MAY 2018

Children, Families, Health, and Human Services Interim Committee
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HJR 24 STUDY: OPTIONS FOR WORKER WAGES

Background

The topic of direct-care worker wages has dominated discussion during the House Joint Resolution 24 study of community services for developmentally disabled adults. The Children, Families, Health, and Human Services Interim Committee in March asked for research on whether increases in worker wages in other states have decreased employee turnover.

This briefing paper:

- summarizes available information on wages and turnover;
- provides information on the cost of potential wage increases in Montana; and
- outlines options and questions for the committee's consideration.

Do Higher Wages Equal Lower Turnover?

Community providers have testified during the HJR 24 study that high turnover among direct-care workers has made it difficult for them to staff their services at required levels and, as a result, to bill for the number of hours of service that a client is slated to receive. They also have said that they have a hard time hiring and keeping staff when other, less-demanding jobs are available at higher wages.

The concerns are not unique to Montana.

In its 2017 report to the president, the President's Committee for People with Intellectual Disabilities noted that direct-care workers have long faced low wages, limited benefits, and little opportunity to advance in the field. As a result, the ongoing challenges in finding, keeping, and training direct-care workers "have reached crisis levels."[i]

The committee made 10 recommendations. Its first recommendation focused on wages. The committee said the federal government, which approves state applications for Medicaid waivers, should make sure that state rate-setting methodologies include sufficient direct-care worker wages and benefits.[ii]

However, national studies on the topic of workforce and wages have had trouble definitively concluding that increased wages will improve the workforce situation. A 2009 report by the CMS National Direct Service Workforce Resource Center said studies have shown that higher wages can reduce turnover. But it also noted that wage pass-throughs as a solution "are limited and show mixed results," with evidence indicating "that the wage increases were often too small, were unreliable from year to year, lacked accountability mechanisms, and were time consuming and expensive to implement."[iii]

National Core Indicators Reports

The National Association of State Directors of Developmental Disabilities Services and the Human Services Research Institute have teamed up to create the National Core Indicators (NCI) project, which gathers data on individual outcomes, system performance, and workforce in member states. NCI has issued staff stability reports for 2014, 2015, and 2016, looking at wages and turnover. The reports base turnover on the number of workers who left employment in the previous 12 months.

Nine states and the District of Columbia participated in the first year, while 20 states and the District of Columbia participated in the 2016 survey. States gave NCI the contact information for their providers, who generally were given the option of filling out the survey.

NCI cautions against comparing data for states in which it has indicated less than a 95% confidence interval for the data, either because the margin of error is higher in those states or because the strategies a state used in its survey may have limited the degree to which the survey results are representative for that state.[iv]

In 2016, nine states and the District of Columbia reached a 95% confidence interval and 5% margin of error. In those jurisdictions:

- the District of Columbia had the lowest rate of turnover at 24%, the highest average wage at $14.27 an hour, and highest average starting wage at $13.87 an hour;
- the two states with the next highest average wages — both above $13 an hour — had the second- and third-lowest rates of turnover, at 31% for New York and 32.5% for Vermont;
- the remaining seven states had average direct-care worker wages of anywhere from $10.39 to $12.06 an hour and turnover rates that ranged from 44% to 69%;
- the average wage exceeded the minimum wage by anywhere from $2.70 to $4.81, but there was no clear relationship between the level of turnover in a state and the amount by which the average wage exceeded the minimum wage; and
- higher wages didn't necessarily correlate to lower turnover. Georgia, with an average wage of $10.39, reported the fourth-lowest turnover among the states, at 44%. Utah, with an average wage of $12.06, had a turnover rate of nearly 69%, almost the highest rate among the states.

Only four states met the 95% confidence interval in two consecutive years, and only two met the standard in all three years covered by the NCI reports. The turnover and wage information for those states is shown in the table below.

	Turnover			Average Starting Wage			Overall Average Wage		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
OH	40.9%	45%	50.80%	$9.78	$9.84	$10.17	$10.96	$10.56	$11.16
OR	--	52%	59.5%	--	$11.26	$11.81	--	$12.27	$13.13
SD	--	45.8%	49.5%	--	$10.73	$10.87	--	$11.93	$12.00
VT	33.2%	26.5%	32.5%	$11.84	$12.85	$12.68	$12.73	$13.08	$13.51

Individual State Data

The National Conference of State Legislatures agreed to contact state legislative staff for this report to see if any states had recently increased direct-care worker wages and if the states had looked at whether the pay raises decreased turnover. While a number of states reported efforts to increase wages, few states required tracking of the results. Only Utah and South Dakota had specific information.

