State Notes

TOPICS OF LEGISLATIVE INTEREST

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The Increased Minimum Wage Impact on Michigan's Public Assistance Caseload
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Introduction

As of January 1, 2016, the minimum wage in Michigan increased from $8.15 per hour to $8.50 per hour. This is the second in a series of minimum wage increases enacted by Public Act 138 of 2014 that will ultimately raise the minimum wage to $9.25 per hour.

One consideration with any increase in the minimum wage is whether there may be a corresponding decrease in the amount of public assistance benefits. The assumption is that a working person who is on public assistance is below the poverty line but, after an increase in his or her hourly pay, the person's need for public assistance would be phased out. Determining whether that assumption is accurate can be muddled, as a host of variables other than hourly wage can influence the eligibility of a given person for a given public assistance program.

At a base level, one way to examine the effects of an increase in the minimum wage on a particular individual is to perform an analysis estimating different levels of weekly hours and pay per hour to illustrate the different impacts of raising the minimum wage on a variety of working scenarios. The scenario analysis will cover the Family Independence Program (FIP), which provides cash assistance to families with children who meet financial need and is administered through the State of Michigan.

FIP Scenario Analysis

To qualify for any public assistance benefits, one must meet various asset and income eligibility requirements. The Family Independence Program is funded by the Temporary Assistance for Needy Families (TANF) program, which is a Federal welfare block grant, and by the State General Fund. To be eligible for FIP, a recipient must have less than $3,000 in countable liquid assets and the total assessed value of real property owned by the person must be less than $200,000.[1] The income requirements include the total monthly income adjusted by disregards and allowable expenses. The income test is as follows: the first $200 plus 20.0% of the remainder of each employed person's monthly income is excluded. For continuing benefits, $200 plus 50.0% of the remainder of each employed person's monthly earned income is disregarded. The scenario analysis will incorporate offsetting impacts due to an increase in the minimum wage and a corresponding decrease in hours worked. That is, if an employer reduced the number of hours worked as the hourly wage rose, the employee would receive an equivalent amount of weekly wages and there would be no change in eligibility for public assistance.

The benefits that a family receives are individualized to the family's situation and, as each case is different, the amount of savings in public assistance dollars due to an increase in the hourly minimum wage depends on circumstances of the recipients. Therefore, it is difficult to

[1] Michigan Department of Health and Human Services (DHHS) - Cash Assistance Eligibility Standards

determine exactly the extent to which public assistance benefits would be saved with an increase in the minimum wage.

As of the fourth quarter of fiscal year 2014-15, 17,942 people receiving FIP benefits were employed. That figure represents 55.0% of the total 32,622 people in the program. The average wage (for those who were employed) was $9.16 per hour. There are no data on the average number of hours per week that these individuals were working. Given that analyzing a static change in the minimum wage makes it difficult to parse out any changes to the FIP caseload, this paper will analyze the impact of an hourly minimum wage increase on a hypothetical family and how a particular minimum wage change may influence their eligibility. Table 1 displays five scenarios for a hypothetical family of four. For a family of four meeting the work requirements, the maximum monthly FIP benefit is $597.[2]

Table 1

Minimum Wage Scenario Analysis

Category	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Wage Rate	$8.15	$8.15	$8.50	$8.15	$8.50
Weekly Hours Worked	40.0	20.0	20.0	28.5	28.5
Monthly Pay	$1,304.00	$652.00	$680.00	$929.10	$969.00
Income Exclusions					
(A) First $200	$(200.00)	$(200.00)	$(200.00)	$(200.00)	$(200.00)
(B) 20% of Remaining Income	(220.80)	(90.40)	(96.00)	(145.82)	(153.80)
Countable Income	$883.20	$361.60	$384.00	$583.28	$615.20
Group Size	4	4	4	4	4
Maximum Monthly FIP Amount	$597.00	$597.00	$597.00	$597.00	$597.00
Qualifying Test Passed?	No	Yes	Yes	Yes	No

