

Valuing Quality Care

Potential Cost/Benefit of Increasing Direct Care Workers' Wage Rates

Introduction

The Michigan Direct Care Worker Wage Coalition retained Great Lakes Economic Consulting (GLEC) to prepare an analysis of the potential economic cost/benefit of a permanent increase in wages for Direct Care Workers (DCWs) in Michigan. This study estimates savings associated with reduced spending on government safety-net and income-support programs for low-wage workers, as well as the potential impact of reduced employee turnover. In addition, higher wages for DCWs will stimulate the economy and increase state and local government tax collections.

Key Findings

- **A \$1 wage increase would generate an estimated \$4.8 million in additional state income tax revenue, a \$5 increase, \$24 million.**
 - Various studies have shown that phasing in a minimum wage increase between 2021 and 2025 would boost consumer spending and economic growth as the country recovers from the public health and economic crises.
- **This same \$1 increase in the hourly wage rate would reduce the turnover rate by 2.87 percentage points. This reduction would save an estimated \$5 million annually for each \$1 increase in the wage rate.**
 - Turnover among frontline workers is a critical cost driver for the behavioral health care system, affecting the fiscal health of providers, the quality of care that individuals receive, and the efficiency of resource allocation within the public payer system.
- **Raising wages for low-wage workers (defined as those in the bottom three wage deciles, who earn up to \$12.16 per hour) would unambiguously reduce net spending on public assistance, particularly among workers likely to be affected by a federal minimum-wage increase.**
 - Among workers in the bottom three wage deciles, every \$1 increase in hourly wages reduces the likelihood of receiving means-tested public assistance by 3.1% points. This means that the number of workers receiving public assistance could be reduced by 1 million people with a wage increase of just \$1.17 an hour, on average, among the lowest-paid 30% of workers.
 - Based on the estimate of 50,000 behavioral health DCWs in Michigan, 18,250 of Michigan DCWs receive public assistance. A \$1 an hour wage increase would reduce public assistance by \$3.2 million and a \$5 increase would save \$16 million.

Costs and Benefits of Wage Increase for DCWs		
	\$1 an Hour Wage Increase	\$5 an Hour Wage Increase
Costs		
Wage Increase	\$93 million	\$465 Million
Benefits		
Reduced Turnover	\$5.4 million	\$27 million
Reduced Public Assistance	\$3.2 million	\$16 million
Increased Tax Revenue		
Federal	\$17 million	\$85 million
State	\$7 million	\$35 Million
Increased Economic Activity	\$20 million	\$98 million
Total Benefits	\$52.6 million	\$261 million