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Study: Subsidizing wages at long-term care facilities would cut turnover

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Subsidizing the wages of caregivers at group homes would likely reduce worker turnover rates and help contain costs at long-term care facilities, according to new University of Illinois research.

Elizabeth T. Powers, a professor of economics and faculty member of the Institute of Government and Public Affairs at Illinois, says that a government-sponsored wage-subsidy program could reduce the churn of low-wage caregivers through group homes by one-third.

"High rates of worker turnover have costs, and there aren't a lot incentives for the agencies that operate group homes to reduce worker turnover, given the environment they operate in and the potential mobility of workers," she said. "Although there's not much gain to providers from reducing turnover, the high turnover rate may have costs to clients, in that it negatively affects the quality of their experience."

The research, published in the *Journal of Disability Policy Studies* and co-written with Nicholas J. Powers, an independent scholar who holds a law degree and a doctorate in economics, uses data from long-term community-based residential services for persons with developmental disabilities to perform a cost-benefit analysis of a policy to reduce high worker turnover through wage subsidization.

According to professor Powers, the paper is one of the first studies to show how sensitive worker turnover is to wages in the long-term care industry.

"In these low-wage jobs, people really need the money they earn to live," she said. "They don't have any kind of financial cushion to speak of, so they're very sensitive to the wage. If the wage is low and they don't like something on the job, they'll walk to another employer. But if the wage is good, they'll stay."

For this type of service, there are "psychic as well as practical costs" to employee turnover, she says.

"Nobody likes change; nobody likes to have everything be different every day," she said. "If clients are constantly dealing with new workers, it's going to be a lower-quality experience. That's why subsidizing worker wages would raise the quality, because it helps workers stay where they are."

Professor Powers says the effect of wages on worker turnover, as well as an understanding of how good a tool a wage subsidy can be, hasn't been studied in enough detail by economists and public policymakers.

"Prior research tended to focus on workers who weren't living on the edge so much, or on different kinds of occupations where the wage wasn't the most important thing," she said. "The compensation of unionized teachers, for example, has been studied, but their salary structure is pretty rigid. So for a long time the research has been focused on non-wage factors as well as on labor markets with a lot of constraints on pay."

She says providers would be unlikely to reduce worker turnover on their own, since its associated costs are either tolerably small or borne by others.

"Right now, the way the system is structured, there's very little incentive for providers to compete on quality," professor Powers said. "So aspects of care that might be hallmarks of quality, like low turnover, aren't seen by providers as being in need of improvement. That creates an opening for government to step in. With the proper incentives, the provider would have an incentive to do things like reduce turnover, because they'd be forced to compete at least somewhat on quality."

In the study, the husband-and-wife team also identifies areas where government may actually be promoting turnover. According to the research, by allowing entry-level training costs to be shifted to Medicaid, government policy is, in effect, subsidizing worker turnover.

"Since the government subsidizes entry-level training for workers, the provider doesn't bear the cost of high employee turnover," professor Powers said. "The cost of having to train people is already taken off the provider's books. The other aspect that's peculiar to the human services sector in Illinois is that the state doesn't really let the consumer choose where he or she is going to live. If you think about a well-functioning market for these types of services, the client would shop around and wouldn't choose a place with high turnover, especially if it hurt the quality of the place."

But in a blind matching system based on geography and if a provider has an empty bed, "there's no way for the consumer to discipline the market," she said.

"That feeds into this newer idea in social services of money following the consumer – that if consumers had more power, providers would have to compete on quality," she said. "If a consumer could pick up their money and go to any provider they wanted, even if they all cost the same, providers would have to start competing on something else, and that something else would be quality. If they didn't, providers would have empty beds, and that would cost them money."

While the study only considered group homes for the developmentally disabled, professor Powers says the conclusion is applicable to other facilities such as nursing homes and daycare centers.

"We're looking now at nursing homes, and the turnover rates for nurses' aides are very similar to what we found for the direct services provider position at the Illinois group homes," she said.

"With the demographic shift and the looming elder-care crisis, questions about how to deliver long-term care efficiently and with the best quality are going to naturally cause people to take a closer look at the role of the hands-on workers in the system," she said. "Essentially, these workers are the product these facilities are selling. If clients constantly have workers who don't know them and their likes and dislikes helping them with their daily activities, they're not going to perceive it as a high quality experience."

More information: The paper, "Should Government Subsidize Caregiver Wages? Some Evidence on Worker Turnover and the Cost of Long-Term Care in Group Homes for Persons With Developmental Disabilities," is available online.

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