

**STATE OF KANSAS
IMPACT OF MOVE FROM RETROSPECTIVE TO PROSPECTIVE
PAYMENT SYSTEM**

Prepared for:
**STATE OF KANSAS
DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES**

Prepared By:

Milliman, Inc.

Timothy F. Harris, FSA, MAAA

Eric A. Anderson, ASA, MAAA

Carol E. Hughey, MBA

June 7, 2007

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I. INTRODUCTION

Milliman, Inc. (Milliman) was retained by the Kansas Department of Social and Rehabilitation Services (SRS) to review the impact of the move from a retrospective payment system to a prospective payment system. This report presents general research on the use of a prospective payment system for child care subsidies as well as an analysis of the impact based on the available Kansas data.

In this report, we have relied on information provided by the State. The primary State data sources for the project was the Kansas Association of Child Care Resource and Referral Agencies (KACCRRA) database as of December 1, 2006, the retrospective period and prospective period benefit data files, and provider audits.

Although the data was reviewed for reasonableness, Milliman has not audited the data. If the data provided is inaccurate or incomplete, the figures in this report may need to be revised. We understand that this report may be provided to other parties. Any distribution should be in its entirety. Milliman assumes no duty or liability to any third party who receives this report, even if Milliman consents to its release.

II. BACKGROUND

The State subsidizes a portion of the child care expenses incurred by some low-income families. These subsidies allow the parents/guardians to participate in training programs, attend high school, or maintain employment. Eligibility as well as the amount of subsidy is based on both income as well as family size.

SRS/State child care subsidies are based on local market rates (prices charged to the private sector) for child care as determined by a market rate analysis and other factors such as state budgets. Rate information as well as other provider specific information can be gathered through surveys or the use of existing state databases. Kansas uses the State's referral database maintained by KACCRRRA.

The market-centered child care system can be traced back to the Family Support Act of 1988 (FSA). This Act laid the framework for the child care system of today. Federal funding under the Act required states to establish rates for child care based on market rates. The Act states that State child care rates should be based on the price of child care services in the market. The primary focus is that subsidized children should have the same access to child care as private-pay children. The market rates are to be analyzed periodically. They should be established for different types of care, such as child care centers, group home care, and family home care. The guidelines suggest that State rates should be established at least at the 75th percentile of actual provider charges. According to DHHS, "the 75th percentile of a market rate survey can be 'regarded as providing equal access.'" At the 75th percentile, a child would be able to choose three out of four providers in the surveyed market.

Several child care programs were funded by the FSA. However, in 1996, all the child care programs that were funded and/or endorsed by the FSA were revoked, except the Child Care and Development Block Grant (CCDBG). The CCDBG was amended, and the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) was established. The PRWORA was the revised version of the FSA. The newly established child care funds were transferred to the amended CCDBG. The federal Department of Health and Human Services (DHHS) referred to these combined funds as the Child Care and Development Fund (CCDF). In addition to the guidelines established by the FSA, the PRWORA required that market rates be surveyed at least every two years. Relying on market rates helps to ensure equal access to subsidized child care. If states ignored the market-based approach, it is believed that the State rates would not allow for equal access for eligible children versus private-pay children nor the promotion of parental choice.

In 1998, DHHS issued final regulations 45 CFR Parts 98 and 99, Child Care and Development Fund; Final Rule which contained the federal requirement of conducting a child care market rate analysis.

In 2001, *Conducting Market Rate Surveys and Establishing Rate Policies* was prepared for the Child Care Bureau, Administration for Children and Families, U.S. Department of Health and Human Services, under contract with the National Child Care Information Center (NCCIC). This

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document was for informational purposes only but served as a guide to states. According to the document:

“Federal regulations outline three core components of the market-based approach to child care subsidies under the CCDF. The CCDF Final Rules was promulgated in the *Federal Register* in August 1998 (45 CFR Parts 98 and 99), and this Rule provides the present federal regulatory framework for market rate surveys. First, with regard to rates, CCDF Lead Agencies must assure that subsidy rates are sufficient “to ensure equal access” for eligible families to child care services that are comparable to those provided to families that do not receive subsidies. In addition, child care payment systems must be structured in such a way as to permit eligible parents to choose among various types of providers, including issuing certificates or vouchers for parents to use in the private market, as well as establishing grants or contracts with providers. Third, Lead Agencies also are required ‘to collect and disseminate to parents and the general public consumer education information that will promote informed child care choices.’”

