Public Investments in Early Childhood Education: Good for Educators, Families and the Economy

November 2024

Comparing the Cost and Benefits of the Pay Equity Fund

The Early Childhood Educator Pay Equity Fund (PEF) is a bold and innovative program in the District of Columbia that increases compensation and health insurance benefits for early childhood educators, a workforce largely made up of Black and brown women, who have been historically underpaid compared to their K-12 counterparts. Child care should be treated as a public good. It is an essential service that working families depend on. The educators who make high-quality early education and care possible deserve fair pay for their hard work. By providing fair educator wages and subsidizing health insurance costs through HealthCare4ChildCare (HC4CC), the PEF demonstrates the District's commitment to its early childhood education (ECE) workforce and families.

In FY 2023, the Pay Equity Fund benefited more than 4,000 early educators through pay increases, health coverage, and provided a net benefit of $12.5 million for educators, families, and the District as a whole.

The PEF represents an unprecedented public investment of resources. Particularly when fiscal resources are limited, it is necessary to understand the economic value of such an investment, and to compare it with its cost. A positive return on investment in the PEF suggests that the full value of its many social benefits – including those for ECE educators, child development facilities (CDFs), and families – exceed the costs of the program. It also demonstrates that providing fair pay and benefits for early childhood educators is not only the right thing to do, but is also a smart, strategic use of limited resources that can lower public spending in the long run.

PHASES OF THE PAY EQUITY FUND

The Early Childhood Educator Pay Equity Fund was implemented in two stages. **In phase one,** OSSE provided direct pay supplements to educators—$10-14,000 for full-time and $5-7,000 for part-time—while a task force developed recommendations for a permanent structure. **In phase two,** child development facilities that employ early childhood educators receive funding based on a formula and must use it to meet OSSE's minimum salary requirements for educators. This analysis covers the final year of phase one, from October 2022 to September 2023.

Under 3 DC commissioned research to better understand the economic benefits of the Pay Equity Fund, relative to its cost, for educators, child development facilities (CDFs), families, and the local economy. This study was conducted by Clive R. Belfield (Queens College, CUNY & University of Pennsylvania) and Owen Schochet (Mathematica). The report presents a cost-benefit analysis of the PEF in fiscal year 2023 (October 2022 through September 2023).

According to the research findings, the FY23 model of the PEF (which included direct payments to more than 4,000 and health coverage for 1,100 early educators) represents a social cost of $54.2 million, which includes $44.1 million for wage supplements and $10 million for HC4CC. In FY23, on average, educators received an annual pay increase of $10,260, representing a 37% pay boost from an average early childhood educator annual salary of $36,337 prior to implementation of the Pay Equity Fund. Following are explanations of the economic value of the PEF and HC4CC.

The PEF yields a high return on investment (ROI) that benefits educators, child care businesses, families, and the District's economy.

In fiscal year 2023, the Pay Equity Fund yielded total program benefits valued at $66.8 million. Compared to the total costs of the program, **this reflects a net benefit of $12.5 million,** or a return on investment of 23%. This means every dollar invested in the PEF generates substantial economic and social gains. These come from benefits to early childhood educators, the child development facilities that employ them, and the children and families they serve. These benefits include:

- **For early childhood educators, the Pay Equity Fund yields greater economic security and stronger careers**

    - **Longer careers and fewer absences from work:** Prior research estimates that higher pay and benefits keep educators in their roles for longer and improves their job skills, which benefits educators' personal career development, and contributes to stable, consistent care for children. Higher wages and access to health insurance are linked to fewer absences from work. Absenteeism causes ECE educators to miss out on wages, and requires administrators to spend time identifying worker cover and monitoring staff absences.

    - **Better health and economic security:** Before the PEF, 35% of DC early educators lived below the poverty line - six times higher than other DC teachers. The PEF wage supplements raised all educators above the federal poverty level, and HC4CC replaced Medicaid or more costly private health insurance for some educators. Fewer public benefits recipients results in lower government administrative costs. Access to health insurance also decreases educators' health expenditures by improving their health, and reduces medical debt, further strengthening economic well-being.

- **For child development facilities, the Pay Equity Fund led to improved staff retention and reduced costs**
  Turnover has long been a challenge in the ECE sector and the link between low early educator pay and high turnover has been clearly established. Higher pay and access to health insurance reduces turnover, which saves CDFs on costs to recruit, onboard, and train new staff. Reduced absenteeism and turnover may enable CDFs to improve operational efficiency.

- **For young children and their families, the Pay Equity Fund expands access to and improves the quality of ECE across the District**

    - **Greater access to child care:** DC, like many places, has a well-established shortage of child care that cannot be corrected without a growing early childhood educator workforce. The PEF has grown the early childhood educator workforce by 7%, setting the stage for more early care and education seats and improved child care access for families.

