

Nonprofits Moving to Performance-Based, Managed Care Contracting in Foster Care

Highlights of Research Findings

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With more than a half-million children in foster care nationwide (1), child welfare caseloads and expenditures are rising. Faced with fiscal dilemmas, states are increasingly reorganizing the way they deliver and pay for child welfare services by contracting out portions of their public child welfare systems to private nonprofit agencies (2, 3, 4). Two of the most common privatized service delivery models are performance-based contracting and managed care (5, 6).

In performance-based contracting approaches, public agencies provide incentives for nonprofit agencies to meet or exceed contractually specified outcomes. Managed care models are generally more comprehensive and usually involve some combination of performance-based contracting, prospective payments, capitation, and/or the transfer of case management responsibilities (7, 8).

As of 1998, the most recent year for which data are available, 29

states were operating one or more managed care child welfare initiatives, for a total of 47 programs (9). Since private nonprofit agencies provide more than half of all child welfare services in the U.S. (10), the success of these initiatives may depend on how well nonprofit agencies adapt to new fiscal arrangements. It is clear that contract incentives such as performance deadlines or capitation directly influence the work environment, employee behavior, job satisfaction, and employee retention. This Snapshot looks at how nonprofit child welfare agencies in Wayne County have responded to a new performance-based reimbursement system, with implications for managers in other locales and organizational sectors.

The Wayne County Experience In 1997, the Michigan Family Independence Agency (FIA)—the public child welfare agency—adopted a performance-based, managed care approach in its contracting for foster care with private nonprofit agencies in

Wayne County. Four of the 19 foster care providers in the county voluntarily contracted with FIA to provide services under this pilot initiative. The number of pilot agencies increased to six in 2000.

The Wayne County pilot included two fiscal features characteristic of managed care models: cost containment and risk shifting (11, 3, 12). Instead of being reimbursed for administrative costs solely on a per child, per diem basis, as had historically been the case, the six pilot agencies agreed to provide services on a reduced administrative per diem. Revenues were supplemented by a substantial upfront, initial per child payment and per child bonus payments for meeting performance milestones. These bonus payments were tied to achieving permanent placements for children within specific time frames and reducing recidivism in the system. The specific structure of this new reimbursement system, and how it differs from traditional reimbursement, is detailed in Figure 1.

The fiscal logic undergirding the pilot initiative is that if agencies achieve performance benchmarks they benefit financially; if agencies are unable to achieve these benchmarks, they will incur a monetary loss.

Evaluation Results

In 2001, a research team at the University of Michigan began a process and outcome evaluation of the Wayne County initiative. The results from two of the research questions addressed in the process evaluation are summarized in this report:

- What organizational adaptations did the pilot nonprofit agencies make when they shifted to managed care?
- What organizational adaptations did the non-pilot nonprofit agencies expect to make as they anticipated this change?

Structured telephone interviews were conducted between August and December 2001 with 45 admin-

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Figure 1

Performance-Based and Traditional Reimbursement Structure in Wayne County

	<i>Non-Pilot</i>	<i>Initial Pilot Payments</i>	<i>Pilot Payment as of 2001</i>
Administrative Per-Diem	\$17-\$35	\$13.20	\$13.20
Performance Factors			
Initial payment	\$0	\$2,150	\$2,210
Placement with parents, family member, guardian, or in independent living within 290 days	\$0	\$1,850	\$1,900
Sustained placement of six months	\$0	\$1,250	\$1,290
Sustained placement of twelve months	\$0	\$1,550	\$1,600
Termination of parental rights (TPR) within 515 days	\$0	\$1,850	\$1,900
Adoption within 7 months of TPR	\$0	\$1,250	\$1,290

istrators, 19 foster care supervisors, and 20 foster care line staff, chosen for their knowledge of foster care and the pilot initiative. The interviews were designed to assess managed-care-related changes across various levels and functions of agency employees. Information was gathered on the effects of the pilot foster care initiative on: service delivery, interdepartmental and interorganizational relations, staffing patterns and staff training, staff roles and responsibilities, and financial management and use of technology.

The interviews point to five areas of interest for nonprofit practitioners and policymakers:

- Key departments within agencies experienced significant operational changes in response to the pilot initiative.
- The pilot increased both cross-departmental and interagency communication.
- Agencies altered organizational goals in response to the initiative; this, in turn, affected employees.
- Perceptions of what is important in moving toward an incentive-based payment system depended on the individual's role and organizational affiliation.
- Non-pilot agencies had to “reinvent the wheel” because little knowledge sharing appears to have taken place between pilot and non-pilot agencies as the pilot was implemented countywide in late 2002.

The Depth of Organizational Change

While the foster care initiative affected all departments within the pilot agencies, foster care and financial management departments were particularly transformed. Respondents often note that service delivery changes were made in intake and assessment procedures, performance tracking, and managing flexible funds.

