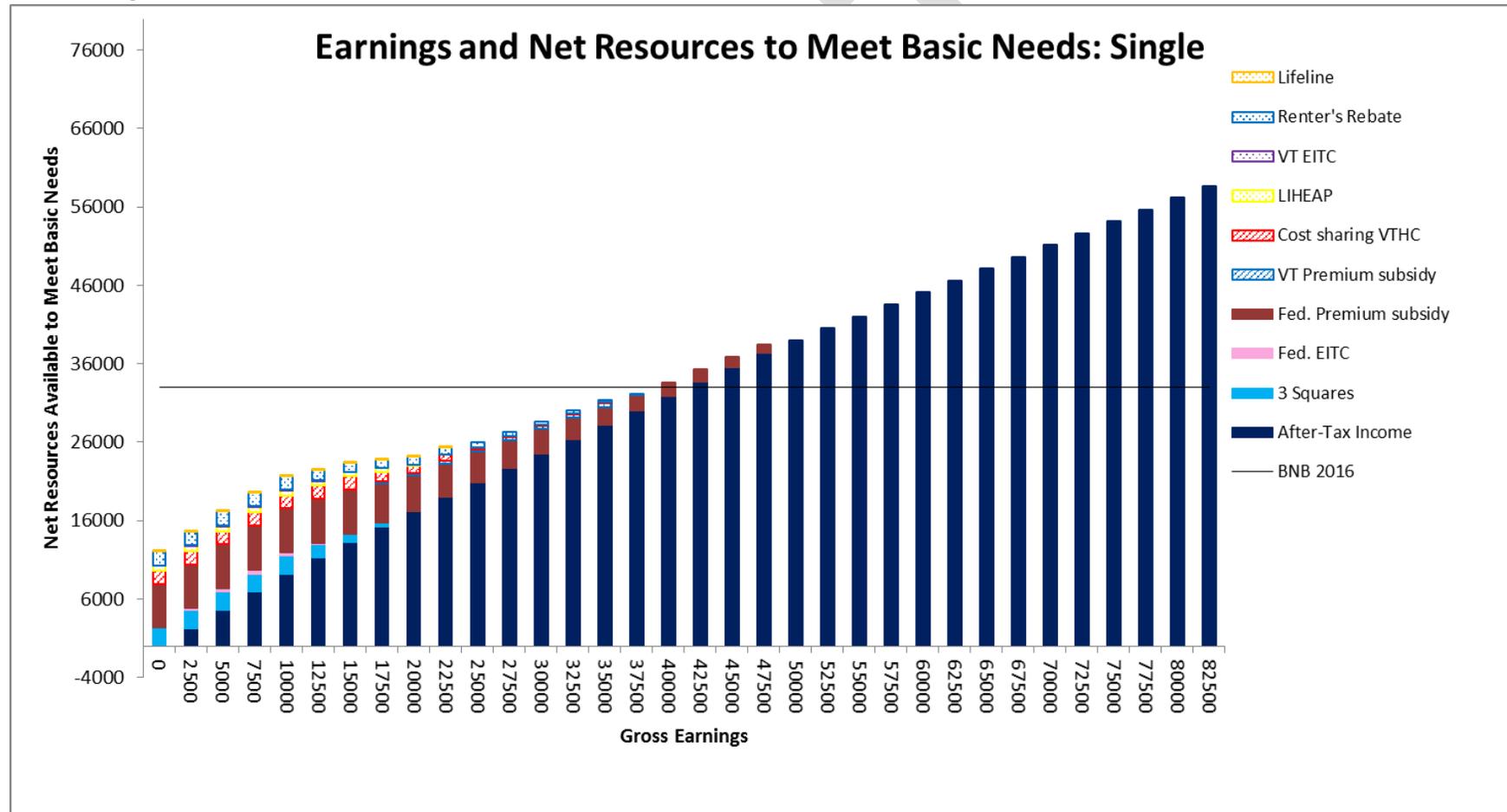


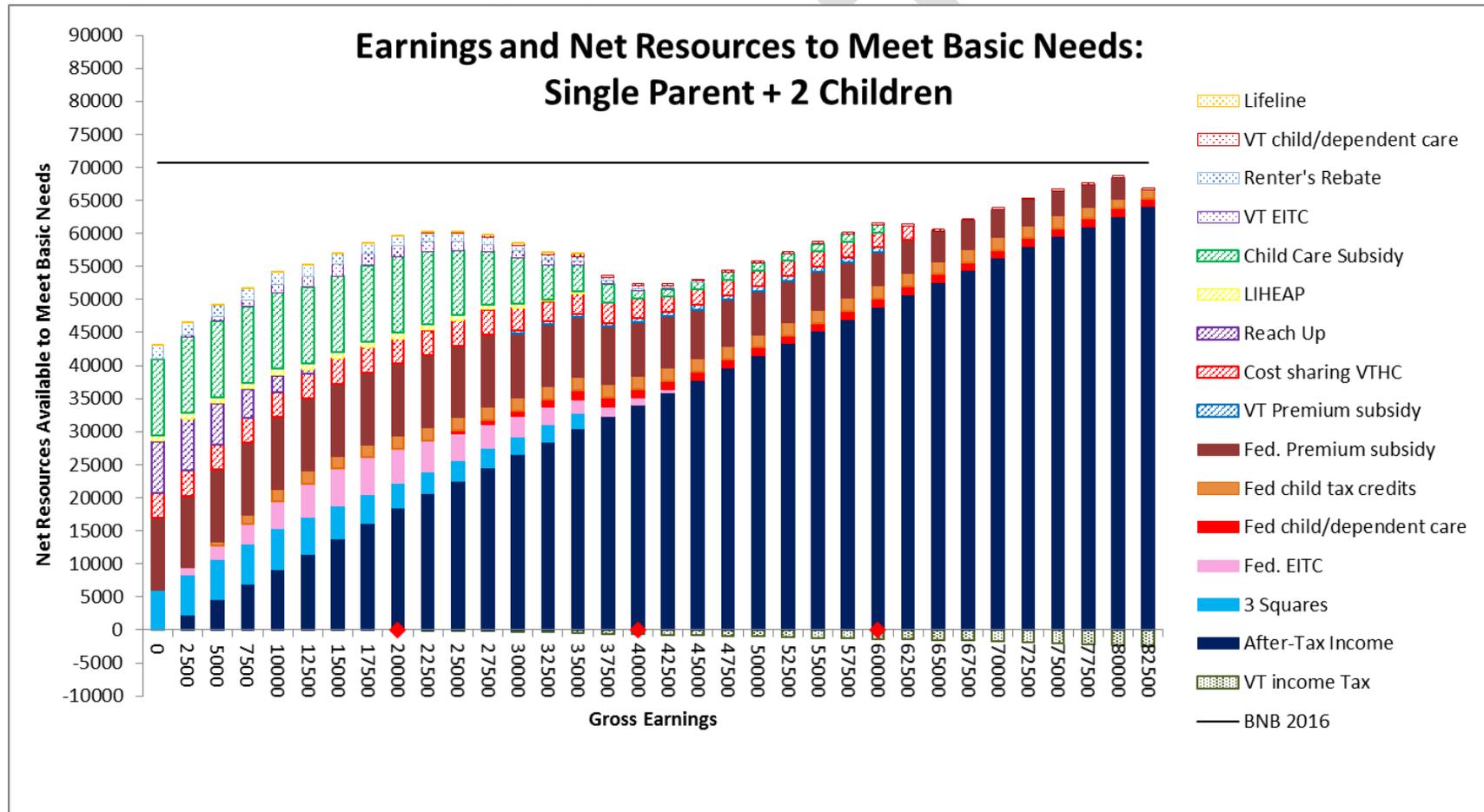
In general, an increase in wages would result in an increase the net income of the wage earner—as illustrated in Chart 1 which shows the relationship between earnings of a single person and net resources available to meet basic needs. The net resources available to meet basic needs include wages less taxes, public benefits, and tax credits. For reference, the horizontal black line represents the 2016 Basic Needs Budget (BNB) as determined by the Legislative Joint Fiscal Office. If a single person’s earnings increased from \$25,000 to \$45,000, the net resources available would increase by roughly \$11,000.

