

1 “Labor Standards and Quality of Care in California’s Services for People with Developmental  
2 Disabilities”

3  
4 Dr. Carol Zabin

5 Chair, UC Berkeley Center for Labor Research and Education  
6

7  
8 **Introduction and Summary**

9 This report is organized by answering a set of questions that build an argument for the  
10 importance of developing and implementing labor market standards to assure quality of care in  
11 California’s services for people with developmental disabilities, and ultimately to assure the viability  
12 and efficiency of the community-based system for such services.

13  
14 **1. What is the evidence that there are labor shortages and high turnover in services for  
15 people with developmental disabilities?**

16  
17 There is ample evidence that providers of services for people with developmental disabilities  
18 experience enormous difficulty recruiting and retaining direct care workers. This is a problem of  
19 national scope, but is particularly severe in California. Turnover rates average 50% and are often  
20 higher and vacancies remain unfilled for an average of three months, according to the California State  
21 Auditor (1999). Employers overwhelmingly confirm the difficulty of attracting and retaining direct  
22 care worker. The Department of Developmental Services also recognizes this problem in numerous  
23 documents. This is a national problem, as documented in Lakin and Bruininks (1981), Braddock and  
24 Mitchell, (1992) and Larsen and Lakin (1998), but is particularly severe in California. Since this has  
25 been well-documented elsewhere, I will not take the time to do so in more detail here.  
26  
27  
28

1 **2. How do wage and benefit levels affect: labor shortages, turnover, quality of the work force,**  
2 **and worker effort in services for people with developmental disabilities?**

3 Basic economic theory predicts that labor shortages (i.e. insufficient supply of workers) and  
4 turnover (i.e. a measure of the exit rate--usually per year) are directly related to wages and benefits.  
5 The higher the wages and benefits for a particular job, the more likely workers will be attracted to that  
6 job, and the more readily employers will be able to fill open positions, thus eliminating labor  
7 shortages. The higher the wages and benefits, the higher the educational and experiential qualifications  
8 of the applicant pool and the lower the dismissal rate. Likewise, the higher the wages and benefits,  
9 the lower the rate at which workers will quit their jobs, and thus the lower the turnover rate. Labor  
10 shortages are related to turnover, but because turnover rates are much easier to measure than  
11 shortages, turnover is commonly used as an overall indicator of the ability of an employer to attract  
12 and retain an appropriate work force. Turnover thus is a measure both of the availability of workers,  
13 and an indicator of tenure and therefore continuity of care that the consumer receives, i.e. the length  
14 of the match between direct care provider and consumer.

15  
16 There are two ways wages and benefits affect the ability of providers to attract and retain  
17 qualified direct care workers. (Please note that in the discussion below when I refer to wages I mean  
18 the total compensation package, rather than just the wage alone.)

19  
20 The *first* way in which wage levels affect the attraction and retention of qualified workers has  
21 to do with *relative* wage levels, i.e. the wages that employers offer compared to the wages and  
22 benefits offered by other employers competing for the same pool of potential applicants. When severe  
23 shortages arise (as evidenced by 50% turnover rates and vacancies that last 3 months), the normal  
24 response of an employer to a shortage of this nature would be to raise wages in order to attract a  
25 wider pool of applicants to apply for job openings.

1           In developmental services, the state government is the only purchaser of services, and sets  
2 payments to providers at fixed rates. Since direct care is about two-thirds of the costs of  
3 developmental services, the Dept. of Developmental Services essentially sets wages. In other words,  
4 it doesn't respond to market signals and it doesn't adjust rates as market conditions change.  
5

6           It should also be noted that there is an overall problem of lack of market adjustment and  
7 consequent persistent labor shortages in the lower echelons of health, education and human service  
8 industries, even when they are not exclusively funded by public funds. One forceful explanation of  
9 why these shortages persist is that they are occupations traditionally dominated by women, where  
10 wages for comparable work has been significantly lower than in occupations dominated by men. As  
11 women increasingly have expanded their choices and have found better opportunities elsewhere, these  
12 fields have experienced persistent shortages (Folbre and Nelson, 2000).  
13

14           The *second way* in which wage levels affect the ability of providers to attract and retain  
15 qualified direct care workers has to do with the *absolute* wage levels. At very low wages, it is  
16 difficult for workers to keep a job. A certain level of wages is necessary to provide workers with  
17 sufficient income to secure adequate transportation, child care and preventive health care. There is  
18 ample research in the welfare-to-work literature that shows that below a certain "self-sufficiency"  
19 wage, there are substantial obstacles to keeping a job (U.S. Dept. of Transportation, 1998; Becerra,  
20 1998, Blumberg and Long, 1997).  
21

22           What that actual wage is depends on the cost of living where the worker lives, his or her  
23 family circumstances, the accessibility of transit and other issues. A number of governmental and  
24 non-governmental organizations have developed self-sufficiency standards for different regions and  
25 household types, which can be used in setting a wage standard for people serving people with  
26 developmental disabilities.  
27

1 Higher absolute (and also relative) wages also serve to increase the pool of applicants applying  
2 for jobs, making it easier for employers to screen for workers who are likely to be good performers.

