Paying for Success: Results Based Funding

State Vocational Rehabilitation (VR) agencies and other funding agencies purchase employment services from providers through a variety of purchase of service (POS) arrangements. Historically with supported employment, fee-for-service arrangements with hourly rates have been the predominant payment method utilized. Recently, a number of states have moved to a more outcome/results based payment approach. The distinguishing feature of a results based funding arrangement (RBF) is that at least a portion of a provider’s compensation is contingent upon the achievement of specified outcome performance measures. In contrast, more process oriented funding approaches, such as fee-for-service, base payment on units of service delivered, not specific outcomes achieved.

The Oklahoma Department of Rehabilitative Services moved from a fee-for-service to a results based funding design in the early 1990s with the initiation of the Oklahoma Milestone Payment System. This payment system is described in detail later in this newsletter. Milestones is a contract management method based on incentives for results. Since the experiment with this payment system began eight years ago, the Oklahoma Department of Rehabilitation Services reports achieving significantly improved outcomes through its supported employment programs. By changing the focus of the payment system from process to outcomes, more people with significant disabilities have gone to work successfully at less cost per employment outcome. The collaboration and input of providers in the design of the system and in the implementation process were key to its success. Example outcomes achieved through the Oklahoma Milestones system over the last eight years include the following:

- Time that individuals wait for services reduced by 53%.
- Time that individuals wait between intake and placement on a job reduced by 18%.
- Individuals who were assessed but were never placed on a job reduced by 25%.
- Time from placement to successful closure in the VR system reduced by 45%.

- Number of individuals who were successfully closed increased by 102%.
- Number of individuals who succeeded in their first job placement increased by 95%.
- Eighty percent (80%) of Oklahoma providers surveyed by Harvard University preferred the milestone payment system to a fee-for-service in which they were paid more for serving individual clients (Frumkin, 2001).

In the same Harvard study, 75% of providers rated their experience with milestones as good or excellent.

Outcomes achieved in using results based funding approaches by states such as Oklahoma and Massachusetts are most encouraging. However, as the number and variety of specific results based funding methods for supported employment continue to grow, legitimate questions are being voiced. For example, RBF approaches can make it potentially more difficult to serve people with significant disabilities who may be viewed as unlikely to achieve a successful employment outcome or as having a need for extensive services to be successful. There are concerns about results based approaches jeopardizing high quality job matches and career development in the interest of earning quick payments for securing job outcomes. This newsletter addresses these questions and other issues related to the design and implementation of results-based funding methods for supported employment.

The achievements in states such as Massachusetts and Oklahoma through use of well designed results based funding systems for supported employment demonstrate the critical importance of creating incentives for serving individuals with more intense and extended support needs. Results based funding can promote good job matches and career development in a way that recognizes variation in community, provider, and individual service cost structures. This newsletter provides examples of how RBF designs can improve valued outcomes, increase consumer choice and satisfaction, and improve cost efficiencies and effectiveness in the provision of supported employment services.
steps in designing a results based funding system

**Step 1: Define the desired services outcomes.**

Supported employment services commonly consist of several phases to include:
- community-based assessment,
- job development and job placement,
- initial job site support leading to stabilization, and
- ongoing support.

A funding agency typically selects service outcomes that correspond with these phases when designing a results based funding system. For example, Oklahoma Department of Rehabilitation Services defines a specific set of service outcomes in its vendor agreements. OK’s Milestones Payment System for people with developmental disabilities includes the following phases:
- assessment and employment service planning,
- placement,
- two job retention outcomes,
- job stabilization, and
- case closure by vocational rehabilitation.

Other states have identified fewer service outcomes and blend these outcomes with intervention based services. For example, a state might tie compensation to specified outcomes for assessment, job development, job placement, and 30 days job retention. However, additional services pointed toward stabilization would be compensated based on actual intervention time.

**Step 2: Define the payment points.**

Once service outcomes are defined, the next step is to define the specific benchmarks and criteria that qualify a provider for reimbursement. Each service outcome may be reimbursed at one or more benchmarks. For example, the assessment component of the Massachusetts Community Based Employment Services (CBES) may be reimbursed at two bench-marks. Providers may be reimbursed $520 when a plan for assessment is submitted and $780 when the final assessment report is completed. The Oklahoma system has only one payment benchmark for the assessment phase of supported employment.