Chart 1: Single Person



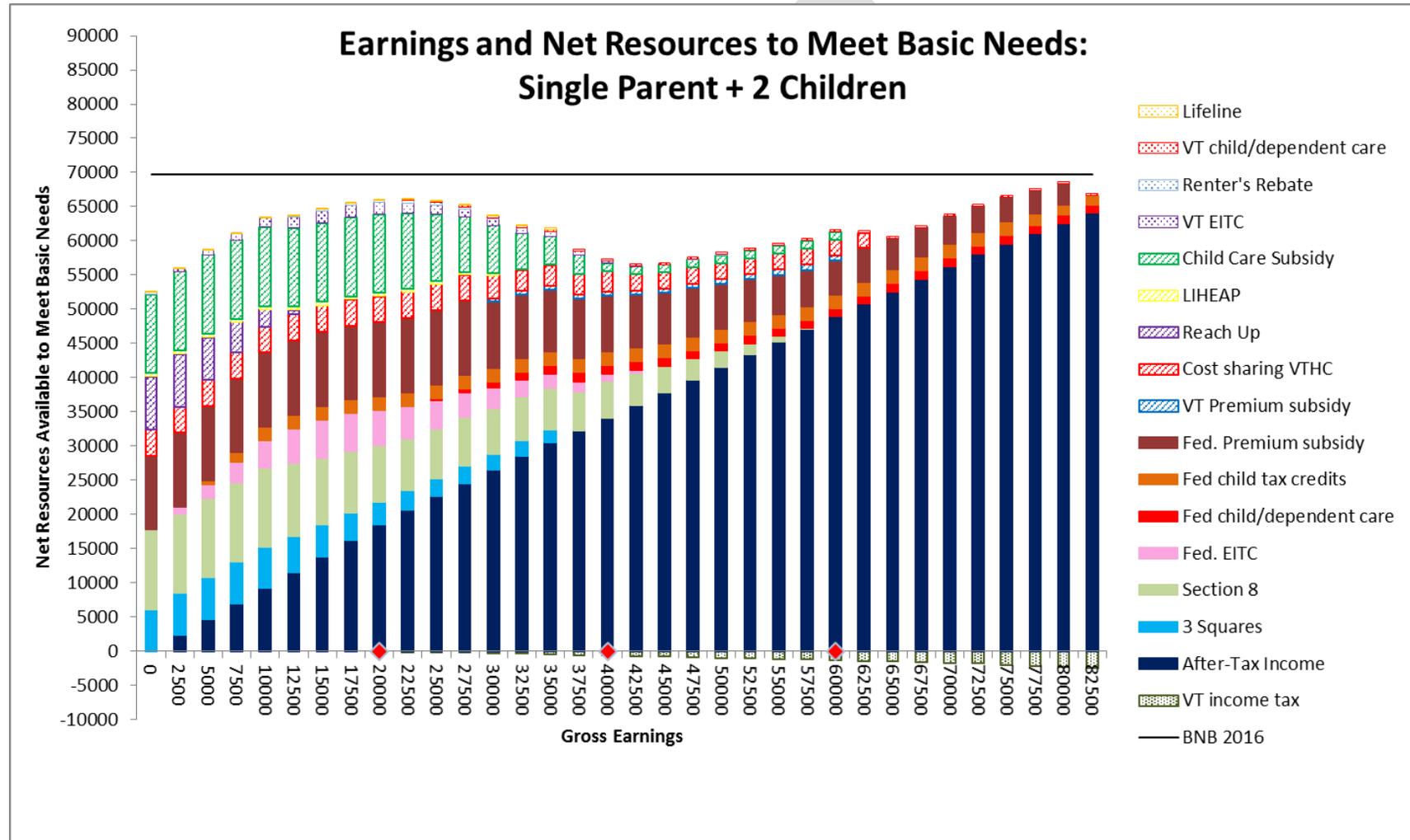
However, some households receiving public assistance—particularly those households needing childcare—may face a decrease in net available resources as a result of earning an additional dollar because of the combination of increased taxes and reduced public benefits. This holds true if the additional dollar earned is due to a promotion, more hours worked, or an increase in the minimum wage. Chart 2 shows the change in resources available to a single parent with a two children (pre-K and first grade) as earnings increase. If the parent’s earnings increased from \$25,000 to \$45,000, the resources available to the household would decrease by roughly \$7,700.

Chart 2: Single Parent, Two Children, No Housing Subsidy



If the same household had a Section 8 voucher, the family would come closer to meeting its basic needs, but the same pattern of declining resources would remain. (Chart 3). In fact, if the household’s earnings increased from \$25,000 to \$45,000 the available resources would decrease by \$9,000 – even more than the decrease for the household without a Section 8 voucher.

Chart 3: Single Parent, Two Children, Section 8 Voucher



In addition to demonstrating the complexity of making ends meet, the charts illustrate two structural problems:

1. **Short Term Benefit cliffs:** there are no cliffs, but rather slopes and valleys. There are earnings thresholds at which the decrease in benefits is greater than the increase in earnings, and the household falls behind. This is a disincentive to accept more work or a promotion, particularly if the benefit loss affects the ability to meet immediate needs—such as child care.
2. **Long Term Work incentive:** for some benefit recipients, the point at which work will begin to positively affect net income is so far off that it doesn't seem like a realistic possibility. Although the household may be struggling to meet basic needs, any ambition to work harder is frustrated if foreseeable wage gains won't make the household better off.

