Context specificity of childcare out-of-pocket costs and child-contingent benefits

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Risks, Resources and Inequalities:

Increasing Resilience in European Families

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Introduction

In social policy research there is a resurgence of a focus on policy interplay, and the notion that the effectiveness of a single policy does not take place in isolation, but is specific to the context in which the policy is implemented (Bakker & Van Vliet, 2021; Brzinsky-Fay, 2017; Fredriksson, 2020; Nieuwenhuis, 2022; Thévenon, 2016; Yerkes et al., 2022). Research carried out in the *rEUsilience* project clearly demonstrated how social policies affect families' ability to cope with situations of risk and how they support transitions between care and employment. To be resilient and avoid negative outcomes, families need a complementary set of policies, including services and cash support (Daly & Uzunalioglu, 2024). Child cash allowances and early childhood education and care (ECEC) services are two policy mainstays crucial for supporting families with young children (Daly et al., 2025). Here, we focus on potential context-specificities, or interplays, between these two policy areas, such as the extent to which childcare costs are compensated for by financial support to families with children, or the extent to which financial support to families with children is undermined by high costs for childcare.

On the one hand, a large body of literature focuses on how financial support to families with children (including child benefits, tax credits, or other provisions in the tax-benefit system more broadly) helps to provide adequate incomes, cope with the cost of raising children and reduce child and family poverty (Chzhen & Bradshaw, 2012; Maldonado & Nieuwenhuis, 2015; Verbist & Van Lancker, 2016). Research shows that the balance between universalism and targeting in the design of such policies is key to understanding their impact on promoting family resilience (Van Lancker & Van Mechelen, 2015).

Conversely, a large body of research has examined early childhood education and care (ECEC) services, investigating how they support family transitions, foster gender equality in the labour market, and promote the cognitive and non-cognitive development of disadvantaged children, as well as their social mobility, in the long term (Morrissey, 2017; Schmutz, 2024; Van Huizen & Plantenga, 2018). However, the research clearly shows that childcare services suffer from so-called Matthew effects, in that it is mostly the disadvantaged children who stand to gain the most from quality childcare, who use it the least (Van Lancker, 2023). Here, too, the design of policies matters: in countries where childcare services are universalised and available to all, Matthew effect is mitigated and childcare services better support family-based transitions (Pavolini & Van Lancker, 2018).

Putting all this together, we know a lot about how cash benefits and services can support family resilience, help families cope with transitions and provide adequate incomes in the short and long term. We also know how differences in policy design and inclusiveness affect outcomes for families. However, one key issue is that financial support to families with children and childcare policies should not be considered in isolation, as their effects can be context-specific. Specifically, we focus on out-of-pocket expenses that parents have to pay for enrolling their child in public early childhood education and care (ECEC) and the total amount of financial support for families with children though cash benefits and tax credits, referred to as the child-contingent benefits. The effectiveness of child-contingent benefits in supporting families will depend on how they align with out-of-pocket expenses for public childcare, and vice versa. One of the key insights of the *rEUsilience* project is that family support policies must complement each other to be effective. Complementarity refers to the degree of coherence across policy domains in the type of support offered (León, 2024).

The total financial support families receive, including child benefits, tax credits, and other provisions in the broader tax-benefit system, is referred to here as child-contingent benefits. Such child-contingent benefits aim to help them cope with the costs of raising children. By doing so, they affect the income of families and impact child poverty (Chzhen & Bradshaw, 2012). Previous research has shown, for example, that generous child benefits substantially reduce child poverty but may disincentivize maternal employment at the same time, depending on the balance between targeting and universalism (Van Lancker & Van Mechelen, 2015). Childcare services also affect families' income by enabling parental employment, which usually increases family income. However, families also pay childcare fees, which reduces their income. And research has shown that the out-of-pocket costs of parents negatively affect maternal labour supply effect of using childcare (Akgunduz & Plantenga, 2018). In this sense, the interplay between childcare fees and child cash benefits is important to fully appreciate how these policies adequately support families. For the first time, in this deliverable we present evidence on the joint effect of child-contingent benefits and out-of-pocket costs for childcare services on the income position of families in different European contexts.

In this deliverable, we build upon the work reported in previous deliverables D7.1 (Van Havere et al., 2024) and D7.2 (Van Havere et al., 2025) and use microsimulation modelling to empirically assess the interplay between income support for families with children and out-of-pocket costs for childcare services, and how they jointly affect the income position of families with young children in four different countries. Using microsimulation modelling enables us to assess the impact of the tax-benefit system on household incomes (Sutherland & Figari, 2013). In D7.1 (Van Havere et al., 2024), we used the microsimulation models EUROMOD and UKMOD to assess the distributional outcomes of tax-benefit systems on a variety of household types in six countries: the United Kingdom, Belgium, Sweden, Croatia, Poland, and Spain. We modelled the impact of various social risks such as unemployment on household incomes, and we evaluated how well the tax-benefit system provided adequate income support to households. In D7.2 (Van Havere et al., 2025), we went one step further and tested to what extent changes to the child benefit and social assistance schemes would help alleviate poverty amongst different households in the six countries. Here we augment EUROMOD with newly digitized detailed information on the

legislation with regards to out-of-pocket costs for childcare service use. We provide context-specific analysis for Belgium, Poland, Spain and Sweden – countries that show a great heterogeneity in welfare systems. This allows us to move beyond the tax-benefit system per se and model the joint impact of childcare use, out-of-pocket costs, and income support policies on the income position of families. This improves our understanding of how and for whom the interplay between child-contingent benefits and (out-of-pocket costs for) childcare services provides adequate support as well as supports the transition between care and employment, and hence family resilience.

In this deliverable, we answer the following research questions:

1) To what extent do child-contingent benefits compensate for the out-of-pocket costs of formal childcare services at different income levels?
2) To what extent do child-contingent benefits compensate for the out-of-pocket costs of formal childcare services for different family types?
3) To what extent do child-contingent benefits compensate for the out-of-pocket costs of formal childcare services when families transition into work?

