Looking into the Black Box of Payment Rates – September 2, 2020

1. Descriptive Information

Looking into the Black Box of Payment Rates Payment rate strategies are a key policy tool for the child care subsidy system to try to affect provider behavior, whether to incentivize quality or to expand the supply of care. They are therefore essential for meeting the important subsidy system goals of quality and access. Yet we know little about how they work and for whom. To inform research that supports effective rate policies, this virtual event has three objectives. First, to establish a basic understanding of what we know about rate policies, the complexity of how they are designed and implemented, and the current state of rate-related research. Second, to inform future research by engaging experts, policymakers, and researchers in a dialogue about what is in the black box of rate-setting policies, and their possible effects on the behavior of different kinds of providers and providers in different contexts. And third, to understand what policymakers want to learn about rate strategies to ensure that our research agenda is targeted to meet their policy goals. The virtual event will begin with a foundational overview of rate policies across the 50 states in 2018 from the CCDF Policies Database. We will then have a moderated panel discussion with experts in research, policy, and practice to answer questions about our current research base, what we know, and what we need to learn about how different rate policies affect different providers in different contexts. This discussion, which will include audience participation, will seek to illuminate gaps in the current research base and shape a research agenda. Possible discussion questions are: • What do we know about the impact of different rate strategies—such as raising rate caps, tiered reimbursements, and bonuses—on providers and families? • How do states design and implement these policies and which providers are affected? • How do rate policies interact with other key policies (such as copayments and allowing providers to charge parents the difference between the state cap and the provider's rate) and what are the implications for providers and parents? • What do we know about the design and efficacy of rate strategies designed to improve the supply of care for special populations as contrasted to rate strategies designed to improve the supply of quality care? • Do low payment rate ceilings differentially constrain access for special populations whose care may cost more to provide?	**Moderator** • **Gina Adams,** Urban Institute **Presenter** • **Sarah Minton,** Urban Institute| *State Payment Rate Policies: A View from the CCDF Policies Database* **Panelists** • **Elizabeth Davis,** University of Minnesota • **Karen Schulman,** National Women's Law Center • **Lisa Brewer Walraven,** Child Development and Care, Office of Great Start, Michigan Department of Education **Scribe** • **Katie Caldwell,** ICF

2. Documents Available on Website

- Minton_Provider Payment Rates an Overview of State and Territory CCDF Policies Presentation

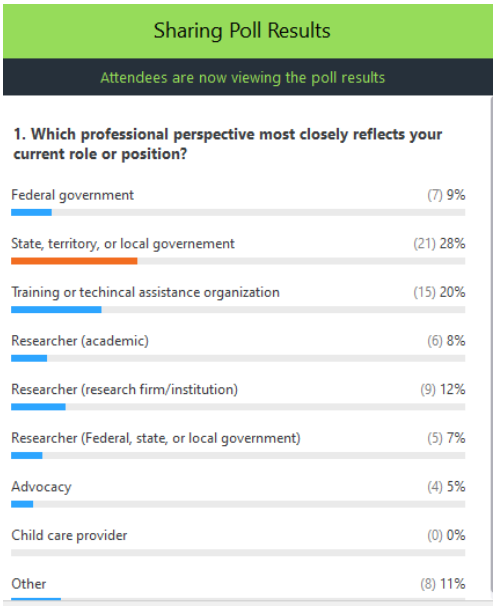
3. **Brief Summary of Presentations**

Today's webinar was broken down into five different topics related to payment rates and multiple panelists contributed to the presentation and discussion within each topic.

