

## Minimum Wage Now Higher, But is it a Living Wage?

In November, Colorado voters declared it was time for us to join the 23 other states, and the District of Columbia, which had already adopted a minimum wage greater than the federal rate. The passage of Amendment 42 also makes Colorado the 5<sup>th</sup> state in the nation to annually adjust this higher minimum wage by the rate of inflation.

For nearly 10 years, the federal minimum wage has been stagnant at a mere \$5.15 per hour. During this time frame, a full-time worker on the minimum wage could expect to earn an annual salary of \$10,712. Now, the new minimum wage in Colorado is set at \$6.85/hour, resulting in a new annual salary of \$14,248 for those same workers. At first glance, an annual increase in income of \$3,536 might seem like only a good thing for the working poor.

In the case of housing, often restricted by the percent of the Area Median Income for the household size, there are some interesting implications. For a local, single full-time minimum wage earner, the increase can only be seen as a positive, as their new annual salary is still below the 30% AMI, well within the guidelines for income restricted housing. But, according to the 2004 Loveland Housing Study, the average household size in Loveland is 2.44 persons. If one was to examine the effects on 2 person or 3 person households comprising two, full-time minimum wage earners, the ramifications of the new minimum wage may have one seeing what Mary Carraher, Executive Director of Project Self-Sufficiency, is calling “the cliff effect.” Carraher says, “I supported the increase in the minimum wage in Colorado and continue to believe it is an important step forward. At the same time, we continue to see many families who do not earn living wages and who suffer financially when they lose their benefits.”

Recently, Carraher spoke at a Northern Colorado Social Legislation Network breakfast, addressing the cliff effect, and her concerns about it. She explained that some of her organization’s clients have to make difficult decisions when faced with a pay raise or position increase. These promotions often bump the worker above income guidelines for benefits they may be receiving, such as child care assistance. This is the point where the cliff effect takes hold, because when a person exceeds income guidelines for a benefit, the assistance stops, completely and abruptly. Ms. Carraher noted that she would like to see more of a tapering effect with crucial benefits as people climb the self sufficiency ladder. Otherwise, if these raises - with additional costs in necessary areas like child care and housing - net more expenses than income, where is the incentive for the person to accept the promotion?

Imagine a hypothetical family of 3, comprised of two adults who are full-time minimum wage earners and a two year-old:

On the old minimum wage, they received the following services:

Service	Value
Subsidized Housing for persons earning <50% AMI	Rent + Utilities is limited to \$535/month
Child Care Assistance Program	Approximately \$745/month assistance
The Emergency Food Assistance Program (TEFAP) – Government Commodity Program	Variable, offsets grocery bill

On the new minimum wage, their annual salary will increase by \$7,072, adjusting benefits to look like this:

Service	Value
Subsidized Housing for persons earning <50% AMI	Rent + Utilities is limited to \$712/month (\$2,124 annual increase)
Child Care Assistance Program	Now ineligible (\$8,940 annual increase)
The Emergency Food Assistance Program (TEFAP) – Government Commodity Program	Variable, offsets grocery bill
Increased Income -	+\$7,072
Increased Expenses –	<u>-\$11,064</u>
Net Change	-\$3,992

In other words, the higher minimum wage will net this family a **cost** of \$3,992, an amount they cannot afford to add to their already thin budget. A weighing of options will inevitably take place, and the possibility of one worker quitting to stay home with the child may seem to make sense, even if it drops them back into poverty, and further from self-sufficiency.

Part of the problem is that many of our human service programs are designed using **federal** poverty guidelines, which are far below even 30% of our area median incomes and not at all sufficient to live on considering local housing market rates. Another piece of this problematic puzzle is the cliff effect, where benefits are given on an all or nothing basis to people, limited by income guidelines – with no proper weaning mechanisms in place as benefit recipients transition from reliance on the system to a more self-sufficient life-style.

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