Context specificity and the compensation ratio

Financial support for families with children and access to childcare are two policy areas that were featured prominently in the policy recommendations that were formulated in the rEUsilience project ('priorities', see: Daly et al., 2025). These recommendations included "Child-related Income Support Should Grant an Adequate Level of Support", "Recognition of the Additional Costs of Transitions in Families Should Be Built into the Child-related Income Support", and the recognition of the importance of (access to) childcare. Here, we examine aspects of the context-specificity of these two policy areas. We focus on the extent to which financial support to families with children is undermined by high costs for childcare. And we focus on the support for families as they make employment-related transitions, considering the *combined* effects of changes in income support policies and fees for childcare services.

We introduce the concept of a *compensation ratio* between child-contingent benefits and out-of-pocket costs for childcare services, to capture their combined effects. Income support policies are operationalized as child-contingent benefits; that is, the total amount of benefits conditional on having dependent children, provided through cash benefits or tax credits (Figari et al., 2011; Verbist & Van Lancker, 2016). It is important to include child-contingent credits through the tax system, since for some countries (e.g. Spain) this is the main route through which income support for families with children is provided. For childcare services, we focus on out-of-pocket costs for childcare service use: what would families have to pay, given their income and family situation, if they would use childcare in a given country?

The compensation ratio is then defined as the degree to which child-contingent benefits are higher or lower than the out-of-pocket costs for childcare (expressed as a ratio between the two). In its simplest form – that is on average for a whole population – the interplay between income support and out-of-pocket costs for childcare services can take three different forms. First, a ratio higher than one ($CR > 1$) would mean that income support is more than offsetting the cost of childcare. Both whether childcare is affordable or expensive, the amount of income support provided allows for catering for additional cost for raising children. Second, a ratio lower than one ($CR < 1$) would mean that income support is insufficient to even cover the cost of childcare. Income support policies only help provide adequate income if no childcare is used. Third, a ratio of about one ($CR = 1$) would mean that the child-contingent benefits completely compensate for the out-of-pocket costs of using childcare, but does not add any additional means.

It is important to consider that the policy design of income support and childcare policies are often targeted towards specific income groups or family types. Many countries provide higher child benefits or more fiscal compensation for lower income families and/or single parent families, while out-of-pocket service fees for childcare are usually progressive, requiring higher income families to pay more. At the same time, specific reductions can be given to specific family types such as single parents.

Data & Method

Micro-simulation modelling

We use tax-benefit microsimulation modelling to empirically assess the interplay between child-contingent income support, childcare use and childcare services, and explore their joint impact on the income position and employment opportunities of families with young children. Specifically, we use the European microsimulation model EUROMOD (EM). This model, well-equipped to estimate the income support received by families, combines comprehensive information on country-specific tax-benefit regulations with detailed micro-level data on household and demographic characteristics (Sutherland & Figari, 2013). Although typically used to simulate social insurance contributions, direct taxes, and cash benefits, the architecture of EM enables us to extend the model beyond the traditional tax-benefit system (Aerts et al., 2023; Sutherland & Figari, 2013). In this paper, we do so by incorporating detailed information on legislation regarding out-of-pocket costs for childcare services, as previously done by Hufkens and colleagues (2020).

Data and country selection

Data

The estimation of the out-of-pocket costs for publicly provided childcare services and the child-contingent benefits requires detailed information on the household composition and the use of childcare services. The latter, which is not included in the EM input-data, is drawn from the European statistics on Income and Living Conditions survey (EU-SILC) and appended to the EM input data. We use the most recent EM input data, respectively, the 2022 wave for all countries except Poland, for which the 2021 wave is employed. Although our simulations are based on the 2024 tax-benefit systems, we note that the survey data, collected at the end of the COVID-19 pandemic, may still reflect the impact of financial relief measures – which potentially could bias the estimated policy effects.

The primary interest in this paper is the tax-benefit system's intended compensation ratio between income support policies and childcare services. This entails that we focus on the child-contingent income support and the out-of-pocket costs if families would use full-time childcare in a given country. To this end, we create a counterfactual dataset, in which all potential users of childcare services are enrolled full-time in publicly subsidised childcare, assuming that full-

time means using childcare for 40 hours per week. Since the duration of childcare varies significantly across countries, we define potential users as all children under the age of three years old who are not currently enrolled in preschool education, closely aligning with the classification of the lower age-group in the Barcelona targets (European Commission, 2008).

Additionally, to further investigate the effect of the interplay between income support and childcare policies on work incentives and the capacity of families to transition into work, we use hypothetical household with varying income situations and family types generated by the Hypothetical Household Tool (HHoT). Providing full control over household characteristics, this tool allows us to assess the degree of complementarity between income support and childcare policies at across income levels, while keeping all else equal (Hufkens et al., 2019). Moreover, the consistency in household characteristics also facilitates cross-country comparison of the compensation ratio (ibid.).

Countries

The scope of this paper is limited to four European countries: Belgium, Poland, Spain, and Sweden. Croatia could not be included due to limited samples sizes pertaining to the use of childcare services. For the United Kingdom, the Family Resources Survey does not contain variables on childcare use, withholding us from conducting the simulations. Nevertheless, the included countries approach child-contingent income support markedly different, thus allowing us to analyse relevant policy variation. While Sweden provides direct cash transfers to families with dependent children, Spain uses a more fiscalised approach, relying on tax reliefs and means-tested social assistance top-ups. Belgium and Poland combine both direct cash payments and tax reliefs to provide financial support to families with children. Out-of-pocket costs for public childcare services also vary significantly. In Belgium and Sweden, fees are determined by household composition and income, although maximum fees in Sweden are considerably lower than in Belgium. In contrast, childcare fees in Poland and Spain are fixed, with additional top-up payments for overtime care in Spain.