Source: Senate Fiscal Agency

- In Scenario 1, the wage rate is $8.15 per hour and the total hours worked per week are exactly 40. Under this scenario, the family is already above the income eligibility threshold so there is no FIP impact from an increased wage.
- In Scenario 2, the wage rate is $8.15 per hour and total hours worked per week are 20. The family will qualify for FIP benefits.
- In Scenario 3, all things are the same as Scenario 2 except that wage rate has been raised to $8.50. Even with the minimum wage increase, the family still would be eligible for benefits; thus, there would be no change in eligibility but there perhaps the monthly benefit would be diminished.
- In Scenario 4, the wage rate is $8.15 per hour and total hours worked per week are 28.5. The family will qualify for FIP benefits.
- Under Scenario 5, all things are the same as Scenario 4 except that the wage rate has been raised to $8.50. Now, with the increased wage rate, the family is no longer eligible to receive FIP benefits. Thus, 28.5 hours worked in a week is the "inflection point" at which the change in the minimum wage makes a difference in the eligibility of the case. Scenario

[2] DHHS - TANF State Plan

5 demonstrates that under a certain set of working circumstances, an individual can move off of public assistance due to a minimum wage increase.

As stated above, any calculation of how a wage rate change would influence the overall number of FIP cases depends on other factors staying constant and is difficult to state definitely, as the data are unavailable to simulate all of the employment circumstances for every FIP case. Given that in the most recent quarterly reporting period the average wage rate for people who were meeting the FIP work requirements was $9.16 per hour, it is unlikely there would be a significant change in the overall FIP caseload. However, there could be a decrease in cash assistance received.

Additionally, historical data on the interaction between minimum wage increases and the Family Independence Program show that, in general, a growing economy that has inflationary pressures often results in calls to raise the minimum wage as an individual's purchasing power declines relative to prices. As shown in Tables 2 and 3, since 1997, there have been several increases in the Federal minimum wage as well as changes to the State minimum wage.

Table 2

United States Minimum Wage History
1996 - Present

Federal	Minimum Hourly Wage Rate	Tipped Employee Hourly Wage Rate
October 1, 1996	$4.75	$2.13
September 1, 1997	5.15	2.13
July 24, 2007	5.85	2.13
July 24, 2008	6.55	2.13
July 24, 2009	7.25	2.13

Source: U.S. Department of Labor

Table 3

Michigan Minimum Wage History
2008 - Present

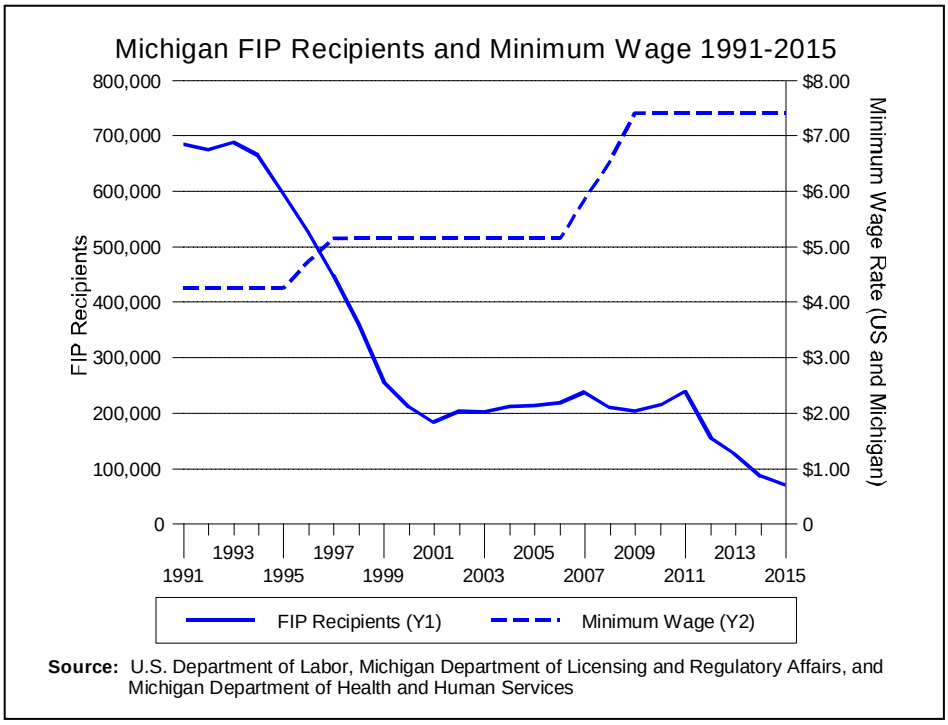
Michigan	Minimum Hourly Wage Rate	Tipped Employee Hourly Wage Rate
Pre-June 1, 2008	$7.25	$2.13
June 1, 2008	7.40	2.65
September 1, 2014	8.15	3.10
January 1, 2016	8.50	3.23
January 1, 2017	8.90	3.38
January 1, 2018	9.25	3.52

