THE WORKFORCE INFRASTRUCTURE INSTITUTE
Research Report No. 2 • April 2026
Companion to: Workforce Stability Infrastructure in a 24/7 Economy — Research Report No. 1

Childcare as Workforce Infrastructure:

Capital Flows, Margin Structures, and the Economics of Care Delivery

A Structural Economic Analysis of How Care Is Financed, Who Captures Value, and What Reform Requires

---

Three terms defined and applied throughout:

Margin Stacking — the sequential extraction of value at each intermediary layer between the family's payment and the frontline caregiver's wage

Policy Adjacency — the structural dependence of care access on employment relationships, producing mobility constraints identical to those of employer-tied health insurance

Infrastructure Classification — the formal recognition of a cost as an operational prerequisite for economic activity, carrying deductibility, public investment priority, and reliability-oriented regulation

© 2026 Workforce Infrastructure Institute. Companion to Research Report No. 1.

Executive Summary

We are debating who should fund childcare. We should be debating how we classify it. Classification determines everything: tax treatment, investment priority, market structure, and whether the people doing the work can build a career from it.

This report reaches four findings that, taken together, constitute a structural indictment of how the United States finances and delivers care.

FINDING 1

24 cents on the dollar

In a corporate center-based care model, approximately 24 cents of every dollar a family pays reaches the frontline caregiver. The remaining 76 cents is absorbed by real estate costs, administrative overhead, operator profit margins, regulatory compliance, and platform fees. This is not an efficiency problem. It is the predictable arithmetic of margin stacking in intermediary-dependent service delivery.

FINDING 2

Employer credits offset cost. They do not create supply.

When government incentives flow through employer platforms rather than directly to families or caregivers, they insert an additional intermediary layer between public investment and care outcomes. Platform fees are extracted. Caregiver wages are compressed further. No new licensed care slots are added to the market. The system changes who pays the intermediary. It does not change what the intermediary delivers.

FINDING 3

Informality is rational. It is not a character failure.

Approximately 85-90% of household care employment operates outside the formal payroll system. This is the predictable consequence of a tax structure that adds 15-25% in compliance costs to household employment — costs paid entirely from post-tax income with no deduction. Rational households pay informally. The result is a care workforce without Social Security credits, unemployment insurance, workers' compensation, or professional credentials — and a policy system designing interventions for a market it cannot see.

FINDING 4

The tax code is the problem. A deduction is the solution.

A corporation that buys a $50 million aircraft can depreciate the full cost — approximately $10.5 million in tax savings, no cap. A working family paying $40,000 annually for the care that makes their income possible can claim a non-refundable credit of $1,050 per child, capped at a figure set in 2003. This is not a difference of degree. It is a difference of classification. And classification is the reform question.

These findings point to a single structural diagnosis: childcare fails not because of insufficient investment, but because the investment that exists is trapped in intermediary architectures that extract value before it reaches the workers, families, and children it is designed to serve. The reform pathway is correspondingly precise: reclassify care costs as a deductible operational expense, build household employer infrastructure that makes formalization economically viable, and design portable benefits frameworks that attach to workers rather than employers.

PART I: THE CLASSIFICATION PROBLEM

The question is not who pays. It is what payment means.

The policy debate over childcare has been organized around a false question: which level of government, or which employers, should fund care. This framing accepts, without examination, a prior classification: that childcare is personal consumption — a private expenditure that individuals make from their own resources, eligible for limited social support but not recognized as a cost of economic participation. That classification is wrong. And its consequences are systematic.

Infrastructure classification is not semantic. It is a legal and economic determination with direct consequences for tax treatment, investment priority, and market structure. When the federal government classified broadband internet as infrastructure, it triggered universal service obligations, public investment frameworks, and regulatory structures that shaped the telecommunications market for decades. The classification of childcare as personal consumption has been equally consequential — it has produced a tax code that refuses to recognize care as a cost of income generation, a market structure with no accountability mechanism, an informal labor market so large it is invisible to policy tools, and a care system that fails high-capacity professionals, shift workers, and lower-income families for precisely the same structural reason.

> **INFRASTRUCTURE CLASSIFICATION**
>
> The formal recognition of an expenditure or system as an operational prerequisite for economic activity. Infrastructure classification carries three consequences: (1) deductibility — the expenditure is recognized as a cost of production rather than personal consumption; (2) investment priority — the system is treated as essential rather than discretionary, warranting sustained public commitment; and (3) accountability regulation — frameworks designed to ensure reliability, access, and quality, not merely market competition. Childcare meets every accepted economic criterion for infrastructure status and receives none of these treatments.