Compensation ratio

To explore the joint effect of child-contingent income support and out-of-pocket costs for childcare services on the income position and the employment opportunities of families with young children, we introduce the concept of a compensation ratio. Defined as the amount of child-contingent benefits received for child *i* divided by the out-of-pocket costs paid for that child's childcare (equation 1), the compensation ratio for $child_i$ measures how effectively the private contribution for childcare services is offset by the income support received for a child. In other words, this individual-level indicator reflects the degree of complementarity between child-contingent income support and the out-of-pocket costs for childcare services. A compensation ratio close to one indicates that the cash support offsets the cost of childcare. A ratio above one suggests complementarity, as the income support exceeds the parental cost for childcare, enabling families to cover other costs related to childrearing. Conversely, a ratio below one implies a shortfall of the cash support, requiring families to cover the remaining costs through other means, indicating incompatibility between the two policies.

$$Compensation\ ratio\ for\ child_i = \frac{Child - contingent\ benefits\ of\ child_i}{Out\ of\ pocket\ costs\ for\ child_i} \quad (1)$$

Child-contingent income support

Income support for families with dependent children is well-established in all European welfare states (Figari et al., 2007; Salanauskaite & Verbist, 2013; Van Lancker & Van Mechelen, 2015). However, the policy mix used to compensate families for the costs of childrearing and to prevent monetary child poverty varies significantly across countries (Figari et al., 2007; Salanauskaite & Verbist, 2013; Van Lancker & Van Mechelen, 2015). Whilst direct income transfers, such as cash allowances, remain the predominant form of income support, income support has become more fiscalised over recent decades (Ferrarini et al., 2013). These fiscal support measures, such as tax credits and tax allowances, tend to complement rather than substitute direct cash transfers (Figari et al., 2007). However, in some countries, such as Spain, it has become the predominant support mechanism (Hernández et al., 2025). While it can be argued that fiscalisation has the ability to reduce non-take-up when for instance tax credits are automatically applied, such fiscal measures often primarily benefit better-off families, thereby reducing its redistributive impact (Hernández et al., 2025). In addition to direct cash payments and tax reliefs, several other policy measures, including unemployment benefits, social assistance, and housing benefits, are adjusted based on the presence of dependent children (Figari et al., 2007).

In this paper, we employ the concept of child-contingent benefits, defined as the total sum of income support granted to families based on the presence of dependent children, as used by Figari et al. (2007) and Hernández et al. (2025). To estimate this, we construct a counterfactual dataset in which all dependent children are removed from the household. Next, we simulate the household disposable income using both the counterfactual dataset and the original dataset. The difference between these simulated disposable incomes represents the total value of child-contingent benefits received by the household. To derive an individual-level estimate, we divide the total child-contingent benefits by the number of dependent children in the household. This individual-level measure is an approximation, given that most countries tailor income support based on child-specific characteristics such as age, birth order, and family size.

Out-of-pocket costs for publicly subsidised childcare services

Similar to child-contingent income support, legislation regarding out-of-pocket costs for childcare services varies significantly across countries. Being generally decentralized and organized at the regional or municipal level, these legislations can also substantially differ within countries. In this study, we use the legislation in effect in each country's capital or largest region. In particular, we use the legislation of Flanders for Belgium, Warsaw for Poland, Madrid for Spain, and Stockholm for Sweden.

In addition to the regional differences, some countries, such as Sweden and Belgium, tailor the out-of-pocket costs to the household composition and the household's income position. However, the maximum childcare fee in Sweden is substantially lower than that in Belgium. In

other countries, such as Poland and Spain, childcare fees are fixed, although parents are required to pay additional top-up fees for overtime childcare in Spain.

To estimate the out-of-pocket costs for childcare services, we need to augment EM with detailed information on the legislation with regards to out-of-pocket costs for childcare service. To this end, we derive country-specific information on the legislation regarding out-of-pocket costs for childcare services from the OECD tax-benefit policy descriptions. Below, we detail the country-specific legislations. After the augmentation of EM with childcare policies, we estimate the childcare fees on the individual level, using the enriched EM input data.

Belgium (Flanders)

In Belgium, the communities are responsible for the organisation of publicly subsidised childcare. Belgium has three language communities (Flemish, French and German-speaking community). They are responsible for all forms of education, including childcare services. In this paper, we apply the fee structure of the Flemish Community, the largest community in Belgium, to all Belgian residents. Within the Flemish Community, private contributions vary depending on the type of childcare facility. Nevertheless, most daycare centers use a regionally determined income-based fee structure known as the *Inkomenstarief* (IKT) (Kind & Gezin, 2025).

The formula used to calculate out-of-pocket costs, as shown in Table 1, is based on net household income[1]. If the net household income does not exceed EUR 19,095.45 per year, a discount of up to 25% is applied to the standard daily fee, which is calculated as the net household income multiplied by 0.000385. The maximum discount is granted to households with a net income below EUR 17,895.44 per year and is reduced by 1% for every EUR 50 above this threshold. Households with a net income between EUR 19,095.45 and EUR 52,239.24 per year pay a daily fee equal to their net household income multiplied by 0.000385. Those with a net income between EUR 52,239.25 and EUR 74,744.51 contribute 0.000380 times their net household income. For households earning more than EUR 74,744.51 annually, the daily fee is EUR 26.83, which increases by EUR 0.60 for every EUR 3,700 of net household income above this threshold. The maximum daily fee is capped at EUR 34.64 (Kind & Gezin, 2025).

[1] The net household income is defined as the net income of all household members over the age of 18 years living in the same dwelling, excluding adult children.

Table 1: Calculation method out-of-pocket costs for childcare services in Flanders, 2024

Net household income (EUR per year)	Formula
< 19,095.45	Net household income * 0.000385 - discount
19,095.45– 52,239.24	Net household income * 0.000385
52,239.25- 74,744.51	Net household income * 0.000380
> 74,744.51	EUR 23.16 + EUR 0.60*(per EUR 3700 above EUR 74,744.51 per year)

Source: (Kind & Gezin, 2025)

The out-of-pocket costs for publicly subsidised childcare services are further adjusted based on the daily use of childcare and the specific family situation. As shown in Table 2, the contribution for children attending a daycare facility for less than five hours per day is reduced to 60% of the standard daily fee. However, the fee cannot be lower than EUR 1.69 per day. For attendance between five and eleven hours, the full daily fee applies. Daycare facilities also have the discretion to set their own rates for overtime. Table 3 presents the family-related discounts on out-of-pocket costs that were modelled in EM, including reductions for low-income families, social assistance recipients, and families with multiple children under the age of 12. In practice, however, several other reductions are granted that we were unable to (Kind & Gezin, 2025).

