

POLICY PAPER

Childcare Subsidies, Childcare Costs and Benefit Erosion: Simulations for Ireland

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Abstract: The National Childcare Scheme (NCS) is a government subsidy introduced in 2019 to reduce the cost of formal childcare in Ireland. This research explores the effectiveness of the NCS in achieving this aim by estimating the cost 'coverage' of the subsidy, measured by the ratio of the subsidy to the total cost of care. Using the microsimulation model, SWITCH, linked to 2022 data from the Survey of Income and Living Conditions, we find that the NCS covers 28 per cent of childcare costs on average for eligible families. While the universal component of the NCS has increased over time, most of the parameters of the means-tested component have remained fixed in nominal terms. We carry out a counterfactual simulation, in which the thresholds for the income-assessed subsidy had evolved in line with wage inflation since 2019. We estimate that such indexation would increase coverage to 37 per cent while the cost to the Exchequer would increase by 30 per cent. These results point to the scale of benefit erosion that has occurred due to the nominal freeze to the parameters of the income-assessed subsidy.

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I INTRODUCTION

The high cost of childcare in Ireland has often been suggested as a barrier to female labour force participation and gender equality (OECD, 2021; Doorley *et al.*, 2023a). The introduction of free pre-school in 2010 and the National Childcare Scheme in 2019 have, however, been recently credited with reducing the out-of-pocket childcare costs faced by parents and reducing barriers to maternal labour supply (Doorley *et al.*, 2025).

Childcare in Ireland falls into three broad categories. Formal paid childcare is provided in a centre-based setting, such as a crèche. Since 2010, children can avail of free pre-school for 15 hours per week in a formal setting, as part of the Early Childhood Care and Education (ECCE) scheme. Since 2019, children in formal childcare can also benefit from a subsidy through the National Childcare Scheme (NCS). Informal, paid childcare is carried out in a home setting. Childminders, who make up 80 per cent of this sector (Doorley *et al.*, 2023b), care for children in their own homes while nannies care for children in the children's home. This type of care typically does not attract an NCS subsidy unless the childminder is registered with the Child and Family Agency, Tusla. However, the extension of the NCS to childminders under certain conditions is planned in the future by the Department for Children (DCEDIY, 2021).¹ Finally, unpaid childcare can be carried out by parents or other relatives.

There is a growing literature analysing the effects of the NCS on the affordability of formal childcare. Previous research has found that around half of children in care are in formal childcare and that these children tend to be younger, on average, than those in informal or relative care. They come from households with higher average disposable income than households using unpaid relative care but lower average disposable income than households using informal care (childminders or nannies) (Doorley *et al.*, 2023b).

Previous research has also found that the NCS is progressive, benefitting lower income households more than higher income households (Doorley *et al.*, 2023a). This progressivity is mainly attributable to the means-tested component of the subsidy which, while benefitting low-income households more, also reduces the incentive for these households to increase their earnings as this may result in withdrawal of the subsidy.

¹In September 2024 relevant sections of the Child Care (Amendment) Act 2024 came into effect, removing the previous legal exemption of most childminders from the scope of regulation. At the same time, the Childminding Services Regulations 2024 came into effect, providing childminding-specific regulations for the first time. As a result of the legislative amendments, there is now a three-year transition period during which childminders can register with Tusla but are not yet required to do so (except for the small cohort who were already required to register under the previous legislation).

Doorley *et al.* (2023b) found that a proposed extension of the scheme to informal childminders would mainly benefit the middle of the income distribution, with estimated savings of up to 0.22 per cent of weekly disposable income for the middle income quintile of families. Doorley *et al.* (2025) examined potential behavioural responses to the NCS, finding that it was likely to substantially increase the demand for formal childcare compared to informal childcare, and have an accompanying small positive impact on the labour supply of mothers.

This research is structured in two parts. First, we estimate the role of the NCS in reducing childcare costs for families who use formal childcare. Using SWITCH, the ESRI's microsimulation model, linked to 2022 data from the Survey of Income and Living Conditions, we estimate the cost 'coverage' of the subsidy, measured by the ratio of the subsidy to the total cost of care.

Second, we examine how the parameters of the NCS have changed since it was fully rolled out in 2019. The universal subsidy has increased substantially since 2019. In addition, the hours of care eligible for either the universal or the income-assessed subsidy have increased to a maximum of 45. The practice of deducting hours spent in pre-school or school from NCS awards was abolished in 2022. However, the cut-offs for the means-tested component of the subsidy have been fixed in nominal terms since then. We investigate how this has affected childcare affordability by comparing the impact of the 2025 parameters of the NCS subsidy to a scenario in which the 2019 income limits for the income-assessed subsidy had evolved in line with wage growth, ensuring no benefit erosion due to wage increases. This exercise isolates only the effect of the non-indexation of the income-assessed subsidy limits, abstracting from other changes to both the income-assessed and universal subsidy that occurred over the time period.

This form of non-indexation of tax and welfare parameters is widely studied in an international context. In a UK study, Sutherland *et al.* (2008) estimated that the continuation of then-current tax benefit parameters would cause a doubling of child poverty over 20 years. They highlight the distributive differences between indexing benefits, which mainly impacts low-income families, and tax brackets which disproportionately benefits high-income families. Similar arguments are made by Immervoll (2005) regarding tax progressivity and Leventi *et al.* (2024) regarding income inequality.

In an analysis of actual tax-benefit policy in a number of EU countries from 2001 to 2011, Paulus *et al.* (2020) found that indexation was more progressive and poverty-reducing than ad hoc reforms, while underlining the importance of choosing an appropriate benchmark, whether linked to inflation or income, when evaluating policy. Similarly, Adam and Browne (2010) found that ad hoc changes to the UK tax-benefit system caused inequality to increase over the period 1978 to 2010 when compared to a baseline of indexing on income.

