Earning More, Losing Ground

A trend analysis of Vermont's minimum wage, public assistance, and the cost of basic needs (1999-2003)

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prepared by the Public Assets Institute

for

The Vermont Children's Forum

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The **Vermont Children's Forum** (VCF) is the state's leading non-profit education, research and advocacy organization focused on a broad spectrum of child and youth public policy issues. VCF's mission is to promote public policy that enhances the lives of children and youth in Vermont.

The **Public Assets Institute** is an independent, non-profit research and education organization that analyzes and develops fiscal policy and facilitates informed discussion on the fiscal implications of important public policy initiatives. The institute seeks to balance individual and public interests, encourage democratic decision-making, and enlist the powers of government to enhance the well being of all citizens.

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Introduction

The purpose of this report is to distill some of the minimum wage, public assistance, and basic needs budget data collected over five years (1999-2003) and to document the change in economic situation faced by households headed by full-time workers in Vermont.

In 1999, the Vermont Legislature made the following findings:

> *(a) The General Assembly finds that any Vermonter, employer or employee, who works full-time should receive wages and employment benefits that are fairly commensurate with the value of the services rendered. Wages and employment benefits together with supplemental public benefits should provide an income sufficient to pay for basic human needs.*
>
> *(b) There are still many public policy and economic questions that require further research and analysis in order to find ways, both legislative and otherwise, to reduce or eliminate the livable income gap for Vermonters without creating negative economic or fiscal impacts.*
>
> *(c) Extensive and appropriate statistical data on employment, taxes, education, workforce training and economic development issues is needed to make informed policy decisions. To this end, it is necessary to establish standardized benchmarks, using consistent methodology, with which to measure progress toward a state economy that can support a livable income for all Vermont wage earners.*[1]

The same Act directed the Joint Fiscal Office to prepare an annual report documenting:

> *A set of "basic needs budgets" for various household configurations for the previous year. The "basic needs budgets" are calculations of the amount of money needed by various household configurations to maintain a decent standard of living in Vermont, using current state and federal data sources for determining such basic monthly expenses as food, housing, transportation, child care, utilities, personal expenses and health care.*

A legislative committee determined the six household configurations, the expenses to be included in the budget, the sources of data, and the methodology to be used each year so that the results would be consistent and comparable from year to year.[2]

This report analyzes the changes between the first and fifth years of the study (1999 and 2003), with emphasis on 2003. The report's appendix includes an abbreviated version of these findings that can be distributed as a policy brief for a general audience.

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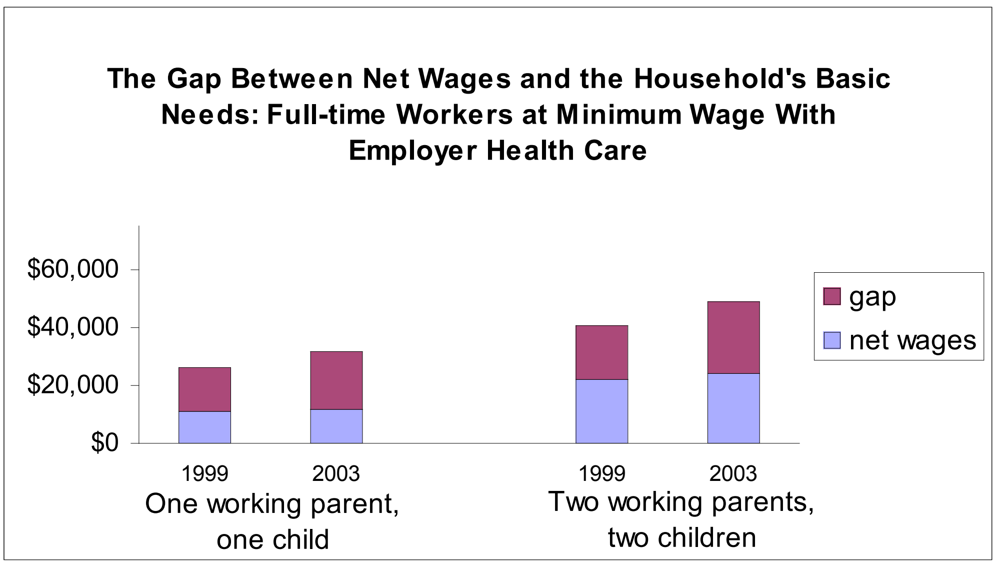
[1] Act 119 of the 2000 session.
[2] The Committee's methodology is documented in a report entitled "Act 21 Research and Analysis in Support of the Livable Income Study Committee" which is available on the Joint Fiscal Office Web Site.

