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VIEWING COMPENSATION THROUGH A SHARED SERVICES LENS

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In June 2021 NAEYC released an excellent brief, [Compensation Matters Most](#), that outlined why and how states should use funding from the American Rescue Plan Act (ARPA) to increase compensation for the Early Care and Education (ECE) workforce.

The brief concludes that to achieve lasting increases in compensation for the sector action needs to go beyond bonuses or hazard pay but include strategies for ongoing, sustainable wage increases. Additionally, NAEYC underscores strategies to increase access to benefits, enhance program stability and accountability, and prepare for mixed-delivery success.

The action areas identified by NAEYC are spot on, and the more detailed policies recommended in the brief are key. However, there is one missing ingredient that Opportunities Exchange feels is essential: strategies to effectively scale the sector. Even with supportive public policy most ECE businesses in the US are simply too small to implement the proposed actions. However, if these recommendations are viewed through a Shared Services lens, not only is success possible but the field can begin to position itself for incremental improvements over time.

HIGHER WAGES

Wages for child care teachers have remained at poverty levels for years, despite numerous increases in public funding, myriad training and professional development initiatives, and increased focus on compensation. A closer look at the data, however, suggests that wages often vary significantly by auspice. Classroom teacher wages are generally higher in non-profit programs and larger multi-sites, and significantly higher in programs that receive Head Start funding or are sponsored by public schools.¹ In other words, child care programs sponsored by, or linked to, organizations that offer scale are often able to pay higher wages.

Opportunities Exchange has direct experience with organizations focused on scaling administrative tasks so that maximum dollars can be shifted into teacher wages. When routine administrative functions are scaled via technology and centralized staff, centers not only find they need fewer managerial or clerical staff, but overall revenues typically increase. Savings and increased revenue can boost teacher compensation and benefits alongside improved working conditions like paid time to reflect and plan. When program leaders begin to explore new supervisory and staffing patterns it also becomes possible to offer teachers innovative opportunities for peer leadership—which brings greater meaning to the work and boosts retention.

Home-based providers also benefit from scaled supports. In addition to saving time (fewer nights and weekends spent on paperwork and finance) and money (from access to bulk purchase discounts), home-based providers typically see revenues increase and cash flow stabilize when they have help managing the [Iron Triangle of ECE finance](#).



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ACCESS TO BENEFITS

Access to benefits such as health insurance, paid leave and retirement plans is also crucial to securing a stable workforce. Yet the price of decent employment benefits is beyond the reach of most small child care centers and likely impossible for a home-based child care business owner. If, however, child care programs come together to share the cost of Human Resource supports, success is entirely possible. Potential pathways include:

- **A Health Care Navigator/case manager**

Because federal subsidies were included in the American Rescue Plan Act (ARPA), most ECE staff can now find affordable health insurance on the Affordable Care Act (ACA) Health Care Exchange. However, navigating the website can be challenging and selecting the right plan overwhelming. Navigating the Exchange is particularly difficult for self-employed individuals with fluctuating incomes (a typical scenario for many home-based child care providers.) During the application process some may learn that they are ineligible for the ACA but could secure health insurance from Medicaid or their state's Medicaid expansion initiative. However, compiling and submitting the paperwork needed to secure Medicaid can be complex; potentially eligible individuals often run into glitches and become discouraged. A skilled case manager can help child care staff navigate both the ACA and Medicaid, ensuring that they secure the best health insurance option for themselves and their families.

- **An affordable Telehealth plan**

For many years Opportunities Exchange has worked in partnership with CCA Global partners, a national cooperative that helps independent small businesses succeed, to scale a host of services and supports for the ECE sector. These resources are delivered via a web-based network, www.ECSharedResources.com, that includes a very affordable **Docs by Phone** plan. With Docs by Phone, child care staff can access a board-certified doctor and secure needed prescriptions—for any member of their family—via phone, video chat or computer. This approach makes going to the doctor for routine problems (like a sore throat) affordable and easy. ARPA funding could make this service available to the ECE workforce for free.

