Fair Pay for Home Care: Estimated Costs and Savings

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Key Findings:

- Finding 1: State costs would be more than offset by economic benefits
- Finding 2: New federal funding would fully cover costs borne by the state in FY23
- Finding 3: One-time bonuses would not address worker shortage or create savings

The demand for home care workers has grown dramatically in recent decades, and the pandemic has widened the gap between those who need home care and the available supply of workers in this field. With rising demand and high turnover due to low wages and poor working conditions, approximately 1,000,000 job positions in New York's long-term care sector must be filled between 2022 and 2032.[1]

Surveys find that the home care shortage continues at crisis levels. The shortage can leave patients stuck in nursing homes and hospitals rather than receiving care at home. In some cases, family members must quit their jobs as a last resort to take care of loved ones at home, or stack caregiving onto their existing jobs, creating extreme stress.[2] The workforce shortage has also burdened home care agencies with major recruitment and retention costs.[3]

Raising wages is a highly effective strategy for resolving the home care shortage. Higher wages would reduce turnover and attract new workers to the field,while creating large-scale economic benefits for New York State.

This analysis estimates the costs and benefits of the Fair Pay for Home Care wage increase as proposed in state legislation S5374A/A6329A. The analysis builds on our 2021 study, offering updated figures based on the specific Fair Pay for Home Care wage proposal instead of the generic wage increases we originally examined. We use the same methodology to project the economic benefits of raising wages but employ new estimates of wage costs produced by the Coalition of Downstate Union Home Care Agencies. We work from three premises:

- Fair Pay for Home Care would establish a minimum base wage and provider reimbursement for home care workers at 150 percent of the highest minimum wage in each of the state's wage regions–in practice, this would lift home care wages to a minimum of $22.50 per hour, up from as little as $13.20.

- The Coalition of Downstate Union Home Care Agencies estimates that the total federal and state cost of this change, including both wages and payroll taxes, would amount to $1.3 billion in the first quarter of 2023 (January 1 to March 31, the final quarter of fiscal year 2023), and a total of $5.0 billion in the first full fiscal year 2024.
- The federal government would cover 50% of these costs,[4] so **New York State would only be responsible for approximately $630 million in the upcoming budget (FY23).** For the following full year budget (FY24), the state cost would be $2.5 billion.

Finding 1: State costs would be more than offset by economic benefits

In the upcoming budget (FY23) the state would contribute $630 million, which will yield savings, revenue, and economic activity of $1.7 billion—net state economic benefits of more than $1 billion.

Table 1 details these costs and benefits. The benefits fall into three main categories:

- Due to higher wages, the state would receive new revenue via income and sales tax, and would share in the savings that result from reduced public assistance expenditures; these gains would total just over $1 billion in the first full year of wage increases.
- Raising wages will also reduce turnover and increase productivity among home care workers. This effect would produce a projected $2 billion in savings in the first full year.
- Finally, the higher wages will stimulate economic activity in the state, estimated at $5.6 billion in the first year, as home care workers spend their earnings on basic needs and as such spending generates further economic activity.

Overall, raising home care wages to the proposed target levels would generate net benefits, as the cost of doing so is greatly exceeded by the savings, revenues, and economic activity that would result. For the first full year (FY24), the state would contribute $2.5 billion, which will yield economic benefits totaling $8.8 billion and net gains of $6.3 billion.

Much of the economic benefit would come in the form of "economic spillover"—in other words, workers who receive wage increases would spend those wages on food, rent, and household goods and services, which would contribute to the state economy. That money spent would generate a cascade of further spending by businesses and the individuals they employ. This dynamic is similar to the impact of a federal stimulus bill and the $1,200 checks that taxpayers received for COVID-19 relief. But an ongoing wage increase would create much greater economic activity than a one-time stimulus check, as we explain below.

Table 1: Costs and Benefits of Fair Pay for Home Care Workers in New York State, FY23 and FY24

	Fiscal Year 2023, Fourth Quarter (Jan 1 - Mar 31, 2023)	Full Fiscal Year 2024 (Apr 1, 2023 - Mar 31, 2024)
Total state costs*	**$630,185,000**	**$2,520,740,500**
Total costs (state and federal contributions)	$1,260,370,000	$5,041,481,000
Economic benefits for state	**$1,681,490,000**	**$8,821,665,000**
Net economic gain for state	**$1,051,305,000**	**$6,300,924,500**
Detailed Breakdown of Economic Benefits for New York State:		
Economic spillover	$1,388,902,000	$5,555,607,000
New income tax revenue	$135,721,000	$542,884,000
New sales tax revenue	$57,037,000	$228,150,000
Public assistance savings	$99,829,000	$399,317,000
Turnover reduction	$0	$243,838,000
Productivity gains	$0	$1,851,869,000
Total	$1,681,490,000	$8,821,665,000

*State costs could be covered by federal funding, as we outline below.

Finding 2: New federal funding would fully cover the costs borne by New York State in FY23

In the upcoming FY23 budget, the state would need to allocate $630 million to fund Fair Pay for Home Care—but this entire amount could be covered through federal funding that the state has received for home and community-based care through the American Rescue Plan.

