PROTECT MI DIRECT CARE WORKER WAGES

The Direct Care Worker Wage Math Problem—April 2026

The Governor's FY27 budget proposes $258.4 million to preserve a mandatory $3.40/hour wage passthrough for DCWs. Based upon previous appropriations, the actual cost is $563.4 million. **That means the Michigan providers and families who employ DCWs will be shouldering 54% of the cost in FY27.**

The gap is real, and providers/families are already at a breaking point.

Here's how we got here.

The $3.40/hour direct care worker wage passthrough is not a single line item. It is the cumulative result of three separate, bipartisan legislative appropriations made over four fiscal years. Each appropriation carries an ongoing annual cost that does not disappear when the original funding source expires.

Fiscal Year	Wage Increase	Total Gross Cost	General Fund / GP
FY22	+$2.35 / hour	$414.5 million	$146.1 million
FY24	+$0.85 / hour	$120.2 million	$42.7 million
FY25	+$0.20 / hour	$28.7 million	$10.0 million
TOTAL COMMITTED	**$3.40 / hour**	**$563.4 million**	**$198.8 million**
FY27 Gov. Rec.	Claims to preserve $3.40/hr	$258.4 million	$87.3 million GF
THE GAP	**Unaccounted for in the Gov. Rec.**	**$305.0 million**	**$111.5 million GF**

The Governor's budget describes the $258.4 million as backfilling expiring American Rescue Plan (ARP) funds. That framing is technically accurate but materially misleading. The ARP funds supported a portion of these wages; they did not represent the full cost. The full ongoing cost of the wages the state has committed to paying is $563.4 million gross. The proposed budget funds less than half of that.

FY26 Funding Situation	Behavioral Health Sector*	Total Amount
Gross funding needed to cover $1.25/hr FY26 increase	$89.7 million	$179.4 million
Gross funding MDHHS has sent to PIHPs to cover it	$51.9 million	
Additional funding passed through by most CMHSPs to providers	**$0**	
CURRENT UNFUNDED SHORTFALL	**$37.8 million**	

* The focus of our coalition is on the behavioral health sector, but the broader Medicaid wage issues affect all DCWs. The $179.4 million referenced above is an extrapolation based upon the $28.7 million appropriation for the $0.20 /hour wage increase in FY25 for behavioral health and aging services combined. We estimate that the previous appropriations for wage increases are approximately equal for behavioral health and aging services.

The Michigan Department of Health and Human Services (MDHHS) has provided guidance (Letter L 25-78) requiring providers to pay each DCW $17.13 an hour ($13.73 base + $3.40 passthrough) effective January 1, 2026 which represents an additional $1.25/hour increase. That increase alone requires $179.4 million in gross Medicaid funding for behavioral health and aging services to cover statewide.

MDHHS has mandated the $17.13/hour wage requirement while failing to ensure the funding reaches the providers and families responsible for paying it. As a result of the current unfunded shortfall, the majority of CMHSPs have not provided additional funding to their Provider Network in the current fiscal year. Providers are absorbing a state-mandated wage increase with no state funding to cover it.

This is an unfunded mandate. And the FY27 budget, as proposed, repeats the same problem at a greater scale.

Effective January 1, 2027, direct care workers are expected to receive a required wage of $18.40/hour, representing a $1.27/hour increase over FY26. Covering that increase alone requires $182.2 million in gross Medicaid funding for behavioral health and aging services. The Governor's FY27 executive recommendation of $69.5 million does not adequately account for this cost on top of the existing gap.

Our Ask

The DCW Wage Coalition respectfully calls on the Michigan Legislature to take four actions in the FY27 budget:

1. **Reflect the true cost of the $3.40/hour passthrough.** The FY27 budget should account for the full $563.4 million gross ongoing cost of cumulative wage commitments, not just the $258.4 million partial backfill of expired ARP funds. The gap of $305.0 million gross must be addressed.
2. **Fund the FY26 shortfall.** The Legislature should direct a sufficient appropriation to cover the $179.4 million gross cost of the $1.25/hour FY26 wage increase for behavioral health and aging services that providers are currently absorbing without compensation.
3. **Fund the FY27 wage increase.** Provide $182.2 million gross to cover the anticipated $1.27/hour wage increase effective January 1, 2027, so the mandate does not arrive without the means to meet it.
4. **Require the passthrough to actually pass through.** Include explicit boilerplate language requiring MDHHS, PIHPs and CMHSPs to distribute DCW wage funding to providers and families within a defined timeframe, with accountability and reporting requirements for compliance. Right now, most CMHSPs haven't provided any funding to providers during the current fiscal year, despite the fact we are more than six months into it.

Direct care workers serve Michigan's most vulnerable residents. The state has made a commitment to their wages. That commitment must be fully funded to be real.