



GETTING WHAT WE PAY FOR: Do Expenditures Align with Outcomes in the Child Welfare System?

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In the summer of 2005, the Assistant Secretary for Planning and Evaluation (ASPE) within the U.S. Department of Health and Human Services published an issue brief that examines “How and Why the Current Funding Structure Fails to Meet the Needs of the Child Welfare Field.”¹ The brief explains why funds available to states through the federal Title IV-E foster care program work against the stated aims of federal policy, by pointing out the burdensome nature of IV-E eligibility requirements, the wide variation in claiming practices, the emphasis on foster care, and the general lack of flexibility within the Title IV-E program, the largest of the federal funding streams allocated for foster care.

The problems with the Title IV-E program are well known.² What the issue brief does that has not been done before is to try to connect federal Title IV-E spending to child-level outcomes. This is an admirable goal. The value-for-money question is an increasingly important one as state and local governments work to better understand how their investments in services pay off in terms best measured as outcomes for children and families. The federal government ought to be involved in a similar analysis.

That said, there are several important ways the analysis in the issue brief can be improved to strengthen its contribution to the overall discussion. We outline those points in this section; in the sections that follow, we offer a more detailed assessment.

1. The ASPE issue brief relies on the Child and Family Services Review (CFSR) outcomes to link federal investments in state child welfare programs with state-level outcomes. This approach has two shortcomings.
 - a. The CFSR does not take the full measure of state performance. For example, federal policies *require* states to pursue placement prevention diligently within a reasonable-efforts framework. However, the CFSR does not measure the likelihood of placement, an outcome that would be affected by efforts to prevent placement.

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b. Even if it covered a fuller range of relevant outcomes, the CFSR outcome measures do not measure state performance. The outcomes themselves – safety and permanency, and well-being – are the right ones. The problems have to do with the way the actual measures are constructed. Simply put, the outcome measures do not measure what they purport to measure.

2. The ASPE issue brief uses what it calls an *average federal cost per child* to establish a link between outcomes and funding. However, as we will show, the summary statistic is not the average cost per child; rather the measure is closer to what might be called the *average federal cost per child year*, which provides a weak link to outcomes. The analysis would be improved if a true average cost per child was used.

3. The ASPE brief does not take the rate of federal financial participation into account. States with similar average costs per child will have different *federal* costs per child because their penetration rates differ, *even though the outcomes may be similar*. It may be hard to do so, but the variation in penetration rates is a substantial source of variation that ought to be taken into account.

4. Finally, the ASPE paper stumbles over the very subject of its critique. If states and localities successfully remove all the service inefficiencies from their child welfare systems, the results of the ASPE study would *not* change. In one sense, the results of the study suggest the system is working as originally designed. That this particular system does not work well in light of current priorities is fairly well understood.

The Choice of Outcomes

By far the most serious problem with ASPE's analysis is its reliance on the federal CFSR outcomes as indicators of state performance. States are responsible for operating and financing child welfare programs that fall on a long continuum, from maltreatment prevention to post-adoptive services. Often, the programs states operate are put in place to meet federal mandates. Yet, many of these mandates are not funded with a full federal share, and the outcomes associated with these programs are not measured with the CFSR. The outcomes do, however,

influence what one thinks about a state's overall child welfare program and how one best arrives at those conclusions.

The inherent problems that go along with using the CFSR outcomes to link federal funding and state outcomes are most readily illustrated using placement prevention. Federal and state policies *require* states to use reasonable efforts to prevent the placement of children in foster care. Although placement-prevention services are financed out of the Title IV-B program (the smaller of the two Title IV programs used to finance child welfare services), the TANF block grant, the Social Services Block Grant, and Medicaid, funds from those sources are not considered in the ASPE brief. Moreover, despite the policy emphasis on placement prevention, the CFSR does *not* measure the likelihood of placement. This omission undermines efforts to better understand how federal funding is connected to outcomes for the following reason. In states with a substantial preventive service program in place, the network of services likely influences who among the at-risk children actually enters foster care, the types of placements best suited to their needs, and how long children remain in foster care. If preventive services succeed, one might expect to observe longer average placements among the children who do enter foster care because the time needed to restore their families' capacity to raise their children is greater (i.e., the cases are more difficult). In these circumstances, one would expect to find higher average costs per child served in out-of-home care precisely because the system is allocating resources efficiently. Because the CFSR does not take state variation in placement rates into account, it is difficult to say how state variation in placement rates influences the results.