However, Callan *et al.* (2018), in a study for Ireland, compared the 2019 Irish tax-benefit system to a scenario in which tax and welfare parameters had been

indexed by price or wage growth since 1987. They found that, while Ireland does not operate a system of formal indexation, in practice, that the tax-benefit system had evolved above wage growth over this period, resulting in reduced income inequality and poverty compared to indexation alone. Calvo López and Sánchez de la Cruz (2024) estimated an increase in the ratio of collected to estimated tax revenue of 3.23 per cent of GDP, the fifth highest such increase in the EU, which may be partially explained by rising wages causing bracket creep.

Balasundharam *et al.* (2023) found a positive correlation between indexation and both government effectiveness and budget transparency. However, this process is far from the norm. They find that indexation policies vary significantly across economies, and that indexation is more common for pensions and social welfare than for taxes.² The authors also found that the prevalence of indexation falls with the degree of economic development.

This research contributes to the evidence base for childcare subsidies in Ireland by providing the first estimate of the proportion of childcare costs that they cover, on average, and for different groups of the population. By estimating the effect of non-indexation of certain parts of the subsidy, it also illustrates the degree of benefit erosion experienced by low-income families since 2019 and the associated Exchequer cost saving. These are crucial metrics which may help to inform future policy changes. This paper also contributes to the wider literature of how non-indexation of tax and welfare can cause bracket creep and benefit erosion.

II POLICY CONTEXT

The NCS subsidy is paid directly to registered childcare providers for eligible children. The out-of-pocket cost of childcare is thus directly reduced by the subsidy amount.

Table 1 shows the parameters of the NCS in 2019,³ the first year of full roll-out, and 2025. In 2025, the universal subsidy is payable for all children aged up to 15 in registered childcare and amounts to €2.14 per hour of care. The income-assessed subsidy is a more generous means-tested subsidy available for all children up to age 15 in registered childcare whose parents satisfy certain income and work or study criteria. The maximum hourly subsidy available varies by the age of the child so that, for example, children aged one year and under can benefit from a maximum hourly subsidy of €5.10 per hour while children of school age can receive a maximum subsidy of €3.75 per hour. Parents with annual reckonable

² Beer *et al.* (2023) find that only nine of 160 countries have explicit legal reference to automatic uprating of taxation brackets with inflation.

³ The NCS replaced all previous childcare subsidy schemes (apart from ECCE). Principal among these were the Training and Employment Childcare (TEC) and Community Childcare Subvention (CCS) schemes.

income⁴ below €26,000 receive the maximum hourly subsidy. The subsidy is gradually withdrawn up to a reckonable income of €60,000 per annum, at which point families are no longer eligible for the means-tested subsidy but can receive the lower universal subsidy. The upper- and lower-income limits can be increased by €4,300 for families with a second child and €8,600 for families with three or more children. With the exception of these multiple child discounts – which were €3,800 and €7,600 respectively per annum in 2019 – the other monetary parameters of the means-tested NCS subsidies have been unchanged since 2019.⁵

The maximum number of subsidised hours available through the means-tested NCS subsidy depends on the employment status of the parent(s). If both parents (or the only parent in the case of one-parent families) work or are in education, the child is entitled to the Enhanced Hours Subsidy (EHS). This subsidises up to 45 hours of childcare per week. Families with at least one parent not in work/education can receive the Standard Hours Subsidy (SHS) for up to 20 hours per week.

For EHS, SHS and UHS, the weekly amount of the subsidy receivable depends on the actual hours of registered childcare used (subject to the maximums).

Figure 1, which is based on data from the Survey of Income and Living Conditions (SILC), shows the proportion of children under 13 using each type of care since 2003 in the left-hand panel and the average hours used on the right-hand panel. The proportion of children in formal care increased dramatically after 2010, when the free pre-school year was introduced. This was accompanied by a reduction in the number of children in informal care. Another sharp increase in formal care usage is visible between 2016 and 2019, corresponding to the period in which the ECCE programme was extended from one to two years and the NCS was announced and rolled-out, although this is accompanied by a similar increase in the usage of informal care and may be partly attributable to increased labour force participation in the recovery period from the financial crisis. From 2020 onwards, a sharp fall in the incidence of all types of childcare is visible, corresponding to the effects of the COVID-19 pandemic, the intermittent closure of formal childcare facilities and the widespread adoption of work-from-home practices.

Average hours of care in formal and informal settings were relatively similar until 2016 when the average hours used in informal care settings dropped compared to formal settings. The average hours of care provided by nannies, childminders and relatives, for those who continued providing care, increased sharply at the beginning of the COVID-19 pandemic.

⁴ Reckonable income consists of most income sources and is net of income tax, USC, social insurance contributions, pension contributions and maintenance paid towards a child/spouse/former spouse.

⁵ The maximum number of subsidisable hours has increased from 40 to 45, and hours spent in school or pre-school are no longer deducted from this total.

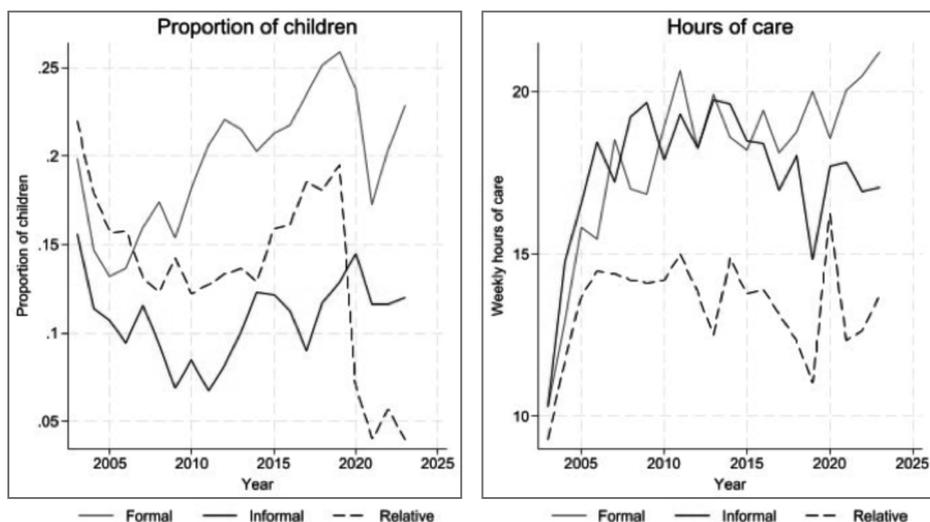
Table 1: The Parameters of the NCS Subsidy in 2019 and 2025