Source: Michigan Department of Licensing and Regulatory Affairs

Figure 1 overlays the changes in the minimum wage in Michigan from 1991 to 2015 with the changes in the number of FIP recipients over time. (The program in the past was different from the current form, however, as there was much more emphasis on direct cash assistance with

fewer eligibility requirements than today.) There has been a large decline in FIP recipients, but the cause does not appear to be due to increases in the minimum wage; rather, it could be due to post-1996 welfare reform work requirements. Between 1997 and 2007, there was no change in the Federal minimum wage, yet the number of FIP recipients continued to decline. The likely reason for the decline in the FIP caseload is other factors such as overall eligibility changes or an improving economy. The lowest number of FIP recipients prior to 2007 was in 2000, near the peak of the 1991 to 2001 expanding business cycle that was a time with a growing economy with inflationary pressures.

Figure 1



Source: U.S. Department of Labor, Michigan Department of Licensing and Regulatory Affairs, and Michigan Department of Health and Human Services

Impact on Other Public Assistance Benefit Programs

This section will present a high-level overview of the impact on the Food Assistance Program (FAP) (also referred to as Supplemental Nutrition Assistance Program, or SNAP) from an increase in the minimum wage. In contrast to the FIP income tests that are set by the State and approved by the Federal government, the income tests for FAP are set by Federal guidelines.[3] As shown in Table 4, the income limits are much higher for FAP than they are for FIP.[4] Compared with the potential impact on FIP, any increase in the minimum wage likely would have to be much larger (such as to $15 per hour) to produce any measurable decrease in the FAP caseload.

[3] Food and Nutrition Service – U.S. Department of Agriculture – SNAP Guidelines
[4] Gross monthly income and net monthly income are the two income tests that are considered for FAP, depending on other recipient economic circumstances.

Table 4

Food Assistance Program Income Eligibility FY 2015-16		
Household Size	**Gross Monthly Income (130% of Poverty)**	**Net Monthly Income (100% of Poverty)**
1	$1,276	$981
2	1,726	1,328
3	2,177	1,675
4	2,628	2,021
5	3,078	2,368
6	3,529	2,715
7	3,980	3,061
8	4,430	3,408
Each additional member	451	347
Note: Guidelines in effect from October 1, 2015, through September 30, 2016		