- **Financial support for out-of-pocket medical expenses through a Health Reimbursement Account (HRA) and/or a Health Savings Account (HSA)**

Funding from the American Rescue Plan Act can also be used to fund a Health Reimbursement or Health Savings Account. These instruments provide funds to pay monthly premiums, expenses incurred before meeting deductible requirements, and other health care costs not covered by insurance. A Shared Service back-office or other intermediary can help broker these supports.

- **Retirement Plans**

Establishing and/or funding retirement plans for the ECE workforce is another allowable use of ARPA dollars. A Shared Service back-office or other intermediary can help broker these supports.

STABILITY AND ACCOUNTABILITY

Most child care in the US is delivered by small 'mom and pop' businesses that are very economically fragile. The small size of these businesses limits their ability to secure the robust and consistent cash flow or cash reserves needed to maintain financial stability and successfully weather economic ups and downs. While tuition revenue paid by families is still by far the largest source of revenue, public funding can play an important role in promoting stability. The NAEYC brief makes important recommendations such as raising public reimbursement rates based on cost (not price) and reimbursing providers based on enrollment rather than attendance. NAEYC also recommends that states consider shifting away from voucher systems (where dollars follow the child) to more stable contracts for an entire classroom of children. These are all much-needed recommendations but without accurate recordkeeping, business leadership and strong fiscal management at the provider level these policies will fail to stabilize the sector.

“Higher rates, enrollment-based finance, and slot contracts won't stabilize the sector or support better wages if providers cannot secure skilled administrative staff and automated systems to manage finances and accountability reporting.”



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“Third party intermediaries like CCR&Rs can be key advocates for CCMS technology.”

Securing the skilled fiscal and administrative management team needed to effectively contract with multiple funders, collect, analyze and take action on financial data, forecast revenue, establish and track key business metrics and plan for gaps in service (which are typical in the summer months and have become almost standard in the current pandemic) is an ongoing challenge. Even before COVID19 it was not uncommon for child care programs to go out of business because—suddenly—they couldn’t make payroll. In the current environment, even strong programs are challenged to preserve cash.

Cash flow challenges are compounded by the cost of accountability. While third party funding might be available to augment tuition and mitigate financial challenges, these dollars typically require programmatic and/or fiscal accountability reporting that is beyond the scope of a small child care program. In short, public money comes with added accountability. Without staff to track activity, collect data, and generate reports, additional dollars may not help.

AUTOMATION

The NAEYC brief notes the value of provider-level data systems and third party intermediaries. OppEx believes both are essential to success. The good news is that technologists have created, and are continually improving, automated systems specifically designed to help child care programs manage myriad detailed fiscal and administrative tasks. It is also encouraging that many automated Child Care Management Systems (CCMS) are widely available as affordable off-the-shelf products. The bad news is that only a small fraction of child care programs currently use a CCMS. Most child care programs are not aware that good technology can not only make their lives easier but actually boost revenue. And sadly, many intermediary organizations charged with coaching and business support do not understand or embrace the power of CCMS technology or link training and technical assistance to these systems. Limited use of technology is not only a lost opportunity, but a missing link that is holding back success.

Third party intermediaries can be key advocates for technology. They can help child care programs learn about, select, and effectively use CCMS, work with technologists to build data dashboards to track trends and inform decisions, leverage the power of technology to scale administration and streamline reporting, and lots more. State-of-the-art technology can also support intermediaries that administer contracts with a network of providers, helping to stabilize cash flow, supplement fees and leverage the revenue needed to boost teacher wages.

MIXED DELIVERY SUCCESS

Growth of public PreK, in ‘mixed delivery’ public and private settings is the wave of the future. But success requires sophisticated administration and staff to gather, track and report program and fiscal data, as well as program staff to conduct required child assessments, provide additional educational or family supports, and more. Another benefit of Shared Services is what we call *economies of specialization*—networks of small providers can not only share the cost of administrative staff, they can also collectively hire individuals with the *specialized* skills needed to ensure success. Instead of struggling to succeed as a “Jack of all trades” a site director in a shared network can tap the expertise of a support team skilled at addressing specific challenges. Shared staff is common practice among the multi-site early childhood programs that typically apply for PreK and Head Start funding or attain top-quality ratings. But small child care programs, especially those in communities of color, are often left out simply because they do not have the pool of staff they need to ensure compliance.

