



A \$15 Minimum Wage Is a Pathway, Not a Cliff¹

An examination of the likelihood of a benefits cliff if the minimum wage were increased in Pennsylvania, Part I

By Diana Polson

July 9, 2019

Introduction

As Pennsylvania seriously considers raising the minimum wage for the first time in over a decade, concerns have been raised that workers receiving a higher wage also will face a “benefits cliff.” A benefits cliff occurs when individuals get a wage increase but the social benefits they lose and the taxes they pay increase more than their additional earnings, resulting in an overall reduction in a family’s standard of living. This brief explores that claim.

A minimum wage increase to \$15/hour by 2025 will result in 2.01 million Pennsylvanian workers receiving a raise, which is 34% of the state’s workforce.² We find that the vast majority of workers who would receive a wage increase from a \$15 minimum wage would not experience any sort of benefits cliff. Most of the major public benefits programs provided by the nation or state are structured as gradual phase-outs, so as workers earn more their benefits are gradually tapered off and their taxes are gradually increased. Most single parents or dual-parent families who utilize multiple benefits programs would still see their net income become higher with a minimum wage increase. One benefits program in Pennsylvania that has a benefits cliff is Child Care Works where benefits decline as income goes up, but eligibility is cut off once a person earns 235% of the federal poverty level. However, as we show in a [second paper](#) that explores this program in depth, very few Pennsylvanians are likely to lose benefits at even a \$15 minimum. And, those who are threatened with a benefits cliff are likely to find palatable ways to avoid it.

Below we examine different benefits programs offered to Pennsylvanians and how an increase in the minimum wage would change the net income of working families in different family structures. For the very small percentage of workers who partake in multiple benefits programs and might face a benefits cliff, the right way to deal with a potential benefits cliff is not to deny workers a raise, but to ensure that: 1) the benefits programs are structured as phase-outs; and 2) these programs are

¹ This paper is adapted, with permission, from the National Employment Law Project’s (NELP) testimony of Yannet Lanthrop: “In support of a \$15 Minimum Wage in New Hampshire: Hearing Before the Labor, Industrial and Rehabilitative Services Committee of the New Hampshire House of Representatives.” NELP. February 20, 2019. Accessed at: <https://www.nelp.org/publication/nelp-testimony-in-support-of-a-15-minimum-wage-in-new-hampshire/>. We at the Keystone Research Center and Pennsylvania Budget and Policy Center used Ms. Lanthrop’s paper as a template, but updated the data and information to reflect the situation in Pennsylvania.

² Diana Polson, Mark Price, Stephen Herzenberg. 2019. “Increasing the Minimum Wage to \$15/hour by 2025 Raises Wages for Over 2 Million Workers in Pennsylvania. Who Are They? The Demographic Impacts of a Minimum Wage Increase.” Keystone Research Center and the Pennsylvania Budget and Policy Center. May 2019. Accessed at: https://www.keystoneresearch.org/sites/default/files/201905_DemographicImpactsofMinWage.pdf.

adequately funded so that those in need will continue to receive benefits until they do not need them anymore.

Many Major Public Benefits Phase Out as Incomes Increase, Avoiding Cliff Effects

The nation’s broadest safety net programs—the Earned Income Tax Credit (EITC), the Child Tax Credit (CTC), and the Supplemental Nutritional Assistance Program (SNAP)—are designed to promote work and self-sufficiency. Therefore, rather than abruptly ending when workers’ incomes exceed a threshold, these benefits gradually phase out as workers’ incomes continue to rise.

The Majority of PA Workers Face No Benefit Cliff

Most Workers Who Would Benefit from a Minimum Wage Increase Are Single or Married Adults with No Dependent Children