Even if the suite of CFSR outcomes was more complete, the current CFSR measures do not actually measure a state's performance, a problem that has been widely acknowledged but is not mentioned in the ASPE paper.³ In Table 1 on the next page, we summarize the major federal funding streams, the policy objective, and the corresponding CFSR outcomes. Under the Title IV-B program, it is important to remember that:

1. The federal measures *do not* measure the likelihood of maltreatment or placement.

As noted above, a central premise of federal policy is the idea that children should be safe at home. States

**TABLE 1: FEDERAL INVESTMENTS IN STATE CHILD WELFARE PROGRAMS
AND THE CORRESPONDING OUTCOMES**

Federal Funding Source	Federal Policy Objectives	Outcomes	Relevant CFSR Outcome-Yes/No
Title IV-B	Serving children at home to reduce maltreatment, prevent placement, and reduce the likelihood of reentry to care.	<ol style="list-style-type: none"> 1. Incidence of Maltreatment 2. Maltreatment recurrence 3. Incidence of Placement 4. Likelihood of reentry 	<ol style="list-style-type: none"> 1. No 2. Yes 3. No 4. Not exactly
Title IV-E	Supporting safe, appropriate, temporary care for children who cannot live at home.	<ol style="list-style-type: none"> 1. Likelihood of permanency 2. Reduce length of stay 3. Placement stability 4. Maltreatment in foster care 	<ol style="list-style-type: none"> 1. No 2. No 3. Yes 4. Yes
Other Federal Sources: Medicaid SSBG TANF SSI	Policy objectives in these program areas are broad, from income support, social services program supports, and health care.	<ol style="list-style-type: none"> 1. Well-being (Which specific outcomes are connected to these revenue sources depends on the state and program. For example, states use Social Services Block Grant for various purposes.) 	<ol style="list-style-type: none"> 1. Not exactly

expend considerable resources on prevention programs at the community level. To the extent that these primary and secondary prevention programs are effective, there is no way to use this success in the CFSR context because the CFSR does not measure either the maltreatment rate per 1,000 children or the placement rate per 1,000 children. For the states of New York, Illinois, and California, where the number of children entering foster care has dropped dramatically, there is no way to account for these changes within the context of the CFSR.

2. The federal measures *do not* measure the risk of reentry.

The CFSR measures reentry as the percentage of all children who entered foster care during the year under review who reentered foster care within 12 months of a prior foster care episode. This indicator measures the fraction of all children admitted in a given year who are returning to care, which is not a measure of risk at the individual-level. It is

also quite easy to show that as measured, the reentry rate may change simply because the number of admissions changes. Changes in reentry rates attributable to changes in admission have nothing to do with whether the *risk* of reentry is changing over time and cannot be used to say whether investments in reentry programs are paying off.

For the federal Title IV-E programs and the outcomes that most closely correspond to federal policy mandates, the following can be said about the federal CFSR outcomes:

1. The federal outcome measures *do not* measure the likelihood a child will achieve permanency.

In the best of all possible worlds, the various components of the child welfare system work together so that a child admitted to foster care is returned home, adopted, or placed with a guardian. Children served in systems that work well are more likely to achieve permanency than similar children served in other systems. A simple way to measure

the likelihood of permanency is to ask the following: For every 100 children admitted to foster care, how many leave to permanency?