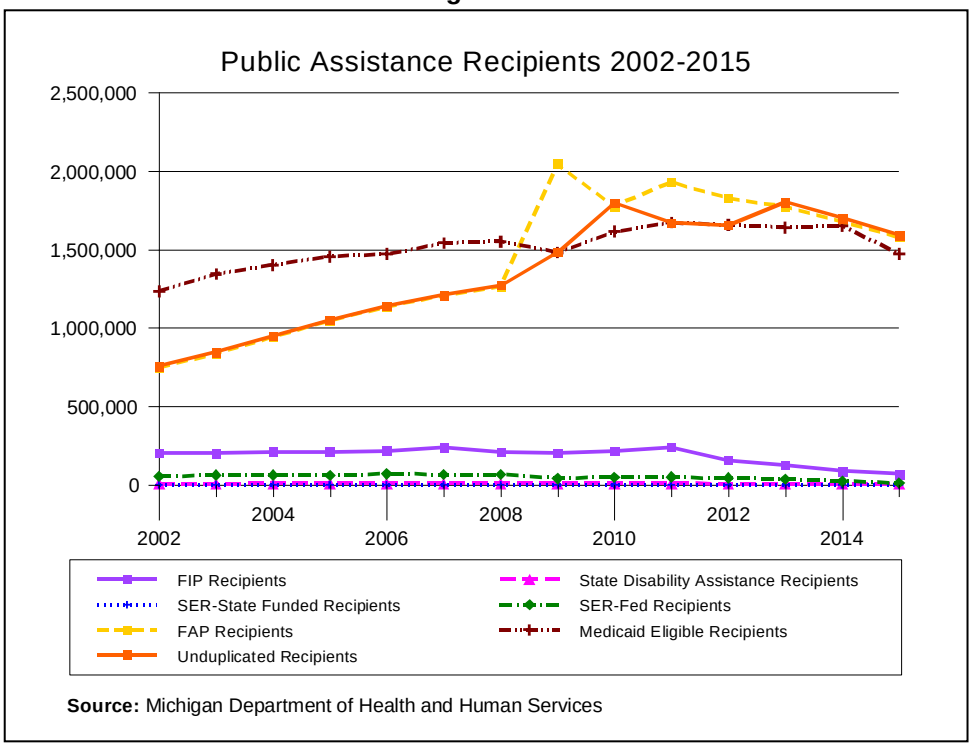
So**urce:** Food and Nutrition Service – U.S. Department of Agriculture

One factor affecting FAP is that households have to meet income tests unless all members are receiving other types of public assistance. (The family could be phased out of FIP as shown in Scenario 5 due to the minimum wage increase, but remain far below the income limit for FAP.) Additionally, most households must meet both the gross and net income tests, but a household with an elderly person or a person who is receiving certain types of disability payments must meet only the net income test; thus, there likely would be no impact on the FAP caseload in that type of case.

Expanding the analysis to other public assistance programs, Figure 2 shows the trends for the various public assistance programs in Michigan since 2002. In the run-up to the 2008-2009 recession, there was a large increase in the FAP caseload. While some of the other programs had caseload declines after 2011, as Medicaid and FAP stayed high, the number of unduplicated recipients of public assistance benefits continued to increase until it peaked in 2013.[5] Although there were changes to the minimum wage during the period between 2002 and 2015, any impact from those changes would be lost in the "noise" of other variables such as economic growth, labor market transformation, and changing eligibility guidelines. There is no apparent causation for a decrease in public assistance caseload.

[5] The "unduplicated" rate represents the true number of individuals receiving assistance, and eliminates the potential for double-counting people enrolled in more than one assistance program.