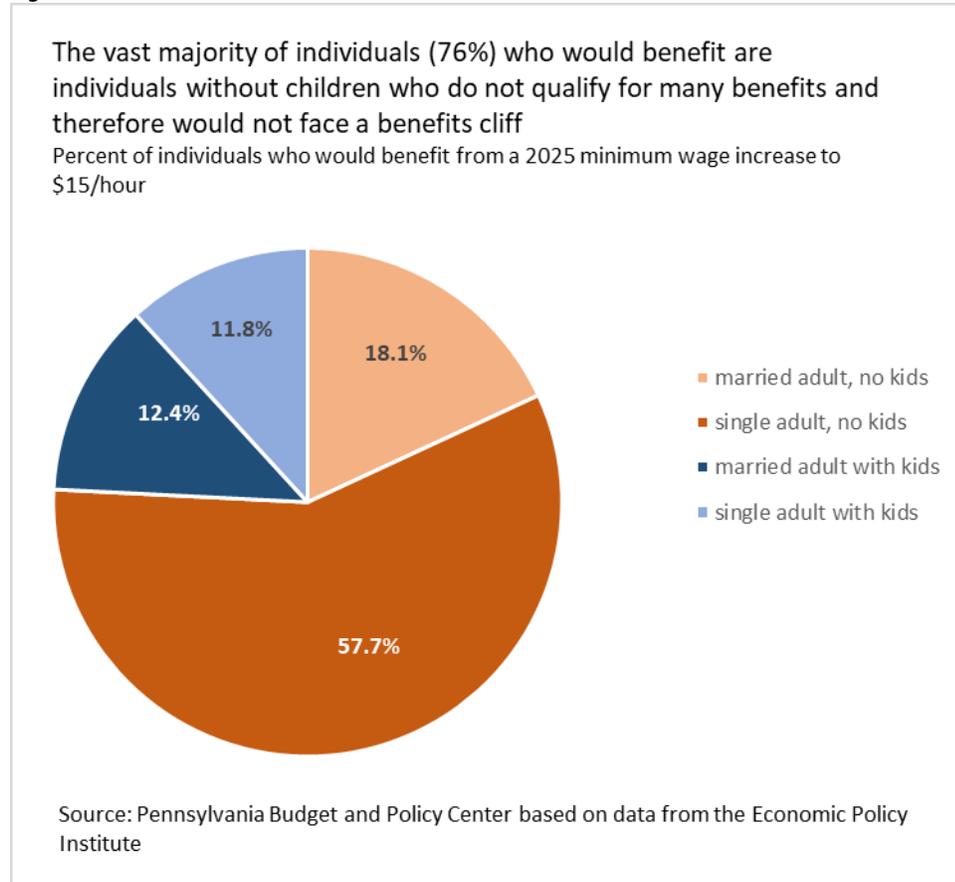
In Pennsylvania, raising the minimum wage to \$15 is not going to lead to a “benefits cliff” because, as [data](#) from the Economic Policy Institute shows, most low-wage workers in Pennsylvania who would benefit from a minimum wage increase are single or married adults without dependent children (76%) (Figure 1), and 55% work 35 hours or more per week.³ Childless adults are categorically ineligible for the Child Tax Credit, Children’s Health Insurance Program (CHIP) and Women, Infants and Children (WIC)—and many workers with full-time (or close to full-time) hours generally earn too much to qualify for an Earned Income Tax Credit (EITC) while Supplemental Nutrition Assistance Program (SNAP) benefits are so low that losing them has little effect on total income. Thus, the majority of Pennsylvania’s low-wage workers have few benefits to lose as their wages increase. Because of the Affordable Care Act, Pennsylvania has been able to expand Medicaid, and heavily subsidized health insurance is available on the health care marketplace/exchange. So, many low-wage workers will continue to receive Medicaid as their wages increase. When Medicaid is no longer available, premium costs for a silver plan remain relatively low.⁴

³ Diana Polson, Mark Price, and Stephen Herzenberg, “Increasing the Minimum Wage to \$15/Hour by 2025 Raises Wages for Over 2 Million Workers in Pennsylvania. Who Are They?” Keystone Research Center and Pennsylvania Budget and Policy Center, May 2019;

https://www.keystoneresearch.org/sites/default/files/201905_DemographicImpactsofMinWage.pdf.

⁴ In comparing health insurance costs we look at just premiums and ignore co-pays or deductibles. This will somewhat understate the costs of securing insurance through the marketplace / exchange instead of through Medicaid. Individuals and families on both Medicaid and ACA exchange-based health insurance pay co-pays although they are likely to be higher on average for exchange-based health insurance. Also, some exchange-based insurance policies also do have deductibles. At this point in our research we have not found a way to estimate Medicaid co-pays in Pennsylvania so as to compare them to exchange-based insurance policies. To make the comparison as close as possible, we have chosen to use silver level plans that are eligible for cost-sharing reductions when calculating premium costs for exchanged-based health insurance. Silver plans may be more costly than bronze level plans, but the silver plans also have the lowest co-pays and, in many cases, no deductibles.

Figure 1



Single Adults Without Children Benefit From a Higher Minimum Wage

Figure 2 and Table 1 shows that a typical Pennsylvania worker affected by a minimum wage increase—an adult working full time and with no dependent children—would benefit a great deal as the minimum wage rises to \$15 per hour, even when we factor in higher federal and payroll taxes, decreasing SNAP benefits, and increasing health care costs. The table shows that, at the minimum wage, these workers would receive a small amount of SNAP benefits at \$7.25 per hour but would lose them at \$12 per hour or above. These workers would also need to pay for their health care on the marketplace once they reach \$12 per hour if their employer does not provide insurance. However, despite higher taxes and the loss of benefits, these workers retain the lion’s share (75%) of their higher wages as the minimum wage goes up.

