

## **Impact of \$15 per Hour Minimum Wage on Pennsylvania's DSP Workforce Crisis**

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### **Abstract**

Data collected during the 2019 Pennsylvania survey of Direct Support Professional wages were used to estimate the impact of an imposed \$15.00 per hour minimum wage. It was estimated that the imposition of this increased rate would be in excess of \$200 million per year. It was hypothesized that provider agencies would support the increase because it might lessen the workforce crisis. Concern was raised that there was no visible means with which to fund this wage increase.

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The intellectual disability/autism field cannot hire a sufficient number of qualified Direct Support Professionals. Recent research (Spreat 2019a) suggests that at least one in five Direct Support Professional positions in Pennsylvania is vacant. When one considers the impact of vacations, sick leave, required training, and family medical leaves, a provider agency may be faced with a shortage of as much as one out of three Direct Support Professionals on any given day. A workforce crisis has been publicly pronounced by both the American Association on Intellectual and Developmental Disabilities (2016) and the President's Commission on People with Intellectual Disabilities (2012).

A number of factors have been suggested as contributing to the workforce crisis. These include longer life spans for people with intellectual disability, the growing support needs of the Baby Boomer generation, and the current availability of better paying jobs. One might also note that group homes, the dominant residential model in the intellectual disability industry since 1991, tend to require higher staffing levels than many state developmental centers. More recently, Spreat (2021) has suggested that the governmental practice of fixing prices for intellectual disability supports and services is a major contributing factor to the workforce crisis.

Economic theory suggests that price is supposed to create equilibrium between supply and demand (Pettenger 2017). When price (i.e., wages) is in any way constrained, shortages (i.e., Direct Support Professionals) will occur. In fairness, the government does not set limits on

Direct Support Professional wages, but by placing limits on provider revenue, the government has indirectly imposed limits on what Direct Support Professionals can be paid. In a sense, the purchaser fixes the price and this action in turn places limits on the wages that can be paid to Direct Support Professionals. These limits ensure the continuation of a workforce crisis in the intellectual disability field because the providers have no other source of funding to support increased wages. For most provider agencies in the intellectual disability industry, the only payer is the government. It should be noted that the typical provider currently spend as much as 80 percent of their budget on staffing, while operating on a 1.0 to 1.5 percent margin between their revenue and expenses (Spreat, 2020). There is not room for significant wage adjustments within contemporary budgets. In many ways, this illustrates the old adage that if a company loses control of its pricing, it loses control of its business. Hewitt (2013) has suggested that the current workforce situation is not really a crisis because the word “crisis” implies some sort of relatively new or sudden onset situation. She argues that systematic underpayment has been the way of doing business within the intellectual disability industry. Regardless of the term selected, it is clear that providers are unable to hire sufficient numbers of Direct Support Professionals at current wages.

President Biden has proposed a \$15.00 per hour minimum wage, and given the precarious situation of the intellectual disability industry (Spreat, 2019b), it is necessary to examine the likely impact of this minimum wage. It must first be recognized that most provider agencies would welcome a \$15.00 or more minimum wage. Increasing wages should decrease vacancies, as the supply of Direct Support Professionals would increase to meet the demand for Direct Support Professionals. In Pennsylvania, provider associations like PAR (Pennsylvania Advocacy and Resources for Autism and Intellectual Disability) have been in the forefront of the Direct Support Professional Living Wage movement. There is considerable support within the field for increased wages for Direct Support Professionals. At issue is how much this increase would cost, and from where the provider agencies might get the necessary money.

Data from the 2019 Statewide Direct Support Professional wage survey (Spreat, 2019a) afford the opportunity to generate a rough estimate of the likely costs of increasing hourly wages for Pennsylvania Direct Support Professionals from the current estimated mean of \$13.42 to \$15.00 per hour. Note that some Direct Support Professionals already make over \$15.00 per hour

and their wages would not require adjustment. It is estimated that there are 55,000 Direct Support Professionals employed within the Pennsylvania intellectual disability industry, of which 73 percent work full time, and 27 percent work part time. The study suggests that 88.5 percent of Pennsylvania Direct Support Professionals were paid below \$15.00 per hour. The mean hourly wage of these 35,533 individuals working full-time was \$12.88. They are \$2.12 below the proposed minimum wage. Of those who work part-time and make less than \$15.00 per hour (n=14,850), an average hourly wage was calculated to be \$12.55. They are \$2.45 below the proposed minimum wage.

If the 35,533 full time Direct Support Professionals who are currently paid less than \$15.00 per hour were increased to \$15.00 per hour, the annual cost for a 2080 hour year would be \$156,686,317. If the 14,850 part time Direct Support Professionals who are currently paid less than \$15.00 per hour were increased to \$15.00 per hour, the annual cost for a 1040 hour year would be \$33,524,036. Total additional cost of the proposed increase could be estimated at \$190,210,353 for Pennsylvania.

Note also that according to Spreat (2019a), the average Pennsylvania Direct Support Professional works 5.5 hours of overtime per week, or 206 hours of overtime per year. This would pertain only to full time staff. The increase overtime cost of 35,533 full time Direct Support Professionals working 206 overtime hours per year would be \$164,695,455 per year (35,533 employees \* 206 hours per year \* (1.5 \* \$15.00)). Part time employees would not earn overtime pay.

