



# ***Paying for Success: Results-Based Approaches to Funding Supported Employment***

*By: Jeanne Novak, David Mank, Grant Revell, & Dan O'Brien*

## **ABSTRACT**

Increasingly, state Vocational Rehabilitation and other agencies purchasing supported employment services are utilizing results-based funding methods. In this analysis, issues and concerns related to the design and implementation of results-based funding methods for supported employment are discussed. Results-based funding is compared to traditional funding approaches, particularly hourly fee-for-service, the most commonly used supported employment funding strategy. Examples are given of the diversity of RBF approaches currently being used to fund supported employment services. The concerns that must be addressed if RBF is to reach its potential as a funding strategy are analyzed, and specific recommendations are given for structuring results-based funding mechanisms in a way that balances the interests of the individual with a disability in need of supported employment services, the community rehabilitation program potentially providing these services, and the funding agency paying for the services.

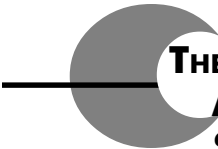
Society's increased emphasis on accountability in government and expectations for results are changing the landscape for public funding of social programs in the United States. This move toward greater accountability is evidenced by the emergence of the Government Performance and Results Act of 1993, the National Performance Review and the Government Accounting Standards Board's (GASB) Performance Measurement System. In a previous paper, Novak, Mank, Revell and Zemaitis (1999) describe these recent government initiatives, and how increasing emphasis on results may affect vocational rehabilitation and funding of supported employment services. In addition, the paper reviews the underlying rationale for results-based funding of employment services for persons with disabilities and compares it to more traditional, process-oriented funding methods. The purpose of this paper is to discuss the diversity of results-based funding (RBF) approaches being used in supported employment, describe concerns that have emerged about these approaches, and offer recommendations for effectively addressing these concerns.

State Vocational Rehabilitation (VR) agencies purchase employment services from providers using a variety of purchase of service (POS) arrangements such as cost reimbursement, slot-based, fee-for-service, and results-based funding. The distinguishing feature of RBF is that a portion of a provider's compensation is contingent upon the achievement of specified outcome performance measures. In contrast, more process-oriented traditional funding approaches, such as fee-for-service, base payment on units of service delivered rather than specific outcomes achieved (Novak et al., 1999).

Supported employment's emphasis on competitive employment outcomes aligns well with the core principles of results-based funding. Emphasis on outcome accountability, data systems to track progress towards defined goals, and primary attention to participant choice are all notions congruent with supported employment and results-based funding. However, as the number and variety of specific results-based funding methods for supported employment being

implemented continue to grow, there are legitimate questions being asked. For example, will RBF make it more difficult to serve people with significant disabilities who are viewed as unlikely to achieve successful employment outcome or have a need for extensive services to be successful? Will RBF jeopardize high quality job matches in the interest of earning quick payments for securing job outcomes? Will career development lose emphasis? Will providers be discouraged from pursuing creative job opportunities because of concerns that costs associated with prescriptive and intensive services and supports will not be covered by established outcome payments?

In this paper, we address these questions and other issues related to the design and implementation of results-based funding methods for supported employment. Results-based funding is compared to traditional funding approaches, particularly hourly fee-for-service, the most commonly used supported employment funding strategy (Revell, West, Cheng, 1998). Examples are given of the diversity of RBF approaches being used to fund supported employment services. The concerns that must be addressed if RBF is to reach its potential as a funding strategy are analyzed and specific recommendations are given for structuring results-based funding mechanisms in a way that balances the interests of individuals needing supported employment services, the community's rehabilitation program potentially providing these services, and the funding agency paying for the services.



## **THE CASE FOR RESULTS-BASED APPROACHES TO PURCHASING SUPPORTED EMPLOYMENT SERVICES**

Results-based funding strategies offer a number of anticipated benefits over traditional funding strategies. These include: increased

emphasis on valued outcomes; increased accountability for results; increased cost efficiency and effectiveness resulting from streamlined service delivery; and increased consumer choice and satisfaction. Each of these benefits will be discussed in turn.

**Increased emphasis on valued outcomes.** The goal of employment services is to deliver valued participant outcomes. Purchase of service arrangements in supported employment have historically involved payment to provider agencies for time spent in the employment process. RBF presents a relatively new philosophy of provider compensation. A RBF approach compensates the provider when program participants attain successful employment outcomes, rather than reimbursing the provider for the amount of services it delivers. The ultimate measure of a program's success is not the array or number of services it provides but the extent to which it produces results valued by those being served, the funding agency and society.

Fee-for-service arrangements may have the unintended consequence of producing disincentives to consumer independence. At a basic level, hourly billing tends to bear an inverse relationship to consumer independence: the more independent the individual, the fewer units the provider can bill. It may often be in the provider's best fiscal interest to emphasize billable hours rather than working toward successful, long-term employment of the individual (O'Brien & Cook, 1998). This creates a dilemma between the supported employment philosophy of decreasing dependence on the provider and the very real financial pressures to maintain billable hours. RBF helps to resolve this inherent paradox by tying payment to successful employment outcomes.