- **Summary of Presentation #1:** Understanding the Basics of Payment Rates

  Gina Adams

  - Payment rates are a critical part of the U.S. child care subsidy system as they are the main connection between the subsidy system and providers. They are the main tool the system has to effect provider behavior such as incentivizing or support quality, supply, and ensure equitable access.
  - There is still a great deal the field needs to understand around payment rates.
    - No common language in the field
    - No understanding of the impact of different rates on different providers (difference between tiered reimbursement and a bonus)
    - Under what circumstances would raising a rate produce the hoped for outcome and what providers are most likely to be affected by rate strategies?
  - Hope this webinar can improve our collective understanding of how rates work and can be used in the field.
  - A poll was conducted to see who is on the call (see graphic)



  Sarah Minton

  - What we know from the CCDF Policies Database
    - CCDF Policies Database is funded by ACF, OPRE and maintained by the Urban Institute.
    - Single source of detailed policy information coded from State/Territory caseworker manuals and updates.
    - Data from 2009-2018 available currently and new data is released annually.
  - Provider rates policies in the CCDF Policies database
    - Maximum reimbursement rates: maximum amount that the CCDF program will reimburse providers for children receiving subsidies
    - Tiered rates
      - Base rates: The reimbursement rate for licensed providers (or unlicensed in-home providers) who have not received any additional quality add-on
      - Highest rates: The reimbursement rate for providers who have acquired the highest quality rating or accreditation
      - Additional tiers (between the base and highest) are also captured in the full database
  - Rates available for:
    - Different provider types (centers, family child care homes, group child care homes, in-home providers)
    - Different provider sub-types and quality ratings (licensed, accredited, faith-based, etc.)
    - Most populous area of the state in every state, additional sub-state areas for most states
    - Different age groups (variation by age group as defined by each state)
    - Part-time vs. full-time care
    - Before-and-after school care
    - Care provided to children with special needs
  - Maximum monthly reimbursement rate for toddlers (2018)
    - There is wide variation in center, family child care, and in-home rates across States/Territories. Some states require minimum wage be paid for in home child care which creates higher reimbursement rates

- Tiered reimbursement rates (2018)
    - 32 States/Territories use tiered rates for center care
    - 31 States/Territories use tiered rates for family child care homes
    - 10 States/Territories use tiered rates for care provided in the child's home
    - Highest tiered rate compared to base rate for toddlers
        - Centers: tiered rates are on average 33 percent higher (ranging from 5 to 152 percent higher across states)
        - Family child care homes: tiered rates are on average 27 percent higher (ranging from 3 to 142 percent higher across states)
        - In-home providers: tiered rates are on average 27 percent higher (ranging from 3 to 110 percent higher across states)
- Change in center base rates over 5-year time period
    - 42 state increased their base reimbursement rates. Average increase was 20%.
- Change in highest tiered rates over 5 years
    - 48 states increased their rates over the last 5 years. Average increase was 24%
- Can providers require parents to pay the difference between maximum rate and the provider's rate?
    - In 44 States/Territories providers can, in 12 State/Territories they cannot.
- Additional provider payment policies
    - 35 States/Territories reimburse all providers for at least some days children are absent from care. An additional 19 States/Territories reimburse some providers (such as licensed providers) for these days.
    - 30 State/Territories reimburse all providers for at least some days the provider is closed. An additional 10 States/Territories reimburse some providers (such as licensed providers) for these days.
    - 37 States/Territories reimburse providers at a higher reimbursement rate for care for children with special needs.

Karen Schulman

- A rate cap is the maximum amount a state will pay providers.
- States can generally only reimburse providers what they charge private pay families but there are some exceptions, such higher rates tied to quality, or differential rates for care for children with disabilities.
- Rate differentials
    - Amount of the differential is often not based on the amount needed to incentivize providers to offer higher-quality and/or specialized care or to cover the additional costs of that care.
    - Often driven by what resources are available, not necessarily by research rationale.
- Bonuses
    - Bonuses can be a way to get around the issue of whether a state can pay providers a rate that is higher than their private-pay rate because the bonus is not included in the payment rate itself

Gina Adams

- Rates affect providers by how many children they serve that receive subsidy
    - Is there a basic number of children that would help incentivize providers to provide highest quality care?
- How a rate will affect a provider is likely to be strongly affected by how many subsidized children they serve. A higher rate is unlikely to do much to change the behavior of a provider who only serves a few kids that get the higher rate or whose subsidy population fluctuates.
- Research suggests that the proportion of subsidized kids that providers serve varies widely.
- Impact of a differential rate policy on providers: it is critically important to know whether any provider can get that higher rate, or if it is just providers whose rates are already high. If it is only providers with higher rates, than the policy does little to affect the structural underlying market forces that constrain quality for providers who can't charge higher rates because they are in communities with less resources.