What we did was in a more formal way bring some different things in [for children in foster care], because of the pilot's flexibility with dollars... to close the gap between their functioning and achievement and those of children who have had more stable and normal environments
[Pilot administrator]

We engaged the birth family quicker than 30 days. We made efforts to find them, seek them out, and seek out relatives. We're getting better with that. We're identifying relatives quicker, and we're getting them here with the families within seven days.
[Pilot supervisor]

These findings support research suggesting that managed care contracting requires service providers to quickly diagnose clients' needs (13, 14), focus additional resources on collecting client and service information in databases (15, 12), and pool funds to address the multiple needs of clients systematically and simultaneously (16).

Pilot agencies had to create new jobs within their foster care departments—case aides, family engagement workers, and relative assessors—whose function was specifically designed to help clients move

more efficiently through the foster care system. Supervisors generally felt pressure to increase the speed with which foster care cases are assessed and served.

Respondents also report changes in financial management and accounting procedures. They often mention the need to create pilot-specific payment tracking systems, cost centers, and accounts receivable and payable, and cite difficulties in budgeting and forecasting due to insufficient information, hidden costs, and other unexpected barriers such as tardy reimbursements from FIA.

These results reflect empirical evidence concerning the need, importance, and difficulty of installing accounting systems that are capable of estimating per case expenditures and revenues in managed care situations (17, 18, 12, 5). As one non-pilot administrator concludes: “It's more risky for us all to think about going forward, given that we don't know everything about [the pilot] yet.”

Reaching Out

Moving to the pilot model required foster care departments to have more communication with other departments within their agency. Sometimes these interactions occurred in response to administrative mandates establishing task forces and interdepartmental work groups involving departments with prior experience working together (e.g., case review teams comprising foster care, licensing, and clinical staff). In other instances, departments that had never had contact were required to collaborate on specific tasks. A number of respondents note how unusual it is for

representatives from the foster care, accounting, and information technology departments to meet in order to plan and implement new pilot tracking systems. They suggest that regular communication between departments reduced payment complications and maintained accurate client status (e.g., days in care, days until next performance deadline) and service information within the agency.

Respondents note that the pilot also sparked increased communication and cooperation with other agencies, FIA, and the courts in order to obtain needed information, secure collateral services, settle financial issues, and resolve case-related concerns.

We participated in every opportunity that came down the pike. There were a number of times where we were engaged in dialogue with the courts and FIA, to try to make sure they knew what [the pilot] was about and what we hoped to accomplish. We sat at the table, talked to FIA and the court, and knocked on doors. We also had off-the-cuff conversations between (this agency's) management and direct staff with the court system and FIA, to educate them. [Pilot administrator]

Studies drawn from the health and mental health sectors also suggest that managed care positively influences provider network development (19, 20, 21, 22, 23, 24). One unanticipated result, however, is the high percentage of all respondents noting that FIA, to some degree, and the courts, in particular, are barriers to successful transition to the pilot system. Problems with timely reimbursements from FIA, and delays in the

court process that impede permanent placements are perceived as putting agencies at financial risk.

Goal Shifts and Mission Collision

Researchers have suggested that at the organizational level, managed care may result in “mission collision” (16, p. 142), when agencies find it impossible to transition to managed care contracting and remain faithful to agency values and operational norms. In this study, pilot agency employees note conflict between the pilot program’s goals and employees’ conceptions of the appropriate goals of foster care. Respondents associate managed care with the possibility of shorter stays for children in foster care and less service to children and their families, a prospect that is inconsistent with what they consider to be the goal of child welfare practice. They suggest that managed care results in agencies returning children to biological families at the ultimate expense of child safety and well-being, or terminating parental rights before parents have been given an adequate chance at rehabilitation.

The reason that people generally go into foster care is that it's perceived as being [a place] where we can keep kids safe. So we had to focus staff on birth parents not as bad guys, but as people who need help . . . I think one of the reasons why [the pilot] was a barrier was just that whole philosophy with foster care that we were going to create safe places for kids, and the parents were secondary. [Pilot administrator]

Most agencies depend on their staff training to respond to employee concerns regarding the managed care environment. Pilot agencies altered existing training programs in order to offer an overview of pilot-related specifics and introduce the pilot “mindset”—a focus on more immediate service provision with the intent to reduce the number of days children spend in foster care.

Perceptual Differences

While there were some similarities in perspective in terms of what it takes to move to a performance-based, managed care system of foster care, the findings from the interviews with pilot agency employees suggest that their role and agency affiliation affect what they consider important in this process. Administrators, for example, tend to emphasize the organizational and structural changes their agency made in order to move to managed care, while supervisors tend to note the changes that they and their co-workers made in how they serve children and families.