The tax asymmetry made precise

The asymmetry between how the tax code treats capital assets and how it treats care expenditure is not rhetorical. It is mathematically precise, structurally deliberate, and economically consequential.

A corporation that acquires a $50 million business aircraft depreciates the asset under MACRS, potentially accelerating the full deduction to a single year under bonus depreciation provisions. At the 21% corporate rate, the tax benefit is approximately $10.5 million. There is no cap. The benefit scales with asset value. The premise is unambiguous: the aircraft is a cost of doing business, and costs of doing business reduce taxable income before income is calculated.

A working family with one child can claim a Child and Dependent Care Tax Credit of up to $1,050. The credit is non-refundable, meaning it provides no benefit to families whose tax liability is lower than the credit amount. The $6,000 expense cap has not been adjusted for inflation since 2003. At current market rates, the maximum credit

addresses 4-8% of actual annual care costs in major metropolitan areas.

Expenditure	Amount	Tax Benefit	Policy Design
Corporation: $50M business aircraft	$50,000,000	~$10,500,000	No cap. Scales with asset value.
Business: employee wages ($50K)	$50,000	$10,500-$17,500	No cap. Full deduction.
Family: Dependent Care FSA	$5,000 cap	$1,100-$1,850	Capped at $5,000 since 1986.
Family: Child & Dependent Care Credit	$3,000 cap (1 child)	$600-$1,050	Capped. Non-refundable.
Family: actual annual care cost	$25,000-$50,000	$0 on remainder	88-96% paid with fully taxed dollars.

The bottom row of this table — the one showing 88-96% of actual care costs paid with fully taxed dollars — is the operative fact of care policy in the United States. Every other number in the debate — subsidy levels, employer credit rates, FSA limits — is a rounding error relative to the scale of the misclassification it sits on top of.

Credits versus deductions: the instrument mismatch

Credits and deductions are not interchangeable policy instruments. A credit reduces tax liability by a fixed amount — it is the appropriate instrument for social policy, delivering a targeted benefit to a defined population. A deduction reduces taxable income — it is the appropriate instrument for income measurement, recognizing that certain expenditures are costs of generating income rather than uses of income after it is generated. The care financing problem is an income measurement problem. Applying a credit to that problem produces the current system: structurally insufficient, administratively complex, politically vulnerable, and incapable of scaling with actual costs. A deduction would solve the problem at its source.

> **POLICY ADJACENCY**
>
> The structural dependence of access to an essential service on an employment relationship. Policy adjacency creates care lock — the care-economy equivalent of job lock — in which workers cannot leave an employer without disrupting care access or forfeiting care benefits. Like employer-tied health insurance, employer-tied childcare benefits create invisible constraints on professional mobility, entrepreneurship, and workforce dynamism at precisely the career stage when mobility generates the most economic value.

THE CORRECT POLICY QUESTION

The debate should not be: how much should government subsidize childcare? The correct question is: does the tax code accurately measure the income of households that must purchase care in order to generate that income? The answer is demonstrably no. A working parent earning $100,000 who spends $50,000 on care to earn it has a taxable income of $50,000 — not $100,000. That is arithmetic. Correcting it through a deduction is not a spending increase. It is an accounting correction.

PART II: CAPITAL FLOWS AND MARGIN STRUCTURES

Why caregiver wages are structurally low

Caregiver wages are not low because care work is low-skill. They are low because the architecture of care delivery — intermediary-dependent, real estate-anchored, investor-accountable — systematically extracts value at each layer before wages are set. Understanding this requires following the money.

> **MARGIN STACKING**
>
> The sequential extraction of value at each intermediary layer between a family's care payment and the frontline caregiver's wage. In corporate center-based care, margin stacking typically involves four to six layers: facility lease, corporate administration, operator profit, regulatory compliance, staff HR overhead, and platform or aggregator fees. Each layer is individually defensible. In aggregate, they consume 70-80% of family care expenditure before the caregiver is compensated — compressing wages to levels incompatible with professional career sustainability and producing the turnover that families experience as care instability.