- **Summary of Presentation #2:** How These Issues Work on the Ground

  Lisa Brewer Walraven
  - Michigan has tiered reimbursement
    - Based on provider type and age of child and QRIS star rating.
    - QRIS star rating is a 5 stars system in Michigan. 3, 4, and 5 stars are considered high quality and these providers get a higher reimbursement rate. Within the state's subsidy system, Michigan waves the copayment for families who chose a provider who are 3,4, or 5 stars to incentivize families to place children in high quality care.
    - The state has been tracking the impact of that policy
      - End of FY 2017- 48% of children in a 3,4, or 5 star rated care situation.
      - End of most recent quarter in 2020- 54% of children in higher quality care.
    - Use absence hours as a strategy to make sure providers are getting maximum funds and families are getting support they need (increased from 280 to 360 a year)
      - Pays for 85% attendance rate.
    - Michigan was doing an hourly reimbursement for a long time and has moved to a half day or full day strategy due to a change in the legislature.
    - Graduated exit scale- families above threshold at reevaluation continue receiving support.
    - Providers report that these policies have encourage them to enroll families with CCDF children.

  Elizabeth Davis
  - In Minnesota, payment rates also interact with the child's schedule. The child's authorized care schedule is closely tied the parent's work schedule.
  - The state has a very complicated way of determining the reimbursement rate paid to the provider, which reflects the different rate caps for hourly, daily and weekly payments, so it depends on the hours of care
  - If a provider cannot collect the copay, they are receiving less and whether or not the provider collects the copay depends on a number of factors such as community norms and time and energy necessary to collect the copay.

  Gina Adams
  - Amount of money provider actually gets is not only affected by the rate, but also by a host of other policies that can have a major impact on their bottom line.
    - Do they know accurately when the child is authorized for care and the start date?
    - Are they notified when a child is terminated? Or do they keep on serving the child and only find out a month or two later that they aren't being reimbursed anymore?
    - How many absent days are paid?
    - Can they actually get the copayment from parents?
  - Annual redetermination is beneficial for providers because beginnings and endings are simplified.
  - Other questions that can interact with the power of a rate policy to incentivize behavior
    - How hard is it to work with the agency? If there is an issue can it be worked out easily?
    - What alternatives do providers have? Are there private pay parents who will pay them more consistently and accurately, or are children on subsidy their primary service population? We found that the worse the provider policies, the more the providers that had alternatives simply reduced their involvement with the subsidy system.

- **Summary of Presentation #3:** What Do We Know About Using Rates to Improve Supply for Special Populations or Quality of Care?

  Karen Schulman
  - There are a variety of the types of care that rates are trying to affect (quality, special populations such as infants/toddlers, homeless, special needs, nontraditional-hour care, etc.).

- Other types of rates: differential rates for nontraditional hour care, some states have special rates for other special populations: foster care, at risk children, California has a special rate for serving ESL children, some states set special rates for children who are homeless and children of teen parents.
- Other set of rates based on age. Infant care payment rates are typically higher and are usually based on what providers are charging in the private market.
- If the rate is sufficient to support higher-quality or specialized care still an open question
- What is impact of higher rates for small populations and will the higher rates actually affect provider behavior?
- Sometimes these rates do a better job of adequately rewarding providers already providing care.
- Similar issues with contracts- paying for empty slots?
- Bonuses are often a catch 22: states pay bonuses for higher quality but providers need the bonuses to reach a higher quality rating.

