



# Nonprofit Wage Ghettos *and* What We Should Do about Them

by Ruth McCambridge

Paying workers an unlivable wage is an unacceptable—and unsustainable—enterprise model. Radical changes at both the policy and organizational levels are necessary if we are to achieve economic equality and a safe and healthy work environment for all.

IN SPRING 2016, IN RESPONSE TO NONPROFIT CONCERNS about the United States Department of Labor's new overtime provisions, Andy Schmidt, a labor lawyer, suggested in an article published by the *Nonprofit Quarterly* that if a nonprofit was basing its business model on abusive compensation models, then perhaps it needed to reexamine and recast its model.<sup>1</sup>

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This article followed a bizarre declaration by the “progressive” U.S. Public Interest Research Group (PIRG) that paying overtime to its workforce was unfair to its workers. In this moment of unappealing organizational self-involvement, U.S. PIRG's executive director Andre Delattre went on record saying:

Organizations like ours rely on small donations from individuals to pay the bills. We can't expect those individuals to double

the amount they donate. Rather, to cover higher staffing costs forced upon us under the rule, **we will be forced to hire fewer staff and limit the hours those staff can work—all while the well-funded special interests that we're up against will simply spend more.**<sup>2</sup> (Emphasis theirs.)

As if that weren't enough of a head-scratching moment, PIRG had yet more to say on behalf of low-paid workers:

The logic of the rule, as applied to non-profit, cause-oriented organizations, makes no sense. A person of means—in service of a cause to which they feel deeply committed—can volunteer to work for our organization for free for as many hours as they wish, but a person of lesser means—who is no less committed to the work we do—cannot agree to work for our organization for less than \$47,476 without having their work hours strictly limited in order to keep our costs affordable. This raises First Amendment concerns.<sup>3</sup>

In his NPQ write-up of the situation, Jon Pratt, executive director of the Minnesota Council of Nonprofits, termed this a special brand of chutzpah;<sup>4</sup> but as you will read here, U.S. PIRG is hardly alone in attempting to reframe the perpetuation of substandard pay as a necessity in nonprofit-land.

Indeed, some nonprofits appear to have an unending supply of rationalizations for creating wage ghettos among frontline and direct care workers. Primary among them, however, has been the “Impossible!” defense. This assumes that all things other than wages or overtime requirements stay the same, and that faced with the constrictions of low reimbursement rates and a sometimes disintegrating workforce damaged by being traditionally underpaid, there is just no way to provide a living wage and reasonable working conditions. It also assumes that to try to do so would harm the client. This exhibits not only a lack of vision and commitment to social change but also a misunderstanding of what is needed to build a sustainable and qualified workforce.

Advocating for expansion of necessary services without advocating for a living wage for

the workforce needed for such an expansion, therefore, becomes purposeful neglect of a well-studied inequity. This is inexcusable and entirely counterproductive, in that it does not cleave to the value set that distinguishes nonprofits in the highly sensitive and growing fields in which wage poverty is almost a given.

Most infuriating in all of this is that the workforces they are so carelessly sentencing to working poverty consist predominantly of women, and, largely, women of color—making this an issue of racial and gender justice.

### Expanding Nonprofit Wage Ghettos

There are whole fields of nonprofit endeavor that, as currently structured, are dependent on paying below a living wage. These include early child care, personal care, and home care (the latter two caring for people with disabilities and seniors, respectively). All deal with the well-being of vulnerable populations, and all are expected to expand as the population ages and more states adopt wage expansion early (as they already are doing) in response to nonprofit advocacy.