3  
4 Finally, offering higher wages has a particular role in industries where quality is important and  
5 where and the organization of the work place(s) makes job performance hard for employers to  
6 monitor. There is a vast theoretical literature in Economics about *efficiency wages*, starting with  
7 Adam Smith, who wrote that “the wages of labor are the encouragement of labor which like every  
8 other human quality improves in proportion to the encouragement it receives: Where wages are high  
9 accordingly we shall always find the workmen more active, diligent, and expeditious than when they  
10 are low” (Smith 1937, p. 81).

11  
12 Work by Bulow and Summers (1986), Becker and Stigler (1974), Stiglitz (1984), Shapiro and  
13 Stiglitz (1984), Akerlof and Katz (1989), to name just a few of the more well-known economists<sup>1</sup>,  
14 have developed the efficiency wage theory to understand why in “primary labor markets”, employers  
15 routinely pay high wages in order to elicit greater effort, commitment, loyalty on the part of workers  
16 and to reduce turnover and absenteeism, to attract more and higher quality workers, and to change  
17 other factors that increase productivity, improve quality, and lower supervision and monitoring costs.  
18 They contrast the high-wage primary labor market with the “secondary labor market”, in which  
19 employers compete on the basis of reducing costs, including wages, to their minimum, because the  
20 quality of the product or service is not at stake (Bulow and Summers, p. 379, Shapiro and Stiglitz,  
21 1984; Stiglitz, 1984).

22 One way to frame the question here is whether direct care workers in community  
23 developmental services, who have been treated as secondary labor, must be treated as primary labor if  
24 the quality of developmental services is to be assured.

---

27 <sup>1</sup> Akerlof, Becker and Stiglitz are all Nobel prize winners; and Summers is former Chief Economist of the World Bank, U.S.  
28 Secretary of Treasury, and current president of Harvard University.

1           **3. What is the quantitative relationship between wages and turnover in services for**  
2 **people with developmental disabilities?**

3  
4           There is ample evidence in both developmental services and other industries that higher wages  
5 reduce turnover and diminish staff shortages. Since shortages are empirically very difficult to  
6 measure (duration of vacancies is one indicator, but this measure is rarely available; it is exceptional  
7 and very useful that here duration of vacancies has been measured), most studies focus on turnover.  
8 Lakin’s and Braddock’s seminal national studies (Lakin and Bruinink, 1981; Braddock and Mitchell,  
9 1992; Larsen and Lakin, 1998) show the strong relationship between higher wages and lower  
10 turnover.

11           These studies use a *cross section* of providers to study the relationship of turnover and wages.  
12 In cross sectional studies it is very difficult to control for other factors such as differences in job or  
13 worker characteristics across observations. Lakin’s and Braddock’s national studies have very high  
14 coefficients and thus are of very high reliability. In addition, there is an enormous number of other  
15 studies analyzing this relationship, and while they vary in their estimation of the quantitative impact of  
16 wages on turnover, the vast majority strongly conclude that higher wages is a strong predictor of  
17 reductions in turnover (see, for example, Mincer and Higuchi, 1987; Dresser et al, 1999; Mor Barak,  
18 2001).

19           The most reliable studies are those that measure the change in turnover *before and after* wage  
20 increases, because those studies by definition control for other influences on turnover (i.e. differences  
21 in job or worker characteristics across observations). The number of this type of study is small  
22 because there are few real world “experiments”, i.e. situations in which wages and benefits in a  
23 specific sector are increased substantially over and above general economy-wide wage trends.  
24 However, some specific cases of significant wage jumps in particular firms or industries have  
25 occurred as a result of successful union organizing drives, with the passage of living wage laws, due  
26  
27  
28

1 to choices that employers make to improve productivity<sup>2</sup>, or due to policy changes designed to reduce  
2 turnover.

3  
4 Three recent before and after studies (two in California, one in the developmental field, and  
5 one in a related field) are available that can measure the impact of large wage increases on turnover. I  
6 will describe the findings of each in detail.

7  
8 First, a recent study (Reich, Hall, and Jacobs, 2002) of the impact of the passage of a living  
9 wage policy (called the *Quality Standard Program*) at the San Francisco airport carried out an analysis  
10 of the effect of wage increases on turnover among airport security, based on a survey of employers  
11 and workers. It showed that when wages increased from \$5.75-\$7.00 *before* the institution of the  
12 policy to \$10.00 plus health benefits *afterwards*, turnover dropped from 110% to 25%. For other jobs  
13 in which the wage improvements were smaller, the drop in turnover was smaller as well, but in all  
14 cases there was an inverse correlation between wages and turnover. In addition, employers reported  
15 an increase in the numbers of people applying for the jobs, and that applicants were more skilled.  
16 Finally, employers reported average job performance improved.