- **Summary of Presentation #4:** Effect of Covid-19

  Lisa Brewer Walraven
  - Michigan is currently getting started on their market rate survey which was delayed from March due to Covid-19.
  - Covid-19 is having an impact on the response rate for market rate survey. Some providers are closed, and only some may reopen. Differences in costs for providers now due to the pandemic. What does the market rate mean? How can we gather information about market rate prior to pandemic and then now?
  - Types of programs being used by parents are changed. There has been a dramatic shift to family child care due to smaller class sizes. School age child care is also in much higher demand than before.
  - Michigan is thinking about how these circumstances dictate what types of questions the state should be asking on this year's market rates survey to accurately capture the full picture of rates.

  Elizabeth Davis
  - States who conducted a market rate survey in 2019 face challenges as to how relevant that data is now given that the pandemic has changed so much about child care.
  - Covid has exposed the precarious financial status of child care providers.
  - This may be an opportunity to rethink how we fund child care assistance.
  - In the near term, market rates will be a challenge.
  - We really need to think about how to structure rates for providers so they can survive and thrive in the future and remain in business.

  Gina Adams
  - We need to be thinking about school age care; it is now so complicated due to remote learning and extra child care needs. The Office of Child Care has put out instructions that subsidies can be used for care during learning time. However, if children are in a full-time learning setting, this is three times as much care as was needed before; part time learning would be twice as much care as before. How will providers meet this need and who is going to pay for care for kids?
  - Also, we need to talk about a recession. Provider behaviors tend to change during times of economic challenge and they often gravitate towards subsidy if there are not enough private pay parents.

4. Brief Summary of Discussion

- Q: What is the difference between bonus vs tiered rate?
  - Generally, a bonus is still tied to a certain child receiving care.
- Q: Have we tracked how many states are using contracted slots under CCDF?
  - No, we have not.
- Q: What is Michigan's breakdown of supply related to star levels?
  - 46**%** of licensed providers participate, currently 54% of subsidy children are in 3/4/5
  - Still have a high number of providers who do not participate in QRIS
  - Don't assume the language around a contract is the same in each state. It really varies and sometimes contracts follow the child almost like a voucher system.
- Q: Have you looked at the impact in variations and how the 12-month eligibility rule is playing out?
  - There is variation across states. Wisconsin is currently working with IRP to evaluate this and the data is still emerging.
- Q: What is Michigan doing in school age child care this year?
  - We are still trying to come to a consensus about how to help based on what we can afford.
- How is Michigan going to gather market rate survey?
  - Still going to survey providers to gather information but are working on exact questions.
- Have you tracked how many states are using contracting of slots under CCDF?
  - Table 2 of the CCDF data tables has information on contracting of slots, by state. For example, in 2018, 0% of slots in Alabama and 42% in California are grants/contracts…in many states 100% are certificates (vouchers).
- Could Michigan expand on how they are re-thinking collecting cost of care information as well in light of COVID?
  - In Michigan for our MRS we are going to still use a survey and we will do interviews with a small # of providers using the cost of care calculator to gather more in-depth information.

5. Summary of Key Issues Raised

- Many research questions and ideas were proposed by panelists that could be used to inform future research related to subsidy payment rates to providers. Below are suggested research ideas:
  - Understand better the relationship between maximum reimbursement rates and what providers actually get paid.
  - Think more carefully about what outcomes we expect maximum payment rates to influence.
  - Will raising maximum rates impact access?
  - Research who is getting access to the care when rates are attached to higher quality care? What neighborhoods are able to access the higher rates? Is it equitable?
  - How to balance the ever-changing environment for providers and families. Hear directly from providers and parents to get timely data and hear their needs. How do we create consistency in policy so providers can stay open?
  - In relation to the total child care market, the subsidy system is pretty small and doesn't provide a huge amount of support. What parts of the actual child care market can actually be influenced by policies and payment rates? Are rates really the best way to affect this system?
- Equity is an important consideration for provider payment rates. How do payment rate policies impact a provider's ability to reach a higher quality rating?
- The Covid-19 pandemic offers an opportunity to reflect on and study payment rate policies and their impact on providers and the sustainability of the child care subsidy market.