How to Stop the ‘Dues Skim’ of Federal Home Health Care and Child Care Funding

By Sam Adolphsen

Introduction

United States taxpayers currently spend $545 billion annually on the federal government’s Medicaid program.¹ This money is meant to aid the disabled and vulnerable and to support low-income families. However, millions of these dollars are being redirected before they ever reach the people they are meant to support.

About $41.5 billion of Medicaid funds are sent to states through the Home and Community-Based Services “waiver” program.² This waiver allows those eligible for Medicaid — individuals suffering from a disability, illness or other affliction — to use these funds to pay for in-home care, as opposed to enrolling in an institution. These in-home services are often provided by family members or friends, or other local, independent providers. Medicaid payments are sent directly to these providers on behalf of their Medicaid-eligible “client.”

In many states, unfortunately, a portion of these payments are redirected and never reach these caregivers. This is because one of the largest government employee unions in the country — the Service Employees International Union — has arranged for states to deduct “union dues” out of these payments and remit them directly to the SEIU. It is not clear what benefit the SEIU or its affiliates provide Medicaid patients or those who care for them in exchange for these union dues.

A similar arrangement exists concerning the $11.4 billion of state and federal funds spent through the Child Care and Development Fund and Temporary Assistance for Needy Families programs.³ These programs are meant to help low-income families afford child care. But government employee unions take a portion of the payments sent to child care providers whose clients are eligible for these programs. Most of these day care providers are independent contractors, offering services out of their own homes.

These arrangements result in the misuse of millions of dollars annually that is meant to provide assistance to disabled individuals and low-income families.

Fortunately, the loopholes that have been exploited to carry out these inappropriate diversions of federal funding can be closed. The U.S. Department of Health and Human Services can modify administrative rules so that Medicaid and other government funds are used appropriately and benefit the people who actually need them.
Overview of Medicaid Waivers

The federal Medicaid program is meant to provide services and support for the neediest people in the United States — the poor, disabled, ill and elderly. Funded by tax dollars through state funds and Federal Financial Participation matching funds, the program has grown dramatically in recent years, in cost, participation and complexity. In fact, Medicaid costs increased by about 10 percent in 2015 and another 6 percent in 2016.4

Medicaid pays for critical services for many Americans. Medicaid waivers allow disabled individuals to receive care in their own homes or community, if they so choose, and avoid enrolling in an institution — a much more costly option. Waivers are provided through the Home and Community-Based Services program. Most of the time, these in-home services are provided by family members or friends who care for patients in their homes and then are paid by Medicaid. Almost one million individuals received care through HCBS waivers in 2009.5

The HCBS waiver “waives” standard Medicaid rules that require a person to be in a certain medical setting to receive matching funds from the federal government. For a state to receive such a waiver, it must be cost neutral, ensure that the client has a choice and ensure that the in-home care is of sufficient quality. This process is authorized through the Social Security Act.5

Overview of ‘Dues Skim’

But not all of these Medicaid funds are reaching their intended recipients. Instead, the Service Employees International Union is skimming off a portion of these funds as “union dues.” This “dues skim” redirects to the SEIU and its affiliates an estimated $200 million annually from Medicaid funds meant to assist low-income, disabled, ill and elderly patients and their providers. An estimated 500,000 providers are affected, the majority of whom are family and friends caring for loved ones.7

This affects Medicaid recipients all across the country. There are confirmed cases in the Northeast in Vermont, Massachusetts, Connecticut and Maryland, and in the Midwest in Illinois and Minnesota, and on the West Coast in California, Oregon and Washington.8

It is not clear how these providers, most of whom are providing services to their family members in their own homes, qualify as unionized employees. They operate independently and work for themselves — they have no “employer” for the union to bargain with on their behalf. It appears that states have allowed the SEIU to unionize these providers and operate this dues skim simply because these providers receive Medicaid payments. This is problematic and suggests that anyone receiving government aid, such as SNAP payments, housing subsidies, Pell grants, WIC vouchers and more, could be subject to unionization and forced to surrender some of their benefit to a government employee union.

Many of the caregivers of Medicaid-eligible patients are unaware that they are SEIU union members. This is likely because many state governments act as a pass-through for these Medicaid payments and automatically deducts dues and remit these to the SEIU and its affiliates. Often the process for certifying the union as the exclusive bargaining representative for these caregivers is done by mail, which makes it difficult to measure how many of these independent providers actually supported becoming unionized.