17  
18 Second, a study of In-home Supportive Services (IHSS) homecare workers in San Francisco  
19 (Howes, 2002) analyzed the impact of large wage increases due to both the adoption of San  
20 Francisco's living wage policy and collective bargaining agreements in this newly unionized sector.  
21 The provision of homecare services to the elderly and people with physical disabilities has many  
22 similarities to services for people with developmental disabilities and thus this study is of particular  
23 interest for the Sanchez case<sup>3</sup>. The study showed that between 1997 and 2001, as wages rose from the  
24

25  
26 <sup>2</sup> As in the famous 1914 case when Henry Ford raised wages to five dollars a day.

27 <sup>3</sup> The similarities are many but should not be overstated. For example, departmental personnel, in writing to the California  
28 auditor, distinguished IHSS as chiefly personal care, such as assistance in bathing or meal preparation, whereas direct care  
services to people with developmental disabilities involves also teaching and learning and supporting the person in new  
experiences of community participation (California Auditor, 1999).

1 minimum wage to the current rate of \$10.00 plus health and dental benefits, turnover dropped by  
2 30%.

3  
4 Most significantly, there was a 54% increase in the number of IHSS workers in San Francisco,  
5 reversing a long-standing problem of an inadequate supply of home care workers. Rarely can we  
6 observe directly the increased willingness of workers to work in a field, because usually there are a  
7 fixed number of jobs and there is rarely data on the change in the number of qualified applicants.  
8 However, in this case, when wages and benefits went up, consumers who previously were eligible but  
9 had not applied for IHSS assistance, now did so, presumably because they could now find acceptable  
10 providers. This is a clear indication of a very large increase in the number of workers available to  
11 work after wages and benefits went up. Note that this occurred even in unlikely circumstances, when  
12 unemployment was at historically low levels in San Francisco in the midst of the economic boom.

13  
14 The author also expects the drop in turnover in IHSS to be even greater over time. This 30%  
15 drop in turnover occurred at the same time that consumer suddenly had a greater choice in who their  
16 provider could be and a large number changed to providers who were of their own ethnicity and  
17 language group (ibid). I expect that turnover will go down even more over time, as the initial  
18 displacement of some workers due to greater consumer choice is completed.

19  
20 A third *before and after* study analyzes the impact of wages and benefits increases for  
21 developmental services in the State of Wyoming (Wyoming Health Department, 2002). With the  
22 express purpose of reducing turnover and increasing quality, the wages for direct care givers in all  
23 adult developmental services funded by the State of Wyoming were increased from \$5.15 per hour to  
24 \$7.50 and average total compensation (wages plus benefits) increased from \$9.08 to \$13.74 per hour,  
25 a 51% increase. Using data from the first post-increase survey, which was carried out 3 months after  
26 the wage increase, it was found that the 51% increase in compensation led to a 29% drop in turnover.

1 Predictably, as current and potential new workers have time to adjust to the new reality of higher  
2 wages, turnover will go down even more.

3  
4 Finally, one other study is of interest because it is an evaluation of the 1998-2000 rate increase  
5 for direct support workers in licensed community care facilities for people with developmental  
6 disabilities in California commissioned by the Department of Developmental Services, a defendant in  
7 this case (Wheeler, 2002). Unfortunately, the results produced by this study are contradictory. In  
8 looking at turnover before and after the wage increases, the study produces two different results.  
9 First, on the basis of a phone survey of employers before (1998) and after the rate increase (2000), the  
10 study shows that over their whole sample, turnover drops from 48% to 24.2%, a significant drop.  
11 The authors question the reliability of this result because of their relatively small sample size (46  
12 agencies) in 1998, before the rate increase. Second, using a mail-in survey of employers before the  
13 rate increase, and the same phone survey just mentioned for the second period, they show an  
14 insignificant drop in turnover, from 24.4% to 24.2%. They assert that this second finding is more  
15 reliable, because of the greater sample size in the mail-in survey. However, I believe the second result  
16 is not reliable either. The problem is that the authors depart from sound methodology by using two  
17 different types of surveys for their three sampling years, both with low response rates, and with  
18 obvious bias due to self-selection.

19  
20 There are other methodological problems with the study as well, for example, *real* wages went  
21 up by about ten percent in this time period, so the relative wage gain for direct care services was  
22 much lower than the *nominal* wage increase. The wage increase was probably too small to have much  
23 of an impact on turnover, and limits our ability to confidently estimate the impact a larger wage  
24 increase would have on turnover.

25  
26 Using the Wyoming study, which is the only reliable study available for services for people  
27 with developmental disabilities, we can derive a very rough estimate of the *elasticity of turnover with*

1 *respect to compensation* which measures the percentage change in compensation that will result in a  
2 1% drop in turnover. For Wyoming this is  $.29/.51 = 57\%$  in the first three months after the increase.  
3 In other words, for every 10 percent increase in compensation, we would expect a 5.7 percent drop in  
4 turnover. Since this is the drop that occurred only in the first three months of the program, we would  
5 expect turnover to decline more as a new and larger pool of applicants is attracted to the field. If we  
6 wait for a full year of data from the Wyoming study, we may be able to derive an elasticity that could  
7 be used for California.

