



# Issue Brief: Can Supported Employment Flourish in a Medicaid Fee for Service System?

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## Introduction

As states adopt Employment First<sup>1</sup> policy and seek to increase the percentage of working-age individuals with disabilities who are participating in integrated employment at competitive wages, reimbursement methodologies for Supported Employment and related services become a core consideration for ensuring successful outcomes. This policy brief discusses the issues with current approaches to funding Supported Employment services and explores the concept of outcome-based reimbursement for long-term (sometimes called “extended”) Supported Employment services in particular. By way of illustration, the longest-standing models of outcome based reimbursement for Supported Employment is briefly described, including its impressive track record of success over nearly two decades.

## The Limitations of Fee-For-Service Reimbursement for Supported Employment

Historically, Medicaid programs have been operated on a fee-for-service basis. This has not always been well aligned with the delivery of Supported Employment services for a number of reasons:

- A fundamental expectation in Supported Employment is that on-the-job supports (job coaching) will fade over time. If providers are reimbursed based on hours of service, there is no financial incentive to get people jobs where fading is possible: namely jobs

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<sup>1</sup> See <http://www.dol.gov/odep/topics/EmploymentFirst.htm> and <http://www.employmentfirst.net/> and <http://www.apse.org/employment-first/> for more information on Employment First and what it means.

that are well-matched to a people's abilities in workplaces where potential for natural supports exists. There is also no incentive to implement effective strategies to fade once a person is on the job. The provider experiences a reduction in funding by doing these things. In contrast providers who do poor job matching and who do not implement strategies to fade experience no reduction in funding.

- Many fee-for-service approaches allow billing only for face-to-face service delivery, which is not desirable for many aspects of Supported Employment services. We know that the critical, early stages of job development are typically done without the individual present. It is also the case that once an individual is settled into his/her job, the most effective supports are often the least intrusive, involving check-ins with the individual and the employer, and other assistance provided most cost effectively through the delivery of support that is not face-to-face. A policy that allows billing only for face-to-face interactions can encourage unnecessary and potentially intrusive supports while discouraging the use of supports that may not be face-to-face but may be more appropriate and more cost effective. Providers who invest in and learn to use innovative technology to provide supports via cell phones, Skype, etc. are not rewarded for adopting these approaches in a fee-for-service arrangement.
- The fee-for-service approach includes no incentives to increase the hours that supported employees work, particularly if this can be done without increasing the need for on-the-job supports. Low hour jobs in Supported Employment are a chronic problem nationally and it appears that incentives are needed to reverse this trend. Increasing the hours that people work is not rewarded in a fee-for-service approach that pays service hours delivered by the provider.
- A fee-for-service approach does not include strong incentives for providers to prevent job loss and there are often difficulties with providers receiving timely approvals from case managers to increase job coaching hours to prevent a job loss. This means the provider either chooses to provide the extra supports without reimbursement for that emergency support or the provider awaits the authorization by which time the supported employee may have lost his/her job.
- A fee-for-service approach to job development/placement does not reward providers for achieving the outcome in an efficient manner. The longer it takes a provider to find a person a job, the more revenue they receive. In contrast, providers who are highly competent in doing job development/placement and who get people jobs in less time are rewarded with a lower reimbursement.

Ultimately, a fee-for-service approach to purchasing Supported Employment services is likely to result in the most capable organizations, which require the fewest hours to deliver the service due to their capabilities, ending up with the fewest billable hours and thus the lowest reimbursement for their work. This means the more capable organization receives less funding for being more capable.<sup>2</sup>

## New Opportunities to Utilize Outcome-Based Reimbursement for Supported Employment

In September of 2011, CMS issued new guidance regarding supports for integrated employment under Medicaid 1915c waivers. They clarified that states can adopt innovative approaches to purchasing Individual Supported Employment services, including payments based on milestones or outcomes. CMS said:

*“Statewide rate setting methodologies, which are further described in I-2-a of the waiver application, may be used to embrace new models of support that help a person obtain and maintain integrated employment in the community. These may include co-worker support models, payments for work milestones, such as length of time on the job, number of hours the participant works, etc. Payments for work milestones are not incentive payments that are made to an employer to encourage or subsidize the employer’s hiring an individual with disabilities, which is not permissible.”<sup>3</sup>*

Since that time, interest has grown around developing outcome-based approaches to funding Supported Employment services under Medicaid home and community-based waivers<sup>4</sup>. In an outcome-based model, best practice service delivery and outcomes are both rewarded financially. In regard to outcomes, full employment (or maximizing the hours a supported employee works) generates increased gross revenue to the provider.