**Increased accountability for results.** Recent government-wide initiatives have emphasized a need for "a fundamental shift in the system of accountability in federal government from one oriented around accountability for processes and

inputs to one that measures performance and is accountable for results actually achieved” (Gore, 1993, p. 17). Despite the successes of supported employment, it has operated in an environment in which accountability for following rules and regulations has often taken precedence over accountability for outcomes. In the early days of supported employment, before the costs of achieving outcomes (including the variability of those costs) were known, it is not surprising that funding was based on service delivery costs incurred by providers. RBF emerges at a time in the history of supported employment when more data about outcomes and costs are available. The availability of historical cost data, combined with efforts to improve employment outcomes for people with the most significant disabilities, make supported employment a likely point of discussion for results-based funding options.

RBF provides incentives for provider agencies and VR agencies to become more outcome-oriented. Emphasizing agreed upon results should increase accountability for aligning resources to achieve those results (Lessinger, 1971). While this may create added apprehension when “how” to deliver outcomes is not specified, it can also foster creativity in service design and provision. Gianakis (1996) notes that the use of program outcome measures in the resource allocation process encourages managers to focus on the results of programs and “increases their capacity to apply professional discretion in deciding how inputs will be used to achieve targeted results” (p. 141).

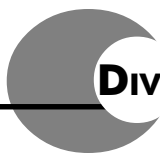
**Streamlined service delivery and improved cost efficiency and effectiveness.** One promise of results-based funding is that there is less emphasis on bureaucracy. Osborne and Gaebler (1992) define bureaucratic waste as “people working hard at tasks that aren’t worth doing, following regulations that should never have been written, and filling out forms that should never have been printed” (p. 23). Results-

based funding has the potential to de-emphasize regulation, accounting, and micro-management of provider operations. Providers will be granted greater flexibility in program administration in return for greater accountability for program performance. Documentation of time spent delivering services, a primary reporting emphasis in a fee-based system, is de-emphasized in RBF. Greater flexibility in service methods with less emphasis on documentation and regulation should encourage more cost efficient and effective service delivery.

**Increased consumer choice and satisfaction.** Results-based approaches to funding are expected to result in a stronger focus on participant outcomes and more effective service delivery. In all likelihood, these factors will lead to the achievement of more timely outcomes for program participants, and hence, increased satisfaction with the system. It is important to note; however, that increased satisfaction and choice are only possible if (1) there is an individualized planning process in place that thoroughly involves the person with a disability and their circle of family and friends; (2) the individual is supported to explore a range of job opportunities and career options; and (3) the outcomes indicators defined by V.R. accurately measure the individual’s satisfaction with the job, the services and supports received, and the ongoing support plan.

These four anticipated benefits of results-based funding provide the intriguing possibility of improving service quality and consumer satisfaction while at the same time increasing efficiency and cost effectiveness. RBF approaches hold the promise of increasing the satisfaction of a variety of stakeholders, creating a win, win, win situation for V.R., providers, and program participants. However, depending on the perspective, historical context, and formal and informal objectives of an individual funding

agency implementing results-based funding, different perceived benefits might take precedence in the actual design of the RBF system. For example, a funding agency with a specific intent to lower costs might weight its approach more heavily towards cost efficiencies to the possible detriment of service effectiveness and consumer satisfaction. The diversity currently found in RBF of supported employment reflects the multiple perspectives and objectives involved in their implementation. The next section of this paper explores this diversity found in current applications of RBF for purchasing supported employment services.



## **DIVERSITY OF RESULTS-BASED FUNDING APPROACHES**

Revell and his associates (1998) discuss in detail the variety of funding designs used for the purchase of supported employment services. A results-based funding approach is defined as any purchase-of-service arrangement that ties at least a portion of a provider's compensation to the achievement of outcome performance measures. Results-based funding designs link provider payments to pre-defined participant outcomes. For example, the provider may be reimbursed \$1000 when the vocational assessment is completed, \$2000 when the service recipient begins a job, and \$3000 when this individual reaches stabilization on the job. The provider receives payment only if the service recipient successfully achieves a defined outcome.

A single funding system for supported employment may comprise one or more funding approaches (e.g., fee-for-service, slot-based, results-based). A system that incorporates more than one funding approach is referred to as a blended funding system. A blended system may include, for example, a combination of fee-for-

service and results-based system components. Because the anticipated benefits, potential concerns, and recommendations addressed in this paper apply to all funding systems for supported employment that include an outcome-based component, we refer to any such system as a RBF system (even if the predominant component of the funding system is fee-for-service or another non-results based approach). Therefore, a funding system designated "results-based" may have (a) a results-based payment structure with no other payment mechanism included or (b) results-based component blended with other payment components (most likely fee-for-service). A useful framework for understanding the distinctions between funding systems is to look at the way in which funding mechanisms for supported employment services are developed.

Developing a funding agreement for the purchase of supported employment services involves three common elements: defining the specific services to be provided, defining the unit of service, and establishing a cost for the service unit (Revell et al., 1998). The process for developing the results-based component of a funding system, even with wide variety of existing RBF applications, can be described in similar terms and involves the following steps.

- Define the desired service outcomes.
- Define the payment point(s) (i.e., benchmarks) for each service outcome, including criteria for determining achievement of each benchmark.
- Establish a fee for each payment point.