Figure 2

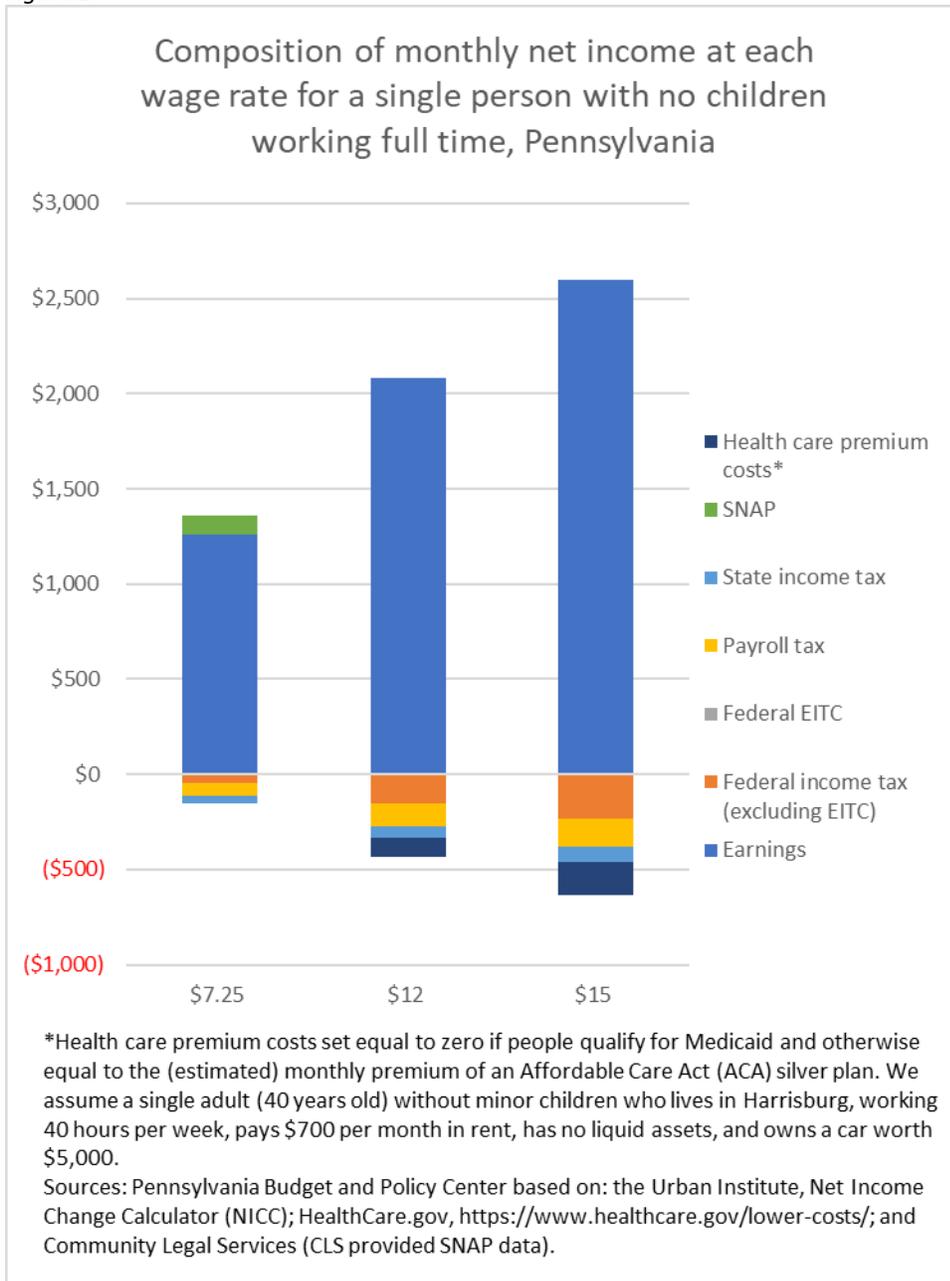


Table 1

Composition of monthly net income at each wage rate for a single person working full time with no children			
Type of Income and Expense	Hourly Wage Rate		
	\$7.25	\$12	\$15
Earnings	\$1,257	\$2,080	\$2,600
Taxes			
Federal income tax (excluding EITC)	(\$44)	(\$154)	(\$232)
Federal EITC	\$0	\$0	\$0
Payroll tax	(\$71)	(\$118)	(\$147)
State income tax	(\$39)	(\$64)	(\$80)
Total taxes	(\$154)	(\$335)	(\$459)
TANF	\$0	\$0	\$0
SNAP	\$105	\$0	\$0
WIC	\$0	\$0	\$0
Housing Subsidy	\$0	\$0	\$0
Child Care Expenses	\$0	\$0	\$0
Child Support	\$0	\$0	\$0
Health care premium costs*	\$0	(\$97)	(\$179)
Total Net Income	\$1,208	\$1,648	\$1,962
<p>*Health care premium costs set equal to zero if people qualify for Medicaid and otherwise equal to the (estimated) monthly premium of an Affordable Care Act (ACA) silver plan. We assume a single adult (40 years old) without minor children who lives in Harrisburg, working 40 hours per week, pays \$700 per month in rent, has no liquid assets, and owns a car worth \$5,000.</p> <p>Sources: Pennsylvania Budget and Policy Center based on: the Urban Institute, Net Income Change Calculator (NICC); HealthCare.gov, https://www.healthcare.gov/lower-costs/; and Community Legal Services (CLS provided SNAP data).</p>			

