

WORKING PARENTS

AN
EMPLOYERS'
SYMPOSIUM ON
CHILD CARE

**Summary of Proceedings prepared by
Lisa Carpenter and Denise Honeycutt**

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WORKING PARENTS

An Employers' Symposium on Child Care

Presented by

Ventura County Commission for Women
and Private Industry Council of Ventura County

Thursday, May 19, 1983
9:00 a.m. to 2:30 p.m.

Hungry Tiger
Thousand Oaks, CA

PROGRAM

Registration

Welcome

Ed Jones, Maggie Erickson
Supervisor
Ventura County

Introductory Remarks

Carol Keochekian
Symposium Chair
Ventura County Commission for Women

Presentation of Topic and Speakers

Kurt Ganter
Vice President, Marketing and Planning
Simi Valley Adventist Hospital

Child Care Options and Models

Dr. Brook Hubbell
Ventura County Commission for Women

Child Care: One Company's Story

Susan Foster
Jet Propulsion Laboratory

Tax Incentives and Legislative Considerations

Kathleen Murray
Child Care Law Center

The Benefits of Child Care to Companies: Recent Research

Sandra L. Burud
National Employer Child Care Project

Question and Answer Period

Lunch

ACKNOWLEDGEMENTS

The Employer's Symposium on Child Care Steering Committee wishes to thank the following firms
for Symposium donations:
Prudential Insurance Company
Mercury Savings and Loan

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WORKING PARENTS: An Employers' Symposium on Child Care

presented by

VENTURA COUNTY COMMISSION FOR WOMEN and PRIVATE INDUSTRY COUNCIL OF VENTURA COUNTY

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- Personnel and Industrial Relations Association
- Simi Valley Chamber of Commerce
- Ventura County Economic Development Association

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Great Pacific Iron Works	West Oak Urgent Care Center
Hughes Aircraft Co.	Wordplex Corporation

INTRODUCTORY REMARKS CAROL KEOCHEKIAN

Symposium Chair
Ventura County Commission for Women

We have a number of interested employers here today representing Los Angeles and Ventura Counties who have a strong interest in receiving documented, objective information in the area of employer-assisted child care.

When the commission was established over two years ago, the Board of Supervisors determined what our major goal for that initial year would be. That was to encourage private industry to become more involved in child care assistance for their employees. And in this task we were to work closely with the Private Industry Council in Ventura County. The Private Industry Council had already shown some interest in this topic in an assessment they had done. They had found that there were two major reasons in Ventura County why people did not work. The first major reason was the lack of transportation to get to the work site. The second reason was that they did not have adequate child care.

They have solved the transportation problem. Each day 300 workers living in the western end of Ventura County are bused into the eastern end of the county where the concentration of industry is located. So now we are working on the second problem together.

In order to meet our goal of encouraging industry to become more involved in child care, we formed a child care project committee. We had a great deal to learn. So we set up a time plan and a work plan. We surveyed all the available child care facilities in Ventura County, their costs and available spaces. We also launched an immense research project to investigate what employers are doing nation wide in the area of employer assisted child care. It became apparent as we progressed that we wanted to inform as many people as possible about what we were learning. The best way to do that

was to have a meeting such as we are having today to share our experiences and to share the knowledge of others who have also been working in the field. And that is when the idea of the symposium was formed.

To insure that the symposium would be beneficial to all the employers who attend, we brought together representatives from industry, very bright, talented, forward thinking people who gave us serious and valuable input into the program.

When the commission began discussing the symposium a year ago, we approached a group of industrial representatives with the idea and they said, "How are you going to get anybody to come to a symposium like that?" I think this turnout today shows that there is a growing interest in obtaining documented, accurate information in the field of child care. And that is not really a surprise because the topic has come up rather late. In fact, the National Chamber of Commerce predicts that child care will be one of the fastest growing new benefits areas for business in the coming years.

In a recent Harris poll, 67% of the corporate and resource managers reported that they expected to be in the business of providing child care services within the next five years.

Let's face it. The work force is changing in ways directly related to societal changes. There has been a rapid rise in the number of dual career families, single parents and working parents who have young children.

The dual career family has become a prominent feature of the work force, with 60% of all American families in that category. The number of single parent families doubled in the last decade to over 6.6 million. I know

that here in the City of Thousand Oaks alone, the percentage of single parent households in the last ten years has gone up 300%.

Mothers of young children are entering the job market. A 1982 study at Columbia University found that about 46% of children under 3 years old have employed mothers. That is a 34% increase since 1975. The study also documented that of 18.5 million children under six in America, 47% have employed mothers. Projections indicated that by 1990 one half of the labor force will be women and that 80% of them will become pregnant during their working period.

We can no longer ignore the fact that child care is a growing issue in the work place. Our intent is that today's program will help you to better understand all the ins and outs of employer assisted child care and that you will leave here stimulated enough to look into the area even further.

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problems are being handled with in the area
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could as early as possible. The past year we
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"CHILD CARE OPTIONS AND MODELS"
DR. BROOK HUBBELL

Resource Specialist
Ventura County Commission for Women

For the past twenty months, Dr. Hubbell has been researching the various programs utilized by industry to assist their employees with child care concerns. Her findings have been published in the brochure, "KISS: Kids and Industry - Success Story" and in the presentation book, "Employer-Assisted Child Care."* She will outline the options used by business and discuss how to take the first step.

(Since Dr. Hubbell's presentation involved the projection of the appropriate pages from "Employer-Assisted Child Care", for this Proceedings we will also use pages from that publication along with explanatory or amplifying remarks by her.)

What does the term "Employer-Assisted Child Care" mean to you? Most people I've talked to assume it means a child care center under foot - in the building or at least on-site.

This is a common misconception. We hope today to show you different ways employers can assist with child care and benefit too!

The family has changed. We all know that. But - to what degree?

Only 7% of All Families Are Traditional Families - Consisting of breadwinner husband and full-time homemaker caring for two children.