Table 1 on the following page illustrates RBF systems for supported employment developed in Oklahoma (OK), Massachusetts (MA), Kentucky (KY), and Rhode Island (RI). These state examples represent the diverse range of RBF funding approaches in use. The OK approach is strictly

**TABLE 1 -- DESIGNING A VR FUNDING SYSTEM FOR THE PURCHASE OF SUPPORTED EMPLOYMENT SERVICES: RESULTS-BASED FUNDING EXAMPLES**

State	1. Define Services or Service Outcomes	2. Define Service Units or Payment Points	3. Establish Fee Per Service Unit or Payment Point
Oklahoma (for DD population)	Assessment	<i>benchmark:</i> Completion of Assessment	10% of bid
	Placement	<i>benchmark:</i> Placement	15% of bid
	4-week retention	<i>benchmark:</i> 4-wk. retention	15% of bid
	10-week retention	<i>benchmark:</i> 10-wk. retention	15% of bid
	Stabilization	<i>benchmark:</i> Stabilization	20% of bid
	Closure	<i>benchmark:</i> Closure	25% of bid
Massachusetts	Assessment	<i>benchmark 1:</i> Plan for Assessment <i>benchmark 2:</i> Assessment Report	\$520 \$780
	Placement	<i>benchmark 1:</i> Career Plan <i>benchmark 2:</i> Placement <i>benchmark 3:</i> 30-day retention	\$1,400 \$1,400 \$700
	Initial Employment Supports	<i>benchmark 1:</i> 30-day retention <i>benchmark 2:</i> Stabilization	\$1,480 \$2,220
	Additional Support (or substitute for other service components)	<i>time increment:</i> Hour	variable hourly rate
Kentucky	Assessment	<i>time increment:</i> Hour	\$30/hr. (\$750 cap)
	Job Development	<i>time increment:</i> Hour	\$30/hr. (\$900 cap)
	Placement	<i>benchmark:</i> Placement	\$3,000
	Additional Support	<i>time increment:</i> Hour	\$30/hr
Rhode Island	Assessment	<i>benchmark:</i> Complement of Assessment	\$400
	Job Development & Placement	<i>benchmark 1:</i> Memo of Understanding <i>benchmark 2:</i> 1-month retention	\$500 \$800
	Training & Ongoing Support	<i>time increment:</i> Week	\$200/wk. (20 wk. cap)
	Additional Support (beyond other defined services)	<i>time increment:</i> Hour	\$15/hr.

**NOTE:** The table presents a summary of four state VR funding systems. It is not intended to provide a complete description of these systems.

results-based; MA is predominantly results-based with an option for an hourly service component; and KY and RI are blended fee-for-service and results-based system designs. Oklahoma began a series of expanding pilots in 1992 with full statewide implementation in January, 1997; the Massachusetts RBF system was implemented as

a two-year pilot in 1996 and is now a state-wide funding option for community-based employment services. Kentucky implemented its RBF system in 1995 and revised it to the current blended RBF and fee-based system in October, 1998. Rhode Island implemented its RBF systems statewide in 1991, and it is currently

being revised. The steps for designing RBF approaches are described below using these and other illustrative state examples.

**Define desired service outcomes.** Supported employment services commonly proceed in several phases involving community-based assessment, job development and job placement, initial job site and related training leading to stabilization in employment, and ongoing support at and away from the job site to facilitate retention of employment. When designing a RBF system, a funding agency typically selects service outcomes that correspond with these phases. For example, the Oklahoma Department of Rehabilitation Services (DRS) defines a specific set of service outcomes in its vendor agreements. Under Oklahoma's Milestones Payment System, the service outcomes for persons with developmental disabilities include assessment and employment service planning, placement, two job retention outcomes, job stabilization, and case closure by DRS. Other states have identified smaller sets of service outcomes. Rhode Island's system ties compensation to outcomes for assessment, job development, and job placement but does not include outcome payments for stabilization and closure. Kentucky's system uses a results-based reimbursement mechanism for only one service outcome—supported employment individual placement; all other reimbursements in the KY system are based on a fee-for-service model.

**Define 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) Initiative 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 Rhode Island and Oklahoma

systems have only one payment benchmark for the assessment phase of supported employment. The Social Security Administration's Alternate Participant Program utilizes a single point of payment for the employment services process. Providers are compensated when an eligible Social Security Disability Income (SSDI) or Supplemental Security Income (SSI) recipient is working at the Substantial Gainful Activity (SGA) level after at least a 9 month continuous employment period.

A critical step in defining payment points is to identify the criteria that represents successful attainment of each benchmark. For example, Kentucky DVR requires the following criteria be met before a provider is reimbursed for the placement benchmark: 1) the supported employee is employed for a minimum of 60 days in a job consistent with the individual's work plan; 2) the person is satisfied with the job; 3) a satisfactory number of work hours is scheduled per week; and 4) extended services supports are in place. Payment is made after the 60-day minimum period of employment only if all the four criteria are met (Kentucky Department of Vocational Rehabilitation, 1998). This type of clearly defined criteria can be built into the construction of a RBF approach to ensure protections around consumer and employer satisfaction and the quality and stability of services.