A critical step in defining payment points is to identify the criteria that represents successful attainment of each benchmark. For example, Kentucky’s Department of Vocational Rehabilitation requires that four criteria be met before a provider is reimbursed for the placement benchmark. Payment is made after **ALL** of the four criteria are met:

- The worker is employed for a minimum of 60 days in a job consistent with his or her work plan.
- The person is satisfied with the job.
- A satisfactory number of work hours is scheduled per week.
- Extended services supports are in place.

**Step 3: Establish a fee for each payment point.**

The final step in developing a results based funding system is to set a fee for each payment point. This step requires system designers to answer two questions.

1. **What process will be used to determine the fee structure?**

In a RBF system, the fees may be established by the funding agency (fixed statewide), or jointly determined by the funder and provider agencies through negotiations or a formalized bidding process. OK’s Milestone Payment System provides an example of a bidding process. Providers submit bids to the Department of Rehabilitation Services (DRS) stating the average cost of serving each of a specified number of individuals within each defined level of support need. For example, a provider may bid $6,000 per successful outcome for regular supported employment and $8,000 for a consumer meeting the definition for highly challenged. This bid includes not only provider costs associated with serving individuals who reach an employment outcome, but also costs associated with serving individuals who historically have not reached closure. Provider bids are compared with one another and with the historical costs of supported employment closures. Then, DRS and the provider finalize the bid negotiations.

After the bid proposal is accepted, payment percentages are applied to determine the amount to be paid when a person achieves a milestone. Oklahoma’s payment points and payment levels differ slightly for individuals with developmental disabilities and those with psychiatric disabilities. Please refer to the table on the following page for these differences.

2. **At what level will rate structures be established?**

System designers must decide whether to establish fee structures at the state level, provider level, level of service recipient support need, or individual level. When payment is fixed at the state level, the funding agency assigns a rate for each benchmark to **ALL** vendors.
steps in designing a results based funding system

<table>
<thead>
<tr>
<th>Oklahoma’s Milestone Payment System</th>
<th>Percentage (%) of Bid Paid @ Each Milestone</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mental Health</td>
</tr>
<tr>
<td>Assessment</td>
<td>10%</td>
</tr>
<tr>
<td>Vocational Preparation</td>
<td>10%</td>
</tr>
<tr>
<td>Placement</td>
<td>10%</td>
</tr>
<tr>
<td>4 Week Retention</td>
<td>20%</td>
</tr>
<tr>
<td>10 Week Retention</td>
<td>n/a</td>
</tr>
<tr>
<td>Stabilization</td>
<td>20%</td>
</tr>
<tr>
<td>Closure</td>
<td>30%</td>
</tr>
</tbody>
</table>

Statewide Fixed Reimbursement

Kentucky and Massachusetts are examples of states with statewide fixed reimbursement schedules. Kentucky pays a set amount, approximately $3,000, when placement criteria are met. Massachusetts pays a set amount when assessment, job placement, and job stability criteria are met.

Although Massachusetts sets statewide rates for services, a distinct characteristic of the CBES system is that it does not represent a continuum of service. Individuals may choose to engage in just one or several of the service components. This allows for greater flexibility and individualization of services.

Provider Level Reimbursement

Rates also can be negotiated at the provider level. Factors such as provider cost information, regional cost variations, and disability groups served are considered when setting benchmark rates.

Level of Support Need Reimbursement

When rates vary by level of support need, the rate system is referred to as a **TIERED SYSTEM**. Each program participant would be assigned to a Level of Support Need based on the anticipated number and intensity of employment supports required to secure and maintain employment. A tiered system allows for providers to be reimbursed at higher rates for serving individuals expected to require more intensive support services. Tiered systems are one method to reduce the potential for results based funding to emphasize the easier to serve, less costly individuals. Oklahoma uses a tiered system.

Individual Level Reimbursement

The Pennsylvania Office of Vocational Rehabilitation is using a RBF system that allows for person-specific reimbursement rates. In the PA system, a comprehensive assessment and employment needs worksheet is completed for each program participant. Then the participant’s total estimated hours of service needs are determined. Consumer assessments are completed on a fee basis. The estimated hours of service needs include time required for tasks such as job development, coordination of benefits, job skills training, and employer advocacy. A personalized total budget figure is determined by multiplying the anticipated hours of support needs by a provider-specific hourly fee rate. Finally, the budget is divided into set percentages to be paid upon successful completion of established benchmarks: 15% for submission of the consumer’s training plan, 35% after 5 working days of employment, and 25% after 45 calendar days of employment. A final payment of 25% is made when the consumer meets the criteria for job stabilization after at least 90 days of employment.
Community Based Employment Services (CBES) is the Commonwealth of Massachusetts’ interagency Outcome Based Employment Service. CBES is designed to assist people with the most severe disabilities to choose, obtain, and maintain employment in integrated work environments. Services are based on each consumer’s choices, interests, skills, and needs. A Network of Community Employment Providers has been developed through interagency Requests for Qualification (RFQ) to provide service choices to consumers. This performance based system was developed through field based research and currently provides services utilizing essential employment placement components that include:

