

## Adoption Subsidy Spending Grows, But City Saves

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### SUMMARY

NEW YORK CITY'S SPENDING TO SUBSIDIZE the adoption of children in the child welfare system has grown rapidly in recent years. The city's share of the subsidy cost (state and federal dollars also fund the subsidy) has grown from \$31.9 million in 2000 to roughly \$44.8 million in 2005.

At the same time, the city's share of spending on foster care provided by social service groups has fallen considerably—declining from \$176.9 million in 2000 to \$121.5 million in 2005. Taken together, these spending changes mean that the city's costs for these programs was \$42.6 million less in 2005 than in 2000.

The reduction in spending is a byproduct of the city's fundamental shift in child welfare policies and the decision to place a greater emphasis on finding permanent homes for children, either through adoption or reunification with birth parents, rather than moving them among multiple temporary foster care placements. This shift in policy was motivated by the belief among child care experts that a permanent home is far better for children's development than temporary placements.

IBO's review of the city's spending on adoption subsidies and foster care provided under contracts with social service agencies found that:

- Since 2000 the number of children with adoption subsidies has climbed 17.5 percent and totaled 34,593 by 2005. Over the same time span, the number of children in contract foster care fell by 38.6 percent and totaled 18,134.
- From 2000 to 2005, total city, state and federal spending on adoption subsidies grew from \$243.2 million to \$342.9 million.
- Over the same six-year period, total city, state, and federal spending on contracts for foster care fell from \$683.7 million to \$546.8 million.

There are two key factors that drive the city's savings from the emphasis on adoptions. The subsidy provided for an adopted child is substantially less than the rate paid for placing a child in congregate or home-based contract foster care. In addition, New York City is required to pay only 13 percent of the total cost of the adoption subsidy in contrast to the city's 25 percent share of the cost for children in the foster care programs.

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## INTRODUCTION

Over the past few years the city has shifted its child welfare policies, placing a greater emphasis on finding permanent homes for children, either through reunification with their birth parents or adoption, rather than moving them among multiple temporary foster care placements. Because of this policy shift, the proportion of children in the child welfare system who are adopted each year has been growing.

The change in emphasis has contributed to an increase in spending on adoptions. The city's Administration for Children's Services (ACS) provides a subsidy to virtually every family that adopts a child. Spending on adoption subsidies has grown significantly, and totaled \$342.9 million in fiscal year 2005, a 41.3 percent increase since fiscal year 2000. It is now ACS's third largest expenditure.

The rise in adoption spending has not meant an overall increase in child welfare spending because at the same time adoptions have risen, there has been a steep decline in the number of children being cared for through foster care contracts with the city. The number of children with adoption subsidies has climbed by 17.5 percent between 2000 and 2005, when the number of children being subsidized totaled 34,593. Over the same period, the number of children in the two types of contract foster care that the city pays social service groups to provide—congregate care and family-based home care—fell 38.6 percent to 18,134.

Since the cost of an individual adoption subsidy is significantly less than the cost of providing foster care to the same child, the drop in the foster care caseload offsets the increase in adoption spending. In addition, the city's share of adoption subsidy costs is smaller than its share of the cost of providing foster care. Of the \$343 million spent on adoption subsidies in 2005, 13.0 percent was city funds, 38.5 percent state, and the remainder, 48.5 percent, federal funding. In contrast, the city funds 25.0 percent of foster care costs.

The decline in the foster care population coupled with the increase in adoptions has meant a \$42.5 million drop in city-funded costs from 2000 to 2005. While the city's share of spending on adoption subsidies has grown by nearly \$13 million over the same six-year period, the city share of the cost of foster care contracts has fallen by more than \$55 million.

The city's decision to emphasize adoption is motivated by more than fiscal savings. For the past several years ACS has centered its child welfare programs on the themes of stability and permanency; foster care has come to be seen as a short-term intervention, not a permanent solution. It is generally accepted by child care professionals that the security, stability, and attention inherent in a permanent living situation such as adoption is generally more beneficial to a child's social development than remaining in foster care. As a result of this policy shift, the number of children in foster care has decreased steadily each year while correspondingly, a greater percentage of them are adopted, which in turn causes the adoption subsidy rolls to increase.

## SUBSIDIZING ADOPTIONS

In New York State, adoption subsidies are given to families to help with the costs of care of "special needs" children. Special needs means children who for various reasons are harder to match with adoptive parents. In order to qualify a foster child as special needs there must be a preexisting factor or condition such as age, ethnic background, physical or emotional challenges, or the desire to keep siblings together. The subsidy provides monetary support for the adopted child's care without imposing an undue financial burden on the adoptive family. Subsidy payments are given until the age of 21. At the same time, these subsidies can provide a financial incentive for adoption of children from foster care. Subsidies are an important determinant as to whether a foster child is adopted; the higher the cost of adoption the fewer prospective families will seek to adopt a waiting child.