Utah

The Utah Legislature increased funding for direct-care worker wages by $1.25 million in FY 2015, $5 million in FY 2016, $5 million in FY 2017, and $2 million in the current fiscal year. The Legislature required providers to return any money that was not used specifically for wage increases. Providers also had to report on the status of the wage increase.

An August 2017 report said the FY 2016 appropriation resulted in a 30% increase in wages for the 10 largest providers in the state. The average starting wage for employees of those providers increased from $8.11 to $10.53 an hour, while the overall average wage increased from $10.17 to $13.20 an hour. Turnover decreased from 80% in 2014 to 69% in 2016.[v]

Clay Hiatt, the finance director for the Utah Division of Services for People with Disabilities, told the committee in March that turnover has since declined to 57%. He attributed the change to the pay increases.

South Dakota

The South Dakota Legislature provided one-time-only appropriations of $7.1 million in state and federal funds in 2015 and $4.1 million in 2018 for targeted recruit retention and recruitment of direct-care staff across all provider types. The appropriations did not continue into the next year's base budget, the way general provider rate increases did.[vi]

For the 2015 appropriation, providers were required to report by May 2016 on the use and results of the funds. About 53% of providers reported back. Of those providers:

- 60% said they used the money to retain staff through approaches such as bonuses for people who stayed on the job for a certain period of time, about 4% used the money to recruit staff, and 36% used it for both purposes;
- about 55% said the payments increased longevity or retention, with 14% saying they resulted in an above-average increase in retention, 15% reporting moderate increases, and 27% reporting slight increases; and
- 31% said the funds had a positive impact on recruitment.

Other States

Following is a summary of the wage-related actions reported by some of the other states that replied to the NCSL request for information.

- **California**: The California Legislature in 2016 appropriated $340 million, including nearly $200 million in general fund, to increase rates for providers in the developmental disabilities system on an ongoing basis. Some of the money was reserved for a 5% rate increase for respite providers, and another portion provided a 5% rate increase for independent and supported living service providers. But $285 million was appropriated for other service providers to increase the wages and benefits of staff members who spend at least 75% of their time providing direct service to clients. Providers had to complete a survey in 2017 to prove that they used the rate increase for that purpose. In addition, the Legislature also passed a bill in 2016 to increase the state minimum wage over several years, reaching $15 an hour for most workers by Jan. 1, 2022. The Legislature included $179 million in state and federal funds in

the developmental disabilities budget to cover the cost of increasing the minimum wage from $10.50 to $11 an hour on Jan. 1, 2018, and from $11 to $12 an hour on Jan. 1, 2019. Providers have expressed some concern that the higher statewide minimum wage will make it more difficult to recruit employees because other, less demanding jobs will pay the same wage.[vii]

- **Connecticut**: The Legislature was considering two bills in its 2018 session, scheduled to end on May 9. House Bill 5460 would require state agencies to adjust their rate methodologies for human services providers to include a minimum wage of $15 an hour for hourly employees. Senate Bill 400 would require the state to increase provider rates, within available appropriations, to boost direct-care worker wages from 2016 levels. The fiscal note for the bill estimated the costs of a maximum 4.28% increase in direct-care salaries at $17.2 million a year, in general fund and federal funds combined. The fiscal note used the 4.28% increase because it reflected the Bureau of Labor Statistics Employment Cost Index for wages for the period from 2016 to 2018.

- **Iowa**: The Legislature in 2008 enacted a provider tax on nursing homes and directed that a percentage of the new revenues be used on an ongoing basis for increased wages for direct-care workers in nursing homes.

- **Kansas**: The Kansas Legislature in 2017 appropriated a total of $68 million in state and federal funds to increase provider rates in all of its home and community-based services waivers by 3% in FY 2018 and 4% in FY 2019. Legislative staff contacted two area directors who oversee providers. Both directors said the initial increase had not had a significant impact on turnover, although one director expected the 4% increase to have a more significant effect on turnover when it goes into effect.[viii]

- **Maine**: The Maine Legislature appropriated $45 million in state and federal funds for the current biennium, specifically to increase rates for its home and community-based services waivers. However, the increase was one-time-only funding. Because the increase went into effect less than a year ago, no information is available on its impact.

- **Michigan**: The Michigan Legislature in 2015 directed its state human services agency to establish a work group to review workforce recruitment and retention challenges in delivering services to people with developmental disabilities, mental illness, and substance use disorders. The report concluded that wages should be increased by $2 an hour over minimum wage. The 2017 Legislature subsequently appropriated $45 million in state and federal funds to increase direct-care wages by 50 cents an hour effective Oct. 1, 2017. The state must contractually require providers to use the funds for this purpose, and providers must report on the use of the funds and the range of wages paid.