**Establish a fee for each payment point.** The final step in development of a RBF mechanism is to set a fee for each payment point. This step requires system designers to answer two questions. First, what process will be used to determine the fee structure? In a RBF system, fees may be established by the funding agency (fixed statewide rates), or jointly determined by the funder and provider agencies through negotiations or a formalized bidding process.

The Oklahoma Milestone Payment System provides an example of a bidding process (O'Brien & Cook, 1998). In Oklahoma, providers submit bids to 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 supported employment. This bid includes not only provider costs associated with serving individuals who reach an employment outcome, but also costs historically associated with serving individuals who do not reach 26 closure. DRS compares provider bids with one another and with historical costs of supported employment closures and then determines whether or not to accept the bids.

Upon acceptance of a bid proposal, payment percentages are applied to the bid to determine the amount to be paid when an individual achieves each milestone. For example, a provider assisting a consumer to complete Milestone I, assessment, would be paid 10% percent of the approved bid. Another 20% of the bid would be paid for reaching the 4-week job retention milestone and meeting all quality indicators for that milestone. As presented below in Table 2, the Oklahoma payment points and payment levels differ slightly for individuals with developmental disabilities and individuals with mental health diagnoses.

**TABLE 2 -- OKLAHOMA'S MILESTONE PAYMENT SYSTEM FOR SUPPORTED EMPLOYMENT**

Milestones	Percentage (%) of Bid Paid at Each Milestone	
	Mental Health Consumers	DD Consumers
Assessment	10%	10%
Vocational Preparation	10%	N / A
Placement	10%	15%
4-Week Retention	20%	15%
10-Week Retention	N / A	15%
Stabilization	20%	20%
Closure	30%	25%

The second question RBF system designers must answer is: At what level will rate structures be established? To answer this question, 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 points are fixed at the state level, the funding agency assigns a rate for each benchmark to all vendors (Revell, et al., 1998). Kentucky, Rhode Island, and Tennessee are ex-

amples of states with statewide fixed reimbursement schedules. Rhode Island, for instance, has designed a system that includes a \$400 fee for completion of the assessment, a \$500 fee for submission of the Memorandum of Understanding (which describes the individualized job search plan), and an \$800 fee for the one-month employment retention report (S. Olson, personal communication, May 23, 1999).

When rates are negotiated at the provider level, factors such as provider cost information, regional cost variations, and disability groups served are considered when setting benchmark rates (Revell, et al., 1998). When rates vary by level of support need, the rate system is referred to as a tiered system. Table 3 provides a hypothetical example of a three-tiered funding system with four payment points: assessment, placement, stabilization, and closure. Each program participant is 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's Milestone system is an example of the counter balancing effect of a tiered payment system. Oklahoma reports that the percentage (17%) of supported employment consumers served who had reported IQ scores below 40 remained consistent before and after conversion from hourly fee to the Milestones approach (O'Brien & Cook, 1998).

The final level at which rate structures may be assigned is the individual level. The Pennsylvania Office of Vocational Rehabilitation is engaged in the design of a RBF system that allows

for person-specific reimbursement rates. Piloting of this system has not taken place at the time of this paper. Under the proposed system, a comprehensive assessment and employment needs worksheet would be completed for each program participant to determine the participant's total estimated hours of service needs. 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 would be determined by multiplying the anticipated hours of support needs by a provider-specific hourly fee rate. Finally, the budget would be divided into set percentages to be paid upon successful completion of established benchmarks, such as 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% would be made when the consumer meets the criteria for job stabilization (J. Miller, personal communication, May 24, 1999). Massachusetts CBES also has a mechanism for establishing fee schedules on an individual basis. 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 (e.g., assessment, placement, initial employment supports). This allows

**TABLE 3 -- RBF SYSTEM WITH A THREE-TIERED RATE STRUCTURE BASED ON INTENSITY OF SUPPORT NEEDS**

Payment Points	Level of Support Needs		
	Level I	Level II	Level III
1. Assessment	\$ 500	\$ 500	\$ 1,000
2. Placement	\$ 500	\$ 1,000	\$ 1,000
3. Stabilization	\$ 1,000	\$ 2,000	\$ 3,000
4. Closure	\$ 1,000	\$ 1,500	\$ 2,000
<b>TOTAL</b>	<b>\$ 3,000</b>	<b>\$ 5,000</b>	<b>\$ 7,000</b>



for greater flexibility and individualization of services (C. Ghiloni, personal communication, May 24, 1999).

