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Market basket measure research paper: Child care expenses

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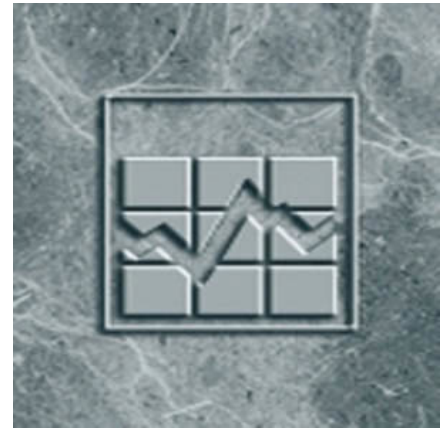
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by **Jing Byers, Chanel Christophe, Sarah McDermott** and **Natalie Simeu**

Introduction

The market basket measure (MBM), adopted in 2018 as Canada's Official Poverty Line, establishes poverty thresholds based on the cost of a basket of food, clothing, shelter, transportation and other necessities that represent a modest, basic standard of living. A family with a disposable income below the applicable MBM threshold for their family's size and region of residence is considered to be living in poverty.

Child care, which can take different forms and vary widely in cost, can represent a significant non-discretionary expense, meaning non-negotiable, to many Canadian families with children. Currently, incurred child care expenses are accounted for in the MBM as a direct deduction to a family's disposable income, which is then compared to the applicable poverty threshold to determine whether a family lives above or below the poverty line.

During the second comprehensive review of the MBM, stakeholder groups and child care advocates asked Statistics Canada whether child care costs are appropriately accounted for in the current MBM methodology.[1] Interest in this question continued to grow after the completion of the second comprehensive review in 2020, when the federal government released a plan to introduce a Canada-wide early learning and child care system in 2021.[2]

This discussion paper begins by explaining what is commonly understood as child care and how child care expenses currently enter the MBM methodology. It then describes an alternative approach to account for child care expenses by incorporating them as a separate component within the MBM based on the reference family. A discussion of the advantages and disadvantages of each approach is also provided. The public and stakeholders are invited to provide feedback and comments on the discussion points presented.

What is child care and how does the market basket measure currently account for child care costs?

Child care programs and services, and daycare specifically, are key to the well-being of many Canadian families with children. Child care continues to be crucial to facilitating the labour force participation of women who tend to be the primary caregivers of young children in families.[3] Child care exists in various forms and covers a broad range of services, such as paid daycare (mostly for younger children), regulated or licensed home care, nursery school or preschool, and before and after school care programs.[4] Child care also includes informal arrangements where children are cared for by siblings or extended family members, which may not have an explicit fee or payment associated with them. The decision to pursue child care, and the form it can take, depends on several factors, including access and the affordability of options, the age of the children, the family composition, and the parental employment conditions.

The MBM currently deducts child care costs from after-tax income to arrive at the disposable income of families. In other words, child care expenses are treated as "unavoidable" costs that decrease the income available to families to "purchase" the goods and services in the basket. This treatment is analogous to how the Canada Revenue Agency (CRA) deducts child care expenses to calculate family net income, which is used to determine entitlement for certain benefits like the Canada Child Benefit. In the MBM, child care data are sourced from

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1. A complete list of research topics can be found in Appendix B.
2. More information on the Canadian Government's announcement is available at Budget 2021: A Canada-wide Early Learning and Child Care Plan - Canada.ca.
3. For more information, see Differences in the characteristics of caregivers and caregiving arrangements of Canadians, 2018.
4. In the spring of 2022, 41% of Canadian children aged 4 to 12 years who attended school participated in some form of before or after school care (Statistics Canada [2022], Survey on Before and After School Care in Canada).

CRA administrative tax data and data from the Canadian Income Survey (CIS). When sourced from CRA data,[5] information from survey sources augments the CRA-based amount by taking the maximum between the amount claimed on the respondent's tax file and what they reported in the CIS because there is a taxable limit on the amount a family can claim for their child care expenses.[6]

The treatment of deducting child care costs from a family's income is similar to the way payroll taxes, medical expenses and other non-discretionary expenses are currently treated in the MBM methodology.[7] This approach ensures that a family's needs, as measured by the MBM thresholds, are compared with its available disposable monetary resources in a given year.