Analysis

The Legislature's Livable Income Study concluded that the income of parents working full time at minimum wage could not provide enough money to cover the basic needs of households with children in 1999.[3] Between 1999 and 2003[4], Vermont's minimum wage increased from $5.75 to $6.25 per hour. However, the cost of providing basic needs increased even more. So the gap between net wages and the household's basic needs budget widened during the five-year period. (Chart 1)

The households studied in this report, according to the methodology directed by the Legislature, have one four-year-old child (one-child households) or one four-year-old child and one six-year-old child (two-child households).

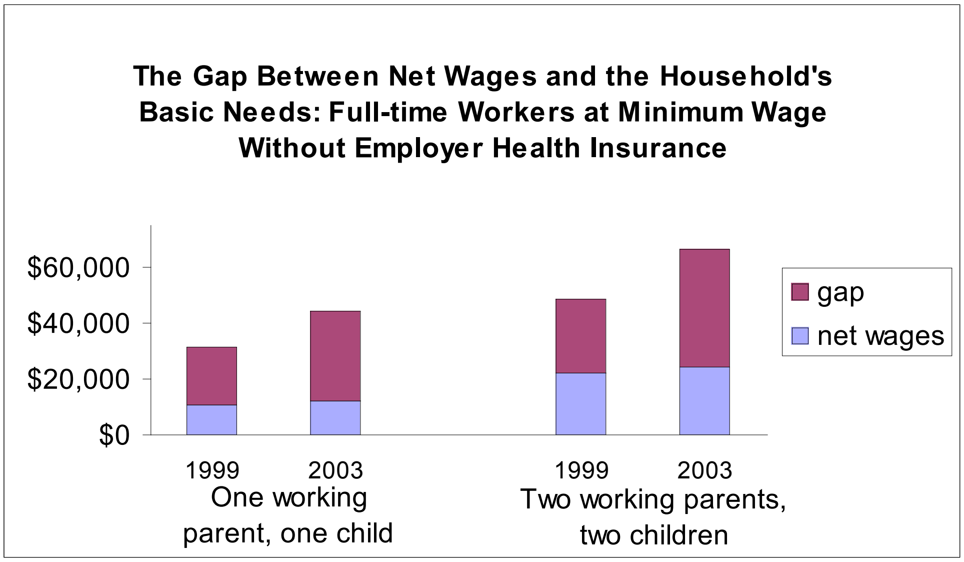
Chart 1



Because health insurance costs doubled during the five-year period[5], the situation would be much more extreme for working households if they had to provide their own health insurance. (Chart 2)

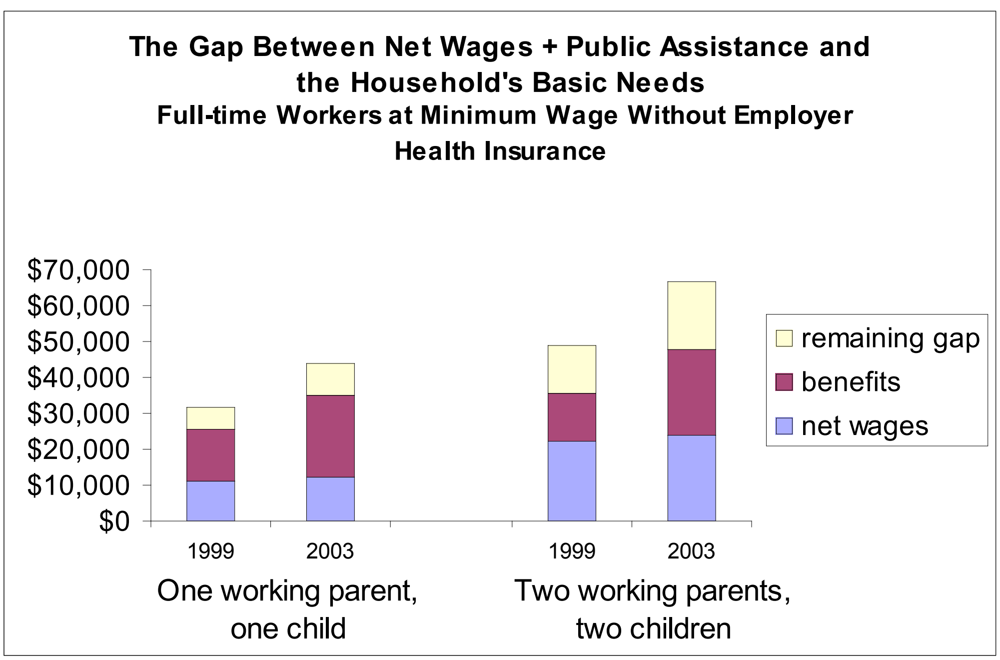
[3] "Act 21 Research and Analysis in Support of the Livable Income Study Committee" -- available on the Joint Fiscal Office Web Site.
[4] The year used in this report is the study year. The studies were done in the fall of the year, using the most current data available and the tax schedules from the prior year.
[5] Source: Joint Fiscal Office

