<u>The Exchange: Discussions on Women's Financial Literacy</u>

Episode 3: Childcare

Jill: Hi, and welcome to the third installment of The Exchange: Discussions on Women's Financial Literacy. I am your host, Jill Harris. Before we get started, I want to state the views expressed today are my own and do not necessarily reflect those of the Commission, the Commissioners, or other members of the Staff. Today, I am joined by Kim Cain, Senior Counsel here in the Fort Worth Regional office. Kim is a wife, and mother of two. She worked in private practice and has been with the Commission for just about ten years. Thank you for joining me Kim.

Kim: Thank you for having me! I am very honored and excited to engage in such an important topic. Just one note: my views expressed today are my own and do not necessarily reflect those of the Commission, the Commissioners, or other members of the Staff.

Jill: For this episode, we are addressing investing and child care. As we noted in our previous episode, higher wages and additional discretionary income provide more investment opportunities. Today, we are discussing the high cost of child care and its direct impact on long-term earning and investment potential.

With that, I am going to kick this off with a question – Kim, where have you seen the cross-section of investing and child care in your life?

Kim: As a mom to two young boys, I can tell you that child care costs – and particularly full-time daycare costs – make a significant dent in our discretionary income that could be used for investing. I was shocked at the price of daycare when I was researching options in my area. I had to scale back the amount I was investing during those baby and toddler years to help cover the cost of daycare.

And even though the daycare costs drop when your kids go to school, you still may have after school care expenses and the cost of day camps during school breaks. What I tried to do during that time was to keep up the habit of investing, and alter the amount of money I invested depending on other financial needs, like these childcare costs.

Jill: Thanks Kim. So your answer already hits on a lot of issues we are discussing in our episode, including how the child care expenses impact discretionary income and how those expenses continue into the school-age years.

Let's start off with another important disclaimer. Anytime we discuss women and child care we are talking about generalities – it is very fact specific. What we do know, is that the burden of child care is largely borne by women. Women hold most of the professional care jobs - teachers, day care workers, school counselors, nannies, and at home, women perform most of the unpaid care.

Kim: Right. There are a lot of dimensions to this – women are paid low wages if they choose to work in professional child care, and if they hire professional care, it is very expensive.

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In 2021, the annual cost of infant care and preschool nationally topped $10,000.[1] Despite the fact that our economy largely depends on these professions – they aren't the most highly paid. Indeed, the median pay for a childcare worker in 2020 was just $26,790.[2] And of course, there are a lot women – those who work in the care economy *with kids* – who get hit on both sides.

Jill: That's really helpful context. So we know there are hard costs like daycare and tuition, but through my research, I found a lot of hidden costs, which I bet you as a mom are very familiar with. Can you speak to some of these hidden costs that people don't think about when initially looking at child care?

Kim: Sure. So, there's a misconception that the child care cost burden ends or lessens as the child gets older. This could not be further from the truth. Assuming you are not already paying school tuition, there is still the cost of care during the three-month summer break, and other school breaks. You also have the cost of afterschool care; and care if your child gets sick - especially relevant in today's world.

I want to note the role of unpaid labor here: it is a significant time burden to research care, interview care givers and schools, regularly communicate with care givers, research the next level of care (from infant to toddler to preschool to grade school). We know that women are primarily responsible for doing this work. Further, women are primarily responsible for filling in gaps in care coverage (*i.e*., late afternoon to when the workday ends and school breaks and 3 months of summer). For example, many summer camps operate weekly, requiring the parent – often the mom – to research a patchwork of weekly camps with different drop-off and pick-up times and different lunch and snack requirements. It's a lot to keep track of, and a mental load, and time commitment for the parent doing the coordinating.