The goal of the Federal regulations is to set child care assistance at a level of subsidy high enough so that assisted parents can have a sufficient level of choice to obtain child care in their own community. According to a study conducted by Washington State University, “the major factors influencing price are local costs of labor and real estate.” Due to the inconsistency in the market, rates are established for subdivisions with common characteristics. An example would be to locate all the rural counties in a state and establish a rate for that group. Another option that states are starting to consider is to establish rates for different quality levels. Through tiered reimbursement, child care programs are rated on established quality indicators. A state may choose to pay a higher subsidy rate to providers who achieve levels of quality beyond basic licensing requirements.

The PRWORA required that states develop electronic payment programs to deliver food stamps. During this time, many states developed more broad systems that would also allow for the payment of other benefits such as social security, TANF, WIC, child care, etc.

In 2005, Kansas transitioned from a retrospective payment system based on actual hours used to a prospective payment made at the beginning of the month based on an estimate of the number of hours expected during the month. The transition took place between June 2005 and August 2005. Payment is made by the parent/guardian to the provider based on their individual provider/parent agreement. The parent/guardian has a card that allows for the transfer of funds to the provider through a Point of Service (POS) system or by telephone.

The prospective system brings many advantages to states, providers, and families. For instance, electronic payments can be less expensive for a state. It eliminates the cost of printing and replacing lost paper checks including the staff time dedicated to these functions. After the initial cost of development and implementation of the prospective system (i.e., machines to read the cards at providers, card development, training), costs may become more predictable which helps with budget projections. Prospective costs may include card replacement, security maintenance, transmission of funds, maintenance of machines, contractor costs, etc. For Kansas, the providers lease their equipment from the contractor which helps limit state costs.

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Electronic payment systems have been used by states to gather data. For instance, it has been used to monitor the attendance of children and/or the number of subsidized children per provider. Although not common with child care subsidies, it has also been stated as a way to detect fraud. Monitoring the information through the payment system can be beneficial in the estimate of hours needed and/or licensing issues. Money saved through the prospective system can be used to increase provider training and/or increase provider rates.

For providers, advantages include no longer having to worry about lost or late payments. Depending on the parent/provider agreement, providers may be able to more closely parallel subsidized and private pay payment schedules. Although there may be a cost to providers for leasing the POS, a POS is not mandatory as the provider has the option to have the family call in the transfer.

Such provider advantages may increase the number of providers willing to accept or expand their number of subsidized children. This is a direct access benefit to the families. Subsidized families are given more freedom in how they spend their allotted hours. Potential problems may occur if the family has difficulty working the cards (i.e., physically handicapped, etc).

III. SUMMARY OF ANALYSIS

The methodology used in this report to investigate questions posed by the State involved comparing various measures of performance in the retrospective payment period to the prospective payment period. The time period chosen for the retrospective period is April 1, 2004 – March 31, 2005 while the prospective period is October 1, 2005 – September 30, 2006, for a timing difference of 18 months on average. The county groupings are summarized in the market rate study report.

Twelve months of data are used in each time period to avoid seasonality issues such as the increase in benefits in the summer months. Also, the months immediately before and after the transition (which took place between June and August of 2005) are excluded. Data is available for some months after September 2006. This data was not used due to seasonality issues, length of time from the transition, and the fact that changes were apparently occurring at this time (declining number of children per month receiving benefits, etc.).