We reduced the number of clinicians to hire case aides and behavior specialists. We created a flexible pool of dollars to break down families' barriers to reunification. [Pilot administrator]

In the past, when families would cuss me out and threaten to beat me up, I'd get them out of the agency and avoid those families for a while. Now I'll bring them into the home, take a deep breath, and dissolve barriers and work on things quicker. We get past those walls faster now. [Pilot supervisor]

Pilot and non-pilot respondents often have similar responses, but their relative emphases are colored by the difference between “having been there” and “having to go there.” One non-pilot supervisor who had previously worked at a pilot agency sums up the difference:

Right now, I'm not freaking out if I can't find a relative to get the kids out of foster care . . . But because the pilot's putting the financial incentive on that goal, I'll be all over my workers to reach those goals faster. So from a supervisory standpoint, we'll be very conscious of time frames, whereas we're not counting days here, now.

Non-pilot respondents are particularly likely to underestimate the changes in service delivery and agency administrative practices required by the transition to managed care.

Working in the Dark

Only a few themes were mentioned by large numbers of pilot and non-pilot respondents, suggesting that each of the agencies got to where they are on their own. Knowledge sharing, resource sharing, and common problem solving are not supported by these data, nor do the data suggest that detailed practice wisdom has been shared between the pilot and non-pilot agencies.

It also appears that implementation of the pilot could have been more uniform if FIA had worked more closely with the nonprofits to install systems to smooth their transition to this form of managed care. While it is clear that FIA was fair in negotiating the terms of the

pilot, it is also clear that technical assistance, beyond prescribing a paper trail, was lacking.

Lessons Learned

While our empirical understanding of managed care contracting in child welfare is limited to lessons from Wayne County, we believe that the following recommendations for nonprofit practitioners and policymakers interested in the effects of managed care contracting systems on the organizational structure and processes of nonprofit foster care agencies are applicable for other locales and organizational sectors.

Service Delivery

- Organizations must be sensitive to threats to their missions inherent in managed care arrangements.
- Performance deadlines must be set up with enough time to allow employees to conduct thorough assessments, provide necessary in-agency services, access community resources, and place children in living situations that promote safety, permanency, and well-being.
- Monitor in-house service delivery to ensure that client needs, rather than cost considerations, dictate the services provided to a family.
- Consider formalizing relationships with collateral service providers in order to provide necessary services promptly.
- Assess the availability of high-demand, out-of-agency services. Document any shortages and convey this information to court officials and the public agency, so that the managed care contract can reflect this reality.

Financial Management and MIS

- Agency managers need to agree on what information is important and must be collected, how to collect it, whether the requisite expertise exists to analyze trends in the data, and how the results of this analysis will be shared.
- Tracking systems should not be a surrogate for careful case planning and implementing appropriate case plans for all clients. Agencies should consider how “tickler” based systems that remind workers of performance deadlines will affect staff behavior.

Interdepartmental Relations

- Managed care requires increased vertical communication. Executives must listen to front-line staff to ensure that new service delivery strategies do not jeopardize service quality.
- Incentive-based contracting requires increased horizontal communication as well. Key departments—foster care, information technology, and accounting in particular—cannot operate on “opposite sides of the hall.”

Inter-organizational Relations

- Joint strategic planning may help public and private agencies better understand common problems.
- Joint agency education and training programs at all levels might lead to efficiencies in the transition to managed care.
- Public agency managers must recognize that overdue reimbursements jeopardize the cash flow of private agencies. They should identify the source(s) of delays and seek practical solutions to eliminate them.

- Courts must understand that “normal” delays in case processing can have serious effects on the financial well-being of an agency as well as the clients that it serves.

In the end, however, a successful move to managed care contracting cannot be achieved without buy-in and trust that children will be well served. While efficient, effective services for families are crucial, it is even more critical that the timelines set by managed care contracting arrangements allow agencies to reach their safety, permanency, and well-being goals for their clients.

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Resources for More Information

This Snapshot brief is based on a summary report, *Moving to Managed Care in Child Welfare: First Results from the Evaluation of the Wayne County Foster Care Pilot Initiative*, which can be found online at http://www.gvsu.edu/philanthropy/managed_care.doc. The full report of the qualitative research, *Moving Toward Managed Care in Child Welfare: A Process Evaluation of the Wayne County Pilot Initiative*, was submitted to The Aspen Institute in March, 2003 and can be found at <http://gpy.ssw.umich.edu/projects/foster/Wayne%20County%20-%20Feb%202003.pdf>.



Michigan Nonprofit Association

Michigan Nonprofit Research Program (MNRP) Background

A distinctive partnership among one national and two statewide partner organizations, The Dorothy A. Johnson Center for Philanthropy and Nonprofit Leadership of Grand Valley State University (Johnson Center), the Michigan Nonprofit Association (MNA), and the Aspen Institute Nonprofit Sector Research Fund (Aspen), brings to the State of Michigan a fund to support strategic research about philanthropy, volunteerism, and nonprofit leadership. With the assistance of a grant from the W.K. Kellogg Foundation, the partners will make the Michigan Nonprofit Research Program (MNRP) a significant force to improve understanding about, and performance of nonprofit organizations.

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