Virtually All Families with Children Benefit from a Higher Minimum Wage

Approximately one quarter (24%) of workers affected by a \$15 minimum wage in Pennsylvania are parents of dependent minors.⁵ These parents and their children are eligible for the Child Tax Credit, and some of them may also be eligible for other public assistance programs like the EITC, SNAP, child care subsidies, WIC, and CHIP (children's health insurance). These working parents may be vulnerable to the loss of benefits as their incomes increase. **However, most of these workers end up better off, all things considered, as the benefits they may lose are more than offset by an increase in earnings.** Of all the scenarios we examined, there is only one in which raising the minimum wage from \$7.25 per hour to \$15 per hour might result in a net loss in income—a family in which two parents hold full-time minimum wage jobs and have two or more kids in full-time child care. But, as we point out below, few families fall into this category and there may be ways for those that do to mitigate the benefit cliff. There are also a few scenarios in which increasing the minimum wage from \$12 to \$15 might actually reduce the net income for families with children. We suggest some policy adjustments that could eliminate this cliff effect.

⁵ Keystone Research Center based on Economic Policy Institute estimates.

Single Parents with Kids

We first look at single parents with kids, which represent about 12% of individuals who would benefit from a 2025 minimum wage increase to \$15 per hour. Table 2 shows that a single adult working full-time, raising one child, and receiving EITC, SNAP, childcare subsidies, WIC, Medicaid and CHIP, would see his or her wages increase from \$1,257 to \$2,080 as a result of the minimum wage increasing from \$7.25 per hour to \$12 per hour. After adjusting for changes in taxes and benefit changes, his or her after-tax and after-benefit income would increase from \$1,838 to \$2,241, that is an increase of \$403 or 22%. The individual would thus retain 49% of his or her additional wages after adjusting for the change in taxes and benefits.

As Table 2 shows, an individual with one child working full-time will have an increase in wages of \$1,343 between \$7.25 per hour and \$15 per hour but an increase in after-tax and after-benefit income of only \$261 or 14%, thus retaining just 19% of his or her wages. At \$15 per hour, with wages at \$2,600 per month and after tax and benefit income at \$2,099 per month, this worker's total income will be 81% of his or her wages.

Table 2 thus shows us that there is a benefit cliff for families in this circumstance as the minimum wage increases from \$12 per hour to \$15 per hour. The benefit cliff is primarily due to a sharp reduction in SNAP benefits at a \$15-per-hour minimum wage. In Pennsylvania there is a cliff for SNAP recipients once one reaches 160% of the federal poverty income guidelines (FPIG). The Department of Human Services can ease this cliff by raising the gross income limit for SNAP to 200% of the FPIG.

Table 2

Composition of monthly net income at each wage rate for a single parent working full time with 1 child (age 2)			
Type of Income and Expense	Hourly Wage Rate		
	\$7.25	\$12	\$15
Earnings	\$1,257	\$2,080	\$2,600
Taxes			
Federal income tax (excluding EITC)	\$83	\$64	\$14
Federal EITC	\$264	\$159	\$76
Payroll tax	(\$71)	(\$118)	(\$147)
State income tax	\$0	(\$64)	(\$80)
Total taxes	\$276	\$42	(\$137)
TANF	\$0	\$0	\$0
SNAP	\$353	\$306	\$0
WIC	\$43	\$43	\$0
Housing Subsidy	\$0	\$0	\$0
Child Care Expenses	(\$91)	(\$186)	(\$251)
Child Support	\$0	\$0	\$0
Health care premium costs*	\$0	(\$44)	(\$113)
CHIP costs (health care for kids)	\$0	\$0	\$0
Total Net Income	\$1,838	\$2,241	\$2,099
<p>*Health care premium costs set equal to zero if people qualify for Medicaid and otherwise equal to the (estimated) monthly premium of an Affordable Care Act (ACA) silver plan. We assume a single adult (age 40) with one 2-year-old living in Harrisburg, working 40 hours per week, paying \$900 per month in rent and \$673 in child care, having no liquid assets, and owning a car worth \$5,000.</p> <p>Sources: Pennsylvania Budget and Policy Center based on: the Urban Institute, Net Income Change Calculator (NICC); Economic Policy Institute on the mean cost of childcare in PA (https://www.epi.org/child-care-costs-in-the-united-states/#/PA); PA Code, Chapter 3041, Subsidized Child Care Eligibility https://www.pabulletin.com/secure/data/vol49/49-24/908.html; https://www.healthcare.gov/lower-costs/ and https://www.chipcoverspakids.com/AboutCHIP/Documents/chip_income_chart_2019.pdf; and and Community Legal Services (CLS provided SNAP data).</p>			

