

# **The Impact of Adoption Subsidies on Children Waiting for Adoption**

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## **Abstract**

In this study, we update the literature on the impact of adoption subsidy rates among U.S. states on the number of legally free children awaiting adoption within the state.

Following the literature on payments for adoptions (extended with other state-level controls and more current data), we find that higher subsidies rates were associated with increased numbers of children waiting (which could be from states responding to previous research by increasing their subsidy rates). We also find that states with higher percentages of black residents and higher median incomes have less children waiting, while higher unemployment rates have more children waiting.

Key Words: Adoption, Foster Care, Subsidy Rates

JEL: I38, J13, H31

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## **I. Introduction**

The literature related to the economics of adoption is limited. When a person or family chooses to adopt a child(ren), significant financial considerations can impact a family's ability and decision to adopt – this can be particularly true with regard to adoptions occurring from the foster care system in the United States. In 1980, the Adoption Assistance and Child Welfare Act created the ability for the use of adoption payments in helping to find children waiting in the foster care system to find homes.<sup>1</sup> In addition to this federal support, states can also opt to give state-based adoption payments. This policy change was designed to increase the number of households adopting from the foster care system.

The policy change creates a measurable impact on the lives of families who adopt children from foster care. A recent study from the U.S. Department of Health and Human Services resulting from a survey of adoptive parents (2007 National Survey of Adoptive Parents, NASP) and a second survey the 2007 National Survey of Children's Health (NSCH) provides context for the magnitude of the policy change resulting from the 1980 Act as well as subsequent legislation. It provides that 78% of survey respondents receive a monthly stipend resulting from the adoption of a child out of foster care (Vandivere et al., 2009). For a sense of size of the payment, it can vary dramatically. Payments vary from less than \$300 to more than \$750 a month. They find that the largest percentage of families receive between \$301-\$500 a month (43%) while about another quarter of parents receive between \$501-\$750. About an equal percentage of parents receive more

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<sup>1</sup> Child Welfare Information Gateway. (2011). Adoption assistance for children adopted from foster care. Washington, DC: U.S. Departments of Health and Human Services, Children's Bureau.  
[https://www.childwelfare.gov/pubPDFs/f\\_subsid.pdf](https://www.childwelfare.gov/pubPDFs/f_subsid.pdf)

than \$750 or \$300 or less (15% and 18% respectively). For context of how this policy change can change potential parent's decisions, according to the data in Malm et al. (2011), 60% of parents who chose to adopt from foster care listed the cheaper financial burden compared to other types of adoption as a reason, greater than any other reason listed.

This study looks to accomplish a few goals. First, most of the existing literature comes from data gathered in the 1990's, so updating these studies with more recent data is useful. To our knowledge, little research has been done over the previous decade. Thus, it would be useful to examine whether policy changes in adoption subsidies have been associated with changes in waiting kids.

Simon (1975) found that increasing payments by 10% increases the number of available homes by 5-10%. But more importantly, he found that analyzing data across state variation or across time variations led to the same results – which supports the structure of our study. We utilize across state variations for the year we have data, 2017.

For further support that payments impact parental decisions, research on foster care decisions found that foster care subsidy rates impacted parental decisions to foster at all, with other non-monetary factors impacting the number of children each family took in (Campbell and Downs, 1987). This supports the research that money incentivizes entrants to foster children, rather than overpopulating their home with too many children simply for an additional check. Hansen and Hansen (2005) found that the subsidy rates were the most important determinant leading to adoptions. These were further confirmed by Doyle and Peters (2007, using data from 37 states from 1987-1995). These results

support the general economic principle that decreasing the price of children increases the demand for these children (see Becker 1981).

More recently, Argys and Duncan (2013) continue to find that lowering the cost of adoptions increases adoptions overall and Biehl and Hill (2018) found that those states with a state level earned income tax credit (EITC) had lower entry rates into foster care. Hansen and Hansen (2005) used 1996 AFCARS data to continue to find that the most important factor was the rate of the subsidies. However, Argys and Duncan's research concluded that the crucial element was the difference between adoption and foster care payments, not just payments.

To build on these studies we use one year of data, 2017, to analyze the current adoption subsidy policy and children waiting population across states (relying on across state variations to measure the impact of adoption payments). The question is thus whether adoption payments (with state-specific controls) are correlated with a change in the overall number of children legally free for adoption within that state. Secondly, we know adoption payments are not the only critical aspect in deciding to adopt; so we look at payments but also include multiple state characteristics to more accurately measure the impacts (and what controls matter).

