Section 14(c) Subminimum Wage Certificate Program

Introduction

While the U.S. Department of Labor’s Wage and Hour Division (WHD) makes it clear that the Fair Labor Standards Act Section 14(c) Subminimum Wage Certificate Program (the Section 14(c) program) should not be the first or primary option for employment of people with disabilities\(^1\), the Section 14(c) program continues to be used in the employment of roughly 228,600 people with disabilities across the country.\(^2\) Each subcommittee of the ACICIEID discussed the Section 14(c) program. This chapter reports the findings, conclusions and recommendations of each subcommittee.

Transitions to Careers Subcommittee

Findings and Conclusions

Section 511 of the Rehabilitation Act, as added by WIOA, provides limitations on the use of Section 14(c) subminimum wage certificates for youth transitioning from secondary education and limitations on schools regarding contracts with Section 14(c) certificate holder. The intent of Section 511, and WIOA more broadly, is to insure that transition from secondary education and/or postsecondary education to competitive integrated employment is the primary goal for youth in transition, including youth with significant disabilities.

School-Based Work Experience Programs (SWEPs) are a type of Section 14(c) subminimum wage certificate that are typically issued to schools, but work may occur in a variety of locations, including in the community. According to WHD, there are 95 active SWEP certificates nationally.\(^3\) WHD currently reports that they are unsure of the number of students associated with each of these certificates. 62% of the current SWEP certificates are issued in California (CA). As of spring 2014, California’s Department of Education is preventing the use of SWEP certificates in majority of its transition programs, specifically in the Workability Program. It is expected that this policy change will virtually eliminate the use of subminimum wage certificates issued by CA schools.

There is no evidence that use of SWEP certificates improves postsecondary outcomes for youth with disabilities. Further, there is varied information about the capacity for increasing competitive integrated employment opportunities for youth with significant disabilities in regions

\(^1\) US Department of Labor Wage and Hour Division Presentation to the Committee. January 22, 2015.
\(^2\) WHD presentation to the Committee
\(^3\) [http://www.dol.gov/whd/specialemployment/SWEPlist.htm](http://www.dol.gov/whd/specialemployment/SWEPlist.htm)
that have historically been dependent upon sheltered workshops/Section 14(c) license holders. Youth have greater likelihood of exiting school with integrated jobs at competitive wages when their transition programming focuses on ensuring that work experiences are based on their interests and are in community-based, integrated employment settings, with workplace supports provided as needed.

**Preliminary Recommendations**

1. The Department of Labor (DOL) must immediately discontinue issuance of School-based Work Experience Program (SWEP) certificates.

2. The Individuals with Disabilities Education Act (IDEA) Indicator 13 must disallow a placement in subminimum wage Section 14(c) employment as an acceptable post-school transition goal or transition service on the transition plan.

3. The Department of Education should promulgate regulations, in part based upon WIOA requirements as well as the Americans with Disabilities Act (ADA) integration mandate, to prevent the use of federal IDEA funds for transition services provided in non-integrated settings, including a prohibition on services supporting subminimum wage activity regardless of the setting in which these services occur.

4. Any reauthorization of IDEA must explicitly disallow, as an authorized transition service, any service that involves facility-based employment or service that involves the use of Section 14(c).

5. The Department of Education (DOE) should coordinate with DOL to identify Local Education Agencies (LEAs) that are Section 14(c) license holders and assist these LEAs to transform to other proven transition models for youth that include community-based integrated internships and other types of community-based integrated work experiences that lead to competitive integrated employment.

6. Federal agencies to include DOE, the Rehabilitation Services Administration (RSA), the Social Security Administration (SSA) and the Centers for Medicare and Medicaid Services (CMS) should collaborate to design a method, including appropriate data collection, to track and report the post-school status of youth with disabilities in areas where a sheltered workshop utilizing Section 14(c) closes or is downsized.

7. The Transition to Careers Sub-Committee finds that critical data are lacking from DOL WHD regarding the number of youth using Section 14(c) certificates, their ages, disability-type, wages, work hours, down time\(^4\) and other information. Having access to

\(^4\) Time spent in a Section 14(c) employment setting where no paid work is available.
these data is imperative to making future recommendations and identifying trends - both positive and negative. The Sub-Committee recommends that DOL WHD develop a secure, web-based application and data collection system that is mandatory for all Section 14(c) certificate holders. The DOL WHD should also issue guidance to states that encourages them to more closely monitor the use of Section14(c) certificates for youth and all individuals with disabilities. Such data could be modeled upon the system utilized currently in Wisconsin.

