

ISSUE ANALYSIS

COMPENSATION FOR ADULT FOSTER CARE SERVICES

Legislative Auditor
State of Hawaii

April 1978

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INTRODUCTION

PURPOSE AND SCOPE OF ANALYSIS

This issue analysis is in response to a request by the House of Representatives for the Legislative Auditor to “. . . review the Department of Social Services and Housing’s compensation schedule for living and care arrangements for elderly and disabled adults and make recommendations on revisions to or the elimination of the point system” The request originates from widespread complaints among operators of homes providing adult foster care services that (1) payments made to them are inadequate; and (2) the method for determining payments is unfair.

The objectives of the issue analysis are the following:

- (1) To assess the adequacy of the current compensation schedule;
- (2) To assess the fairness of the current system in determining payments;
- (3) To analyze alternatives to the current system.

In this issue analysis, we (1) provide some background information to the program of adult foster care services; (2) define the problem of compensation for care services; (3) review the alternatives to the current compensation schedule and system of determining payments; and (3) summarize our findings.

BACKGROUND

In keeping with the national trend, the State of Hawaii has experienced an expansion of adult foster care services in family home settings. These services are for those adults who are physically or mentally impaired but who do not require the level of care provided by such institutions as hospitals, skilled nursing facilities and intermediate care facilities.

The demand for care services in family home settings also results from families seeking assistance for elderly relatives, who cannot be cared for in their own homes but who require custodial care or some assistance with the activities of daily living. The alternative is care in institutions, but the general belief of gerontologists is that institutionalization of the elderly is deleterious and that it would be more desirable to arrange for the care of aged persons in home-like environments. It is a belief which is supported by federal and state policies.

In Hawaii, adult foster care services are provided for in two types of homes: (1) the care home and (2) the adult family boarding home. The characteristics of each and the differences between the two are the following:

Care Home	Adult Family Boarding Home
<ul style="list-style-type: none">. Provides room, board, and personal care services. Cares for adults who are dependent on others, either ambulatory or semi-ambulatory. Provides maximum supervision. Cares for two or more persons. Emphasizes physical rehabilitation and restoration, especially toward self-care in larger institutional type facilities. Administered by the Health and Medical facilities Branch, Department of Health	<ul style="list-style-type: none">. Provides room and board services. Cares for fairly independent ambulatory adults who desire family living. Provides minimal supervision. Cares for three persons or less. Emphasizes family participation and living in a home environment. Administered by the Public Welfare Division, Department of Social Services and Housing

Source: Department of Social Services and Housing, *Handbook for Adult Family Boarding Homes and Care Homes*, October 30, 1970.

Generally, it can be said that care homes provide care for those adults who require greater assistance than those in adult family boarding homes. While these homes are not intended to provide medical services, they can be viewed as the next lower levels in the hierarchy of facilities providing medical treatment. Viewed in that context, the facilities would be in descending order of intensity of care: (1) hospitals, (2) skilled nursing facilities (3) intermediate care facilities, (4) care homes, and (5) adult family boarding homes. The importance of care homes and adult family boarding homes and their relationship to the facilities providing medical services is that a shortage of beds at the lower levels would cause a backup of persons to higher and more costly levels of care.

Other than licensing of care homes, which is the responsibility of the Department of Health, the Department of Social Services and Housing has primary responsibility for all aspects of adult foster care services. The significant involvement of government in the program is because many of the people in care homes and adult boarding homes are without sufficient financial resources to purchase their own private care.

The number of clients supported through government in care homes and adult family boarding homes has increased steadily in recent years. Since 1974, the average monthly case load has been 1068, 1254, 1347, and 1428, an increase of 34 percent from 1974 to the last completed fiscal year. This upward trend is likely to continue.

Both the federal government and the State share in the costs of the program. Federal costs in the program are met through payments under the Supplementary Security Income (SSI) program. State costs are met through appropriations from the general fund. In fiscal year 1976-77, federal costs were \$3,096,030 and state costs were \$1,152,222. The State's share of the costs represented an increase of \$613,166 over the previous fiscal year. This significant increase in state costs for the program in fiscal year 1976-77 is due to the State's exceeding the federal government's "hold-harmless" ceiling. Under the "hold-harmless" formula, the State's share of costs for those under the SSI program remains constant if the average payment level does not exceed a specific amount but beyond which amount the State would be liable for the costs. In Hawaii's case, that amount is \$200.99 per client for all SSI clients—for those in care homes and adult boarding homes, as well as for those living in their own residences and the residences of relatives or friends. However, in the last fiscal year, the average payment level exceeded \$200.99 because clients requiring higher (and more expensive) levels of care have increased. Unless the "hold-harmless" ceiling is changed by the federal government, the experience of fiscal year 1976-77 indicates that future increased costs of the program will be borne by the State.