57% of Married Couples Work

"Often it is a surprise for management to find out that the traditional programs that they thought were so important, are of no apparent value to their employees. For instance, a pension plan is of no interest to a 25-year-old worker who has a working wife and two small children. He wants immediate benefits, like child care support."

Norman Crowder, Vice President
TOWERS, PERRIN, FORESTER
AND CROSBY

*Pages reprinted from "Employer-Assisted Child Care" with permission from the authors, Dr. Brook Hubbell and Mary Baird.

If only 7% fall into the category of the "traditional" family, then 93% don't.

With 57% of married couples working and an increasing number of single-parent families, benefit priorities have changed too. This was confirmed by a Gallup poll conducted in 1980. Notice the impact child care responsibilities have on their priorities.

1980 Gallup Poll - 1600 "American Families" - Benefits needed to decrease family/work conflicts:

- 58% - Flexible hours
- 37% - Sick leaves for family illnesses
- 31% - Four day week
- 28% - On-site child care
- 19% - Part-time work
- 18% - Family counseling at work
- 9% - Maternity/Paternity leaves (more liberal)

For this presentation, I would like to suggest 10 options, give a brief statement regarding potential cost and cite a few examples of firms which are using or have used this option.

Options	Cost	Examples
Parent Education	Minimal:	
Brown Bag Lunch	Speakers	UCLA - Westwood, CA
"Parent Fair"	Brochures, etc.	Santa Monica Children's Center - Santa Monica, CA
		Good Samaritan Hospital - LA., CA
		Amdahl Corp. - Sunnyvale, CA

By "Brown Bag Lunch" or "Parent Fair," we mean the opportunity to discuss a variety of topics related to child care, e.g., "Effective Parenting," "Choosing Quality Child Care," "Child Care Licensing Requirements," or "Survival Skills for the Latch Key Child."

These topics can be discussed at monthly "brown bag" lunches or through a series of workshops at a "Parent Fair".

Options	Cost	Examples
Information/Referral Service		
Information on existing child care facilities in the community	Part-time employee Office	Amdahl Corp. - Sunnyvale, CA
		Polaroid - Cambridge, MA
		Honeywell - St. Paul, MN
		National Semiconductors - Santa Clara, CA

This second option can be especially beneficial to firms because studies indicate people may have to change child care arrangements as many as four times a year. This means time off from work or time devoted to finding another arrangement.

Options

Cost

Examples

Day Care Network

Individual Child Care Homes

Part-time employee to maintain list of day care homes.

Levi Strauss - San Francisco, CA

Illinois Bell, IL

Personnel to recruit, train day care providers.

Huntington Memorial Hospital - Pasadena, CA

UCLA - Westwood, CA

Asian Inc. - San Francisco, CA

Some companies find it advantageous to maintain a list of homes in the area which provide child care. This can be especially helpful to new employees.

If there are insufficient facilities, some companies have been able to recruit and/or train day care providers.

Options

Cost

Examples

Donations

Cash

Variable

First Christian Church -

Santa Paula, CA

\$4,000 and van to "Y" after school

In-Kind

Arcadia Methodist Hospital -

Arcadia, CA

In-kind housekeeping, dietary, etc.

Stride Rite-Boston, MA - Cost dif-

ferences paid by Foundation

deducted as charitable donation.

Art Association Inc.-Cambridge, MA

In-kind utilities, maintenance, rent

discount.

For many companies, the easiest way to go is to make donations in cash or in-kind services. Note the variations in each of these firm's contributions.

Options	Cost	Examples
Special Programs		
Extended Day - Before and after school	Depends on program - profit or non-profit (schools, parks, in-home sitters, etc.)	<p>Simi Valley Adventist Hospital - CA</p> <p>Nyloncraft - Indianapolis, IN</p> <p>Ford Foundation - New York, NY</p> <p>Texas Institute for Families parks and schools - voucher.</p>

Summer/Holiday Care	Ranges from community programs to company owned/operated	<p>Simi Valley Adventist Hospital - CA Summer program.</p> <p>Fel Pro Industries - Purchased summer camp. - Skokie, IL</p> <p>Fluor, Santa Ana, CA - Summer camp program.</p> <p>PCA, Matthew, NC - Summer program.</p>
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For many parents of school-aged children, the problem is finding before or after school care and care for extended periods when school is not in session. For example, summer vacation or special holidays. Not many businesses close for Martin Luther King's birthday, but it is a recognized school holiday.

Options	Cost	Examples
Special Programs		
Transportation	Vehicle	Nyloncraft - Indianapolis, IN
Before School	Driver	
After School	Insurance	Simi Valley Adventist Hospital - Simi Valley, CA
Maternity/Paternity leaves	Full, part, or sliding wage scale according to length of leave	<p>Bankstreet College of Education - New York, NY</p> <p>Zale Corp. - Dallas, TX</p> <p>Parents resume work at same pay and seniority after leave.</p>

Even when a parent has arranged for pre- and post-school care, getting the child from one place to another can be a major problem.

If the child wishes to participate in after school programs, e.g., sports, or has doctor or dentist appointments, etc., the problem is magnified.

An increased desire to share parenthood in the early stages and the professional requirements of some jobs make maternity/paternity leaves desirable.

Options	Cost	Examples
Special Programs		
Infant Care (0-2 years)	Comparatively high (One adult to four children)	Intermedics - Freeport, TX UCLA - Westwood, CA PCA - Matthew, NC - Welcomes nursing mothers. Nyloncraft - Indianapolis, IN Good Samaritan Hospital - L.A., CA
Sick Child/Emergency Care (in employee's home)	High cost offset by value of employee's productivity.	Texas Institute for Families - Company nurse, isolation area; personal sick leave for family illness. Child Care Services Inc. - Minneapolis, MN - Health care workers on call. Berkeley Sick Care Program - CA

A special difficulty is presented when an infant or sick child is involved. For many reasons, economic and personal, women return to work when their child is still an infant. There are few facilities existing to handle this need.