Table 2: Part-time out-of-pocket costs for childcare services in Flanders, 2024

Hours in daycare	Out-of-pocket costs
<5 hours	60% (minimum EUR 1.69)
5-11 hours	100%
>11 hours	Determined by daycare facility

Source: (Kind & Gezin, 2025)

Table 3: Reduction out-of-pocket costs for childcare services in Flanders, 2024

Family circumstances	Out-of-pocket costs
Social assistance recipient (without activation trajectory)	EUR 5.37
Low income employees (>19 hours/week and net household income lower than EUR 18,495.44 per year)	EUR 3.22
Households with 2 or more dependent children under 12 years of age	Reduction EUR 3.37 per additional child

Source: (Kind & Gezin, 2025).

Spain (Madrid)

In Spain, publicly subsidised childcare is organised at the regional or local level, resulting in diverse fee structures across the country. In this paper, we assume that the fee structure of the Comunidad de Madrid, the capital region, applies to all Spanish households with children in childcare (OECD, 2024b).

Although childcare services in Madrid are free of charge, parents contribute for school meals and overtime care, as discussed in Table 4. In 2024, the monthly meal fee was EUR 96 per month. If a child attends a childcare facility for more than seven hours per day, an overtime fee of EUR 10.83 per half hour per month is charged, resulting in a full-time monthly fee of €204.30. Families receiving social assistance are exempt from paying the overtime fee (OECD, 2024b).

Table 4: Out-of-pocket costs childcare services in Comunidad de Madrid, 2024

Childcare use	**Out-of-pocket costs**
Regular use (<=7h)	EUR 96 per month (meal fee)
Over-time use (>7h)	EUR 10.83 per half hour per month

Source: (OECD, 2024b)

Poland (Warsaw)

In Poland, publicly subsidised childcare is organised by local authorities, resulting in varying fee structures across the country. Aligning with the OECD (2024a), this paper focuses on Warsaw, the capital region, to model out-of-pocket costs for childcare services. In Warsaw, publicly provided childcare is free of charge, as discussed in Table 5. However, parents are required to pay for school meals. The maximum daily meal fee is capped at PLN 27.57, although the average amount, used to model childcare fees in EM, is PLN 12.02 per day.

Table 5: Out-of-pocket costs childcare services in Warsaw, 2024

Upper limit and mean out-of-pocket costs	**Out-of-pocket costs**
Childcare service	Free of charge
Maximum ceiling meal fee	0.0065 * monthly minimum wage
Average meal fee	PLN 12.02 per day

Source: (OECD, 2024a)

Sweden (Stockholm)

In Sweden, the parental fee structure for childcare services is set at the national level. However, municipalities have some discretion to reduce fees, particularly for part-time care. This paper focuses on the fee structure applied in Stockholm, the capital city.

Across Sweden, out-of-pocket costs are calculated as a function of the gross household income and family composition, as detailed in Table 6. For the first child in childcare, the monthly fee amounts to 3% of the gross household income, capped at SEK 1,510. For the second and third child, the monthly fee is reduced to 2% and 1%, respectively, with caps of SEK 1,007 and SEK

503. From the fourth child onward, no out-of-pocket costs is required. Families without income from employment or replacement income—such as social assistance recipients—are exempt from paying for childcare services. However, they are not entitled to full-time childcare, typically receiving 15 hours of childcare per week (OECD, 2024c).

As mentioned, local authorities have discretion to alter fees for part-time childcare. As shown in Table 7, in Stockholm, for children attending childcare for less than 30 hours per week, the out-of-pocket costs for the first child is reduced to 2% of gross household income, capped at SEK 1,007 per month. For the second and third child, the fee is 1%, capped at SEK 503. From the fourth child onward, parents remain exempt from childcare contributions (OECD, 2024c).

Table 6: Out-of-pocket costs for full-time childcare use for children aged 0–3 years in Stockholm (2024)

Number of children in childcare facilities	**Percentage of gross household income**	**Ceiling out-of-pocket costs (2024)**
Child 1	3%	SEK 1510
Child 2	2%	SEK 1007
Child 3	1%	SEK 503
Child 4	No fee	No fee

Source: (OECD, 2024c)

Table 7: Out-of-pocket costs for part-time childcare use for children aged 0–3 years in Stockholm (2024)

Number of children in childcare service	**Percentage of gross household income**	**Ceiling out-of-pocket costs (2024)**
Child 1	2%	SEK 1 007
Child 2	1%	SEK 503
Child 3	1%	SEK 503
Child 4	No fee	No fee

Source: (OECD, 2024c)

Results

The results of our analyses are presented in three steps. First, we analyse the relationship between the levels out-of-pocket costs to childcare and child contingent benefits, along the *income distribution* in Belgium, Poland, Spain and Sweden – as well as the resulting compensation ratio. Second, to the extent possible, we differentiate the compensation ratio by *family type*, specifically looking at the number of children in the household and the household classification by household type. Third, we use hypothetical households to model how the compensation ratio changes when families *transition* into (or out of) employment, and across different wage levels.

Out-of-pocket costs, child contingent benefit and the compensation ratio – by income

The association between out-of-pocket costs (for childcare) and the child contingent benefits is displayed in Figure 1, across the income distribution. To improve comparability across countries, the horizontal axis (disposable household income) is displayed as income percentile, and the vertical axis (presenting the two income concepts: out-of-pocket costs, and child contingent benefits) is displayed in nominal amounts in Euro, but on a logarithmic scale.