Figure 2



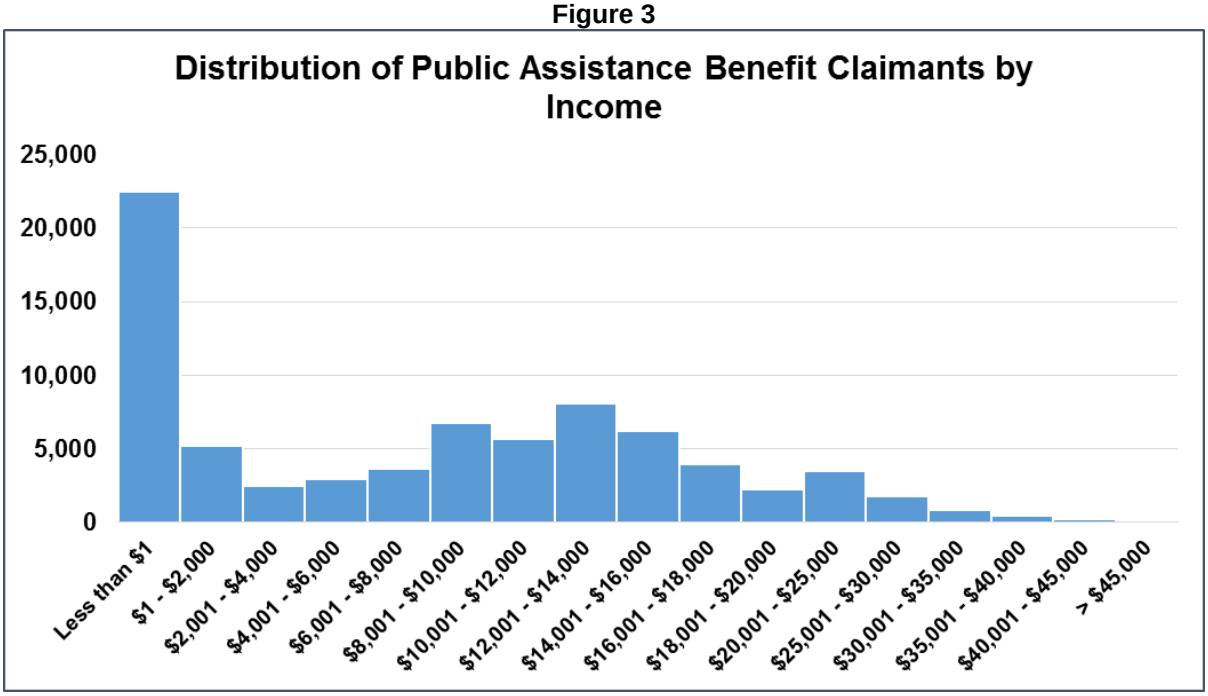
Source: Michigan Department of Health and Human Services

Distribution of Income for Michigan's Public Assistance Recipients

One way to analyze the question of whether an increase in the minimum wage decreases the number of people on public assistance is to compare the income from public assistance benefits received as documented in the 2013 State of Michigan income tax data. A limitation to this approach is that the only place on the tax form where the total amount of Department of Health and Human Services/FIP benefits received is reported is the Michigan Homestead Property Tax Credit (HPTC) on schedule MI-1040CR. To the extent that there are people who receive public assistance and either do not file an income tax return or do file but do not claim the HPTC, their income and benefits received are not captured. As Figure 3 shows, the income cohorts are broken into several segments with about 30.0% of the filers making less than $1 per year in adjusted gross income (AGI).

For those who filed for the HPTC, the AGI ranged between less than $1 and more than $45,000. The AGI groups for those who claimed the HPTC are broken into the categories shown in Table 5.

Figure 3



Source: Michigan Department of Treasury

Table 5

Demographics of 2013 Michigan HPTC Filers	
Filing Categories	**Number of Tax Filers**
Single with no dependent children	37,870
Single with dependent children	25,988
Married filing jointly with no dependent children	7,096
Married filing jointly with dependent children	5,803

Source: Michigan Department of Treasury

The average AGI of HPTC filers was $18,130 with an average of $2,404 in public assistance. This group had an average hourly wage of $8.72 (assuming an average of 40 hours worked). The correlation between income and public assistance benefits in this data set is -0.69, meaning that for every dollar increase in income there is on average a $0.69 decrease in public assistance.

On the high end, if the minimum wage increased all income cohorts equally, the maximum estimate for a reduction in public assistance benefits would be around $33.0 million and there would be an estimated unduplicated recipient caseload decline of approximately 10.0%. This optimal scenario is not likely to occur for a couple of reasons. First, most of the distribution of the public assistance is to people who have less than $1 of AGI. These people are likely elderly and/or disabled and unlikely to be affected at all by an increase in the minimum wage as they do not participate in the labor force. Second, at the higher end of the income cohorts, any small rise in the minimum wage will not significantly influence the public benefit assistance amounts

as the wages of these people are already above the existing minimum wage increase, though there may be a decrease in FAP benefits. The most likely place for an impact to occur is in the middle tier of the income cohort distribution. A more probable outcome, discussed above using the correlation factor between income and public assistance received, is a reduction in public assistance benefits of about $10.0 million, which represents approximately 5.0% of the total benefits received in the sample data and reflects a caseload decline of 3.0% to 4.0%.