In this report, we have relied on information provided by the State. The primary State data sources for the project was the Kansas Association of Child Care Resource and Referral Agencies (KACCRRRA) database as of December 1, 2006, the retrospective and prospective payment benefit data files provided by the State by email on December 27, 2006, and provider audits. Although the data was reviewed for reasonableness, Milliman has not audited the data. If the data provided is inaccurate or incomplete, the figures in this report may need to be revised.

Financial Impact

With the prospective system, parents have more control over the money that is spent on child care. They are given empowerment for their purchases. As with most benefits, beneficiaries become more cost conscious and appreciative of benefits when they know the true costs of the benefit. Also, the parents may have more bargaining power with providers who have had trouble accessing timely payment in the past. The cards may help eliminate the stigma of subsidized benefits (although this is probably not as apparent as with other benefits such as food stamps).

One of the primary issues in determining the “financial” impact is tied to how closely the estimated hours are to the actual hours needed. Table 1 shows the ratio of paid hours to scheduled hours. For the retrospective time period, the scheduled hours were greater than the actual hours used. For the prospective time period, scheduled hours equaled paid hours by definition.

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Table 1				
Ratio of Paid Hours to Scheduled Hours				
	Group 1	Group 2	Group 3	Statewide
Retrospective (4/04-3/05)	91.8%	93.8%	95.4%	94.1%
Prospective (10/05-9/06)	100.0%	100.0%	100.0%	100.0%
Increase/Decrease	9.0%	6.6%	4.9%	6.3%

Both scheduled hours per child and paid hours per child increased after the transition, as shown in Tables 2 and 3. We note that an increase would be expected for the paid hours but not necessarily for the scheduled hours. As shown above, paid hours were less than scheduled hours for all groups in the retrospective time period.

Table 2				
Scheduled Hours per Child per Month				
	Group 1	Group 2	Group 3	Statewide
Retrospective (4/04-3/05)	151.0	155.0	135.7	147.8
Prospective (10/05-9/06)	159.1	157.2	143.2	152.9
Increase/Decrease	5.4%	1.4%	5.5%	3.4%

Table 3				
Paid Hours per Child per Month				
	Group 1	Group 2	Group 3	Statewide
Retrospective (4/04-3/05)	138.6	145.4	129.5	139.1
Prospective (10/05-9/06)	159.1	157.2	143.2	152.9
Increase/Decrease	14.8%	8.1%	10.6%	9.9%

To review the financial impact on the client, Tables 4 shows a summary of the State Benefits per Child per Month. The State Benefits increased after the transition indicating a higher total payment per child.

Table 4				
State Benefits per Child per Month				
	Group 1	Group 2	Group 3	Statewide
Retrospective (4/04-3/05)	\$392.65	\$295.93	\$206.77	\$274.82
Prospective (10/05-9/06)	437.50	312.00	218.46	296.56
Increase/Decrease	11.4%	5.4%	5.7%	7.9%

Access

There are many benefits to the providers in the prospective payment system. The payments can be made in a timely manner and possibly more in line with private pay children. For example, private pay parents may be expected to prepay for the following week. Subsidized children's payments could also be prepaid based on this schedule. The prospective payment system eliminates the chance of lost or stolen checks. It eliminates check cashing fees but may be replaced by such fees

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as the POS lease fee. SRS subsidized children may not be charged more than the private pay rates but the prospective payment system may help minimize the difference between the two types of payment.

To determine any change in access, we reviewed the retrospective and prospective period data for the number of providers over time. The average number of providers listed in the benefit data per month increased by 5.6%, as shown in Table 5. The increase occurred primarily in regions 1 and 2.

Table 5				
Average Number of Providers per Month				
	Group 1	Group 2	Group 3	Statewide
Retrospective (4/04-3/05)	239	1,139	1,156	2,534
Prospective (10/05-9/06)	271	1,247	1,157	2,675
Increase/Decrease	13.3%	9.6%	0.1%	5.6%