DEFINITION OF PROBLEM

There are two elements to the problem of compensating the operators of care homes and adult boarding homes. The first element is whether the compensation is adequate. The second is whether the method used in determining compensation is fair. In this section, we analyze these two issues after first describing the current system of determining levels of payment.

THE CURRENT SYSTEM

Under the current system, there are three levels of compensation for adult foster care services. These levels and the current monthly compensation for each client are:

Level I	\$268
Level II	318
Level III	380

The method used to determine each client's level of payment is known as the point system. A social worker evaluates the client and assigns a numerical rating to each of three service areas: (1) daily living activities (e.g., feeding, dressing and bathing); (2) amount of supervision required (e.g., ability to leave the premises for walks and visits); and (3) health-related services (e.g., ability to assume needs for exercises and medication).

The numerical rating is given in accordance with the following criteria:

- Level I – Independent and requires a minimum of assistance (scores 1 point)
- Level II – Semi-dependent and requires moderate assistance (scores 2 points)
- Level III – Dependent and requires extensive assistance (scores 3 points)

The points for each of the three service areas are totaled and then divided by three to arrive at an overall numerical rating which determines assignment to the following compensation levels:

- Level I – 1 to 1.5 points
- Level II – 1.6 to 2.5 points
- Level III – Over 2.5 points

The evaluation of the client is done by a social worker upon entry into a care home or adult boarding home. However, subsequent evaluations are also made, and a client may be reclassified from one level to another and the compensation to the home operator may be changed accordingly.

THE ADEQUACY OF COMPENSATION

There are theoretically two ways to determine the current adequacy of compensation for adult foster care services. One is to determine the operating costs of care homes and adult boarding homes, establish what should be a fair rate of return on investment (i.e., profit), and compare the total of costs and profit with the compensation received. The second is to compare the periodic adjustments in the compensation schedule with some yardstick or benchmark, such as the consumer price index.

It is not now possible to determine with precision the operating costs of care homes and adult boarding homes. This is because some of the costs are common to both the provider and the client, such as utility costs and shelter costs, and are difficult to allocate accurately. While we were unable to validate operating costs as a definitive basis for assessing adequacy of compensation, we did reconstruct what operators represent to be estimates of average monthly costs in providing services to a client. These estimates are shown in Table 1.

Table I
Average Monthly Operational Cost (Estimated) of
Selected Care Homes and Adult Family Boarding Homes

	Average cost	
	Care homes	Boarding homes
Food (including away from home)	\$131.69	\$152.70
Shelter	70.03	115.62
Household operations	21.09	22.75
Utilities	14.62	18.05
Transportation	17.17	15.44
Other	72.69	26.56
Total cost	\$327.29	\$351.12

Several observations should be made. First, labor costs, or the value of time expended by the operator and his or her family in running the home and providing services to clients, are not included. Second, the anomaly of costs being higher in adult boarding homes than in care homes may be due partly to the impreciseness of the data provided and partly to the apparent proration of shelter costs to a larger number of clients in care homes. Third, the estimated operating costs, if they are reasonably within range of actual costs, serve to illustrate what the operators perceive and believe to be their predicament when compared with the current levels of compensation. However, even if it were possible to arrive at precise operating costs, it is questionable whether costs plus profit should be used as a basis for compensation. The costs of home operators are likely to vary substantially, and there would be no incentive for efficient operations.

The second method of assessing adequacy of compensation by comparing current compensation with some yardstick, such as the Consumer Price Index, yields more reliable and concrete data for analysis. The Consumer Price Index is compiled by the U.S. Bureau of Labor Statistics to measure changes in prices of goods and services, including measurement of price changes in particular localities, such as Honolulu. Items included in the calculation of the index are food, housing, utilities, clothing, transportation, health, recreation, and other costs. These items are quite similar to the cost factors faced by the operators of care homes and adult boarding homes. Thus, there is a rational basis for assessing the adequacy of compensation to providers of adult foster care services by comparing changes in the compensation rates with fluctuations in the Consumer Price Index. This comparison is displayed in Table II.

