

Financial Management Services in Consumer-Directed Programs

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PUBLISHED IN HOME HEALTH CARE SERVICES QUARTERLY

2007, 26(1), pp. 29-42

The authors wish to thank Irene Yen, Martin Kitchener, and Charlene Harrington for their comments and suggestions on an earlier version of this paper, and the comments and suggestions of two anonymous reviewers. This study was supported by the National Institute for Disability and Rehabilitation Research (Grant # H133B031102). The authors are solely responsible for the findings and opinions expressed in this article.

Abstract

Shifting from an agency-based model of personal assistance services to consumer direction has important consequences for both recipients and workers. In consumer direction, recipients assume the responsibilities of employing their attendants – for both self-directing their supportive services and being responsible for numerous fiscal responsibilities. Many states have eased these fiscal responsibilities among recipients in publicly financed personal care programs by using Financial Management Services (also known as fiscal intermediaries). This article introduces the major types of Financial Management Services organizations used by Medicaid consumer-directed personal care programs, and examines the extent to which the varied approaches can and do serve the needs of both recipients and workers. Despite the expansion of consumer-directed programs and the accompanying emergence of Financial Management Services, these organizations have not been extensively studied or evaluated. The paper concludes with a discussion of the challenges, opportunities, and policy implications of the current practice; and suggests directions for future research.

Key words

consumer direction, home care, attendant services, personal assistance services, Financial Management Services

Introduction

Personal Assistance Services (PAS) (also known as “homecare” and “attendant care”) is a primary mode of long term care, providing such essential support as assistance in bathing, dressing, and grocery shopping for people with disabilities who live in community settings. An emerging trend in PAS is consumer-direction. Since 2001, nearly every state and U.S. territory has implemented at least one consumer-directed program within their Medicaid home and community based services programs or through State personal care programs (Kitchener, Ng, & Harrington, 2005).

A consumer-directed approach differs from the traditional agency model of service delivery in several fundamental ways and has important consequences for both PAS recipients and workers. For example, consumer-directed programs allow recipients (rather than agency staff) to decide how, when, and from whom they receive their supportive services. Another difference is that the consumer-directed recipient may be responsible for recruiting, hiring, training, scheduling supervising, and paying their PAS worker. In an agency-based program, PAS workers are employed by an agency and all these functions are assumed by the agency (Benjamin, 2001). Additionally, workers in many consumer-directed programs are “independent providers” and may be categorized as support service employees of the PAS recipients. In such situations, recipients may be responsible for withholding taxes and Social Security from workers’ paychecks, filing employment taxes, and maintaining employment records (Flanagan, 2004a).

States have taken various steps to ease the administrative responsibilities shifted to recipients in their publicly financed consumer-directed programs. An almost universal approach has been to use Financial Management Services (also known as payroll agents, employer agents,

and fiscal intermediary organizations). These entities assume the fiscal and administrative responsibilities noted earlier on behalf of recipients. PAS recipients retain primary responsibility for directing their supportive services (Flanagan, 2004a).

While most states have addressed fiscal administration, there is more variation in how they have addressed such persistent problems affecting PAS workers as low wages, and limited (or no) benefits for PAS workers (Kaye, Chapman, Newcomer, & Harrington, in press; Kitchener, Ng, & Harrington, 2006). Among other things these problems may affect labor supply and worker turnover. Another area of wide variation is that individuals employed as independent providers may receive less (or no) training, staff support, and workers' compensation coverage than might be available through agency employment (Benjamin & Matthias, 2004). Some states have developed FMS-approaches that provide both a fiscal management infrastructure for PAS recipients who self-direct their supportive services, and an infrastructure that attempts to support workers and address such workforce issues as recruitment, retention, wages, benefits, training, workers' compensation coverage, and occupational safety.

This article introduces the major types of Financial Management Services organizations used by Medicaid consumer-directed personal care programs, and examines the extent to which the varied approaches can and do serve the needs of both recipients and workers. Despite the expansion of consumer-directed programs and the accompanying emergence of Financial Management Services, these organizations have not been extensively studied or evaluated. The paper concludes with a discussion of the challenges, opportunities, and policy implications of the current practice; and suggests directions for future research.

