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Would There Be a Child Care Benefit Cliff if We Raise the Minimum Wage?

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

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Introduction

Raising the minimum wage is one of the most important steps that Pennsylvania can take to fix a political economy that has been tilted against working people for decades. Two bills before the General Assembly, HB1215 and SB12, propose increasing the minimum wage to \$12 per hour on July 1, 2019, and increasing the wage in 50-cent increments until it reaches \$15 per hour in 2025. Raising the minimum wage to \$15 would ultimately lift wages for two million Pennsylvanians, not only those who make the minimum wage now or who would after an increase, but also many whose wages would be pushed higher when the floor on wages is raised. Raising the minimum wage would also help local economies and the economy of the state as a whole by giving working people the capacity to buy more goods and services. Every state around Pennsylvania has raised the minimum wage in recent years and we have found that, as a result, both employment and wages have gone up in those states in the typically low-wage food service sector, the industry where opponents of raising the minimum wage expect to see declines in employment.

One concern about raising the minimum wage is whether doing so would make it impossible for low-income workers to receive some of the federal and state benefits they obtain now such as SNAP (food stamps), the Earned Income and Child Care Tax Credits (EITC and CTC), LIHEAP, and subsidies to secure child care. It would be a pyrrhic victory to raise the minimum wage for Pennsylvania's long-suffering low-wage workers if they were only to find that their circumstances are not much improved because their higher wages result in much reduced social safety net benefits. Or, to use the common phrase, we don't want low-wage workers to fall off the benefits cliff as their wages go up.

As Pennsylvania considers Governor Wolf's proposal to raise the minimum wage in the state to \$12 on July 1 and then in stages to \$15, it is time to consider this issue in some detail. This is the second of two papers on cliff effects, focusing on one of the most important programs Pennsylvania offers low-income families: subsidized child care benefits. The [first paper](#) integrates the finding of this one in a broader look at the impact of federal and state taxes and a range of federal and state safety net programs, including Medicaid and the ACA, SNAP, the Earned Income and Child Care Tax Credits, and child care subsidies.

Pennsylvania's Child Care Works Program

Pennsylvania's Child Care Works program subsidizes child care for low-income families. At the end of June 2019, 120,409 children benefited from their families' receiving subsidized child care.¹ This subsidy is critical to helping parents take jobs who could not otherwise afford child care. The program also seeks to provide very high quality care that can help children be better prepared for school. It is funded by both the state and federal government and is managed by the Early Learning Resource Center in each county under the supervision of the state Department of Human Services.

Not every child or family eligible for subsidized child care receives it. Child care places are limited by the amount of funding provided by the federal and state governments. Typically there is a waiting list of about 10,000 children for the program. We do not know how many other children might be eligible but are discouraged by the long list from applying.

Eligibility

Pennsylvanians eligible for the program are those who work 20 or more hours per week, work 10 hours and train or go to school for 10 hours or more a week, or have a promise of a job that will start within 30 days of their application for subsidized care. Families are initially eligible for subsidized child care if their income does not exceed 200% of the federal poverty line (FPL). But once they receive subsidized child care they remain eligible for the program until their income exceeds 235% of the federal poverty line. As we will see in detail below, this last provision protects almost all families receiving subsidized child care from losing it if their income were to rise along with the minimum wage. Table 1 provides current federal poverty line data for families of different sizes as well as our estimates of what they will be in 2025 when, under HB1215 and SB12, the minimum wage is projected to rise to \$15 per hour.

Table 1

Estimate of Federal Poverty Line Today and in 2025					
Family Size	Federal Poverty Line (FPL)	200% of FPL	235% of FPL	Estimate of 200% of FPL in 2025	Estimate of 235% of FPL in 2025
2	\$16,910	\$33,820	\$39,739	\$38,453	\$43,760
3	\$21,330	\$42,660	\$50,126	\$48,547	\$55,247
4	\$25,750	\$51,500	\$60,513	\$58,607	\$66,695
5	\$30,070	\$60,140	\$70,665	\$68,439	\$77,884
6	\$34,390	\$68,780	\$80,817	\$78,272	\$89,073

Source: PBPC analysis of [Office of the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services, 2019 Poverty Lines](#). Estimates for the FPL in 2025 are constructed using projections of the CPI-U presented by the [Congressional Budget Office in January 2019](#).