*Eligibility Criteria.* While only special needs children are eligible to receive adoption subsidies, the state subsidy guidelines have been written in such a way as to allow virtually all New York City families that adopt children through ACS to receive financial assistance. According to New York State's Office of Children and Family Services, special needs children

	2000	2001	2002	2003	2004	2005	Net Change 2000 vs 2005
<b>Contract Foster Care</b>	\$683.7	\$645.0	\$647.7	\$645.2	\$583.9	\$546.8	
<i>City Share</i>	176.9	164.4	174.5	161.4	108.9	121.5	(55.4)
<b>Adoption Subsidy</b>	243.2	271.6	330.2	307.4	318.4	343.0	
<i>City Share</i>	31.9	35.8	43.5	41.0	41.9	44.8	12.9
<b>Total City Share</b>	<b>208.9</b>	<b>200.3</b>	<b>218.0</b>	<b>202.4</b>	<b>150.7</b>	<b>166.3</b>	<b>(\$42.6)</b>

SOURCE: IBO; New York City Financial Management System.

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are defined as individuals under the age of 21 years who are “handicapped” or considered to be “hard to place.” In 2005 virtually all the adoptions handled by ACS were of children classified as special needs and the adopting families given financial support.

The hard-to-place classification includes non-handicapped children who are considered difficult to adopt due to myriad criteria, including, but not limited to the child’s age, length of stay in foster care, minority status, and whether there are siblings. For example, a child 10 years or older; a child 8 years or older who is a member of a minority group; and a child with siblings who must be adopted together would all meet one of these criteria. The definition of hard to place is inclusive, meaning a child must fit within only one of the categories to qualify for this classification.

For the purposes of determining adoption subsidy eligibility, handicapped refers to a child who possesses a specific physical, mental, or emotional condition, or a disability of such severity that it creates a significant obstacle to the child’s adoption. Such conditions can include, but are not limited to: medical conditions that require repeated or frequent treatment; any physical handicap that makes a child totally or partially incapacitated for education or work; or a diagnosed psychiatric disorder, serious learning disability, or brain damage.

Within the handicapped category of adoption subsidies there are three levels: basic, specialized, and exceptional. For children with handicaps that match the basic category, the subsidy rate is the same as the amount given to hard-to-place children. Payments may be higher if the handicapped child has more severe problems that are designated as special or exceptional.

Under these highly inclusive city and state regulations, 99 percent of the 2,736 children adopted through ACS in 2005 received subsidies; the annual subsidies averaged roughly \$8,900 per child. Of this population, roughly 45 percent were eligible through their handicapped status and the remaining 55 percent through their hard-to-place categorization. These statistics have remained consistent over the past several years.

*Growth in Subsidy Spending.* The major factor contributing to the increase in adoption spending has been the steady growth in the number of children adopted, and therefore subsidized, over the past few years. Another contributing factor is that a child’s subsidy increases as they age. Thus, the full fiscal impact of each year’s increase in the number of adoptions has been expanding over time. Subsidy rates are grouped by age ranges.

There are five groups: ages 0 to 3 years, 4 to 5 years, 6 to 11 years, 12 to 15 years, and 16 to 21 years. Each age range has a different rate; the older the age range, the higher the rate.

According to ACS, the current age breakdown of the adoption subsidy population is as follows: 0 to 3 years, 0.9 percent; 4 to 5 years, 3.0 percent; 6 to 11 years, 25.53 percent; 12 to 15 years, 33.5 percent; and 16 to 21, years 36.8 percent. Once ACS begins to pay an adoption subsidy, it continues until the child turns 21 years old. As a result of this population aging, the subsidy amounts have grown by 23 percent over the past six years. The growth in adoptions should eventually slow once ACS’s policy initiatives stabilize the foster care and adoption populations. At that point, the contribution of the aging of the adoption subsidy population to the growth in subsidy spending should diminish.