Model comparison: what families pay, what caregivers receive

Delivery Model	Family Cost/Mo	Overhead	Operator Margin	Reaches Caregiver
Corporate center (national operator)	$3,200	~40%	~20%	~$640 (20%)
Employer platform / aggregator	$2,800	~30%	~20%	~$700 (25%)
Independent center (owner-operated)	$2,400	~20%	~15%	~$1,200 (50%)
Direct in-home — formal payroll	$4,500	~10%	~5%	~$3,600 (80%)
Direct in-home — informal	$3,800	None	None	~$3,800 (100%)*

** The informal row requires clarification. The caregiver receives 100% of the nominal payment — but outside the compliance infrastructure that makes that payment economically meaningful over time. No payroll taxes means no Social Security credits. No workers' compensation means no coverage for workplace injury. No documented employment means no verifiable work history, no unemployment insurance, and no pathway to professional credentialing. The apparent efficiency of informal payment is illusory. It converts visible cost into invisible structural damage — to the caregiver's career, to the family's care stability, and to the public fiscal system that everyone funds and informal workers cannot access.*

NEW ADDITION

ON THE COST ALLOCATION FIGURES — A NOTE ON SOURCING

The cost allocation figures in this section are derived from available industry sources and are illustrative rather than audited. Real estate cost estimates (25-35% of operator revenue) are consistent with industry benchmarks reported in National Academies (2018) and Economic Policy Institute (2022) analyses of care center operating economics. Corporate EBITDA margins of 12-20% are consistent with public financial disclosures from KinderCare Education (S-1, 2023) and Learning Care Group market analyses. Platform fee estimates of 15-25% are derived from employer benefits platform pricing structures as reported in the investin.care capital markets analysis [Beyond Ventures et al., 2025] and cross-referenced with HR industry reporting. Caregiver wage share estimates are consistent with the 2018 Early Childhood Workforce Index [Whitebook et al., 2018], which documents that direct compensation represents 20-25% of total family expenditure in corporate center models. These figures are designed to make structural relationships visible. Readers designing specific policy interventions should commission primary data collection calibrated to their target market and care model context.

The margin stack in detail: $3,200 in, $768 out

A family paying $3,200 per month to a corporate center-based care operator is not paying $3,200 to a caregiver. They are paying $3,200 into a system in which the caregiver's share is approximately $640-$768.

Cost Layer	Monthly Amount	Share of Family Payment
Family pays (monthly)	$3,200	100% — starting point
Facility lease / real estate	-$896	28% extracted
Corporate administration & platform overhead	-$480	15% extracted
Operator profit margin	-$640	20% extracted
Regulatory compliance & licensing	-$160	5% extracted
Staff benefits & HR overhead	-$256	8% extracted
Amount reaching frontline caregiver	$768	24% remaining

Each line item in this table represents a genuine operational cost. The structural problem is not that any individual layer is predatory. It is that stacking four to six margin layers in sequence leaves an arithmetically insufficient share of family expenditure available for the compensation that determines whether care work is a sustainable profession or a revolving-door job. Real estate is the largest driver and the least tractable. Licensed care centers must meet square footage requirements per child, satisfy building codes that limit available locations, and operate in commercial property markets that do not discount for social value.

Employer platforms: adding a layer without adding supply

When employer-sponsored care benefits flow through benefits platforms, aggregators, or backup care vendors, the margin stack acquires an additional layer. Platform fees consume 15-25% of benefit value. Employer HR administration overhead adds 5-10%. Maven's 2026 survey is consistent with this analysis: a 39% average increase in employer benefits offerings produced a 10% decline in employee experience of those benefits [Maven, 2026]. Investment routed through intermediary platforms does not proportionately translate into care access, caregiver wages, or quality improvement. The platform captures value. The outcome does not improve. This is the mechanism by which employer credits offset cost without creating supply.

PART III: WAGE COMPRESSION AND ITS CONSEQUENCES

Four mechanisms that compress caregiver wages

Mechanism 1: Real estate as a wage ceiling

The facility lease is a fixed cost that must be satisfied before wages are set. In high-cost urban and suburban markets — where care demand is concentrated — the lease can consume 25-35% of gross revenue. Regulatory requirements for minimum square footage per child limit the revenue-per-square-foot that operators can achieve, capping the total revenue available to cover all other costs including wages. The practical result: real estate markets set a ceiling on caregiver compensation that no wage policy can overcome without addressing the real estate cost structure.