Co-pays and Subsidies

The Child Care Works program provides a subsidy for child care costs. Families pay the other part of the costs, the co-pay. The co-pay varies with the income and size of the family. Go to the PA Bulletin at <http://dhs.pa.gov/learnaboutdhs/wheredotaxdollarsgo/numberofpeopleenrolledindepartmentbenefitprog>

¹PA Department of Human Services website accessed June 19, 2019, <http://dhs.pa.gov/learnaboutdhs/wheredotaxdollarsgo/numberofpeopleenrolledindepartmentbenefitprograms/childcareenrollments/index.htm>.

[rams/childcareenrollments/index.htm](https://rams.childcareenrollments/index.htm) to find current co-pay levels. Both the subsidy and the co-pay go directly to the child care provider.

Costs of Child Care

We calculate the benefits for different low-income families in Pennsylvania under the current minimum wage of \$7.25, a \$12 minimum wage in 2019, and a \$15 minimum wage in 2025 with data on the required co-pay in 2019 and the expected co-pay in 2025, as well as the average costs of full-time child care for both infants and children in pre-school today and expected in 2025.

The average cost of child care in 2019 and projected for 2025 is found in Table 2.

Table 2

Mean Cost of Full-Time Child Care in Pennsylvania Per Year		
	2019	Estimated 2025
Infants	10,640	12,108
Pre-schoolers	8,072	9,186

Source: PBPC analysis of Economic Policy Institute, [The Cost of Child Care in Pennsylvania](#). Estimates for the FPL in 2025 are constructed using projections of the CPI-U presented by the [Congressional Budget Office in January 2019](#).

The Minimum Wage and Eligibility for Child Care

In this section of the paper we look at how raising the minimum wage would affect eligibility for child care subsidies.

Child Care Eligibility and Benefits in 2019 with Minimum Wage of \$7.25

Tables 3a and 3b show that, at the current minimum wage of \$7.25, families with both one and two full-time minimum wage workers are well under the cut-off points for both continuing in the Child Care Works program (which requires them to have an income at or below 235% of the federal poverty line) and initially joining the program (which requires them to have an income below 200% of the federal poverty line). Indeed, at a minimum wage of only \$7.25 these families are well under the federal poverty line and the more children they have the farther below the FPL they find themselves.

The tables also show that both one and two full-time minimum wage workers receive substantial child care benefits from the Child Care Works program, although even with these substantial benefits they remain under the poverty line. The column “mean child care benefit per year” is the mean or average subsidy for child care received by each family type minus the co-pay they pay per year.

These benefits are very substantial for those who can secure them. An average family with one full-time minimum wage worker and one child will received an average child care subsidy of \$9,548. An average family with one full-time minimum wage worker, one infant, and two toddlers would receive a child care subsidy of \$26,264.

Table 3a

Minimum Wage of \$7.25 Per Hour--One full-time minimum wage worker in family, 2019						
Family Size	Family Composition	Yearly Wage for 1 Full-Time Min Wage Worker	Co-pay Per Year for Child Care	Mean Child Care Subsidy Per Year	235% of FPL	200% of FPL
2	1 Adult, 1 Infant	\$15,080	\$1,092	\$9,548	\$39,739	\$33,820
3	1 Adult, 2 Infants	\$15,080	\$884	\$20,396	\$50,126	\$42,660
4	1 Adult, 1 Infant, 2 Toddlers	\$15,080	\$520	\$26,264	\$60,513	\$51,500
5	1 Adult, 2 Infants, 2 Toddlers	\$15,080	\$520	\$36,904	\$70,665	\$60,140
6	1 Adult, 2 Infants, 3 Toddlers	\$15,080	\$520	\$44,976	\$80,817	\$68,780

An average family with two full-time minimum wage workers and one infant would receive a subsidy of \$8,144 while an average family with two full-time minimum wage workers, two infants and one toddler would receive a subsidy of \$27,272 (Table 3b).