**The short-term drop in resources as earnings increase affects mainly families, with incomes between 100% and 300% FPL, who have children younger than thirteen needing child care.** The Child Care Financial Assistance Program offers child care subsidies to families with incomes up to 300% of the Federal Poverty Level (FPL). The subsidy percentage is steady for families between 0% and 100% of FPL 100% but it declines for families between 100% and 300% of FPL. As the subsidy declines, the family's child care co-pay increases, and the decrease in resources is likely to be greater than the increase in earnings. For reference, the red diamonds on the horizontal axis of the family charts are at 100%, 200%, and 300% for FPL.

Census data indicate that there are currently about 19,800 families with working parents and children younger than 13 that have incomes below 300% FPL. In these families there are about 34,500 children younger than 13. Not all of these families need child care, as they may have a relative or friend caring for their children during work hours. In the month of July, 2016, roughly 7,000 children in this income range benefited from the Child Care Financial Assistance Program.

Families with Children Younger than 13, Parents Working, Income < 300% FPL		
FPL	# Families	# Children <13
0-100%	3,400	6,000
100%-200%	8,600	15,000
200%-300%	7,800	13,500
Total < 300% FPL	19,800	34,500

There are roughly 16,400 families with children younger than 13 with incomes between 100% and 300% of FPL where net income is below what it would be if the family's earnings were lower.

## Benefits and the Minimum Wage

Bills introduced in both the House and Senate call for increasing the minimum wage to \$15/hour by 2022. In most cases this change would result in increasing the household's ability to meet its basic needs. For example, a single person working full time at \$10/hour in 2015 would see annual net resources increase by nearly \$2000 (in 2015 dollars).

However, the single parent with two children, working full time at minimum wage, would not see any increase in net resources, as the wage increase would be offset by benefit decreases. If the same parent had two half-time jobs, one paying minimum wage and the other paying more than minimum wage, net resources would actually decrease as a result of the minimum wage increase. The minimum wage increase does nothing to exacerbate the benefit/work incentive issue—but it doesn't solve the problem.

It is estimated that there are roughly 50,000 workers who would see their hourly earnings increase to the new minimum wage. An additional 20,000 people, mainly younger than 25, have an hourly wage below the current minimum and it is estimated that this wage would also increase. It is also estimated that another 20,000 workers whose hourly rate is slightly higher than the new minimum would see an increase. Given all the people who would see increased wages, only about 7,000 families (with about 10, 800 children younger than 13) potentially would see their net resources decline. (Even though about 9,000 families of minimum wage workers are in the valley, the ones who are on the downslope are the families who: have children younger than 13; all parents work; children need and receive subsidized child care; and the family income is between 100% and 220% FPL).

Many people have suggested a private/public approach: the private sector provides a livable *wage*, and the public sector addresses family needs to achieve a livable *income*. Although the households seeing a net decline in resources as earnings increase are those who need child care, increasing the child care subsidy is not necessarily the only public-sector approach to stabilizing their income. Increasing the EITC is frequently mentioned as the public-sector tool because it deals with family income (as opposed to worker wages) and it is easily administered. For all its advantages, it may not solve the very real immediate problem a household faces when there are reductions in monthly benefits and monthly bills are due. It may be more helpful to a family to receive a monthly payment.

To better understand how to approach the issue, the charts show the wages and federal benefits as solid colors, at the bottom of each bar. Next, shown with a pattern of horizontal lines, are benefits that are partially federal and partially state, in which the state has flexibility. At the top of each bar are the programs that are completely in state control, shown in a dot pattern.

## Notes:

The characteristics of the households are explained in the Basic Needs Budget (BNB) report prepared by the Joint Fiscal Office.

[http://www.leg.state.vt.us/jfo/reports/2017%20BNB%20Report%20Revision\\_Feb\\_1.pdf](http://www.leg.state.vt.us/jfo/reports/2017%20BNB%20Report%20Revision_Feb_1.pdf) The BNB assumes employer-assisted health insurance. The charts shown here assume the households receive Medicaid and Dr. Dynasaur, if eligible, or VT Health Connect premium subsidy and cost sharing. Therefore the BNB has been increased to adjust for the employer's share of the health insurance premium. In addition, the BNB does not account for Pre-K and the use of a voucher and the voucher amount was subtracted from the BNB in these charts. The BNB report explains the characteristics of each household and the assumptions involved in determining the expenses.

Census estimates use the 5-year ACS Public Use Microdata Sample, 2011-2015, adjusted to reflect later minimum wage changes. Income changes are calculated in 2015 dollars; \$15/hour in 2022 is estimated to be \$12.71 in 2015 dollars. Methodology for estimating wage changes based on: Data and Methods for Estimating the Impact of Proposed Local Minimum Wage Laws, Center on Wage and Employment Dynamics, 2014.

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