OCPP OREGON CENTER for PUBLIC POLICY

Because facts matter.

MEMORANDUM

TO: House Committee on Revenue
Senate Committee on Finance and Revenue
Senate Committee on Human Services and Early Childhood
House Committee on Human Services and Housing

FROM: Chuck Sheketoff, executive director
Tyler Mac Innis, policy analyst

DATE: January 30, 2015

RE: The flaws in LROs' analysis of how the minimum wage impacts families

A number of flaws plague a recent Legislative Revenue Office (LRO) analysis of the impact of increasing the minimum wage on families' monthly net or spendable income.[1] We respectfully recommend that you disregard the LRO analysis.

The most obvious flaw is that the analysis focuses its analysis on a hypothetical family that is clearly unrepresentative of the families who would benefit from a minimum wage increase. The family examined by LRO is a single-parent, two-child family enrolled in the state child care subsidy program, Employment Related Day Care (ERDC). The program serves only 9,000 families each month and has a waiting list.[2] Thus, the hypothetical family in the LRO analysis is hardly representative of the more than half-a-million workers who would be impacted from a minimum wage increase to $15 an hour.

But even in the case of the hypothetical family examined in the analysis, LROs' analysis is flawed or rests on questionable assumptions.

First, LRO wrongly portrays state and federal tax credits as part of a worker's monthly income. In fact, none of the tax credits — state and federal EITCs, federal Child Tax Credit, state Working Family Child Care Credit, or the state Child and Dependent Care Credit — increase a family's income on a monthly (or paycheck-to-paycheck) basis. Rather, these tax credits arrive in a lump once a year. Apportioning tax credits to monthly income distorts a family's ability to make ends meet on a paycheck-to-paycheck or monthly basis.

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[1] When LRO presented the material to interim legislative committees in December 2014, LRO called it "Purchasing Power."

[2] We have requested from DHS information on the size of the wait list and other ERDC client characteristics.

Second, the LRO analysis wrongly assumes child care expenses at $1,200 per month. We don't know where LRO got that figure, but we imagine not many families working at minimum wage choose to use child care that costs 76 percent of their gross income as assumed by LRO.

Third, the amount of spendable income for an ERDC family is generally not a function of the DHS subsidy payment to the child care provider. The subsidy the state pays to the care provider only affects the family's spendable income if the state subsidy and family's co-pay, when combined, are less than what the provider is charging. In that situation the family pays the additional amount above the co-pay. We do not know how many minimum wage families choose child care arrangements where they must pay above and beyond the co-pay (i.e. the co-pay and subsidy are too low) and the extent to which they must do so. We'd be surprised, however, if many low-income families choose a child care arrangement where they must pay more than half of their gross pay above and beyond the ERDC co-pay, as assumed in the LRO example.[3]

Fourth, LRO has not shown that its hypothetical family ought to be considered representative of ERDC families working at minimum wage. Many factors affect the level of the state's subsidy. The state subsidy level is based on the zip codes in which the care is provided, the age of children, and the hours and type of care. Without that information, it's impossible to say at what wage level a family would be ineligible for ERDC because the co-pay would exceed the subsidy. Ultimately, at best it's unclear whether LRO's hypothetical family represents any sort of typical ERDC family.

Re-examining the single-parent, two-child family's monthly spendable income: A raise is a raise each month.

The charts and accompanying table below show what happens to the monthly spendable income of a single-parent, two-child family when wages go up from $9.10 in dollar increments and the family receives SNAP.[4] The charts assume the parent works full-time (40 hours per week). Because we are attempting to illustrate the impact on the family's ability to pay monthly expenses, we do not include income from tax credits that the family might receive after year's end. We use ADP's online tool to calculate state and federal withholding from monthly paychecks.[5] Because it is the ERDC co-pay that impacts a family's monthly spendable income, we factor in that cost using the DHS online calculator[6], not the cost of the child care subsidy that the state pays to the provider. Last, we assume that the family pays no more than the required co-pay for

[3] Some families probably put up with paying a little more than the co-pay, not the $803 LRO assumes the family pays above and beyond the co-pay with a gross income of $1,577.