At present, there is no measure within the current framework of the CFSR that evaluates how likely it is that a child will achieve permanency. Without such a measure, it is very hard to say whether federal expenditures are linked in any way to a state's ability to achieve permanency, the single most important outcome for children who enter foster care.

2. The federal outcome measures *do not* measure how long it takes on average before the typical child reaches permanency.

The children served by a given state's child welfare system may ultimately be just as likely to achieve permanency as the children served by another state, but the time needed to reach permanency may differ substantially between states. With respect to the federal outcomes, the CFSR does not measure how long it takes to achieve permanency. The CFSR does include indicators that purport to measure the timeliness of reunification and adoption, but it is readily shown that these measures are at best incomplete.

3. The federal measures *do not* take into account non-permanent exits.

Children leave foster care in a variety of ways. In broad terms, permanency exits refer to reunification with families, adoption, and guardianship. Children also leave placement because they run away, age out, or are transferred to other child-caring systems. These non-permanent exits are not accounted for in the CFSR.

4. The federal permanency measures (adoption and reunification) *cannot* be used to reliably measure change over time in state performance.

Ultimately, the goal of linking outcomes and funding is to answer the following question: How do changes in funding levels relate to changes in outcomes? If and when the ASPE analysis considers state performance over time, it will be important to remember that the CFSR measures cannot be

used to measure change over time because CFSR measures rely on children leaving care. When performance is evaluated using the experience of children who left care, as opposed to all the children who experienced placement, changes in performance can happen for many reasons (e.g., changes in the characteristics of the children being served), many of which are unrelated to system improvements. Unless these alternative explanations are addressed in a meaningful way, the link between outcomes and finance will be difficult if not impossible to establish.

Linking Outcomes to Finance

The ASPE paper acknowledges that the analysis of Title IV-E foster care spending and outcomes was a "general, simplified, broad-brush approach." In fact, the approach taken was too general. The ASPE paper uses the "federal Title IV-E claims per child" as a way of summarizing each state's federal spending on a per child basis. However, "federal Title IV-E claims *per child year*" is a more accurate way to describe the measure used. Below, we discuss the difference between the two measures and why the latter is not clearly connected to outcomes.

A model that links funding with outcomes depends first on a robust *unit cost* estimate. The potential unit cost estimates are per day or per person. The unit cost per day represents what it costs to provide one day of care. Within the child welfare system, the unit cost is often referred to as the *per diem rate*. Various cost components including labor (e.g., social worker time), overhead (e.g., building costs), and other costs that go into providing quality services are embedded in the per diem rate. The cost per person is what it costs to serve a child over their lifetime in the foster care system. The per-person cost is a function of how many units a person receives and the unit cost of those services. With respect to foster care, children spend time in foster care placements. In the aggregate, their time may be split between various types of care (e.g., foster family care, kinship foster care, group care), and each type is associated with a distinct average per diem rate. The average per-person cost reflects the mix of placement types and the average length of time children spend in foster care.

It is also important to remember that the number of children in care on a given day represents a state-spe-

cific admission/discharge equilibrium. To demonstrate this point, we used caseload data from two states to construct a simple example of basic caseload dynamics. The data tracks all admissions and discharges from care. From these data, we computed the average monthly number of children in care, the statistic used in the ASPE paper to derive the average cost per child. We also calculated the number of children admitted, the total number of children served during the year, and the ratios that relate State B to State A. These data are presented in Table 2.

TABLE 2: UTILIZATION OF FOSTER CARE IN TWO STATES

	State A	State B	Ratio
Average Monthly Caseload	24,387	4,532	5.4
Admissions	6,775	5,272	1.3
Children Served in Foster Care	32,850	9,697	3.4

The first row of Table 2 shows the average monthly caseload in each of the two sample states, the figure used in the ASPE study. In this example, the average number of children counted in foster care in State A stands at roughly 24,000, almost 20,000 more than in State B, a ratio of 5.4 children to 1. The number of admissions in each state appears in the second row. In the case of admissions, the disparity between the two states is much, much smaller. State B brought slightly more than 5,000 children into state care; the comparable figure in State A was 6,775, with a ratio of 1.3 to 1.