**CBES COMPONENTS**
1. Person Centered Assessments
2. Job Placement
3. Initial Support Services (Job Coaching)
4. Additional Support
5. Extended Support Services

<table>
<thead>
<tr>
<th>Component</th>
<th>Milestone</th>
<th>Outcome Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Person Centered Assessment</td>
<td>Report</td>
<td>$1,300.00</td>
</tr>
<tr>
<td>Job Placement</td>
<td>Plan/Placement</td>
<td>$3,500.00</td>
</tr>
<tr>
<td>Initial Support Services</td>
<td>Job Stability</td>
<td>$3,700.00</td>
</tr>
<tr>
<td>Additional Support Services</td>
<td>Specific Goal</td>
<td>Payment is based on going rate for specific services. Examples of additional support might be interpreter or</td>
</tr>
<tr>
<td>Extended Support Services</td>
<td>Job Retention Goal</td>
<td>$26.00 per hour</td>
</tr>
</tbody>
</table>

The focal point of the CBES System in Massachusetts is consumer choice and services that are tailored to meet specific consumer goals. Payment outcomes for providers in the system are based on the successful achievement of specific benchmarks. Improvements have been seen in effectiveness, efficiency, consumer satisfaction, and provider satisfaction with the implementation of the outcome based employment services.

Each of the components has outcome benchmarks or products to measure successful performance. Benchmarks are outlined in the community rehabilitation provider agreements and in the customer’s Individual Employment Plan. The system is designed to allow for flexibility, with each component able to stand on its own. Consumers and their advisors can choose the components that are necessary to successfully achieve their employment goals. This flexibility has improved the efficiency of bringing consumers into services faster and reduces costs by purchasing only the essential services required to achieve the goal with payment based upon successful completion of the benchmark outcome.
COST DATA OVERVIEW

The cost data suggests that over $2.5 dollars is generated in Social Security savings and taxes paid to the government by a consumer to every dollar spent, producing a cost benefit ratio of 2.5 to 1. There is continued significant savings to the government for every year beyond 2 years of continuous employment. In fact, income by way of consumer taxes paid will produce a significant multiplier effect over cost benefit to the government for each consumer who maintains continuous employment. Outcomes from a representative data sample from CBES are as follows:

<table>
<thead>
<tr>
<th>Total consumers served</th>
<th>156</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumers w/ 90 days employment</td>
<td>108</td>
</tr>
<tr>
<td>Total Cost to MA</td>
<td>$809,598.00</td>
</tr>
<tr>
<td>Total Cost per consumer</td>
<td>$5,189.73</td>
</tr>
<tr>
<td>Total cost consumer employed</td>
<td>$7,696.27</td>
</tr>
</tbody>
</table>

community based employment services

SATISFACTION

Satisfaction of stakeholders in the CBES system is essential to the continued success of this outcome-based system. The satisfaction data makes a choice between the stakeholders being or not being satisfied with the system. The sample data would suggest that the majority of the consumers, providers, and state agency staff are satisfied with the CBES outcome system.

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Total</th>
<th>Satisfied</th>
<th>Not Satisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumers</td>
<td>163</td>
<td>162 (99%)</td>
<td>1</td>
</tr>
<tr>
<td>Providers</td>
<td>10</td>
<td>10 (100%)</td>
<td>0</td>
</tr>
<tr>
<td>State Agency Staff</td>
<td>2</td>
<td>2 (100%)</td>
<td>0</td>
</tr>
</tbody>
</table>

EFFECTIVENESS

Effectiveness in the CBES System is a measurement of achieving successful job placements and employment outcomes. The effectiveness data suggest that CBES is successful in serving most consumers referred. This representative sample also suggests that the vast majority of placements retained over 90 days result in continuous employment of one year and beyond. The following is a representative data sample from the CBES System.