In an outcome-based model, maximizing fading of supports results in the provider experiencing an increase in **net** revenue, even if the hours worked by the supported employee are not

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<sup>2</sup> Credit for this profound statement of simple common sense goes to Stephen Block, PhD, Executive Director of Denver Options, a managed long-term care organization serving people with intellectual and developmental disabilities in Denver, Colorado.

<sup>3</sup> Source: September, 16, 2011 CMS Informational Bulletin that can be found at: <http://downloads.cms.gov/cmsgov/archived-downloads/CMCSBulletins/downloads/CIB-9-16-11.pdf>

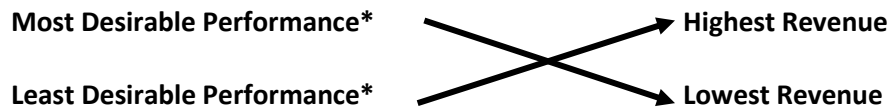
<sup>4</sup> For more information on Medicaid home and community-based waivers, see: <http://www.medicaid.gov/medicaid-chip-program-information/by-topics/waivers/home-and-community-based-1915-c-waivers.html>. Note: 1915c waivers are currently the most common but there are other types of Medicaid waivers that can include Supported Employment services. See: <http://www.medicaid.gov/Medicaid-CHIP-Program-Information/By-Topics/Waivers/Waivers.html> for more information.

increased. The table below illustrates how a funder’s most desired outcomes can be aligned with the net revenue that providers receive for achieving those outcomes.

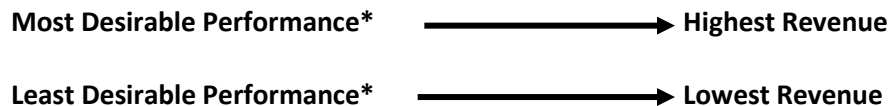
**Reimbursing Based on Hours of Work by the Supported Employee**

CHANGE IN EMPLOYMENT AND SUPPORT CIRCUMSTANCE	REVENUE FOR PROVIDER	COST TO PROVIDER	FUNDER'S DESIRED OUTCOME #1=Most #9=Least	(+) REVENUE CHANGE FOR PROVIDER #1=Most #9=Least
Hours Worked ↑ Supports ↓	Increases	Decreases	#1	#1
Hours Worked ↑ Supports Same	Increases	No Change	#2	#2
Hours Worked Same Supports ↓	No Change	Decreases	#3	#3
Hours Worked ↑ Supports ↑	Increases	Increases	#4	#4
Hours Worked Same Supports Same	No Change	No Change	#5	#5
Hours Worked ↓ Supports ↓	Decreases	Decreases	#6	#6
Hours Worked ↓ Supports Same	Decreases	No Change	#7	#7
Hours Worked Same Supports ↑	No Change	Increases	#8	#8
Hours Worked ↓ Supports ↑	Decreases	Increases	#9	#9

Outcome-based reimbursement allows Supported Employment funders and providers to move away from this:



Outcome-based reimbursement allows Supported Employment funders and providers to move toward:



\*Note: Performance is defined as the ratio of hours the person works to the hours of paid supports the person needs to work those hours. Most desirable performance is defined as highest ratio of hours worked to hours of paid support needed to do the work.

According to well-known leadership trainer, John E. Jones “what gets rewarded gets repeated”. It seems likely that low integrated, Supported Employment rates across the country and disappointingly poor outcomes like low hours worked and high long-term support levels can be at least partly attributed to reimbursement models that have not rewarded providers for increasing the number they serve in individual Supported Employment, and have inadvertently penalized providers who produce the best outcomes for individuals served. A shift to outcome-based reimbursement creates an opportunity to establish a dramatically different funding relationship with providers.