8 **4. What is the relationship of turnover to quality of care in services for people with**  
9 **developmental disabilities?**

10 The desired outcomes of care for people with developmental disabilities are clearly articulated  
11 in a number of statutes and court cases such as the Lanterman Act, etc. The Lanterman Act states, for  
12 example, that services should result in “more independent, productive, and normal lives for persons  
13 served”.

14  
15  
16 There is a vast literature relating continuity of care (i.e. length of match between direct care  
17 giver and consumer) to quality of care in a variety of care industries, including services for people  
18 with developmental disabilities. In long-term care, for example, length of match is actually used as a  
19 direct measure of quality, because it consistently appears as directly related to consumer satisfaction in  
20 consumer surveys (Reif, 2002). In the child care field, child care centers with lower turnover rates  
21 consistently result in better outcomes for children for a variety of developmental measures  
22 (Whitebook, 1998). In services for people with developmental disabilities, many scholars have noted  
23 the particular need for continuity of care both to achieve basic health and safety objectives and to  
24 nurture the developmental progress set forth in the Lanterman Act. Two of the most cited scholars in  
25 this field are Charles Lakin and David Braddock, who have produced numerous studies, where  
26  
27  
28

1 continuity and consistency of relationships between a person and the direct care staff are the mediating  
2 variables that show how pernicious high turnover rates are for quality of care.

3  
4 **5. Should the recognition of the relationship of turnover to quality of care be incorporated into**  
5 **care delivery standards by the responsible California officials and is this feasible?**  
6

7  
8 What is needed for policy decisions that set standards for quality of care are ways to measure  
9 how *processes* of care delivery relate to *outcomes* (performance measures). These metrics have not  
10 been well developed in the developmental disabilities field, as compared to metrics in health care,  
11 child care, or education. It is possible to do so as well in the developmental disabilities field.  
12 Progress in measurement is being made in this field, see for example the 2001 Report of the “Quality  
13 Tracking Project” commissioned by the State of California (Brown, 2001). As these metrics are  
14 developed and accepted within the field of services for developmental disabilities, they can be refined  
15 to inform policy decisions about care delivery standards.  
16

17  
18  
19 The state governemnt now sets quality standards in the community-based system by requiring  
20 the licensing of providers and by setting staffing ratios. As it does for the public school system,  
21 licensed child care, and other health and human services, the state sets a standard for the number of  
22 adults needed per consumer/student/patient in different settings. Staffing ratios, like other quality  
23 indicators, are imperfect predictors of outcomes. But they denote a generalized agreement, based in  
24 research, that there is a strong and ultimately quantifiable relationship between the number of adults  
25 needed per consumer and outcomes in terms of both quality of services and the quality of life of the  
26 consumer.  
27

1  
2 While specific metrics have not been developed that relate turnover (or conversely continuity  
3 of care) to outcomes, they can and should be. **There is no conceptual difference in creating a**  
4 **quality of care standard based on a maximum rate of turnover than on a minimum staffing ratio**  
5 **for services for people with developmental disabilities.** Moreover, I believe that there are a number  
6 of expert researchers and consultants that are knowledgeable in the field of developmental services  
7 that could develop appropriate metrics as a basis for such a standard.  
8

9  
10 A number of other closely related fields require certification and minimum training and  
11 qualifications for direct care workers. This is notably true for child care workers. These are  
12 important ways to promote such standard (although not a subject of this law suit). I believe, however,  
13 that for developmental services, without raising wages, certification, training and qualification  
14 requirements will simply further reduce the available pool of workers. Such requirements are only  
15 effective when they are accompanied by wage increases, as evidenced in other human services.  
16  
17

## 18 **6. What level of turnover is appropriate?**

19

20  
21 As stated above, acceptable levels of turnover should be derived by developing metrics that  
22 relate turnover and continuity of care to metrics that measure real outcomes in the lives of people with  
23 developmental disabilities. When such metrics are developed, it will be possible to identify a specific  
24 turnover rate that like a staffing ratio, would assure a minimum quality of care.  
25  
26  
27  
28

1 In my opinion, an acceptable level of turnover would be 10% to 20%. This is consistent with  
2 current turnover rates in the developmental centers, which are below 10 percent, and turnover among  
3 public school elementary teachers, which is about 7 percent (Whitebook and Bellm, 1999).  
4

5 **7. What level of wages is appropriate and how could the State of California set a wage mandate?**  
6

7  
8 A wage standard for direct support professionals in developmental disability services should be  
9 derived by the creation of metrics that relate turnover (or related measures) to quality of care. I can  
10 make some judgments that can serve to begin to set a lower and upper limit for such a wage standard.  
11