<table>
<thead>
<tr>
<th>Total consumers referred</th>
<th>163</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total consumers served</td>
<td>156</td>
</tr>
<tr>
<td>Total Consumers placed into Employment</td>
<td>128</td>
</tr>
<tr>
<td>Total placed with 90 days employment</td>
<td>108 (84%)</td>
</tr>
<tr>
<td>Total placed that retain employment 1 year</td>
<td>99 (77%)</td>
</tr>
</tbody>
</table>

EFFICIENCY

Efficiency is a measure of time and money in the CBES system. The CBES system looks at time from referral to service and cost ratio. Efficiency data in this sample
would suggest that CBES is able to start services to most consumers upon referral within a 5 day working period. A key element is the improvement of a person’s standard of living. Massachusetts has seen that most of the placed consumers improve their standard of living by at least 40% on average for this sample.

<table>
<thead>
<tr>
<th>Total consumers referred</th>
<th>163</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumers beginning services in 5 days</td>
<td>156 (96%)</td>
</tr>
<tr>
<td>Consumers beginning services in 60 days</td>
<td>1 (.006%)</td>
</tr>
<tr>
<td>Consumers beginning services over 90 days</td>
<td>0%</td>
</tr>
<tr>
<td>Consumers increasing standard of living by 40%</td>
<td>128</td>
</tr>
</tbody>
</table>

PERFORMANCE OVERVIEW

- Cost Savings Ratio: $2.50 savings for every dollar of service cost
- 77% of consumers achieved employment beyond 90 days of stabilization
- CBES benefits the purchaser of services as payment is only made for outcomes
- CBES results in a more effective job placements at a faster rate.
- CBES promotes the likelihood that providers will do their work more efficiently and expeditiously, due to the fact that they will be paid after the task is completed.

SUMMARY

CBES is an employment outcome based system that assists people with disabilities to secure meaningful employment in their communities. The system’s flexibility to purchase only the services required to obtain the employment goal across state agencies has produced savings and fostered interagency cooperation. Good employment placement and retention rates along with high levels of satisfaction from consumers and providers suggest the benefit of this outcome based system. The system represents a best practice and fosters partnerships between consumers, the public sector agencies, and private providers.

design and implementation recommendations
Balance the interests of key stakeholders through collaboration.

One of the challenges when designing and implementing a results-based funding approach is to find a balance among the interests of individuals with disabilities, providers, and funding agencies. Unbalanced funding systems result in people being excluded from services, poor quality services, and/or inflated costs. For instance, if the funding design underfunds services and does not realistically cover costs, then certain individuals will be unserved or poorly served.

One way to ensure that all stakeholders’ interests are met is to involve them during the planning stages of the design development. Alabama’s results-based funding system is an example of stakeholder involvement. Representation from the stakeholder groups (consumers, funders, and vendors) participated in a three-month planning process. This planning was followed by a pilot program, and revisions were made based on recommendations of the group prior to statewide implementation.

The payments to valued outcome performance measures to avoid exchanging quantity for quality.

Results-based funding approaches should emphasize increasing the number of people who have QUALITY jobs over simply increasing the number of placements. Ensuring the quality of services is easier when services have clear and tangible results.

The Kentucky and Oklahoma systems provide examples of efforts to incorporate a balance of quality indicators. The KY system makes reimbursement for the placement benchmark contingent upon 60 days of employment, consumer satisfaction, an established number of work hours per week, and the availability of extended services. OK builds into each milestones up to five quality indicators. For example, quality indicator for receiving stabilization payment, includes a minimum of 17 weeks job retention, fading by the job coach, documentation of consumer and employer satisfaction, and meeting the consumer’s career plan goals and desired work hours per week.

Insure that funding levels work for the providers of service.

There must be a balance between the funding agency’s desire to weight pay schedules with the final desired outcomes and the desire of the provider to maintain a steady cash flow. Small specialty supported employment agencies may not have a multiple cost center’s funding flow. RBF systems must ensure that competent providers are fairly compensated for quality services so that they can cover the costs of providing quality services. Several strategies can insure that funding levels are workable for provider agencies.

First, payment points should be weighted and spaced so that cash flow to the provider is fairly consistent with resource investment. Providers typically will have an ongoing deficit in payment earned in relation to costs incurred. The spacing and weighting of payments should be reasonable enough to keep this deficit from being a continued burden on the provider.

Second, a proactive approach to assessment and job planning should be used by the provider agency. The better the information used for a job match, the better chance that the consumer will achieve a valued outcome.

Third, the design should accommodate costs associated with serving people who fail to reach a particular benchmark. Paying for success is the driving incentive of a results-based funding approach. However, paying only for success will underfund vendors. The cost for serving participants who fail to meet a benchmark must be incorporated into the payment level determination of that benchmark.