Chart 2



Part of this gap is filled with various types of public assistance—most significantly Vermont's health insurance programs (VHAP[6] and Dr. Dynasaur for those households without employer-assisted health insurance). However, even if those living in these households were to take advantage of every public assistance program that they are potentially eligible for, there remains a gap between a household's basic needs and its ability to pay for them. (Chart 3)

Chart 3



[6] Vermont Health Access Plan

Although public assistance benefits available to these households generally increased during the five-year period, costs increased more. Consequently, the gap between the money available to the household and the amount needed to provide basic needs widened. (Chart 3 and Table 1).

Table 1. Comparative Increases in Available Income and Cost of Basic Needs (1999-2003); Full-time workers at minimum wage, without employer-assisted health insurance.

	One parent, one child		Two parents, two children
Increase in net wage	$959		$1,847
Increase in public assistance	$8,465		$10,075
Total increase in available income	$9,424		$11,922
Total increase in cost of basic needs	$12,435		$17,729
Increase in gap between available income and cost of basic needs	$3,011		$5,807

As shown in Tables 1 and 2, the value of the overall public assistance package for those receiving VHAP and Dr. Dynasaur increased substantially in the five years. There are three reasons for this:

- Health insurance costs increased dramatically, so both the cost of the basic needs budget and the value of the assistance provided by VHAP and Dr. Dynasaur increased as well.
- The Vermont Earned Income Tax Credit (VT EITC) increased from 25% to 32% of the federal Earned Income Tax Credit (EITC). Although technically part of the tax structure, the EITC is considered a form of public assistance in this report.
- A larger percentage of the heating bill was covered by Fuel Assistance in 2003 than in 1999.

However, there are several reasons why public assistance is less effective in filling the gap:

- For some programs, including Vermont's Child Care Subsidy and Vermont's Renter's Rebate, the eligibility thresholds are not increased to keep pace with inflation. This means that if a household's income increases at the rate of inflation, even though that increase does not improve buying power, public assistance may be cut because the household is considered to be in a higher income bracket.

- For other programs, such as Fuel Assistance, the amount of the assistance is set based on the amount appropriated rather than the amount needed. This means that the assistance received does not necessarily meet the need.

- Some programs, such as Food stamps, use calculations based on a household cost of living that is well below that estimated by the Vermont legislature.

As a result, the value of certain types of public assistance received by two households with children and parents working full time at minimum wage increased in the five-year period, while the value of other types decreased. For households with two working parents and two children, the value of public assistance actually decreased unless they were receiving publicly funded health insurance. (Table 2).