Raising the wages of one level within an organization can have impacts on other parts of the organization. If Direct Support Professional wages increase sufficiently, there may be a reduced incentive for a Direct Support Professional to become a supervisor. This phenomenon is called salary compression. It can be defeated only by increasing the wages of that next level. Extrapolating from the survey data referenced above, it is estimated that there are 534 Front Line Supervisors in the Pennsylvania intellectual disability industry. This may be an underestimate. Their average annual salary is \$37,033, and this figure is roughly 33 percent above current Direct Support Professional wages. If Direct Support Professional wages are increased to an average of just over \$15.00 per hour (an increase of 11.8 percent), it would generally be necessary to

increase Front Line Supervisor wages similarly. To increase the 534 front line supervisors comparably would cost approximately \$2,333, 523.

Summing the results of the three analyses, it is project that in the intellectual disability industry alone, the costs of implementing the \$15.00 minimum wage would exceed \$350 million per year. While \$350 million is a relatively small percentage of the roughly \$3 billion that Pennsylvania spends on intellectual disability supports and services, there is no ready pocketbook currently holding this money. Alternative approaches will be necessary.

It is reasonable to expect that the pay increase would be well received by those Direct Support Professionals who currently make less than \$15.00 per hour. Whether this increased good will and fiscal well-being will translate into a reduced number of Direct Support Professional vacancies is an empirical question. It is noted that in the most recent PAR study (Spreat 2019), the overall vacancy rate for agencies with a mean salary of less than \$15.00 was 31.8 percent; for agencies paying over \$15.00 per hour, the vacancy rate was 12.9 percent. Thus, one might anticipate some potential overtime savings from the wage increase.

From where will these additional 350 million dollars come? Spreat (2020) reported that while Pennsylvania intellectual disability funding has generally kept up with inflation, it has lagged markedly below the Pennsylvania general budget. At this same time, provider agencies operate on a 1.0 to 1.5 percent margin between revenue and expenses, with a third of all providers having expenses in excess of revenue in any given year (Spreat 2019b). In a sense, there is no reason to believe that the Commonwealth will provide this additional funding and there is no pot of gold lurking in provider coffers. From where will the money come? Consider the following possibilities.

1. Reduced overtime – If the increased hourly wage is able to reduce the number of vacant positions, it is likely that the costs of overtime would actually decline a bit. These overtime savings could assist in covering some of the costs of the increased wages.
2. State welfare savings – Torres, Spreat, and Clark (2017) reported that at current pay levels, PA Direct Support Professionals could qualify for as much as \$15,889 per year in public support. Higher pay levels would reduce access to these forms of welfare, thus creating savings that might be used to pay for the increase. If just half of the Direct

Support Professionals qualified and received half of the maximum benefit, the savings could approach \$206 million. It should be noted, however, that these welfare dollars are not controlled by or accessible to the department responsible for funding intellectual disability programs.

3. Implement less expensive forms of service - The group home model, while well supported by empirical outcome data, is very expensive. Two less expensive forms of service seem to be growing in popularity – life sharing and paying families to retain responsibility for dependent children. Both of these models are cheaper than current expensive group home models. At this point in time, both models lack empirical validation, but that shortcoming does not appear to be of great concern. Paying families might be an ideal and inexpensive approach, but it would likely open the door for requests for funding support from families who are currently maintaining sons or daughters at home without funding.
4. Increased use of electronic monitoring – Smart homes can be developed for some individuals to reduce the need for 24-hour supervision. This could result in a decrease in the demand for Direct Support Professionals.
5. Reduce benefit packages – In the PAR survey, it was determined that the average benefit package costs a provider approximately 23.9 percent of what it pays for wages. These benefit packages typically include health insurance, paid time off, and some sort of defined contribution retirement package. Benefits could be cut in order to increase hourly wages. Drastic cuts in these areas are unlikely to be well received by a workforce already in crisis and are an objectionable alternative.
6. Litigation – Litigation regarding Medicaid funding to date has not been successful in achieving a desired outcome (Heasley 2015), but that alternative should not be entirely discarded.
7. Make it in the interest of legislators to increase funding for intellectual disability services - Fiscal support for legislators via PAC funds or other legal mechanisms should be implemented. Also to be considered is political activities to make needs better known and voting preference known as well.

8. Reduce staffing levels of Direct Support Professionals – This would be very hard to accomplish in regard to safety, particular given the operational structure of group homes, the dominant service model since 1991. It is also likely that some regulatory changes would be needed to implement such reductions.
9. Increased Funding Support by the Legislature - It is noted that intellectual disability funding in Pennsylvania has lagged markedly behind the Pennsylvania general budget for over 20 years (Spreat 2020). While spending has essentially kept up with inflation, increased numbers of individuals are being served and supported. It is probably unrealistic to expect meaningfully increased funding levels.

The reality is that the \$15.00 per hour minimum wage is unlikely to take effect in the near future, although it is reasonable to anticipate that some level of increase will occur over the next couple of years. The concern is that even a gradual increase in wages for Direct Support Professionals must be supported by legislatures. Providers already operate on too slim of a margin to accept an unfunded mandate, even a mandate that most providers support.

There are several cautions to keep in mind in regard to some of these numbers. First, we do not really know that 55,000 is a good figure for the number of Direct Support Professionals. Secondly, our data set asked providers to indicate the average hourly wage of Direct Support Professionals. To be included in the group needing adjustment, the average hourly wage for a Direct Support Professional in that agency must have been below \$15.00 per hour. Thirdly, the data are from 2019. Despite the pandemic, some agencies have surely given staff raises. Even with these cautions considered, we are still talking a pretty big number and the impact will be large.

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