[4] The 2014 minimum wage was $9.10 and was used by LRO in its analysis. We use it here so we don't have to re-calculate SNAP benefits. We assume that LRO's calculation of SNAP was correct, though they have not provided us with the details of their hypothetical family to see if they calculated it correctly.

[5] http://www.adp.com/tools-and-resources/calculators-and-tools/payroll-calculators/hourly-paycheck-calculator.aspx (2015).

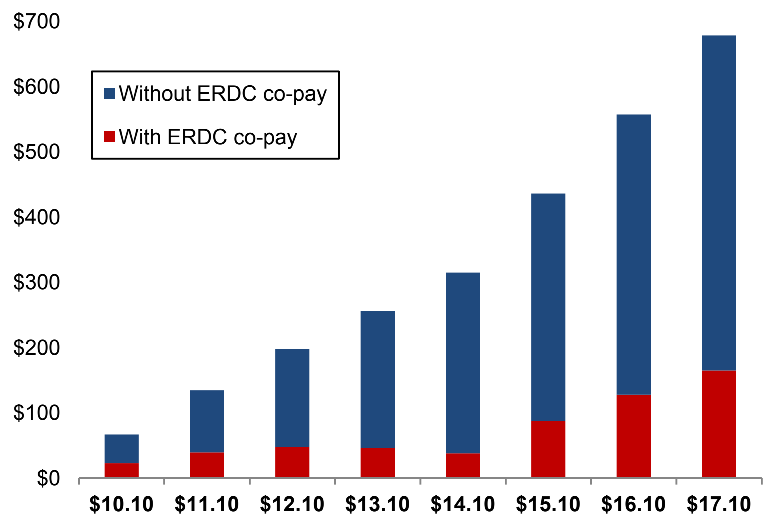
[6] https://apps.state.or.us/cf1/ERDC/ effective February 1, 2014 (current).

their child care costs. In other words, we assume the ERDC subsidy and the co-pay – the total of which is constant across the income scale until the family income exceeds 185 percent of poverty – together fully cover the child care costs.

The first chart shows the cumulative change in monthly household spendable income as wages increase for one-parent, two-child families with and without ERDC. The second chart shows the percent change in monthly spendable income from the previous wage level with and without ERDC.

Families generally will experience wage gains

(Change in monthly spendable income from $9.10/hr for a family of three with and without ERDC co-pay)



Note: Monthly income is take home pay after taxes and including SNAP benefits.
Source: OCPP analysis of net monthly income using ADP hourly payroll calculator.

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As the chart shows, the family without ERDC — the bulk of low-income families with children — experience significant income gains as the minimum wage increases. And in most wage increase scenarios, the family utilizing ERDC also experiences wage gains, though not as substantial; the ERDC co-pay scale, not the minimum wage, is the culprit in those few situations where a wage increase results in less income.[7]

The second chart illustrates these monthly changes in income on a percentage basis. For this hypothetical three-person family, the ERDC co-pay means less income as a family moves from $12.10 per hour to $13.10 or $14.10 per hour. At all other levels the $1 per hour increase means an increase in spendable income.