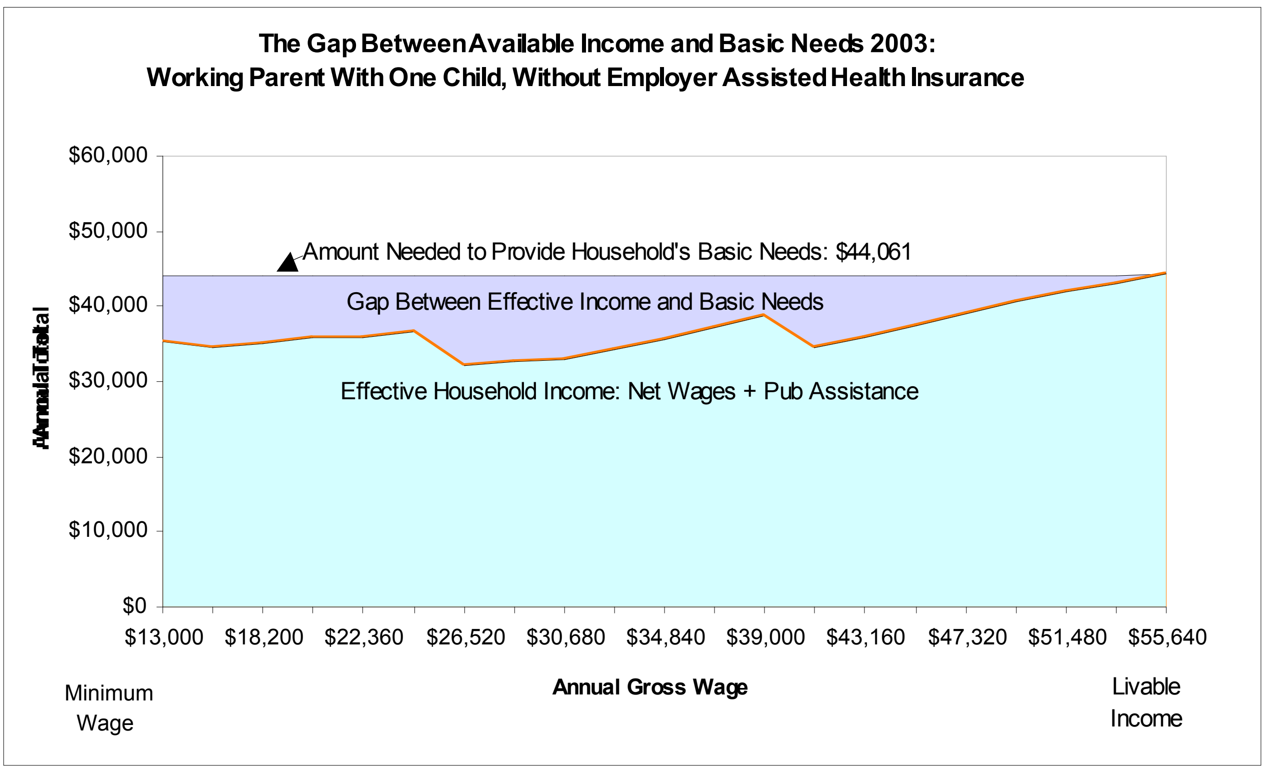
Table 2. Change in Public Assistance, 1999-2003, Full-time workers at minimum wage.

	Increase/Decrease	
Public Assistance	**One working parent, one child**	**Two working parents, two children**
Child Care Subsidy	+ $0	- $774
LIHEAP	+ $161	+ $176
Federal EITC	+ $235	+ $210
VT EITC	+ $234	+ $158
Telephone Lifeline	+ $36	
Renter's Rebate	+ $80	- $139
Foodstamps	+ $651	
Net change in public assistance excluding health insurance	+$1,397	-$369
Health Insurance	+ $7,068	+ $10,444
Net change in public assistance	**+ $8,465**	**+ $10,075**

The American Dream holds that hard work will lead to a brighter future. Yet it is clear that is not the case for many Vermont households with children. The journey from a minimum-wage job to a livable income is not only long, but it also has discouraging setbacks so that households can actually lose net income as they work harder and longer to earn more.

As parents work more hours, take on more responsibility at their jobs, and earn more money, the households lose public assistance and have to pay more taxes. As a result, a single parent with one child making $13,000 at a minimum-wage job would have to quadruple the household's income before being able to meet the household's basic needs. (Chart 4).

Chart 4.



As shown by following the red line in Chart 4, a single parent with one child with an annual gross wage of $41,000 has less money to live on than a single parent with one child making $13,000. This situation makes the $41,000 household angry; and it makes the $13,000 household lose hope that earning more money will create a better life.

