2011 STAM – CCPRC Meeting
Workshop B3
November 16, 2011, 11:30 am-12:45 pm

# Compensation in Quality Improvement Initiatives

## Description

This workshop highlighted the information that is known about current wages and ECE benefits; the relationship between education and compensation; and cost considerations, including the impact of compensation on provider costs, family affordability, public financing, and incentives offered by States. Presenters discussed current knowledge about the cost of meeting different standards developed by States; lessons to be learned from the K-12 area; and State approaches for determining the appropriate compensation levels and for rewarding quality, especially with tight fiscal constraints. Following the presentations, participants offered their perspectives on compensation issues, current State efforts to reward quality, and future research needs.

## Facilitator

Richard (Rick) N. Brandon, RNB Consulting

## Presenters

Anne Mitchell, Alliance for Early Childhood Finance
Laura Saterfield, Wisconsin Department of Children and Families

## Scribe

Tabitha Isner, Child Trends

## 1. Documents in Session Folder

- "Compensation and ECE Quality Improvement," Richard N. Brandon
- "Modeling ECE Cost: Tools, Resources, Opportunities," Anne Mitchell
- "Child Care Compensation," Laura Saterfield

## 2. Summary of Presentations

- **Summary of Presentation #1:** Rick Brandon
    - This session addresses the impact of staff compensation on tradeoffs among quality and affordability for parents and public agencies, including the link between professional standards, rating standards, and compensation.
    - There are a number of ways to think about compensation: *pay adequacy*-ECE workers need a living wage; *pay equity*-workers should be paid comparable to others with comparable qualifications; *professionalism*-when the field is seen as a profession with standards and expectations, compensation will improve in kind; and *competitive labor market*-those with better qualifications will likely go to higher paying positions, thus driving down the qualifications of the ECE workforce. Rick's focus in this presentation is on the *competitive labor market* approach.

- Current qualification and compensation levels are too low, but we don't actually know what the bare minimum should be and raising compensation will have consequences, so this is no small matter.
  - Research shows that educational level is a major predictor of wages, as is being male, being an English speaker, etc. But working in child care predicts much lower wages, even while holding lots of other characteristics constant.
  - Compensation is not just about pay, it also includes benefits. And child care workers aren't getting many benefits. A large employer survey found that 0% of providers are receiving retirement plans and just 9% get employer-provided health insurance.
  - Salaries make up about 50% of a child care center's budget. Benefits are another 15% of the budget. Raising these would really affect child care centers.
  - What's the impact on families? Currently, families are paying 14%-16% of their income for child care. If you raise compensation for ECE providers to be more like public preschool teachers, it rises to 17%-20%. If you raise it to be more like an elementary teacher's salary, the cost is 22-25% of family income.
- Approaches to improving compensation:
  - Wage supplements (direct)
  - Tiered reimbursement (indirect)
  - Tax credits for parents (indirect)
  - Unionization (indirect)
- Summary: What we know is that current low qualifications and compensation result in low quality and high turnover. We don't know what the optimal level of qualifications and compensation are. There are risks if we set the levels of qualifications and compensation too high. It might be better to experiment with moderate increases in standards and compensation and to incentivize qualifications at both the program level and the individual level.

- **Summary of Presentation #2**: Anne Mitchell
  - The basic problem is that higher quality ECE costs more than most families can afford. The market encourages competition to provide care at a lower price.
    - From a provider's perspective, the expense drivers are ratios, group size, and staff compensation. The revenue drivers are tuition fees, revenue collection, and enrollment efficiency.
    - From a policymaker's perspective, QRIS are a market intervention. Unlike tiered reimbursement, QRIS lets parents opt to pay more for higher quality. But not all parents can afford to do so, so another option is for the State to pay programs to provider higher quality.
    - To know how much money to give programs, we have to figure out the size of the gap between cost and quality, and by doing so, find out how much money you have to give programs to make it worth their while to be high-quality.
  - This presentation is based on data from three anonymous States. In each State context, we can ask, how much does quality cost?
    - Cost models were developed using average pay rates at various levels of qualifications, known reimbursement rates, average tuition rates, etc. These cost models produce estimated program revenues.

