naeyc National Association for the Education of Young Children

The Cost of Cuts

What Families and Educators Will Lose in the Wake of the Budget Battle

July 2025

Over the past several months, Congress has worked to advance detrimental budget legislation despite calls from thousands of early childhood educators to reverse course. Throughout this process, NAEYC has been educating the public about what's at stake for the early childhood education field and what educators should anticipate. After clearing the U.S. Senate, where the threats of the House proposal were augmented, Congress ultimately approved the bill and it was signed into law by the President on July 4th. The final bill includes deep cuts to programs many educators and families with young children rely on, threatening access to health insurance, food assistance, and quality education for millions. While enhancements to tax credits for some families were included as part of the legislation, these enhancements fail to offset the harmful impacts families and educators will face for years to come. The provisions of the new law that most impact the ECE field include:

Moderate enhancements to tax credits designed to help families afford the cost of raising young children

These include updates to the Child and Dependent Care Tax Credit (CDCTC), Child Tax Credit (CTC), Employer-Provided Child Care Credit (45F), and Dependent Care Assistance Program (DCAP). While the enhancements represent **improvements to the tax code** for some families, they won't benefit families who need it most and won't offset the substantial losses families and educators will face in accessing health care, food assistance, and higher education under the new law. In particular, the exclusion from the final bill of suggested improvements that have enjoyed bipartisan support—like full refundability for the CDCTC—**prohibits working families with the lowest incomes from benefiting** from the credit. Included in the new law are the following updates:

- Child and Dependent Care Tax Credit (CDCTC)
  - Expands the percentage families can be reimbursed for child care costs from 35% to 50% effective 2026, with the percentage decreasing as incomes rise.
- Child Tax Credit (CTC)
  - Permanently increases the CTC to $2,200 per child, a $200 increase effective for the 2025 tax year. Adjusts the credit for inflation beginning in 2026.
  - Requires one parent to have a social security number in order to claim the credit, excluding non-citizen parents from collecting the credit, even if their children are otherwise eligible U.S. citizens

Updates to the Employer-Provided Child Care Tax Credit (45F) increase the incentive for employers to provide child care to their employees, and changes to DCAP increase the amount of pre-tax dollars working parents can set aside for child care costs. Historically 45F has been underutilized by employers, with the credit being claimed **on less than 1 percent of corporate tax returns**. Access to the DCAP flexible spending plan is limited to some families depending on whether their employer offers the program, and whether they have the financial ability to defer their own income.

Stripping health care access from families and educators by cutting Medicaid by $1 trillion leaving an estimated 11.8 million people uninsured

Nationwide, nearly 28% of early childhood educators and 42% of children under 6 rely on the program. In many states, Medicaid helps fund early intervention services for children with disabilities. Large cuts to Medicaid would threaten states' own investments in early childhood education and could force them to make cuts to critical services families rely on. Stripping Medicaid could destabilize the ECE workforce by increasing early educator burnout and worsening already critical workforce shortages.

The new law will:

- Require Medicaid recipients to report working at least 80 hours per month starting after Dec. 31, 2026. There are few exemptions to this requirement, such as individuals with disabilities and parents of dependent children under age 14.

    - This provision adds unnecessary administrative burden for educators covered under Medicaid by requiring more paperwork and puts them at higher risk of losing their own coverage. Evidence from states with reporting requirements shows that this type of regulation leads to more eligible, working individuals becoming uninsured and does not boost employment.

- Impose more administrative burdens and risk for losing coverage for families by requiring more frequent redetermination of eligibility starting as early as Dec. 31, 2026.
- Increase out-of-pocket costs for low-income individuals covered by Medicaid starting October 1, 2028.
- Halt existing provisions that streamline children's access to Medicaid and CHIP (Children's Health Insurance Program) from July 4, 2025 through September 30, 2034.
- Reduce states' ability to finance Medicaid by decreasing the provider tax rate in states with Medicaid expansion starting on October 1, 2027 and prohibiting increases in non-expansion states starting a year earlier, on October 1, 2026.
- Exclude lawfully documented immigrants from accessing Medicaid and CHIP starting October 1, 2026.
- Limit funding for emergency Medicaid by lowering the federal match starting on October 1, 2026, reducing the ability of states and hospitals to provide emergency services.

Provision	What It Sounds Like	What It Means (in Practice) for Working Educators	Long-Term Impacts
Work reporting requirement for Medicaid and SNAP recipients	*"Encourages work among Medicaid and SNAP recipients"*	*Adds paperwork burden and additional barriers to educators' access to health care. Already underpaid and overburdened, many educators risk losing coverage due to red tape, not lack of employment.*	*Disruptions in health care access hurt educator stability and retention, increasing burnout and exacerbating ECE workforce shortages which ultimately reduce the child care supply available for families.*

Threatening food security for low-income families, including 16% of early childhood educators who rely on SNAP to feed their own families

The bill cuts around $186 billion from SNAP by shifting costs to states, increasing administrative burdens that reduce families' ability to access affordable food, and excluding a portion of lawful immigrants from accessing the program. Large cuts to SNAP would leave families hungry and stifle states' ability to make investments in early childhood education.

