

Issue Brief | 2019-1 | April 2019

Public Cost of Low-Wage Work in New England

Ian Eve Perry and Ken Jacobs



Contents

Key Findings	3
Introduction	3
Support for Working Families via Public Healthcare and Assistance	4
Impact of the Minimum Wage	6
Conclusion	6
About the Authors	8
Appendix Tables	9
Endnotes	11

The views expressed in this paper are those of the authors and do not necessarily represent those of the Federal Reserve Bank of Boston or the Federal Reserve System.

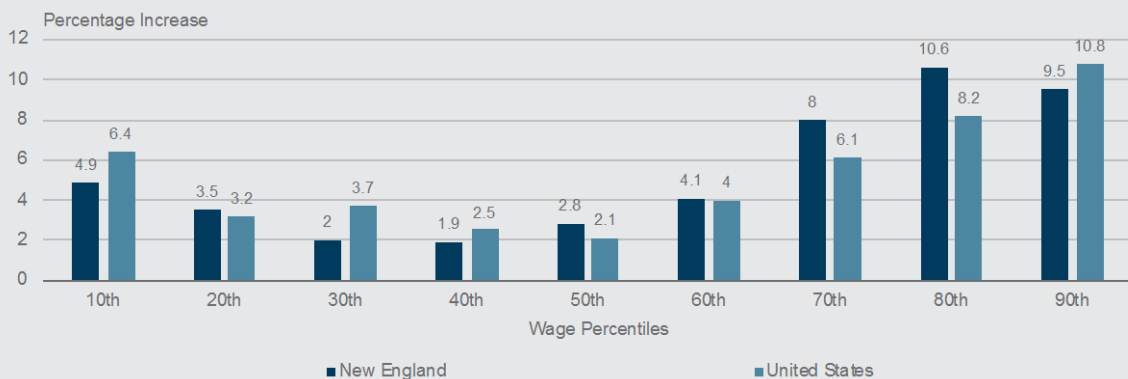
Key Findings

- The economic recovery has not affected workers equally. From 2006 to 2017, the top 10 percent of New England’s workers saw wage increases that were almost twice as great as those of the bottom 10 percent. The median worker only saw a 2.8 percent increase in pay during this period, indicating stagnation for those in the middle.
- Despite the increase in wages for the 10th percentile, working families in New England account for 69 percent of public healthcare enrollees and 47 percent of Temporary Aid to Need Families (TANF) recipients.
- In New England, working families account for 91 percent of the costs of the Earned Income Tax Credit and 47 percent of TANF costs.
- We conclude that for many working families, wage growth has not been strong enough to allow them to meet their basic needs on their own.

Introduction

Over the past decade, due to both the Great Recession and a recovery without evenly shared gains, wage growth for many workers has been quite small. For the median worker in the United States, wages increased only 2.1 percent in inflation-adjusted terms from 2006 to 2017, which equals an annual pay increase of only 0.2 percent per year. Workers in New England had a similar experience, with the median wage only rising by 2.8 percent over those 11 years. Workers at the bottom of the wage distribution saw slightly higher wage growth, largely due to increases in the minimum wage. Nationally, wages for the 10th percentile of the distribution rose by 6.4 percent over this period; in New England the gain was 4.9 percent. At the same time, workers in the 90th percentile gained much more, seeing their wages rise by 10.8 percent nationally and 9.5 percent in New England (Figure 1).

Figure 1 | Change in Real Wages, 2006 – 2017



Source: Authors' analysis of EPI Current Population Survey Outgoing Rotation Group, 2006 and 2017.

Changes in employer-sponsored insurance coverage have only made things worse for workers already struggling with slow wage growth. In 2006, 69.3 percent of the nonelderly population in New England had health insurance from an employer, but by 2017 that portion had declined to 61.6 percent.

The combination of declining share of workers receiving employer benefits and slow wage growth has meant that many workers—not just low-wage workers—have needed to utilize public healthcare and assistance programs in order to make ends meet.

