



Significant Government Savings from an Increase in the Minimum Wage in New York

A policy brief by the Fiscal Policy Institute and the National Employment Law Project: March 2015

As negotiations over New York State's budget draw to a close, Governor Cuomo and the legislature are trying to hammer out an agreement to raise the state's minimum wage, which is currently just \$8.75 and is currently scheduled to top out at \$9.00 at the end of this year. Both Governor Cuomo and the Assembly have proposed measures to raise New York State's minimum wage, including a higher minimum wage level for New York City in the Governor's bill, or, in the case of the Assembly bill, for New York City and the large downstate suburban counties (those with populations in excess of 900,000, i.e., Nassau, Suffolk and Westchester counties).

This policy brief details how, beyond significant benefits for New York's workers, **an increase in New York's minimum wage will entail significant budget savings for New York State and other levels of government – savings well in excess of \$1 billion**, depending on the amount of the wage increase. The savings come from reduced costs for public assistance to low-wage workers—in effect a taxpayer subsidy to large low-wage employers—and increased tax payments by workers benefiting from the wage hike. The families of minimum wage workers will be much better off as a result, better able to move toward self-support, and the economy will benefit from increased consumer spending.

With a minimum wage increase offering **significant benefits for workers and savings for the state budget alike**, there is a strong case that a substantial minimum wage increase is an important component of a budget agreement.

Considerable government budget savings from a higher minimum wage

A new report by the highly regarded Washington, D.C.-based Urban Institute adds to this body of research the important finding that a minimum wage increase has a significant positive fiscal impact on government by **reducing expenditures on various forms of public assistance and increasing tax collections.**

The Urban Institute research report, [How Much Could Policy Changes Reduce Poverty in New York City?](#), was prepared for three major faith-based organizations, the Federation of Protestant Welfare Agencies, Catholic Charities Archdiocese of New York, and the UJA Federation of New York, and was released on March 9, 2015.

The report simulates several policy options in terms of their impact in reducing poverty in New York City and examines the economic impacts for affected populations and the net fiscal impact on government. Among the policy options were an increase in the minimum wage to \$13 an hour, and an increase to \$15 an hour.

Drawing on their extensive experience with such policy modeling, the Urban Institute researchers developed an elaborate model of the poverty and low-income population in New York City to test the effects of different policy options. Among the findings:

- An estimated 986,000 New York City workers would benefit from an increase in the minimum wage to \$13 an hour, with aggregate earnings rising by \$4.7 billion.
- An increase to \$15 an hour would affect 1,044,000 workers and raise their aggregate earnings by \$7.7 billion.
- The wage increase would result in considerable savings by all levels of government in spending on various forms of public assistance. Seven such programs were modeled including Supplemental Nutrition Assistance Program (SNAP), TANF and Safety Net Benefits, and housing and child care subsidies.¹ In their modeling of a minimum wage increase, the Urban

¹ The full list of public subsidies to low-income workers includes: Supplemental Nutrition Assistance Program (SNAP), Public and Subsidized Housing, Child Care Subsidies, TANF and Safety Net Benefits,

Institute factored in a modest level of employment displacement and the cost of Unemployment Compensation paid to any displaced workers.²

- On net, the government savings from the minimum wage increases was \$356 million (\$13 an hour minimum), and \$515 million (\$15 an hour minimum).
- The minimum wage increase had a sizable impact in increasing payroll and individual income taxes paid by workers, even net of an increase in the Earned Income Tax Credit received by some workers.
- Total net tax receipts would rise by \$1.65 billion for a \$13 an hour increase and \$2.8 billion for a minimum wage increase to \$15 an hour.³
- **Combining the net savings from fewer public subsidies to low-income workers and increased payroll and income taxes totals \$2.0 billion in the case of a minimum wage increase to \$13 an hour, and \$3.3 billion for an increase to \$15 an hour.** (Note: these were the estimated dollar savings for the policies modeled by the Urban Institute these are not projections for budget savings from the proposals currently being considered in Albany.)
- The net fiscal savings to all levels of government thus represent roughly 43% of the value of the rise in aggregate earnings as a result of the minimum wage increases.

While the Urban Institute research focused on New York City, the results are conceptually similar in the case of workers across New York State for an increase in the state minimum wage.

The results would vary depending on the level of the new minimum wage. The net tax impact, which is already greater than the net government spending impact, would rise roughly proportionately as the minimum wage level increases, whereas

Supplemental Security Income, the Women Infants and Children Program (WIC), and Low-Income Heating Assistance (LIHEAP.) Eligibility for Medicaid was not included in the programs modeled. The Earned Income Tax Credit (EITC) was analyzed as part of the net tax impact.