A recent report on the expansion of early childhood education makes the point that expanding child care as now structured is at the expense of the poorly paid women who do the work. “A major goal of early childhood services has been to relieve poverty among children, yet many of these same efforts continue to generate poverty in the predominantly female, ethnically and racially diverse ECE work force,” the report states.<sup>5</sup>

According to “Who Profits from Low Wages,” a recent article by City Limits, the spending on adult home healthcare more than doubled between 2000 and 2012;<sup>6</sup> and, according to the National Employment Law Project’s report *Giving Caregivers a Raise: The Impact of a \$15 Wage Floor in the Home Care Industry*, the number of home care jobs in the United States is expected to grow at five times the rate of any other job in the country through 2022.<sup>7</sup> By the end of that period, the country will need one million additional aides in that field—workers who, in 2013, averaged wages of \$18,598 annually against average wage earnings of \$46,440 for all salaried employees. Many of these workers—as was the

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case with Walmart employees—will have to make use of public benefits to survive, and many of them work for nonprofits. When adjusted for inflation, their wages have decreased by almost 6 percent since 2004, even while the organizations have expanded and CEO salaries increase.

“Who Profits from Low Wages” relates the tale of Maria (no last name given), a 62-year-old home health aide making \$10 an hour working for the Ridgewood Bushwick Senior Citizen’s Council.<sup>8</sup> The executive director of that agency was forced to resign in 2012 upon the conclusion of a fraud investigation. Her compensation was \$667,063 in 2009, the year before the fraud investigation was launched, and when she resigned, three years later, she received severance pay of \$206,250. Meanwhile, the article reports, when the agency’s government grants were temporarily frozen, Maria’s benefits were cut and then eliminated completely when she went into partial retirement. She still has to work thirty-five to forty hours a month to bring home the \$23,000 a year that she made before retirement.

Studies among home healthcare aides have revealed turnover rates of 44 to 65 percent. Those extraordinarily high rates not only affect quality and continuity of care but also cost the “industry” \$6.4 billion a year.<sup>9</sup> The lack of respect for caretaker and companion positions is long-standing, with the workforce having lacked important basic labor protections like minimum wage and overtime regulations until just recently.

### **New Competition and the Crisis/Opportunity Position of Nonprofits in These Fields**

Nonprofits in direct and early child care are in a highly competitive environment. For-profit corporations were once banned from the direct care market, but since 1980 they have been allowed to participate. After a rapid growth spurt, for-profits also now comprise more than half of all home healthcare agencies.

But all things are not equal, particularly when a profit motive is (or is not) at play. From the comparative studies that have been done between the nonprofit and for-profit organizations functioning in this field (and the related fields of nursing homes and hospices), it appears that

nonprofits not only charge taxpayers significantly less but also provide higher-quality service than for-profits.<sup>10</sup> These findings have caused some to question whether or not for-profit agencies should be eligible for Medicaid payments for home-based direct care:

“For-profit home care agencies are bleeding Medicare; they raise costs by \$3.3 billion each year and lower the quality of care for frail seniors,” said Dr. Steffie Woolhandler, a professor at the City University of New York’s School of Public Health. “Letting for-profit companies into Medicare was a huge mistake that Congress needs to correct.”<sup>11</sup>

For some, the bottom-line purpose of corporations—whose primary objective is reaping a profit—participating in the direct care market is antithetical to running endeavors that require a strong ongoing investment in service quality that is largely dependent on the availability and quality of a stable workforce. As one study acknowledges:

Privatization creates vast opportunities for powerful firms, and also redistributes income among health workers. Pay scales are relatively flat in government and not-for-profit health institutions; pay differences between the CEO and a housekeeper are perhaps 20:1. In US corporations, a ratio of 180:1 is average. In effect, privatization takes money from the pockets of low-wage, mostly female health workers and gives it to investors and highly paid managers.<sup>12</sup>

But assuming that for-profits are not going to be excluded from operating in these fields, and assuming that nonprofits do not want to abandon the fields to profit-minded organizations that will charge the government more for lesser-quality services, what are nonprofits to do? Try to act more like those lesser competitors, or build on the distinctions that make this sector a better home for providers and clients—and also, and not coincidentally, for their workers?

## There Must Be a Better Way

Over the last few years, we have begun to see an expansion of pockets of commitment to wage justice among nonprofit groups, like the #15andFunding initiative, in New York, spearheaded by the Human Services Coalition, the Federation of Protestant Welfare Agencies, and the Fiscal Policy Institute. These have sometimes been aided by government action on the same issues. In New York, the state enacted a \$15 minimum wage plan last year—but for this to work, higher reimbursements from the city and state of New York would be needed to cover the increases.