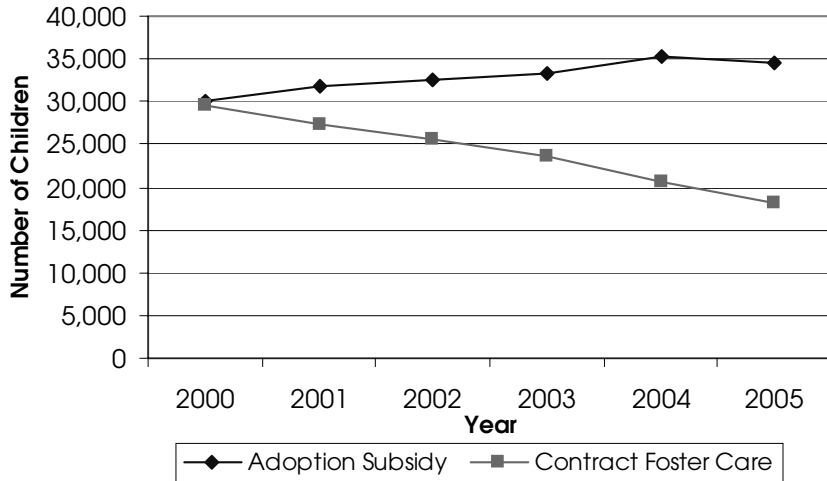
Another factor contributing to the rise of adoption subsidies is the increase in adoption subsidy rates, which are set by New York State. Inflation has increased by an average of 2.8 percent annually since 2000 and adoption subsidy rates are based, in part, on this figure, although according to ACS, the state’s adoption subsidy rate has not increased since 2002.

The New York State Department of Social Services determines the maximum subsidy payment that local districts like New York City are allowed to give. The amount of an adoption subsidy payment is generally based on the amount paid for a foster care placement in the child’s hometown. The foster care rates are generally determined by the age of the child according to a predetermined payment schedule that changes annually to reflect cost-of-living adjustments.

According to state regulations, the only criteria necessary for a family to receive a subsidy is the adoption of a special needs child; other factors, such as household income, do not play a role. While the state uses adoption of a special needs child as the only qualification necessary for a subsidy, it grants the local districts the authority to determine the actual amount of the “board rate” to be paid to each family, using a set of floor/ceiling payment parameters set by the state.

In calculating the board rate the local social services district compares the family’s household income and size to the New York State Income Standards for Service Eligibility. The standards vary with family size and household income. If, after adjusting for household size, a family’s income exceeds the state’s income eligibility standard, that family is only eligible to receive a percentage of the full adoption subsidy. The more a family’s household income exceeds the state’s standard, the

### More Children Receiving Adoption Subsidies, Fewer in Contract Foster Care



SOURCES: IBO; Administration for Children's Services.

home, the funds ACS sends to the foster care agencies are divided into two streams to cover two separate sets of expenditures: an administrative component, which is retained by the foster care agency, as well as a stipend (also called a pass through cost), which is based on the need level of the child, to the foster parents. The pass through cost represents approximately 50 percent of the total ACS pays the agencies for the care and support of foster homes and is equivalent to the adoption subsidy.

There is an additional fiscal incentive for the city to shift children from foster care onto adoption rolls. The city is responsible for a significantly smaller portion of the total costs of the adoption subsidies program. During the past six fiscal years, the city has been responsible for

smaller the percentage of the full adoption subsidy the family can receive. Local districts are not allowed to pay less than 75 percent of the full subsidy, regardless of the family's income.

Unlike many local districts, the city does not pay the lowest permissible rate. Instead the city allots the maximum amount of the subsidy rate for every special needs child, regardless of the adopting family's income or size.

### FOSTER CARE VERSUS ADOPTION COSTS

The city gains significant savings when a child is adopted from the foster care rolls. It is far cheaper for a child to be in the adoption subsidy program than either family-based home care or congregate care, the main kinds of foster care services that the city contracts for. The average rate paid for family-based care was \$47.13 per child per day in fiscal years 2000 to 2005, while the average daily cost for adoption subsidies during that same period was \$23.42—less than half as much. The savings generated by adoption subsidies over foster care are even greater when compared with the more expensive congregate foster care option, with an average daily rate of \$162.11 over the same six-year period.

The cost differences between adoption and family foster care are especially glaring as both programs supply the same type of service: providing money to families for the care of children in the home. In both programs, subsidies are provided for food, clothing, and the special needs of the child. However, about half of the family-based foster care subsidy is retained by foster care agencies that provide administrative and oversight services to the foster care homes. When a child is in a foster parent

approximately 25 percent of total foster care subsidy expenses compared with only 13 percent for adoption subsidies. Therefore, not only is adoption less costly than foster care, but the city's share of the total cost of adoption is lower than its share of foster care. This combination generates considerable savings over foster care.

### CONCLUSION

There has been a steep increase in adoption subsidy spending over the past six years. Our analysis shows two main factors behind this increase. First, there has been a steady increase in the total number of children in the adoption subsidies program—which is due, in part, to ACS's focus on permanency planning, shifting children from temporary foster care situations into permanent homes. Second, the average subsidy rate has increased steadily over the past six years, driven primarily by older children being adopted from foster care.

The city garners fiscal savings from the shift of children from foster care to adoption subsidy rolls. Adoption subsidies are substantially less costly than the primary types of foster care. In addition, the city generates further savings because the percentage the city must allocate to the adoption subsidies program is lower than for foster care.

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