In Belgium, the child-contingent benefits are generally high and universally available, albeit slightly targeted toward lower-income families. In contrast, out-of-pocket costs are strongly income-based. From a household income at roughly the 25th percentile (corresponding to approximately €3,200 per month), out-of-pocket costs for childcare exceed the value of child-contingent benefits. For high-income families, the private contribution is about twice as high as the benefit received.

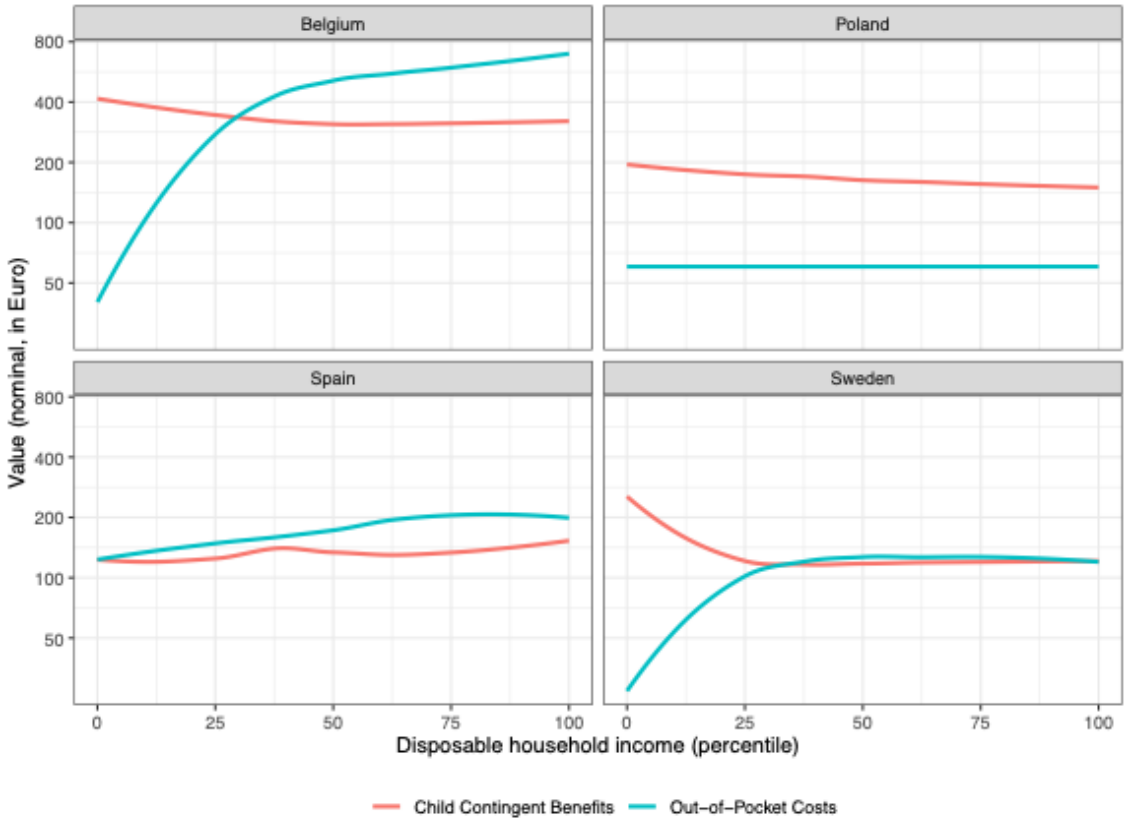
In Poland, the child contingent benefits are slightly low-income targeted, whereas out-of-pocket costs for childcare are constant across the income distribution. Consistently, child contingent benefits exceed the parental contributions. It should further be noted, that although the nominal amounts of child-contingent benefits in Poland are lower than those in Belgium, adjusted for the cost of living they represent a higher purchasing power in Poland.

In Spain, the out-of-pocket costs to childcare and the child-contingent benefits are at similar levels for lower-income families, and remain at somewhat similar levels for the lower part of the

income distribution. In particular, above the median income (50th percentile), families pay higher contributions for childcare (reaching a plateau of approximately €200 per month for households with a disposable income of €4,000 or more), whereas the child contingent benefits fall behind the out-of-pocket costs.

In Sweden, finally, both out-of-pocket costs for childcare and the child-contingent benefits are low-income targeted. Starting at income levels around the 30th percentile, both are approximately equal at around €125. Below the 30th percentile of household income (approximately €3200), child-contingent benefits are higher at lower income levels, with lower out-of-pocket costs for childcare for families with lower incomes.