Mechanism 2: Compliance costs as fixed overhead

Licensed care operations bear substantial fixed regulatory costs: state licensing fees, health and safety inspections, mandatory staff training, background check requirements, and insurance obligations. These costs are largely invariant with enrollment — they do not scale efficiently with revenue. For independent operators, compliance can represent 8-12% of revenue. Every compliance dollar is a wage dollar not paid.

Mechanism 3: Investor return requirements in corporate models

Corporate operators are accountable to investors and shareholders for margin performance. Industry EBITDA margins in corporate child care typically range from 12-20% of revenue. These margins are structural requirements of the corporate ownership model, not discretionary choices. When corporate operators dominate a care market, investor return requirements become a systematic compression mechanism that community-based and nonprofit operators do not impose.

Mechanism 4: Platform overhead in employer-sponsored models

Benefits platform operators maintain administrative infrastructure — technology, account management, compliance, customer service — funded from platform fees. At scale, overhead as a share of benefit value declines. For the families and employers using the platform, however, overhead remains a real cost that reduces the share of investment reaching direct care delivery.

> **Lower caregiver wages produce higher provider turnover. Higher turnover produces higher replacement costs. Constrained operator revenue limits the wage budget. Lower wages produce higher turnover. This is not a market failure that competition will correct. It is a structural equilibrium produced by the margin stack architecture.**

PART IV: THE INFORMAL LABOR PROBLEM

Informality is a structural response, not a moral failure

Approximately 85-90% of household care employment in the United States operates outside the formal payroll system. This is not a compliance culture problem. It is the rational economic response to a tax structure that makes formal household employment prohibitively expensive — and to a compliance architecture designed for businesses, imposed on households, with none of the infrastructure that makes business compliance manageable.

The formal household employer faces: employer FICA taxes of 7.65% on wages above $3,000; state unemployment insurance contributions of 1-5% of wages; workers' compensation insurance of 3-8% of wages; Schedule H preparation costs of $150-$400 annually; and state household employer registration requirements that vary by jurisdiction. Together, these obligations add 15-25% to nominal wage costs. All of it is paid from post-tax income. None of it is deductible. None of it is supported by the administrative infrastructure that every business employer has access to.

For a family paying $60,000 annually for full-time in-home care — a realistic figure in major metropolitan areas — formalization adds $9,000-$15,000 in compliance costs to a bill that is already paid entirely with taxed dollars. The rational response is to pay informally. Both parties eliminate compliance costs. The family pays less. The caregiver takes home more. The arrangement is economically rational for everyone involved in the transaction. The costs are borne entirely by people who are not in the room: the caregiver's future self, the public fiscal system, and the policy researchers trying to measure a care market that is 85-90% invisible.

For the caregiver

Informal payment denies the caregiver verifiable income for mortgage, rental, or credit applications. It eliminates Social Security credits at actual earnings levels — many informal care workers reach retirement with Social Security records reflecting near-zero lifetime earnings, having worked thirty years at rates that never appeared in their earnings history. It removes unemployment insurance access when arrangements end without notice. It eliminates workers' compensation for workplace injuries. And it caps career advancement at whatever level is accessible without a formal professional record. The caregiver earns more in take-home pay today. She is impoverished in every dimension of long-term economic security.

For the family

Informal employment provides no legal recourse when a caregiver departs without notice — a form of care volatility that Research Report No. 1 identifies as a primary driver of workforce participation disruption. It creates federal and state tax liability exposure if discovered. It prevents the family from building documented employment relationships that support reference verification, background checks, and the professional continuity that stable long-term care requires. The informal arrangement feels economically rational. It is structurally precarious in ways that typically become visible only when they fail.

For the public fiscal system

Unremitted payroll taxes represent foregone Social Security and Medicare funding. State unemployment insurance systems lose contributions that would fund benefits for care workers between placements. Labor data systems lose

the employment and wage records that are the foundation of care workforce policy. The informal care market is not merely an economic problem. It is a measurement problem that makes every other care policy problem harder to design, target, and evaluate.

> **THE FISCAL PARADOX OF INFORMAL CARE**
>
> The post-tax financing structure that incentivizes informality also undermines the fiscal systems that workers rely on when care fails. The same families who cannot afford formal household employment — because care costs are paid with fully taxed dollars and compliance adds 15-25% on top — fund, through their own taxes, the Social Security and unemployment insurance systems their caregivers cannot access because they are paid informally. The structural misclassification of care as personal consumption is not fiscally neutral. It is actively self-defeating.