12  
13 For the lower limit, I believe it is appropriate to consider a self-sufficiency wage, for which a  
14 number of estimates have been developed through by research inside and outside of government and  
15 the private sector. As stated earlier, one of the reasons for high turnover in low wage labor markets is  
16 that workers do not earn enough to build the support system needed to keep a job, i.e. a car or  
17 adequate public transit, preventive health care, reliable child care, etc. The minimum wage level  
18 needed to reduce turnover should be based on a self-sufficiency standard that can provide for the basic  
19 needs of a family. While the federal poverty standard was at one time thought to provide such a  
20 standard, it is widely recognized as too low to serve as the standard for wages in California for several  
21 reasons (see for example Pollin and Brenner, 2002; Pearce, 2000). First, it is a single standard for  
22 the entire U.S., while the cost of living in California is much greater than the average cost of living  
23 for the country. Second, the standard is based on the cost of a single item, food, and has not been  
24 adjusted for the increased proportion of income that is spent on housing. Finally, it assumes a family  
25  
26  
27  
28

1 structure with a two parent family and a stay-at-home wife, and so does not consider such costs as  
2 child care.

3  
4 A number of researchers have developed more realistic methods to calculate a self-sufficiency  
5 wage. One commonly used measure was derived by Dr. Diana Pearce of Wider Opportunities for  
6 Women (Pearce, 2000). A number of researchers have developed more realistic methods to calculate  
7 a self-sufficiency wage. One commonly used measure is that derived by Dr. Diana Pearce of Wider  
8 Opportunities for Women (Pearce, 2000). She calculated a self-sufficiency wage for Los Angeles for  
9 the year 2000 for a 3 person family with one wage earner and two school age children to be \$19.35,  
10 and a four person family with two wage earners and two school age children to be \$11.35 per adult.  
11 Self-sufficiency wages are meant to be indexed to the Consumer Price Index (see  
12 <http://www.ucop.edu/sas/sfs/data/cpi%20thru%202001.pdf>) , which would bring wage for the two  
13 household types to \$12.45 and \$21.23 respectively for the year 2003, substantially higher than the  
14 estimates of average wages for direct care workers of \$9.00 to \$10.00 per hour.  
15  
16  
17  
18

19 For the upper limit of the wage standard, I would suggest a wage close to that received by  
20 direct care workers in the developmental centers.  
21

22 Given those higher or lower limits, there are a variety of ways the state could set wage rates.  
23 It could do so by setting standards on average turnover or length of match between consumer and  
24 provider, and then estimating the wage increase needed to achieve that level of turnover, by  
25 developing the quality metrics that I suggest in Question 5. It could, as Wyoming did, set a base wage  
26 indexed to the Consumer Price Index, based on surveys of former direct care workers concerning the  
27  
28

1 wage they would have needed to stay in the field (State of Wyoming, 2002). There are a variety of  
2 other ways to set wages as well.

3  
4 **8. What are other examples of government wage standards?**

5  
6  
7 Even in the absence of metrics that relate wages to turnover and turnover to quality of care,  
8 the government sets wage standards by other methods which might be applicable to services for people  
9 with developmental disabilities. The most familiar state and federal wage mandate is the minimum  
10 wage, which when instituted was meant to be high enough for one wage earner to support a family.  
11 The purchasing power of the minimum wage has been reduced by half since the 1960s, accounting for  
12 the fact that many local governments have enacted “living wage” ordinances that attempt to raise the  
13 wage standard to one that can really support a family.  
14

15  
16 Wage mandates that are particularly relevant to this case are state and federal prevailing wage  
17 laws in the construction industry. The 1931 Davis Bacon Act mandated a prevailing wage standard in  
18 publicly funded construction projects for the express purpose of retaining a skilled labor force in order  
19 to meet quality standards, and states have followed with their own prevailing wage legislation. These  
20 laws were enacted to maintain a skilled labor force that could build high quality and safe public works  
21 projects; by stabilizing income for this work force, they assured that skilled workers would be  
22 available (Hall, 2002). In addition to mandating prevailing wages, the state also certifies construction  
23 apprenticeship programs to assure that workers receive proper training. The combination of  
24 prevailing wages and state-certified apprenticeship programs has maintained higher wages and a  
25 skilled work force in construction projects for public works. Worthy of note is that studies have  
26  
27  
28

1 shown that construction projects covered by prevailing wage mandates do not cost more than those  
2 that are not covered (and consequently pay much lower wages), because the higher wages are offset  
3 by the greater productivity and quality that is achieved by using a skilled workforce (ibid). Prevailing  
4 wages are a particularly relevant here because the structure of publicly-funded construction is very  
5 similar to services for people with developmental disabilities in that the state provides developmental  
6 disabilities services through subcontracts with service providers.  
7