Capacity-Building Subcommittee

Findings and Conclusions

Based on April, 2015 data from the U.S. Department of Labor Wage and Hour Division (WHD), there are 2,820 entities in the United States which hold 14(c) subminimum wage certificates.\(^5\) 89% of these entities are Community Rehabilitation Programs (CRPs) while only 4% are businesses, 4% are employers of patient workers and 3% are schools. According to WHD, the actual number of individuals being paid subminimum wage is roughly 228,600.\(^6\)

The fact that 75% of individuals with I/DD receiving day or employment services through a state I/DD system are in a center-based or facility-based environment\(^7\) suggests a systemic belief that not much else is possible, except for a relatively small minority of persons served. At the same time, these services, which primarily offer an accompanying subminimum wage when work is available, have often led to the conclusion that this type of work and/or productivity is the most that can be expected. Thus, one by-product of subminimum wage employment is a service culture with a consequent low expectation for community integrated employment.

Preliminary Recommendations

8. The President and/or Congress should appropriate sufficient funding to WHD to ensure adequate staffing resources for monitoring and oversight of the Section 14(c) certificate program and to support on-going collection of data regarding the number of individuals earning subminimum wage, the number of individuals moving from subminimum wage to competitive integrated employment, the number of individuals who work at subminimum wage levels for multiple years (and primary reasons why – e.g. discouraged or opposed by family/legal guardian, fear of losing other benefits, lack of access to, or denial of, services to obtain competitive integrated employment, etc.), and the number of individuals who exit


\(^6\) WHD presentation to the Committee

Section 14(c) employment but do not enter competitive integrated employment. This information can inform the time frame for phasing out the Section 14(c) certificate program.

9. The Secretary of Labor, in consultation with the Rehabilitation Services Administration (RSA) and the Centers for Medicare and Medicaid Services (CMS) should propose a time frame for phasing out the Section 14(c) certificate program.

Complexity and Needs Sub-Committee

Findings and Conclusions

The Fair Labor Standards Act (FLSA), as adopted into law in 1938, provides that the Secretary of Labor “to the extent necessary to prevent curtailment of opportunities for employment, shall by regulation or order provide for the employment, under special certificates, of individuals . . . whose earning or productive capacity is impaired by age, physical or mental deficiency, or injury” to be paid below the minimum wage. 42 U.S.C. § 214(c)(1). In 1986, Congress amended Section 14(c) of the FLSA to require that individuals with disabilities who are “not entitled to earn the minimum wage” must earn a wage commensurate with what “non-handicapped” workers employed in the vicinity earn for the same type, quality, and quantity of work, factoring in productivity. 42 U.S.C. § 214(c)(1)(B).

The Secretary of Labor, by regulation, has delegated responsibility for implementation of Section 14(c) to the WHD Administrator. Employers seeking to apply for or to renew special minimum wage certificates must apply to the WHD, which determines whether the certificate is necessary to prevent the “curtailment of opportunities for employment.” 29 C.F.R. § 525.

A 2001 report from the DOL Inspector General\(^8\) found problems in DOL/WHD oversight of Section 14(c) with a pattern of noncompliance by employers that failed to properly review and maintain certificates.

Many states have laws that establish local minimum wage standards. An agency (typically a state Department of Labor) is usually appointed to monitor and enforce the standards and to enforce the rules that govern permission to pay subminimum wage. State efforts to monitor the payment of subminimum wages vary in quality.

Across the nation there are thousands of employers that hire people with disabilities. Any employer that hires a person with a disability may apply for a Section 14(c) certificate to pay subminimum wage. However, according to the General Accounting Office, 95% of all workers

with disabilities being paid less than minimum wage under Section 14(c) certificates were employed by sheltered workshops, not typical employers.\(^9\)

The sheltered workshop model was originally designed to provide general training and experience for people to help them move into competitive jobs. The model has not worked for people with disabilities. The same GAO report regarding the Special Minimum Wage Program estimates that less than 5% of workers leave sheltered workshops for competitive employment in the community.

