Vermont Legislative Joint Fiscal Office

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ISSUE BRIEF

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Estimating State Costs from Raising the Minimum Wage for Healthcare Workers Paid through Medicaid

The legislature has considered a number of paths for raising the minimum wage. This Issue Brief describes the estimated cost of two possible paths for the minimum wage.

Key elements

1. JFO's preliminary estimate of the cost[1] to the State of raising the minimum wage to $11.70 in January 2021 and to either $12.40 or $12.55 in January 2022 for healthcare workers paid through Medicaid; the cost is the State's 46% share
    a. Including compression costs up to $15/hour
        i. **$12.40 path:** $1.3M in FY21 and $3.8M in FY22
        ii. **$12.55 path:** $1.3M in FY21 and $4.1M in FY22
    b. Not including compression costs
        i. **$12.40 path:** $0.5M in FY21 and $1.5M in FY22
        ii. **$12.55 path:** $0.5M in FY21 and $1.6M in FY22
    c. Similar results come from using the Occupational and Employment Survey for the $12.55 path

2. Lessons learned and caveats
    a. The cost increase per provider varies across geography, size and type of provider
    b. The estimates above exclude healthcare contract workers, school employees paid by Medicaid, and childcare workers whose higher wages will affect the cost of the Child Care Financial Assistance Program
    c. Reimbursement mechanisms do not target low-wage workers. Targeting low-wage workers using statewide reimbursement rates is impossible. Raising reimbursement rates enough to cover all low-wage workers would cost far more than the estimated amounts.
    d. Some states (NY, CA) have provided ex post payments to specific providers who apply for funds. Such payments require administration, may be counter to Medicaid regulations, and have no clear end date
    e. Allowing providers to apply for additional State funds could help target funds but will require administration

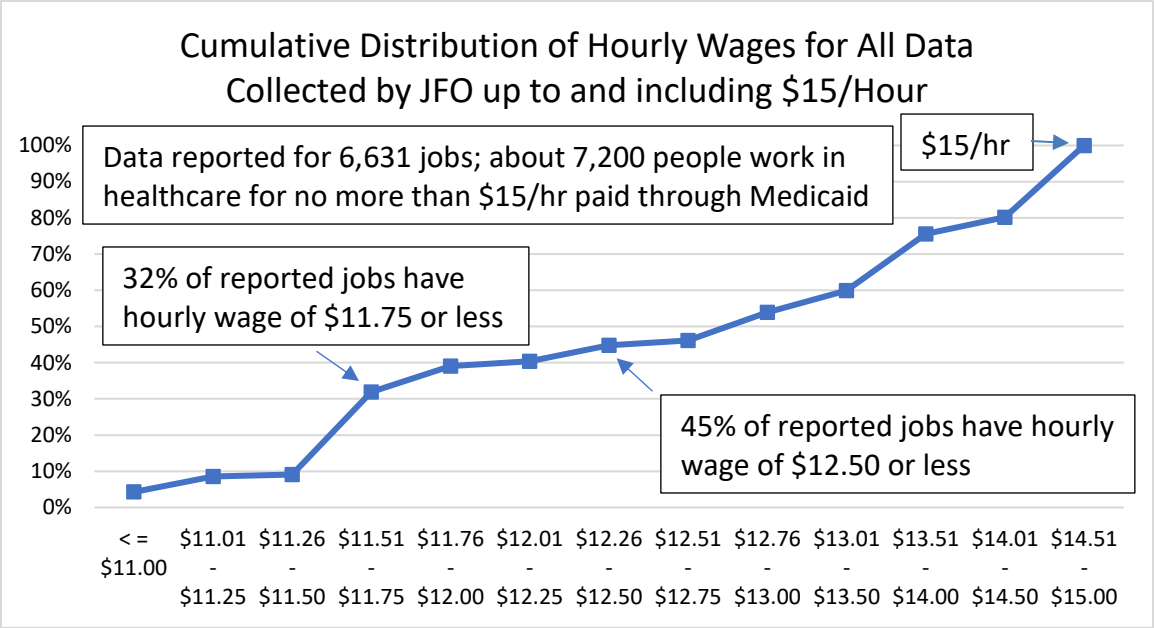
[1] All costs are 2019 $$; see Appendix for more information