The new law will:

- Increase the burden on states by forcing them to cover 5-15% of the cost of SNAP benefits depending on the state's payment error rate starting as early as October 1, 2027.
- Reduce the federal government's share of the cost of administering SNAP from 50 percent to 25 percent starting in October 2026.
- Immediately impose work reporting requirements, except for parents with children under age 14.
- Immediately exclude lawful immigrants who have been granted humanitarian protections from accessing the food program.

Impact on State ECE Investments

Because Medicaid and SNAP make up a large portion of state budgets, the reduction of these federal dollars will have major impacts on states' budgets and the resources they can provide for families and educators. States' abilities to sustain and invest in early childhood education and other important programs for children and families will be stifled as they're forced to fill the gap from the federal cuts. Twenty-three states have made clear they will be unable to fully fund the SNAP food program without sacrificing other essential programs. State policymakers are already grappling with the imminent cuts and existing bipartisan investments in the ECE field are being threatened as a result. With fewer dollars available, the progress we've seen in ECE workforce investments at the state level is at risk as states make tough decisions on which essential programs to fund.

Reducing federal higher education spending by $300 billion and limiting educators' access to higher education

The law reduces access to federal student loan and repayment options and places new barriers on schools' abilities to offer preparation programs for high-demand and skill, but low-wage professions, like early childhood education.

The law will:

- Prohibit students from using federal student loans to pay for degree programs with "low earning outcomes." This could have a dramatic impact on programs that prepare students for high-demand, high-skill, but low-wage jobs, including many ECE preparation programs. Higher education programs will lose eligibility if they fail to meet the earnings requirement for two years within a three-year period but may regain eligibility after two years. Programs must comply with the provision by July 1, 2026.
    - This provision could incentivize institutions of higher education to close their ECE professional preparation programs, closing important pathways for new educators to enter the field and advance their careers. Without educational pathways, the supply of educators would be further diminished and families' access to quality child care would decrease even more.
- Consolidate existing income-driven student loan repayment plans into two options (Repayment Assistance Plan and Standard Repayment) for loans borrowed July 1, 2026 and beyond.
- Increase the number of years before loans can be forgiven (from 20-25 years to 30 years) under the new Repayment Assistance Plan (RAP). Current borrowers enrolled in Income Contingent Repayment, Pay As You Earn, or SAVE plans must transition to a new repayment plan by July 1, 2028. If no selection is made, they will be automatically enrolled in the RAP.
- Eliminate Grad PLUS Loans for graduate students on July 1, 2026.
- Set a lifetime cap on the amount parents can borrow under Parent PLUS loans at $65,000 per student effective July 1, 2026.

Enhancements to Tax Credits for Families	
Provision	**Effective Date**
Expansion of the Child Tax Credit (CTC)	2025
Permanently index the CTC to inflation	2026
Expansion of the Child and Dependent Care Tax Credit	2026
Changes to Medicaid	
Halt existing provisions that streamline children's access to Medicaid and CHIP	7/4/2025 until 9/30/2034
Exclude lawfully documented immigrants from accessing Medicaid and CHIP	10/1/2026
Limit funding for emergency Medicaid by lowering the federal match	10/1/2026
Prohibit increases to provider tax rate in non-expansion states	10/1/2026
Require Medicaid recipients to report working at least 80 hours per month	12/31/2026
More frequent redeterminations of eligibility	On or after 12/31/2026
Decrease the provider tax rate in states with Medicaid expansion	10/1/2027
Increase out-of-pocket costs for low-income individuals	10/1/2028
Changes to SNAP	
Impose work reporting requirements	7/4/2025
Exclude lawful immigrants who have been granted humanitarian protections	7/4/2025
Reduce the federal government's share of the cost of administering SNAP	10/1/2026
Force states to cover between 5-15% of the cost of SNAP benefits depending on the state's payment error rate	As early as 10/1/2027 depending on state's error rate
Changes to Higher Education	
Prohibit federal student loans from paying for degree programs with "low earning outcomes"	7/1/2026
Consolidate existing income-driven student loan repayment plans into two options	Loans borrowed on 7/1/2026 or later must choose one of the new repayment plans
Eliminate Grad PLUS Loans for graduate students	7/1/2026
Set a lifetime cap (of $65,000) on the amount parents can borrow under Parent PLUS loans	7/1/2026
Increase the number of years before loans can be forgiven under a new Repayment Assistance Plan (RAP)	Borrowers must transition to one of two new repayment plans by 7/1/2028 or be automatically enrolled in the RAP