	<i>Universal Subsidy (UHS)</i>		<i>Income-Assessed Subsidy (SHS and EHS)</i>	
	2019	2025	2019	2025
Qualifying Criteria	Child 24 weeks – 3 years in registered childcare	Child 24 weeks – 15 years in registered childcare	Child 24 weeks – 15 years in registered childcare Reckonable Income < €60,000	
Amount	€0.50 per hour	€2.14 per hour	Maximum of €5.10 per hour for 0-1-year-olds Maximum of €4.35 per hour for 1-3-year-olds Maximum of €3.95 per hour for 3+, not in school Maximum of €3.75 per hour for school age up to 15	
Withdrawal Rate	n/a	n/a	Withdrawn smoothly between reckonable income of €26,000 and €60,000	
Multiple child discount	n/a	n/a	Increase in reckonable income for two children under 15 in the household of €3,800 and for more than two children of €7,600 per year	Increase in reckonable income for two children under 15 in the household of €4,300 and for more than two children of €8,600 per year
Maximum care hours	40 hours per week	45 hours per week	EHS: 40 hours per week for parents in work/education (minus pre-school/school hours during term-time)	EHS: 45 hours per week for parents in work/education
			SHS: 15 hours per week for those in work/education (minus pre-school/school hours during term-time)	SHS: 20 hours per week for those in work/education

Source: NCS policy parameters taken from the SWITCH microsimulation model. SWITCH parameters are taken from official governmental sources such as Citizen's Information <https://www.citizensinformation.ie/en/education/pre-school-education-and-childcare/national-childcare-scheme/>.

Figure 2 shows the evolution of the cost of childcare as a sub-index in the Irish Consumer Price Index (CPI). In the CPI, childcare is defined as “child-minding outside the home, nurseries, day-care facilities wet-nurses, crèches, kindergartens (other than educational), play schools and other child-minding facilities”. It explicitly excludes babysitters and educational kindergartens. Noticeable decreases in the out-of-pocket cost of childcare can be observed in 2010 (following the introduction of free pre-school). Prices continued rising slowly between 2017 and 2020, when the NCS was announced and rolled out, but levelled off somewhat between 2020 and 2023, possibly due to the price freeze that subsidy-eligible childcare providers agreed to during the COVID-19 pandemic and in line with requirements of the Core Funding deal, introduced in September 2022. A dramatic decrease in childcare costs, to a 20-year low, is observed between 2023 and 2024 as subsidy rates were increased, with a minimum payment of €1.40 per hour to all eligible children in 2023 and a €2.14 per hour in 2024.

Figure 1: Childcare Usage in Ireland Over Time



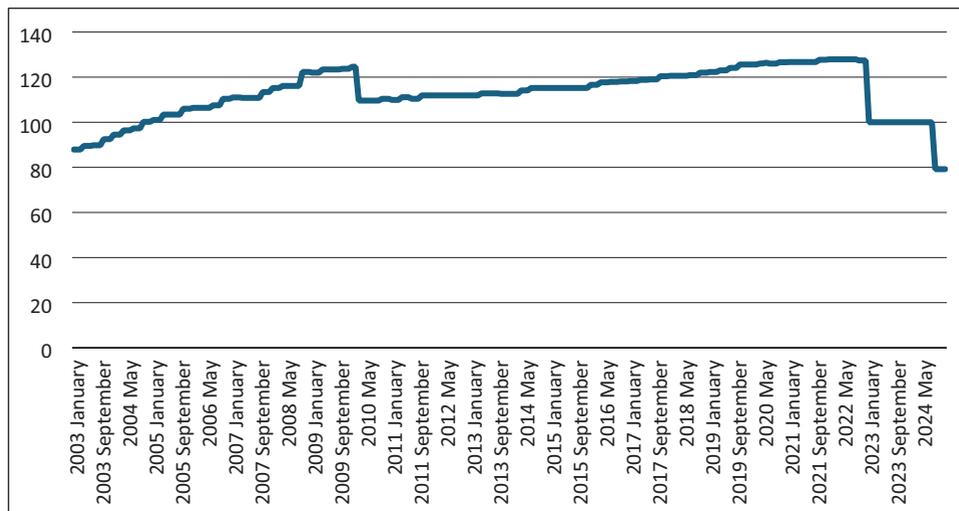
Source: Authors’ analysis based on Survey of Income and Living Conditions (SILC).

Note: Authors’ calculations using the sample of children under 13 years of age in SILC data. Formal childcare is carried out in a centre-based setting. Informal childcare is carried out by a childminder in their own home or a nanny in the child’s home. Relative care is unpaid.

III METHOD

In our analysis we rely on SWITCH, the ESRI’s tax-benefit model.⁶ SWITCH is linked to the Survey on Income and Living Conditions Research Microdata File (RMF) for 2022, which contains survey information on childcare usage and costs,

⁶ See Keane *et al.*, 2023 for a detailed description and validation of the SWITCH model.