3. Several concerns emerged in conversations with the director of a residential care facility and the director of a Federally Qualified Healthcare Center
    a. Some concerns are related to the minimum wage increase directly
        i. Raising the minimum wage could help a bit with hiring and retention, but providers worry about competition from supermarkets, fast food, and menial jobs
        ii. Workers could potentially lose some State benefits such as health insurance subsidies or childcare subsidies as the minimum wage rises
        iii. Providers need a career ladder for low-wage workers
        iv. Additional increases in the minimum wage put further pressure on struggling providers and the financial stability of the system
    b. Larger issues related to Medicaid reimbursement are critical as well
        i. The financial sustainability of some Medicaid services is already at risk; facilities serving Medicaid enrollees face multiple pressures in hiring, retention, non-wage costs, additional regulations, etc.
            1. More night staffing may be required without increased reimbursement
            2. Increasing costs for fuel, food, and transportation are not reimbursed
            3. Providers with a high proportion of Medicaid clients or no deficiencies reported over some number of years currently receive no supplemental payments
            4. No funding for capital improvements currently exists
        ii. Providers do not want a more complicated reimbursement process
        iii. The relationship between reimbursement for Choices for Care (Medicaid long-term care) and the cost of providing care is very weak; need to get closer to reimbursing actual costs
        iv. Home health payments will be affected by a change in the federal Medicare payment model (Patient-Driven Groupings Model[2]), creating more uncertainty

4. Background information on the methodology used
    a. Proportional budget approach used here is based on the approach used last spring, informed by the recent CBO study and JFO's data collection effort
    b. Data collection efforts reveal less than full-time jobs and work hours often split between Medicaid and non-Medicaid patients
    c. Addressing compression assumes smaller proportional increases above the minimum wage until no increase at $15 per hour

[2] The Patient-Driven Groupings Model uses 30-day periods as a basis for Medicare payment. Those 30-day periods are categorized into 432 case-mix groups based on 2 admission sources, the 1st or subsequent 30-day periods, 12 clinical groupings, 3 functional impairment levels, and 3 comorbidity adjustments.

5. Data collection efforts reveal how healthcare wages of $15 or less are distributed
    a. JFO collected data on 6,631 jobs; 45% of those jobs pay $12.50 or less per hour



Background information on the wage distributions shown

- Charts reflect data collected by the Joint Fiscal Office (JFO) for healthcare workers in Vermont with hourly wages no more than $15 per hour who are paid in whole or in part by Medicaid

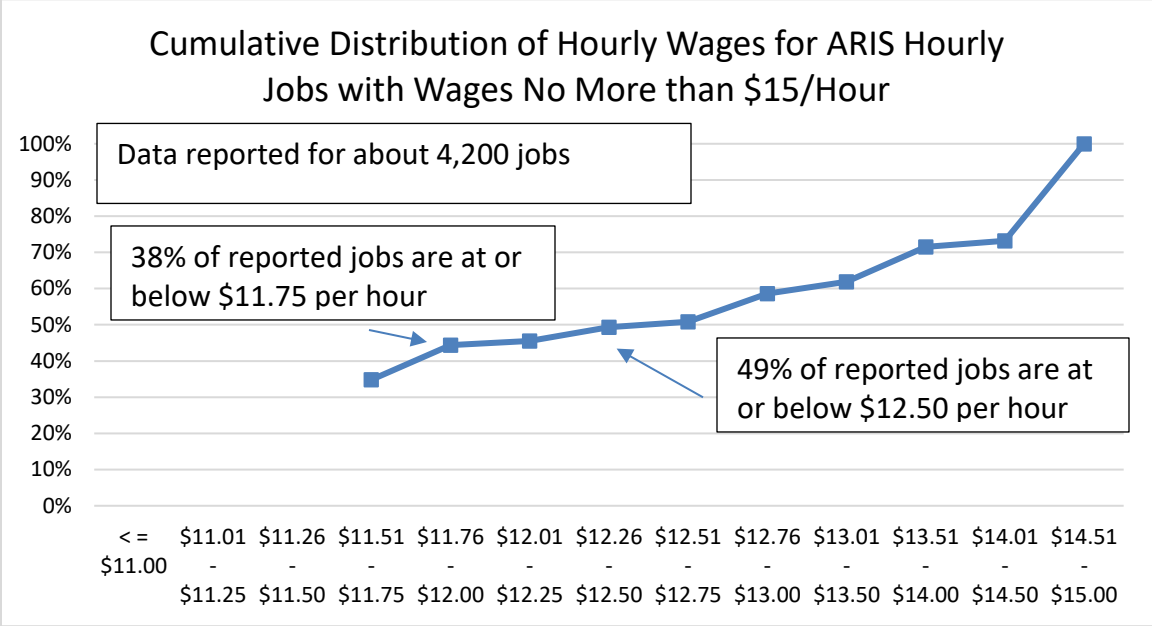
- Data collected by JFO are not a representative sample of low-wage healthcare workers paid through Medicaid