Wage Impacts on Public Assistance – Experiences in Other Jurisdictions

An additional way to look for any anticipated impact on public assistance from an increase in the minimum wage is to examine models of other geographic areas where there are planned increases. One study suggests that minimum wage increases were not associated with any net changes in public assistance benefit receipts in the period before the 2008-2009 recession.[6] The study summarizes by stating that minimum wage increases may aid some working families in leaving the welfare rolls but adverse labor demand effects may increase government benefits received by others.

In Washington, D.C., the hourly minimum wage was $8.25 until 2016, when it was raised to $11.50. This is a 40.0% increase compared with a 4.3% increase in Michigan. The Urban Institute completed a study in 2014, *Understanding the Implications of Raising the Minimum Wage in the District of Columbia*, which used a comprehensive statistical model to forecast a fiscal impact from the increase in the minimum wage on employment levels, public assistance benefits, and the earnings/income of the families.[7] Since the magnitude of the wage increase in Washington, D.C., is substantially higher than Michigan's, any estimated impact derived from the Urban Institute study methodology is likely to be much less in this State.

In the Urban Institute study, an estimated 41,000 individuals were forecasted to be affected by the change in the minimum wage. Twenty percent of the families were living below the Federal poverty level and 35.0% had incomes between 100.0% and 200.0% of the Federal poverty level.[8] With respect to their working situation, two-thirds of those were employed more than 48 hours per week and 70.0% worked at least 35 hours per week.[9]

For the amount of public assistance received by those who are covered by the minimum wage increase, the following passage details the profile of public assistance received:

> About 33 percent of affected workers receive the earned income tax credit (EITC), and 28 percent receive Supplemental Nutrition Assistance Program (SNAP) benefits (formerly called food stamps). Of the affected workers, 15 percent receive Low Income Home Energy Assistance Program (LIHEAP) benefits, 13 percent

[6] Sabia, Joseph J., Richard V. Burkhauser, and Thanh Tam Nguyen. January and March 2015. "Minimum Wages and Poverty Reconsidered", American Economic Association Meetings & Eastern Economic Association Meetings, Boston, MA, and New York City, NY.
[7] Understanding the Implications of Raising the Minimum Wage in the District of Columbia, The Urban Institute, July 2014.
[8] Ibid.
[9] Ibid.

receive housing assistance, 9 percent receive child care subsidies, and 7 percent participate in the Special Nutrition Program for Women, Infant, and Children (WIC). Only 5 percent receive Temporary Assistance for Needy Families (TANF) or related cash assistance.[10]

More than two-thirds of the people in this sample were employed in some capacity, so it is not surprising that the largest percentage of people received the EITC and SNAP, which are generally considered benefits for "the working poor". The other benefits (except TANF cash assistance) are in-kind benefits (noncash goods or services), though these public assistance programs are more frequently associated with recipients who are not in the labor force.

The model in the study produced an estimate for the changes in the public assistance benefits in Washington, D.C. Table 6 summarizes the predicted changes in the public assistance caseload and dollar value of benefits due to a 40.0% increase in the minimum wage:

Table 6

Projected Public Assistance Changes in Washington, D.C.		
Public Assistance Program	**Projected Caseload Decline**	**Projected Benefit Decline**
EITC	(2.9%)	(2.5%)
SNAP	(0.9)	(1.9)
LIHEAP	(3.4)	(3.4)
Child Care	(0.6)	(0.6)
WIC	(0.3)	(0.2)
TANF	(1.7)	(0.8)
SSI	(1.7)	(0.3)

Source: The Urban Institute

It can be hypothesized that the subsidized child care or WIC benefits changed the least (in percentage terms) because the recipients of these programs are likely to have incomes that are considerably below the program's eligibility limits; thus, there was no impact from a minimum wage increase.