Child care in Canada

In Canada, education, including early learning and child care, is a matter of provincial and territorial jurisdiction. As such, provinces and territories have the primary responsibility for the design and delivery of early learning and child care programs and services to Canadian families. Each province and territory has its own early learning and child care legislation and regulations, including varying licensing standards, and typically offers a mix of publicly and privately delivered services.

For families with children, child care use and costs can be influenced by a number of different factors, such as the age of children. Parents of infants younger than one year are among the least likely to incur direct child care costs, reflecting in part the availability of maternity and parental leave schemes during a child's first year of life. The use of child care services is highest in families with children between the ages of 2 and 4 years and decreases as children enter school age and become more mature. The lowest incidence of child care use for the purposes of facilitating paid work is for children in the age range of 11 to 14 years,[8] which includes the age of the children in the MBM's reference family.[9] When it comes to cost, available data indicate that families with preschool-aged children spend a greater proportion of their annual income on child care, compared with families with older children. In 2021, families with children where the youngest child was 12 years old or younger spent, on average, about $5,800 in child care expenses for the year, representing, on average, about 4.9% of family after-tax income. Average child care expenses were about $7,100 (6.0% of after-tax income) for families where the youngest child was 5 years old or younger.[10]

Regional constraints are also an important determinant of child care use. Child care policies vary across Canada and the parameters defining child care services are regulated at the sub-federal level (i.e., at the provincial, territorial and local level). For example, Quebec's universal, low-cost daycare system, launched in 1997, stands out among the other provinces and territories and has been found to increase the use of child care services in Quebec, which is now the highest among all other jurisdictions.[11] Similarly, some provinces (e.g., Ontario and Nova Scotia) offer junior kindergarten or junior primary through the public education system for children aged 4 years, or turning 4 in the year of enrollment, although before and after school care for these students may still be required.

Finally, income is an important determinant of whether a family pursues formal child care services. In general, parents belonging to a higher income household are more likely to use some form of non-parental care. In 2011, about two-thirds (65%) of parents with an annual household income of at least $100,000 used child care for their preschool-aged child. This was close to double the rate for parents in households with an income below $40,000 (34%).[12] Similarly, 46% of the highest income households used child care for school-aged children, compared with 32% of the lowest-income households.[13]

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5. For more information on claiming child care expenses, please see Line 21400 – Child care expenses.
6. The CIS is the income source for annual poverty estimates in Canada. For more information on the CIS, see Statistics Canada, Canadian Income Survey – 2020 (CIS). The census, which provides more granular poverty estimates every five years, uses a similar methodology.
7. For more information on the MBM's definition of disposable income, see Djidel et al. (2019), Defining disposable income in the Market Basket Measure.
8. According to the 2016 Census.
9. MBM thresholds are estimated based on the cost of the MBM basket (e.g., food, clothing, shelter, transportation and other necessities) for the reference family. The MBM reference family includes one male and one female adult aged 25 to 49 years and two children: a 9-year-old girl and a 13-year-old boy. This family composition is not intended to reflect any one family in Canada but is a required abstraction for estimating MBM thresholds in every MBM region. To arrive at thresholds for different family sizes, the MBM methodology applies a square root equivalence scale to adjust the threshold for the reference family, which is a commonly used method to adjust incomes for family size and is recommended for use in poverty measures (UNECE, 2011).
10. Statistics Canada. Table 11-10-0080-01 Proportion of annual family income spent on child care, by economic family type.
11. Gu (2022) - The value of unpaid childcare and paid employment by gender: What are the impacts of the low-fee universal childcare program?
12. For more information, see Sinha (2014), Child care in Canada.
13. Ibid.

In more recent years, these trends held constant. According to the Longitudinal and International Study of Adults, in 2017, 61.3% of working-aged Canadians[14] living with at least one preschool-aged child[15] with a household income of $108,800 or more paid for some form of childcare.[16] Comparatively, less than one-third (27.8%) of working aged Canadians with children of the same age but with incomes below $43,500 reported the same.[17] The absence or limited availability of subsidized child care was likely a contributing factor for the lower use of child care among lower-income families at the time the study was completed.