Schools are designed for well children. This means time off for the parent to care for a sick child. This is chicken pox and measles season - in other words - extended time lost for business.

Options

Cost

Examples

Flex-Plan

1. Flexi-benefits:
Cafeteria Plan

Trade-off

Equitable Life Insurance -
New York, NY

TRW - Cleveland, OH

ETS (Educational Testing Service) - NJ

2. Flexi-schedule:

Part time, job sharing,
work at home, adjustable
start and finish time.

Zero to minimal

Bowmar TIC - Newbury Park, CA
Work share

First National Bank - Boston, MA
Work share

Central City Association - LA, CA
Part time

Although flexi benefits or a cafeteria plan approach is not the easiest to administer, it can provide a variety of benefits from which the employee can choose and which will meet his/her individual requirements or priorities, e.g., child care vs. pension plan.

Flexi-scheduling allows the flexibility to balance child care responsibilities with economic or professional needs.

Options

Cost

Examples

Voucher/Vendor

1. Voucher - parents choose
child care facility

Full or part subsidy

Ford Foundation - New York, NY

Polaroid - Cambridge, MA

Measurex -Cupertino, CA

Texas Institute for Families - TX

2. Vendor - company purchases spaces in existing
child care facilities

Full or part subsidy

Equitable Life Insurance -
New York, NY

Pacific Mutual Insurance -
Newport Beach, CA

Parkview Community Hospital - CA

Under the voucher system, the parents get the freedom of choice and the company contributes to the cost.

Under the vendor plan, the company makes the choice by reserving spaces in an existing facility guaranteeing child care for a percentage of its employees. The cost may be shared by the company and the employee.

Options	Cost	Examples
Consortium Joint effort by two or more companies to sponsor a center	Shared among participants	JPL - CAL TECH - CA Banning Child Care Consortium - CA Broadcasters Child Development Center - New York, NY Northside Child Development Center - Minneapolis, MN Sunnyvale Child Care Center - Santa Clara Co. - CA Philadelphia's Children's Village - PA

The consortium approach may be the ideal way to go for smaller companies or for those located in industrial parks or shopping malls. A central or convenient location (e.g., along the freeway corridor) is selected. The cost may be distributed on the basis of company size and participation.

Options	Cost	Examples
Monetary Flexibility		
1. Sliding scale	Assistance based on income/shift	UCLA Child Care Center - CA Long Beach Memorial Hospital - CA Ford Foundation - New York, NY Polaroid - Cambridge, MA Nyloncraft - Indianapolis, IN
2. Child care in lieu of salary increase	Trade-off	Slade, Pellmont, Biehle - New York, NY

Monetary flexibility may be adapted to any of the options discussed. For example, a hospital may pay the full cost for a night shift employee, half the cost for one on the 4 to 11 shift and nothing towards a day shift employee's cost. In the last cost, the convenience of the center is the compensation, especially for nursing mothers.

Thus, the sliding scale is not necessarily based on income alone. Companies find it an inducement to recruit people for unpopular shifts or less desirable jobs.

In some instances, it may be desirable tax-wise to provide child care instead of a salary increase.

Options	Cost	Examples
Company Owned or Sponsored		
1. Company-operated center on/off site	Company: Trade-off Employee: Increased net income	Simi Valley Adventist Hospital - Simi Valley, CA Hemet Hospital - Riverside, CA UCLA - Westwood, CA Huntington Memorial Hospital - Pasadena, CA Electrasema - Corona, CA Stride Rite Corp. - Boston, MA Intermedics - Freeport, TX Photo Corp. of America - Charlotte, NC
2. Contracted management	Contracted	Long Beach Memorial Hospital - (Gerber)CA

The last option is the one most people imagine when they hear the term "company-assisted child care." It is an option, but only one of many.

For your company, one of the other options may be preferable - both from the employer's point of view - and also from the employee's. But, which one?

Remember child care is a business and can fail as readily as any other small business. Therefore, the safeguards you use in your company, generally, apply here too.

We have seen through studies and through our own contacts with business that personnel directors do not necessarily know the needs or the priorities of their employees.

CHECK LIST

"Centers have been known to shut down because of high corporate subsidies, administrative problems and the wrong kind of program for the child care problem."

"Businesslike Cure for the Child Care Headache"
Los Angeles Times, 1982

"A company wants a successful program because it affects employee morale."

Kathy Malaske, Director
Pasadena Information Center, CA - 1982

You must plan for success. You cannot afford the cost of failure.
We have designed a checklist to guide you through the process.

CHECK LIST

ASSESSMENT

1. Designate Task Force - Top manager, consultant or employee committee to study feasibility
2. Assess Employee Needs - Needs assessment questionnaire to survey: number and ages of children, present care, degree of satisfaction, preferred care
3. Investigate existing community child care services
4. Assess present and projected needs versus availability of services

The first step is the assessment. The key is the needs assessment. If your employees are satisfied with their child care arrangements and/or are not interested, you need not go further. In some cases, it may be a question of unawareness of available services. Informing employees of existing community child care services may fit the bill. Remember to project as well as to assess present needs. What is appropriate for a two-year old will not be appropriate ten years from now.

CHECK LIST

ANALYSIS

1. Review child care options - Decide which one(s) is (are) desirable
2. Conduct cost analysis of potential options
3. Evaluate pros and cons

Analysis is just as important and necessary in judging any other business proposal.

CHECK LIST

PROPOSAL

1. Determine costs:

Start-up Costs	Staff/Salary Structure
Yearly Budget	Regulations - Licensing
In-Kind Services	Insurance
2. Develop policies and procedures:

Employee Fee Structure
Employer Subsidy
3. Alternate or preliminary programs

No one says that the employer must pay it all - the costs can be shared.

It may be wise to start small - a small commitment wholeheartedly made will be more successful than a big commitment half-heartedly supported.