Figure 2: CPI Childcare

Source: Detailed Sub-Index Childcare CPI values from Central Statistics Office (CSO). Data available at time of calculation from January 2003 to December 2024. CPI values are relative to the base month of December 2023.

and linked administrative information from the Revenue Commissioners on earnings. The data are reweighted to be representative of the population in 2022 – fixing demographic characteristics at their 2022 level – and incomes are uprated from 2022 to 2025 levels using earnings growth indices from the Central Statistics Office.⁷ For this representative sample of the population, SWITCH simulates direct taxes and welfare, including non-cash benefits such as the NCS. SWITCH and similar microsimulation models, such as EUROMOD, have been used previously to study the cost of childcare, the impact of childcare subsidies and the topic of benefit erosion more generally in both the Irish (Keane *et al.*, 2025; Doorley *et al.*, 2023a) and international settings (Narazani *et al.*, 2024; Paulus *et al.*, 2020).

The SILC data underpinning the SWITCH model contain a wide variety of variables necessary to accurately model childcare subsidies including income, labour market participation, family composition, usage of childcare, and children’s educational status. SILC contains information regarding the hours of childcare used in a “usual week” and the type of childcare. Parents are asked about their usage of

⁷ Childcare costs reported in the 2022 data are not uprated as most registered childcare facilities committed to price freezes in 2023 as part of the Government’s Core Funding model "<https://www.gov.ie/en/press-release/ec12a-over-90-of-early-learning-and-care-and-school-age-childcare-providers-introduce-fee-freeze-for-parents/#:~:text=Minister%20for%20Children%2C%20Equality%2C%20Disability,contract%20for%20the%20Transition%20Fund.>"gov.ie - Over 90% of Early Learning and Care and School-Age Childcare providers introduce fee freeze for parents

centre-based care: pre-school, crèche or a pre/post school centre. These three types of childcare are regarded as “registered” formal childcare and are eligible for NCS subsidies. The survey also has information on usage of paid childminders and unpaid care carried out by relatives. These types of childcare are generally non-registered and are not eligible for NCS subsidies.⁸

We model entitlement to NCS according to the 2025 parameters of the scheme based on current parental labour force status, income, child age, child educational enrolment and childcare usage. This is in line with how SWITCH simulates all taxes and benefits.⁹ Once eligibility for the scheme is established based on usage of formal childcare, the model determines if the child is eligible for one of the means-tested subsidies – the Enhanced Hours Subsidy (EHS) or the Standard Hours Subsidy (SHS) – or the Universal Hours Subsidy (UHS) based on parental means and labour force status. If the child is eligible for free pre-school hours through the ECCE scheme, these hours are deducted from total hours of care before the NCS is simulated.

The SILC data underlying the SWITCH model contain information regarding the hours of childcare used in a “usual week” and the type of childcare. As discussed in Doorley *et al.* (2023a), it is unclear if parents report childcare usage in term-time, in the current period or averaged over the year in response to this question. We assume in this, as in previous work, that the reported hours are used for 52 weeks of the year.

Parents are asked about their usage of centre-based care, pre-school and crèche. The cost of both centre-based care and crèche is also collected but the cost of pre-school is not since the vast majority of children in Ireland avail of free pre-school through the ECCE programme. We exclude children who only report 15 hours per week of pre-school hours as this is free through the ECCE scheme and does not attract a subsidy. We classify centre-based care and crèche care as “registered” childcare which can be subsidised through the NCS.¹⁰ The survey also has information on usage of paid and unpaid childminders. These types of childcare are generally non-registered and are not eligible for NCS subsidies.

Children with non-zero centre or crèche hours but missing cost data are assigned an imputed cost per hour. A median cost per hour is calculated separately within each childcare type for those above and those below the median disposable household income and assigned to children with missing cost data. Imputed hourly costs therefore vary with household income and childcare type. This imputed rate is then multiplied by their reported usage to derive an estimated monthly childcare cost. Finally, we exclude any children who report costs without corresponding hours.

⁸ The survey questions are detailed in the Appendix.

⁹ Further detail about how childcare usage and costs are collected in the SILC survey is available in Doorley *et al.*, 2023a, as well as a comparison of childcare costs from SILC to other sources.

¹⁰ For children who attend a mixture of pre-school and centre-based or crèche care, 15 hours of their weekly pre-school usage is deducted from their total formal care hours before hourly costs are calculated.

Table 2 shows the weighted number of households in the data underlying SWITCH who use formal childcare and how their characteristics differ to the general population. Households using formal childcare are larger, contain more children and workers, and have higher disposable income than the general population. These patterns reflect both the demographic and labour market structure of households with children who use formal childcare.

Table 2: Summary Statistics for Households

<i>Household Type</i>	<i>Household Size</i>	<i>Number of Children</i>	<i>Number of Workers</i>	<i>Monthly Disposable Income</i>	<i>N</i>
Using Formal Childcare	3.48	1.75	1.56	€7,368	76,274
All	1.94	0.37	0.97	€4,028	2,530,472

Source: Authors' calculations using SWITCH v8.4 linked to 2022 SILC data.

Note: Households are defined as distinct tax units. The sample of households using formal childcare is defined as part of the sample selection process described in this section.

IV COST COVERAGE OF THE NCS

Panel A of Table 3 compares the average monthly amount of NCS subsidy received by families using formal childcare, per child, to the total cost of that care, broken down by the type of subsidy. Due to the small number of children in receipt of the EHS and the SHS, we group these together as “Means-Tested” subsidies. Children who are reported to attend just pre-school (rather than crèche or centre-based care) are excluded from the analysis as the SILC survey does not collect the cost of childcare for this group. However, most of this group attends just the 15 hours of free pre-school per week. Any children who report crèche or centre-based care who are eligible for the ECCE scheme are included in the sample and the estimated cost per hour of their care excludes the entitlement to 15 free hours per week.