## The Oklahoma Model

The Oklahoma outcome-based reimbursement model is used for Individual and Group Supported Employment services delivered under the Oklahoma 1915c Medicaid waiver for individuals with intellectual and developmental disabilities (IDD). Oklahoma has 19 years of experience with this model, having developed it in 1995. Prior to this, rates for Supported Employment services were based on service delivery time and a provider’s costs for direct service time associated with these three service categories.

No doubt, the Oklahoma state IDD agency’s very early move to develop and implement an outcome-based reimbursement model for Supported Employment was influenced by the fact that the Oklahoma Vocational Rehabilitation agency pioneered milestone and outcome payments in vocational rehabilitation, a practice that has now become standard in VR agencies across the country. The Oklahoma intellectual and developmental disabilities agency’s model has contributed to the agency leading the country in the percentage of individuals with IDD receiving day or employment services who are working in Supported Employment.<sup>5</sup> As of 2013, the percentage had risen to 62%.

Oklahoma developed the model to address the financial disincentives to implement effective and efficient Supported Employment services that existed in their former fee-for-service approach. For each participant in small group Supported Employment and individual Supported Employment, providers are paid a flat rate for every hour that the individual works.

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<sup>5</sup> Supported Employment includes both individual and small group. Oklahoma leads the country in terms of the percentage of individuals with IDD receiving employment and day services who are working for pay in Supported Employment as a whole. Washington leads the country in terms of the percentage of individuals with IDD receiving employment and day services who are working for pay in individual Supported Employment. It is important to note that Washington’s high percentage of individuals receiving Supported Employment services (often quoted) includes a number of people who are receiving job development services and are not yet working in Supported Employment.

The Oklahoma model merits serious consideration for two important reasons. First, the model has been operating for nearly twenty years. Second, the model has consistently resulted in the state achieving one of the highest (if not the highest) rate of individuals with IDD receiving day or employment services who work in individual, integrated employment.

There are some issues however, that have caused other states<sup>6</sup> to create similar but not identical models to the one used in Oklahoma. The key issues include:

- The use of a flat rate per hour worked that does not take account of level of disability or length of time on the job.
- The payment rates for group models are not adjusted to reflect staffing ratios; this creates a financial incentive for providers to offer group models over individual Supported Employment.
- The model incentivizes hours worked but does not include a mechanism to incentivize wage rates or career advancement.
- The model establishes statewide rates which do not take account of economic differences in various regions of the state and have a direct impact on provider service delivery costs.

## Conclusion

Choosing an effective reimbursement methodology and establishing rates to incentivize individualized Supported Employment that pays competitive wages is a complex challenge for states. Whether rates truly offer a financial incentive for providers to serve people in Supported Employment depends on a variety of inter-dependent factors.

Whether a rate creates a financial incentive depends on the cost of providing the service relative to the rate, the difficulty of providing the service as compared to other service options, and whether the service associated with the rate allows revenue to be allocated to existing organizational structures and liabilities. Staff costs are the largest drivers of service costs. Staffing ratios have a significant impact on service costs and thus should be critical factor in rate setting and contracting. Overall, states need to guard against the false assumption that a higher rate automatically provides a financial incentive for providers to deliver the service for which the higher rate is paid. It becomes critically important to analyze rates in relation to subtleties that may inadvertently create the wrong incentives if not identified and properly accounted for. Providers are often a key source of important information on the impact of rates

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<sup>6</sup> For more information on other states' efforts related to developing and implementing outcome-based reimbursement for Supported Employment services, please contact the author.

for various day and employment services, relative to each other. In order to achieve the best model, states will benefit most by reviewing and readjusting rates across all day and employment service options simultaneously. This allows for the best opportunity to create fiscal incentives for preferred services and outcomes.

It is also critically important to recognize that rates need to be part of a larger strategy to achieve specific system and individual-level outcomes. Rates alone are not enough to move people from day and sheltered work services to Supported Employment. What happens in individual service planning is critical: it drives what services providers are expected to deliver. Rate and reimbursement changes can help remove fiscal incentives that may motivate providers to keep people in certain types of services; but service planning ultimately dictates what services are purchased and how funding is spent.