Access to affordable high-quality child care has been limited and costly for many low- and middle-income families. In 2018/2019, before the COVID-19 pandemic, parents in Canada paid an average of close to $11,500 per child per year[18] for regulated early learning and child care programs and services for children younger than the age of 6 years. These costs could reach up to $20,000 in some parts of the country.[19] At the same time, while about 60% of children aged 6 years or younger participated in some form of formal or informal child care, availability of regulated child care remained relatively low in Canada outside Quebec, with only about one in four children accessing licensed child care.[20] However, the current landscape of child care programs and services in Canada is undergoing a great transformation.

The Government of Canada has now signed agreements with all the provinces and territories to create a Canada-wide system for early learning and child care, lowering the costs of child care and expanding the number of available child care spaces across Canada.[21]

> **The Canada-wide early learning and child care plan**
>
> In Budget 2021, the Government of Canada announced its plan for a $10-a-day early learning and child care system across the country. Combined with other investments, including in Indigenous early learning and child care, up to $30 billion over five years will be provided in support of early learning and child care. Once previous investments announced since 2015 are considered, as of 2025/2026, a minimum of $9.2 billion will be provided every year, on an ongoing basis, toward early learning and child care and Indigenous early learning and child care. This investment allows governments to work together toward achieving an average fee of $10 per day for all regulated child care spaces by March 2026, starting with a 50% reduction in average fees for regulated early learning and child care spaces by the end of 2022. These targets apply everywhere outside Quebec, which already has an affordable, well-established early learning and child care system.
>
> Budget 2022 also provided $625 million over four years, beginning in 2023/2024, for an Early Learning and Child Care Infrastructure Fund. This funding will enable provinces and territories to make additional child care investments.

Child care costs as a basket component or as a deduction to income?

According to data from the 2016 Census,[22] the majority (78.2%) of families with two children approximately the same age as those in the MBM reference family had no child care expenses,[23] suggesting that child care use for children of these ages is generally low. Reasons that explain the lack of child care expenses for families with young children could be financial (e.g., child care is too expensive or services are fully subsidized) or systemic (e.g., lack of child care services in the area where families live).[24] Reasons may also be related to preferences. For example, parents or guardians may prefer to take care of children instead of pursuing another activity, such as participating in the labour market or arranging care with a non-family member.[25]

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14. People aged 16 to 54 years.
15. A child aged 0 to 5 years.
16. See Table A.2 in Appendix A.
17. Ibid.
18. Reasons for differences between this and the previously mentioned figure are likely because of differing data sources and the impact of the pandemic on the closure of child care centres or the availability of child care services.
19. For more information, see Employment and Social Development Canada (2021), Investing in our Future – National Progress Report on Early Learning and Child care 2018 to 2019.
20. Ibid.
21. Ibid.
22. Although 2021 Census data are available, 2016 Census data were used because they are the standard of the 2018 MBM base. The pandemic also caused disruptions to typical demand and supply patterns for child care, and these would be reflected in the 2021 Census.
23. More recent data from the 2019 Canadian Health Survey on Children and Youth and Survey on Before and After School Care in Canada, 2022 corroborate this finding.
24. Most formal before or after school care programs are only available to children who are younger than 13 years old (Friendly et al. [2020], Early childhood education and care in Canada 2019).
25. Among the 59% of children aged 4 to 12 years who are not in before or after school care, the 2022 Survey on Before and After School Care in Canada showed that parents preferred to adjust their schedules (27%) or stay home or work from home (25%) or thought the cost of before or after school care was too high (24%) or that the child could stay home alone or with a sibling (23%).

While progress is being made on the affordability of early learning and child care across Canada, it can still be an expensive undertaking for some lower-income families. It has been argued that child care costs should be accounted for as a separate component of the MBM, as this would increase the visibility of child care expenses in the MBM methodology. A separate child care component in the MBM would also increase MBM poverty thresholds, and incurred child care costs would no longer be deducted from the MBM's disposable income. While this is feasible (see the text box "Child care costs as a new market basket measure component: An illustration") there are important considerations that complicate this exercise, such as child care data constraints among lower income deciles and the resulting assignment of an invariable child care amount to all families regardless of their particular child care situation.

Child care costs as a new market basket measure component: An illustration

Accounting for child care costs as a component of the market basket measure (MBM) requires a robust estimation methodology. Canada's Census of Population collects data on child care expenses and allows for more detailed disaggregation than household surveys. For example, to estimate the cost of child care for the MBM reference family, provincial-level child care estimates were produced using 2016 Census data for couple families with two children (aged 9 and 13) with an after-tax income in the bottom four income deciles. This option was selected because of data constraints, as most families in these deciles did not report expenses.