The subsidy amount is simulated using SWITCH.¹¹ Since the subsidy is paid directly to registered childcare providers for eligible children, it is a non-cash benefit and directly reduces the out-of-pocket cost of childcare for the parents of eligible children. The total cost of childcare is therefore calculated as the reported out-of-pocket cost reported by parents in the SILC data plus the amount of the relevant subsidy simulated by SWITCH.

The cost “coverage” of the NCS subsidy is calculated as:

$$(NCS\ subsidy) / (Reported\ Childcare\ Costs + NCS\ Subsidy) \quad (1)$$

¹¹ For ECCE-eligible children, the NCS subsidy is only simulated for the hours they are in formal care beyond the 15 free hours provided by the ECCE scheme.

The average monthly subsidy per child is €229 per month. The total cost (out-of-pocket plus subsidy) of formal childcare is considerably higher than this, at €931 per month. Accounting for hours of care used, this equates to a total hourly cost of formal care between €9.80 and €10.60. This is substantially higher than estimates from 2022/2023 by Pobal,¹² of €4.40 per hour. However, the data underlying the two sets of estimates are also quite different. While we rely on a survey of the population (including parents with children in formal childcare) in which parents self-report childcare usage and cost, Pobal collect data by surveying over 3,000 childcare providers. As the Pobal survey collects the weekly rate for formal childcare, deriving an hourly cost requires an assumption that children attending five days per week do so for nine hours each day. The SILC survey, on the other hand, asks parents for information on hours of usage. If hours of usage are below full-time for children who are enrolled full-time, this is not reflected in the hourly cost estimated using Pobal data, but is estimated using SILC data. Future research could attempt to reconcile the two data sources further. We estimate that the average cost coverage of the NCS, calculated by averaging over each individual cost coverage ratio in our sample, is 28 per cent.¹³

The total cost of formal childcare used by children in receipt of a means-tested subsidy is lower than the cost for children in receipt of a universal subsidy. This is due to the lower average hours of care used by recipients of the means-tested subsidy (79 per month compared to 107 per month). Despite this, the average value of the means-tested subsidy is similar to the average universal subsidy, which is spread over more hours of care. This results in a higher average cost coverage of the NCS for recipients of the means-tested component (33 per cent) compared to recipient of the universal component (24 per cent).

Looking at the median values of these variables in Panel B of Table 3 shows similar results, with a median cost coverage for the means-tested subsidy of 33 per cent and for the universal subsidy of 24 per cent. This estimated range of cost coverage rates is higher than the 18 per cent estimated by the OECD for a two-earner, two-child family using full-time care in Ireland in 2021. This reflects the increased generosity of the NCS in the years since 2021. However, our estimates are still quite far from the EU average cost coverage rate of 46 per cent or the OECD average of 47 per cent in 2021, suggesting that more progress could be made in reducing the cost of childcare in Ireland.

Panel A in Table 4 compares the average monthly amount of NCS subsidy received by families using formal childcare, per child, to the total cost of that care, broken down by age of the child in care. The total cost of childcare decreases as

¹² See Early learning and care fees overview at <https://www.pobal.ie/childcare/fees/>.

¹³ If we calculate this cost coverage ratio based on the average values of subsidy and cost, rather than the average ratio of subsidy to cost, it is lower, at 24.6 per cent. This is equivalent to the proportion of subsidy outlay to total cost of childcare on an aggregate level rather than the average cost coverage of an individual childcare user.

Table 3: The Estimated Monthly Cost of Childcare and Coverage of the NCS

<i>Panel A: Mean</i>	<i>Cost coverage</i>	<i>Subsidy</i>	<i>Hourly Cost</i>	<i>Total Cost</i>	<i>Hours</i>	<i>N</i>
Means-Tested	33.3%	€233.2	€9.8	€754.2	79.2	34,608
Universal	24.2%	€226	€10.6	€1,038.6	106.7	56,660
Total	27.6%	€228.7	€10.3	€930.8	96.2	91,268
<i>Panel B: Median</i>	<i>Cost coverage</i>	<i>Subsidy</i>	<i>Hourly Cost</i>	<i>Total Cost</i>	<i>Hours</i>	<i>N</i>
Means-Tested	33.3%	€205.4	€10.1	€688.1	85.0	34,608
Universal	23.5%	€231.8	€9.1	€934.3	108.8	56,660
Total	27.6%	€223.3	€9.6	€838	91.3	91,268

Source: Authors' calculations using SWITCH v8.4 linked to 2022 SILC data.

Note: Sample is families with children in formal childcare, excluding children in pre-school, for whom childcare costs are not available. Subsidy, Total Cost and Hours refer to monthly amounts for an individual child.

the age of the child in care increases, mainly through a fall in hours of care. The amount of subsidy that children are eligible for is also lower for older children. For this reason, the cost coverage rate of the NCS does not vary greatly by age of the child, although children aged over 6 have a slightly lower cost coverage rate (24 per cent) than children under 6 (30 per cent).

Table 4: The Estimated Monthly Cost of Childcare and Cost Coverage of the NCS by Age of Child

<i>Panel A: Mean</i>	<i>Cost coverage</i>	<i>Subsidy</i>	<i>Hourly Cost</i>	<i>Total Cost</i>	<i>Hours</i>	<i>N</i>
0-2	26.9%	€321.2	€10.4	€1,324.7	131.5	31,004
3-5	29.6%	€187.4	€9	€703.1	80.8	44,225
6+	23.7%	€163.7	€13.4	€796.9	70.6	16,039
Total	27.6%	€228.7	€10.3	€930.8	96.2	91,268
<i>Panel B: Median</i>	<i>Cost coverage</i>	<i>Subsidy</i>	<i>Hourly Cost</i>	<i>Total Cost</i>	<i>Hours</i>	<i>N</i>
0-2	23.6%	€359.4	€9.6	€1,110.4	139.2	31,004
3-5	28.9%	€185.5	€7.4	€656.9	85.0	44,225
6+	23.7%	€139.1	€9.6	€688.1	65.2	16,039
Total	27.6%	€223.3	€9.6	€838	91.3	91,268

Source: Authors' calculations using SWITCH v8.4 linked to 2022 SILC data.