Jill: Thanks for the discussion of unpaid work. As you said, women take on the majority of unpaid labor around caretaking. I think the following statistic is particularly illustrative: women dedicate 3.2 times more time than men to unpaid care: 4 hours and 32 minutes per day versus 1 hour and 24 minutes for men.[3]

I want to ground this back in investing. A lot of what you mentioned with unpaid labor actually correlates to a real reduction in wages, and thus less discretionary income for investing. A recent study estimated that there is a wage penalty for mothers of 4% per child.[4] The study outlines five reasons, including the time away from professional duties mothers take to tend to their children leaving them exhausted or distracted at work.[5] It's important to note that this penalty does not affect all women equally – for low wage earners

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[1] https://www.americanprogress.org/article/true-cost-high-quality-child-care-across-united-states/
[2] https://www.bls.gov/oes/current/oes399011.htm
[3] https://www.ilo.org/wcmsp5/groups/public/---dgreports/---gender/documents/publication/wcms_732791.pdf
[4] https://www.thirdway.org/report/the-fatherhood-bonus-and-the-motherhood-penalty-parenthood-and-the-gender-gap-in-pay
[5] *Id*.

(in the 5th percentile of wages), the per-child wage penalty is 6.8%.[6] Conversely, mothers at the top of the wage distribution are not penalized.[7]

Kim: That doesn't surprise me in the least. Among high earners, mothers may earn enough to pay for help with domestic services. Outsourcing this type of care frees up higher wage earners to continue on the higher earning trajectory, and have more discretionary income to invest.

But with low wage earners, the penalty is particularly acute, because we know that for those who don't currently invest in a retirement plan like a 401(k), 403(b) or IRA, the top reason is that they can't afford it.[8]

Jill: So true – we could spend a long time here, but I think it is important to put a dollar amount on the 4% wage reduction. In total, the cost impact of caregiving on the individual female caregiver in terms of lost wages and Social Security benefits equals $324,044.[9] That's very real money that could be put towards investments, and the benefit of compound interest over time.

Now that we've set the table on how women interact with care and how it impacts their ability to earn discretionary investment income, let's discuss things to consider. One of the primary decisions facing working mothers is the decision to stay or leave the workplace. It's important to note, that not everyone can make this choice, but some women do in an attempt to maximize the amount to discretionary income their family has for things like investments, instead of that money going to pay for care.

Kim: Yes, so there's a lot that goes into this - the cost of care is a leading consideration for women leaving the workplace.[10] There's an instinct to do a straight comparison – the cost of care vs. how much you make – but it's not as simple as a one-to-one ratio. Women should consider their earning capacity and career trajectory (and that of their partner, if they have one), the stability of the job market, the long-term value of their education and job training.

Jill: There's a lot of questions and considerations here. It's not just what your job pays you in salary now, but what your job will pay you over time. This is especially pertinent because women are having children later – and as we mentioned, women's peak earning potential hits around age 44.[11] It is possible you could lose discretionary income by leaving if the care needs are temporary and the future payoff is more permanent.

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[6] *Id*.
[7] *Id*.
[8] https://www.cnbc.com/select/cant-afford-to-invest-in-401k-ira-what-to do/?&qsearchterm=cannot%20afford%20to%20invest
[9] https://www.caregiving.org/wp-content/uploads/2011/06/mmi-caregiving-costs-working-caregivers.pdf
[10] https://time.com/nextadvisor/in-the-news/women-in-the-workplace/
[11] https://www.payscale.com/research-and-insights/peak-earnings/

Another consideration is how absence from employment will affect your pay – will you be able to return to your original salary, or will you start lower? Will your job even be available? These calculations are complicated and not always finite, but necessary in deciding how you can maximize the amount of discretionary income you have.

Kim: Exactly. Over and above salary, consider benefits. Does your job provide your health insurance, life insurance, dental/vision, 401K matching, etc.? If so, will losing this now create new out of pocket expenses that outweigh care? How will those out of pocket expenses now affect your long term investment goals?

In addition, I want to piggy back on the idea of considering job availability after deciding to leave to provide child care. You mentioned salary considerations upon reentering the workplace; we know that the return-to-work population reports that professionals suffer a 37% decline in compensation after a career break of three years or longer – so there is also a wage penalty for making the decision to leave.[12]

However, there are steps you can take to make yourself a competitive candidate when you decide to go back into the job market. For example, maintaining licensure *or* specific skill sets that your career required is helpful. It's also important to maintain your network, and even think about taking on consulting jobs in order to build your resume. Also consider seeking out volunteer opportunities in your community, like PTA board or coaching your child's sports team. These opportunities, while not paid, could help you develop additional skills and create new contacts that could be helpful in expanding your network down the road.