Research shows that people with significant disabilities are successfully employed in much the same way as people without disabilities. The person’s skills, abilities and interests are identified and matched to available jobs. Training, if needed, is tailored to the job.

Most people in sheltered workshops or pre-vocational services remain for years and often decades in those programs and do not move on to competitive integrated employment (CIE). For example, according to a recent Department of Justice (DOJ) Findings Letter, nearly half (46.2%) of the people in sheltered workshops in Rhode Island had been there for a decade or longer and over a third (34.2%) were there for 15 or more years.\(^{10}\) Similarly, the DOJ found that the average stay in sheltered workshops in Oregon was more than a decade (11.72 years) while some people reported staying for 30 years or more.\(^{11}\)

The International Encyclopedia of Rehabilitation\(^{12}\) reports that from a 2008 survey that U.S. citizens working in sheltered workshops earned about $101/month. They work an average of 74 hours a month and earn about $1.36/hour.

Current experience demonstrates that people with significant disabilities with access to needed supports can work at typical jobs in regular workplaces at minimum wage or higher. While Section 14(c) of the FLSA may have been regarded as necessary and even progressive in 1938, it is incompatible with current knowledge, practice and experience.

Section 511 of the Rehabilitation Act, as added by the Workforce Innovation and Opportunity Act (WIOA), makes several changes to Section 14(c) of the FLSA including:

- Places limitations on the payment of subminimum wages by any employer holding a Section 14(c) special wage certificate.


• Requires people with disabilities working under Section 14(c) certificates to have access to competitive integrated employment (CIE) services, including vocational rehabilitation (VR) services.

• Prohibits anyone age 24 or younger from starting work at subminimum wage unless it is documented that the person received transition services under the Individuals with Disabilities Education Act (IDEA); has applied for VR services and was unsuccessful; and has been provided counseling and referral to other resources with the goal of CIE.

• Section 14(c) certificate holders may not continue to employ any person at subminimum wage unless the person has received career counseling; access to the VR agency; and information about self-advocacy, self-determination and peer mentoring opportunities from an entity without a financial interest in the person’s employment outcome.

While Section 511 attempts to limit the use of Section 14(c) certificates, it also permits pathways to sub-minimum wage placements under Section 14(c) certificates by incorporating Section 14(c) language into WIOA; by offering Section 14(c) placements as an option for people older than 24; and by offering Section 14(c) programs as an employment training option despite data showing that people usually do not leave Section 14(c) programs for CIE.

There are federal agencies other than DOL that are having an impact on states’ use of Section 14(c) certificates and on increasing access to CIE, including the Department of Justice (DOJ) and the Centers for Medicare & Medicaid Services (CMS). Olmstead enforcement activities by DOJ and private plaintiffs are leading states to closely examine whether people with disabilities have an opportunity to participate in CIE or whether they are unnecessarily segregated in traditional day programs, including Section 14(c) sheltered workshops.

Similarly, states are currently transforming their day support systems as part of the “transition planning” process to comply with the new Home and Community Based Services (HCBS) Settings Rule from the CMS. The Rule, among other things, requires that HCBS programs offer more opportunities for competitive integrated employment, control over daily life and access to the broader community. Some settings, including sheltered workshops, may not be able to comply. In addition, the Rule requires that all people be offered opportunities to receive services and supports in “non-disability specific settings” (settings that are not exclusively or primarily for people with disabilities). These provisions will require most states to expand CIE options.

Due, in part, to the policy changes described above, a number of states have taken steps to limit or phase out the use of Section 14(c) certificates and/or sheltered workshops. Recently, New Hampshire, with the support of its Section 14(c) certificate holders, passed a law that prohibits paying any workers, including workers with disabilities, less than minimum wage. Maine and Vermont phased out funding and provided support for the closure of all of their sheltered workshops. Several other states recently issued transition plans to phase out workshops as they
come into compliance with the HCBS Settings rule. Other states are considering minimum wage laws similar to New Hampshire.