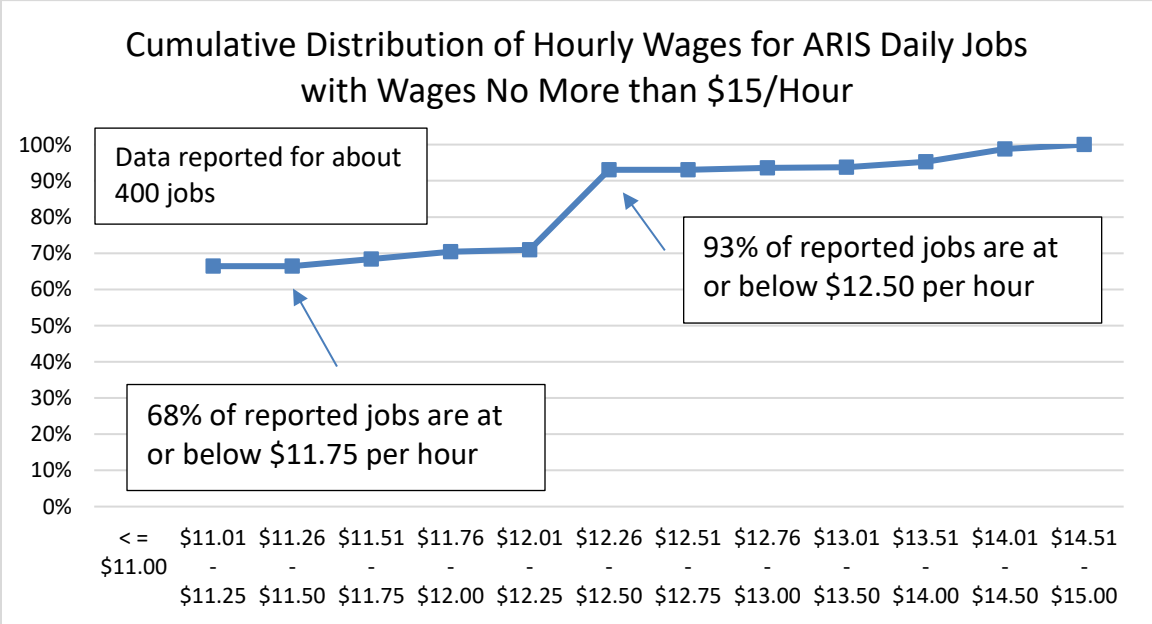
- Data represent jobs for low-wage healthcare workers; many hold multiple part-time jobs or work for multiple patients. Some workers receive overtime at 1.5 times their regular hourly wage, not reflected here.

- JFO does not have data for other types of workers who would be affected by an increase in the minimum wage and whose wages would also affect the state budget; those workers include contract workers such as food service or cleaning service workers in the healthcare industry and childcare workers whose wages affect the cost of the Child Care Financial Assistance Program

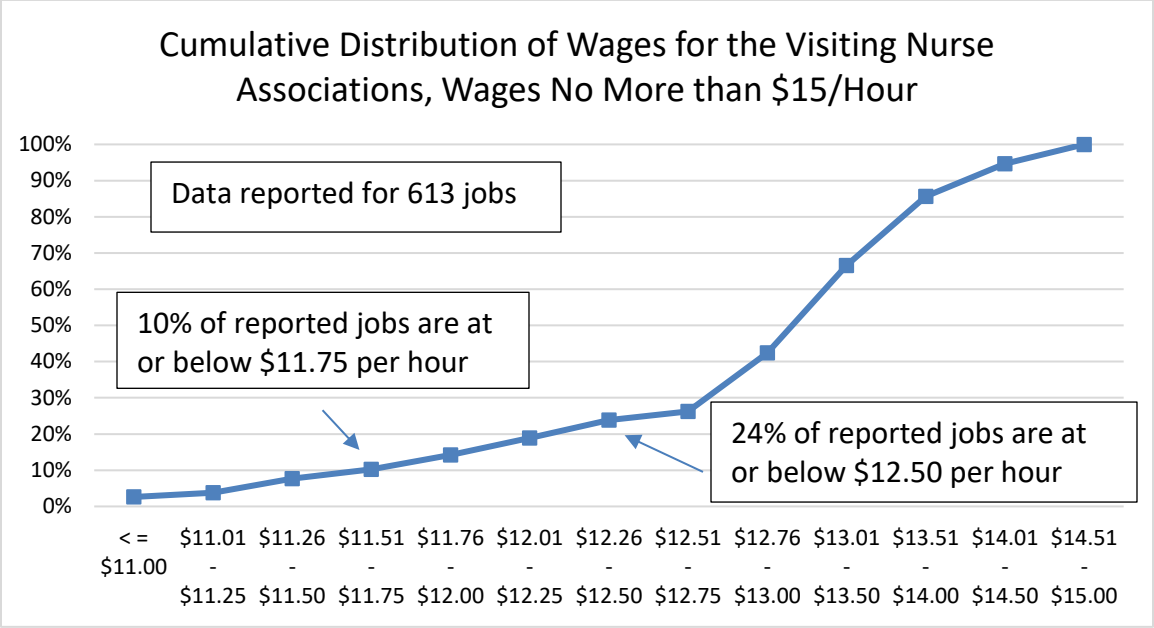
- Based on the VDOL Occupational and Employment Survey, JFO roughly estimates that about 7,200 people are employed in the healthcare industry in Vermont with wages at or below $15 per hour