In this study, we consider the number of children that meet the qualification as both legally free and waiting to be adopted within the data.<sup>2</sup> This eliminates children who are categorized as waiting for adoption but not yet legally free (thus, parental rights have not been terminated). Ensuring the measurement of children available is as accurate as possible to the actual number of children able to be adopted at the given time the data

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<sup>2</sup> Where the term "legally free" is important in that all parental rights have been terminated and the child is waiting and free to be adopted.

was pulled. In the next section, we discuss the data and methodology, followed by the results, and lastly conclude.

## **II. Data and Methodology**

The federal data collection system known as the Adoption and Foster Care Analysis and Reporting System (AFCARS) was brought into existence in the Federal Fiscal Year (FY) 1995 – although fiscal penalties were only implemented starting in 1998 (to incentivize states to comply) and 2001 was the first time all states were included. Therefore, data quality went up significantly in 1998 and 2001. Using this data, we focus on more recent data, from 2017. In this year there were 69,716 children nationally whose rights have been terminated, which is broken into state-by-state subsets. Payment data is from the North American Council on Adoptable Children which provides a source for all state payouts for adoption assistance in a per month format.<sup>3</sup>

For the population data and specific demographic information, we collect data from the US Census Bureau. This allows for payouts and per-capita scaling. This will help to better analyze differences between states such as California and Vermont accurately.

The cost-of-living index comes from the Council for Community and Economic Research (C2ER) survey, which is then converted to the state level by the Missouri Economic Research and Information Center, (MERIC).<sup>4</sup> This provides the state-level metrics (such as racial makeup, income levels, etc.) used within this study to evaluate state-level differences that could impact the number of children waiting.

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<sup>3</sup> <https://www.nacac.org/help/adoption-assistance/adoption-assistance-us/all-states-at-a-glance/>

<sup>4</sup> [https://www.missourieconomy.org/indicators/cost\\_of\\_living/](https://www.missourieconomy.org/indicators/cost_of_living/)

Our selection of variables was for the following reasons. We selected the race metrics as well as the gender specifications because there is evidence that adoptions have both a gendered and racial disparity (Baccara et al., 2010). The rate of homeownership could be viewed as a measure of the stability of the population, those with homes may be in a more permanent locational position to be able to accept new or additional children into their household. Meanwhile, the percent of people educated to various levels was of interest to our study as those who are more educated are more likely to be adoptive parents with about 70% of parents adopting from foster care with education beyond high school (Vandivere et al., 2009).

We include the unemployment rate as a variable because the greater the share of the population that is out of work, we would expect there to be less of the population that would be willing to adopt. Median household income is included for a similar reason, as we would expect that states with a higher household income might be more willing to adopt. The mean travel time to work is included because longer time spent commuting cuts time to do household work, and with less time at home, households might be less willing to add adopted children to their households.

We estimate the following for each state,  $s$ , for the year 2017. The number of children waiting is population controlled, so *Children Waiting* is the number of children waiting per million people in the state:

$$\text{Children Waiting}_s = \alpha + \beta_1 \text{Payout}_s + \beta_2 \text{Percent Legally Free}_s + \beta_3 X + \varepsilon$$

We also control for the percent of legally free children in the state during the prior year (given that we are estimating this only off the number of children that are legally free, this gives a control for the total number of children in the foster system on the whole –

which, given governmental budget constraints, could impact the subsidy rate). The  $X$  vector controls for state specific characteristics: cost of living, unemployment, percent of population that is white/black or male/female, percent foreign born, percent of owner-occupied housing, persons per household, percent with a high school/college degree, median household income, and the mean travel time to work.<sup>5</sup>

### **III. Results**

We find the subsidy rate to be positive and significant on the number of children waiting when controlling for the state level characteristics (column 1 is without state level controls and 2 includes them, Table I). This shows that as the subsidy rate increases by 100 dollars a month, there are 37 more children waiting for homes. Which seems counter-intuitive but could show that states where there are more waiting children are already paying a higher subsidy to try to find a home for these children in waiting (following the previous earlier research's suggestions). This also demonstrates that having information on other characteristics which impact the number of children waiting is important.

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<sup>5</sup> Some of these come from five-year average estimates for the states.