Provincial medians were then adjusted using the national level child care data from the Consumer Price Index to obtain a cost estimate in 2018 dollars (child care data are not available at the provincial level). The infrequent reporting of child care expenses coupled with the composition and ages of the MBM reference family prevent a lower level of estimate disaggregation (e.g., census metropolitan area, MBM region). The census-based provincial medians were then added to the 2018-base MBM total threshold amounts (See Table A.1).

Comparing these new thresholds with a family's income to estimate the impacts of the poverty rate is complicated by the fact that the effect child care would have on a family's labour participation rate is unknown. Presumably, a portion of individuals from our sample population would enter the labour force had they paid for child care, increasing their family's income. Simply comparing the new thresholds with a family's current disposable income (holding everything else constant) requires a highly unrealistic assumption. Conversely, imputing an income based on assumptions that certain individuals could enter the labour force based on selected characteristics would result in a purely theoretical result.

An additional argument supporting the introduction of a child care component is that it would assign child care expenditures to survey respondents who incur these expenses for non-employment purposes and do not declare such expenses in their tax returns. As mentioned, child care data is sourced from CRA data or surveys. However, surveys that collect child care expenditure data (i.e., the CIS and the census) only capture expenses incurred to work in paid employment.[26] Therefore, including child care as a basket component would allow for a child care amount to be considered when determining the poverty status of some families without child care expenditure data available through tax returns. A child care component in the MBM could also help account for situations where child care costs may be viewed as discretionary (e.g., summer camps), when other options would have been available.

However, the creation of a separate child care component would likely require a stronger justification than increasing the visibility of child care expenses. As the MBM prescribes a basket of goods and services that are required to achieve a modest, basic standard of living, creating a separate child care component would be justified if there were a widely accepted standard for child care services (e.g., the 2019 national nutritious food basket is the standard for the food component) and if the incidence of child care expenses for the MBM reference family were close to universal. The goods and services currently included in the MBM's food, shelter, clothing and transportation components align with these requirements, as they are based on standards and are essential to most (if not all) families, irrespective of their region of residence, family size and composition, and the age of the family members. Guiding principles should generally determine the fitness for use in the MBM. From a statistical

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26. For more information, see the CIS questionnaire and the census questionnaire. It should be noted that the CRA allows for child care expense deductions to attend school.

perspective, a proposed child care methodology should have some level of universality across Canada, be measurable and have a level of uniformity when scaling for different family sizes.

On the other hand, the current treatment of child care expenditures as a deduction to disposable income is consistent with the idea that child care services are considered a non-discretionary expense for a limited segment of the Canadian population and that there are no recommended service standards. Thus, the current approach is sensitive to the child care experiences of families, which can vary significantly because of multiple factors.

Furthermore, this approach is likely to be more responsive to the child care cost implications of major policy changes, such as those brought about by the Canada-wide early learning and child care plan. Any changes to child care costs would be readily incorporated into annual poverty rate calculations via the larger or smaller deduction to families' disposable income. This would not be the case if a separate child care component were used for two reasons. First, component costs would need to be associated with the MBM reference family's children (whose ages are largely outside the scope of the new Canada-wide early learning and child care plan). Second, the component would only be rebased or updated following the completion of a periodic MBM comprehensive review (i.e., approximately every five years). While the Consumer Price Index for child care services could be used to adjust child care costs between rebasings, the Canada index would be used for all subnational geographies, and would reflect changes in the cost of licensed child care services paid by Canadian families, without differentiating by family income or directly reflecting the number of subsidized child care spaces available. Finally, given the complexity of different possible family compositions, more research would be needed on the square root equalization method to evaluate the scalability of a child care component.

It should be noted that the current treatment of child care expenses does not account for the fact that some families may not be incurring expenses because they cannot afford them, and this is more likely to occur among lower income families. Some families may also choose not to report childcare expenses when responding to household surveys or when filing taxes. To address this, child care expenses that were not incurred or reported could be accounted for by developing an imputation strategy that imputes a child care expense amount for families with a child (or children) of a certain age. This child care imputation amount could then be adjusted for different family sizes and applied to all families with children. In this scenario, the imputation would be like the tenure type adjustment currently done to disposable income in the MBM.