b. Direct-care jobs with payroll services provided by ARIS Solutions can be paid hourly or daily. 49% of hourly jobs pay $12.50 per hour or less, often for workers who serve multiple clients in a week. Respite jobs often pay daily, and 93% of those jobs pay $12.50 per hour or less.

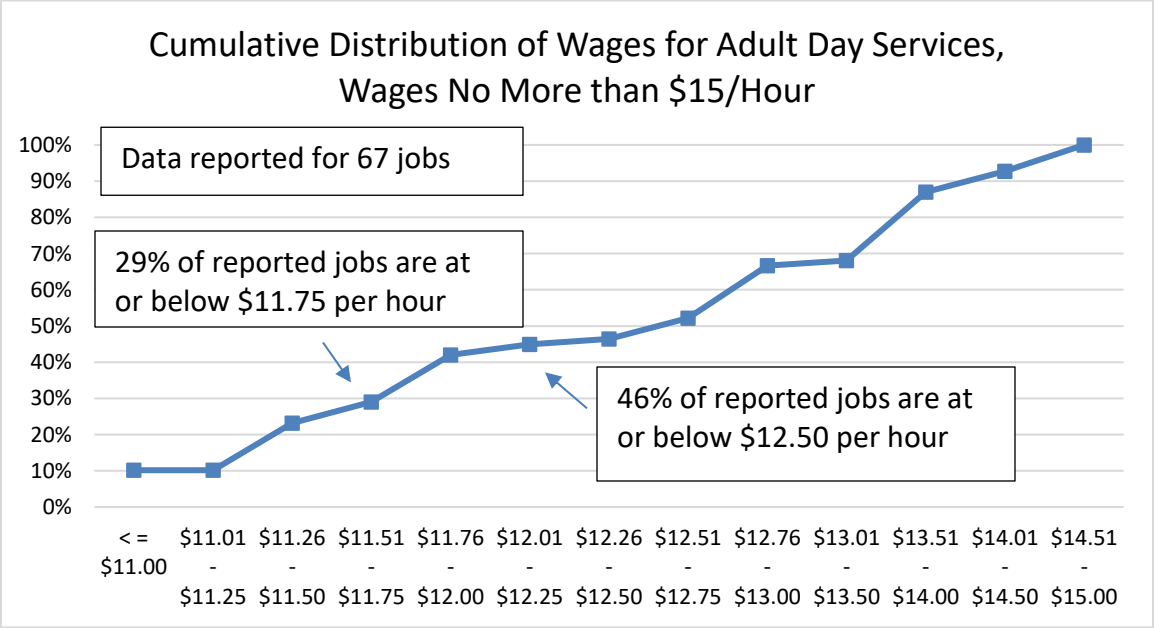




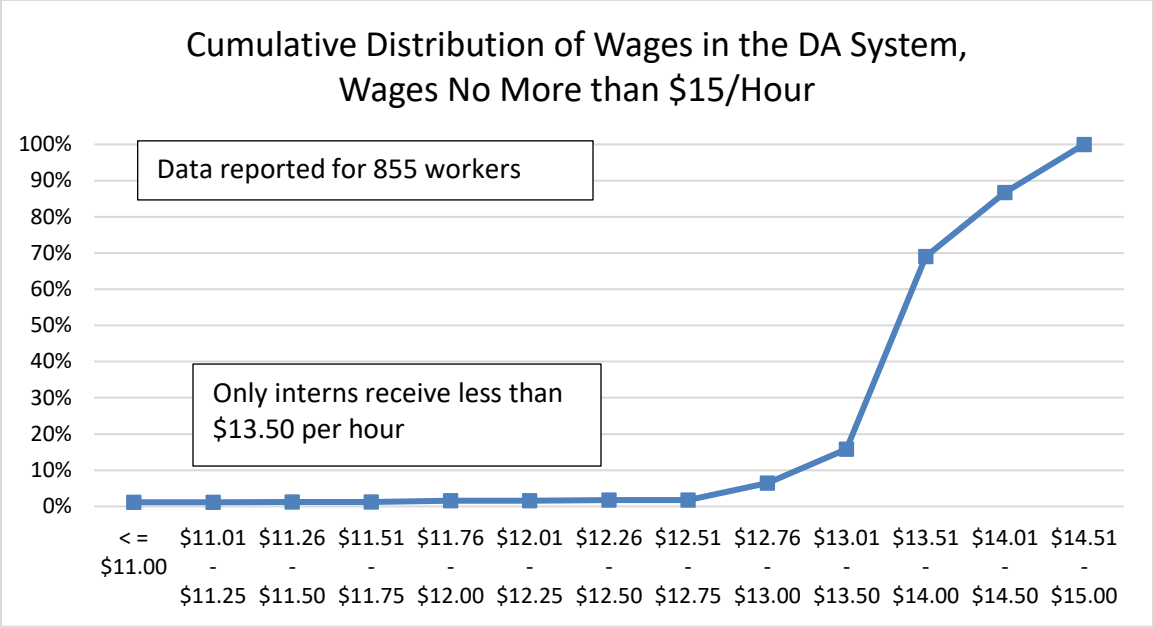
c. The Visiting Nurse Associations provide home health, hospice, and long-term