Support for Working Families via Public Healthcare and Assistance

We examined the enrollment of working families in public healthcare programs (Medicaid and Children’s Health Insurance Program, or CHIP) and three public assistance programs (Earned Income Tax Credit, or EITC; Supplemental Nutrition Assistance Program, or SNAP; and Temporary Aid to Needy Families, or TANF), along with total public expenditure that went to working families via the public assistance programs annually during the years 2014 to 2016.

The costs for the healthcare programs and TANF are shared between the federal government and the states, and the EITC and SNAP are fully federally funded. For all programs, we show the total public expenditure (federal plus state when applicable). We limit our analysis to just the cash assistance portion of TANF. In this report, we define working families as those that have at least one family member who works 27 or more weeks per year and 10 or more hours per week.

Working families were found to be sizable majorities of the enrollees in Medicaid and CHIP as well as the EITC throughout the New England states. Working families also made up substantial portions of SNAP and TANF enrollment (Table 1; for a breakout by state, see Appendix Table A1).

Table 1 | Enrollment in Public Healthcare and Assistance Programs, New England, 2014 – 2016

Program	Total Enrollment	Enrollment of Working Families	Working-Family Share
Medicaid and Children’s Health Insurance Program (CHIP)	3,480,000	2,400,000	69%
Earned Income Tax Credit (EITC)	966,000	808,000	84%
Supplemental Nutrition Assistance Program (SNAP)	1,478,000	525,000	35%
Temporary Aid to Needy Families (TANF)	105,000	50,000	47%

Note: Enrollment for Medicaid and CHIP reflects individual enrollees, while enrollment for EITC, SNAP, and TANF reflects family enrollment. Medicaid and CHIP data are for 2014–2015 only.

Source: Authors’ calculations based on the 2015 – 2017 March Current Population Survey and administrative data from Medicaid, CHIP, EITC, SNAP, and TANF programs.

Across New England, more than 90 percent of EITC spending went to working families, and over 40 percent of SNAP and TANF assistance went to working families. Overall, 61 percent of spending on the three public-assistance programs (EITC, SNAP, and TANF) supported working families. Collectively, working families in New England received over \$3 billion per year from these programs during the period 2014 to 2016 (Table 2; for breakout by state, see Appendix Table A2).

Table 2 | Cost of Public-Assistance Programs, New England, 2014 – 2016

Program	Total Cost (in millions of dollars)	Cost from Working Families (in millions of dollars)	Working-Family Share
Earned Income Tax Credit (EITC)	2,006	1,820	91%
Supplemental Nutrition Assistance Program (SNAP)	2,665	1,082	41%
Temporary Aid to Needy Families (TANF)	404	191	47%

Note: All amounts are in 2016 dollars. Updated data to estimate the working-family share of Medicaid spending was not available.

Source: Authors’ calculations based on the 2015 – 2017 March Current Population Survey and administrative data from EITC, SNAP, and TANF programs.

Impact of the Minimum Wage

It is important to note the effect the minimum wage has had on wage growth over the past decade. Wage growth at the 10th percentile was greater, both nationally and in New England, than the growth at the 20th through 60th percentiles. This stronger growth at the bottom of the wage distribution can be attributed to increases in the minimum wage both federally and at the state level. The federal minimum wage rose from \$5.15 in 2006 to its current level of \$7.25 by 2009. Five of the six New England states also increased their state minimum wages over this period, led by Massachusetts, which increased the minimum wage from \$6.75 in 2006 to \$11.00 in 2017. Table 3 shows the full set of minimum wage changes in New England.¹

The minimum wage–led wage growth only had a substantial effect on the 10th percentile of the wage distribution, however. Slightly higher-earning lower-middle class workers only saw marginal wage growth from 2006 to 2017. So while these minimum wage increases boosted the incomes of the lowest-paid workers, they still were not enough to allow working families to support themselves without the help of public healthcare and assistance programs.²

Table 3 | New England and Federal Minimum Wages, 2006 – 2017

State	2006 Minimum Wage	2017 Minimum Wage
Massachusetts	\$6.75	\$11.00
Connecticut	\$7.40	\$10.10
Vermont	\$7.25	\$10.00
Rhode Island	\$6.75	\$9.60
Maine	\$6.50	\$9.00
New Hampshire	\$5.15	\$7.25
Federal	\$5.15	\$7.25

Source: United States Department of Labor.