Table II
Adult Foster Care Compensation Schedule (Including the Percentage Change from Previous Year)
and the Percentage Increase in the Consumer Price Index
for Fiscal Years 1973-74 Through 1977-78

Levels of Compensation	Fiscal Year									
	1974		1975		1976		1977		1978	
	Amount	Amount	Percent Change							
<i>Level I</i>										
State	\$108.00	\$102.00	[5.6]%	\$ 92.30	[9.5]%	\$ 90.20	[2.3]%	\$ 90.20	0 %	
Federal	130.00	146.00	12.3	157.70	8.0	167.80	6.4	177.80	6.0	
Total	\$238.00	\$248.00	4.2%	\$250.00	.8%	\$258.00	3.2%	\$268.00	3.9%	
<i>Level II</i>										
State	\$158.00	\$152.00	[3.8]%	\$142.30	[6.4]%	\$140.20	[1.5]%	\$140.20	0 %	
Federal	130.00	146.00	12.3	157.70	8.0	167.80	6.4	177.80	6.0	
Total	\$288.00	\$298.00	3.5%	\$300.00	.7%	\$308.00	2.7%	\$318.00	3.3%	
<i>Level III</i>										
State	\$220.00	\$214.00	[2.7]%	\$204.30	[4.5]%	\$202.20	[1.0]%	\$202.20	0 %	
Federal	130.00	146.00	12.3	157.70	8.0	167.80	6.4	177.80	6.0	
Total	\$350.00	\$360.00	2.9%	\$362.00	.6%	\$370.00	2.2%	\$380.00	2.7%	
Consumer Price index* - % increase			6.3%		9.3%		5.2%		5.1%	

*The Consumer Price Index (CPI) for Honolulu for December 1973, June 1974, June 1975, June 1976, and June 1977 were selected to relate the CPI with the effective dates of changes in the compensation schedule.

Several observations are quite evident from the comparison. First, the year-to-year changes in the compensation schedule for all three levels of care are far less than the changes in the Consumer Price Index. Second, the federal government, through increases in payments under its SSI program, has met and even exceeded increases in the Consumer Price Index. Third, the overall lag in keeping up with inflationary cost factors is traceable to the State's declining share of financing the program.

Even as the federal government *increased* its SSI payments to clients by 36.8 percent from 1974 to 1978 to all three levels of clients, the State *decreased* its share of costs per client by 16.5 percent for Level I, 11.3 percent for Level II, and 8.1 percent for Level III. Meanwhile, the Consumer Price Index had *increased* in the aggregate by 28.4 percent in these years.

Apparently, state action was influenced by the "hold-harmless" ceiling of the SSI program, and attempted to keep the average payment to each SSI client from exceeding the level beyond which the State would be required to finance the full burden of the payments. It is questionable, however, whether state social policy, with direct impact on providers and clients, should have been constructed around an arbitrary ceiling established by the federal government. Moreover, when almost every state program is subject to the forces of inflation, it is equally questionable why this particular program of adult foster care services should have been assessed, in effect, to be immune from cost increases.

The evidence is conclusive that state action has prevented the establishment of adequate compensation levels, as measured by the Consumer Price Index.

FAIRNESS OF THE SYSTEM

The providers of adult foster care services have questioned the fairness of the system in determining compensation. In our interviews with the operators of care homes and adult boarding homes, there was almost unanimous complaint that the "point system" of determining a client's level of care and, therefore, the provider's level of compensation, is arbitrary and capricious. Operators question whether a social worker, at a single point in time, can evaluate whether the client is independent, semi-independent, or dependent. They point out that the client's condition may change from month to month or even from day to day. Some operators also believe that the standards used in evaluating the client have little relationship to the actual care required by the client and the work performed by the provider.

In our analysis of the views of operators, their complaints arise from what they believe to be the inadequacy of compensation rather than from the system of determining levels of care and compensation. In essence, complaints about the fairness of the system would be largely moot if the compensation schedule were adjusted to higher levels. However, even if the adequacy of compensation is of a higher priority than the fairness of the point system, the continuing complaints about the system warrant the search for a better alternative over the longer term.

The existing system does contain an undesirable disincentive. One of the objectives of the adult foster care program should be to improve the condition of the client. However, if the client's condition does improve, the resultant change could mean reclassification of the client from one level to another and less compensation to the operator. Thus, if the care provided by the home operator enables the client to improve from Level III (dependency) to Level II (semi-dependency), the operator is penalized by decreasing the compensation. This type of disincentive is neither fair to the operator nor in the interest of the client's welfare.

