



## STATE BUDGET OFFICE

February 8, 2017

### Direct Care Wage Increase FISCAL YEAR 2018 EXECUTIVE RECOMMENDATION

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#### **Background:**

Direct Care workers are tasked with delivering many of the basic behavioral health services and supports provided to people served through Michigan's community mental health system. Approximately 90,000 Michigan residents with developmental disabilities, mental illness, or a serious emotional disturbance receive one or more direct care services each year. These services include: licensed residential treatment, community living supports, skill-building, vocational services, respite care, and health services. Direct care workers are typically employed by non-profit or private sector service providers under contract with the local community mental health authority (CMH) or directly by a beneficiary acting as their own employer in conjunction with the CMH. Services are delivered in residential, vocational, and educational settings.

High turnover of direct care staff, driven in recent years by an increase in Michigan's minimum wage and a more robust labor market, is negatively impacting the quality of direct care services. Budget boilerplate included in the FY 2016 appropriation act (PA 84 of 2015) directed the Department of Health and Human Services (DHHS) to analyze the recruitment and retention of direct care workers and consider solutions to these challenges.

In the resulting report released in September 2016, the DHHS found that challenges in attracting and retaining direct care workers result from uncompetitive pay compared to entry-level wages in other sectors. The average starting wage in 2015 for a direct care worker was \$8.69 per hour, while experienced workers earned an average of \$9.62 per hour. Furthermore, since 2015, the state's minimum hourly wage has risen from \$8.15 to its current level of \$8.90 and will rise again to \$9.25 in 2018. Statewide, the annual turnover rate for direct care workers was estimated to be 37% in 2015.

#### **FY 2018 Executive Proposal:**

The FY 2018 Executive Recommendation provides \$45 million gross (\$14.2 million general fund) to support a wage increase for direct care workers in Michigan's Pre-Paid Inpatient Health Plan (PIHP) system. The investment will raise the rates paid to PIHPs who, in turn, would be required to direct these new funds to direct care wages. The DHHS estimates this investment would be sufficient to raise the average starting wage \$0.50 per hour.

Prior appropriations have funded wage increases for direct care workers. The two most recent are:

- P.A. 330 of 2006 funded a 2% wage increase for direct care workers
- P.A. 246 of 2008 boilerplate included a 1% wage increase

Investment in direct care wages is necessary to ensure the availability of quality behavioral health services and supports. The recommended funding increase will accomplish this by attracting and retaining more skilled and experienced individuals to the direct care workforce, reducing turnover rates among direct care workers, and expanding the availability of direct care services. The increase in services provided can be tracked using annual CMH expense reports.