Figure 1 Out-of-Pocket Costs and Child Contingent Benefit



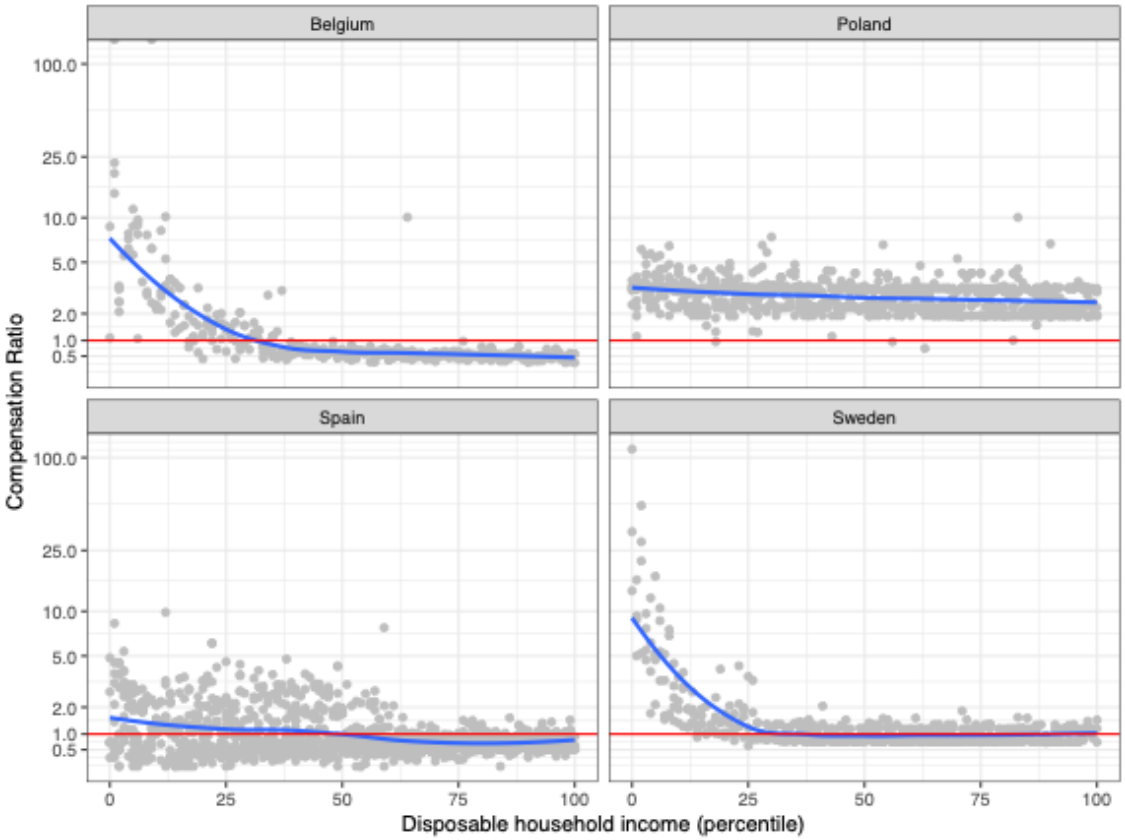
Taking together the evidence on out-of-pocket costs for childcare and the child-contingent benefits, Figure 2 shows the compensation ratio (the degree to which child-contingent benefits are equal to, exceed, or are lower than out-of-pocket costs for childcare) across the income distribution. Each point represents one child (positioned based on their families' household income and compensation ratio), and the line represents a locally estimated scatterplot smoothing (LOESS) curve. A few observations were removed that were outliers with negative compensation ratios. The disposable household income is presented by percentile, and the compensation ratio is presented on a logarithmic scale.

In Belgium, the compensation ratio exceeds 1 for the lower part of the income distribution, indicating that lower income families receive benefits that surpass their out-of-pocket childcare expenses. For higher income families, the compensation ratio is lower (and lowest of these four countries). In Poland, the compensation ratio (substantially) exceeds 1 for all families, and is slightly higher for lower income families. In Spain, the compensation ratio is slightly higher than 1 in the lower half of the income distribution, and lower than 1 in the upper half of the income distribution. While the general trend is naturally highly similar to what was presented in Figure 1, it should be noted that the averages of out-of-pocket costs and child-contingent benefits in Figure 1 would not suggest a compensation ratio above 1. But the scatterplots in figure 2 show variability around these averages (see below for a discussion of the factors behind this variability), and particularly in Spain there are many observations at low income levels with high compensation ratios (resulting from the division of child contingent benefits by very low out-of-pocket costs). Therefore, in Spain the compensation ratio is estimated to be (slightly) above 1 at lower income levels, and drops below 1 around median income levels. In Sweden, finally, the compensation ratio is stable around 1 just above the 25th income percentile upwards. For the bottom quarter of the income distribution, the compensation ratio is substantially higher than 1, particularly at the lowest income levels (for whom childcare is nearly free).

Taken together, the evidence in Figure 1 and Figure 2 shows that the combination of child-contingent benefits and out-of-pocket costs tends to be low-income targeted, in the sense that lower-income families pay lower fees for childcare and/or receive higher benefits. The compensation ratio is never below 1 in Poland and Sweden, whereas in Sweden the compensation ratio is more explicitly low-income targeted. Higher-income families in Belgium and Spain pay more for childcare than they receive in benefits, and vice versa for lower-income families. The compensation ratio is related to household income more strongly in Belgium than in Spain.

The results presented here have focused on averages by income percentile. Yet, as the scatterplots in Figure have shown, there is substantial variation around these averages at each point on the income distribution. This would be expected when the policies setting the levels for either out-of-pocket costs or child-contingent benefits take into account factors other than household income, such as the number of children or other aspects of family composition. Hence, in the next section, we presented the compensation ratios by number of children and family type.

Figure 2 Compensation Ratio



Compensation ratio by family type

To better understand the heterogeneity of compensation ratios at given income levels (cf. Figure 2) we further differentiate the compensation ratio by family type. Table 8 presents the average out-of-pocket costs, child-contingent benefit, and compensation ratio by the number of children in the household.

In Belgium, out-of-pocket costs of large families are (on average) smaller than those of smaller families. This can, on the one hand, be explained by the discount that is granted to families with more than one child under 12y olds in Belgium. On the other hand, large families are often found in the lower end of the income distribution. Additionally, the child-contingent benefits are in general larger for large families. In Belgium, the tax allowance is adjusted by the number of dependent children in the household, partially explaining the higher child-contingent benefits. However, the income position of larger families can also explain the higher child-contingent benefit, since they might be eligible for the means-tested child benefit supplement that is granted per dependent child.

In Poland, in line with a pro-natalist welfare approach (Cook et al., 2023), with income support significantly targeted towards larger families. Compared to families with only one child, those with two or more children receive substantially higher child-contingent benefits. On the other

hand, out-of-pocket costs per child are the same irrespective of family size. Therefore, larger families are better compensated for the out-of-pocket costs for childcare services.

In Spain, there seems to be no clear correlation between the compensation ratio and the number of children in the household; the compensation ratio remains close to 1 across different household sizes. Child-contingent benefits appear to be lower for larger families. This may seem somewhat surprising, given the refundable tax credit for large families and the fact that they are often eligible for a social assistance top-up. However, this social assistance top-up decreases with age, and larger families often have one or more children in different age categories. In addition, although the child tax credit increases with the number of dependents, the additional amount per child diminishes. A similar pattern is observed in the unemployment benefits which rises with the number of dependent children, but reaches a ceiling at two dependent children. Since child-contingent benefits are divided by the number of children, the per-child amount is lower in larger households.