    - **Higher quality early childhood care and education:** The PEF could improve the quality of ECE services by improving educators' job skills and work experience and promoting consistent, stable relationships between educators, children, families, and co-workers through reductions in turnover. The analysis finds that more District families could be able to access quality early childhood education that, prior to the Pay Equity Fund, was often more likely to be accessed by families with higher income.
      This is especially notable because of the large proportion of facilities participating in the Pay Equity Fund that serve families with low income. As of September 2024, all but four CDFs that accept child care subsidies - which reduce or eliminate child care costs for families with incomes up to 300% of the federal poverty level - participate in the PEF. Ultimately, the child care subsidy program and the Pay Equity Fund work together to strengthen ECE for children in families with low incomes.

Families and children benefit from the consistency, experience, and commitment of well-compensated educators, which provides children with a stable, high-quality learning environment that can have long-lasting developmental benefits.

The return on investment of the Pay Equity Fund is likely larger than is stated in the research findings

The benefits of the Pay Equity Fund are likely even greater than the analysis finds. For example, gains include likely result from greater efficiency at individual child development facilities; increases in parental labor supply as more parents are able to go to work with fewer child care related disruptions; and potential greater positive effects - such as improved morale and collaboration - of employees' skills, knowledge, and productivity on their colleagues. The research understates the value of PEF because:

- The analysis makes conservative assumptions about the value of the PEF's benefits.
- The Pay Equity Fund is the first program of its kind. The analysis could not fully assess additional benefits because of a lack of comparable public wage supplement programs, either for early childhood educators or otherwise. As the District continues implementing the program, there is potential to identify even greater benefits of the Pay Equity Fund.

- The Pay Equity Fund has meaningful equity implications - beyond its economic value - that cost-benefit analysis does not quantify. Even so, reducing and eliminating inequities through policy is significant, regardless of the economic returns. One such implication is that the Pay Equity Fund addresses wage disparities between a historically exploited and underpaid workforce of predominantly Black and brown women, and educators of older children.

The Pay Equity Fund is triple win: educators, families, and the District economy benefit

The Pay Equity Fund is a smart, strategic investment that uplifts educators, supports families, and fuels the District's economy as evidenced by the 23% ROI and significant social benefits identified through this analysis. By offering higher pay for higher credentials, the program helps build a skilled, stable workforce dedicated to young children's growth and development, without passing costs on to families. Quality, accessible, and affordable early childhood education empowers parents to work or study, fosters children's success, and provides substantial returns by lowering future costs in education, healthcare, and social services. Investing in ECE creates a ripple effect that benefits all: educators gain financial stability, children and families thrive, and the community and economy grow.

Theory of Change: How the Pay Equity Fund Benefits Educators, Facilities, and Families across DC.

EDUCATORS

- **Fewer absences from work**
- **More work experience**
- **Public benefit savings**
- **Lower health expenditures (HealthCare4ChildCare)**
- **Reduced medical debt (HealthCare4ChildCare)**

CHILD DEVELOPMENT FACILITIES

- **Reduced turnover and recruitment savings**
- **More stable, efficient operations**

FAMILIES

- **Increased access to services**
- **Early care and education quality improvements**

The Return on Investment from the Pay Equity Fund

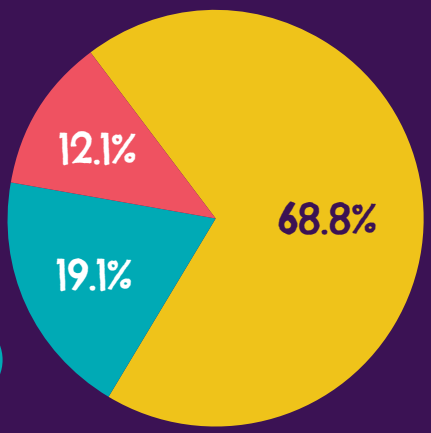
Total public investment in the PEF	Total value of the program benefits	Net benefit of the Pay Equity Fund	**Return on investment**
$54.22 million	$66.8 million	$12.5 million	23%

Value of the Benefits of the Pay Equity Fund

EDUCATORS

$8.07 million total

$4.09 M Reduced absenteeism
$0.51 M More work experience
$0.42 M Public benefit savings
$2.29 M Lower health expenditures
$0.76 M Reduced medical debt



CHILD DEVELOPMENT FACILITIES

12.72 million total

$12.7 M Recruitment savings

FAMILIES

$45.95 million total

$18.89 M Increased access to services
$27.06 M Improved quality of services

Total value of the program benefits
$66.8 million

UNDER 3 DC