8 Another set of relevant wage mandates to this case are the over 100 living wage ordinances  
9 that have been passed in localities in the United States over the last ten years. Most of these  
10 ordinances make explicit the need for localities who subcontract to private and non-profit firms to  
11 maintain quality standards for the services that are purchased (ACORN, 2003). One interesting case  
12 in point is the San Francisco International Airport's Quality Standards Program implemented in the  
13 year 2000 (which formed the basis for the before-and after study of turnover that I documented in  
14 Question 3 above). The Quality Standards Program was a wage mandate whose explicit intent was to  
15 improve safety and security by lowering turnover among airport baggage screeners and other workers  
16 whose work affects airport security (see Reich, et al, 2002). It also included training and other  
17 requirements for the affected work force. As noted above, turnover dropped dramatically when wages  
18 and benefits were increased<sup>4</sup>. Like prevailing wage laws, these standards apply to contractors for  
19 services purchased with public dollars. Thus, these mandates are also highly relevant to the  
20 community-based services for people with developmental disabilities.  
21  
22  
23  
24  
25

---

26 <sup>4</sup> The federal government recognized the high cost of low wages in airport security after the attacks of September 11.  
27 When it federalized airport baggage screening, it essentially replicated SFO Quality Standards Program, by requiring  
28 training and paying much higher wages standards via the civil service wage scale.

1 In sum, a number of wage mandates are set by local, state and federal governments whose  
2 intent is to set a standard for the quality of the product or service produced. The bottom line is that  
3 the State of California is the employer of direct care providers of services for people with  
4 developmental disabilities, and as such, has the ability and authority to set wages in a way that assures  
5 a higher quality of care.  
6

7  
8 **9. How much would reductions in the costs associated with turnover offset an increase in labor**  
9 **costs due to higher wages?**  
10

11 In an era of large budget deficits, state officials are obviously concerned with the increase in  
12 program costs that would occur if wages for direct care workers go up. I believe that a significant  
13 portion of the costs of higher wages would be offset by savings due to reduced turnover and other  
14 savings to governmental bodies. We can learn a lesson here from Henry Ford. In 1914, when Ford  
15 doubled wages of his production workers to five dollars a day, productivity in his auto plant jumped  
16 by 50%, offsetting *half* the cost of the higher wage.  
17  
18

19  
20 A number of different types of costs of turnover need to be considered when calculating the  
21 offsetting savings due to reductions in turnover. These costs include:  
22

- 23
- 24 • The costs of turnover borne directly by the provider agency, which include the costs of  
25 separation (e.g. severance pay etc.), of the vacancy (e.g. use of other workers to fill in etc.), of  
26 recruitment (e.g. advertising, interviewing etc.) and training (formal and on-the-job training), as  
27 well as the loss of productivity until the worker is fully trained.  
28

- 1
- 2
- The costs borne by people with developmental disabilities and their families in lower quality of
- 3 care as they live with staff vacancies (due to labor shortages) and are forced to adjust to new
- 4 caregivers (due to turnover).
- 5
- The cost to the Department of Developmental Services when its clients must be in institutions
- 6 because the quality of care they receive in the community is insufficient.
- 7
- The cost of low wages and benefits to state, local, and federal governments as low-wage workers
- 8 depend on the public health system, food stamps, the earned income tax credit, and other income
- 9 supports.
- 10
- The costs to families and children when wage earners have to work more than one job in order to
- 11 support their families.
- 12
- 13
- 14
- 15
- 16
- 17
- 18

19 Empirical literature on the costs of turnover is fairly scant, usually quantifies only the costs to the

20 employer, and usually fails to account even for all the employer costs. For example, a recent academic

21 survey of hotel, retail and restaurant employers in Santa Monica, California, found that it cost an

22 average of \$2,090 to replace a non-managerial worker whose average salary was about \$7.50 per hour

23 (Pollin and Brenner, 2000). This survey used a narrow definition of turnover costs that included only

24 costs of separation, recruitment and training, and not productivity losses. Recent estimates of the cost of

25 turnover produced by the human resources industry for low-wage service workers include \$3,500

26 (Society for Human Resources Management), \$3,637 (Coca-Cola Retailing Research Council), \$4,000

27 (American Management Association), \$4,100 (American Hotel and Motels Association), and \$8,000

28

1 (Hay Group and Superb Staff Services)<sup>5</sup>. One would expect that replacing a direct care worker for  
2 people with developmental disabilities would be much more costly than a hotel replacing an unskilled  
3 room cleaner.

4  
5 Braddock's 1992 study of direct care workers for people with developmental disabilities  
6 calculated an average replacement cost of \$4,300. His study was published ten years ago, when wages  
7 averaged about \$5.25 per hour (Braddock, 1992, p. 62). This represents a replacement cost of about  
8 41% of the annual salary of a worker earning \$5.25 per hour and working full-time (about 2,000 hours).  
9 Applying the same ratio of replacement costs to annual salary for the current average hourly wage of  
10 \$9.00 per hour gives an estimated replacement cost of \$7,380. Following Shea (2003, p. 8) who uses a  
11 more conservative rule of thumb that replacements cost about 1/3 of a direct care worker's annual  
12 salary, we estimate that replacement costs amount to about 17% of the total direct care wage bill. If  
13 doubling the wage reduced turnover nearly to zero, then 17% of the increase in costs due to higher  
14 wages would be offset. If we were able to quantify the other cost reductions listed above, I believe they  
15 would offset a substantial portion of the cost of the higher wage.