The Haynes’ Story

A prime example of the unfairness of this practice is the story from Michigan concerning Robert and Patricia Haynes. Robert is a retired Detroit police officer and he and Patricia take care of their two adult children who both have cerebral palsy. Since their children qualify for Medicaid benefits, the state sends them a modest stipend each month to help cover the costs of the in-home care they provide.9

But in 2005 the Haynes were unknowingly forced into becoming SEIU “members.” The SEIU was certified as
their bargaining representative even though only about 20 percent of election ballots were returned through the mail. Subsequently, the state automatically deducted $30 a month from the Haynes’ Medicaid stipend and sent that money to the SEIU instead.¹⁰

Robert Haynes himself highlighted the injustice of the situation: “We’re not even home health care workers. We’re just parents taking care of our kids. ... They are basically like six-month-olds in adult bodies. They need to be fed and they wear diapers. We could sure use that $30 a month that’s being sent to the union.”¹¹

The state of Michigan eventually put an end to this dues skim, but Mackinac Center analysts estimated that the SEIU diverted a total of $34 million in payments designated for Medicaid recipients.¹²

**Harris v. Quinn Case and Lingering Problems**

This issue came to the national forefront in a U.S. Supreme Court case in 2014. The Court ruled in *Harris v. Quinn* that it was unlawful for the state of Illinois to force home health care workers to financially support a labor organization like the SEIU.¹³

Despite this ruling, the court did not disallow Medicaid funds from being funneled to unions through other means, and similar dues skims are still active across the country.

A recent case in Minnesota involving home health care providers highlights the problems that still remain with these arrangements.

In 2014 the SEIU organized almost 30,000 home health care providers in Minnesota with only 3,543, 13 percent, voting in favor of unionization.¹⁴ Because of the *Harris v. Quinn* ruling, the union could not force all home health care providers to pay dues or fees. For those that did not opt out of the union’s representation, 3 percent of their Medicaid payments, which could add up to almost $1,000 a year, were deducted and redirected to the SEIU affiliate in Minnesota.¹⁵

But some of these providers allege that they were having dues deducting from their Medicaid payments without their authorization. Patricia Johansen, from Fergus Falls, Minn., told the Washington Examiner it took her four months to realize the SEIU was taking money from the Medicaid subsidies she receives for providing in-home care for her two disabled grandchildren. When she asked the union about this, they claimed they had her signature of approval on file. After examining the signature, Johansen maintains that it is not her signature and must have been forged. It appears to be written by a right-handed person, Johansen claims, and she is left-handed.¹⁶

**Why HHS Should End the ‘Dues Skim’**

There are several reasons why it is important to stop these practices and ensure that all federal and state Medicaid funds are used to benefit their intended recipients.

1) Skimming funds directly from Medicaid payments takes resources from a fixed pot of money that is meant to help the disabled

No matter how unions, or any other association or group finds a way to redirect Medicaid funds, it is taking resources away from Medicaid’s intended beneficiaries. The home health care provider is paid this stipend for one reason: to care for the disabled. To have funds be redirected to a group that does not provide federally approved Medicaid services is wasteful.

Unions who have organized home health care workers do not appear to provide benefits to the Medicaid program or to the “members” they supposedly represent. There is no “employer” to bargain with for better working conditions, since the vast majority of these individuals work for themselves out of their own homes. There is no union contract to negotiate. And most importantly, these unions do not seem to be providing direct benefits to the individuals who qualify for Medicaid subsidies as a result of their disabilities.
2) Redirecting Medicaid payments for union dues contributes to the home health care worker shortage

There is a nationwide shortage of home health care workers that has reached a “crisis” level, according to many reports. In Minnesota, New York and Rhode Island, there is such a shortage of workers that many families are turning back to more costly institutions to care for their loved ones. In most cases, low pay is cited as the reason for this shortage.

Many of the family members and friends who provide in-home health care to Medicaid-eligible individuals make significant sacrifices, including financial ones, to do so. When a portion of the modest stipend they receive is skimmed off and redirected to a union, it makes it more difficult for these providers to offer this care. If fewer of these providers can offer this care, it could lead to an increase in institutional care, which is more costly for taxpayers and less favorable for Medicaid-eligible individuals.

By ending these dues skims, home health care providers will get an instant raise in their pay, with no additional cost to state or federal budgets. This would be one piece of a larger solution to help promote adequate access to service providers for the disabled and needy going forward.

