

# **The Living Wage: In the Public Interest?**

## **Increasing the Quality of Life for Families and Communities**

**A Chicago Institute on Urban Poverty Paper**  
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## INTRODUCTION

Today there is widespread public debate regarding the minimum wage. Is it adequate? Will increasing the minimum wage make a difference? What does minimum wage work cost taxpayers? These questions are shaping one of the most important policy debates affecting low income workers today.

**The Living Wage: In the Public Interest?** explores the relationship among minimum wage income, government subsidies, and workers' tax contributions. The report provides a snapshot of current minimum wage income relative to basic need household expenses and includes relevant income-tested government entitlement subsidies. A companion snapshot for a living wage<sup>1</sup> provides a point of comparison.

## METHODOLOGY

A case study family comprised of one full-time worker, one stay-at-home parent, and two children -- one school-aged, the other a pre-schooler -- forms the study's baseline for determining the basic need household budget, subsidies and tax payments. In comparing the two wage levels we calculated basic income, expense, and subsidies for our case study family. Our methods of calculation were the same for both wage levels.

Payroll taxes were deducted from gross monthly income using payroll tax guidelines developed from federal and state tax tables. We calculated federal Earned Income Tax Credits (ETIC) using the 1995 IRS EIC schedule and then added it to income net payroll tax to determine the net income baseline.

The "no frills" basic needs budget was developed with input from several sources including a Budget Counselor working with low income households at Metropolitan Family Services, state and federal program guidelines, and poverty budget work done by Renwick and Bergmann (adjusted for local factors such as public transportation costs). See the References/Technical notes section of the report for more on how these calculations were made.

Only entitlement<sup>2</sup> subsidies are included in the analysis. The value of subsidies are calculated using formulas published by the administering agency or estimates of costs for purchasing the goods or services without subsidy.

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<sup>1</sup> \$7.60 per hour is used as the Living wage because it is the hourly pay necessary to lift a family of four to the federal poverty line.

<sup>2</sup> Entitlement programs have a federal mandate requiring that all persons seeking assistance and meeting program eligibility standards receive program services. Non-entitlement programs do not guarantee assistance to all qualified applicants.

## FINDINGS AND DISCUSSION

### ■ MONTHLY NET INCOME

A Living Wage Household has just over \$377 more net income per month in take home pay than a Minimum Wage Household.

Income/Tax/Credit	Minimum Wage Worker	Living Wage Worker
Gross Monthly Income	\$708.33	\$1,266.67
Federal Income Tax	\$75.93	\$135.79
FICA Tax	\$54.19	\$96.90
State Income Tax	\$21.25	\$38.00
Earned Income Tax Credit	\$254.25	\$192.92
Net Monthly Income	\$811.21	\$1,188.90

### ■ BASIC NEEDS MONTHLY BUDGET FOR A FAMILY OF FOUR

While net income differs significantly between Minimum and Living wage Households, their basic expenses do not (the one exception to this is personal care). The Minimum Wage Household will run a \$614 deficit each month in meeting its most basic needs. The Living Wage Household's income is also inadequate for meeting basic needs, though that household's deficit (\$275) is less than half that of the Minimum Wage Household.

As these basic income and expense statements indicate, workers earning these wages cannot support the needs of their families. Many of these households must rely on government subsidies benefits to make up the deficit.

Expense	Cost
Rent	\$450
Utilities	\$67
Groceries	\$400
Transportation	\$67.50
Health Care	\$284
Clothing	\$76
Personal Care <sup>3</sup>	
4.25 per hour	\$81.12
7.60 per hour	\$118.89
Total	
4.25 per hour	\$1,425.62
7.60 per hour	\$1,463.39