care services; 24% of the reported jobs pay $12.50 per hour or less.



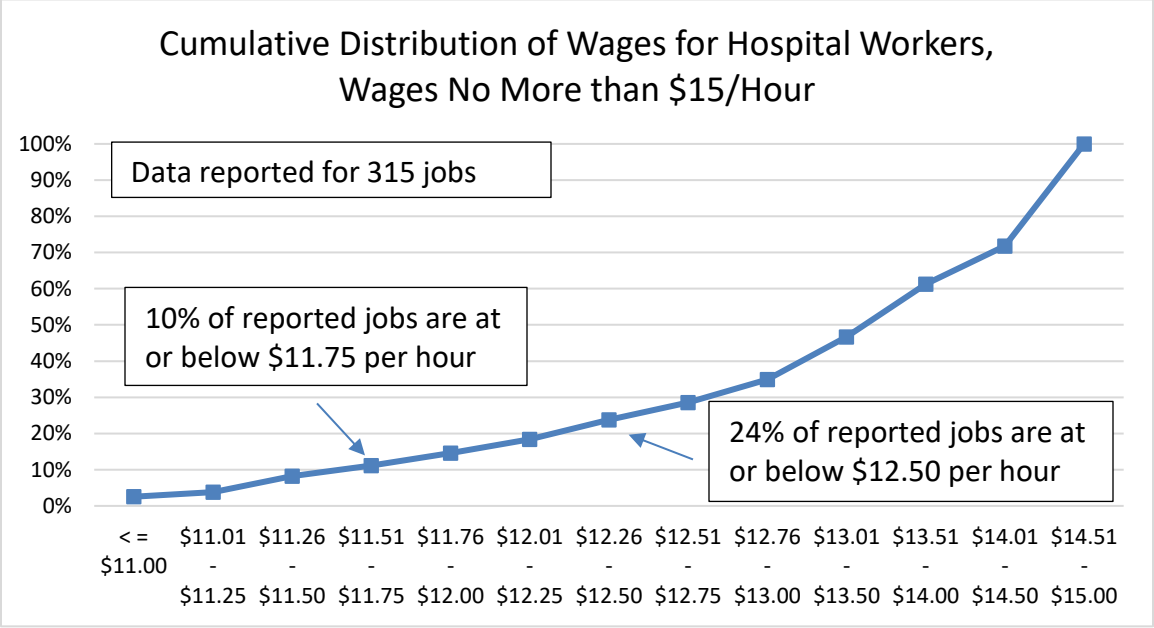
d. Jobs at Adult Day Services offer community-based non-residential supports, and 46% of the reported jobs pay $12.50 per hour or less.



e. Jobs in the Designated Agencies provide mental health counseling and support services. Most jobs pay $14 per hour or more.



f. Health care jobs at hospitals sometimes pay $15 per hour or less.