Conclusion

Our findings highlight two main points. First, for many families, wage growth has not been strong enough to allow them to meet their basic needs. Second, a rise in the minimum wage can increase wages for the lowest-earning workers, but past increases have not been enough to allow workers to make ends meet without public healthcare and assistance programs.

The money spent on public healthcare and public assistance programs for working families is frequently referred to as a subsidy for low-wage employers. Under this interpretation, these programs allow employers to pay lower wages than they otherwise would. Empirical research has shown this to be true for the EITC, but the evidence and

theory are more ambiguous for the effect of other programs and indicate that some of the programs would tend to increase wages.

We prefer to emphasize the two points made above. Due to the prevalence of low wages, public healthcare and assistance programs are very important for working families, which would not be able to meet their basic needs without them. Over 60 percent of the spending on the three public assistance programs goes to working families, and a large share of public health insurance enrollees are in working families. Policies that raise wages would have the dual benefit of directly improving conditions for many working families and freeing up some of those public resources to better target those Americans who cannot participate in the labor market.

About the Authors



Ian Eve Perry

Ian Eve Perry is a research and policy associate at the Center for Labor Research and Education at the University of California, Berkeley.

ian.eve.perry@berkeley.edu



Ken Jacobs

Ken Jacobs is the chair of the Center for Labor Research and Education at the University of California, Berkeley, and a visiting scholar at the Federal Reserve Bank of Boston.

kjacobs9@berkeley.edu

Appendix Tables

Table A1 | Enrollment in Healthcare and Public-Assistance Programs by State, New England, 2014 – 2016

State	EITC			SNAP			Medicaid and CHIP		
	Total Enrollment	Enrollment from Working Families	Working-Family Share	Total Enrollment	Enrollment from Working Families	Working-Family Share	Total Enrollment	Enrollment from Working Families	Working-Family Share
Connecticut	230,000	195,000	85%	362,000	139,000	38%	815,000	611,000	75%
Maine	105,000	83,000	79%	154,000	48,000	31%	296,000	199,000	67%
Massachusetts	419,000	358,000	85%	675,000	233,000	34%	1,739,000	1,177,000	68%
New Hampshire	80,000	62,000	78%	74,000	25,000	34%	161,000	107,000	66%
Rhode Island	86,000	72,000	84%	148,000	60,000	40%	262,000	159,000	61%
Vermont	46,000	38,000	83%	66,000	20,000	30%	209,000	147,000	71%

Note: Enrollment for Medicaid and CHIP reflects individual enrollees, while enrollment for EITC and SNAP reflects family enrollment. Medicaid and CHIP data are for 2014 – 2015 only. There was not sufficient data to show TANF data at the state level.

Source: Authors' calculations based on the 2015 – 2017 March Current Population Survey and administrative data from Medicaid, CHIP, EITC, SNAP, and TANF programs.

Table A2 | Cost of Public-Assistance Programs by State, New England, 2014 – 2016

State	EITC			SNAP		
	Total Cost (in millions of dollars)	Cost from Working Families (in millions of dollars)	Working-Family Share	Total Cost (in millions of dollars)	Cost from Working Families (in millions of dollars)	Working- Family Share
Connecticut	496	453	91%	686	283	41%
Massachusetts	860	790	92%	1,192	496	42%
Maine	215	187	87%	269	103	38%
New Hampshire	154	135	88%	125	47	37%
Rhode Island	194	175	90%	273	119	44%
Vermont	87	81	93%	120	35	29%

Note: All amounts are in 2016 dollars. There was not sufficient data to show TANF data at the state level. Updated data to estimate working-family share of Medicaid spending was not available.

Source: Authors' calculations based on the 2015 – 2017 March Current Population Survey and administrative data from EITC and SNAP programs.

Endnotes

¹ "Changes in Basic Minimum Wages in Non-Farm Employment under State Law: Selected Years 1968 to 2018," United States Department of Labor, accessed February 5, 2019, <https://www.dol.gov/whd/state/stateMinWageHis.htm>.

² Massachusetts minimum wage will increase in steps to \$15 an hour in 2023, which will affect workers farther up the wage distribution and can be expected to have a greater effect on public program utilization.