Financial and Other Management Supports in Consumer-Directed Programs

Until recently, states routinely categorized independent providers as independent contractors. This categorization was upheld when challenged in the courts, such as in California in 1987 (Heinritz-Canterbury, 2002). This categorization created a legal scenario in which there was no “employer-employee” relationship – and instead, that PAS recipients using independent providers were said to be purchasing supportive services from small owner-operated businesses. This scenario eliminated states’ and recipients’ responsibility for the fiscal/administrative tasks noted earlier, and shifted the burden of this on to workers (including having them bill the state public program for the personal care services they provided, maintaining employment records, and calculating and paying employment taxes and Social Security). Moreover, as “independent contractors,” these workers were ineligible for workers’ compensation and unemployment benefits, and were proscribed from forming or joining a labor union to improve their working conditions.

Most publicly funded consumer-directed programs have since begun to categorize PAS workers as support service employees of the PAS recipients. This transformation followed recognition of the potential liability risks (Flanagan, 2004b; Sabatino & Hughes, 2004). With this change, PAS recipients became responsible for the numerous employer-related fiscal/administrative tasks mentioned above. This was problematic because although PAS recipients want to self-direct their supportive services, they generally report that the numerous employer-related fiscal/administrative tasks are onerous (Flanagan and Green, 1997).

Three basic approaches have been adopted by states to support PAS recipients and workers in consumer-directed programs. *Fiscal/Employer Agent* and *Agency with Choice* are the

most prevalent types as noted by Doty and Flanagan (2002) in their survey of these organizations. A variation on these entities, known as a *Public Authority*, is the third approach.

Table 1 summarizes the major characteristics of each approach.

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All three approaches provide an infrastructure that relieves PAS recipients of the employer-related fiscal and administrative tasks (e.g., tax withholding, payroll). These approaches differ in their support for workers. One factor contributing to this difference is the structure of employment relationships and the designation of the “common law employer” (i.e., the “legal employer”) of the PAS worker. These differences between models are described below and illustrated with examples of FMS organizations.

Fiscal/Employer Agent

A *Fiscal/Employer Agent* model characterizes the situation when the recipient is the common law employer of the independent provider. In this model (as in the others) recipients recruit, hire, train, supervise, and fire workers. The *Fiscal/Employer Agent* handles the employer-related fiscal and administrative tasks, such as Social Security and tax withholding from PAS workers’ paychecks, paying and filing employment taxes, and enrolling recipients in workers’ compensation insurance. There are both government and vendor *Fiscal/Employer Agent* models, but these entities differ only in auspice, not function (Flanagan, 2004a).

Example: ARIS Solutions-ISO (Vermont)

Vermont's Medicaid consumer-directed programs use Aris Solutions-ISO as their *Fiscal/Employer Agent*. Aris is a local business that provides financial services for PAS recipients (who are the common law employers of independent providers); approximately 2600 recipients and 8200 independent providers are enrolled annually (Scherzer & Newcomer, 2006a). Aris manages payroll tasks for recipients, providing all required employment forms, timesheets, and workers' compensation enrollment forms, and offers recipients assistance in completing the forms. (Aris Solutions ISO, n.d.). Recipients are responsible for recruiting hiring, supervising, and firing their workers; signing and mailing timecards; notifying the Medicaid program and Aris of any personnel change; and enrolling with the designated workers' compensation carrier. Aris processes independent provider applications, conducts background checks, processes timesheets, issues paychecks, withholds and files taxes, and prepares annual W-2 tax withholding statements (Vermont Agency of Human Services, 2004a, 2004b). Beyond brokering workers' compensation insurance, Aris does not provide services (e.g., training) to independent providers (Aris Solutions ISO, n.d.).

Agency with Choice

The *Agency with Choice* (sometimes called a "provider agency") approach differs from the preceding in part because there is a co-employment relationship between the *Agency with Choice* and the recipient. The *Agency with Choice* is the common law employer of the workers, and handles the employer-related fiscal and administrative tasks. The recipient is the "co-employer" or "managing employer" responsible for selecting, directing, and firing workers. These roles are executed (as in the prior model) with the recipient selecting a worker (possibly someone known to the recipient, or through a registry or other means of identification) and

referring her/him to the *Agency with Choice* to be hired. The recipient also notifies the *Agency with Choice* if the worker is fired or quits. The *Agency with Choice* differs from a traditional homecare agency in that worker supervision and training are recipient responsibilities. The agency generally does not supervise, train, or directly engage with the worker, other than in its fiscal role, and often “looks and operates like a Fiscal/Employer Agent” (Flanagan, 2004a).