CHECK LIST

MARKETING AND PUBLICITY

1. Within company
2. Outside community

Child care needs to be sold just as carefully as any product or service your company supplies.

CHECK LIST

PROGRAM IMPLEMENTATION

1. Activate plan
2. Follow-up

No program, no matter how well thought out, especially if it involves people, is perfect. Follow up. Then make the necessary changes.

You (business) are already paying for child care. Good child care will cost. But the alternatives cost you and society even more.

"CHILD CARE: ONE COMPANY'S STORY" SUSAN FOSTER

Jet Propulsion Laboratory

The JPL Advisory Council for Women was directed by management to study problems concerning employees and to bring back recommendations. A result of the Council's assessment was the establishment of the JPL Child Educational Center. Ms. Foster, former ACW chair and a member of the CEC board of directors, related management's view of benefits and problems, the decision making, planning and implementation process.

First, I would like to tell you a bit about the Jet Propulsion Laboratory and to clarify JPL's relationship with the California Institute of Technology.

JPL is an operating division of Caltech. Under a contract with the National Aeronautics and Space Administration (NASA), we perform research and development activities in facilities owned by the government. This is an unusual situation in that we are employees of Caltech but most of the money we spend is provided by the government.

When we wanted to start a child care center we could not use federal money to do it. Consequently, the Child Educational Center at JPL became an independent, non-profit corporation of California. The Child Educational Center is an employer-initiated facility but is not employer-supported. It serves the general community as well as JPL employees.

Having an on-site child care facility was a dream for many of JPL's 6,000 employees for a long time. It continued to be a dream until 1976 when our then new director, Bruce Murray, established the Advisory Council for Women. He recognized that women have employment concerns that are unique and wanted to create a way in which women could communicate some of those needs to management.

One of the needs that was expressed many times was for nearby, high-quality child care.

The director instructed the Council to develop a concept and feasibility study for on-site child care. We surveyed the employees to find out what their needs were and what they would be willing to pay for a nearby child care facility. We also surveyed the community to see what was available, with the idea of requesting an existing facility to expand to accommodate JPL employees, but we found no established center that would meet our needs.

We also needed to find out whether parents who would use the facility wanted a babysitting service, a day care service, or an educational service. This was very important information to collect since some people think of a child care center as a place where you leave your child and as long as the body is still warm when you return, it must be ok. The employees at JPL wanted more than that and expressed a concern for the children's social and emotional development. They also expressed a need for infant care, which is very difficult to find.

We presented our research findings to the director who approved the on-site or nearby facility concept we had developed. Then we were in a bind about funding. We had a wonderful idea for a child care center, we confirmed that people would use it, and we knew that the federal government wouldn't give us any money. It was at this point that JPL management became very involved. Our deputy director requested Caltech to provide some assistance, which Caltech provided in the form of in-kind services that would otherwise have been very expensive, including legal services to help with incorporation, state licensing, insurance and high-level budget planning. The most critical item management provided was \$40,000 for start-up costs in the form of a no-interest loan that the CEC is paying back to Caltech. It was not a gift.

Caltech was also willing to subsidize the CEC for a certain period of time, as it was recognized that we weren't going to open the

center and be financially stable on day one. This assistance was only required for two months, but I don't know how we would have been able to get off the ground financially without that help. Any company looking at on-site child care needs to decide whether the company is willing to subsidize a center and for how long. I think that six months would be a predictable time period during which a company could anticipate the need to subsidize a center intended to become self-sufficient eventually.

Caltech also negotiated on the CEC's behalf for some outside funding, primarily through United Way. This money provides tuition assistance for parents with established financial need. Caltech also provided a mechanism for evaluating tuition assistance applicants to ensure that tuition assistance was being received on the basis of need.

The current involvement of JPL or Caltech management in our child care center is essentially none. The CEC is an independent corporation and operates with a Board of Directors. JPL management takes a "watchful uncle" kind of approach and supports the center primarily through in-kind contributions, such as facilities for large fund-raising activities.

Members of management at JPL have been very satisfied with the results of their support of the child care center. The effect on employee morale has been the greatest benefit since parents have a facility where their children are nearby; nursing mothers can go over during the day to be with their infants. (Children as young as 8 weeks are accepted at the CEC).

Another company benefit is that employees may return to work sooner after maternity/paternity leave which minimizes costs for substitute employees. The CEC also enhances JPL's "public image"; JPL is recognized by the community as an organization that is concerned about its employees and their child care arrangements.

Money will always be the major concern, but at this point we are confident that we are going to remain solvent. We are doing well

at holding our tuition rates at a reasonable level. The only concern of JPL management right now is the loan from Caltech; the CEC makes regular monthly payments and has repaid about 20% of the loan. One of our goals is to increase the base of tuition assistance from outside funding. We have found that that kind of funding is getting more and more scarce.

As the government has opted to reduce the amount of money it puts into various kinds of programs, competition for grants has become more intense. Consequently, we are not able to provide the level of tuition assistance that we would like. And this means that a lot of the clerical people and single parent families whom we would like to see using our center can't afford to do so. People who give grant money, by the way, like you to purchase items they can see, such as tire swings in the play yard or a new sandbox. They are reluctant to provide money for general operating expenses. A company pursuing the option of grant money really ought to be aware that operating money is going to be tough to get.

The child care center at JPL has been successful for a number of reasons. One of the main reasons is that it was established in direct response to identified interests and needs of the employees, and they were involved in the process of developing a program which would meet those needs. They also had the opportunity to influence the cost structure.

I personally believe that one of the most important factors in the success of the center is that we involved at the outset a director for the program who had the philosophy that we wanted in our school and who was able to participate in budget planning and facility modifications. So from the beginning the center was under the guidance of an experienced child care provider.

The center was successful also because top management rallied the support of middle management. It wasn't support easily given at first, but as we became more successful, more and more people became enthusiastic supporters, a trend which has been very gratifying.