The National Council on Disability recommended gradual phase-out of the Section 14(c) program after completing a six-state investigation of Section 14(c) and the feasibility of replacing the program with investments in supported employment.13

Preliminary Recommendations

10. Congress should amend Section 14(c) of the FLSA to allow for implementation of a well-designed phase-out of the Section 14(c) program that results in people with disabilities entering competitive integrated employment (CIE). Payment of subminimum wages is inconsistent with current knowledge of the skills and talents of people with significant disabilities. Recognizing that thousands of people with disabilities and their families will be affected by a phase-out, the Committee will recommend a phase-out plan with specific implementation steps in its Final Report due September 15, 2016. This plan will emphasize that CIE is the primary role of all working age people. It will consider strategies to expand CIE capacity and the potential role of other wraparounds services (such as mainstream community activities and formal integrated day services) to address the concern that individuals leaving or who otherwise would have been in Section 14(c) programs will be left without meaningful and productive ways to spend their time.

11. The Wage and Hour Division (WHD) should develop and enforce criteria for assuring that the Section 14(c) certificate is only permitted when “necessary… to prevent the curtailment of opportunities for employment.”

12. WHD should develop an interagency process to coordinate issuance/renewals of Section 14(c) certificates with enforcement of the Americans with Disabilities Act (ADA) by the Department of Justice (DOJ), the Department of Health and Human Services’ Office of Civil Rights (HHS’ OCR), and the Equal Employment Opportunity Commission (EEOC), and with implementation of the Home and Community Based Services (HCBS) Settings Rule by the Centers for Medicare & Medicaid Services (CMS).

13. WHD should require any state that allows the use of Section 14(c) certificates to address why the certificate is “necessary” and to describe the state’s plan for remedying the “lack of employment opportunities.” The state may respond with its Olmstead plan; its plan for implementing the HCBS Settings Rule; or its WIOA unified plan. Each of these state plans requires addressing how supports will be provided in more integrated settings. The state should ensure that the plan on which it relies to justify the time-limited use of Section 14(c)

13 The report can be found at: http://www.ncd.gov/publications/2012/August232012/
certificates includes specific steps on how it will address lack of employment opportunities to make the future use of Section 14(c) certificates unnecessary.

14. WHD should collaborate with state-level wage and hour monitoring agencies to increase the overall effectiveness of monitoring Section 14(c) certificates and enforcing wage and hour requirements.

15. The Departments of Labor and Education should make enforcement of the law and spirit of Section 511 of the Rehabilitation Act, as amended by WIOA, a priority. The Departments should work with agency field offices and state advocates, including Protection and Advocacy organizations, to identify enforcement actions that will help end the practice of paying people subminimum wages and expand competitive integrated employment with full wages and benefits.

16. In enforcing the ADA and Olmstead, DOJ and HHS’ OCR should provide technical assistance to states that are engaging in affirmative Olmstead planning to increase opportunities for CIE and reduce the need for enforcement.

17. CMS should enforce the guidance provided in the September 16, 2011 CMS Informational Bulletin regarding the time-limited nature of pre-vocational services. Enforcement should emphasize that the goal is to move into CIE, not other segregated day services.

18. In their efforts to enforce the HCBS Settings Rule, CMS should offer technical assistance resources and funding to states that want to use it as an opportunity to move toward CIE options for people receiving HCBS services in sheltered workshops. Such technical assistance should include supports to Section 14(c) certificate holders that desire to change business models to provide CIE.

Marketplace Dynamics Subcommittee

Findings and Conclusions

The Fair Labor Standards Act (FLSA) Section 14(c) provides for the payment of sub-minimum wages to workers whose “earning or productive capacity is impaired by age, physical or mental deficiency, or injury… to the extent necessary to prevent curtailment of opportunities for employment” (29 U.S.C. § 214(c)). To address the issues related to FLSA Section 14(c) and evaluate options for improved oversight, the Marketplace Dynamics subcommittee: reviewed written public testimonies, research directed to subminimum wage, and the Wage and Hour Division (WHD) employer certificate application; invited SourceAmerica staff to expand on their January public testimony to ACICIEID regarding improved oversight to 14(c) via conference call; and gave thoughtful and careful consideration to the charge directed to the WIOA Advisory Committee. The Marketplace Dynamics Subcommittee members posed the following question: “From a business perspective, is 14(c) necessary ‘to prevent the curtailment
of opportunities for employment” for people with IDD and other significant disabilities?” All findings, conclusions, and recommendations are intended to respond to this question as viewed through a business lens and are summarized below.