According to Allison Sesso, executive director of the Human Services Council (HSC), the push required the organizations to step out and take a stand, backing progressive wage policies for a large and growing workforce.<sup>13</sup> The group's three-point goal was to raise the minimum wage to \$15 per hour for all workers in New York State; ensure that employees at nonprofits are covered by the minimum wage increase; and amend state and local government human services contracts to fund the wage increase.<sup>14</sup>

But there were multiple progressive policies being advanced at the same time. "There are many new policies aimed at low income workers; in New York State we passed a \$15 minimum wage, nationally there are new regulations on overtime pay, and paid sick leave has passed in a number of places, including New York." But, Sesso added, "the human services nonprofit sector is essentially an outsourced function of government, providing human services through government contracts, fee-for-service agreements, et cetera. As a sector working in many respects to address the effects of poverty and low wages, we ultimately support these sound economic policies that will get at some of the root causes of economic inequality. However, these policies create real challenges for our organizations that are already severely underfunded, and there is no indication that government intends to adjust rates paid to nonprofits to support the inevitable higher costs associated with these rising costs."

But instead of asking for waivers, the coalition pushed on reimbursement rates—and it succeeded with New York City contracts, when

### Personal and Home Care

As the demographics show, most personal care workers are African-American or Hispanic women, and their average age is forty-four. The work is often erratic and the average wages are less than \$10 an hour, which would total \$15,000 for full-time work. But around half of personal care workers work only part time, and of those, only 40 percent do so voluntarily.<sup>15</sup>

The number of home- and community-based direct care workers is projected to outnumber facility-based direct care workers by two to one by 2022, and is expected to include around 1.75 million workers.

### Child Care

According to the Early Childhood Workforce Index, the two-million-strong-and-growing workforce in the field of early child care is also predominantly female and ethnically diverse. The median hourly wage is \$9.77, with the low end in Mississippi, where wages are \$8.72 an hour. As the same report reveals, "Nearly one-half of child-care workers (46 percent), compared to 26 percent of the U.S. workforce, are part of families that participate in at least one public assistance program, such as Medicaid or food stamps."<sup>16</sup> This essentially means that any expansion of the service, which, advocates rightly point out, is badly needed, increases the number of workers—again, mostly women and largely people of color—trapped in low-wage ghettos, even as many of them work for nonprofits. Is this really a good look for us?

These low-wage ghettos are particularly problematic in that they exist in fields where the high turnover and scheduling issues that result affect the quality and continuity of care for vulnerable people.

Mayor DeBlasio committed to covering the \$15 per hour rate. In New York State, however, Governor Cuomo has yet to commit, placing human services agencies under a good deal of duress. Sesso pointed out that even when they do succeed at moving the state to cover the higher rates, there will be more to do. "Employer-supported retirement contributions are nearly nonexistent at this point, and health plan costs have largely shifted to the workers. Our workforce is primarily women, and a very high percentage are people of color. This dynamic contributes to the wage depression and staff retention issues throughout human services."

Initiatives in Maine and Montana link higher reimbursement rates to higher salaries in direct care, as well. And unions have also been involved in actively organizing for some of these changes. As a result, Massachusetts, for one, plans to increase the wages of personal care aides to \$15 by 2018.<sup>17</sup>

These policy advances seem to require that organizations, unions, and government work together to establish a wage base and employment practices that are relatively reasonable and hold the same requirements for both nonprofits and for-profits.

Advancing all three of these fields necessitates an investment in enterprise models that provide a living wage, fair labor standards, benefits and training to workers—and, of course, the highest-possible quality of care. This cannot be done without radical changes at both the policy level and the organizational level.