By using these forecasted changes in Washington, D.C., the model methodology as applied to Michigan can yield a "ballpark" estimate for changes that may occur due to an increase in the minimum wage.

Incorporating the model from the study in Washington, D.C. gives the impact on Michigan (with program amounts based on the fiscal year 2016-17 Executive Recommendation) shown in Table 7.

[10] Ibid, p. 2

Table 7

Estimated Public Assistance Changes in Michigan			
Public Assistance Program	**Projected Caseload Decline**	**Projected Benefit Decline**	**Total Benefit Decline**
EITC[1)]	(0.3%)	(0.3%)	($5,406,923)
SNAP	(0.1)	(0.2)	(4,824,514)
LIHEAP	(0.4)	(0.4)	(643,246)
Child Care	(0.1)	(0.1)	(80,585)
WIC	0.0	0.0	(55,429)
TANF/FIP	(0.2)	(0.1)	(99,682)
SSI	(0.2)	0.0	(20,554)

1) Most recent Federal EITC information is for 2014 tax year.

Source: Senate Fiscal Agency

The EITC and SNAP have smaller declines than LIHEAP in percentage terms, but because the EITC and SNAP are much bigger programs than the others (in dollar and caseload terms), the total change is much greater in the EITC and SNAP. The Federal EITC[11] is not appropriated in the State of Michigan's budget, so any decrease in the amount received by taxpayers in Michigan would not be reflected in a line item. Any decrease in the remaining programs would reduce the budget by approximately $6.0 million Gross. One caution on projecting any savings to public assistance is that a minimum wage increase of 4.0% is close to the long-term average inflation rate of 3.0%. As income eligibility and poverty levels are changed annually with inflationary increases, the likelihood of any public assistance savings declines. Additional public assistance programs were not included in the study as they are specific to Michigan. Approximately $70.0 million of other public assistance benefits are provided, and using a scenario where there is a 1.0% saving in these programs, a total estimated reduction of $6.7 million in public assistance benefits from a minimum wage increase is a midpoint result. This estimate does not include Medicaid benefits, which represent a significant amount of funding in Michigan's budget. Both the "traditional" Medicaid and Healthy Michigan populations of recipients depend on income levels. To the extent that Medicaid recipients are on the margin of eligibility for the program, a minimum wage increase could decrease caseload and the associated appropriations with those cases.

Conclusion

It is clear from the data that minimum wage increases likely will have an impact on the public assistance benefits and caseloads funded by State and Federal government. The minimum wage in Washington, D.C., increased by 40.0% while Michigan's increased by 4.0%. Basing an estimate solely on the correlation of public assistance received and income found in Michigan income tax data, the magnitude of Michigan's change in public assistance expenditures is estimated to be a $10.0 million saving. Using the methodology from the Urban Institute study yields around $6.7 million in public assistance savings. The average of those two results is $8.35 million. These models assume all other variables are equal, so if, for

[11] https://www.eitc.irs.gov/EITC-Central/eitcstats

instance, there is a large increase in the number of people enrolled in WIC, a change in the Federal income eligibility standards for SNAP, or a time-limit change to FIP benefits, any savings from a minimum wage increase could be lost in these categorical changes. Making a significant decrease in the amount of public assistance benefits likely would require a large increase in the minimum wage, but this would impose increased costs on employers who employ minimum wage workers. The larger increase in the minimum wage could have a positive influence by decreasing caseloads or funded benefits, but there likely would be a subsequent offsetting negative impact from decreased employment opportunities and incrementally increased public assistance caseloads. As the increase in Michigan's minimum wage is being phased in, it is necessary for a study period to pass in order to collect the data on the effect of the increase on public assistance benefits.