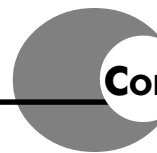
**Incentive payments.** In addition to system features determined during the three-step design process, RBF systems may incorporate results-based payments beyond the basic rate structure. For example, the Delaware Division of Vocational Rehabilitation supported employment funding system will pay a provider \$250 for a status report when an individual reaches six months of employment beyond V.R. case closure. A second payment of \$250 is made for a follow-up report when the employee reaches 12 months of employment beyond case closure (M. McGarrity, personal communication, May 19, 1999). The Iowa Division of Vocational Rehabilitation Services includes a payment incentive for high quality job placements (S. Tyler, personal communication, May 17, 1999). In this system, providers receive benchmark payments totaling \$2,000 for assisting program participants reach 90-day case closure. In addition, providers may receive up to an additional \$3,000 for assisting individuals to secure jobs that exceed minimum quality standards. To be eligible for an incentive payment, the individual must be employed at the customary wage at or above minimum wage. The amount of the incentive payment is calculated based on the following formula that includes hourly wage and hours worked per week:

$$\text{incentive payment} = (\text{actual wage}/5.15) \\ \times (\text{actual hours}/40) \times \$3,000$$

For example, if an individual is working at the current minimum wage of \$5.15 per hour for 20 hours per week, the provider would receive an incentive payment of \$1500 (incentive payment =  $(5.15/5.15) \times (20/40) \times \$3000 = \$1500$ ).

As the preceding discussion illustrates, a wide variety of results-based funding approaches

are currently being piloted and implemented with no two state RBF systems being identical. The Alabama Vocational Rehabilitation Agency used the Oklahoma Milestones approach as a basis for its RBF system. However, Alabama's replication pilot resulted in a number of adjustments to the Oklahoma approach in areas such as spacing and weighting of payment points and the criteria defining outcomes. Alabama also deleted the Vocational Preparation service as an outcome for persons with a primary mental health diagnosis, choosing instead to have that as a separate fee-based service available as needed. While most RBF states are still in the early years of system implementation and are continuously refining their approaches, initial feedback has been generally positive in terms of reduction of waiting lists, reduction in time before job placement, increases in placements, and improving successful outcome rates for participants in supported employment (Ghiloni, Bickleman, Thomas, & van Gelder, 1998; O'Brien & Cook, 1998).



## CONCERNS ABOUT RESULTS-BASED FUNDING APPROACHES

Results-based funding approaches that are not carefully designed and implemented have the potential for creating unintended and adverse consequences. The relative inexactness of job development methods, the need to truly individualize services, and the variations of job market and economic conditions make the process for achieving successful employment outcomes something less than a science. As such, precision in a funding system may miss the mark of improving outcomes and efficiency unless practical concerns are taken into consideration in design and implementation.

Concerns about how results-based funding approaches will be addressed by discussing the following questions:

1. Will results-based funding create disincentives to serve people with the most significant disabilities?
2. Will RBF create incentives for providers to serve individuals who appear to be easiest to place or who have support needs the provider already knows how to address?
3. Will results-based funding create disincentives to invest in good job matches and creative job development?
4. Will the focus of results-based funding systems be on valued outcomes?
5. Can results-based funding systems accommodate variations in service costs so that providers receive adequate compensation (on a program level) to continue to provide quality services?
6. Will adequate attention be devoted to career development?

**Will results-based funding create disincentives to serve people with the most significant disabilities? Will RBF create incentives for providers to serve individuals who appear to be easiest to place or who have support needs the provider already knows how to address?** One obvious concern about results-based funding is that it may create a disincentive to provide employment services for persons considered difficult to serve. Many people in government resist the idea of paying for results, because they have seen examples of it being done poorly. For instance, the Job Training Partnership Act of 1982 (JTPA) mandated performance-based contracts with service providers. Original JTPA contracts were severely criticized, because they rewarded providers based solely on the number of trainees they placed. This encouraged providers to serve only those

who were the easiest to place (Osborne & Gaebler, 1992). Supported employment is already criticized for failing to meet the needs of persons with the most significant disabilities, including individuals with multiple disabilities (Mank, 1994; Wehman and Kregel, 1995). If RBF systems fail to address this concern, supported employment will continue to underserve the primary population for which it was intended.

**Will results-based funding create disincentives to invest in good job matches and creative job development?** A good match between a job and a person's interest and skills often requires extensive job development and consideration of a number of possible jobs. RBF, by definition, is focused on timely results. A poorly-designed RBF system could create a contingency wherein the provider, and in turn the individual with a disability, are less inclined to pursue creative job possibilities because of the extended time and cost associated with more thorough job development and job matching.

**Will the focus of results-based funding systems be on valued outcomes?** Results-based funding is premised on an agreed-upon definition of "valued results". Wage and hour outcomes are easily measured. Integration can be measured to some extent. Satisfaction is more difficult to measure. What definition of "valued results" will be emphasized? If wage and integration outcome indicators are chosen, because they are easily measured, will they provide an accurate and comprehensive picture of a supported employment program's success? If satisfaction on the part of the person with a disability is considered the most important outcome indicator, how will it be measured and what degree of wage and integration outcomes will still be expected? Results-based funding approaches must have the flexibility to address individual needs and preferences around these issues.