PART V: DIRECT EMPLOYMENT MODELS — HIGHEST EFFICIENCY, LEAST SUPPORT

Direct in-home employment — where a family employs a caregiver without intermediation — delivers the highest share of family expenditure to the caregiver of any care model. In the formal version, 75-85% of family payment reaches the caregiver. This is three to four times the share delivered by corporate center-based care. It is also the model with the least policy support, the highest compliance burden, the lowest formalization rate, and the most structural exposure to informal employment incentives.

Dimension	Corporate Center	Employer Platform	Indep. Center	Direct In-Home
Caregiver wage share	20-25%	25-30%	45-55%	75-85%
Schedule flexibility	Low	Medium	Low-Med	High
Worker formalization	High	Medium	Medium	10-15%
Family mobility	None	Limited	Limited	Full
Caregiver career path	Structured	Structured	Limited	None*
Continuity of care	Low-Med	Low-Med	Medium	High
24/7 compatibility	No	No	No	Yes
Policy support	High	High	Low	Near zero

** Caregiver career path in direct employment is marked 'None' under current policy architecture. This reflects the absence of portable benefits frameworks, credentialing systems, and documented employment infrastructure — not the absence of professional skill. The 'None' is a policy failure, not a characteristic of the work.*

The model comparison reveals a structural paradox. The delivery model that is most efficient — highest wage delivery, best continuity of care, full schedule flexibility, full family mobility, and the only model compatible with 24/7 professional schedules — is the model that receives near-zero policy support, carries the highest compliance burden, and has the lowest formalization rate. The models that receive the most policy support deliver the least to caregivers and none of the schedule flexibility that a significant share of the workforce requires. The household that wants to employ a caregiver formally but lacks administrative infrastructure is the defining underserved demand in care policy.

PART VI: THE 24/7 WORKFORCE AND THE POLICY FRAMEWORK THAT EXCLUDES IT

The architecture of public childcare policy — licensed center requirements, subsidy program structures, employer benefit designs, and the FSA framework — is built around a single care model: licensed facility-based care operating during standard business hours on weekdays. That model serves one segment of the workforce reasonably well. It categorically fails another — a large, economically significant, and fiscally productive segment whose care needs the current policy framework does not recognize, let alone address.

Physicians working rotating hospital shifts require care availability at 4:30 a.m. Commercial airline pilots on international routes require care coverage during multi-day absences. First responders on 24-hour duty cycles require overnight and weekend care. Entrepreneurs whose companies demand irregular availability require care that responds to demand schedules rather than fixed institutional hours. For all of these workers, center-based care is not a suboptimal option. It is categorically not an option. In-home care is not a premium choice for this population. It is the only care model compatible with their professional obligations.

> **We have constructed an entire childcare policy framework around a 9-to-5 weekday care model for a workforce that does not operate on 9-to-5 weekdays. The policy framework is not failing this population. It never included them.**

The economic argument for addressing this exclusion is direct. A physician generating $500,000 in annual income who reduces to part-time or exits the workforce because reliable in-home care is structurally unavailable represents a workforce participation loss whose fiscal and economic consequences far exceed the cost of the care infrastructure that would retain her. A nurse earning $80,000 who cannot find care compatible with rotating 12-hour shifts faces a structural participation barrier that center-based policy cannot address. These workers are not edge cases. They are a defining feature of the 24/7 economy.

Every instrument in the current care policy toolkit was designed around the assumption that a worker has a stable employer, works a standard schedule, and needs center-based care during business hours. The FSA is use-it-or-lose-it — a design feature that penalizes precisely the care volatility it is supposed to address. Employer-sponsored backup care programs offer a fixed number of care days per year through a platform network. The Dependent Care FSA excludes the self-employed, the independent contractor, the gig worker, and the founder. Building care policy for a 9-to-5 economy is not a design choice appropriate to 2026. It is a design choice appropriate to 1986, which, not coincidentally, is when the FSA cap was last set.

PART VII: POLICY-NEUTRAL STRUCTURAL REFORM

Care infrastructure reform faces a structural challenge that subsidy programs do not: care systems require sustained multi-year investment to build stable outcomes, and political coalitions reorganize every two to four years. The reform options most likely to survive across political cycles are those anchored in economic logic rather than political positioning. The care expense deduction — the proposition that households whose income depends on care should be taxed on net income rather than gross income — is not a progressive or conservative argument. It is an accounting argument.