A single adult working full-time with three kids in the same scenario will see an increase in after-tax, after-benefit income of \$637 or 25% as the minimum wage increases from \$7.25 per hour to \$12 per hour. And he or she would retain 77% of the additional wages. As the minimum wage increases from \$7.25 to \$15, a family in these circumstances would see their after-tax, after-benefit income increase by \$949 or 37%. An individual in this circumstance would retain 70% of his or her additional wages. Perhaps even more important, at \$15 per hour, this person will continue to be better off post tax and benefits with an income of \$3,463 (compared to their wage earnings of \$2,600) (Table 3).

Table 3

Composition of monthly net income at each wage rate for a single parent working full time with 3 children (1-year-old, 3-year-old, 6-year-old)			
Type of Income and Expense	Hourly Wage Rate		
	\$7.25	\$12	\$15
Earnings	\$1,257	\$2,080	\$2,600
Taxes			
Federal income tax (excluding EITC)	\$151	\$250	\$250
Federal EITC	\$491	\$353	\$243
Payroll tax	(\$71)	(\$118)	(\$147)
State income tax	\$0	\$0	\$0
Total taxes	\$571	\$485	\$346
TANF	\$0	\$0	\$0
SNAP	\$642	\$642	\$642
WIC	\$87	\$87	\$87
Housing Subsidy	\$0	\$0	\$0
Child Care Expenses	(\$43)	(\$143)	(\$195)
Child Support	\$0	\$0	\$0
Health care premium costs*	\$0	\$0	\$0
Premium under CHIP (health care for kids)	\$0	\$0	\$0
Total Net Income	\$2,514	\$3,151	\$3,480

*Health care premium costs set equal to zero if people qualify for Medicaid and otherwise equal to the (estimated) monthly premium of an Affordable Care Act (ACA) silver plan. We assume a single adult (age 40) living in Harrisburg with a 1-year-old, a 3-year-old, and a 6-year-old working 40 hours per week, paying \$900 per month in rent and \$1580 in child care, having no liquid assets, and owning a car worth \$5,000.

Sources: Pennsylvania Budget and Policy Center based on: the Urban Institute, Net Income Change Calculator (NICC); Economic Policy Institute on the mean cost of childcare in PA (<https://www.epi.org/child-care-costs-in-the-united-states/#/PA>); PA Code, Chapter 3041, Subsidized Child Care Eligibility <https://www.pabulletin.com/secure/data/vol49/49-24/908.html>; <https://www.healthcare.gov/lower-costs/> and https://www.chipcoverspakids.com/AboutCHIP/Documents/chip_income_chart_2019.pdf; and and Community Legal Services (CLS provided SNAP data).

A family with a single adult raising one child, working part-time at 20 hours per week, and receiving these same five benefits (SNAP, WIC, childcare assistance, Medicaid and CHIP) will see their after-tax, after-benefit income increase by \$419 or 33% as the minimum wage increases from \$7.25 to \$12 and by \$642 or 52% as the minimum wage increases from \$7.25 to \$15 per hour. He or she would keep almost all increased wages at a \$15-per-hour minimum wage and all of them at a \$12-per-hour minimum wage (Table 4). This worker's post tax and benefit income is higher than their wage income at \$7.25, \$12, and \$15 per hour.

Table 4

Composition of monthly net income at each wage rate for a single parent working part time with 1 child (age 2)			
Type of Income and Expense	Hourly Wage Rate		
	\$7.25	\$12	\$15
Earnings	\$628	\$1,040	\$1,300
Taxes			
Federal income tax (excluding EITC)	\$57	\$83	\$83
Federal EITC	\$214	\$264	\$264
Payroll tax	(\$36)	(\$59)	(\$73)
State income tax	\$0	\$0	\$0
Total taxes	\$235	\$289	\$274
TANF	\$0	\$0	\$0
SNAP	\$353	\$353	\$353
WIC	\$43	\$43	\$43
Housing Subsidy	\$0	\$0	\$0
Child Care Expenses	(\$22)	(\$43)	(\$91)
Child Support	\$0	\$0	\$0
Health care premium costs*	\$0	\$0	\$0
Premium under CHIP (health care for kids)	\$0	\$0	\$0
Total Net Income	\$1,237	\$1,682	\$1,879

*Health care premium costs set equal to zero if people qualify for Medicaid and otherwise equal to the (estimated) monthly premium of an Affordable Care Act (ACA) silver plan. We assume a single adult (age 40) with one 2-year-old living in Harrisburg, working 20 hours per week, paying \$900 per month in rent and \$337 in child care, having no liquid assets, and owning a car worth \$5,000.