Example: Granite State Independent Living (New Hampshire)

Granite State Independent Living (GSIL) is a Center for Independent Living certified by New Hampshire Department of Health and Human Services to provide consumer-directed services under the state’s Medicaid personal care and waiver programs. GSIL serves approximately 500 recipients and employs 700 workers (Scherzer & Newcomer, 2006a). As an *Agency with Choice*, GSIL is the common law employer of PAS workers. PAS recipients are “managing employers” who select, supervise, and can fire their workers. For recipients, GSIL offers assistance with employing, training, and supervising PAS workers, and establishing a back-up plan to aid recipients if their worker is unavailable. GSIL also helps recipients identify and address potential occupational hazards in the home. Recipients’ other responsibilities include verifying and submitting timesheets, notifying GSIL of personnel changes, maintaining a safe working environment, and submitting proof of their auto insurance coverage (GSIL, 2004). For workers, GSIL performs the required employer financial tasks, carries workers’ compensation insurance, and provides access to health care benefits through individual spending accounts (GSIL, 2005a; GSIL, 2005b). GSIL does not train workers directly, but trains recipients to train their workers. The organization does create targeted educational campaigns in response to reported needs (e.g., safe lifting articles in response to reports of back injuries) (Scherzer & Newcomer, 2006a). GSIL also protects workers’ occupational health by intervening in unsafe

situations (e.g., if recipients fail to correctly dispose their used syringes); a recipient's services can be terminated if the unsafe working situation is not corrected (GSIL, 2005a).

Public Authority

In a *Public Authority* model the recipient is the common law employer of the independent provider, and is responsible for hiring, training, supervising, and firing the worker. The *Public Authority* is an independent governmental (or quasi-governmental) entity that supports recipients by maintaining a worker registry and offering training opportunities to both recipients and workers. The Public Authority may also serve as the employer of record for purposes of collective bargaining with the union that represents the independent providers. Fiscal tasks, such as payroll and tax withholding are handled by a third entity: the state and/or county departments administering the Medicaid personal care and home and community based services (HCBS) programs.

Example: California's In-Home Supportive Services and Public Authority System

Public Authorities have been established in 51 of California's 58 counties to support recipients and workers in the Medicaid personal care program known as In-Home Supportive Services (IHSS). The Public Authority structure has been in place since 1993 and potentially serves approximately 370,000 IHSS recipients annually. Employer functions are divided among the PAS recipient, the state and county departments that administer IHSS, and the Public Authority. PAS recipients are the common law employers of the independent providers. State and county IHSS departments are responsible for payroll and tax withholding for the independent providers. Each *Public Authority* serves as the employer of record for collective

bargaining, and negotiates with a union selected by the workers in to set wages and benefits.

Among its other functions, *Public Authorities* maintain a worker registry, and offer voluntary training for workers and recipients. Some offer back-up services to recipients when their regularly scheduled attendants are unavailable, and some Public Authority services are available to non-IHSS (“private pay”) PAS recipients (Scherzer & Newcomer, 2006b).

Challenges, Opportunities, and Policy Implications

The three models of Financial Management Services (FMS) discussed in this paper share common functions, namely those of reducing the fiscal/administrative burdens on PAS recipients (e.g., payroll) associated with employing personal care workers, and appear equally viable in this capacity. In this section, we focus on the differences among the approaches in how they address worker and workforce training, safety, and other support. We also discuss how these approaches may impact recipients.

The *Fiscal/Employer Agent* approach, as currently implemented, offers the fewest supports for workers. This occurs in part because recipients are the common law employers. The independent providers are not an aggregate workforce, as they would be if employed by an agency or worked for a single common employer. One consequence of this is that workers have reduced opportunities to identify and voice collective concerns such as occupational safety, wages, benefits, and working conditions – as well as issues pertaining to workforce development such as specific training, mentoring, and career ladders. Another consequence is that the lack of a clear employment infrastructure may result in difficulties for workers who need timely assistance with issues such as obtaining an official letter of employment status, dealing with a lost timesheet, or seeking medical attention for an occupational injury. Another potential consequence is that while recipients may be relieved of the fiscal/administrative tasks, they may

not have access to other kinds of knowledge or support (e.g., information about assistive equipment, how to deal with conflict with their worker). In some states this latter support may be available through third party programs.