HOW IS CHANGE POSSIBLE?

The NAEYC brief encourages state leaders to take advantage of opportunities outlined in the [ACF guidance on child care relief funds](#) to address compensation. We concur, and would encourage states to go beyond making direct grants to providers and include the following targeted investments:

- Funding to incentivize provider use of CCMS technology, including grants to intermediaries charged with helping child care programs access and use CCMS,



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so that provider data around cost can be tracked, analyzed and modeled to inform rate setting and improve compensation and working conditions for classroom teachers.

- Funding to develop and implement statewide systems of intermediaries to leverage access to telehealth plans and health insurance via Affordable Care Act health care exchanges, and mechanisms (HSA/HRA) to underwrite health care costs.
- Funding to enable investment in retirement plans focused on the ECE workforce, including both center-and home-based child care providers.

Working through intermediaries is one way to make ARPA investments efficient and more easily administered. The federal ARPA guidance is not only clear that states may award subgrants via intermediaries but offers a specific example regarding infant and early childhood mental health consultation. The example suggests that states allow providers to “opt in” to direct a portion of funds for services via a statewide network. In a similar fashion, states could negotiate bulk purchase of CCMS technology and related supports (or telehealth and other health/dental/vision insurance plans, retirement funds, and more) and then allow providers to “opt in” to direct a portion of funds for this purpose.

Going forward, boosting compensation will also require the field to revisit a host of policies that were built on—and continue to reinforce—the current failed business model of a small child care program that operates independently. ECE leaders frequently stress that child care teachers ought to earn wages comparable to teachers in the public K-12 education system. Yet the field fails to acknowledge that scale is a key ingredient in K-12 education. We do not build schools with only four classrooms, a principal and an administrative staff; yet this is typical in child care and also the staffing model included in most ECE cost modeling methodologies.

In short, if we want teachers to earn decent wages and have meaningful jobs, we need to challenge some long-held beliefs about program structure, roles, and responsibilities. We need to empower teachers to lead, so that funding previously spent on administrative tasks can be used to boost wages. The COVID pandemic required us all to re-think assumptions regarding virtual work, an experience that now appears will have lasting impact. Indeed, the Conference Board reports that prior to the pandemic about 50% of businesses were willing to hire virtual employees; that number has now risen to 87%². Remote learning aside, child care cannot be staffed by virtual teachers. But we can challenge our assumptions regarding on-site teacher supervision as well as many long-held beliefs regarding electronic reporting, record-keeping, monitoring and more. Questioning these assumptions and exploring new approaches to staffing, supervision and accountability is key to achieving lasting improvement in ECE teacher compensation.

National, state, and local organizations are united behind the goal of increased compensation for the ECE workforce. Survey research underscores that recruiting and retaining qualified staff is by far the biggest challenge program operators face and has grown worse since the pandemic. Addressing this vexing challenge will require a new level of thinking, one that goes beyond calls for increased rates and payment practices to reach the root problem of scale. Without question, increased funding and improved payment practices are needed. But increased spending, without systemic reform, is simply not enough.

END NOTES

¹ Martin, M. and McArn, T. (2019) Working in Early Care and Education in North Carolina: 2019 Workforce Study. https://www.childcareservices.org/wp-content/uploads/CCSA_2020_Statewide_WorkStudyRprt-FINAL-web.pdf
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² Steemers, F., Erikson, R., Popiela, A. and Levanon, G. (2021) The Reimagined Workplace a Year Later: Human Capital Responses to the COVID19 Pandemic. The Conference Board. <https://conference-board.org/topics/natural-disasters-pandemics/reimagined-workplace-a-year-later>