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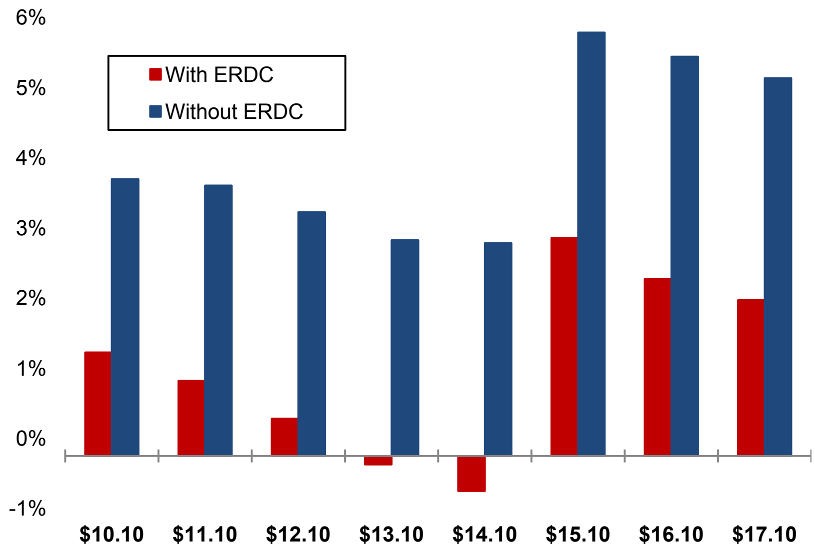
[7] The rules that set co-pays that exceed the increased income violate the agency's stated intent of the co-pay. The DHS Family Services Manual states: "The copay structure should encourage families to seek higher wages and better jobs. Increased income should not be canceled out by a higher copay and the loss of other benefits, such as SNAP." See "Copay requirement; intent," http://apps.state.or.us/caf/fsm/pdf/07cc-f.pdf, pages 15-16.

Raises increase household spendable income; in most situations ERDC families also gain income

(Percent change in monthly spendable income by dollar increase in hourly wage)



Note: Monthly spendable income includes wages after taxes and SNAP benefits.
Source: OCPP analysis of LRO calculations. Taxes calculated using ADP hourly payroll calculator.

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Table 1: Changes in net spendable income

Hourly Wage	**$9.10**	**$10.10**	**$11.10**	**$12.10**	**$13.10**	**$14.10**	**$15.10**	**$16.10**	**$17.10**	**$18.10**
Monthly wage income	$ 1,577	$ 1,751	$ 1,924	$ 2,097	$ 2,271	$ 2,444	$ 2,617	$ 2,791	$ 2,964	$ 3,137
% change in wage	--	11.0%	9.9%	9.0%	8.3%	7.6%	7.1%	6.6%	6.2%	5.8%
Taxes										
Federal tax withholding	-$39	-$56	-$74	-$95	-$121	-$147	-$173	-$199	-$225	-$251
FICA	-$121	-$134	-$147	-$160	-$174	-$187	-$200	-$214	-$227	-$240
Oregon withholding	-$39	-$52	-$65	-$78	-$91	-$104	-$117	-$130	-$143	-$156
Total taxes withheld	-$199	-$242	-$286	-$334	-$386	-$438	-$491	-$543	-$595	-$647
Benefits										
SNAP	$312	$249	$187	$125	$62	$0	$0	$0	$0	$0
ERDC co-pay	-$150	-$194	-$245	-$300	-$360	-$427	-$499	-$579	-$663	$0
Total benefits	$162	$55	-$58	-$175	-$298	-$427	-$499	-$579	-$663	$0
Totals with ERDC										
Total net income	$ 1,541	$ 1,563	$ 1,580	$ 1,589	$ 1,587	$ 1,579	$ 1,628	$ 1,669	$ 1,706	$ 2,490
% change in net income	--	1.5%	1.1%	0.5%	-0.1%	-0.5%	3.1%	2.5%	2.2%	46.0%
Totals without ERDC										
Total net income	**$ 1,691**	**$ 1,757**	**$ 1,825**	**$ 1,889**	**$ 1,947**	**$ 2,006**	**$ 2,127**	**$ 2,248**	**$ 2,369**	**$ 2,490**
% change in net income	**--**	**3.9%**	**3.9%**	**3.5%**	**3.1%**	**3.0%**	**6.0%**	**5.7%**	**5.4%**	**5.1%**

Source: OCPP analysis of LRO numbers. Taxes calculated using the ADP Hourly Paycheck Calculator. ERDC co-pays calculated for a family of three using Oregon DHS ERDC co-pay calculator. At $18.10 the family income exceeds 185 percent of poverty so not eligible for ERDC.

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Conclusion

The recent LRO analysis of the impact of a minimum wage increase on families' monthly spendable income is flawed. The reality is that raising the minimum wage would almost universally increase the ability of families to pay their monthly bills.