The reason for the setbacks is that less public assistance is available to households with more income. Some types of public assistance--most significantly health insurance--are simply dropped (rather than phased out slowly) when incomes reach a certain point. For example, a single parent with one child would lose health insurance for the parent when the household income reached $26,500; the household would lose health insurance for the child when the household income reached $39,000. (Chart 4).

But it is not only the loss of public assistance that makes it difficult to climb from a minimum-wage job to a livable wage job. The household must also pay more taxes on the additional money earned, including the money earned to make up for the lost assistance.

Although both the federal and Vermont income tax structures are adjusted in three ways to address the needs of different-sized households, the adjustments don't reflect reality:

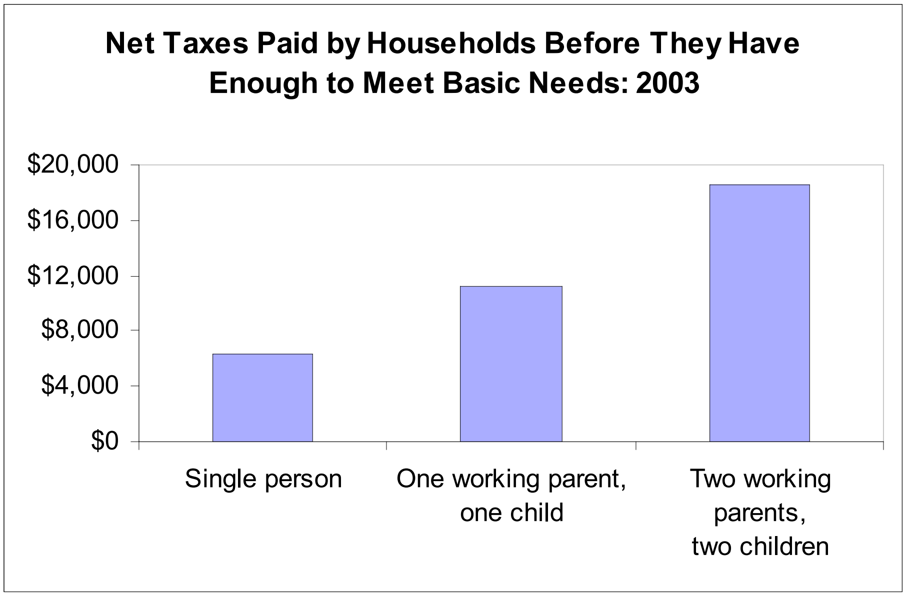
- A certain basic income is exempt from taxation, and this amount increases with household size. The exempt income (standard deduction plus the exemptions) for a single parent with one child totaled $12,900 yet the amount the household needed to meet its basic needs was $44,061. Households are paying income taxes well before they can meet their basic needs.

- The state and federal tax tables are adjusted for filing status, but do not reflect the actual cost for households to meet basic needs as calculated by the Vermont Legislature. A single parent with one child is paying 27% of each additional dollar in federal tax and 7.2% in state tax before reaching a livable income. By contrast, a single person with a livable income is only paying 15% in federal tax and 3.6% in state tax.

- Credits are also available for children ($600/child in 2002) and dependent care ($480 federal, $115 state). However, they fall way short of the actual cost. The basic needs study indicates that one child adds $19,000 to a single person's household cost.

As a result, households pay significant income taxes before they have sufficient income to meet basic needs, and that tax amount is higher for households with children. (Chart 5).

Chart 5



Recommendations

Public policies could be designed that would be consistent with the following principles:

- Government policies should support citizens' desire to work.
- Government should not tax households that do not have sufficient income to meet their basic needs.