- **Ohio**: The 2017 Legislature appropriated $25.8 million to increase wages for workers in the DD program by $1 an hour if they obtain an additional 60 hours of training and work in the field for 2 years. It also allocated $12.9 million to increase wages by $2.52 an hour for workers who care for people with complex needs. The complex care add-on went into effect in September 2017, and the training and longevity increase will go into effect July 1.

- **Oregon**: The 2013 Legislature directed the Department of Human Services to report to the 2015 Legislature on each program that uses direct-care workers to deliver services, looking specifically at provider rates, worker wages, and turnover rates. The report showed that turnover was highest among workers in group homes for people with developmental disabilities, at 90%. The 2015 Legislature subsequently appropriated $26.7 million, including $8.5 million of general fund, to increase direct-care worker wages and benefits in the DD program by at least 4%. The 2017 Legislature provided another $45.5 million, including $13.5 million general fund, to increase rates by 5%. The Legislature also required providers to submit annual staffing data to a nationally standardized reporting survey and required the Department of Human Services to obtain the disaggregated data.

- **South Carolina**: The Legislature this year considered a budget bill that included an additional $11.3 million in general fund to increase direct-care worker wages. Of that, $10 million would be used to increase the starting wage from $11 an hour to $12 an hour. The remainder would be used to provide an increase of 3% to 4% for direct-care and supervisory staff who have been employed at least 5 years. The appropriation would be matched with $18.1 million in other funds, for a total of $29.4 million. South Carolina last year increased wages from $10 to $11 an hour, leading to a leveling off of turnover rates.[ix] The current bill is part of a 3-year effort to increase the minimum starting wage to $13 an hour, which is considered the rate needed to be highly competitive.[x]

- **Wisconsin**: The governor proposed a two-year increase of about $15 million in state and federal funds to increase reimbursement rates for personal care workers. The Legislature supported the request but reduced the funding slightly to reflect re-estimated costs. There is no requirement to report on the effects of the increase.

ANCOR Workforce Recommendations

The American Network of Community Options and Resources (ANCOR), a national group representing community providers of services to people with disabilities, issued a workforce report last year. The report describes providers as "price-takers and not price-setters"[xi] because they generally must operate within non-negotiable Medicaid reimbursement rates. At the same time, they must follow state and federal laws that set minimum wages and that could lead to other increases in their labor costs, even when they don't receive additional Medicaid funding to help cover the costs.[xii]

ANCOR's workforce report suggested several options for improving the ability of providers to hire and keep staff, including appropriating money to fund wage increases. Other suggestions were to:

- routinely index Medicaid increases to local, state, and federal wage increases or the Consumer Price Index;

- require a state government to review data on the financial effects of any measure it takes that would increase costs for Medicaid providers;

- create a liaison within state government to ensure that departments don't adopt new policies that inadvertently harm people with developmental disabilities; and

- ensure that the rate-setting process uses data that reflects a provider's actual costs, rather than data only on the payments made to providers.

ANCOR also suggests that any wage pass-through legislation clearly establish:

- the manner in which providers are to implement the wage increase;

- the reporting requirements and timeline for demonstrating compliance;

- whether some of the funding increase can be used for additional payroll costs tied to the increase in wages;

- and whether vacancies should be factored into distribution of the funds.

Options for Committee Consideration

If the committee decides to pursue legislation related to direct-care worker wages, members should decide the following questions to guide the drafting of a bill.

1. Does the committee want to appropriate money to increase direct-care worker wages by a specific amount? If so:
   a. what is the total hourly amount by which the committee wants to increase the wage? (For examples of the costs of increasing wages by $1 or $2 an hour, please see the tables on page 7.)
   b. should the increase be made in full at the start of the biennium or phased in throughout the biennium?
   c. should the increase be provided to all workers or should it target workers who handle clients with complex needs, have undergone additional training, or who have been in their positions for a specified length of time?
      i. If the increase is to be targeted, how much training must an employee have or how long must the employee have worked to be eligible for the increase?
   d. should DPHHS or providers be required to monitor and report on the effects of the increased wages?
      i. If so, should providers be required to report data to a national group working on workforce matters?

2. Does the committee want to direct DPHHS to conduct a study of workforce issues, including the level of direct-care worker wages necessary to reduce turnover and improve retention?