Six reform options evaluated

Reform Option	Mechanism	Primary Limitation	Impact Assessment
Full care expense deduction	Corrects income misclassification at source; scales with actual cost	Revenue cost; requires Congressional action	High — addresses root cause
Indexed FSA cap + self-employed access	Immediate relief; administratively simple; no new architecture required	Partial fix; leaves core misclassification intact	Medium — necessary first step
Portable household employer infrastructure	Reduces compliance burden that drives informality; stabilizes care workforce	Implementation complexity; requires interagency coordination	High — structural fix
Direct care worker wage credits	Raises caregiver wages at source; bypasses operator margin extraction	Targeting complexity; risk of deadweight loss	High — supply-side fix
Portable benefits for care workers	Stabilizes care workforce across employer transitions; enables career durability	Requires new federal legislative category	High — long-term durability
Care economy investment tax credit	Reduces after-tax cost of capital investment in care infrastructure; stimulates formal market supply at the operator level rather than routing funds through intermediary platforms	Without output-based requirements — minimum caregiver wage floors, licensed slot creation — corporate operators can capture the credit while maintaining existing margin structures. Credit design must include accountability conditions to prevent deadweight loss. Revenue cost without supply guarantee if poorly structured.	Medium — supply-side complement if conditioned on output requirements; low if unconditioned

NEW ADDITION

NOTE ON THE INVESTMENT TAX CREDIT — NEW ANALYSIS

The care economy investment tax credit is the reform option most frequently proposed by corporate care operators and is therefore worth analyzing with precision. In its unconditioned form — a credit for capital investment in licensed care facilities — the primary risk is that it subsidizes corporate expansion within the existing margin stack architecture without changing caregiver wages, care costs for families, or licensed slot availability in underserved markets. An investment credit that funds a new KinderCare in a suburban market that already has adequate supply does not address the structural problem. The credit becomes structurally useful when designed with three conditions: (1) it applies only to net new licensed capacity in markets with documented supply shortfalls; (2) it is conditioned on minimum caregiver wage floors that ensure credit value reaches direct compensation rather than operator margin; and (3) it includes clawback provisions if the funded facility fails to maintain licensed operation and wage conditions for a defined period. Conditioned design is more complex but meaningfully more likely to produce the care supply and caregiver compensation outcomes the investment is intended to achieve.

The portable benefits framework: the structural solution

Of the reform options above, portable benefits for care workers represents the most structurally significant long-term intervention. Under a portable benefits architecture, care workers accrue benefits — health insurance, retirement contributions, paid leave, professional development credits — in accounts that travel with them across employers. Contributing families pay into the account proportionate to hours worked. The government contributes through tax treatment that recognizes care employment as a deductible operating expense. No single family bears the full cost of providing a care worker with benefits. No care worker loses benefits when a care arrangement ends.

This architecture eliminates policy adjacency: care access is no longer dependent on any specific employment relationship. It converts the formalization disincentive into a formalization incentive: formal employment becomes the vehicle for benefit accrual. It creates career durability for care workers — a documented professional history, accrued savings, health coverage — regardless of how many household employers they work for over the course of a career. Portable benefits frameworks require new federal legislative architecture that does not currently exist in U.S. employment law. State-level pilot programs should be designed and launched now to build the evidence base for federal action.

For policymakers — three time horizons

Immediately actionable: index and expand the FSA. The single highest-impact near-term action available to federal policymakers requires no new legislative architecture: index the Dependent Care FSA cap to actual care cost inflation and expand eligibility to cover self-employed workers. The cap has been static at $5,000 since 1986. Indexing to inflation would restore the FSA to roughly its original real value — still insufficient relative to actual costs, but a demonstration that the policy instrument is responsive to economic reality.

Medium term: the care expense deduction. The medium-term structural action is introducing a care expense deduction for household employers, structured as a business expense deduction scaling with actual care costs, applying to the full range of care arrangements that enable workforce participation, and available to the self-employed and entrepreneurs. Eligibility conditioned on formal employment requirements — documented payroll, tax compliance, workers' compensation coverage — would simultaneously incentivize formalization and correct the income measurement distortion at its source.

Long term: portable benefits and household employer infrastructure. Both require sustained policy commitment across political cycles. Both should be designed now, at the state level, to build the evidence base and administrative experience that federal action will require.