3) Paying union dues with Medicaid money redirects these funds from their intended purpose

Home and Community-Based Services waivers do not allow federal Medicaid payments to be used to pay for “room and board” or “educational, or supported employment services,” outside of a few narrow exceptions. Why then should federal and state Medicaid funds be used to pay the salaries of union officials? If the federal code disallows funds meant for the disabled and needy to go to something as basic as room and board and educational services, the funds certainly shouldn’t be allowed to support a third party that does not provide direct services to Medicaid recipients. The funding for the HCBS program is meant for the narrow purpose of providing in-home health care that ensures that an individual can avoid the more costly institutional setting and get the care they need right from the convenience of their own home or community. This narrow purpose should prohibit redirecting these funds for union purposes.

Federal law pertaining to Social Security is also clear that the secretary must not grant waivers to states unless states can assure “financial accountability for funds expended with respect to such services.” Allowing federal funds to flow directly from Medicaid to labor organizations does not seem to meet this requirement.

Overview of Child Care Dues Skim

These dues skim arrangements are unfortunately not contained to home health care providers. Another federally funded service meant to support low-income families has been targeted by unions as well.

In-home day care providers, who primarily take care of young children while their parents work, receive federal and state subsidies on behalf of the low-income families they serve. Just like home health care providers, they have been subject to unionization drives and have had a portion of their government payments automatically deducted as union dues. In Michigan, daycare providers were losing $3.7 million a year in “forced dues.”

Estimates suggest that there may be as many as 100,000 daycare providers in 12 states who are having dues skimmed off the top of their government payments. This could represent up to $50 million in annual payments that are meant to support low-income families that are instead being sent to unions.

Federal Funding of Child Care

There are two primary sources of federal funding for the provision of child care. The first is the Child Care and Development Fund, which is distributed to states
via block grants and amounts to more than $5 billion in federal funding each year. The second significant source of funds that is used for child care is the Temporary Assistance for Needy Families block grant. Along with directly funding child care through the TANF program, states are also allowed to transfer up to 30 percent of their TANF funds to CCDF. In 2014, states spent a total of $2.6 billion in federal TANF funds on child care services, either directly or through transfers. Like Medicaid, these funds are meant for limited and specifically defined purposes. Paying union dues is not one of these. If in-home day care providers want to unionize and pay dues, they should do so with their own income, not the money meant to support low-income families’ access to child care.

**How the Trump Administration Can End the Home Health Care ‘Dues Skim’ Immediately**

1) Issue letter clarifying that deducting union dues from Medicaid payments is an inappropriate use of funds

HHS Secretary Tom Price could issue a letter to each state that explicitly states that to qualify as a home and community-based setting eligible to receive payment under an HCBS waiver, the full Medicaid payment must be paid to the provider of services with no deductions. States that do not comply would jeopardize their HCBS waiver status in accordance with 42 CFR 441.301(c)(4).

The U.S. Code of Federal Regulations states, “Unless the Medicaid agency provides the following satisfactory assurances to [the Centers for Medicare & Medicaid Services], CMS will not grant a waiver under this subpart and may terminate a waiver already granted.”

Specifically, it says that states must provide “assurance that services are provided in home and community-based settings, as specified in section 441.301(c)(4) of the Code of Federal Regulations.” This section defines what is allowable as a home and community-based setting, such as one that “ensures an individual’s rights of privacy, dignity and respect, and freedom from coercion and restraint” and one that “facilitates individual choice regarding services and supports, and who provides them.”

The secretary of HHS has the discretion to determine the acceptable definition of an allowable home and community-based setting. Section 42 CFR 441.710 states: “Home and community-based settings must have all of the following qualities, and such other qualities as the Secretary determines to be appropriate, based on the needs of the individual” (emphasis added).

Using these rules, the secretary could determine that to qualify as an appropriate setting states must have the full amount of Medicaid funds transferred directly to the provider assisting the patient, with no deductions to third parties allowed. This is in line with the spirit of “cost neutrality” that must be maintained in waiver services, because it ensures funds are maximized for the client.

This action would preclude any funds meant for home health care services going directly to any organization, association or individual who is not the service provider.

This would not prevent home health care providers from unionizing or paying union dues, if they so choose. If a provider chooses to pay dues to a union, they must do so out of their own pocket (after they have received the full Medicaid stipend). This would ensure that only the home health care providers who find value in paying union dues would have to do so.

2) Adopt new rules that explicitly ban the use of Medicaid funds for union dues or fees

Since federal Medicaid funds are meant for the truly needy, they should not be transferred to unions or any other third party that does not provide services
directly to the Medicaid-eligible individual. The Federal Financial Participation element of the HCBS program, the match portion of Medicaid paid by the federal government, should be reserved for the patients and providers who care for them.