Jill: Those are all great considerations.

I want to speak to the timing of all of this: so, we mentioned before there is a window when women hit their peak earning potential, but it does vary across industries and there is a lot of career changes happening in the job market right now. There are other considerations, including things like job training or specific promotions – often (with an eye toward possible reentry) you want to consider staying until you receive a certain job title.

Additionally, we see women making the decision to leave the workplace to give care when their children are younger. But another consideration for some is leaving when you have older school aged children – sometimes when they need more care and attention because of activities, schoolwork, etc., which for some looks like part-time work, consulting, etc.

Kim: That's right. Some women try keep their foot in the door with part-time work while their kids are in school, allowing them some flexibility in their schedules while still maintaining their skills. The rise of telework adds another complicated dimension to this, but can offer additional flexibility.

[12] https://hbr.org/2016/01/why-some-people-intentionally-take-a-pay-cut-when-resuming-their-careers

For women who do choose to stay in the workplace, a job should be evaluated as more than just a salary. I mentioned benefits before, but with children, it is very important to research your benefits package regarding child care reimbursements or discounts. Also, it's important to note that just because your employer doesn't currently offer these benefits does not mean they won't in the future *if* enough people ask.

In discussing child care and parenting we would be remiss to leave out college planning, as saving for college is a major long term cost. One helpful tool is the qualified tuition plan – otherwise known as the 529 plan. There are different types of plans, but the overall benefit of a 529 college savings plan is that it allows you to invest money without paying taxes on the investment gains.[13] The Commission has a helpful website – Investor.gov – where you can learn more about investing, including investment options, fees and expenses.[14]

Jill: Thanks Kim, and agreed on all of your points. I want to shift slightly here to thinking about investing as a caretaker, and taking care of your financial future first. I know when you are parent, there's a lot of effort in planning and securing your child's future, so this might seem counterintuitive – but making every attempt to plan and create a strong financial future for yourself in a way *is caretaking*.

Kim: That's right – this goes to something I know you are discussing in a future episode - the high cost of elder care. As a parent, contributing to your financial future first, removes a potential burden your children may face later in caring for you if you don't. It's especially important to note that women live longer and women often become caregivers – with additional financial burdens – in their retirement years.

Jill: Exactly. Okay so last question, since you are parent and this is about women and financial literacy – what discussion are you having with you children about money?

Kim: My kids are still pretty young (they are six and eight), but we started talking to them about money early on. We started these conversations on grocery trips when they were toddlers, pointing out the price of things and talking about the items we were buying that day. Now, they each have a wallet that they use to store any money they receive from birthdays and the tooth fairy, and we help them through decisions of whether to spend the money or save it for something they might want in the future. Recently they took their wallets to school – this was after several conversations about the importance of safeguarding the wallets – and used their money to purchase books through their school's book fair. They were excited to plan out how much money they had to spend, which books they wanted to purchase, and how much money they would receive back in change. We hope to build on these conversations as they get older and we

[13] https://www.sec.gov/reportspubs/investor-publications/investorpubsintro529htm.html
[14] https://www.sec.gov/reportspubs/investor-publications/investorpubsintro529htm.html

introduce allowances, bank accounts, debit cards, and even investing, so they are well-prepared to navigate these decisions on their own down the road.

Jill: Thanks Kim, that's great – and that goes back to the budgeting theme we touched on in our previous episode.

We've covered a lot of ground here today – as a lot goes into the impact of caretaking on women's investing and discretionary income overall, but a common thread is care takes time and attention away from professional duties and there's a measurable financial cost to this.

Kim, as we close – do you have any final thoughts?

Kim: Planning is key – life will undoubtedly take us through various twists and turns, our incomes may rise and fall, but the more we are able to think through these potential outcomes ahead of time, the better equipped we will be to weather these changes financially.

Jill: Agreed, thank you for joining me.

Kim: Thanks for having me.