In 2001, the General Accounting Office (GAO) report on Section 14(c) stated that the Department of Labor (DOL) historically placed a low-priority on the program and lacked the information required to effectively manage it, including accurate information on the number of Section 14(c) employers and workers or on DOL’s own compliance efforts. The report concluded that the DOL did not effectively manage the special minimum wage program or adequately ensure employer compliance with Section 14(c) requirements (US General Accounting Office, 2001).

Since then, DOL has instituted methods to improve the Section 14(c) program; however, challenges remain because Section 14(c) certificates are attached to the employer and not the worker with a disability making it difficult to accurately know the numbers of workers receiving subminimum wages. Additionally, resource and authority constraints limit WHD’s capacity to adequately monitor each nonprofit or business utilizing the employer certificate with the existing WHD data collection system. The fact that WHD has only revoked one employer certificate in recent history coupled with the generally weak penalties issued to those found in violation of the law contribute to a system that appears to remain highly susceptible to abuse (Department of Labor, 2015; Department of Labor, 2014).

Consequently, the Marketplace Dynamics Subcommittee believes even with suggestions on improved oversight, the employer certificate program remains highly vulnerable to abuse. Although it is assumed that employer certificate holders will abide by Federal disability policies, there is nothing in the employer certificate application that requires assurance that the Americans with Disabilities Act is enforced.

The Marketplace Dynamics Subcommittee researched previous initiatives to eliminate subminimum wage as part of its effort to examine Section 14(c) more broadly. For example, a 2007 study found that legislative policies focused solely on eliminating sub-minimum wages in Arizona, British Columbia, and New Zealand resulted in unintended negative consequences for employees with disabilities. In order to comply with policies prohibiting the payment of subminimum wage, sheltered work programs converted to training or non-work programs. Following the conversion, workers either lost employment altogether or were paid “training stipends” that were even less than the sub-minimum wages had been. Ironically, policies designed to lead to increased earnings resulted instead in the loss of the minimal protections assured through FLSA Section 14(c) (Butterworth et. al., 2007).

In sum, the study concluded that in order to effectively eliminate the sub-minimum wage, there had to be simultaneous efforts to build capacity in sheltered work programs while ensuring that all employees receive high-quality services to secure competitive, integrated employment
opportunities. The same study found that of the over 5,000 employers who hold subminimum wage employer certificates, less than 1% of these employers are private businesses (Butterworth et. al, 2007).

Capacity-building efforts must be directed towards helping programs that currently hold special wage certificates to navigate any changes to sub-minimum wage regulations. Care must be taken to ensure that regulatory changes to Section 14(c) do not lead to a superficial reclassification of the services provided with no net increase in competitive, integrated employment outcomes for individuals with intellectual, developmental, or other significant disabilities. Capacity-building at all levels is critically important to increasing competitive, integrated employment outcomes. Service providers, educators, and government agency personnel need training and technical assistance to learn and consistently utilize best practices for identifying employment goals, addressing barriers, and securing competitive, integrated employment outcomes for individuals with significant disabilities.

Sub-minimum wage provisions essentially make the argument that a worker’s value can and should be evaluated solely on the basis of his or her productivity. Opponents of the FLSA Section 14(c) policy argue that most businesses consider a broader range of characteristics than productivity alone when characterizing a “quality” employee, including factors such as reliability and accuracy (Butterworth et. al., 2007; DiLeo, 2011). Additionally, productivity levels are not static, but rather are the product of a variety of factors, most significantly the quality of the match between the employee’s skills, the accommodations provided if needed, and the specific job tasks. Tasks that better align with the employee’s skills tend to enhance productivity. Employees who exhibit low productivity for months or years likely are not being assigned job tasks that align well with their skillsets. Training of individuals with significant disabilities is imperative and many individuals on subminimum wage have not received sufficient training to increase their skillsets and productivity.

In spite of the arguments in support of sub-minimum wage, the overwhelming majority of for-profit businesses currently employing individuals with IDD or other significant disabilities offer competitive wages. Beyond this, some businesses reportedly raised the concern that paying sub-minimum wages offered an unfair competitive advantage to companies holding employer certificates (Butterworth et. al., 2007).