A disadvantage of the imputation option is that the imputation amount would be applied on the disposable income of the MBM and would not address the added visibility that some stakeholders wish to see for child care expenses. Furthermore, the imputation strategy could result in a child care expense being applied to families that, because of family dynamics and needs, would have voluntarily chosen not to incur such costs. Finally, the lag in responsiveness to policy changes as detailed when discussing the limitations of a separate child care component would also apply for this imputation option.

In summary, different approaches to incorporating child care costs in the MBM have advantages and disadvantages, and there may not be a single approach that effectively captures these expenses for all families with children. Understanding the strengths and weaknesses of each approach will help inform discussions on how the MBM accounts for child care costs, especially as Canada undergoes important transformations in child care policy in the years to come.

Conclusion

This paper details the current MBM methodology of incorporating child care expenses as a deduction to disposable income in the MBM and discusses possible alternative options. The discussion of these options reveals the complexities associated with capturing child care costs within Canada's Official Poverty Line and sets the stage for further research on this topic.

As with the other products in this series, this paper aims to foster engagement and debate with the public and stakeholders to explore research topics that could help inform discussions for the next comprehensive review of the MBM, improve the understanding of the MBM methodology, and potentially expand analytical tools that involve or rely on the MBM. Users are welcome to ask questions, provide feedback and make suggestions for future work on child care expenses and other topics relevant to the MBM. Those who are interested in contacting us are encouraged to do so by sending an email to statcan.market.basket.measure-mesure.du.panier.de.consommation. statcan@statcan.gc.ca.

Appendix A

Table A.1
Hypothetical impact on the market basket measure (MBM) thresholds, from incorporating child care expenses as a new basket component, four-person MBM reference family, 2018

MBM Geography		Published threshold	Threshold with child care component	Difference	
			current dollars		percentage
Province	**Region**				
Newfoundland and Labrador	rural	42,539	49,237	6,698	15.7
	< 30,000	42,926	49,624	6,698	15.6
	30,000-99,999	44,167	50,865	6,698	15.2
	St. John's	44,808	51,506	6,698	14.9
Prince Edward Island	rural	41,520	50,451	8,931	21.5
	< 30,000	42,283	51,214	8,931	21.1
	Charlottetown	43,205	52,136	8,931	20.7
Nova Scotia	rural	41,588	50,519	8,931	21.5
	< 30,000	42,494	51,425	8,931	21.0
	30,000-99,999	42,800	51,731	8,931	20.9
	Halifax	45,197	54,128	8,931	19.8
	Cape Breton	41,533	50,464	8,931	21.5
New Brunswick	rural	40,766	49,697	8,931	21.9
	< 30,000	42,284	51,215	8,931	21.1
	30,000-99,999	42,058	50,989	8,931	21.2
	Fredericton	43,906	52,837	8,931	20.3
	Saint John	41,700	50,631	8,931	21.4
	Moncton	42,026	50,957	8,931	21.3
Quebec	rural	37,804	43,386	5,582	14.8
	< 30,000	37,397	42,979	5,582	14.9
	30,000-99,999	37,442	43,024	5,582	14.9
	100,000-499,999	37,940	43,522	5,582	14.7
	Québec	39,601	45,183	5,582	14.1
	Montréal	40,160	45,742	5,582	13.9
Ontario	rural	40,576	49,954	9,378	23.1
	< 30,000	41,250	50,628	9,378	22.7
	30,000-99,999	40,769	50,147	9,378	23.0
	100,000-499,999	42,933	52,311	9,378	21.8
	500,000+	44,851	54,229	9,378	20.9
	Ottawa	47,233	56,611	9,378	19.9
	Hamilton/Burlington	43,517	52,895	9,378	21.5
	Toronto	48,142	57,520	9,378	19.5
Manitoba	rural	38,954	45,652	6,698	17.2
	< 30,000	40,780	47,478	6,698	16.4
	30,000-99,999	40,842	47,540	6,698	16.4
	Brandon	40,404	47,102	6,698	16.6
	Winnipeg	44,030	50,728	6,698	15.2
Saskatchewan	rural	40,280	46,141	5,861	14.6
	< 30,000	42,003	47,864	5,861	14.0
	30,000-99,999	42,208	48,069	5,861	13.9
	Saskatoon	45,652	51,513	5,861	12.8
	Regina	44,833	50,694	5,861	13.1
Alberta	rural	45,047	55,095	10,048	22.3
	< 30,000	46,158	56,206	10,048	21.8
	30,000-99,999	44,874	54,922	10,048	22.4
	100,000-499,999	45,468	55,516	10,048	22.1
	Edmonton	47,869	57,917	10,048	21.0
	Calgary	48,349	58,397	10,048	20.8
British Columbia	rural	41,463	49,278	7,815	18.8
	< 30,000	42,608	50,423	7,815	18.3
	30,000-99,999	42,829	50,644	7,815	18.2
	100,000-499,999	47,111	54,926	7,815	16.6
	Vancouver	48,677	56,492	7,815	16.1