These policy advances seem to require that organizations, unions, and government work together to establish a wage base and employment practices that are relatively reasonable and hold the same requirements for both nonprofits and for-profits. HSC approached the overtime requirement in a positive manner, issuing a statement that, refreshingly, started with an acknowledgment of the issue of wage justice:

It remains to be seen how New York State will implement the new rule, which takes effect December 1, 2016. The rule may make thousands more nonprofit workers eligible for overtime pay—an expansion that is long overdue. This expansion will not only improve the quality of life for thousands of frontline workers by ensuring that they are fairly compensated for *all* of the hours that they work, but it will also spur economic growth by enabling them to work their way towards financial security. HSC commends DOL for recognizing the importance of respecting workers' time and paying them fairly for their labor.<sup>18</sup>

“At the same time,” they wrote, “we are deeply concerned that without the proper investment from government, nonprofits will have difficulty implementing this new policy. Without additional funding to cover the cost of this expansion, the rule will destabilize the nonprofit sector, compromising the quality of important programs and services nationwide on which countless individuals and families depend.”<sup>19</sup>

Fortunately, in New York there has been a long-standing conversation about the need to pay living wages to direct care workers under state and city contracts. In 2015, a coalition of advocacy groups led by the Federation of Protestant Welfare Agencies, the Fiscal Policy Institute, and HSC launched an effort to have state-funded

nonprofits pay workers at least \$15 per hour. They backed the request up with a report titled *A Fair Wage for Human Services Workers*; among the points made in the report:

- Despite being a highly skilled workforce, the human services sector has one of the highest prevalences of low wages in the private sector, behind food service and retail.
- Women make up 82 percent of the statewide workforce; people of color account for 50 percent of human services workers in the state.
- Human services workers are highly educated, with two-thirds of workers having some college education and close to half holding bachelor's degrees or higher.<sup>20</sup>

Earlier that year, New York State committed to raising the salaries of fast food workers to \$15 an hour, following similar actions in San Francisco and Seattle.

This kind of advocacy is critical, but it is also important to look at the structures of our organizations and enterprises to ensure that they reflect the values set that we stand for.

### Different Enterprise Models: Worker Cooperatives

In terms of revised enterprise models, there is a growing movement for the creation of worker cooperatives in home healthcare. These more democratic structures create flatter pay scales, which prevents the abuse of the workforce and ends the practice of overpaying administrators—sometimes even incentivizing this higher pay based on keeping labor rates low. They also necessitate the involvement of frontline workers in considering not just what is good for them as individuals but also what is good for the enterprise in the long run—thus creating a far more grounded decision-making model that recognizes the connection between a well-supported workforce and a well-served clientele.

A 2005 report funded by the Cooperative Foundation, *Homecare Cooperatives: Worker Ownership in Focus*, describes a number of home care cooperative models and focuses in part on one long-standing model in Cooperative Home Care Associates (CHCA), based in New York City:

At CHCA, for instance, approximately 82 cents of every dollar received as revenue are provided to its home health aides in the form of wages or benefits. Comparably, other home care agencies in New York City typically allocate 60 cents of every dollar as direct wages or benefits to workers. Consequently, hourly pay rates at CHCA are about 20 percent more than other agencies in New York City. Moreover, 95 to 97 percent of worker-members are employed full time. Workers have access to 401K retirement plans, and can purchase affordable health insurance. Similarly, about one-half of HCA member-owners work full time and have access to no-cost health insurance, as well as a variety of other employee benefits. Lastly, Cooperative Care members, formerly “consumer employed” private providers, earn about \$2.00 more as co-op members than they had previously. They also have access to health insurance, personal days off, and free training.<sup>21</sup>

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In short, nonprofits must try to stop adopting the unjust current operating environment and most dominant enterprise models as givens, and begin to consider sustainability of the workforce as a core principle. In direct care, sustainability of an expanding, well-trained workforce must be predicated on meeting workers’ basic needs: proper training, a voice, a living wage, and labor justice. And, going back to the PIRG situation—and to leave this on a hopeful note—following PIRG’s statement, 150 social justice groups, including the NAACP, National Council of La Raza, National Employment Law Project, and CASA gave their signatures to a letter committing to support the overtime regulations as an important step forward as far as labor justice is concerned. The letter reads:

[T]his rule represents an important step toward fairer pay for women and people of color, who are overrepresented in lower-paying jobs and are often required to work additional hours without compensation.