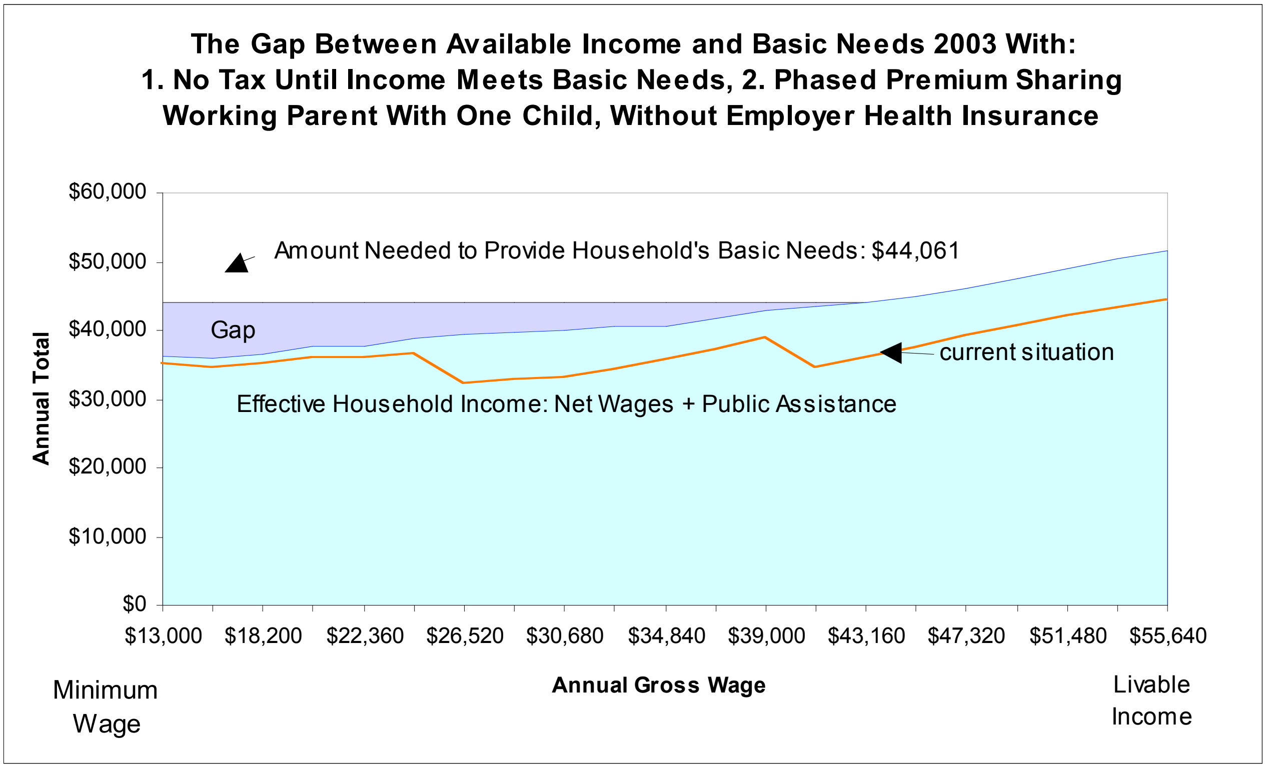
Two public policy changes consistent with these principles would raise the net income in households that don't have enough to meet basic needs: (Chart 6).

1. Rather than losing eligibility for publicly assisted health insurance while earning less than a livable income, households would remain eligible and pay the portion of the premiums that they could afford.

2. Households would pay no income taxes (state and federal), or payroll taxes on the income needed to provide for basic needs. Income in excess of that amount would be taxed at a combined federal and state marginal rate of 34.2%.

Taking just these two steps would produce the smooth blue line indicating that as households earn more money, they can close the gap on the basic needs budget. This would help eliminate the resentment of those who earn more and the hopelessness of those who now face the steep climb to a better life.

Chart 6



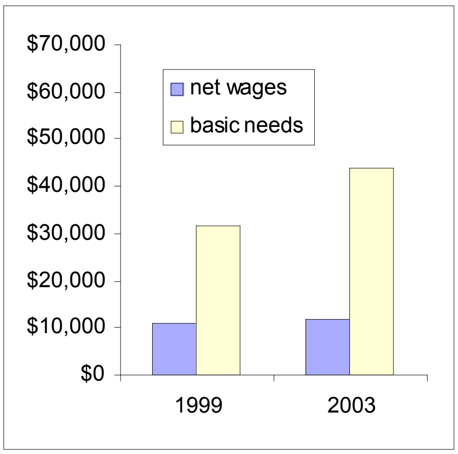
Appendix -- Policy Brief for Publication

Earning More, Losing Ground (1999-2003)