For employers — audit before you expand

Employers who currently offer care benefits through intermediary platforms should conduct a straightforward audit: what share of their investment reaches frontline caregivers? A care benefit delivering 20-25 cents on the dollar to caregivers is not delivering 20-25 cents of workforce stability to the employer. Two structurally more effective alternatives exist: direct household employer support infrastructure for employees who employ in-home care; and active advocacy for the care expense deduction, which would allow employees to treat care costs as a deductible operating expense rather than a post-tax consumption choice.

For care operators and entrepreneurs

The structural analysis in this report identifies a significant and underserved market at the intersection of formalization infrastructure and direct employment. Platforms that reduce the compliance cost of formal household employment — integrated payroll, tax filing, workers' compensation administration, portable benefits, and professional credentialing in a single service layer — address the structural problem rather than extracting margin from it. This is the design space most consistent with the investin.care finding that Caregiver Supports & Benefits is the most underfunded segment of the care economy relative to its structural importance [Beyond Ventures et al., 2025].

For families

Families navigating care decisions today are operating in a system designed against them. The economically rational choice — informal payment — is the choice that undermines their caregiver's long-term economic security, creates

legal exposure for the family, and produces the care instability that informal arrangements are structurally prone to. Families who can absorb the compliance cost of formal employment should do so. Over a multi-year care relationship, the stability benefits of formal employment typically exceed the compliance cost premium. Families who cannot absorb the compliance cost should understand that this is a structural failure of policy design, not a personal failure of household management, and should advocate accordingly for the deduction that would make the right choice the rational one.

CONCLUSION: DESIGNING DURABLE CARE SYSTEMS

We say childcare is essential. We fund it like it is optional. We say caregivers matter. We pay them like they are replaceable. We say families are the backbone of the economy. We tax the cost of raising a family as if it were a discretionary luxury. These are not contradictions. They are the logical outputs of a classification decision made decades ago and never revisited. Classification is the reform.

The structural analysis in this report leads to a conclusion that is simultaneously simple and largely absent from the policy literature: the care system produces poor outcomes not because participants are making bad choices, but because the architecture makes good outcomes structurally unavailable.

Corporate operators extract margins that could be wages. Employer platforms add intermediary cost without adding care quality. Post-tax financing makes formal household employment economically irrational. The compliance architecture imposes business-grade obligations on households with household-grade resources. The FSA cap has not moved in forty years. The Child Tax Credit does not recognize the relationship between care expenditure and income generation. And the 24/7 workforce has been written out of the policy framework entirely by a set of instruments designed for a labor market that no longer exists.

None of these failures are inevitable. They are the accumulated consequence of treating care as personal consumption rather than economic infrastructure — a classification that was made, in some cases decades ago, without systematic analysis of its consequences, and has never been revised in light of what the economy has become.

The reform pathway is structurally clear: treat care expenses as a deductible cost of income generation; build household employer infrastructure that makes formalization administratively viable and economically rational; create portable benefits frameworks attached to workers rather than employers; design wage interventions that reach caregivers directly rather than flowing through intermediary margin stacks; extend policy support to in-home care models that are the only option for the 24/7 workforce; and index every existing mechanism to the actual cost of care rather than the cost of care in the year it was designed.

The question is no longer whether childcare is incentivized. Incentives exist. They are insufficient, misaligned, and structurally captured by intermediary architectures before they reach their intended targets. The question is whether childcare is structurally supported. The analysis required to change that answer is now available. What follows is a policy choice.

GLOSSARY

INFRASTRUCTURE CLASSIFICATION

The formal recognition of an expenditure or system as an operational prerequisite for economic activity. Infrastructure classification carries deductibility as a cost of production, public investment priority as an essential rather than discretionary system, and reliability-oriented regulation rather than pure market accountability. Childcare meets all accepted criteria for infrastructure classification and receives none of these treatments.

MARGIN STACKING

The sequential extraction of value at each intermediary layer between a family's care payment and the frontline caregiver's wage. In corporate center-based care, margin stacking consumes approximately 70-80% of family care expenditure before the caregiver is compensated, through layers including facility lease, corporate administration, investor return requirements, regulatory compliance, and HR overhead.

POLICY ADJACENCY

The structural dependence of access to an essential service on an employment relationship, creating mobility constraints — care lock — identical to those produced by employer-tied health insurance. Policy adjacency suppresses professional mobility, entrepreneurship, and career dynamism at the career stage when they generate the most economic value.