The *Public Authority* model has been implemented, in part, to address the issue of aggregating the independent provider workforce, and to provide certain services to workers and recipients to increase participation and stability in the consumer-directed program. As discussed earlier, *Public Authorities* may serve as the employer of record for collective bargaining (for example, in California). This has been a vehicle by which workers may unionize and bargain for improved wages and benefits, as well as training, workers' compensation coverage, and other job quality improvements. Two other important functions of the *Public Authorities* are to provide a worker registry and training opportunities for workers and recipients, but the Public Authority may not have the authority to establish/enforce participation requirements for every independent provider. For example, California's IHSS *Public Authorities* have certain requirements for independent providers to be listed on the registry (e.g., personal or employment references), but this does not apply to situations where recipients hire someone outside the registry (such as a family member). As is the case with the *Fiscal/Employer Agent*, whether this relatively passive role in training has affected the quality of care or working conditions has not been evaluated. There is some evidence that unionization has helped obtain health insurance and other benefits for PAS workers (Zawadski, 2005).

The *Agency with Choice* (in common with the *Public Authority*) is also the common law employer of an aggregate workforce. This offers at least the potential for workers to voice their concerns collectively (unionized or not) to a single employer (and for this single employer to respond to the group). A possible uniqueness of this model is its potential to have required

trainings or worker protections (the cost of workers' compensation insurance alone may prompt an *Agency with Choice* to do this in order to reduce these insurance costs). Because of this factor the *Agency with Choice* model may offer workers more support compared to both the *Fiscal/Employer Agent* and the *Public Authority* models. Another advantage of this model is that the *Agency with Choice* provides a clearer employment infrastructure. Even though the workers are often selected and may be "fired" by the recipients, there is one entity that processes the paperwork, writes the check, and deals with worker issues such as those noted above (e.g., lost paycheck). Additionally, the *Agency with Choice* has operating experience as a direct care organization. This may enhance the ability of this model to offer training, access to benefits, and other workforce supports. However, the potential advantages of this model may remain only "potential" if the *Agency with Choice* does not engage with workers beyond the fiscal tasks.

A state's decision to select an *Employer/Fiscal Agent*, *Agency with Choice*, or *Public Authority* model may have consequences for the performance of their consumer-directed personal care programs. We have suggested some possible differences that may be expected among these models, but it is important to recognize that the actual performance of these various approaches has not been formally evaluated by us or others. Little is known about how well each model is performing in its support of workers, or whether any one of these models does a better job at workforce protection or in what may be the more difficult role of workforce development (e.g., specific training topics, mentoring, and career ladders), and quality of care oversight.

Most of the work done to date in the evaluation of personal assistance services programs has compared the experiences and satisfaction of recipient and workers in agency- and consumer-directed programs. This work has largely been focused on the Cash and Counseling Program demonstration (Dale, Brown, Phillips, & Carlson, 2003; Doty, 2004; Foster, Brown,

Phillips, Carlson, 2003; Foster, Brown, Phillips, Schore, & Carlson, 2003) and California's IHSS program (Benjamin & Matthias, 2004). One study examining the effects of wage and benefit changes on worker retention (Howes, 2002) was also conducted with IHSS program. These studies have found a preference towards consumer-directed approaches, but this finding may be influenced by the fact that a majority of consumer-directed participants selected family members as their paid providers. Also notable is that these studies do not compare the experiences of recipients or workers enrolled in different FMS models. Beyond the information limitations due to the few programs studied, there are basic information gaps such as whether the various FMS approaches have had opportunities to improve the wages, benefits, or training available to workers, or the extent to which the various approaches have influenced important outcomes such as worker satisfaction, worker retention, recipient satisfaction, and quality of care.