Sources: Pennsylvania Budget and Policy Center based on: the Urban Institute, Net Income Change Calculator (NICC); Economic Policy Institute on the mean cost of childcare in PA (<https://www.epi.org/child-care-costs-in-the-united-states/#/PA>); PA Code, Chapter 3041, Subsidized Child Care Eligibility <https://www.pabulletin.com/secure/data/vol49/49-24/908.html>; <https://www.healthcare.gov/lower-costs/> and https://www.chipcoverspakids.com/AboutCHIP/Documents/chip_income_chart_2019.pdf; and and Community Legal Services (CLS provided SNAP data).

Table 5 and Table 6 estimate the net-income change from a minimum wage increase for a single-parent family with two children (ages 1 and 3). These tables are identical, except Table 6 includes the amount received if the family received a housing subsidy. We did not include housing subsidies in many of our other calculations because few families access these. About 217,000 households secure federal housing assistance in Pennsylvania and 57% of those households, 123,690, have at least one working person who could be impacted by a minimum wage increase. This is a fairly small share of the of more than 2 million people who would benefit from a minimum wage increase to \$15 per hour.

These tables show that single-parent families with two kids would, after-taxes and benefits, be better off as the minimum wage increases than they are today with a minimum wage of \$7.25, whether they receive a housing subsidy or not. In both of these instances, the safety net is operating as it should—helping workers struggling in poverty afford basic needs.

Table 5

Composition of monthly net income at each wage rate for a single parent working full time with 2 children (1-year-old and 3-year-old), with housing subsidy			
Type of Income and Expense	Hourly Wage Rate		
	\$7.25	\$12	\$15
Earnings	\$1,257	\$2,080	\$2,600
Taxes			
Federal income tax (excluding EITC)	\$151	\$167	\$136
Federal EITC	\$436	\$298	\$189
Payroll tax	(\$71)	(\$118)	(\$147)
State income tax	\$0	\$0	(\$80)
Total taxes	\$516	\$347	\$98
TANF	\$0	\$0	\$0
SNAP	\$505	\$505	\$505
WIC	\$87	\$87	\$87
Housing Subsidy	\$568	\$347	\$215
Child Care Expenses	(\$74)	(\$152)	(\$208)
Child Support	\$0	\$0	\$0
Health care premium costs*	\$0	\$0	(\$65)
Premium under CHIP (health care for kids)	\$0	\$0	\$0
Total Net Income	\$2,859	\$3,214	\$3,232

*Health care premium costs set equal to zero if people qualify for Medicaid and otherwise equal to the (estimated) monthly premium of an Affordable Care Act (ACA) silver plan. We assume a single adult (age 40) living in Harrisburg with a 1-year-old and a 3-year-old, working 40 hours per week, paying \$900 per month in rent and \$1580 in child care, having no liquid assets, and owning a car worth \$5,000.
 Sources: Pennsylvania Budget and Policy Center based on: the Urban Institute, Net Income Change Calculator (NICC); Economic Policy Institute on the mean cost of childcare in PA (<https://www.epi.org/child-care-costs-in-the-united-states/#/PA>); PA Code, Chapter 3041, Subsidized Child Care Eligibility <https://www.pabulletin.com/secure/data/vol49/49-24/908.html>; <https://www.healthcare.gov/lower-costs/> and https://www.chipcoverspakids.com/AboutCHIP/Documents/chip_income_chart_2019.pdf; and and Community Legal Services (CLS provided SNAP data).

Table 6

Composition of monthly net income at each wage rate for a single parent working full time with 2 children (1-year-old and 3-year-old)			
Type of Income and Expense	Hourly Wage Rate		
	\$7.25	\$12	\$15
Earnings	\$1,257	\$2,080	\$2,600
Taxes			
Federal income tax (excluding EITC)	\$151	\$167	\$136
Federal EITC	\$436	\$298	\$189
Payroll tax	(\$71)	(\$118)	(\$147)
State income tax	\$0	\$0	(\$80)
Total taxes	\$516	\$347	\$98
TANF	\$0	\$0	\$0
SNAP	\$505	\$505	\$505
WIC	\$87	\$87	\$87
Housing Subsidy	\$0	\$0	\$0
Child Care Expenses	(\$74)	(\$152)	(\$208)
Child Support	\$0	\$0	\$0
Health care premium costs*	\$0	\$0	(\$65)
Premium under CHIP (health care for kids)	\$0	\$0	\$0
Total Net Income	\$2,291	\$2,867	\$3,017

*Health care premium costs set equal to zero if people qualify for Medicaid and otherwise equal to the (estimated) monthly premium of an Affordable Care Act (ACA) silver plan. We assume a single adult (age 40) living in Harrisburg with a 1-year-old and a 3-year-old, working 40 hours per week, paying \$900 per month in rent and \$1580 in child care, having no liquid assets, and owning a car worth \$5,000.
 Sources: Pennsylvania Budget and Policy Center based on: the Urban Institute, Net Income Change Calculator (NICC); Economic Policy Institute on the mean cost of childcare in PA (<https://www.epi.org/child-care-costs-in-the-united-states/#/PA>); PA Code, Chapter 3041, Subsidized Child Care Eligibility <https://www.pabulletin.com/secure/data/vol49/49-24/908.html>; <https://www.healthcare.gov/lower-costs/> and https://www.chipcoverspakids.com/AboutCHIP/Documents/chip_income_chart_2019.pdf; and and Community Legal Services (CLS provided SNAP data).