A very important part of the process involved in starting the center was developing a realistic funding base. We knew it was going to cost money and we weren't willing to start without first identifying exactly where that money was going to come from. One factor in identifying the funding base is the decision about whether to provide services for employees only or to include the community at large. At JPL we realized that it was in our best financial interest to allow other community members to have access to the services we provided. Being open to others has been a rewarding position for us and has positively contributed to the growth of the center.

For any company considering becoming involved in child care, what is important about JPL's story is that it is a concrete example which shows that an employer can assist in starting a child care center without having the center become a drain on the company. Once established, it can become self-sufficient and succeed independently. Employers do have a wide range of options in deciding how much support they want to put into the center.

"TAX INCENTIVES AND LEGISLATIVE CONSIDERATIONS"

KATHLEEN MURRAY

Attorney

Bay Area Child Care Law Center

The expert on tax incentives to business in regard to child care, Ms. Murray discussed tax consequences from the point of view of the for-profit employer as well as legal considerations such as liability and contractual agreements with outside agencies.

The first thing I want to emphasize with respect to tax considerations is that you do need professional advice. The tax and legal consequences of operating a child care program or any other kind of involvement in child care on the part of employers is complicated. You want to make sure that what you do is going to avoid future problems and is going to adhere to the state and federal requirements and that you undertake this in the best possible fashion. You need professional advice from a tax attorney and probably also a tax accountant from a benefit planning firm. Make sure you get that before going ahead.

I would like to begin with deductibility of child care expenses and then proceed to dependent care assistance programs.

Child care expenses, expended by an employer, are deductible as ordinary and necessary business expenses. For federal tax purposes, the deductibility is established by a revenue bill that was issued in 1973. For state tax purposes, there is a specific provision in the California Revenue and Tax Code that allows these expenses to be deducted. Both capital expenses, such as for new buildings or renovations, and operating expenses, such as salaries, equipment and so

forth, are deductible. The question is: "When are these deductible?"

Capital expenses are deductible over a number of years. The time frame for that is established very clearly in the federal code and in the state law as well.

Operating expenses are deductible in the year in which they occurred. There are many, many wrinkles on the deductibility of these expenses.

They are exactly the same wrinkles that exist for other kinds of business deductions. For a comprehensive discussion of these particular issues, I refer you to a special report published by Commerce Clearing House, Inc.*, a legal publishing firm, which states these provisions very clearly.

One special provision in California that is available for capital expenses is found in the California Revenue and Tax Code 17225.5 and the Bank and Corporations Code 24371.5. Basically, this allows an employer who pays for capital expenses, such as a new building or renovating a building, to deduct the expenses over a much shorter period of time for state tax purposes than they would otherwise be able to do. Instead of having to deduct it over the useful life of the building, which might be about 30

years, they can deduct the entire cost over five years. Employers would get a much more rapid tax return on the expenses than they intended for that building.

Properties regarded as personal property such as desks, major climbing equipment and so forth, are considered as an investment tax credit. The investment tax credit will be 10% of the amount of the cost of the item. So, if you purchased a climbing structure for \$3,000, you could take \$300 of that off your first year and you would also have your regular depreciation over the life of that climbing structure which would probably be five years for federal tax purposes. The deductibility of the costs and the investment tax credit are two big tax consequences of employer expenses for child care.

The next item I would like to focus on today is the new Internal Revenue provision called the Dependent Care Assistance Program. This provides a mechanism through which child care is available as a tax free benefit to the employee.

Effective January 1, 1982, the Dependent Care Assistance Program (DCA Program) joined more traditional benefits such as medical and dental plans, life insurance, group legal service plans, tuition assistance programs and others, as tax free benefits, as long as the implementation requirements are met. If you decide to implement a child care benefit, you must make sure you do that through the Dependent Care Assistance Program.

There are various requirements for DCA Programs. First, the employer must develop a written plan of the program. It is not limited to child care. It can be assistance for other kinds of dependent care, such as disabled adults, etc.

Second, the employer needs to make sure that the DCA plan meets certain anti-discrimination rules. The program cannot discriminate in favor of employees who are officers, owners or highly compensated individuals or their dependents. The employer may exclude members of a collective bargaining union if dependent care benefits were the subject of good faith bargaining between the employer and the union but not included in the union contract.

Third, the anti-discrimination limitations are further refined to prohibit an employer from spending more than 25% of the amount paid for dependent care assistance on behalf of individuals who hold more than 5% of the stock or capital or profits interest in the employer company. This screens out certain small businesses. If you have a three person company and the president is the only one with a child, you can't do this. Because no more than 25% of the benefits paid to the DCA program can be distributed to the person who owns the company. It is an unfortunate result for very small businesses.

The employer must also notify the eligible employees of the availability and terms of the program. Each year the employer must give the employee a written statement describing the amount paid, or expenses incurred by the employer in providing dependent care assistance, to each employee. The amounts paid under this program are excluded from consideration with respect to social security, FICA and FUTA.

There are also some requirements on the employee side. Single employees may not exclude from income an amount larger than the amount earned during the year. For example, if a part-time employee earned \$4,000 and received a child care benefit of

\$5,000, the employee would have to pay tax on the \$1,000 difference. In the case of a married couple, the excluded income cannot exceed the earned income of the lesser-earning spouse. This means that an employee with a non-employed spouse will have to pay taxes on the total value of a child care benefit. However, a spouse who is a full-time student for at least 5 months during the year or who is disabled will be assumed to have earned \$200 per month if there is one child or \$400 per month if there are two or more children. Consequently, a student or disabled spouse may "accrue" up to a maximum of \$2,400 or \$4,800 worth of excludable income.

The provider requirements must meet state and local regulations of California in order to be licensed. The caregiver may be any person except a person for whom the employee or the employee's spouse is permitted to take a personal exemption deduction or a person who is the employee's child, age 18 or less. Thus, the caregiver cannot be the spouse of the employee or an older sibling of the cared-for child. The small family day care home that cares for six or less children is exempted from this requirement.