Fourth, the system design should contain incentives for providers to serve individuals who require an intensity and duration of services beyond the norm for a provider. The multiple payment tiers mentioned earlier in this newsletter is one such incentive. OK’s tiered payment system accomplishes this by compensating service providers at a higher rate for assisting highly challenged individuals to attain each milestone.

Avoid creating disincentives to serving people with more significant disabilities.

Poorly designed RBF approaches have the potential for rewarding providers for serving people with fewer support needs. Agencies could maximize their earnings by excluding those with more significant support needs. One potential solution to this problem is to include an add-on time-based reimbursement component in the funding design. Under the MA CBES system, providers receive an hourly rate supplement above and beyond benchmark payments when they provide extraordinary supports. Another possibility is to create a single payment track but require individuals with more significant disabilities to account for a predetermined percentage of a provider’s successful outcomes. Finally, person-specific reimbursement rates, like those defined in Pennsylvania’s proposed system, have the potential to encourage providers to serve people with more significant support needs.
### Question: Will programs focus on the number of outcomes produced rather than the quality of their services? For instance, will programs pressure consumers into taking jobs that are not reflective of their interests and preferences to expedite payments?

**Answer:** Safeguards can be put into the system to prevent this “quantity vs. quality” problem. For instance, under the Oklahoma Milestone Payment System, the provider is paid only once for each milestone. This places an emphasis on making the right job match to include identifying the individual’s support needs. In addition, Oklahoma’s counselors do not approve placements unless the customers are satisfied on the job. This is a further incentive for the provider to make a quality job match.

### Question: Does results-based funding (RBF) funding encourage providers to select people who are more likely to succeed rather than those who are truly in need of the services?

**Answer:** A survey was conducted with 20 randomly selected providers under Oklahoma’s Milestone Payment System (MPS). The data suggests that selecting clients who were likely to succeed did not have to occur. Specifically, 65% of the respondents replied that Milestones did not encourage them to select easy to place individuals.

Oklahoma has a two tier reimbursement system to prevent the screening of more difficult customers from services. This system provides a monetary incentive that was designed to encourage programs to actually target rather than exclude individuals considered to be “highly challenged.” Specifically, in OK’s Milestone Payment System, a program can be paid 30% more for taking on individuals who meet the “highly challenged” criteria. Programs use a bidding process to calculate the risk faced in serving individuals with significant challenges. Payment is made based on the bid and amount of risk that the program anticipates.

### Question: Could a fee-for-service reimbursement system actually inflate costs for supported employment services?

**Answer:** In a fee-for-service system, the emphasis or focus is on the number of billable hours that can be charged for services provided to a customer. While not intentional, there may be no incentive for a program to critically analyze services and determine how to quickly and most effectively assist a person in being successfully employed. In other words, it is more economical for the program to maintain the customer’s dependence than to promote independence. Results-based funding can help to resolve this paradox by tying payment to successful employment outcomes.
Question: Does results-based funding have the potential for improving the cost efficiency and effectiveness of programs?

Answer: Results-based funding has the potential to de-emphasize regulations, accounting, and micro-management of provider operations. A job coach/employment specialist can get “bogged down” in paperwork related to accounting for billable hours. The attention away from the customer and result in less time for direct service provision. The survey conducted on Oklahoma’s MPS indicated that job coaches reported having more time with customers, not less. Less emphasis on documentation and regulation has the potential for more cost efficient and effective service delivery.

References


Upcoming Event


This course is conducted entirely online using audio lectures, discussion groups, and e-mail interaction. The course is currently being offered twice a year. You may get more information by contacting Wendy Strobel at

Virginia Commonwealth University
The National Supported Employment Consortium

This National Supported Employment Consortium is administered by the VCU-RRTC This newsletter is funded 100% by the Rehabilitation Services Administration, U.S. Department of Education Grant #H128U970003. For more information on this newsletter, contact Grant Revell at 804-828-6989 or PO Box 842011, Richmond, VA 23284-2011 or wgrevell@saturn.vcu.edu. Mailing list corrections should be sent to this same address with attention to Roberta Martin.

Newsletter Editor: Katherine J. Inge, VCU-RRTC
Contributors: Becky Cook, OK DRS
Claire Ghiloni, MRC
Dan O’Brien, OK DRS
Grant Revell, VCU-RRTC

This newsletter can be copied and distributed for educational purposes.

Virginia Commonwealth University is an equal opportunity/affirmative action institution and does not discriminate on the basis of race, gender, age, religion, ethnic origin, or disability. If special accommodations are needed, please contact Katherine Inge, at (804) 828-1851.