Two-parent working families

Two-parent working families in which both parents earn near the minimum wage will see their earnings increase more dramatically when the minimum wage is increased than single parents because of their two incomes. A two-parent family both working full-time at minimum wage jobs will see their yearly income increase from \$30,156 at a \$7.25-per-hour minimum wage to \$62,400 with a \$15-per-hour minimum wage. For a one-child family, this significant income increase will result in higher taxes, child care expenses and health care expenses (for both adults and for the child under CHIP). Still, these families will see an increase of \$845 between \$7.25/hour and \$15/hour, a monthly increase in their post-benefit, post-tax income of 35% between a \$7.25-per-hour wage and a \$15-per-hour wage (Table 7).

Table 7

Composition of monthly net income at each wage rate for a two-parent family working full time with 1 child (3-year-old)			
Type of Income and Expense	Hourly Wage Rate		
	\$7.25	\$12	\$15
Earnings	\$2,513	\$4,160	\$5,200
Taxes			
Federal income tax (excluding EITC)	\$83	(\$127)	(\$283)
Federal EITC	\$159	\$0	\$0
Payroll tax	(\$142)	(\$235)	(\$294)
State income tax	(\$77)	(\$128)	(\$160)
Total taxes	\$24	(\$490)	(\$736)
TANF	\$0	\$0	\$0
SNAP	\$117	\$0	\$0
WIC	\$0	\$0	\$0
Housing Subsidy	\$0	\$0	\$0
Child Care Expenses	(\$208)	(\$420)	(\$673)
Child Support	\$0	\$0	\$0
Health care premium costs*	(\$10)	(\$246)	(\$426)
Premium under CHIP (health care for kids)	\$0	(\$53)	(\$84)
Total Net Income	\$2,436	\$2,951	\$3,281

*Health care premium costs set equal to zero if people qualify for Medicaid and otherwise equal to the (estimated) monthly premium of an Affordable Care Act (ACA) silver plan. We assume a married couple (both parents age 40) living in Harrisburg with a 5-year-old, both adults working 40 hours per week, paying \$900 per month in rent and \$673 in child care, having no liquid assets, and owning a car worth \$5,000.
Sources: Pennsylvania Budget and Policy Center based on: the Urban Institute, Net Income Change Calculator (NICC); Economic Policy Institute on the mean cost of childcare in PA (<https://www.epi.org/child-care-costs-in-the-united-states/#/PA>); PA Code, Chapter 3041, Subsidized Child Care Eligibility <https://www.pabulletin.com/secure/data/vol49/49-24/908.html>; <https://www.healthcare.gov/lower-costs/> and https://www.chipcoverspakids.com/AboutCHIP/Documents/chip_income_chart_2019.pdf; and and Community Legal Services (CLS provided SNAP data).

Two-parent families with two kids receiving a child care subsidy will face a benefits cliff if both parents work full-time at the minimum wage because the child care subsidy disappears when they earn \$15 per hour (which is the 235% of the FPIG child care cliff), a loss of over \$1,000 in benefits compared to when they earn \$12 per hour (Table 8). However, a two-parent family with two kids working 80 hours between them is just over the 235% child care cliff—so even if one of the parents works 37 hours a week or less, they wouldn't see such a cliff. When considering these cliffs, however, it is important to remember that only 12.4% of workers benefiting from a minimum wage increase by 2025 are married with kids, and even fewer have two or more children in need of child care. Even fewer families receive the child care subsidy in Pennsylvania. As of March 2019, there were 120,344

children receiving subsidies.⁶ In a similar family with school-aged kids not receiving the child care subsidy, the cliff disappears (Table 9).