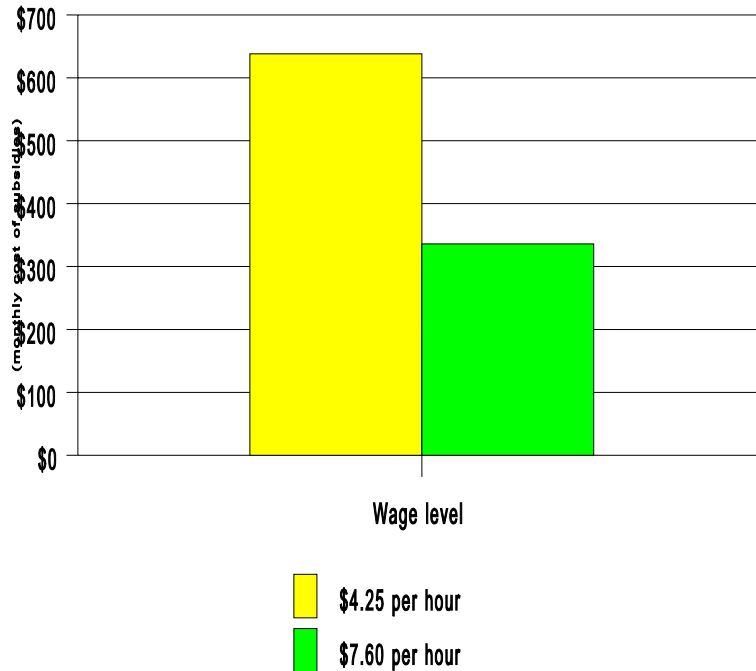
<sup>3</sup> Personal care includes grooming products and services. This budget item is estimated as slightly higher for the Living Wage Household because of increased costs of higher quality employment.

## MONTHLY SUBSIDY LEVELS

The Minimum Wage Household is eligible for \$638 in subsidies monthly -- broken down as follows: \$341 in Food stamps, \$12.50 in free school meals, and \$284 in Medicaid benefits. The Living Wage Household is eligible for significantly less in subsidies monthly -- broken down as follows: \$157 in Food stamps, \$12.50 in free school meals, and \$166 in Medicaid benefits (children only). The total subsidy for this family is \$336.

Subsidy Program	Assistance Qualified for at Minimum Wage	Assistance Qualified for at Living wage
Food stamps	\$341	\$157
Free School Meals	\$12.50	\$12.50
Medicaid	\$284	\$166
Total	\$637.50	\$335.50

A worker earning \$7.60 per hour qualifies for \$302 a month less in government subsidies than a worker earning \$4.25 per hour



**■ TAXES PAID PER MONTH**

In the end, Minimum Wage Households receive more in tax credits than they pay in local, state, and federal taxes combined. The Minimum Wage Household is eligible for a tax credit of \$84 monthly.

In contrast, the Living Wage Household, after receiving tax credits, pays over \$103 per month in local, state, and federal taxes. The cost to taxpayers ( including foregone tax revenue and tax credits) for Minimum Wage Households is \$2,244 annually.

Tax	Minimum Wage Worker	Living Wage Worker
Federal Income Tax	\$75.93	\$135.79
FICA	\$54.19	\$96.90
State Income Tax	\$21.25	\$38.00
Earned Income Tax Credit	-\$254.25	-\$192.92
Consumption Taxes (sales tax, utility taxes)	\$19.24	\$25.53
Total	\$-83.64	\$103.30

**A Worker Earning \$7.60 an Hour Contributes an Average of \$103 a month in taxes;**

**A worker earning minimum wage qualifies for a tax credit each month**



## ■ **TAXPAYER COST FOR MINIMUM WAGE JOBS**

The total annual cost to taxpayers for a Minimum Wage Household, when subsidies are added to tax credits, is \$8,654.

## ■ **INCREASED SPENDING -- CONTRIBUTIONS TO LOCAL ECONOMIES**

Money spent in local communities generates economic activity which results in increased employment opportunities. Economists call this the “multiplier effect.” Money spent on goods and services generates other jobs for community members. In general, the employment multiplier effect is higher for workers with higher wages.

The Living Wage Household has just over \$75 more per month for spending (after subsidies) than the Minimum Wage Household. That is \$75 per month added to local economic activity and available for leveraging employment opportunities.