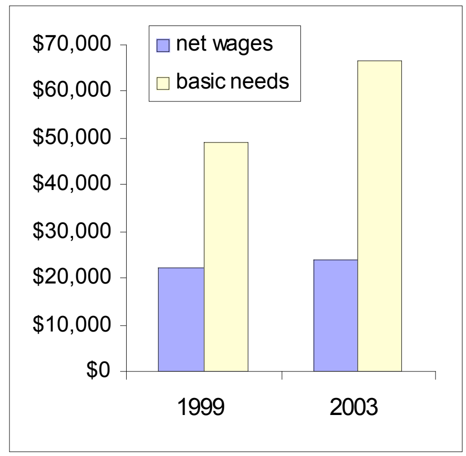
1. **From 1999 through 2003, Vermont's minimum wage increased, but the cost for basic household needs increased more**. The result: The gap widened between the amount that working households earn at minimum wage and the amount they need to pay for their basic needs.

Net wage of full-time workers at minimum wage and basic needs budget: 1999-2003

One working parent, one child



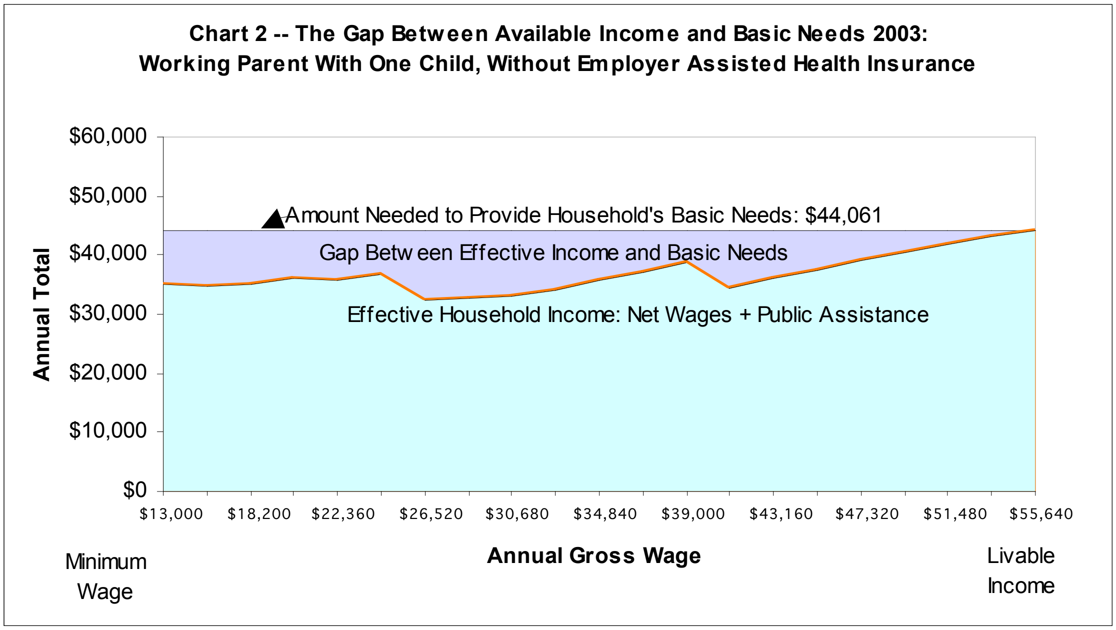
Two working parents, two children



Full-time work at minimum wage was never enough to pay for basic needs. But, a bad situation has gotten worse. For single-parent households, the minimum wage covered 35% of basic needs in 1999, but only 27% in 2003. For two-parent households, that percentage went from 45% to 36%.

The single biggest cost increase was health insurance, which doubled over the five-year period accounting for about 25% of 2003 basic household expenses. To help fill the widening gap between low wages and basic expenses, government programs assist with child care, health care, heating fuel, property taxes, and other such costs. But, these program benefits have failed to keep pace with the cost of basic needs.

2. Higher incomes make many households poorer. To make matters worse, as their incomes increase, working households lose public benefits and pay higher taxes. For many, the result is that they have given up more than they get when they earn more. People have better incomes, but they are not better off.



3. The assumption of most social policy is that work is – and should be -- rewarded with greater financial security and comfort. However, current tax and public benefit policies <u>frustrate ambition and stress family life.</u> Only structural changes can make work and financial independence compatible public goals.

THE SOLUTION: Any household with income that is not enough to cover basic needs should pay no income or payroll taxes, and should remain eligible for publicly assisted health insurance.