



Deinstitutionalization Toolkit: **COSTS** – in **BRIEF**

The Costs of Deinstitutionalization

Throughout this Toolkit, we have focused on deinstitutionalization as an issue of civil rights and quality of life rather than an issue of cost. In addition to this focus on values and civil rights, it is important for advocates to understand the basic elements of costs and cost comparisons central to the closure discussion and specific to each closure. This section identifies the issues related to the cost discussion; identifies strategies that states have used; and explores the costs of institutional care, services, and supports in the community the various approaches to estimating these costs.

There is a risk in framing the deinstitutionalization debate as a cost issue. Although cost savings can motivate state legislators, opponents may represent the decision as unwillingness to spend funds necessary to care for our most vulnerable citizens. One important strategy is to frame this discussion as an issue of resource allocation. Given that each state has limited resources, what is the best way to use available resources to provide quality services to the largest number of individuals possible?

Cost is important to both decision makers and advocates. As the population in institutions has decreased, many institutions have a significant amount of excess capacity and drain funds from other types of supports.

Comparing the Cost of Institutional and Community-Based Services

In 2009 (the most recent year for which data are available), the average annual expenditure for state institutions was \$188,318, compared to an average of \$42,486 for Medicaid-funded home and community-based services.

However, these figures should be used with great caution. They oversimplify the relative cost of institutional versus community-based care and can be misleading. These figures compare the *average* cost in an *average* institution to the *average* cost of an *average* person in the community in an *average* state. They do not indicate how much a state may save by closing an institution.



To identify the potential cost savings, a state must do a formal cost estimate that recognizes three factors affecting why these averages overstate actual savings:

- 1. Variability within and among States:** The cost of both institutional and community-based services varies widely across states, based on the characteristics of users, the cost, staff levels, the types of services and supports offered in the waiver, the types of residential options available, and other factors.
- 2. Heterogeneous Populations:** The state cannot simply look at the average cost of care in the community to determine the cost of care for institutional residents when they are discharged. Although the institutional residents are similar in level of need to many people with intellectual disabilities and developmental disabilities (ID/DD) currently living in the community, a higher percentage of the institutional residents will require intensive levels of medical supports and services in their community homes. The cost estimates should adjust for this difference in case mix. The Additional Resources section includes cost estimates from three states taking different approaches to making this adjustment, and the Detail section describes the different approaches.
- 3. Complex Funding:** The Medicaid Intermediate Care Facilities for the Developmentally Disabled (ICF/DD) program covers most of the costs associated with institutional care. However, a variety of funds are combined to cover the costs of community-based care. While Medicaid covers certain services under the Home and Community-Based Services Waiver, other services and supports are funded solely by state funds, or by combinations of funds from the federal Department of Housing and Urban Development, Social Security Administration, mental health block grants, and other funding streams. This complicates the cost comparisons.

Even after adjusting for these complexities, most research and experience indicates that community-based care is less expensive than institutional care and a state will save money by closing an institution.

For the background and supportive detail on costs, see the next part of Section 6 of the Deinstitutionalization Toolkit:

➤ COSTS – in**DETAIL**



Transition Costs

During the transition period, states should anticipate some temporary “dual costs” of maintaining the institution until all residents have been relocated, while simultaneously providing community-based care to increasing numbers of former residents. While there are some cost savings as the number of beds decreases, significant cost savings do not occur until the institution discharges its last patient and closes its doors.

In addition to the focus on the per capita cost comparisons of community versus institutional care, costs associated with the closing of the institutions must be considered. Some of these costs will increase during the closure process. These transition costs may include programs to support and assist employees (staff training and placement activities), staff early retirement bonuses, leave balances, costs of closing down the physical plant, and funding needed to help expand the community network.

These transition costs must be accounted for in terms of financing deinstitutionalization, but should not be part of the comparison of costs for residential versus institutional care

The Role of Cost in Deinstitutionalization

Ultimately, the cost comparisons associated with providing services and supports in the community versus the institution are valuable. However, the law entitles people with ID/DD to receive services in the most integrated setting appropriate to their needs. Sources of funding for community living include Medicaid, the Social Security Administration, supplemental state funding, and other sources.

In the end, it is important to understand the costs involved and the possible funding sources combined with a vision of the services and supports needed in the community. This will enable the community to develop a plan that can be implemented with the resources available and that provides the quality services envisioned.

For more information about costs of community-based services and supports associated with deinstitutionalization, see the subsequent parts of Section 6 of the Deinstitutionalization Toolkit:

- COSTS – in**DETAIL**
- COSTS – in**DEPTH**