In the next section, we discuss, among the longer range alternatives, how the system of determining payments might be restructured.

ALTERNATIVES

ADJUSTMENTS TO COMPENSATION

In the preceding section, we concluded that the changes to the compensation schedule have been inadequate when compared to the increases of the Consumer Price Index. Between December 1973 and June 1977, the Consumer Price Index increased by 28.3 percent; between June 1974 and June 1977, it increased by 20.8 percent; and between June 1975 and June 1977, it increased by 10.5 percent. In Table III, we show what the rates would be from three different benchmarks in the Consumer Price Index.

Table III
 Alternative One: Adult Foster Care Compensation Schedule
 Based on the Increase in the Consumer Price Index (CPI)
 From Three Benchmarks

Levels of compensation	1977-78 rates	Rates adjusted for CPI increase		
		CPI benchmark Dec. 1973	CPI benchmark June 1974	CPI benchmark June 1975
Level I	\$268.00	\$305.59	\$299.58	\$276.25
Level II	318.00	369.79	359.98	331.50
Level III	380.00	449.40	434.88	400.01

If one of the alternative benchmarks shown in Table III is selected as the basis for adjusting the compensation rates, we estimate the additional annual costs of such adjustments to be the following:

. Increase based on December 1973 benchmark	—	\$1,075,000
. Increase based on June 1974 benchmark	—	860,000
. Increase based on June 1975 benchmark	—	296,000

Other benchmarks than those shown could be taken to make compensation adjustments, but we believe that it would be rational to relate the adjustments to the Consumer Price Index in some way so as to provide a common basis for any other future adjustments which might be necessary.

A RESTRUCTURED SYSTEM

Information was sought from other states to determine if any other adult foster care program offered better alternatives to Hawaii's system of determining levels of care and levels of compensation. Some states had a single level of payment, other states had two levels, and the remaining programs had three or more levels. No single state's system of payments appears to offer a better alternative which could feasibly be applied to Hawaii. However, we believe a more rational system could be designed and implemented over the longer term.

As the State maintains two separate levels of nonmedical facilities, i.e., care homes and adult family boarding homes, it would be logical to consider a two-level approach to payments. There would be one level of payment for care homes and one level of payment for adult family boarding homes. To implement such a system, criteria would have to be established to determine which clients would enter care homes and which clients would enter adult family boarding homes. In the context of the present levels of care, it would appear that all Level III (dependent) clients should be in care homes and all Level I (independent) clients should be in adult family boarding homes. However, it is less certain where Level II (semi-dependent) clients belong, and at the present time they are to be found in care homes as well as adult family boarding homes.

In our alternative for a restructured system, there would be one single higher level of compensation for care homes because of the greater services required of those homes. The new single rate for care homes and the new single rate for boarding homes should also take into account the increase in the Consumer Price Index from some benchmark.

While we believe that there is no insurmountable obstacle to restructuring the levels of care and levels of compensation in consonance with the levels representing care homes and adult boarding homes, we caution that it can be implemented only over a longer term. In addition to designing a system for determining which clients would enter which homes, agreement would have to be secured from the federal government. Also, some consideration would have to be given to the wishes of clients who may be inappropriately placed but are accustomed to their present home.

SUMMARY

In this issue analysis, we found that the compensation to the providers of adult foster care services has been inadequate when compared with the Consumer Price Index. The inadequacy of this compensation is the result of the State's decreasing its share of costs per client at the same time that the federal government has been increasing its payments under the Supplementary Security Income program. If adjustments to the compensation schedule are made, a benchmark point in time of the Consumer Price Index should be selected as a basis for calculating the adjustments.

Under the present system of identifying three levels of clients and providing for three levels of payments, there is a serious disincentive of the home operator's being penalized by a lower level of compensation if the client's condition improves. Consideration should be given over the longer term to restructure the system into two levels, with a single payment level for adult boarding homes and a single higher level for care homes.

Finally, we conclude that the State's objective should be to encourage the maintenance of adult foster care services and their expansion to meet the discernible trend of higher case loads. An adequate compensation schedule is clearly necessary to promote this objective. If the supply of the services provided by care homes and adult family board homes is ever insufficient to meet the growing demand, the only alternative would be more costly institutional care. It is in the interest of the State and the social welfare of clients to avoid such a consequence.