Note: Sample is families with children in formal childcare, excluding children in pre-school, for whom childcare costs are not available. Subsidy, Total Cost and Hours refer to monthly amounts for an individual child.

Looking at the median values of these variables, Panel B of Table 4 indicates that the average total cost of childcare is somewhat influenced by a few large values. The median total cost of childcare, at €838 per month, is lower than the mean, at €931 per month, while the median NCS subsidy at €223 is similar to the mean NCS subsidy at €229. Using median figures gives a similar cost coverage rate, however, of 28 per cent on average, which does not vary greatly by age of the child.

Table 5 shows the cost coverage of the NCS by income level. We divide households in our sample into two groups, below or above the within-group median equivalised disposable household income.¹⁴ Looking at mean values, Panel A in Table 5 indicates that the cost coverage of the NCS for households in the lower half of the income distribution is higher, at 30 per cent, than for households in the upper half of the income distribution, at 25 per cent. These figures diverge slightly more (32 per cent vs 24 per cent) if we consider median childcare cost and subsidy amounts. This is because, although they have fewer children on average, and use fewer hours of formal childcare, the average subsidy received by low income household exceeds that received by high income households. This reflects the targeting of the means-tested component of the NCS.

Table 5: The Estimated Cost of Childcare and Cost Coverage of the NCS by Household Income

<i>Panel A: Mean</i>	<i>Cost coverage</i>	<i>Subsidy</i>	<i>Hourly Cost</i>	<i>Total Cost</i>	<i>Hours</i>	<i>N</i>	<i>Average No. Children</i>
Above Median Income	24.6%	€222.5	€10.4	€997.1	105.1	43,846	2.13
Below Median Income	30.4%	€234.4	€10.1	€869.4	88.0	47,422	1.79
Total	27.6%	€228.7	€10.3	€930.8	96.2	91,268	1.89
<i>Panel B: Median</i>	<i>Cost coverage</i>	<i>Subsidy</i>	<i>Hourly Cost</i>	<i>Total Cost</i>	<i>Hours</i>	<i>N</i>	<i>Average No. Children</i>
Above Median Income	23.6%	€223.3	€9	€934.3	106.7	43,846	2.13
Below Median Income	31.7%	€230.5	€10.1	€736.7	87.0	47,422	1.79
Total	27.6%	€223.3	€9.6	€838	91.3	91,268	1.89

Source: Authors' calculations using SWITCH v8.4 linked to 2022 SILC data.

Note: Sample is families with children in formal childcare, excluding children in pre-school, for whom childcare costs are not available. Subsidy, Total Cost and Hours refer to monthly amounts for an individual child.

¹⁴ A more granular income split (such as quintile or decile) is not possible to due the sample size and the statistical disclosure rules governing use of the SILC RMF.

V BENEFIT EROSION SINCE 2019

The assessment for the means-tested components of the NCS has remained largely unchanged since their introduction in 2019. The maximum hourly subsidy available differs by the age of the child, with younger children receiving a higher subsidy. Parents with reckonable income below €26,000 per annum receive the maximum hourly subsidy. The subsidy is gradually withdrawn up to a reckonable income of €60,000 per annum. In 2019, the upper- and lower-income limits could be increased by €3,800 for families with a second child and €7,600 for families with three or more children. In 2020, these multiple child discounts increased to €4,300 for families with a second child and €8,600 for families with three or more children. They have remained fixed since 2020.¹⁵

Table 6: Simulating Indexation of the Parameters of the Income-Assessed Subsidy by Wage Growth Since 2019

	<i>Baseline</i>	<i>Indexed cut-offs</i>	<i>...and indexed child allowance increases</i>	<i>...and indexed hourly rates</i>
Subsidy	€228.70	€240.60	€241.18	€295.18
Cost coverage	27.6%	29.6%	29.7%	36.4%
Cost	€275.15 million	€290.61 million	€291.38 million	€356.61 million
% change in costs to Baseline		5.6%	5.9%	29.6%
N	91,268	91,268	91,268	91,268

Source: Authors' calculations using SWITCH v8.4 linked to 2022 SILC data.

Note: Sample is families with children in formal childcare, excluding children in pre-school, for whom childcare costs are not available. Subsidy refers to the average subsidy for an individual child and cost refers to overall annual cost of the subsidy. Cut-offs and multiple child discounts are indexed to wage inflation and hourly rates are indexed to CPI. Comparisons are made to the unmodified baseline used in the analysis in Section V.

Table 6 provides an assessment of how the cost coverage of the NCS would differ if the parameters of the means-tested components of the NCS had evolved in line with wage growth between 2019 and 2025. Such a change would increase the maximum income threshold to €77,586 from €60,000 and the minimum income required to qualify for the highest rate to €33,620.60 from €26,000. This is in line with wage inflation of 29.31 per cent from 2019, when the policy was introduced, to 2025.

¹⁵ Some of the non-monetary parameters of the NCS have changed since 2019, such as the number of subsidisable hours.

We find that indexing the income limit by wage inflation would increase the total cost of the NCS by 5.6 per cent (or €15 million per annum) and lead to a 2 percentage point increase in the average cost coverage rate of the subsidy.¹⁶ Increasing the multiple child discounts would result in a small additional increase in costs (0.3 per cent of the total or €1 million per annum) and average cost coverage rate (0.1 pp), as a very small number of families with multiple children move to the means-tested subsidy or benefit from a higher hourly rate as a result of the reform. Indexing the hourly rate of the subsidy to consumer price inflation on top of these changes comes with the largest cost, an additional 30 per cent compared to the baseline or an additional 24 pp (or €65 million per annum) compared to a scenario of indexed cut-offs and child allowances.¹⁷ However, it also substantially increases the average subsidy awarded, from €229 to €295 per month, and increases the average cost coverage rate to 36 per cent.