**Can results-based funding systems accommodate variations in service costs so**

**that providers receive adequate compensation (on a program level) to continue to provide quality services?** There is little doubt that producing successful employment outcomes will require different services, along different time lines and in different ways for different people. Can RBF accommodate what is fundamentally an individually driven process? In RBF systems where costs are normed across a wide population, will the needs of those individuals who substantially exceed the norms be met? To ensure adequate financial support to the range of vendors providing supported employment services to a diverse population, RBF approaches must be flexible enough to adjust to both the cost structure of the vendor and the level of need of the consumer. Setting statewide rates has the potential to result in overpayment in low cost areas and underpayment in high cost areas such as metropolitan communities. Setting rates at the provider level has the potential to be insensitive to cost variations among individual program participants. Can results-based funding mechanisms be designed in a way that recognizes, and even encourages, the needed individualization of service intensity and service duration that represents prescriptive supported employment services? Can these adjustments be made in a way that balances the need for simplicity in administration, flexibility in application, and a concern for quality and individualized services?

**Will adequate attention be devoted to career development?** Another concern about results-based funding is the need for rehabilitation to focus on career development. The term “career development” suggests an ongoing series of jobs, opportunities for skill enhancement, and job advancements over time. As such, it can be expected that a person will, and should, change jobs over time. This calls for an investment in job development, placement, and job supports for multiple job positions. Will RBF approaches emphasize and reward more

permanent job placements, thereby creating a disincentive to support the career development of individuals with disabilities?

These concerns about results-based funding indicate that careful attention is needed during the design phase to (1) creating incentives for serving persons with more intense and extended support needs, and (2) promoting good job matches and career development in a way that recognizes variation in community, provider, and individual service cost structures. These incentives do exist. The following discussion offers recommendations for designing and implementing results-based funding systems that are responsive to quality indicators of supported employment.

## **RECOMMENDATION FOR DESIGN AND IMPLEMENTATION**

The following set of recommendations is not all-inclusive but is intended to define a direction for promoting outcomes, accountability, equal access, and fairness for all stakeholders. The following recommendations may aid policy makers and implementers to design effective outcome-oriented systems for purchasing supported employment services.

1. Balance the interests of key stakeholders through collaboration.
2. Emphasize cost effectiveness over cost efficiency.
3. Insure that funding levels are working for providers of service.
4. Tie payments to the achievement of valued outcome performance measures to avoid exchanging quantity of quality.
5. Emphasize individualization, flexibility, and choice.

6. Avoid creating disincentives to serving people with more significant disabilities.
7. Periodically review and refine the system.

**Balance the interests of key stakeholders through collaboration.** The diversity of state approaches to results-based funding reflects variations in how stakeholder interests are prioritized during the design phase. The challenge, of course, is to find a balance among the interests of individuals with disabilities, providers, and funding agencies. Service consumers seek a funding design that encourages self-advocacy in planning and managing services and also encourages access to supported employment for the full range of persons with disabilities who need this service approach. Provider agencies seek to cover the true cost of providing services. Funding agencies seek to purchase services from providers that achieve desired participant outcomes in a cost efficient and effective manner.

Clearly, each party has a valuable perspective and must be accommodated to some extent if the design is to work. Unbalanced funding systems result in persons being excluded from services, poor quality services that fail to consistently achieve desired outcomes, and/or inflated costs for services. For example, a funding design that under funds (i.e., sets payment levels that do not cover the actual costs associated with serving persons with more intensive support needs) and provides no mechanism for a provider to recoup costs for needed services will leave certain individuals unserved or poorly served.

If there is to be a balance among the interests of key stakeholders, the design and implementation of a RBF system should happen in collaboration with those stakeholders (Theurer, 1998). Halachmi and Bouckaert (1996) emphasize this point by stating: "Designing a system that does justice and is fair to all stakeholders requires stakeholder participation in all stages of the system's development" (p. 8). When

Alabama decided to move to a results-based funding system similar to Oklahoma's Milestone Payment System, an extensive stakeholder planning process was undertaken. Representation from the stakeholder-planning group included the three primary constituencies: consumers, funders, and vendors. Three months of intensive planning in Alabama was followed by a pilot program and revisions by the group before implementation. The Alabama experience suggests a collaborative design and implementation process improves the quality of the final product and reduces resistance to change by increasing understanding of the change process

**Emphasize cost effectiveness over cost efficiency.** Osborne and Gaebler (1992) define efficiency as "a measure of how much each unit of output costs. Effectiveness is a measure of the quality of that output: how well did it achieve the desired outcome? When we measure efficiency, we know how much it is costing us to achieve a specified output. When we measure effectiveness, we know whether our investment was worthwhile" (p. 351). The natural tension between efficiency and effectiveness should be welcomed and explored in results-based funding approaches. Clearly, the wrong thing can be done very efficiently. Both efficiency and effectiveness are important. Unfortunately, government agencies may be tempted to focus solely on containing costs (efficiency) at the expense of striving toward achievement of a program's ultimate goals at a reasonable cost (cost effectiveness).

Funding mechanisms are most likely to be effective if incentives encourage providers to place greater numbers of supported employment participants in jobs. However, incentives should not diminish emphasis on serving people with more severe disabilities, consumer choice, excellent wage and benefit packages, or advancement opportunities. We now have over a decade of experience in funding supported employment services. We must ensure that funding levels truly

reflect the real life costs associated with providing quality supported employment services.