Suggestions for Future Research

Documenting the effectiveness of the various FMS models will be helpful assuming that there is a continuing expansion and development of consumer-directed personal care programs. States' continued use of FMS organizations is probable, as there appears to be a general preference among the recipients and administrators of state consumer-directed programs for using a third party to handle the employer-related fiscal and administrative tasks. One reason for this was cited earlier, namely, that recipients want to self-direct their care without the burden of the fiscal responsibilities (Flanagan & Green, 1997). For example, in the Arkansas Cash and Counseling demonstration, participants received "counseling" regarding their employer-related responsibilities. They had the options of either assuming these tasks, or using a payroll service or other "Financial Management Services" organization. Most participants elected the second option (Foster et al., 2003). A second factor is the concern by states of ensuring accountability

and accuracy in these fiscal and administrative functions. One form of this consumer screening is found in a “cash and counseling”-type initiative in Oregon. Program participants must pass an examination testing their ability to assume payroll responsibilities. Those not passing this examination are assigned to work with a Financial Management Services organization (Coleman, 2003). A third influence on the use of FMS organizations was suggested by Flanagan and Green (2000). They note that the use of an FMS serves to eliminate the misperception that the State is the common law employer of the PAS workers.

Future research might compare the experiences of workers and recipients enrolled through different FMS models (within a single state, and across states). Such research could focus on individual and organizational challenges, opportunities, and effectiveness towards improving worker training, safety, wages and benefits – and the impact on worker retention, as well as recipients’ satisfaction and quality of care. This research could also compare practices (the challenges faced by these organizations) between the same types of FMS (again, within a single state, and across states) to identify best practices that could be replicated elsewhere. Such research could illustrate real-life dilemmas faced by these organizations.

Another topic for further research is to compare the experiences of recipients and workers who are related and not related – within a single FMS, across the same type of FMS, and across different types of FMS. Most state Medicaid consumer-directed programs permit recipients to hire family members (some even permit the hiring of spouses and parents) as their paid caregivers. Whether the decision to use a family member is influenced by wage levels or the performance of fiscal functions is largely unexamined even though a substantial proportion of PAS workers in consumer-directed programs are related to the recipients. For example, in California’s In Home Supportive Services (IHSS) program, approximately 52% of workers are

related to the recipients for whom they provide care (Scherzer, Kang, Chapman, & Newcomer, 2005). Similarly, a majority of participants in the three original Cash and Counseling demonstration programs chose family providers as their paid PAS workers (Dale et al., 2003; Doty, 2004).

A third broad area for further research concerns the impact of unionization and collective bargaining on worker retention. The *Public Authority* and *Agency with Choice* models facilitate unionization and collective bargaining, although unionization has been more prevalent within the *Public Authority* model. In some California counties, unionized independent providers have gained improved wages, health benefits, and training opportunities through collective bargaining. Does this success ultimately improve the stability or quality of the workforce? Research on the effects of these gains in Los Angeles and San Francisco, California, suggests worker retention improved (Howes, 2002; Zawadski, 2005), but further research should examine if similar results occur in other settings and under different FMS models. This research could also explore the different experiences of related and non-related workers and recipients.

Finally, this article has provided an introduction to FMS as used by publicly financed consumer-directed programs. Whether FMS entities are used, and how, within the consumer-directed “private-pay” domain is unknown, as whether the effectiveness of FMS is affected by the size and the wage structure for private pay PAS. Future research could examine the range of employment infrastructures, employment relationships, working conditions, and quality of care that exist in the private-pay world, and compare these arrangements and conditions to those that exist within the publicly financed services.

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Table 1. Overview of FMS models*

FMS approach	Typical organization	Employment relationship(s)	FMS employer-related fiscal and administrative functions
Fiscal/ Employer Agent	bookkeeping/ payroll service, information technology company	<p>Recipient is common law employer of the PAS worker (“independent provider”).</p> <p>FMS is employer agent for fiscal employer tasks. Recipient is responsible for recruiting, hiring, training, supervising, firing worker.</p>	Process hiring paperwork, conduct background checks, process timesheets, disburse paychecks, manage federal and state employment taxes, unemployment insurance, workers’ compensation
Agency With Choice	Center for Independent Living, homecare or home health care agency	<p>Agency is common law employer of PAS worker.</p> <p>Recipient is the “managing employer” responsible for recruiting, selecting, training, supervising worker – but may be assisted by Agency.</p>	Same as above
Public Authority	Independent quasi-governmental entity	<p>Recipient is common law employer of the PAS worker (“independent provider”). Recipient is responsible for recruiting, hiring, training, supervising, firing worker.</p> <p>Public Authority may be the Employer of Record for purposes of collective bargaining.</p>	Employer-related tasks dispersed among state and county offices and departments.

* Based on Flanagan, 2004a.