These hypothetical reforms would result in a small number of children transferring from the UHS to either the SHS or the EHS. This number is too small to report due to statistical disclosure controls governing the use of the underlying SILC data. Many children, however, who are already in receipt of a means-tested subsidy would move to a higher subsidy rate and this is the primary driver of the increase in average cost coverage and subsidy levels.¹⁸

Figure 3 shows the distributional impact of the NCS in 2025, as well as the distributional impact of each of the counterfactual indexed scenarios. The subsidy is progressive, benefitting the lowest income quintile of the population more than the upper income quintiles. Indexing the income cut-offs or the multiple child discounts in line with income growth since 2019 would have a limited effect on this pattern or on the average gain to households. However, increasing the hourly rate of the subsidy would result in income gains across the income distribution, amounting to 0.05 per cent of disposable income on average, but slightly more for the lowest income quintile at 0.09 per cent of disposable income.¹⁹

We repeat this analysis in Figure 4, comparing the effect of the NCS on the disposable income of lone parents to couples with children. Lone parents already gain substantially more from the NCS in relative terms (1.4 per cent of disposable income) than couples with children (0.4 per cent of disposable income). Simulating the three indexed scenarios, we find that the benefit of indexing the income cut-offs and the multiple child discounts accrues disproportionately to couples with

¹⁶ We assume that the market cost of childcare does not change, so that only the numerator in Equation 1 drives these changes.

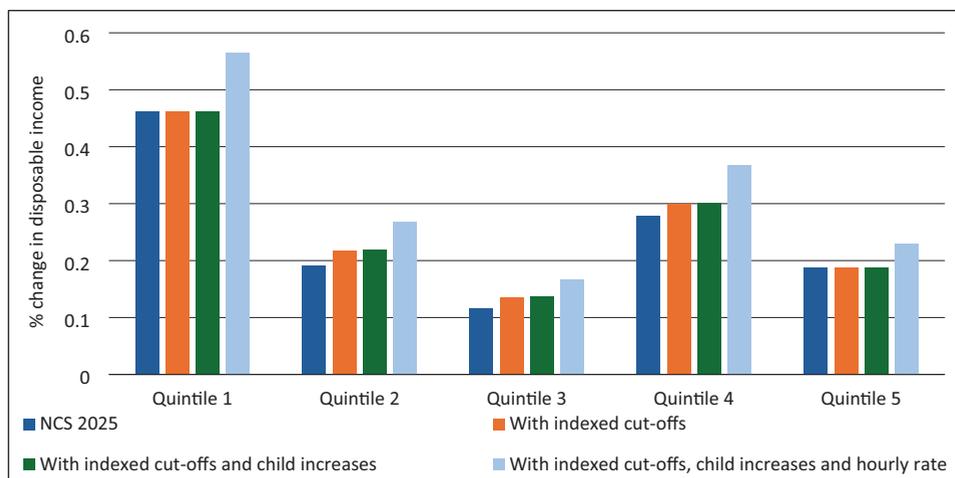
¹⁷ The rate of the universal subsidy increases from €2.14 to €2.62 while the maximum subsidy rate increases from €5.10 to €6.24.

¹⁸ This analysis does not capture behavioural changes whereby parents may increase labour supply or their use of formal childcare as a result of such a reform.

¹⁹ These impacts are very small as the effect of the NCS is averaged over the entire population of households, and not just households with children who are using formal childcare.

children, while the benefit of indexing the hourly rate accrues disproportionately to lone parents.

Figure 3: The Distributional Effect of the NCS and Simulated Counterfactuals



Source: Authors' calculations using SWITCH v8.4 linked to 2022 SILC data.

Note: Cut-offs and multiple child discounts are indexed to wage inflation and hourly rates are indexed to CPI. Quintiles are calculated based on equivalised disposable income using the national equivalence scale.

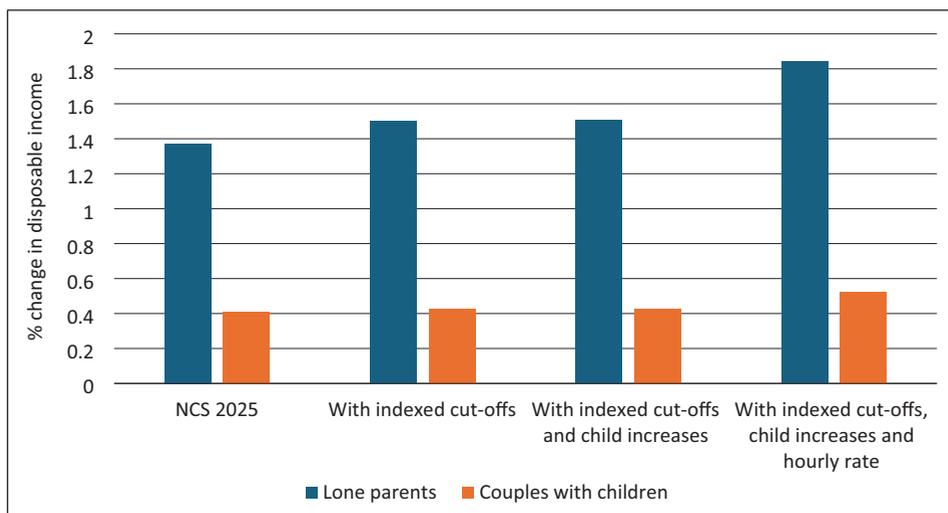
VI DISCUSSION

This research has examined the effect of the National Childcare Scheme subsidies on childcare affordability and the implications of a nominal freeze to many of the parameters of the means-tested components of the subsidy since 2019.