CARE LOCK

The care-economy equivalent of job lock: the constraint on professional mobility created when care access or care benefits are tied to a specific employment relationship.

WAGE COMPRESSION

The structural reduction of caregiver wages produced by margin stacking. Wage compression is not primarily the result of low market value for care work. It is the arithmetic consequence of extracting 70-80% of family care expenditure in margin layers before wages are set.

DIRECT EMPLOYMENT MODEL

A care arrangement in which a family employs a caregiver directly, without intermediary operation. The direct employment model delivers the highest share of family expenditure to the caregiver (75-85% in formal arrangements), offers full schedule flexibility and family mobility, and is the only model compatible with 24/7 professional schedules. It is also the model with the least policy support and the highest formalization compliance burden.

PORTABLE BENEFITS FRAMEWORK

A benefits architecture in which worker benefits — health insurance, retirement contributions, paid leave, professional development — are attached to the worker rather than to any specific employer, accruing proportionately across multiple employment relationships.

THE NAVIGATION GAP

The systematic failure of workers to connect to available care and benefits support — not because that support does not exist, but because the infrastructure connecting workers to it has broken down. Empirically grounded in Maven's finding that only 6% of employees turn to employer resources first when they have a care or health question, while 33% act on AI-generated health information [Maven, 2026].

REFERENCES

Aschauer, D.A. (1989). Is public expenditure productive? Journal of Monetary Economics, 23(2), 177-200.

Beyond Ventures, Pivotal, & The Holding Co. (2025). The care economy VC investment landscape. investin.care.

Bureau of Labor Statistics. (2023). American Time Use Survey. Washington, D.C.: U.S. Department of Labor.

Congressional Budget Office. (2021). Projected costs of U.S. long-term services and supports. Washington, D.C.: CBO.

Economic Policy Institute. (2022). Domestic workers and labor standards. Washington, D.C.: EPI.

Internal Revenue Service. (2024). Publication 926: Household employer's tax guide. Washington, D.C.: IRS.

KinderCare Education. (2023). S-1 Registration Statement. U.S. Securities and Exchange Commission.

La Porta, R., & Shleifer, A. (2014). Informality and development. Journal of Economic Perspectives, 28(3), 109-126.

Maven Clinic. (2026). State of women's and family health benefits 2026. Survey conducted November 6-19, 2025; n=7,035.

Moms First & McKinsey & Company. (2024). Foundational workers report: The impact of child care on employers and practical solutions.

National Academies of Sciences, Engineering, and Medicine. (2018). Transforming the financing of early care and education. Washington, D.C.: National Academies Press.

NICHD Early Child Care Research Network. (2005). Child care and child development: Results from the NICHD Study of Early Child Care and Youth Development. New York: Guilford Press.

Whitebook, M., McLean, C., Austin, L.J.E., & Edwards, B. (2018). Early childhood workforce index 2018. Berkeley, CA: Center for the Study of Child Care Employment.

Workforce Infrastructure Institute. (2026). Workforce stability infrastructure in a 24/7 economy (Research Report No. 1). Workforce Infrastructure Institute.

ABOUT THE WORKFORCE INFRASTRUCTURE INSTITUTE

The Workforce Infrastructure Institute is an independent, nonpartisan research organization advancing the Workforce Infrastructure Doctrine: the proposition that dependent-care systems are economic infrastructure whose misclassification as personal consumption has produced the care desert, the mobility trap, the navigation gap, the informal care market, and the human cost cascade documented across both reports in this series.

Research Report No. 1 establishes the theoretical and empirical foundation of the Doctrine. Research Report No. 2 — this document — provides the structural economic analysis: how capital flows through care delivery models, how value is extracted before it reaches caregivers, and what structural reform would require. The two reports are designed to be read as a unit.

Methodology Note

All quantitative figures in this report are illustrative rather than audited unless otherwise attributed. Cost allocation tables and margin stack estimates are derived from available industry research, operator financial disclosures, and market rate data for major metropolitan areas. They are intended to make structural relationships visible. Readers designing specific policy interventions should commission primary data collection calibrated to their target market and care model context. See the sourcing note in Part II for specific citations supporting the margin stack estimates.

Contact

research@workforceinfrastructureinstitute.org | workforceinfrastructureinstitute.org

© 2026 Workforce Infrastructure Institute. May be reproduced for non-commercial purposes with attribution.