² The Urban Institute modeling estimated job displacement would represent 1.9%-2.9% of the number of workers benefiting from an increase to \$13 and \$15, respectively, and an aggregate earnings effect equal to about 3.5% of the earnings boost to the roughly one million workers benefiting from an increase.

³ The modeling did not include looking at the impact on business profits or taxes.

the net government savings would rise at a diminishing rate since eligibility is means-tested and declines as wage earnings rise.

The savings in public spending reflects the fact that employers paying wages so low that workers qualify for means-tested public assistance benefits essentially require taxpayers to subsidize their low-wage employment practices. **Raising the minimum wage is an effective way to reduce the extent of this taxpayer subsidy to low-wage employers.**

At the same time, it is important to point out that the dollar value of the public assistance benefits that some minimum wage workers may lose is only a fraction of the increased wage earnings that these workers will receive. Factoring in the net increase in taxes they will pay, minimum wage workers will be significantly better off as a result of the wage hike—on average, they will receive a net take-home pay gain of 57 cents for every additional dollar of wages.

An additional note on Medicaid

While the Urban Institute analysis did not include Medicaid, increasing the minimum wage could save New York’s taxpayers even more in reduced Medicaid spending in addition to the significant savings discussed above.

New York was one of 29 states to expand its Medicaid program under the Affordable Care Act (ACA). Under “traditional” Medicaid prior to the ACA expansion, most non-elderly, non-disabled adults without dependent children could not qualify for the program – and those who did qualify could not exceed a low income threshold of 100% of the federal poverty line (FPL).⁴

Under the ACA, the program was expanded to cover nearly all adults under 65 years old, and the income threshold was raised to 138% of FPL, which is \$27,724 for a family of three in 2015.⁵ This means that more adult workers, earning above the official poverty line, can now qualify for the program.

⁴ National Conference of State Legislatures, [Medicaid and CHIP Eligibility Table by State](#), accessed March 13, 2015.

⁵ HealthCare.gov, [Income Levels that Qualify for Lower Health Coverage Costs](#), accessed March 13, 2015.

New York's decision to expand Medicaid allows the state to substantially increase wages while also shifting more of its Medicaid spending to the federal government.

This is because under traditional Medicaid, the state was responsible for 50% of its total Medicaid spending, while the federal government covered the other 50%.⁶

Under "expansion" Medicaid, nearly all of the financial obligations for newly eligible enrollees are transferred to the federal government:⁷ a full 100% of Medicaid costs until the end of 2016, and the lion's share of costs thereafter.⁸

Although we do not have estimates on the exact level of savings, it is reasonable to expect that as wages rise with a higher state minimum wage, applicants will remain eligible for Medicaid and some will move into the expansion Medicaid category as their incomes increase and make them ineligible for traditional Medicaid.⁹ This can mean that New York's spending on the program, which amounted to \$26.6 billion in fiscal year 2012,¹⁰ can be significantly reduced.

A valid concern among lawmakers and advocates is that increasing the minimum wage could push the incomes of some workers too high to qualify for expansion Medicaid. Ideally, these workers would receive health care coverage through their employers. However, if they do not, these workers will transition into the ACA healthcare exchange, where many would, on a sliding scale, qualify for subsidies to purchase private insurance plans. Maximum income threshold to qualify for subsidies is 400% of FPL, or \$80,360 for a family of three.¹¹

Increasing the minimum wage in the state, therefore, is a win for all involved: taxpayers and state coffers, which will be responsible for a diminishing share of spending on public programs, and workers, whose income will increase without compromising their health care.

⁶ Kaiser Family Foundation, [Federal and State Share of Medicaid Spending](#), FY 2012, accessed March 13, 2015.

⁷ Note that the state continues to pay for half of the expenses of traditional Medicaid enrollees.

⁸ January Angeles and Matt Broaddus, [Federal Government Will Pick Up Nearly All Costs of Health Reform's Medicaid Expansion](#), Center on Budget and Policy Priorities, March 28, 2012.

⁹ For an example of state-level savings, see Rachel West, [A Win-Win for Working Families and the Delaware Budget: Offsetting Medicaid Costs by Increasing the Minimum Wage](#), Center for American Progress, August 27, 2014.

¹⁰ Kaiser Family Foundation, op. cit.

¹¹ Kaiser Family Foundation, [Explaining Health Care Reform: Questions About Health Insurance Subsidies](#), October 27, 2014.