3. Does the committee want to review draft legislation related to any of the following ANCOR suggestions?
   a. Require DPHHS to index provider rate increases to state or federal wage increases or the Consumer Price Index.
   b. Require the state to review data on the financial effects of any measure it takes that would increase costs for Medicaid providers
   c. Require DPHHS to ensure that its rate-setting process uses data that reflects a provider's actual costs.
   d. Direct DPHHS to create a liaison to ensure that state agencies and divisions within DPHHS don't adopt policies that inadvertently harm people with developmental disabilities.

4. Are there other workforce-related bills the committee would like drafted for the June meeting?

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[i] "America's Direct Support Workforce Crisis: Effects on People with Intellectual Disabilities, Families, Communities and the U.S. Economy," *President's Committee for People with Intellectual Disabilities*, 2107, p. 8.
[ii] Ibid, p. 9.
[iii] Bernadette Wright, The Lewin Group, "Strategies for Improving DSW Recruitment, Retention, and Quality: What We Know about What Works, What Doesn't, and Research Gaps," *CMS National Direct Service Workforce Resource Center*, October 2009, p. 2.
[iv] E-mail from Dorothy Hiersteiner, Project Coordinator, National Core Indicators, April 18, 2018.
[v] "Direct Care Staff Increase Report," *Division of Services for People with Disabilities*, Utah Department of Human Services, Aug. 21, 2017.
[vi] E-mail correspondence with Jason Simmons, Principal Fiscal Analyst, South Dakota Legislative Research Council, April 24, 2018.
[vii] E-mail from Mark Newton, Deputy Legislative Analyst, California Legislative Analyst's Office, May 2, 2018.
[viii] E-mail from David Fye, Principal Fiscal Analyst, Kansas Legislative Research Department, April 26, 2018.
[ix] E-mail from Ryan Burnaugh, Research Analyst, South Carolina House of Representatives Ways & Means Committee, April 16, 2018.
[x] Explanation of request for additional funding, Fiscal Year 2018-19 Agency Budget Plan, *South Carolina Department of Disabilities and Special Needs*, p. 5.
[xi] "Addressing the Disability Services Workforce Crisis of the 21st Century," *American Network of Community Options and Resources*, 2017, p. 13.
[xii] Ibid.

Potential Costs of Increased Wages

Wage pass-through legislation can be structured to provide the full increase at the start of the biennium or to phase it in throughout the biennium. A phased-in approach reduces the initial costs of putting the increase into effect.

The following tables provide examples of the costs of increasing wages by $2 an hour or $1 an hour over the biennium, either by providing the increase in full at the start of the biennium, splitting the increase equally between both years of the biennium, or increasing the wage incrementally every 6 months. The costs include both the specified wage increase and the related payroll taxes of 15 cents for every $1 increase in wages. Calculations were based on the estimated number of direct-care hours based on FY 2016 billed service data. DPHHS provided the estimate to the Legislative Fiscal Division during the 2017 legislative session.

$2 Increase on July 1, 2019

	FY 2020	FY 2021	Total
State	$5,705,709	$5,699,094	$11,404,803
Federal	$10,832,579	$10,839,194	$21,671,773
Total	$16,538,288	$16,538,288	$33,076,576

$2 Increase: $1 Each Year of Biennium

	FY 2020	FY 2021	Total
State	$2,852,855	$5,699,094	$8,551,949
Federal	$5,416,289	$10,839,194	$16,255,483
Total	$8,269,144	$16,538,288	$24,807,432

$2 Increase: 50¢ Every Six Months

	FY 2020	FY 2021	Total
State	$2,145,487	$5,000,370	$7,145,857
Federal	$4,073,362	$9,510,279	$13,583,641
Total	$6,218,849	$14,510,649	$20,729,498

$1 Increase on July 1, 2019

	FY 2020	FY 2021	Total
State	$2,852,855	$2,849,547	$5,702,402
Federal	$5,416,289	$5,419,597	$10,835,886
Total	$8,269,144	$8,269,144	$16,538,288

$1 Increase: 50¢ Each Year of Biennium

	FY 2020	FY 2021	Total
State	$1,426,427	$2,849,547	$4,275,974
Federal	$2,708,145	$5,419,597	$8,127,742
Total	$4,134,572	$8,269,144	$12,403,716

$1 Increase: 25¢ Every Six Months

	FY 2020	FY 2021	Total
State	$1,072,752	$2,500,185	$3,572,936
Federal	$2,036,673	$4,755,140	$6,791,813
Total	$3,109,425	$7,255,324	$10,364,749