

## Minimum Wage and the Child Care Financial Assistance Program—Concept Brief

Increasing the minimum wage to \$15 per hour in 2022 would increase the earnings of about 80,000 people. In general, even though the workers would see an increase in their income taxes and decreases in other benefits such as 3 Squares, the EITC, and renter rebate, they would still get ahead. However, working parents who rely on the Child Care Financial Assistance Program (CCFAP) could lose ground.

This “benefit cliff” problem is not new. The child care subsidy a family can receive is at the maximum for families with incomes less than or equal to 100% of Federal Poverty Level. The subsidy amount declines as incomes rise, so that families with incomes of 200% of FPL receive only ten percent of that maximum. Because the cost of child care is so substantial, losing child care subsidy as well as other benefits means that families at 100% FPL risk losing more than they gain when they increase their earnings. If these families were to double their earnings to reach 200% of FPL, they would be worse off than they were at 100% FPL.

The proposed increase in the minimum wage provides an opportunity to incrementally address this problem. Because increased wages will bring in more income tax revenue and reduce the need for various state benefits, this money could be redirected to the CCFAP. And, by holding the current subsidy level higher up the income scale, it could be targeted to reduce the backslide for families whose earnings go up due to the wage change. If, for example, the minimum wage went up by 15%, the subsidy currently available for an income of X could be made available for an income of 115% of X. There would be no loss in child care subsidy for the family as a result of the 15% wage increase.

This would mean the families with a minimum wage boost would not lose child care subsidy. It would also mean a greater subsidy for families with incomes between 100% and 200% of FPL, and it would reduce the problem of losing subsidy as they gained earnings. In addition, it would probably bring in more families who are unable to afford child care at a licensed or registered facility because of the low subsidy amount.

The change between \$10.50/hour in 2018 and \$15/hour in 2022 is 29% in constant dollar terms. Offering full child care subsidy to families with incomes up to 129% FPL and beginning the reduction at that point would cost between \$12 and \$15 million (2015 dollars). That would insure that families making 100% of their income from minimum wage jobs would not lose any subsidy. It is estimated that participation in the CCFAP would reach 125% of the current level, although it is particularly difficult to estimate how many additional families would participate due to the higher subsidy.

Preliminary estimates of increased income tax revenue (\$7 Million), VT Earned Income Tax Savings (\$1 Million) and savings in the Vermont share of Medicaid as people move off Medicaid and on to the exchange (\$6 million) could potentially be redirected to cover this cost.

These numbers are very preliminary. The change to the Child Care Financial Assistance Program in conjunction with the proposed \$15 minimum wage is a concept at this point, presented to see if there is interest in pursuing the idea and doing more analysis.

Beginning CCFAP Sliding Scale at 100% FPL v. 129% FPL

Family income as % of Federal Poverty Level	Begin decline at 100% FPL		Begin decline at 129% FPL		Difference
	Current Law	Example:	New	Example:	
	Percentage of Maximum Subsidy	One Toddler Subsidy/year	Percentage of Maximum Subsidy	One Toddler Subsidy/year	
100.0%	100	9,290	100	9,290	-
103.9%	99	9,197	100	9,290	93
106.4%	98	9,105	100	9,290	186
109.1%	97	9,012	100	9,290	279
111.7%	96	8,919	100	9,290	372
115.0%	95	8,826	100	9,290	465
120.0%	90	8,361	100	9,290	929
125.0%	85	7,897	100	9,290	1,394
130.0%	80	7,432	99	9,197	1,765
135.0%	75	6,968	98	9,105	2,137
140.0%	70	6,503	96	8,919	2,415
145.0%	65	6,039	90	8,361	2,323
150.0%	60	5,574	85	7,897	2,323
155.0%	55	5,110	80	7,432	2,323
160.0%	50	4,645	75	6,968	2,323
165.0%	45	4,181	70	6,503	2,323
170.0%	40	3,716	65	6,039	2,323
175.0%	35	3,252	60	5,574	2,323
180.0%	30	2,787	55	5,110	2,323
185.0%	25	2,323	50	4,645	2,323
190.0%	20	1,858	45	4,181	2,323
195.0%	15	1,394	40	3,716	2,323
200.0%	10	929	35	3,252	2,323
205.0%	10	929	30	2,787	1,858
210.0%	10	929	25	2,323	1,394
215.0%	10	929	20	1,858	929
220.0%	10	929	15	1,394	465
225.0%	10	929	10	929	-
230.0%	10	929	10	929	-
235.0%	10	929	10	929	-
240.0%	10	929	10	929	-
300.0%	10	929	10	929	-

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