Enacted in March 2021, the American Rescue Plan Act (ARPA) allocated new federal funding to supplement existing state spending on Medicaid home and community-based services. As a result, the New York State Department of Health has designated approximately $1.6 billion in American Rescue Plan funds specifically for the home and community-based services that it oversees.[5] These funds must be spent by March 31, 2024.

The Department of Health has developed spending proposals for the $1.6 billion budget, including two major workforce-related expenditures: $807 million to "Transform the Long-

Term Care Workforce and Achieve Value-Based Payment" and $418 million for a "Homecare Worker Bonus." Those two workforce proposals, if targeted toward home care wage increases instead of one-time bonuses or programs, comprise a promising funding source for Fair Pay for Home Care: approximately $1.2 billion dollars from the federal government that could cover the entire cost of FY23 wage increases and a sizable portion of FY24 increases.

By using these federal funds to finance the first fiscal year of Fair Pay for Home Care, the state would not require spending from its General Fund. In addition, economic benefits and savings would begin to accrue during the first year of wage increases at no expense to the state. Therefore, these American Rescue Plan funds can be viewed as an initial investment, entirely backed by the federal government, that would both cover the initial period of wage increases *and* yield new revenue and savings to fund higher wages going forward.

Finding 3: One-time bonuses would not address the home care worker shortage or create savings

The proposed FY23 state budget includes one-time bonuses for certain home care workers. Our research, however, suggests that such bonuses would be an ineffective use of available home care funds, wasting a cost-free investment of federal dollars that would yield strong future returns. There are three reasons why one-time bonuses would fail to address the workforce shortage and would largely eliminate the projected benefits of wage increases:

- **Unlike permanent wage increases, a bonus is a one-time payment and would have minimal impact on reducing turnover and increasing productivity among current home care workers.**
- **Bonuses would have no impact in recruiting *new* workers to end the home care labor shortage.** As our 2021 study explains, previous research on labor supply dynamics indicates that higher wages will attract workers from other occupations or from outside the existing labor force—this would be one of the chief benefits of the Fair Pay for Home Care legislation if enacted. One-time bonuses, by contrast, would produce no such effect.
- **One-time bonuses would not create substantial economic benefits for the state.** Bonuses would not produce significant economic spillover effects, which represent the largest category of economic benefits that would result from the Fair Pay for Home Care proposal. Permanent wage increases would allow workers to adjust their consumption patterns, for example, by spending more on food and household needs. Such purchases would spur local economic activity, which would in turn create new jobs. By contrast, an estimated one-third of home care workers would not qualify to receive bonuses,[6] and those who qualify would likely use bonuses for debt payments or one-time rent payments—rather than longer-term spending that could serve as an ongoing economic stimulus.

Notes

[1] Stephanie Luce, Isaac Jabola-Carolus, and Ruth Milkman, "Gender, Race and Job Opportunities in the New York Home Care Economy," City University of New York, 2021.

[2] National Alliance for Caregiving and AARP, "Caregiving in the US," 2020; Kristina Fiore, "Home Care Shortage Keeps Patients in Strained Hospitals," *MedPage Today*, January 14, 2022; Diana Eastabrook, "Families Bearing Weight of Caregiver Shortage, Survey Finds," *McKnights Home Care*, January 14, 2022.

[3] Home Care Association of New York State, "State of the Industry 2022," February 2022.

[4] At the time of writing, the federal government covers 56.2% of New York State Medicaid spending. This federal share of costs includes the standard 50% that New York State receives according to the Federal Medical Assistance Percentage (FMAP) for Medicaid spending, as well as an additional 6.2% that the state currently receives under the Federal CARES Act. The state will receive the additional 6.2% until the end of the fiscal quarter in which the federal government designates the end of the COVID-19 Public Health Emergency. For the purposes of our analysis, we make the optimistic but analytically conservative assumption that the Public Health Emergency will be lifted by January 2023, reducing the federal cost share to 50%. If, instead, the Public Health Emergency continues beyond January 2023, then the federal cost share would remain 56.2%, and New York State's cost share would be 43.8%—reducing the state cost estimates we present here.

[5] Authors' analysis of Department of Health, "HCBS Spending Plan for Implementation of American Rescue Plan Act," (Second Quarter Budget, February 15, 2022). For more on the state's spending plan, see Department of Health, "American Rescue Plan Act of 2021 Home and Community-Based Services (HCBS) Enhanced Federal Matching Percentage (eFMAP)," Beyond the $1.6 billion allocated to DOH, there are additional ARPA funds for Home and Community-Based services allocated to other offices, including the Office for People with Developmental Disabilities (OPWDD) and the Office of Mental Health (OMH). Because these ARPA funding amounts stemmed from an increase in the Federal Medical Assistance Percentage for Medicaid, funds were allocated to each Department based on how much federal funding each department's services generated.

[6] Estimate provided to authors by the Consumer Directed Personal Assistance Association of New York State, based on member survey, February 2022.