We recognize that many nonprofit organizations will have to think through and solve interesting problems and will face challenges as we make the changes needed to comply with the new regulations. These important changes will not necessarily be easy. Nonetheless, we embrace this opportunity to restore the overtime pay that lower-paid workers toiling more than 40 hours a week are entitled to.

For many nonprofits, including those of us that provide human services or advocate for workers’ rights, poverty reduction, or economic and social justice, this is a critical opportunity to improve the working conditions and the economic lives of the people we serve. At the same time, our own workers and the families they support also deserve fair compensation and greater economic security.

As nonprofit organizations more broadly, we are dedicated to improving the public good. It is time to revisit the idea that working for the public good should somehow mean requiring the lowest-paid among us to support these efforts by working long hours, many of which are unpaid.

All of the undersigned nonprofit organizations are committed to complying with the new overtime regulations. We commend the Department of Labor for this significant reform, which will create better jobs and working conditions for millions of working people throughout the country. We support this historic social justice reform.<sup>22</sup>

All nonprofits should be looking at how their state associations, national associations, and other advocacy bodies are treating the issues of living wages and fair labor standards. Clearly, nonprofits in the fields where wage ghettos currently exist need to intensify their own efforts to rethink enterprise models. But beyond that, advocating for living wages, reasonable working conditions, and the attendant raises in contracting rates has to be every nonprofit’s business, if it is to be effective.

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## The Nonprofit Sector's Seventy-Year-Old Subminimum Wage Ghetto

*Twenty-six years ago today, our nation won a hard-fought battle to end discrimination for over 50 million people when we signed the Americans with Disabilities Act, the ADA. . . . When, 26 years later, employers are still allowed to pay people with disabilities below minimum wage, it is time to change the law!*

—Former Iowa Senator Tom Harkin, at the 2016 Democratic Convention

In one corner of the nonprofit sector, an antiquated law, passed in 1938 and meant to encourage the employment of disabled workers in open-market jobs, allows millions to be paid a subminimum wage in what are often called “sheltered” employment situations. The law, Section 14(c) of the Fair Labor Standards Act (FLSA), provides certificates to workplaces employing people with disabilities that allow them to pay a subminimum wage based on the employers’ estimation of their productiveness.<sup>1</sup> This means that there is no formal floor to what an individual can be paid. According to one source, more than half of workers under this program are paid less than \$2.50 an hour.<sup>2</sup>

Disabilities rights groups have long demanded that the law be phased out based on the fact that it openly discriminates against workers with disabilities and perpetuates a segregation based on overprotective rules and policies. In a paper issued by the National Federation of the Blind, Samuel Bagenstos says that the law “. . . has not served its original purpose of ensuring that open-market employers hire people with disabilities. Instead, it has simply provided a subsidy for sheltered workshops, which have done a poor job of preparing their workers for open-market employment, and which pay wages that cannot reliably be said to be related to their workers’ productivity.”<sup>3</sup> The National Council on Disability is for ending the program entirely.<sup>4</sup>

Federally, the government seems to be backing away from the law. In 2014, President Barack Obama issued an executive order that requires any worker under a federal contract to pay a minimum wage of \$10.15 per hour to workers, including those with disabilities.<sup>5</sup>

At the state level, Vermont, New Hampshire, and Maryland have passed legislation aimed at phasing out subminimum wage employment, but some states are still making liberal use of it. In Oregon, four businesses and forty-two nonprofits have subminimum certificates.<sup>6</sup> Texas had 420,000 individuals in subminimum wage positions in the mid-2000s, a figure that had increased from 241,000 since the ADA was passed. Of the 109 employers, seventy-six reported wage information; forty-four paid fifty cents or less per hour.<sup>7</sup>

Among those nonprofits who still make liberal use of subminimum wage employment is the Goodwill Industries network. More than half of the 165 affiliates make use of it, with the rest proving that the certificates are unnecessary to make their models work.<sup>8</sup>

There are defenders of the practice, of course, including the workplaces themselves and sometimes the parents of those so employed. But the fact is that the program not only does not serve its intended purpose (training and promoting mainstream work opportunities)—it also creates a workplace ghetto.

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