Using self-reported information on out-of-pocket childcare costs from the SILC data and the microsimulation model, SWITCH, to simulate subsidy entitlement, we estimate the cost “coverage” of the NCS, defined as the average ratio of the subsidy to the market cost of childcare per child. We estimate that the NCS covers more than one-quarter of the cost of care for children in formal childcare. This figure is higher for recipients of the means-tested subsidy and for low-income households, compared to recipients of the universal subsidy or high-income households. This figure does not vary much by age of the child in care.

This estimated cost coverage rate is higher than the 18 per cent estimated by the OECD for a two-earner, two-child family using full-time care in Ireland in 2021. This reflects the increased generosity of the NCS in the intervening years since 2021. However, it is still quite far from the EU average cost coverage rate of

Figure 4: The Effect of the NCS and Simulated Counterfactuals on Lone Parents and Couples with Children



Source: Authors' calculations using SWITCH v8.4 linked to 2022 SILC data.

Note: Cut-offs and multiple child discounts are indexed to wage inflation and hourly rates are indexed to CPI.

46 per cent, or the OECD average of 47 per cent in 2021, suggesting that further progress may be made by expanding the cost coverage or generosity of childcare subsidies in Ireland.²⁰

This research also assesses the implications of the nominal freeze to many of the parameters of the income-assessed subsidy on the cost coverage rate. We find that indexing the income cut-offs for this subsidy would have a moderate effect on the cost coverage rate, of 2 percentage points or 7 per cent, by increasing the average subsidy, with some families newly qualifying for the means-tested scheme and some pre-existing means-tested families receiving a higher rate of subsidy. Indexing the multiple child discounts would have a limited effect, only increasing the cost coverage rate by 0.1 pp. Finally, increasing the hourly rate of subsidy awarded would have a substantial effect on both the average subsidy amount, increasing it to €295 per month per child, and the cost coverage rate, which would rise to 36 per cent.

²⁰ Authors' calculations using OECD figures available at : https://webfs.oecd.org/Els-com/Family_Database/PF3-4-Childcare-support.xlsx which compares the costs of full-time care in a typical childcare centre for a two-earner two-child couple family, where both parents are in full-time employment and the children are aged 2 and 3. Gross earnings for the two earners in the family are set equal to 100 per cent of average earnings for the first earner, and 67 per cent of average earnings for the second earner. 'Full-time' care is defined as care for at least 40 hours per week.

Examining the effect of indexing the income-assessed subsidy by income level and family type, we find that the benefit of indexing the income cut-offs and the child allowances accrues disproportionately to couples with children, with little difference notable by income levels. By contrast, the benefit of indexing the hourly rate of subsidy accrues disproportionately to low-income households and lone parents.

This exercise, in which we simulate the effect of indexing the income-assessed NCS subsidies, takes no account of potential behavioural responses to these hypothetical reforms, which could include parents switching from informal to formal childcare or changing their labour supply. However, research by Doorley *et al.* (2025) indicates that these kinds of behavioural responses are likely. Such behavioural effects could increase the cost of these reforms if implemented, if households choose more formal childcare. Behavioural responses could also mitigate some of the cost through income taxation if parents join the labour market or work more hours as a result of cheaper childcare.

A further limitation of this work is that the cost of care for children who are reported to attend pre-school is not collected in the SILC data. For the most part this does not affect our results, as the majority of these children attend just 15 hours of pre-school per week, which is likely to be covered by the ECCE scheme. However some pre-school providers do charge a top-up fee and some children in pre-school report longer hours of attendance, which should attract a fee and an NCS subsidy. The collection of costs for this type of childcare would allow researchers and policymakers to explore the extent of these phenomena.

Another important caveat to this research is that childcare costs are self-reported by parents and assumed to be out-of-pocket costs. As the NCS is paid directly to the childcare provider, this assumption is natural but, depending on how parents interpret the survey question, we may overestimate the total cost of childcare by adding simulated subsidy amounts to self-reported childcare costs. This type of overestimation may also occur if parents do not take up the NCS subsidy that they are entitled to, which is a recognised issue for many welfare payments.²¹

The practice of many registered childcare providers, of charging a fixed weekly or monthly amount regardless of hours used, must also be considered in interpreting our derived cost coverage rates. The NCS is paid only for hours of care used, up to a maximum of 45 per week, while out-of-pocket costs may contain some element of unused hours, equal to the difference between the opening hours of the facility and the hours used, charged at the full market price. While this phenomenon may drive down the estimated cost coverage rate of the NCS, it also reflects the reality of the cost of childcare for many parents, and future reforms to the NCS could account for this.

²¹ Benefit non take-up is a common problem, especially for means-tested benefits (Doorley and Kakoulidou, 2024).

Finally, we use data from 2022. Figure 1 shows a dramatic decrease in formal childcare usage during the COVID-19 pandemic in 2020 and 2021. Some recovery is visible in 2022, but the usage of formal childcare is still lower than the pre-pandemic period which could reflect the fact that 2022 is still a post-pandemic transition year. As such, our results are based on a sample of households using formal childcare, which is smaller than might currently be the case.

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APPENDIX

Table A.1: Survey questions and related variable names for childcare variables in SILC

<i>SILC Variables</i>	<i>Survey Questions</i>
CH3c (dcc_cen)	How many hours per week is {{Name}} usually minded at the childcare centre? (outside school hours)
CC9b (xcc_cen)	How much was the usual weekly amount paid to the provider of the outside school hours care at the school?
CH9 (dcc_cr)	How many hours per week is {{Name}} usually minded at the childcare centre? (day-care centre)
CC9c (xcc_cr)	How much was the usual weekly amount paid to the provider of the centre-based childcare?
Ch6 (dcc_schl)	How many hours per week does {{Name}} usually spend at the centre? (pre-school)