## **SUMMARY**

- Minimum Wage Households require double the government subsidies needed by Living Wage Households.
- Living Wage Households pay significantly more in taxes than do Minimum Wage Households. Minimum Wage Households receive more in tax credits than they pay.
- Living Wage Households are able to generate more local economic activity which leverages additional employment opportunities.
- Minimum wage work does not support the basic needs of families.
- Taxpayers pay for minimum wages in foregone tax revenue and the costs of government subsidies. Taxpayers subsidize a Minimum Wage household at a cost of \$721.18 per month. Subsidies (net taxes) for Living Wage Households are much less, only \$231.89 per month.
- Increasing the minimum wage to a living wage will improve the standard of living for many families, reduce government subsidies, generate increased tax revenue, and increase local economic vitality.

## REFERENCES/TECHNICAL NOTES

*Family Matters*, Summer 1994 vol 6, number 3.

*Illinois Department of Public Aid: Determination of Eligibility and Level of Assistance.* 1995.

Metropolitan Family Services. **1995 Advocacy Bulletins:**

***Food and Nutrition Assistance Programs.***

***Earned Income Credit (EIC) Program***

***Medicaid/Medicare***

Renwick, Trudi and Barbara Bergmann. "***A Budget-Based Definition of Poverty***," in The Journal of Human Resources, May 1992).

**Gross Monthly Income:** Based on an annual average of 2,000 hours annually; or 166.7 hours of work per month.

**Basic Needs Budget:** ***Rent:*** Two bedroom apartment with heat included in rent. Source Metropolitan Family Services -Budget Counselor estimate for low and moderate income renters in City of Chicago; ***Utilities:*** \$40.00 -- electricity and cooking gas. Source: 1996 HUD utility allowance for a two bedroom apartment with heat included in rent. Telephone: \$27. Source Metropolitan Family Services -Budget Counselor estimate for low and moderate income households. See also: Renwick and Bergman's estimate; ***Groceries:*** UIC Cooperative Extension; ***Transportation:*** 50 public transit fares @1.35 each --includes work trips; ***Health care:*** Cost of purchasing Family Humana HMO plan through employer, but without employer contribution. According the Center for Law and Social Policy, low wage workers are less likely to be covered by a health or pension plan than higher wage workers. (Family Matters, Summer 1994 vol 6, number 3);

***Clothing and Personal care:*** Source Metropolitan Family Services -Budget counselor estimate for low and moderate income households with two adults and two children. Includes laundry costs. See also Renwick and Bergman's estimate.

**Subsidy Programs:** Entitlement programs only. Programs serving special need populations, e.g. persons with particular disabilities, etc. are not included. The assumption is that the members of the model household are relatively healthy and have no special needs for which they would qualify for entitlement assistance.

***Food stamps:*** Calculation of subsidy based on eligibility guidelines published by the Bureau of Food Stamps at the Illinois Department of Public Aid, Springfield, IL.; ***Free Breakfast/Lunch programs:*** Based on cost of school lunch, ten per week; ***Health care:*** Calculation of subsidy based on eligibility guidelines published by the Illinois Department of Public Aid, and Metropolitan Family Services. Families with a full time worker making \$4.25 per hour qualify under the Medical Assistance No Grant (MANG) program with no out of pocket expenses. Families with a full time worker making \$7.60 per hour qualify under the MANG(P) program which only provides coverage for young children.

**Taxes:** ***Federal income tax:*** Tax rate of 10.7 percent of gross monthly wages. Source: Heartland Alliance Human Resources Department; ***FICA:*** Figured at 7.65 percent of gross monthly wages. Source: Heartland Alliance Human Resources Department; ***State Income Tax:*** Based on Illinois state tax rate of 3 percent of gross monthly wages. Source: Heartland Alliance Human Resources Department; ***Earned Income Tax Credit:*** Based on family of four --2 adults, 2 children. Source: IRS 1995 1040A Tax Form Instructions --Earned Income Credit worksheet; ***Consumption tax:*** Costs are based on the following: average utility tax rate in Illinois for gas, electric, and telephone services; grocery cash expenditures (non-food stamp) taxed at a rate of 2 percent; Clothing and personal care -- Chicago sales tax of 8.75 percent.