Table 8

Composition of monthly net income at each wage rate for a two-parent family working full time with 2 children (1-year-old, 3-year-old)			
Type of Income and Expense	Hourly Wage Rate		
	\$7.25	\$12	\$15
Earnings	\$2,513	\$4,160	\$5,200
Taxes			
Federal income tax (excluding EITC)	\$167	\$40	(\$102)
Federal EITC	\$298	\$0	\$0
Payroll tax	(\$142)	(\$235)	(\$294)
State income tax	\$0	(\$128)	(\$160)
Total taxes	\$323	\$323	(\$556)
TANF	\$0	\$0	\$0
SNAP	\$642	\$0	\$0
WIC	\$87	\$87	\$87
Housing Subsidy	\$0	\$0	\$0
Child Care Expenses	(\$195)	(\$412)	(\$1,560)
Child Support	\$0	\$0	\$0
Health care premium costs*	\$0	(\$183)	(\$345)
Premium under CHIP (health care for kids)	\$0	\$0	(\$106)
Total Net Income	\$3,370	\$3,975	\$2,720

*Health care premium costs set equal to zero if people qualify for Medicaid and otherwise equal to the (estimated) monthly premium of an Affordable Care Act (ACA) silver plan. We assume a married couple (both parents age 40) living in Harrisburg with a 1-year-old and a 3-year-old, both working 40 hours per week at minimum wage jobs, paying \$900 per month in rent and \$1580 in child care, having no liquid assets, and owning a car worth \$5,000.

Sources: Pennsylvania Budget and Policy Center based on: the Urban Institute, Net Income Change Calculator (NICC); Economic Policy Institute on the mean cost of childcare in PA (<https://www.epi.org/child-care-costs-in-the-united-states/#/PA>); PA Code, Chapter 3041, Subsidized Child Care Eligibility <https://www.pabulletin.com/secure/data/vol49/49-24/908.html>; <https://www.healthcare.gov/lower-costs/> and https://www.chipcoverspakids.com/AboutCHIP/Documents/chip_income_chart_2019.pdf; and Community Legal Services (CLS provided SNAP data).

Table 9

Composition of monthly net income at each wage rate for a two-parent family working full time with 2 children (5-year-old, 8-year-old)			
Type of Income and Expense	Hourly Wage Rate		
	\$7.25	\$12	\$15
Earnings	\$2,513	\$4,160	\$5,200
Taxes			
Federal income tax (excluding EITC)	\$141	(\$46)	(\$202)
Federal EITC	\$298	\$0	\$0
Payroll tax	(\$142)	(\$235)	(\$294)
State income tax	\$0	(\$128)	(\$160)
Total taxes	\$298	(\$409)	(\$656)
TANF	\$0	\$0	\$0
SNAP	\$257	\$0	\$0
WIC	\$0	\$0	\$0
Housing Subsidy	\$170	\$0	\$0
Child Care Expenses	\$0	\$0	\$0
Child Support	\$0	\$0	\$0
Health care premium costs*	\$0	(\$183)	(\$345)
Premium under CHIP (health care for kids)	\$0	\$0	(\$106)
Total Net Income	\$3,238	\$3,568	\$4,093

*Health care premium costs set equal to zero if people qualify for Medicaid and otherwise equal to the (estimated) monthly premium of an Affordable Care Act (ACA) silver plan. We assume a married couple (both parents age 40) living in Harrisburg with a 5-year-old and an 8-year-old, both working 40 hours per week at minimum wage jobs, paying \$900 per month in rent, having no liquid assets, and owning a car worth \$5,000.

Sources: Pennsylvania Budget and Policy Center based on: the Urban Institute, Net Income Change Calculator (NICC); <https://www.healthcare.gov/lower-costs/> and https://www.chipcoverspakids.com/AboutCHIP/Documents/chip_income_chart_2019.pdf; and Community Legal Services (CLS provided SNAP data).

The cliff present in the child care subsidy is the primary cliff that will lead a very small percentage of workers to experience a benefits cliff, where a small increase in earnings can result in the loss of benefits.

Very few struggling working households receive a full package of public assistance. Among the working households receiving public assistance, most are more likely to receive SNAP, if they qualify, and the EITC or CTC if they are parents to minor children. Very few face benefit cliffs even when receiving public assistance.

One reason families subject to cliff effects account for a tiny share of all families (including of those who benefit from a higher minimum wage) is that some benefits programs with potential cliffs—i.e., where a small increase in earnings can result in the loss of eligibility—only serve a small fraction of low-income families. These programs are not entitlement programs, are not adequately funded, and have long waiting lists. The child care subsidy in Pennsylvania, for example, serves about 120,000

6

<http://dhs.pa.gov/learnaboutdhs/wheredotaxdollarsgo/numberofpeopleenrolledindepartmentbenefitprograms/cildcareenrollments/index.htm>

children from even fewer families, a very small number in comparison to the 2.01 million workers in the state who would benefit from a \$15-per-hour minimum wage increase by 2025.

In sum, Pennsylvania legislators concerned about cliff effects should rest easy. For almost all families the increased income that comes from raising the minimum wage is greater, and in most cases, far greater than the loss in benefits and higher taxes they would pay. That said, given the potential of these effects to have an impact on some hard-working families still struggling to get by after a minimum wage increase, concerned legislators should explore the opportunity to increase funding for and potentially modify eligibility criteria for safety net programs to further reduce cliff effects and maintain public benefits for families that need them.