Table I	(1)	(2)	(3)
VARIABLES	Waiting Kids by population	Waiting Kids by population	Waiting Kids by population
Subsidy Rate	0.164 (0.135)	0.37524** (0.155)	0.501 (0.868)
Subsidy Rate (sq)			0.000 (0.001)
Unemployment Rate		67.57602** (28.497)	70.39792* (34.667)
Percent White		-632.003 (392.413)	-599.334 (455.629)
Percent Black		-1,547.02667*** (516.107)	-1,502.97233** (602.859)
Percent Female		-3124.901 (5358.042)	-3113.560 (5439.805)
Percent Owner Occupied Housing		754.951 (838.597)	706.792 (911.597)
Percent Highschool Degree		-201.929 (1803.855)	-111.846 (1930.064)
Percent College Degree		1271.949 (959.602)	1249.408 (986.027)
Median Household Income		-0.01405** (0.006)	-0.01383** (0.006)
Mean Travel Time to Work		10.762 (11.877)	10.278 (12.494)
Constant	149.06168* (82.303)	2413.531 (3484.964)	2222.505 (3766.715)
Other Controls: Percent of Legally Free (2016), Cost of Living, Percent Foreign Born, Persons per Household			
Observations	48.000	48.000	48.000
R-squared	0.031	0.614	0.614

Standard errors in parentheses  
\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

The unemployment rate is positive and significant. Thus, states with more unemployed people have more children waiting. The percent black and median household



income are both negative and significant. Therefore, a state with more black residents and higher median incomes have less children waiting.

We expand this further in column 3 by adding a squared term to the subsidy. In this specification, we continue to find that the unemployment rate is positive and significant, the percent of the state population that is black is significant, and the median household income is negative and significant.

To make sure these results are not driven by the linear structure of the model, we also log the number of waiting children in Table II. When logging the number of kids, subsidy rate, median household income, and mean travel time, we find the subsidy rate is significant and demonstrates a positive relationship and that a 1% increase in the monthly subsidy leads to an 83% increase in the waiting child(ren) population. Additionally, the log of the median household income was both significant and negatively related to the log of the waiting kids by population. The percent white and percent black are both negative and significant in this particular specification, suggesting a correlation between higher numbers of whites or blacks in a given state and lower numbers of children waiting. Also, median income is negative and significant, suggesting that states with higher median incomes tend to have less children waiting. A 10% increase in median income leads to a 4.6% decrease in the number of children waiting. However, homeowner rates have the opposite effect. States with higher homeowner rates have more legally free kids waiting to be adopted.

Table II VARIABLES	(1) Ln(Waiting Kids by population)	(2) Ln(Waiting Kids by population)
Ln (Subsidy Rate)	0.171 (0.39)	0.83118** (0.40)
Unemployment Rate		0.104 (0.13)
Percent White		-3.37906* (1.82)
Percent Black		-6.63924*** (2.35)
Percent Female		-29.886 (25.28)
Percent Owner Occupied Housing		6.99091* (3.87)
Percent Highschool		-4.368 (8.43)
Percent College Degree		7.299 (4.45)
Ln (Median Household Income)		-4.61167*** (1.58)
Ln (Mean Travel Time to Work)		0.063 (1.24)
Constant	4.123 (2.49)	67.06944*** (23.50)
Other Controls: Percent of Legally Free (2016), Cost of Living, Percent Foreign Born, Persons per Household		
Observations	48.00	48.00
R-squared	0.00	0.68

Standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

#### IV. Conclusion

Finding policies that help get children out of the foster system and into loving homes is vital to the improvement of the foster care system in the United States. Most of the previous literature has focused on subsidy rates paid to the adoptive families. Also, most of this research uses data from the mid-1990s or early 2000s. In this study, we add

more discussion on the state level characteristics correlated with adoptions and update the results on the subsidy rates with more recent data.

Generally, we find consistent evidence that higher subsidy rates, in 2017, correlate with more legally free children waiting in a given state. This seems counterintuitive, but it could be the case that states with the most need to place kids have responded to previous research by increasing the subsidy (unsuccessfully). We also find that as the percent of black residents in the state increase there is a correlation to less children available for adoption (per capita). Median household income is negatively related to waiting children, whereas the unemployment rate is positively related.

These findings are, to our knowledge, some of the most updated data on the subject of adoption subsidies in the United States. About half a million children are in foster care in the United States on any given day, with around 100,000 children ready to adopt. Despite various different policy attempts to address the large number of children available for adoption, many have proven faulty. Often, this is due to both changing forces on the parental supply along with poorly aligned incentives for other potential solutions. New reproductive technology has decreased the need to turn to adoption, and with out of sync child characteristics to what parents desire, there is an increased mismatch of children. With this in mind, agencies have sometimes turned to for-profit or non-profit organizations to attempt to place more children. However, as a recent article points out, these organizations have been frequently cited for valuing placement over safety, and dollars over children creating worse off conditions for already traumatized children (Pesavento, 2021). There is still effort to entice potential parents to consider adopting from foster care and one way to incentive this is with adoption subsidies. With

more than 500,000 children in foster care, continuing to understand how these programs work is important, and we encourage more research with updated data to understand how well these programs are working.

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