These are the basic provisions for the DCA plan. When the provision was adopted by the Internal Revenue, what they had in mind was the employer paying some additional money to an employee for their child care costs. The same way the employer pays out extra money for health insurance on top of salaries. However, since it was passed, another provision entered the Internal Revenue Code called the Cafeteria Plan. A significant amount of interest has been focused on the cafeteria plan as a mechanism of delivering a variety of benefits to employees and permitting the employees to select the benefits appropriate to them.

The Cafeteria Plan was enacted in 1978 as Internal Revenue Code Section 125. It is a statutory plan under which employees may select from a menu of two or more benefits. The significant feature of the plan is that the benefits offered may include both taxable and non-taxable benefits without converting the non-taxable benefits into taxable benefits. Under a cafeteria plan, the employees can decide whether they want to take \$200 in cash or \$200 in health insurance or \$200 in dependent care. The benefit they take which is non-taxable would have a higher dollar value to them because they would not have to pay federal income tax on that amount.

When the cafeteria plan was enacted, it was quite clear that what was contemplated was the employers kicking in an additional amount of money which would then be distributed through this cafeteria plan mechanism.

However, there is now the possibility for an employer to create a cafeteria plan considered to be a salary reduction plan. A salary reduction works as follows:

An employee who earns a yearly salary of \$30,000 may decide to reduce that salary by \$5,000 per year and put that amount into a special account which would be administered through a cafeteria plan. Such an employee would then have the opportunity to contribute that \$5,000 to a variety of benefit plans, possibly including dependent care, health insurance, group legal services and so forth, or cash, which would be taxable. The others would be non-taxable.

For purposes of the dependent care assistance, the money that would be received through that \$5,000 pool would not be subject to federal withholding, social security or unemployment for any of the employees

or employer. From the employer's side, there would be a little savings from treating that as general salary. They would accrue the amount of their share of those taxes. Basically, the employer would have converted it from taxable dollars to tax free dollars for the employee. Now, there are still serious questions about the basic legalities of this plan.

First, the IRS has not yet issued regulations that specifically authorize salary reductions under the cafeteria plan. They have also not issued regulations that authorize salary reduction under the dependent care assistance plan. The IRS is drafting regulations for both the DCA program and the cafeteria plans. My understanding is that the current draft may be viewed within the next few months. That draft is not going to provide a salary reduction at all. They are simply going to mention that dependent care assistance programs may be offered under the cafeteria plan. This kicks the whole DCA program into the cafeteria plan arena. The question then becomes, "Is salary reduction then going to be permissible within the cafeteria plan?"

The fellow at IRS who is drafting the regulation says, "Yes. Salary reduction will be permissible through the cafeteria plan and dependent care will be a legitimate part of the cafeteria plan within the current draft of the code." We put the two of them together and we can permit the DCA plan to become a part of the salary reduction plan or the cafeteria plan. You probably can't implement the salary reduction on a free standing DCA program, so keep that in mind. You are going to have to do it through the cafeteria plan mechanism.

Several major companies have recently decided to take the risk with one or another versions of these salary reduction cafeteria plans. Bank of

America has a mini cafeteria salary reduction plan for health care benefits. It doesn't include dependent care assistance. Basically, Bank of America is allowing employees to choose between a certain level of health care benefits or cash reimbursements. The health care, of course, would be tax free and the cash receipts would be taxable. I've also heard that Harvard and Yale Universities have also undertaken one of these mini cafeteria salary reduction plans for the purposes of cost attainment and health care programs.

What we have here, in the absence of a definitive ruling by the Internal Revenue Service, is that certain organizations and companies are willing to take the risk in establishing a salary reduction cafeteria plan. More and more of them are doing so which may result in such a momentum that IRS at least will have trouble containing it. There is enough legal theory to substantiate a position that would allow salary reduction plans. The question then becomes, "Is Congress going to take a look at this and put a lid on salary reduction? Is Congress going to get so nervous about the revenue loss of this tax procedure that they will take action to stop it?" There certainly isn't a big movement to do that at this point. And the more people who take advantage of the salary reduction cafeteria plan creates a larger constituency which will be unhappy if Congress intends to put the lid on this particular mechanism.

Another thing people wonder about is, "What if the IRS decides, or Congress does decide, to put the lid on these salary reduction plans? Are they going to come after me retroactively? Let's say I did implement a plan and I failed to withhold on all these people's salaries. Am I going to be on the hook for that money? Am I going to be subject to penalties for that?"

Many tax people I have spoken to feel that the IRS is unlikely to come after people for retroactive payments. But, you should seek that advice from your own tax attorney or tax expert.

Basically, this is what I wanted to say about the cafeteria and salary reduction plans. I find it interesting that a major company, Bank of America, is willing to go ahead with a plan such as this, and I also think that, in and of itself, is going to stimulate a tremendous amount of interest on the part of a number of other companies. When other companies do begin looking at flexible benefit plans, one thing that should certainly be considered is the dependent care assistance program.

One topic that I would like to touch on briefly is the question of the equity of benefits.

People have often been concerned about offering a child care benefit which is only for people who have children. Even if you presented the dependent care assistance plan, it would not include all of your employees because they don't all have dependents. The question becomes, "Are there legal rules which prohibit offering benefits to only a portion of your employees?" The short answer is, "No." There really aren't any rules that prohibit offering the benefit which only certain employees could take advantage of. You do have to watch out for those rules in DCA programs which prohibit discrimination in favor of highly compensated employees. The same rules appear in the cafeteria plan. You also have to watch out for the anti-discrimination laws, Title VII of the 1961 Civil Rights Act and California Fair Employment and Housing Act, I think, which says that you can't discriminate against people on certain bases like religion, race, national origin or sex. And in California you can't discriminate on

the basis of marital status. You can't offer a child care benefit only to women employees, or only to married employees, or only to single employees. You have to watch out for those provisions but there really isn't anything that says you can't discriminate on the basis of parenting status. So I think once you understand what the laws prohibit and what the laws permit, you will feel comfortable in offering the child care benefits.

