Impact Investing | December 3, 2024

The untapped opportunity in America's care economy

Jenna Bussman-Wise, Pooja Eppanapally and Safo Ngunga

The demand for high-quality, affordable care services is surging, as the US faces a rapidly aging population and rising child care costs. Over the next five years, an estimated 10,000 people will turn 65 every day, while approximately 10,000 babies will be born daily in the US, intensifying the strain on both older adult and child care systems.

Access to high-quality, affordable child care is especially urgent, with the national average cost of child care reaching $11,582 in 2023—a significant burden for most American families. The demand for care services continues to outpace supply, leaving families and caregivers struggling to find the resources they need.

Despite being a $648 billion annual market, the Care Economy—which includes everything from child care to older adult care— remains overlooked by most private investors. This growing need for care not only presents urgent societal challenges but also reveals substantial, untapped opportunities for financial returns.

The Care Economy needs capital to evolve into a modern, sustainable ecosystem. In Caring for Tomorrow: A Guide to Investing in the Care Economy, our organizations, Women of the World Endowment and Tesser Capital Management, urge investors to align their portfolios with this essential sector to achieve both financial returns and social impact.

Investing in the Care Economy is more than a financial opportunity; it's a chance to reshape a sector that affects millions. Americans spend billions annually on care, and the sector is ripe for growth and innovation. However, the industry has been slow to modernize, largely due to underfunding and a lack of focus on innovation.

Strategic private capital can address these gaps by catalyzing technological development, infrastructure enhancements, and policy support. For investors, the Care Economy offers promising returns across asset classes, particularly in areas that directly address aging, child care, and workforce support.

The Opportunity Set

One of the significant advantages of investing in the Care Economy is the ability to express the investment theme across a variety of asset classes, allowing investors to diversify across risk profiles while still targeting care-focused outcomes. For instance, public fixed-income investments, such as municipal bonds and agency bonds, can fund essential care infrastructure, including senior living facilities and affordable housing. Bonds issued by entities like the California Health Facilities Financing Authority provide lower-risk options with consistent returns, which makes them ideal for a fixed income allocation. Public equities present another avenue for investment, although there are limited pure-play options in the Care Economy. Investors may consider healthcare-focused ETFs or mutual funds with exposure to companies supporting aging populations.

For those seeking higher returns, private equity is increasingly a major driver in scaling care services, especially in child care. For instance, Builders Fund, a private equity platform investing in high-growth, purpose-driven companies, has invested in Acelero Learning, an early childhood education (ECE) provider, while Partners Group-backed KinderCare, another ECE provider, recently went public. These investments illustrate how private equity can contribute to scaling essential care services.

However, there are associated risks. Too much focus on profit and consolidation can lead to cost-cutting measures that may negatively impact the overall quality of care. This duality underscores the importance of responsible, impact-focused strategies when scaling services in the Care Economy.

Workforce development is central to the Care Economy's potential, particularly as women comprise the majority of the formal caregiving workforce. Investments that reduce caregiving burdens and support workforce participation can significantly boost economic productivity and gender equity.

For example, some private equity firms are beginning to initiate employee ownership strategies, which enhance job stability and wealth-building for workers—a critical advancement for gender and economic equity in the care workforce. A noteworthy example is Obran Health, a worker-owned cooperative that empowers employees through ownership and education. This model merges economic benefits with quality care standards, aligning well with patient-centered care.

Real estate investment also offers tangible ways to support the Care Economy by developing necessary physical infrastructure. Facilities like senior assisted living, child care, and rehabilitation centers not only provide stable, long-term income but also serve an essential role in delivering care services. Mission Driven Finance's Care Access Real Estate (CARE) REIT, for example, owns and manages properties optimized for caregiving to expand child care capacity. CARE's innovative model allows care providers to eventually own the properties they operate, fostering community stability and empowerment.

Venture capital, too, has the power to revolutionize care through technology, which can solve some of the key challenges faced in the Care Economy by providing broader access to care services and increasing the efficiency of caregivers. Notable examples include Honor, a platform that connects caregivers with older adults, and Papa, which pairs older adults with "Papa Pals" who offer companionship and assistance. These companies not only address immediate care needs but also demonstrate how tech solutions can yield high returns while positively impacting care delivery.

Early-stage Care Economy investments often come with high risks, making blended capital models and program-related investments essential tools for de-risking these investments. Philanthropy can further support early initiatives, enabling pilot programs and models that private investors might hesitate to fund. Organizations like Pivotal Ventures are leading the way by using grants, research, and investment capital to support systemic change in U.S. care infrastructure. Through these efforts, foundations and private investors can work together to create meaningful social and economic impact.

Call to Action

Investing in the Care Economy is about more than just addressing a growing demand for services; it is about reimagining a future where care is valued as a cornerstone of a thriving society and contributes to greater economic prosperity for all Americans. As this sector continues to evolve, the opportunities for both financial growth and social impact will only multiply.

Now is the time for investors to act, ensuring that the Care Economy becomes a driver of economic resilience, gender equity, and human well-being.

To move from understanding to action, we encourage investors to take concrete steps in allocating capital toward the Care Economy. The following steps provide practical ways to incorporate care considerations into your investment strategy and help drive meaningful impact.

1. **Integrate care into your investment strategy.** Allocate a portion of your portfolio to Care Economy investments or apply a care lens during due diligence. Start with one care-focused investment, or if you already have exposure, consider increasing it.
2. **Use catalytic capital.** Grant, PRI, and endowment teams should collaborate on Care Economy investments to unlock more capital.
3. **Invest in women-led funds and companies.** Women bring unique lived experience and are particularly well-suited as leaders in the Care Economy.
4. **Embrace the "great wealth transfer."** Women inheriting significant wealth should make investments in the Care Economy or direct advisors to allocate capital to the space.
5. **Reflect on your care journey.** Identify personal or community care needs and invest in solutions to improve the Care Economy.
6. **Advocate for care infrastructure.** Call your representatives to support robust investment in the Care Economy as vital to our collective future.

Jenna Bussman-Wise is a managing partner at Tesser Capital Management. Pooja Eppanapally and Safo Ngunga are investors at Women of the World Endowment.