16  
17 Of even greater long-term fiscal significance is the effect of low wages on the viability of the  
18 community-based system. California lags behind other states in the transition from institutional care  
19 to community-based care. Ensuring a high quality community-based system will hasten the transition  
20 from institutions and ultimately lower the costs to the state per consumer for a given level of services.  
21

22  
23  
24  
25  
26  
27 

---

<sup>5</sup> These are cited in Reich, et al, 2002.

1 **Summary and Conclusion**

2

3 Services for people with developmental disabilities are plagued by staff shortages and high

4 turnover rates, and which no one on either side of this case disputes. The evidence that low wages

5 and benefits are the root cause of high turnover and long vacancy rates is very compelling and few

6 dispute this either. Finally, a large body of research convincingly shows that continuity of care is a

7 key determinant of higher quality of care and better outcomes for the lives of people with

8 developmental disabilities.

9

10

11 The State of California currently attempts to assure quality by requiring provider agencies to

12 be licensed and by setting staffing ratios. While the staffing ratio is a very important quality of care

13 standard and is accepted by everyone in the field, it is clearly not sufficient in and of itself. It is my

14 professional opinion that the State should and could also impose a minimum standard for the quality of

15 the work force and their wages and working conditions. There is precedent for this type of wage

16 mandate at the local, state, and the federal level in prevailing wages laws for the construction industry

17 and in living wage standards for government-contracted services.

18

19

20

21 I believe the Department of Developmental Services is currently following a penny wise but

22 pound foolish strategy for the delivery of services to people with developmental disabilities. The

23 suppression of payment rates and consequently of wages results not only in low quality of services for

24 the consumers but is an inefficient use of scarce government resources due to the high costs of

25 turnover. Moreover, low wages for direct care workers ultimately undermine the community-based

26 care system as a whole, and make it a less viable alternative to institutional care. This will inevitably

27

28

1 slow the transition to the community-based system, and be an inefficient use of scarce government  
2 resources.

### 7 **References Cited**

- 8
- 9 Akerlof, George A., and Lawrence F. Katz. "Workers' Trust Funds and the Logic of Wage Profiles."  
10 *The Quarterly Journal of Economics*, Volume 104, Issue 3 (Aug. 1989): 525-36.
- 11 Becerra, Rosina M. 1998. "From welfare to work : is it feasible in California?" in California Policy  
Options. UCLA Anderson School of Management.
- 12 Becker, G., and G. Stigler. 1974. "Law Enforcement, Malfeasance, and the Compensation of  
13 Enforcers." *Journal of Legal Studies* 3, no.1.
- 14 Blumenberg, E. and P. Long. 1997. "Can welfare recipients afford to work far from home?" Evelyn  
15 Blumenberg and Paul Long", Access : Research at the University of California Transportation  
Center. No. 10 (Spring 1997) p. 15-19.
- 16 Braddock, D., and D. Mitchell. Residential Services for person with Developmental Disabilities in the  
17 United States: A National Study of Staff Compensation, Turnover and Related Issues.  
Washington D.C., American Association on Mental Retardation. 1992.
- 18 Brown, M., J. Conroy, and M. Hayden. "Year 2001 Report of the Quality of Life Evaluation of People  
19 with Developmental Disabilities Moving from Developmental Centers into the Community".  
The Center for Outcome Analysis: Narberth, PA.
- 20 Bulow, J. and L. Summers. 1986. "A Theory of Dual Labor Markets with Application to Industrial  
21 Policy, Discrimination, and Keynesian Unemployment". *Journal of Labor Economics* Vol. 4,  
Issue 3, Part 1.
- 22 Campbell III, C.M. (1993) "Do Firms Pay Efficiency Wages? Evidence with Data at the Firm Level,"  
23 *Journal of Labor Economics*, Volume II, Issue 3, July 442-470.
- 24 Dresser, Laura, Dori Lange and Alison Sirkus. 1999. "Improving retention of frontline caregivers in  
25 Dane County," Center for Wisconsin Strategy , University of Wisconsin, Madison, WI, March.
- 26 Folbre, Nancy and Julie Nelson. 2000. "For love or money – or both?" *Journal of Economic  
27 Perspectives*, 14(4): 123-140.