**Insure that funding levels are workable for providers of service.** This recommendation closely relates to the need to balance the interests of key stakeholders. Results-based funding strategies can be expected to create different contingencies and perhaps greater uncertainty than fee-for-service approaches. A critical factor in determining the effectiveness of RBF methods will be their ability to balance the funding agency's desire to weight pay schedules toward the final desired outcomes and the desire of the provider agency to maintain a steady cash flow. For example, if 75 percent of funds are held back until an individual achieves a final outcome, provider agencies may find it difficult to meet their ongoing financial commitments. This is particularly relevant to small specialty supported employment agencies that do not have a multiple cost center funding flow. Several state systems address this issue by early payments for assessment and job development.

RBF systems should insure that competent providers of service are fairly compensated for quality services so that they can cover their costs (and possibly even be rewarded for good performance by turning a profit). A number of questions should be considered when constructing a RBF system that can influence the balance of financial risks and rewards for providers. These include the following: How will payment points within the fee schedule be distributed and weighted? Will providers be reimbursed for services leading to job replacement if the first job doesn't work out? Will providers be able to cover or recoup costs for providing services to consumers who do not reach their employment objectives? What incentives will providers have to serve individuals with more intensive support needs? Will VR agencies be able to guarantee the availability of funds during a fiscal period or will providers be vulnerable to funding stoppages?

There are specific strategies that can be incorporated into the design of a RBF approach to help insure that the provider's time investment at any one point in services to an individual does not lag too far behind the opportunity to cover the costs associated with that time investment. First, payment points should be weighted and spaced in such a way that cash flow to the provider is reasonably consistent with resource investment. RBF systems, by their very nature, create incentives to achieve final outcomes (e.g., case closure). This usually results in the provider having an ongoing deficit in payment earned in relation to costs incurred, until the final outcome is achieved. The spacing and weighting of payments should be reasonable enough to keep this deficit from being a continued burden to a provider. A second strategy is to use a proactive approach to assessment and job planning. The better the information used for the job match, the better the chance for success. Third, the design of the RBF system should accommodate costs associated with serving persons who fail to reach a particular benchmark. One way to do this is to incorporate the historical costs of serving participants who fail to meet a benchmark into the payment level determination of that benchmark. Paying for success is clearly the driving incentive of RBF; paying only for success ignores the information available through research on job retention patterns in supported employment (McDonald-Wilson, Revell, Nugyen, & Peterson, 1991) and will underfund vendors. Fourth, clear policies are needed regarding how the job replacement needs of program participants will be addressed within the RBF system. Some state funding agencies will only pay for each benchmark one time for a particular program participant while other states will pay a benchmark more than once under certain circumstances. Finally, the RBF system design should contain

incentives for providers to serve persons requiring an intensity and duration of services beyond the norm for a provider. The multiple payment tiers discussed earlier are one such incentive.

**Tie payments to the achievement of valued outcome performance measures to avoid exchanging quantity for quality.** To maximize effectiveness, results-based funding approaches should emphasize increasing the number of people who have **quality** jobs over simply increasing the number of placements. While the traditional rehabilitation system has not focused on outcome-oriented funding, it has emphasized person-specific definitions of what constitutes quality employment. Ensuring the quality of services and outcomes is easier when services have clear and tangible results. Supported employment services have at least one clear and tangible result—employment. However, many factors in addition to job placement rates must be included when determining how successfully a vendor is providing vocational assistance to people with disabilities. Quality outcome indicators such as wages and benefits, individual choice, opportunities for career advancement, and employment retention are also important.

The degree of success results-based funding experiences may be determined largely by the extent to which valued supported employment outcomes can be articulated and agreed upon in ways that work for all stakeholders. Relevant, understandable and agreed-upon performance measures are difficult to articulate in ways that keep a focus on performance but also support the need to individualize services (Fountain & Roob, 1994). Conceivably, very clear measures can be articulated (e.g. number of people with disabilities served or placed in jobs) that miss the mark on valued and substantive benefits (i.e., positive quality-of-life changes). While clarity of measures is clearly important in a results-based funding system, the benchmarks defined must also meet a standard of successful

employment that may go well beyond the easiest measures of employment. The challenge to funding system designers is to link compensation to outcome indicators that represent the substantive benefits experienced by program participants.

One way to address this issue is to include measures of service quality in the payment mechanism. Osborne and Gaebler (1992) suggest surveying consumer and employer satisfaction with services. They also advise performance managers to avoid incorporating too many or too few quality indicators. The danger with too few indicators is the system will be distorted by overly simplistic outcome criteria. An example is a VR system that relies too heavily on Status 26 closures as a primary measure of success and therefore pushes providers and VR counselors to terminate services prematurely or to emphasize serving those individuals for whom the expectation for success in employment is higher. Too many quality indicators may result in complexity, confusion, and poor compliance.

The Kentucky and Oklahoma RBF systems provide examples of efforts to incorporate a balance of quality indicators. As stated earlier, the Kentucky system makes reimbursement for the Placement benchmark contingent upon 60-day employment retention, consumer satisfaction, an established number of work hours per week, and the availability of extended services support. Oklahoma builds into each milestone up to five quality indicators required for payment. For example, the quality indicators for the Stabilization payment for persons with developmental disabilities include a minimum of 17 weeks job retention, fading of job coach support, documentation of consumer and employer satisfaction, and the meeting of the consumer's career plan goals and desired work hours per week.