Appendix. More Information on JFO's Data Collection and Estimation Efforts

1. The wage data help to inform our estimates but do not change them substantially
    a. JFO collected two types of information
        i. Data on hours worked and hourly wage for healthcare workers who earn no more than $15 per hour and work in facilities with Medicaid patients
        ii. Data on the proportion of a facility's Medicaid budget that goes to wages, and on the proportion of wages that go to workers paid $15 per hour or less
    b. Many healthcare providers who serve Medicaid enrollees sent data on hourly wage and hours worked, but the sample is not large enough to be representative; moreover, JFO cannot be sure how much of a job's wages are eligible to be reimbursed by Medicaid
    c. Trade groups obtained data of both types from their members; results are informative but reflect only a subset of providers

2. In all, JFO received wage data from about 100 traditional providers as well as from ARIS, a payroll service for direct-care home health workers
    g. JFO received wage data on 6,631 jobs in which employees earn $15 per hour or less and serve Medicaid enrollees
        i. According to the Vermont Agency of Human Services, about 2,700 providers received at least $1,000 in Medicaid funds in CY 2018
    h. The 100 traditional providers reported wage and hours data for about 2,000 jobs that are paid through Medicaid for at least some of the hours worked; some workers hold down more than one job, and many jobs are part-time
    i. The payroll service ARIS provided wage and hours information on about 4,600 direct-care jobs that provide at-home services to Medicaid enrollees; many of those jobs are part-time, and one worker could hold multiple jobs
    j. Based on data from the Vermont Department of Labor, JFO estimated that Vermont had about 7,200 healthcare workers who might have some of their time paid through Medicaid and who earn no more than $15 per hour
    k. The specifics of JFO's data collection efforts
        i. A JFO contractor contacted 233 providers and received 53 responses with hours worked and hourly wage from a variety of provider types in different parts of the state; half of the 53 had no wages under $15 per hour; the sample is not large enough to be representative, but we see evidence of part-time work by many and variation in pay across different parts of the state
        ii. Trade groups for visiting nurses, nursing homes and residential care/assisted living, hospitals, and designated agencies obtained data from their members. The data are incomplete but offer a glimpse of the wage structure at those providers. A concern is that nonmember providers may have less financial stability and more low-wage workers than the members who responded.

iii. Under the collective bargaining agreement (CBA) for ARIS, hourly employees receive at least $11.55 per hour. The lowest wage for respite workers who are paid a daily rate is $0.25 above the State's minimum wage, with the adjustment made on July 1st each year. The equivalent hourly rate in January 2020 is now $11.03 ($0.25 above $10.78) through June 30, 2020 when the current CBA expires. Providers differ in the length of time on the job before raising the wages of the lowest-paid workers.

iv. JFO also received information to help refine the proportional method approach for estimating the cost to the State of raising the minimum wage for healthcare workers paid through Medicaid.

3. Insights learned from collecting data on health care workers paid through Medicaid
    a. Impact of increasing minimum wage varies by location
        i. Providers in southern Vermont and northeastern Vermont as well as smaller providers generally have more jobs with wages closer to the minimum wage
    b. Impact of increasing minimum wage varies by size and type of provider
        i. Providers such as residential care facilities are more likely to have low-wage workers than providers such as hospitals

4. JFO has made improvements in the methodology for estimating the cost to the State
    a. The current estimates start from the approach used last spring[3]
        i. Now include adjustments for new minimum wage proposals
        ii. Now informed by JFO's data collection effort and a recent CBO study[4]
    b. The approach includes costs of addressing compression by assuming smaller proportional increases above the minimum wage until no increases at $15 per hour; the approach maintains the order of the current wage structure

5. Similar cost estimates come from using the Occupational and Employment Survey for the $12.55 path
    a. Examine low-wage workers across many healthcare occupations and estimate percentage of workers paid through Medicaid
    b. For the $12.55 path, roughly $1.4M in FY 2021, $4.4M in FY 2022 including current law increases and addressing compression up to $15/hour

[3] JFO based its estimates on the proportion of the program-specific Medicaid budget going to wages and the share of wages going to low-wage workers.

[4] Congressional Budget Office, "The Effects on Employment and Family Income of Increasing the Federal Minimum Wage," July 8, 2019. https://www.cbo.gov/publication/55410