How are these calculations related to the cost/outcome analysis in the ASPE paper? Table 3 below replicates the information in Table 2. To this basic information, we have added the total number of days provided, the average number of days used by each child served, and the federal share of the per diem rate. As noted, the per diem rate is how much it costs to provide one day of care; the federal share refers to the portion of the per diem rate that is reimbursed by the federal govern-

ment.⁴ For illustration purposes, the federal share of the states' daily rate is assumed to be equal. With these data, we are able to generate a federal board and maintenance claim in the aggregate. Finally, using the aggregate claim, we demonstrate how the average federal per child claim depends on whether one uses the average monthly caseload or the total number of children served.

TABLE 3: AVERAGE FEDERAL COST PER CHILD

Children in Care and Costs	State A	State B
Average monthly caseload	24,387	4,532
Admissions to foster care	6,775	5,272
Children served in foster care	32,850	9,697
Average days per child served*	270	172
Total days used	8,862,907	1,668,425
Average cost per day-federal share	\$10	\$10
Total federal claim	\$88,629,070	\$16,684,250
Average federal cost per average monthly children in care	\$3,634.28	\$3,681.43
Average federal cost per child served	\$2,697.99	\$1,720.56

*Refers to the average number of days used in the year rather than the average length of stay per child.

The data show that in two states with vastly different outcomes (i.e., length of stay) but equal per diem rates, the average federal claim per child (using the ASPE definition) fails to detect the underlying difference in outcomes. In State A, where the average days used in a given year per child exceeds days used in State B by over 50 percent, the average federal cost per child is basically the same, given rounding error, in the underlying calculation. The result derives from the fact that an average per-child claim based on the average monthly census produces an average claim *per child year* rather than the average claim *per child*.⁵ The expected results—higher costs per child driven by poorer outcomes—are more readily observed when the total

number of children served is used to calculate an average cost per child. In short, the average cost per child year, the metric used in the ASPE analysis, does not connect outcomes to funding in a way that is necessarily sensitive to differences in the underlying outcomes.

The Impact of Federal Match Rates

The data in Table 3 indicate that the average federal per child claim is not tied closely to outcomes if it is measured using the average monthly caseload. The data also suggest that a state’s total federal board and maintenance claim is sensitive to other factors, including the unit cost of the services provided and the rate of federal reimbursement. These dynamics are described below.

The average unit cost of one day of placement varies from state to state because states reimburse their foster care providers different amounts. Per-child cost differences are also present because the mix of group care and foster care differs between states.⁶ From a cost-sharing perspective, there are also unit cost differences that are connected to the average rate of federal reimbursement. The Title IV-E program authorizes federal payments to states to help cover the cost of providing out-of-home care to children who cannot remain safely in their own homes. How much revenue states receive from the federal government depends on a host of factors, including the state’s FMAP and its penetration rate. The *FMAP* refers to the state’s Medicaid reimbursement rate, which is used to determine the share of each state claim that will be paid by the federal government. The *penetration rate* is a function of eligibility and cost reimbursability. Eligible children are children from families with incomes below the 1996 AFDC income standard. Finally, the Title IV-E program reimburses states for some costs and not others. The extent to which states claim reimbursement for services provided to eligible children also varies considerably by state. When all is said and done, two states with identical per diem rates but different rates of federal participation will have very different federal per day and per child costs.

To illustrate this point, we constructed the average federal cost per child from the ground up. In Table 4, we compare two states with the same number of children in their respective foster care populations. The states are similar with respect to the number of admissions,

the average length of stay, and the average cost per day. The only difference between the states has to do with the rate of federal participation. The state in column A has a net penetration rate of 25 percent; the state in column B has a net penetration rate of 30 percent.

