tier II	Tier I	Tier II
Contiguous States	0.98	0.37	1.80	1.09	0.53	0.14
Alaska	1.55	0.56	2.93	1.76	0.87	0.24
Hawaii	1.13	0.42	2.11	1.27	0.63	0.17

Source: Food and Nutrition Service, USDA

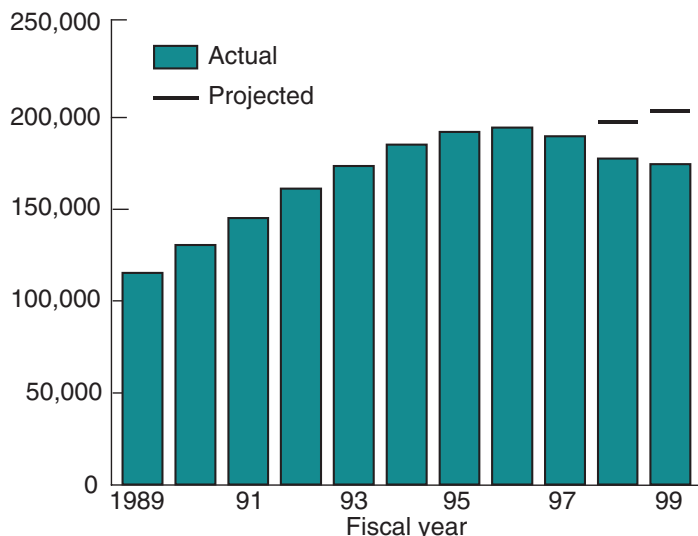
**Figure 1. Share of meal reimbursements in 1995 and 1999 by ratio of children's family to the Federal poverty guideline**



Source: Administrative data on CACFP family child care homes and surveys of parents of children in CACFP family child care.

Tiering is conducted on a low-income area/provider basis to avoid a child means test that was blamed for low participation by homes when they were first allowed into the program in 1976. Parents were required to disclose their family income to CACFP family child care providers; this means test was viewed as burdensome for providers to administer and too invasive for their relationship with the few families for whom they each provided child care. The

**Figure 2. Actual and projected numbers of participating CACFP homes**



child means test and a three-level reimbursement tiering system based on their family income levels was removed from the child care homes portion of the CACFP in 1978. To restrict Tier I reimbursements exclusively to low-income children's meals, a more direct means test is required. How such a test could be designed and operationalized without causing a larger dampening effect on participation by child care homes is an open question.

**Information Sources:**

Hamilton, William L., Nancy R. Burstein, and Mary Kay Crepinsek, *Reimbursement Tiering in the CACFP: Summary of the Family Child Care Homes Legislative Changes Study*. FANRR-22. U.S. Department of Agriculture. Economic Research Service. March 2002. Available at: <http://www.ers.usda.gov/publications/fanrr22>

Hamilton, William L., Eric M. Stickney, Nancy R. Burstein, and Lawrence S. Bernstein, *Family Child Care Home Participation in the CACFP: Effects of Reimbursement Tiering, a report of the Family Child Care Homes Legislative Changes Study*. E-FAN-02-002. U.S. Department of Agriculture. Economic Research Service. April 2002. Available at: <http://www.ers.usda.gov/publications/efan02002>

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