**Emphasize individualization, flexibility, and choice.** Supported employment is centered on individualization of supports and outcomes. RBF system designers need to recog-

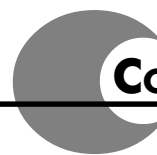
nize the potential for reducing rather than enhancing individualization. States have taken various approaches to ensuring individualization and flexible service delivery. In the Massachusetts CBES system, for example, program participants choose only those service components (e.g., assessment, placement, initial employment supports, additional support) necessary for employment success and may select different providers for various components. Pennsylvania's drafted funding system, with its individually determined budgets, is intended to encourage service flexibility based on individual needs. States have also found a number of ways to promote consumer choice and control in RBF systems. Several states attach person-specific outcome indicators to payment of the Placement benchmark. Delaware DVR, for example, reimburses providers for the Placement benchmark only if the job placement meets criteria established by the program participant in conjunction with V.R. and the provider. Specific job match criteria include: type of jobs sought, acceptable geographic location, wage and benefit requirements, and work schedule.

**Avoid creating disincentives to serving people with more significant disabilities.** A primary liability of RBF approaches is their potential to reward service providers for serving people with lesser support needs. Providers could maximize their earnings potential by serving only the most readily employable people at the expense of serving those with more significant support needs. When designing a RBF system, it is crucial to include some mechanism to minimize this problem. A basic premise of supported employment is that it is designed to serve people with the most significant disabilities.

One solution is to set different reimbursement rates for different populations. Oklahoma's tiered payment system accomplishes this by compensating service providers at a higher rate for assisting highly challenged individuals attain each milestone than for assisting non-highly

challenged individuals attain the same milestones. Another potential solution is to include an add-on time-based reimbursement component in the funding design. Under the Massachusetts CBES system, providers receive an hourly rate supplement above and beyond benchmark payments when they provide extraordinary supports to highly challenged individuals. A third possibility is to create a single payment track but require persons with more severe disabilities account for a predetermined percentage of a provider's successful outcomes. Lastly, person-specific reimbursement rates, like those defined in Pennsylvania OVR's proposed system, have the potential to encourage providers to serve people with more significant support needs.

**Periodically review and refine the system.** It is difficult to identify and articulate program goals and to develop meaningful measures of goal attainment (Kravchuk & Schack, 1996). No measures are perfect. It is important to consider the extent to which outcome indicators are measuring what they are intended to measure (Hatry, van Houten, Plantz, & Greenway, 1996). Having some degree of flexibility in the system design will enable rapid and effective adaptation to feedback. Because inexactness is to be expected, it is important to establish a plan to evaluate and revise a system based on the experience of using that system. Indeed, a number of states have implemented RBF ideas by first creating pilot projects to study the process and improve it before attempting statewide implementation.



## CONCLUSION

By making the funding and provision of supported employment services more outcome-oriented, results-based funding

approaches have the potential to increase Vocational Rehabilitation's cost effectiveness and efficiency. By focusing attention on employment outcomes instead of the monitoring of service processes, results-based funding provides many possible benefits over fee-for-service arrangements. By emphasizing employment outcomes that are consistent with personal choice and work goals, results-based funding systems can respond to the emerging voice of people with disabilities. RBF systems that align effectively with individual empowerment through choice and control over employment services will help prepare state Vocational Rehabilitation systems, program participants, and vendors for the advent of the consumer-controlled voucher systems proposed in the Work Incentives Improvement Act of 1999. The Act under consideration incorporates a number of RBF mechanisms. Title II of the proposed legislation, the Ticket to Work, would give Social Security Administration (SSA) beneficiaries a vocational voucher to purchase their own vocational services from the vendor or vendors of their choice.

Results-based funding approaches do elicit a number of concerns. Will disincentives to serving people with more significant disabilities be created? Will attention be diverted from creative job matches and creative job development in favor of expediency? Can the most appropriate outcomes be articulated and measured? Can individual cost variations be accommodated? Will career development be impeded? States seeking to improve outcomes in supported employment but hesitant to consider a move to results-based funding because of these and other concerns are referred to the advice of Walter

Groszyk (1995), Office of Management and Budget. "Perfection is the enemy of the good. Agencies should strive to do the best they can now. To delay until an elegant design or process is put in place, or until all unknowns are explained, simply means nothing will ever happen." Experience to date with results-based funding of supported employment services indicates that many of these concerns can be effectively addressed through a careful review of the RBF examples in place and the use of a design and implementation process that balances the interests of the key stakeholders.

As discussed in this paper, there are numerous examples of results-based funding of supported employment services in place for which states have reported improved service effectiveness and cost efficiencies. There are many innovative variations on existing approaches being tested. States interested in moving to results-based funding for supported employment services have a number of examples and resources available to them. The move to more results-based approaches to funding supported employment services is consistent with the resounding call for greater accountability in government programs. The core accountability measure of supported employment is a valued employment outcome responsive to the job interests and support needs of individuals with the most significant disabilities. By emphasizing outcome criteria that focus specifically on the job stability and job satisfaction of persons served, results-based funding approaches can truly pay for success and help the supported employment program fulfill its purpose.



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