        - The rigor of the regulations and the size of the QRIS rewards are the key context pieces that differentiate the States.
        - Cost models also attempt to account for the idea that staff in higher quality programs probably put in more work (to plan lessons, conduct assessments, meet with families, etc.).
    - Across all three States, we see that programs at the lowest quality levels have the highest revenue (are most likely to be breaking even or making money). Programs at the higher levels are never breaking even (and instead have negative revenue).
        - Programs can do better if they don't serve infants/toddlers (because they are more expensive to care for and often programs subsidize infant and toddler care by charging more for preschool care).
        - Programs do better if they are smaller and have near 100% enrollment. If programs can get prek revenue to serve 4 year olds, they'll do alright (break even or higher).
        - And yet, despite such low predicted revenue, programs aren't all closing. Most likely, they are simply paying someone less than they should, often the program director or owner.
    - How can we make quality worth it?
        - Targeted compensation approaches: Pay the employer or pay the employee (directly through wages or indirectly through refundable tax breaks to parents).
        - Only half of QRIS offer any financial incentives to improve quality. Of those, half are one-time and half are annual. That's simply not enough to close the cost gap and incentivize quality.

- **Summary of Presentation #3:** Laura Saterfield
    - The Wisconsin workforce study shows a workforce of about 36,000; about 7,500 providers, split evenly among centers, family child care (FCC), and certified homes (non-certified family, friend, and neighbor [FFN] care cannot receive subsidy dollars).
    - The State is paying on average approximately $650 per month per child while families pay on average about $87 per month per child in the subsidy program.
    - Wisconsin has seen the number of providers decrease in recent years and qualifications of providers decreasing as well. Scholarships are available to support pursuit of multiple credentials.
    - The R.E.W.A.R.D. program in Wisconsin is a stipend program based on education and longevity in the field. Eligibility requirements include making less than $16/hour, membership in the registry and ongoing PD. Only 3% of the workforce is benefitting from this (mostly teachers, less often FCC providers). Currently, there is no waiting list. The average stipend is $583 annually.
    - Other efforts to improve qualifications in Wisconsin:
        - Trainer and training approval system.
        - Exploring ways to award credits for (nontraditional) prior learning experiences.
        - Working on articulation agreements among institutes of higher education.
    - Wisconsin QRIS, "YoungStar" began recently. Includes PD supports, onsite Technical Assistance, micro-grants ($250 - $1000). Already 4,400 programs have

    applied and 1,840 programs have been rated. (Subsidy providers are required to enroll.)
  - Starting in July 2012, tiered reimbursement will begin. Programs must earn at least two stars to get subsidy dollars. But if only 2 star, the reimbursement rate will be 5% lower than the old reimbursement rate. No change in subsidy reimbursement rate for programs with 3 stars. Higher reimbursement rates for 4 or 5 star programs.
  - The American Federation of State, County, and Municipal Employees (AFSCME) established a family child care union in 2007, but the union was dissolved in 2011. Union has not been able to achieve higher compensation from the State, but they have been included in discussions about compensation.

**3. Summary of Discussion with Presenters and Participants**

- What are the tradeoffs between funding compensation programs like R.E.W.A.R.D. and funding QRIS?
  - QRIS is more attractive to some because it seems to have more accountability.
  - Some private funding is available, but those private funders want accountability. Thus, they like QRIS.
- Compensation is driven by formal education. But formal education of teachers has only marginal impact on child outcomes. So how do we tie high performance to compensation?
  - That is what QRIS tries to do, to reward high quality care. But often, QRIS uses formal education as a measure of quality.
- In some States, private child care providers are able to receive public prek dollars to serve children (often necessary because of geographical issues and structural issues, but also necessary because if you move all the 4 year olds out of centers, many of those centers will lose money). This seems like a promising strategy for improving compensation.