There is precedent in current rules to restrict the use of these funds. For instance, there are so-called “limits on Federal financial participation,” that describe what cannot be paid for with federal funds under the HCBS waiver. Under these current rules, for example, HCBS funds may not be used to pay for room and board or educational services.

New rules could be created in this section that make FFP unavailable for “any costs incurred as a result of the provider joining an association, union, or other group that does not directly assist in administering services to the client.”

The federal government will ensure that this rule is adhered to by denying waiver requests that do not demonstrate compliance and by rejecting requests for FFP where a state is out of alignment with the rule.

**How to Stop the Child Care Provider Dues Skim**

Child care is a significant area of need in the U.S., especially for low-income individuals and families. Day care providers who serve these families should not have their limited compensation diverted to pay for union dues.

To stop the dues skim of child care funds, current CCDF and TANF rules should be amended. Similar to the home health care rules, new rules would explicitly forbid any portion of these funds from being deducted or diverted before they reach their intended recipient.

**Child Care and Development Funds**

To stop the seizure of CCDF funds taken from child care payments, the secretary of HHS should promulgate a rule to amend regulations and disallow the use of these funds for union dues prior to the payment having reached the provider.

This can be done by making an addition to the rules that restrict the use of CCDF funds. These rules already prohibit the use of these funds for certain purposes, such as construction, school tuition and for any sectarian purpose.

The secretary can add a rule to this section that names “union dues or association fees” in the list of items disallowed to receive CCDF funding. It might look something like the following:

(f) Union Dues or Association Fees. The CCDF may not be used as a funding source for union dues or association fees.

Of course, a child care provider, after they receive their payment of CCDF funds for providing services to an eligible client, may freely choose to join a union and pay dues. This new rule would simply restrict the use of those payments from being made prior to the full subsidy reaching the child care provider.

**Temporary Assistance for Needy Families**

TANF funds, which are given to states in the form of a block grant, are very flexible. It is made clear in the rules guiding the use of these funds, however, that TANF funds must be used to serve one of the following purposes:

(a) Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;

(b) End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;

(c) Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and

(d) Encourage the formation and maintenance of two-parent families.
Any use of funds that violate this section of rules is considered to be a “misuse of funds.”

To ensure that TANF funds are not used to pay union dues or association fees, the secretary can insert additional language (at 45 CFR § 263.11), such as the following:

(c) States may not use TANF funds for payment of union dues or association fees.

In addition, the secretary can also amend part (b) of these rules to say, “We will consider use of funds in violation of paragraph (a) and paragraph (c) of this section ... to be misuse of funds” (emphasis added).

This would restrict states or other third parties from deducting any amount from TANF payments.

Conclusion
Across the country, millions of dollars are being taken from providers of home health care services for the disabled and from day care providers serving low-income families. These dollars are being diverted to fund union organizations. This diversion of federal funds meant for the sick, needy and children from low-income backgrounds should be explicitly barred by the federal government.

Thousands of friends and family members caring for their relatives in their homes are having their limited paycheck reduced even further, often without their knowledge. The same is true for day care providers across the country. These arrangements should be put to a stop.

The Department of Health and Human Services can stop this practice immediately by clarifying and amending existing rules. Federal rules already limit the use of these funds, so these rule changes amount to little more than just adding restrictions to the use of these funds. This rulemaking will safeguard each taxpayer dollar meant for these vulnerable populations and guarantee that it reaches the recipient to whom it is intended and pay for the services it is intended to provide.
Endnotes

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21 Estimate constructed by Maxford Nelson, director of labor policy, Freedom Foundation, based on a limited amount of publicly available data.
24 42 C.F.R. § 441.302.
25 42 C.F.R. § 441.302(a)(5).
26 42 C.F.R. § 441.301(4).
27 42 C.F.R. § 441.710(a)(1).
28 For more information, see: “Cost Neutrality” (Centers for Medicare & Medicaid Services), https://perma.cc/JL8P-VZBM.
29 42 C.F.R. § 441.310.
30 42 C.F.R. § 441.310(2), (3).
31 This new rule would be (5) under 42 C.F.R. § 441.310.
32 45 C.F.R. § 98.56.
33 45 C.F.R. § 98.56(b),(c),(d).
34 45 C.F.R. § 260.20.
35 45 C.F.R. § 263.11(b).
36 Ibid.
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