TABLE 4: EFFECT OF FEDERAL REIMBURSEMENT RATES ON THE AVERAGE FEDERAL COST PER CHILD

	A. Lower Federal Rate	B. Higher Federal Rate
Count of children in care at year start	7,000	7,000
Admissions during the year	3,000	3,000
Total days claimed	2,550,000	2,550,000
Ave. days per child in care	300	300
Ave. days per admission	150	150
Total days for children in care	2,100,000	2,100,000
Total days for admissions	450,000	450,000
Gross cost per day	\$45	\$45
Dollars claimed, total	\$114,750,000	\$114,750,000
Federal share	25%	30%
Federal claim	\$28,687,500	\$34,425,000
Ave. federal cost per child	\$2,869	\$3,443
Ave. federal cost per day	\$11	\$14

As expected, the state with the higher penetration rate has a higher average federal cost per child and a higher average federal cost per day, though the total cost figures are identical; the federal government is simply picking up more of the tab in one state than in the other. The difference in the average federal cost per child has nothing to do with outcomes, since in each state how long children stay in foster care is equivalent.

Structural Dynamics – Rowing Against the Tide

The ASPE paper outlines the inherent weaknesses of a cost-sharing system tied to a per diem rate. When service modalities (i.e., family- and community-based interventions) shift away from the services that are supported through the existing financing structure (i.e., foster care), the system limits the ability to shift funds and deploy the new service modalities. The tension created when service choices change more rapidly than the categories of reimbursable service types is a fundamental and widely recognized problem for the child welfare system in the U.S. Until this underlying tension is resolved, state and federal governments are left with a system that generates a counterproductive link between outcomes and revenue.

In Table 5, we use the template developed earlier to reinforce the idea that relatively poor performance will be linked to a higher average federal cost per child, even after child welfare systems have reduced their present inefficiencies. Again, our example is based on two states. Each state has the same number of children in care at the start of the fiscal year. However, in State B, the length of stay is longer. Among other things, this means that the population equilibrium is sustained with fewer admissions. The cost per day is the same as is the federal share. In other words, the only attribute that distinguishes the two states has to do with fact the in State B the average time to discharge is longer than it is in State A.

This simple simulation shows that the average federal cost per child is greater in the state that has poorer outcomes because there are more days of care provided. The system is designed to work this way because the goal of the reimbursement system is to share the cost of foster care with the federal government. The overarching conclusion to be reached is that under any scenario that projects substantial improvement in outcomes for children, the relationship between outcomes and the average federal cost per child will stay largely the same: in states with poorer outcomes, average federal spending will be greater. The ASPE paper alludes to these structural problems with the current system, but the discussion implies that other outcomes are possible but for the inability of states to operate more efficient child welfare programs. Unfortunately, the extent to which poor outcomes are

related to higher average federal costs is an indicator that the system is working the way it was designed to work years ago. That this system does not work well when fiscal policy shifts from purchasing services to improving outcomes should come as no real surprise.

TABLE 5: OUTCOMES IN RELATION TO THE AVERAGE FEDERAL COST PER CHILD

	State A	State B
Count of children in care at year start	7,000	7,000
Admissions during the year	3,000	2,250
Total days claimed	2,435,000	2,517,273
Ave. days per child in care	275	300
Ave. days per admission	170	185
Total days for children in care	1,925,000	2,100,000
Total days for admissions	510,000	417,273
Gross cost per day	\$45	\$45
Dollars claimed, total	\$109,575,000	\$113,277,273
Federal share	25%	25%
Federal claim	\$27,393,750	\$28,319,318
Ave. federal cost per child	\$2,739	\$3,062
Ave. federal cost per day	\$11	\$11

Conclusion

As pointed out in the ASPE brief, connecting outcomes to finance at the federal level is at best a difficult undertaking. There are strong structural impediments that affect whether federal spending will ever align with outcomes in a more productive manner, given the rules that now govern how Title IV-E works from a fiscal perspective. In short, the system in place today is a product of priorities that date back to an earlier period when the goal of federal financial participation was to improve access to services. Priorities have since changed. Today, the emphasis at all levels of government is centered on improving outcomes. It is no surprise that a system

designed with one goal in mind does not work as well when the goal changes.