- 1 Hall, Peter. 2003 "Prevailing Wages, Construction Labor and New Urban Development", Working  
Paper, forthcoming. Los Angeles: Institute for Labor and Employment.
- 2 Howes, Candace. 2002. "The impact of a large wage increase on IHSS Homecare Workers in San  
3 Francisco County," paper prepared under the auspices of the Institute for Labor and the  
Economy, University of California. January.
- 4 Lakin, K.C., & Bruininks, R.H. (1981). Personnel management and quality of residential services for  
5 developmentally disabled people. In T.C. Muzzio, J.J. Koshel, & V. Bradley (Eds.), *Alternative  
community living arrangement and non-vocational social services for developmentally disabled  
6 people*. Washington, DC: The Urban Institute.
- 7
- 8 Larson, S. and C. Lakin. 1999. "Longitudinal Study of Recruitment and Retention in Small Community  
Homes Supporting Person with Developmental Disabilities" *Mental Retardation* Vol. 37, No. 4,  
9 267-280.
- 10 Mincer, J. and Higuchi, Y. 1987. "Wage Structures and Labor Turnover in the U.S. and in Japan,"  
*NBER Working Paper Series*, No. 2306, July.
- 11 Mor Barak, M. 2001. "Antecedents to Retention and Turnover among Child Welfare, Social Work, and  
12 Other Human Service Employees: What Can We Learn from Past Research? A Review and  
Metanalysis," *Social Service Review*, December.
- 13 Pearce, Diana. 2000. "The Self-Sufficiency Standard for California". *Wider Opportunities for Women:*  
14 San Francisco.
- 15 Phillips, Deborah, Carollee Howes, and Marcy Whitebrook. 1991. "Child care as an Adult Work  
Environment." *Journal of Social Issues* 47 (2):49-70.
- 16 Pollin, Robert and Mark Brenner. 2000. "Economic Analysis of the Santa Monica Living Wage  
17 Proposal". Political Economy Research Institute, University of Massachusetts, Amherst.
- 18 Raff, Daniel M.G. and Lawrence H. Summers. "Did Henry Ford Pay Efficiency Wages?" *Journal of  
19 Labor Economics*, Volume 5 , Issue 4 (Oct., 1987): S57-S89.
- 20 Reich, Michael, Peter Hall and Ken Jacobs. 2002. *Living Wages and Economic Performance: The San  
Francisco Airport Model*. Institute of Industrial Relations, University of California, Berkeley.
- 21 Reif, Laura, 2002. "Paying for Quality: Preliminary Analysis of San Francisco In-Home Supportive  
Services Consumer Evaluation of Quality of Care Survey Findings," presented at the IAFFE  
22 2002 Conference on Feminist Economics, Los Angeles, CA July 12-14.
- 23 Shapiro, C. and J. Stiglitz. "Involuntary Unemployment as a Worker Discipline Device." *American  
24 Economic Review* 74, no. 3 (June 1984): 433-44.
- 25 Smith, Adam. *The Wealth of Nations*. New York: Modern Library, 1937.
- 26 State of California. 1997. Budget Change Proposal, *Community Care Facilities Rate Increase*, Aug. 22,  
P-5.
- 27
- 28

1 State of California. 2000. Budget Change Proposal, *Infant Development, In-Home Respite Worker, and*  
2 *Adult Day Program Stabilization*, Aug. 30, P-4.

3 State of California. 1999 Budget Change Proposal. *Salary Increase for Community Care Facility Staff*,  
4 Jan. 5, P-6.

5 State of California. 2000. May Revision, Community Services: *Rate Increase of Day, Infant and*  
6 *Respite Programs*, May 14, P-1.

7 State of California Auditor. 1999. Work Papers "Department of Developmental Services: Without  
8 Sufficient State Funding, It Cannot Optimal Services to Developmentally-Disabled Adults".  
9 October.

10 State of California. 1998. May Revision, Training for Community Care Facility Staff, May 13, P-2.

11 Stiglitz, J. E. "Theories of Wage Rigidity." NBER Working Paper no. 1442. Cambridge, Mass.:  
12 NBER, 1984.

13 U.S. Department of Transportation. Washington, D.C. 1998. "Access to jobs : a guide to innovative  
14 practices in welfare to work transportation". Federal Transit Administration, U.S. Department of  
15 Transportation. Washington, D.C. : Federal Transit Administration.

16 University of California Office of the President. 2003. "California Consumer Price Index for Urban  
17 Wage Earners and Clerical Workers".  
18 <http://www.ucop.edu/sas/sfs/data/cpi%20thru%202001.pdf>

19 Wheeler, Barbara. 2002. "Evaluation of the Impact of WIC Section 4681.4 (Rate Increase on Staff  
20 Turnover for Direct Support Workers in Licensed Community Care Facilities for People with  
21 Developmental Disabilities 1998-2002. USC-Affiliated Program: Los Angeles.

22 Weiss, A. (1984) "Determinants of Quit Behavior," Journal of Labor Economics, Volume 2, Issue 3,  
23 July, 371-387.

24 Whitebook, Marcie. 1998. *National Child Care Staffing Study*. Center for the Child Care Workforce:  
25 Washington, D. C.

26 Wyoming Department of Health. "Report to the Joint Appropriations Committee on the Impact of  
27 Funding for Direct Staff Salary Increases in Adult Developmental Disabilities Community-Based  
28 Programs Ref S-2002-749" Nov. 2002.

I The foregoing is a fair and reasonable statement of my testimony and opinions and it is true and  
correct, I declare under penalty of perjury.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

---

Carol Zabin

Dated: February 27, 2003