In Sweden, finally, out-of-pocket costs (per child) are lower for household with more children. This can be attributed to a policy through which households with multiple children in childcare are entitled to a reduced fee from the second child onwards. Furthermore, the average child-contingent benefits for large families are larger than for smaller households ("flerbarns-tillägg"). Not only are they entitled to more child benefits, but in case they are entitled to social assistance benefits or housing benefits, this is also adjusted by the number of children in the household. Taken together, lower out-of-pocket costs and higher child-contingent benefits lead to, on average, a higher compensation ratio for families with more children.

Table 8 Compensation ratio by number of children

Country	Number of Children	Out-of-pocket costs (per child, €)	Child Contingent Benefits (per child, €)	Compensation Ratio	N
Belgium	1	547.4	314.6	0.7	136
	2	464.2	309.6	1.1	126
	3	387.0	408.9	1.9	48
	4	363.8	402.6	1.9	32
	Total	481.8	333.3	1.1	342
Poland	1	60.3	133.6	2.2	269
	2	60.3	182.7	3.0	382
	3	60.3	188.4	3.1	133
	4	60.3	216.1	3.6	56
	Total	60.3	167.1	2.8	840
Spain	1	184.3	178.1	1.1	431
	2	180.8	137.4	0.9	552
	3	173.5	147.8	1.0	165
	4	178.6	120.4	0.8	51
	Total	180.9	153.9	1.0	1199
Sweden	1	125.9	126.4	1.4	216
	2	99.2	132.9	3.2	249
	3	89.8	155.2	3.2	98
	4	60.3	209.4	6.3	47
	Total	105.2	138.9	2.7	610

Next, we examine how the compensation ratio differs between single-parent and two-parent families. The analyses were conducted for more household types (cf. Bartova et al., 2025), but the resulting numbers of observations were too small to meet the reporting rules of Eurostat. Table 9 shows the out-of-pocket costs, child-contingent benefits and compensation ratio differentiated by single-parent and two-parent families.

In Belgium, single parents are better compensated for the out-of-pocket costs to childcare services. On average, the child-contingent benefits are 4 times higher than out-of-pocket costs

for childcare services, related to the combination of lower out-of-pocket costs and higher child-contingent benefits, compared to two-parent families, and with children. This pattern, overall, reflects the lower position of single parents in the income distribution, as well as an additional tax allowance granted to single parents, further increasing their child-contingent benefits.

In Poland, child-contingent benefits are targeted towards single-parent families (although the number of observations here is small). Given the constant level of out-of-pocket costs, this difference in the compensation ratio is solely due to single-parent families receiving higher child-contingent benefits.

In Spain, on average, single-parent households have a higher compensation ratio than couples with children. Their out-of-pocket costs to childcare services is lower, while their child-contingent benefits are higher. The lower out-of-pocket costs suggests that single-parent households are more frequently situated at the lower end of the income distribution, which aligns with previous research in the rEUsilience project (Nieuwenhuis, Thaning, et al., 2025). The higher child-contingent benefits can be explained by tax reliefs for single parents (e.g. refundable tax credit for single parents), but also to their eligibility for the social assistance supplement in the social assistance scheme.

In Sweden, finally, single-parent families pay lower out-of-pocket costs and receive higher child contingent benefits than two-parent families. As the out-of-pocket costs to childcare are not subject to family composition, but only based on family income, this pattern is due to the single parents in Sweden being more likely to have a low income (Alm et al., 2020). This results in single-parents having a (substantially) higher compensation ratio compared to two-parent families, but it should be noted that these analyses are based on only a small number of single-parent families.

Table 9 Compensation ratio by single-parent and two-parent Families

Country	Family Type	Out-of-pocket costs	Child Contingent Benefits	Compensation Ratio	N
Belgium	Single-parent families	162.6	427.2	4.1	37
	Two-parent families	500.7	327.3	0.9	286
Poland	Single-parent families	60.3	200.6	3.3	24
	Two-parent families	60.3	170.0	2.8	588
Spain	Single-parent families	170.9	217.9	1.6	64
	Two-parent families	183.1	152.4	1.0	1015
Sweden	Single-parent families	57.0	238.1	8.5	20
	Two-parent families	108.3	132.2	2.4	578

Compensation ratio by employment-related transitions

As the final step in the analyses, we examine employment-related transitions. We do this with hypothetical households, in order to isolate country differences in the design of the policy system from potential influences of socio-economic differences of people in these countries. This thus complements the analyses in Figure 1 and Figure 2 with a social-rights oriented perspective. We compare a two-parent family and a single-parent family making the transition from (receiving) social assistance into employment, and across different wage levels, and assess how this affects their compensation ratio.

Table 10 details the compensation ratio for a single parent with one child in childcare across various income levels. We observe substantial cross-country differences in these ratios. In all countries except Poland, the compensation ratio is higher for single parents receiving social assistance, suggesting that the combination of child-contingent benefits and out-of-pocket costs to childcare services is effectively targeted toward low-income families, better supporting parents to cover other childrearing-related costs. Although the compensation ratio declines with increasing income in all countries except Poland, the drop is particularly pronounced in Belgium, where it falls from 5.61 for a social assistance recipient to 0.85 for a single parent earning the average wage. This indicates that income support in employment is insufficient to offset childcare costs, potentially disincentivising labour market transitions for single parent families, all else equal. In Spain and Sweden, the ratio also decreases, but remains closer to one (although substantially higher for the average wage in Spain), suggesting that income support still largely offsets childcare expenses. In contrast, Poland shows a consistently high compensation ratio across all income levels, with the ratio increasing as income rises, highlighting complementarity between income support and childcare services and potentially encouraging transitions into employment.

