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Making Ends Meet: Minimum Wages and Public Assistance

Everyone in Virginia who works full-time should be able to support their family with a decent standard of living, and raising the minimum wage to \$15 by 2025 will help make that happen. As wages and income grow, families are likely to qualify for less help from programs such as SNAP (food stamps) and public health insurance. While many public assistance programs have a gradual phase-out of assistance, with or without increases to the minimum wage there are always people and families who are close to the eligibility limits for public benefits programs and higher wages or extra hours can put them over the income limit. This has often been referred to as a “benefit cliff.” Likewise, the addition of a new family member or losing a job can also lead to being newly eligible for benefits. However, critics of assistance programs often significantly overstate the size of the problem by assuming people receive unusual combinations of benefits; in practice, very high cliffs are rare. And these concerns are not a reason to oppose raising the minimum wage. The proposed increase to the minimum wage will be phased in over five or more years. Virginia policymakers can take time over the next few years to consider how benefit cliffs can be reduced for all Virginia families, whether or not they will receive a raise from the minimum wage increase.

Although not comprehensive, an initial review shows that for the most common public benefits received by low-wage workers, a gradual increase in the minimum wage to \$15 by 2025 will result in a gradual reduction in the value of public assistance, rather than a sharp cliff effect, and families will be better off than they would be without a wage increase. As we consider the potential for benefit cliffs as the minimum wage is raised in Virginia, it’s important to remember that eligibility for most programs is tied to the federal poverty threshold, which will increase somewhat due to inflation between now and 2025 (the earliest that a \$15 minimum wage is being proposed in Virginia). As a result, eligibility thresholds will also increase between now and 2025. It’s also important to remember the changes that have been made over the past few decades to reduce benefit cliffs, including the Affordable Care Act’s creation of refundable credits for families whose income is just above the Medicaid cut-off to purchase health insurance on the exchange and the availability of extended childcare assistance for VIEW participants.

One of the most valuable forms of assistance is public health insurance. Let’s take a look at Medicaid eligibility and how it is expected to change over time. While at current eligibility levels a family of three with a parent working 40 hours a week for 50 weeks per year would have their income lifted above the current adult Medicaid threshold with a \$15 minimum wage, eligibility thresholds are likely to increase enough by 2025 so the whole family will remain eligible for Medicaid, assuming 2.4% inflation each year. (Even at current threshold levels the children in a family with a parent earning \$15 an hour would remain eligible for public health insurance through Medicaid and/or FAMIS.)



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For a smaller family of two with a parent working 40 hours a week for 50 weeks per year, income limits are lower yet the children would still remain eligible for public health insurance through FAMIS. The parent might move out of Medicaid eligibility, yet would qualify for substantial federal credits to help with buying insurance on the health insurance marketplace. Today, a parent living in Roanoke City with a \$15 an hour job working 40 hours a week for 50 weeks per year would qualify for a credit of \$451.28 a month to help with purchasing her insurance (her child would get coverage through FAMIS). The parent could use her credit to buy a bronze plan with no monthly premium or could select a silver plan with extra cost-savings for a monthly premium of \$90.13. With \$833 more in gross monthly income than a peer who is making \$10 an hour, she is substantially better off than the lower-paid worker. (Since the cost of health insurance will change between now and 2025, the exact marketplace credits and costs will be different in the future, but low-wage working families will remain eligible for substantial subsidies.)

Another important form of help for families with low incomes is food assistance. SNAP (food stamp) benefit calculation is complicated, but except for families in unusual circumstances SNAP benefits phase out, avoiding a potential cliff effect. For example, for a family of three in Virginia with monthly housing costs (including utilities) of \$800, each dollar of additional income results in about 36 cents less in SNAP benefits. At \$8/hour (gross wages of \$1,333/month), they would receive about \$344 in SNAP benefits. At \$10/hour, they would receive about \$224 in SNAP benefits. At \$12/hour, they would receive about \$104, and at \$13/hour it would be about \$44. Currently, they would exceed the income limit at about \$14/hour, but by 2025 the SNAP limit for a family of three is also likely to be above \$15/hour for someone working 2000 hours/year assuming inflation of 2.4% per year. And with that \$833/month of extra gross income compared to a peer who is making \$10/hour, a parent with two children would still be better off making \$15/hour and not receiving food assistance than making \$10/hour and getting \$224 in SNAP benefits.

The SNAP phase-outs and limits occur at lower wages for single adults and parent-with-one-child households, and the value of benefits is also lower for these smaller households. A single person making \$6/hour with \$600/month rent and utilities would get just \$89/month in SNAP benefits, which would be reduced to \$29/month at \$7/hour and end at about \$8.20/hour. The person would still be better off financially, since each \$1 of additional earnings is resulting in only about 36 cents in SNAP reductions.

Cash assistance (TANF) eligibility for low-income families helps far fewer families than SNAP or Medicaid, and a family of three with a full-time, year-round worker already would not qualify for TANF except in unusual circumstances. Currently, the TANF income eligibility threshold for new applicants is \$885/month in higher-cost parts of the state and the “standard of assistance” (maximum total monthly income a family can receive including TANF benefits but excluding some deductions) is \$442/month for a three-person household in these parts of the state. As a result,



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most low-income working families are already ineligible for TANF. And the earned income disregard means that for most families receiving TANF there is a gradual phase-out of cash assistance rather than a “cliff.”

An increase in the minimum wage will not create a new problem regarding benefit cliffs. Rather, the potential for benefit cliffs has always existed in these programs. And a minimum wage increase gives more cash to people with low incomes – for goods and services that only cash can buy (and savings, too). However, as Virginia raises its minimum wage, lawmakers should certainly take the opportunity to carefully study its public programs for ways that benefit cliffs can be further reduced so that every Virginian is better off when they earn more income.

– *Laura Goren, Research Director*

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