*Commerce Clearing House, Inc.
4025 Peterson Ave., Chicago, IL 60646

**"WHAT DO COMPANIES GAIN FROM
CHILD CARE:
RECENT RESEARCH"
SANDRA L. BURUD**

Principal Investigator
National Employer Supported Child Care Project

Ms. Burud has traveled nationwide under a grant from the U.S. Department of Health and Human Services to interview employers and collect the most recent data on the corporate benefits of child care. A past director of two work-site child care centers, she is presently writing a comprehensive "how-to" manual for employers about child care.

The National Employer Supported Child Care Project conducted a national survey of the companies supporting child care in 1982, asking human resource directors what effects child care had on the company. Information was gathered from the 415 companies with programs in operation at the time. Site visits were made throughout the country and interviews held with company representatives.

The same patterns appear throughout the company reports. Child care pays off for the company in tangible ways. The most substantial revenue savings are found in the areas of: turnover, absenteeism, recruitment, public image, morale, and tax savings.

Turnover is the area where the greatest dollar saving seems to be possible. A quote from the Personnel Director of the Playboy Resort sums it up: "Providing day care has had a positive impact on maintaining good hard working staff who would otherwise find work wages minus child care costs less than worthwhile." Two-thirds of the employers surveyed in the NESCCP Study said that child care had a positive effect on turnover. The rest of the companies said either that there was no effect, or that they had inadequate data to know child care's real impact.

Intermedics, a company in Texas which makes heart pacemakers, estimates saving \$2 million annually from their child care

center's effect on turnover. Compare this to the \$1.5 million that the company contributes to their child care center, and it is clear that the company has more than recovered its expenses through turnover savings alone.

Another company with a smaller and much less costly program has had the same results. Neuville-Mobil Sox, a sock finishing company in North Carolina spends \$30,000 a year to operate their child care program which takes employees' children of all ages, from infancy up through school age (before and after school and during vacations). The company reports having a much lower turnover rate than other comparable industries because of the child care program. Parents' turnover is 6% or under, compared to the norm for industries of their size, type and geographical location of 50-100%. They also find that the child care center seems to lower the turnover of workers not currently using it, because many of them plan to use it in the future. The overall company turnover rate has been 8% or under since the child care program opened. Although the economy has lowered the overall turnover rates of industry in general, this company is still well below the turnover rate of other comparable companies. They also find an additional savings of about \$10,000 per year in unemployment taxes because of their lower turnover.

Recruitment is one of the easiest benefits for companies to observe informally, and companies say that child care clearly recruits workers. Over 80% of employers said that they knew child care had helped them in recruiting. Neuville-Mobil Sox found in a study done when they opened their child care center that 90% of the workers had applied to work there because of the child care program. Intermedics said that once their center opened, the company only needed to expend 20% of its previous recruitment efforts. The company is located in an isolated rural community and had had difficulty attracting workers willing to relocate there. PCA, Inc., a photography company in North Carolina, estimates that their child care center is worth about \$30,000 annually in the area of recruitment. They had 3,500 walk-in job applicants in one

year in a labor market with an unemployment rate of 2-3%. In fact, their Vice President of Human Resources decided to work for PCA because of what he felt the existence of their child care program said about the company's sense of corporate responsibility. Over and over again the theme was reported by companies that the impact of child care went beyond the immediate user population. Child care is also reported to have an effect on male workers as well as female. The increase in the number of two income couples and single parent fathers in our society means that child care's appeal to male workers is going to continue to grow. Many of the employer supported child care programs are now finding that they are used by a substantial portion of fathers.

The fact that hospitals have been providing child care for so long and now in such great numbers is one of the best indications of the effectiveness of child care at recruiting workers. Their primary impetus in offering child care has been to recruit and retain health care professionals in short supply. One hospital employee relations manager called child care "invaluable as a recruitment tool and benefit. Parents have declined jobs elsewhere due to our child care programs. Others interviewing have been swayed to work here."

One of the reasons that companies experience such a savings in recruitment efforts is because of the tremendous amount of free publicity they receive from their child care programs.

The positive media coverage also enhances their public image. Journals they have received unsolicited coverage in include: Forbes, U.S. News and World Report, Business Week, Industry Week, and the Bureau of National Affairs Daily Report. Newspapers include the Wall Street Journal, the New York Times, the Los Angeles Times, and the Christian Science Monitor. They also received coverage in trade magazines and television shows including talk shows and news shows. A recent news piece which was shot at a local company's child care program was made by a syndicated news service and will air on 120 stations countrywide. Companies say that the image created by this

publicity portrays them as a humanistic company with innovative ideas and a personal interest in people. The Chairman of the Board of Corning Glass, Amory Houghton, says that child care is "one of the small pockets of excellence by which corporations and their people are judged."

The public relations benefit isn't limited to companies with on-site centers. Companies that support community child care programs also report the same benefit. They are seen as employers who are interested in their communities. In fact, none of the benefits discussed here are limited to any one form of employer involvement in child care. All of the benefits discussed here were reported by companies with many different types of programs.

Absenteeism effects are a little harder for companies to observe, because they require more formalized data collection procedures. About half of the companies with programs said that they knew that child care had helped to lower absenteeism. At one hospital in the midwest, the absentee rate of parents using the child care center dropped from 6% to 1% when the center opened, while the absentee rate of other employees remained the same, at 4%. This change for parents amounted to an annual savings to the hospital of \$90,000. A controlled research study was done at one of the programs by a research team from the University of Minnesota. It found that the absentee rates of parents went down about 22% when they began to use the company child care program. The absentee rates of those parents in fact went below those of other employees, even those without children.