Individuals who want to earn more money may still experience trepidation about leaving friends and familiar environments behind. Changing jobs is commonly considered on lists of “major life stressors” and it should not be considered any less so for individuals with disabilities transitioning out of segregated employment in spite of the belief that making the change will ultimately be in their own best interest.

Segregated service program staff adept at managing workshop activities or overseeing production contracts may not have the requisite skills necessary to support individuals with
intellectual, developmental, or other significant disabilities to navigate the transition to competitive integrated employment (CIE). Similarly, other employment service programs may need additional training or staffing to appropriately meet the needs of individuals transitioning out of segregated employment. Sufficient funding must be allocated to guarantee every person making the transition to CIE has access to all necessary services and supports, including but not limited to: Discovery and customized employment services, benefits planning, and assistive technology or other accommodations.

Capacity-building initiatives targeting community businesses as well as service systems might yield a wider variety of employment outcomes for individuals with IDD and other significant disabilities. Resource allocation for staff time to work on inclusive employment initiatives, support business expansion, or fund job creation strategies would allow for greater innovation between public and private entities.

Preliminary Recommendations

The Marketplace Subcommittee believes a gradual phase-out is a more prudent way to reduce the reliance on sub-minimum wages without engendering the unintended consequences that resulted from previous efforts mandating their immediate elimination. Specific recommendations related to phase-out and elimination are as follows:

19. Congress should pass legislation that directs the Secretary of Labor, through the Wage and Hour Division, to work with the appropriate Departments across the Federal government for a gradual phase-out of the Fair Labor Standards Act (FLSA) Section 14(c) sub-minimum wage provision over a period of 8-10 years.

a. The legislation must consist of a combination of targeted, strategic capacity-building initiatives. Congress should fund initiatives that will provide sufficient financial resources to effect this change.

b. The phase-out legislation should direct DOL to develop a careful, detailed plan that recognizes the multi-faceted, complicated process required to successfully phase out FLSA Section 14(c). The plan should include a chronological sequence for meeting all capacity-building needs along with detailed steps for addressing corollary areas that will be impacted when FLSA Section 14(c) has ended.

c. As part of the phase out of Section 14(c), Congress should provide that the Wage and Hour Division (WHD) cease accepting new employer applications to the certificate program one year after the passage of the phase-out legislation.

d. Congress should also direct the WHD to monitor and ensure that no new participants may be added by employers to applications for the certificate program one year after the passage of the phase-out plan.
e. The phase out legislation ensuring for an orderly phase-out of Section 14(c) should direct WHD to cease the renewal of employer certificates one year prior to the phase-out of FLSA Section 14(c).

20. Congress should allocate financial resources so that the Department of Labor can establish and help states develop new systems before individuals with significant disabilities, if they choose, begin the transition to competitive, integrated employment.

a. In order to avoid any unintended harm to individuals with significant disabilities, it is critical that infrastructure is developed prior to the phase out of Section 14(c).

b. In particular, Congress should direct the Department of Transportation to ensure that public transit systems are in place, particularly in rural areas of the United States prior to individuals with disabilities beginning the transition out of segregated employment.

c. Congressional resources must also be allocated and directed to support individuals with disabilities who do not choose community employment to explore other individualized options for integrated day services.

d. Congress should direct the Secretary of Labor to establish an operational advisory committee, not subject to FACA, to oversee the plans for Section 14(c). The committee should include business representatives, subject matter experts from Federal agencies as well as appointees from outside the Federal government who can help implement and monitor the phase out.

e. The Secretary of Labor should hire subject matter experts to oversee and support the plans for the implementation of the phase-out and to ensure all critical actions are taken, funding is allocated, and all state and local systems are up and running before the complete phase-out of Section 14(c).

21. As part of the phase-out, Congress must direct the DOL to emphasize training. The training must be based on the assumption that all individuals with significant disabilities can learn and perform higher-level job duties that align with and build their skillsets and interests given the opportunity and appropriate accommodations. The training should align with capacity building opportunities for individuals as well as for systems, such as programs offered by community colleges, in order to maximize and address the limited opportunities that individuals with intellectual disabilities, developmental disabilities and other significant disabilities have had to access innovative training opportunities.
References


Employment Under Special Certificates, 29 U.S.C. § 214(c)(1)