Sources: Statistics Canada, 2016 Census of Population and Canadian Income Survey. Custom tabulation.

Table A.2
Percentage of working aged people[1] living with a preschool-aged child[2] who reported paying for child care, Canada, 2017

	Household after-tax income less than $43,500	Household after-tax income between $43,500 and $108,800	Household after-tax income equal to or greater than $108,800	Total
	percentage			
Paid for child care so that they could work at their paid job	27.8	41.3	61.3	44.8
Did not pay for child care	72.2	58.7	38.7	51.6

1. People aged 16 to 54 years old.
2. People aged 0 to 5 years old.
Source: Statistics Canada, 2018 Longitudinal and International Study of Adults. Custom tabulation.

Appendix B

Table B.1
List of forward-looking research agenda items

Research topic	Short description
Child care expenses	Currently, child care costs are represented in the market basket measure (MBM) as a direct deduction from disposable income. This way, a family's needs are compared with an income measure that reflects their available resources. Experts have asked Statistics Canada if this is the best way to deal with child care expenses in the MBM. Could child care costs be treated as a separate basket item instead?
Remoteness	Statistics Canada will research whether adjustments should be made to the MBM to account for higher costs faced by families living in remote regions and communities to derive (for example) better estimates for the northern parts of provinces.
Different family types Equivalization analysis	Currently, Statistics Canada estimates MBM thresholds for a family of four then uses the square root equivalization scale to derive thresholds for families of different sizes. Does this method lead to the best possible thresholds for smaller families and unattached individuals? An additional study could be conducted on whether it would be appropriate to construct separate basket values for families of the same size but with different compositions (e.g., a lone-parent family with three children versus a couple family with two children) or other characteristics (e.g., age of family members).
Communications technology	Statistics Canada will look at how a separate communications component could best be added to the MBM. Presently, the need for communication goods and services is reflected in the "other necessities" component.
The other necessities component	The "other necessities" component is meant to represent the costs of goods and services other than food, shelter, transportation and clothing. The list of items that could potentially be included in the other necessities component is large and could vary depending on the structure, age, location or other circumstances of a family. Ongoing research on the methodology underpinning the other necessities component could verify whether the current method for setting the value of the other necessities component is adequate or needs to be improved.
Poverty Index	Anchoring the MBM to specific base years yet updating it regularly to reflect changes in the standards of living to ensure it remains relevant is an underlying strength of the MBM. However, periodically rebasing the MBM leads to the creation of various poverty lines that can make it difficult to track poverty trends over longer periods. To improve transparency and to help track poverty trends over longer periods, the implementation of a poverty reduction index will be considered.
Inverse correlation of shelter and transportation costs	Often, people in areas where shelter costs are relatively higher have transportation costs that are relatively lower, and vice versa. For instance, people in rural areas typically pay lower rents or mortgages but must spend more on fuel and seldom access public transportation. We propose to explore whether the MBM could be improved by more precisely considering these differences in costs.
Using the MBM with administrative data	As it currently exists, the MBM poverty rates can only be accurately calculated using a combination of survey and administrative data. We propose to explore the feasibility of applying MBM thresholds to administrative data only.
Additional MBM income inequality indicators	The majority of the current MBM-based analytical products do not describe the full income distribution because they typically compare the MBM threshold with disposable income. Therefore, they do not fully describe income inequality. Proposed additional inequality indicators will be presented, which will allow to better identify income disparities among Canadians.

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