Morale was the benefit cited by more employers than any other, cited by nine out of ten. Many commented that it had been good for the morale of the entire company. One hospital vice president said, "The child care center is the most positive benefit which has been offered and has been accepted by all our employees." Another said, "Day care has had nothing but positive effects for our organization: for the children, the parents and the community who see us as a caring organization. It's been great." Although morale is one of the less tangible

benefits, companies have seen its impact spill over into other, more tangible areas. Good morale can also reduce expensive mistakes and industrial accidents. It can also impact productivity. Neuville-Mobil Sox reported that the positive morale generated by the child care service created additional productivity among workers. Workers were motivated toward outstanding performance in order to ensure their place at this unique company, and were less distracted by personal worries. The company found that it needed up to 25% fewer production workers compared to industry norms, because their employees were so highly productive.

Tax benefits can be substantial. One company reported saving 46% of their subsidy to child care, because the way they structured the program allowed them to declare their child care cost as a business loss, and they therefore did not pay their taxes on it.

Other benefits which supplement the major areas of benefits discussed above are:

- scheduling flexibility (such as the ability for workers to work overtime, odd shifts, and weekends)
- the control of the use of temporary help
- the ability for more workers to have access to promotion track positions (some had found the travel, overtime, and out of work hours training required by these positions to be impossible because of child care difficulties)
- improved ability to offer equal employment opportunity
- improvement in the quality of the workforce
- improvement in the quality of the products or services

When the value of all these benefits is combined, the total value of the savings at a single company can be tremendous. There were four companies selected as case studies

from the NESCCP study because they had the most sophisticated data on the corporate benefits of their programs. They each had a company center, and each was highly subsidized, averaging a company contribution of half or more of the operating cost. When their program costs were compared with the value of the savings they brought to the company, in each case the costs were completely offset by the benefits. In fact each company was actually dollars ahead from their investment in child care.

Child care, therefore, should be viewed in a dual role, not just as an employee benefit or service, but as a management tool of significant value to company goals as well.

In order to effectively evaluate child care as a management tool at a particular company, there are a number of considerations to remember. These considerations have been excerpted from the NESCCP how-to manual for employers.

1. When considering which employees' behavior might be affected by child care, both male and female workers should be included, future as well as present workforces, and workers not now using child care but who might need to use it in the future.
2. When examining the losses a company might experience due to the lack of child care (such as absenteeism, turnover, and productivity slowdowns), even the most humanistic companies probably only have an inkling of the potential impact that child care can bring. Workers have been well socialized to keep their personal problems to themselves. Overturning decades of training workers not to complain about family problems at work will not happen over night. Some don't even admit to themselves that family stresses might be interfering with their work performance. It is therefore, much easier to underestimate the value of potential changes due to child care, than it is to overestimate it.
3. The cost-effectiveness of child care for a company does not necessarily

depend on the proportion of the workforce that is affected. The cost can potentially be justified on a per-person basis. For example, out of a workforce of one thousand workers, ten of whom use child care, if the work behaviors of those ten are changed enough to recoup the cost of the child care expense, then the proportion of the workforce affected is irrelevant to the cost-effectiveness of child care. To illustrate, if \$1,000 were spent per worker on child care, and the turnover rate of that group was reduced from 50% to 0%, then at a training cost of \$2,000 per worker, a savings of \$10,000 is achieved, or the full cost of the child care benefit.

4. When costing out the value of savings in turnover and absenteeism, it is important to use a complete cost factor formula. Many companies use only partial figures in computing the cost of turnover, using, for example, only direct costs of turnover (such as training costs), when indirect costs can be even higher than the direct costs. This will result in greatly underestimating the potential value of the savings from child care.
5. There can be some variability in benefits between different types of employer supported child care programs. The benefits the company experiences depends on how the program fills the gaps in supply and demand in the community. In a community where there is enough child care, but workers just can't afford it, a voucher payment system might be the most cost-effective type of program, bringing significant returns to the company. In a community where there is not enough child care, the same voucher system may not bring any returns to the company, because it essentially does not solve the workers' child care problem. Felpro, a gasket making company in Skokie, Illinois, found that their summer camp for employees' children reduced their turnover from 30-40% to 10%. Apparently, care for school age children was an area of need for workers. Felpro

now has a one to two year waiting list of people wanting to work there.

6. Proper timing can help a company maximize the benefits it receives from child care. The U.S. Chamber of Commerce predicts that child care will be one of the fastest growing benefits in the years to come. Companies who institute it sooner will reap more benefits from it than those who do so later. It is a much more effective recruitment and retention tool and attracts more publicity when a company is among the first to do it, than later when it becomes commonplace.

With proper planning, child care can be among industry's best management tools. It is unique among employee services because it is both an employee and an employer benefit.

EVENTS FOLLOWING THE SYMPOSIUM

- *** Ventura County Board of Supervisors voted to do a Child Care Needs Assessment of all county employees.
- *** Litton Data Command Systems has child care on their agenda for their Coalition of Benefit Managers' meeting in February of '84.
- *** Great Pacific Iron Works is in the process of constructing a day care center as part of their new facility, which is now being built. The projected opening date is January with about 18 children of company employees. The center, which will be privately funded by the company, will offer reduced rates, a van pick-up service after school, as well as pre- and after-school care. The center is licensed for children through age 12, and will also offer unlicensed infant care. Great Pacific Iron Works will be the first manufacturing firm in Ventura County to have an on-site center.
- *** First Interstate Bank has begun research on the feasibility of establishing a consortium in the Simi Valley area in conjunction with Simi Valley Adult Education.
- *** Pleasant Valley Hospital has surveyed area child care centers for information on cost and availability of child care.

The above information was current as of October, 1983.



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ADVANCE NOTICE OF PUBLICATION

Employer-Supported Child Care: Investing in Human Resources

Due January 1984, Employer-Supported Child Care: Investing in Human Resources is the culmination of a major effort by the National Employer-Supported Child Care Project in cooperation with the Federal Administration for Children, Youth and Families. This book is designed to guide employers from the initial stages of investigating child care options to the actual establishment of programs. All who are involved in planning and arranging child care assistance for employees will find it an invaluable resource.

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