Because the tension created within a system that prefers to work with children in the context of family and community yet pays for foster care most easily will not go away, a dialogue that connects outcomes to finance is an important one. The simple assessment offered here suggests that the dialogue ought to proceed carefully. The set of outcomes has to be expanded beyond what is currently available in the context of the CFSR. If nothing else, the simple omission of outcomes that relate to the rate of maltreatment and the rate of placement means that the CFSR is too narrow for such purposes. Investments in families and communities that are designed to keep children safe at home have to be evaluated for their return on investment using lower maltreatment rates and lower placement rates as measures. In turn, what lower maltreatment and placement rates mean for what it costs to serve the children who do enter foster care has to be taken into account.

We note that the analysis presented here focuses on the board and maintenance portion of the federal Title IV-E claim. The analysis highlights how the structure of the IV-E system obscures what we can learn from a seemingly straightforward analysis of aggregate claims. Briefly, the analysis points to the fact that in a smoothly operating child welfare system, one might reasonably expect higher per capita federal claims *because* the system is working well. *We do not* want to suggest that the state systems are, in fact, working as well as one would hope or that there is no room for improvement. Rather, the goal is to point out that a higher cost per child in the context of an efficient system is not outside the realm of possibility, given the way the current IV-E system works.⁷ Credible alternative explanations have to be teased out of the data before conclusions are reached. There is much more work to be done before anyone understands how federal spending influences child outcomes.

Finally we want to point out that the components of the federal IV-E claim should be disaggregated and analyzed separately. For example, investments in training should be assessed relative to their impact on workforce quality. Training ought to produce a better workforce and a more capable workforce ought to produce better

outcomes. Again, the underlying logic of the expectations is not the issue. The question is how the work of qualified workers influences the use of foster care and the average cost per child. Without carefully untangling the effects, constructing links between what we spend on child welfare services and what we get in return will be more difficult than it needs to be.

Notes

1. U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation. (2005). *Federal Foster Care Financing: How and Why the Current Funding Structure Fails to Meet the Needs of the Child Welfare Field*. Author: Washington, D.C.
2. See, for example, Pew Commission on Foster Care. (2004). *Fostering the Future: Safety, Permanence, and Well-Being for Children in Foster Care*. Washington, DC: Pew Commission on Foster Care.
3. APHSA and several states have pointed out these problems in their work with the Children's Bureau on the CFSR over the last several years. We are aware of one published paper that documents the problems in detail: "Unintended Consequences of the Push for Accountability: The Case of National Child Welfare Performance Standards," by Mark Courtney, Barbara Needell, and Fred Wulczyn December 2004. *Children and Youth Services Review* (Volume 26, Issue 12).
4. Technically, the federal share applies only to children who are eligible for federal payments. However, in this example, we are treating the federal penetration rate as a weighted average rate that considers total federal payments for board and maintenance as a fraction of total payments for all foster children.
5. Dividing the total federal claim by the average monthly caseload yields 363 average days per child in State A and 368 days per child in State B. The calculation treats the number of children in care on average as though each child was in care for the entire year. Thus, the figure used in the ASPE paper is more accurately described as the average federal claim per child year.
6. One could argue that placement setting is an important outcome given federal policies that favor family-like settings. However, this is another way in which the CFSR does not relate to the full range of outcomes. In the context of average costs, states that use more group care would have higher costs and higher federal claims, all else being equal.
7. One implication worth noting here is that in a system that becomes more efficient over time, the cost per child may well rise, depending on how utilization patterns change relative to the historical baseline.