Table 10 Compensation ratio by employment-related transitions: single-parent families with one child in childcare

Country	Social Assistance	Employed: Low Wage	Employed: Average Wage	Employed: 150% Average wage	Employed: 200% Average Wage
Belgium	5.61	1.69	0.85	0.55	0.47
Spain	4.47	3.31	3.41	1.11	1.11
Poland	2.68	2.90	3.42	3.42	5.12
Sweden	N/A	1.58	1.04	0.74	0.74

Next, Table 11 presents the compensation ratio for a couple with one child in childcare across various income levels. Compared to single-parent households, we find that the compensation ratio in Belgium and Spain is generally lower for couples. In Poland, this is also the case, although couples receiving social assistance benefits are better compensated than single parents. In Sweden, the compensation ratio remains unchanged compared to single parents. As with single-parent households, we observe that in Belgium the interplay between income support and childcare services becomes contradictory at relatively low income levels, although the decline is less steep than for single parents. The shortfall in income support in Belgium, where it covers less than half of out-of-pocket costs to childcare, is particularly striking and may hinder labour market transitions, disproportionately affecting young mothers, who are more likely to take on caregiving responsibilities. The fact that, compared to Figure 2, the compensation ratio in Sweden drops below one can be attributed to the focus of our hypothetical household on families with one child in childcare. In Sweden, both out-of-pocket childcare costs are reduced and child benefits progressively increase with the number of dependent children. This results in higher per-child compensation ratios for larger families - an effect that is not captured in our hypothetical household. A similar and significant drop is observed in Spain, where the compensation ratio falls rapidly from nearly 3 to 0.80. Although this is close to one, income support still falls short to cover the costs for childcare services. In Poland, while the compensation ratio decreases slightly from the low-wage level onward, it remains well above one, meaning that parents continue to receive more than enough to offset childcare costs, pointing to complementarity between income support and childcare.

Table 11 Compensation ratio by employment-related transitions: two-parent families with one child in childcare

Country	Social Assistance	Employed: Low Wage	Employed: Average Wage	Employed: 150% Average wage	Employed: 200% Average Wage
Belgium	2.44	1.48	0.70	0.45	0.39
Spain	3.09	2.89	2.89	0.80	0.80
Poland	4.21	2.27	2.27	2.27	1.91
Sweden	N/A	1.58	1.04	0.74	0.74

Conclusion

This deliverable set out to analyse the context-specificity of financial support policies for families with children and (out-of-pocket fees for) childcare services, two policy areas that feature prominently in rEUsilience recommendations (Daly et al., 2025). Our first question was to what extent child-contingent benefits compensate for the out-of-pocket costs of formal childcare services at different income levels. Based on our newly introduced compensation ratio measure, we showed that the *combination* of child contingent benefits and out-of-pocket costs tends to be low-income targeted, in the sense that lower-income families pay lower fees for childcare and/or receive higher benefits. In Poland and Sweden, the out-of-pocket expenses for childcare tended to be lower (on average) across the income distribution than child-contingent benefits, whereas high-income families in Belgium and Spain paid more for childcare than they received as financial support. Secondly, we asked to what extent child-contingent benefits compensate for the out-of-pocket costs of formal childcare services for different family types. Here, we found that generally (with the exception of Spain) families with more children receive higher child-contingent benefits relative to their out-of-pocket costs for childcare, compared to families with fewer children. In all the four countries studied here, single-parent families receive higher child-contingent benefits relative to their out-of-pocket costs for childcare, compared to two-parent families. Finally, we asked to what extent child-contingent benefits compensate for the out-of-pocket costs of formal childcare services when families transition into work. Here, we found that, generally, the compensation ratio was higher for families on social assistance or employment at low wages, compared to families working at higher wages. This holds for single-parent families (with the exception of Poland) as well as two-parent families. Moreover, the extent to which the compensation rate was lowered with employment and at higher wage levels differed between countries, with the drop particularly notable in Belgium and moderate to absent in Poland. For average wage employees, the compensation ratio was lowest in Belgium compared to the other countries included here.

Considering the context-specificity of policies (and policy recommendations) is essential to avoid potential unintended consequences. Yet, many policies and reforms are still studied in isolation. For instance, it was recently argued that the evidence base used to inform the new Barcelona targets on childcare was predominantly based on evaluations of childcare reforms in single countries – as a result of which little is known about how much of the effectiveness of childcare policy reforms depends on their context (Nieuwenhuis, Yerkes, et al., 2025). The results

presented here shed some light on what needs to be considered when implementing policy reforms. For instance, if the broader policy aim is to provide childcare that is financially accessible to in particular the most financially vulnerable families, this aim could also be strengthened by expanding child-contingent benefits. Similarly, a rise in the out-of-pocket expenses for childcare might reduce financial accessibility for low-income families, particularly if the child-contingent benefits are not targeted towards these families.

Our finding that compensation ratios are lower when families take on employment and at higher wage levels represents a potential disincentive for families to take up employment (or to increase their working hours). To the extent that indeed (anticipated) lower compensation ratios relate to low-income families refraining from using childcare and as a result of this maintaining lower levels of income, this could potentially contribute to explaining the well-documented inequalities in the use of childcare services in many countries (Van Lancker, 2023). An important area for future research is therefore to explain inequalities in childcare enrolment by the *combination* of out-of-pocket expenses and child-contingent benefits, and how this combination differs across employment and income situations. Such disincentives may further accumulate with other disincentives to employment such as the participation tax rates and marginal tax rates analysed in Deliverable 7.2 (Van Havere et al., 2025). An important hypothesis would be that even if each disincentive in isolation may not be sufficient to substantially lower employment or childcare enrolment (or creates inequalities therein) – as was discussed in Deliverable 7.2 (ibid.), the effect of multiple disincentives across multiple policy areas may accumulate. Naturally, it should be acknowledged that childcare enrolment (and inequalities therein) are not only related to the affordability of childcare (as was the empirical focus here), but also to aspects of quality, availability and accessibility (Gambaro et al., 2015; Yerkes & Javornik, 2019) – thus further emphasising the complexity of and need to study context specificity of policy effectiveness.

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