Table 3b

Minimum Wage of \$7.25 Per Hour--Two full-time minimum wage workers in family, 2019						
Family Size	Family Composition	Yearly Wage for 2 Full-Time Min Wage workers	Co-pay Per Year	Mean Child Care Subsidy Per Year	235% of FPL	200% of FPL
3	2 Adults, 1 Infant	\$30,160	\$2,496	\$8,144	\$50,126	\$42,660
4	2 Adults, 1 Infant, 1 Toddler	\$30,160	\$2,340	\$16,372	\$60,513	\$51,500
5	2 Adults, 2 Infants, 1 Toddler	\$30,160	\$2,080	\$27,272	\$70,665	\$60,140
6	2 Adults, 2 Infants, 2 Toddlers	\$30,160	\$1,872	\$35,552	\$80,817	\$68,780

Child Care Eligibility and Benefits in 2019 with Minimum Wage of \$12.00

The impact of raising the minimum wage to \$12 per hour in 2019 is shown in Tables 4a and 4b. Note first that increasing the minimum wage to \$12 per hour brings families with two full-time minimum wage workers and one child above the poverty line. The third column in both tables shows that an increase in the minimum wage from \$7.25 to \$12 boosts the income of one full-time minimum wage worker from \$15,080 to \$24,960 and of two full-time minimum wage workers from \$30,160 to \$49,920. These are substantial increases and show us exactly why raising the minimum wage is so critical to Pennsylvania families.

These tables also show us that while an increase in the minimum wage to \$12 per hour would, under current law, increase the co-pay each family would have to provide and reduce the value of their child care subsidy, they would all still receive substantial child care subsidies. For families with one full-time minimum wage worker, co-pays would roughly double if they have one child and triple if they have five children. For families with two full-time minimum wage workers, co-pays would roughly double.

Yet, as the fifth column in each table shows, child care subsidies would remain substantial. And as the seventh column in each table shows, the benefit of increasing the minimum wage from \$7.25 to \$12 would remain substantial even after the increase in co-pays for subsidized child care. For families with one full-time minimum wage worker the net increase in wages would range from \$6,552 to \$7,852 per family. For families with two full-time minimum wage workers the additional wages would range from \$12,220 to \$13,728.

Because families are allowed to receive child care subsidies up to an income of 235% of the federal poverty line, no families that are already receiving child care subsidies would lose them as a result of the increase in the minimum wage from \$7.25 to \$12. However, families with two full-time minimum wage workers and one infant would no longer be eligible to begin receiving a child care subsidy. This is one down-side to raising the minimum wage, and we will return to how to deal with this issue in the conclusion.

Table 4a

Minimum wage of \$12 Per hour--One full-time minimum wage worker in family, 2019								
Family Size	Family Composition	Yearly Wage for 1 Full-Time Min Wage Worker	Co-pay Per Year for Child Care	Mean Child Care Subsidy Per Year	Benefit of Increasing Minimum Wage Before Change in Co-Pay	Benefit of Increasing Minimum Wage After Change of Co-Pay	235% of FPL	200% of FPL
2	1 Adult, 1 Infant	\$24,960	\$2,236	\$8,404	\$9,880	\$6,552	\$39,739	\$33,820
3	1 Adult, 2 Infants	\$24,960	\$1,820	\$19,460	\$9,880	\$7,176	\$50,126	\$42,660
4	1 Adult, 1 Infant, 2 Toddlers	\$24,960	\$1,716	\$25,068	\$9,880	\$7,644	\$60,513	\$51,500
5	1 Adult, 2 Infants, 2 Toddlers	\$24,960	\$1,612	\$35,812	\$9,880	\$7,748	\$70,665	\$60,140
6	1 Adult, 2 Infants, 3 Toddlers	\$24,960	\$1,508	\$43,988	\$9,880	\$7,852	\$80,817	\$68,780

Table 4b

Minimum wage of \$12 Per hour--Two full-time minimum wage workers in family, 2019								
Family Size	Family Composition	Yearly Wage For Two Full-Time Min Wage Workers	Co-pay Per Year	Mean Child Care Subsidy Per Year	Benefit of Increasing Minimum Wage Before Change in Co-Pay	Benefit of Increasing Minimum Wage After Change of Co-Pay	235% of FPL	200% of FPL
3	2 Adults, 1 Infant	\$49,920	\$5,044	\$5,596	\$19,760	\$12,220	\$50,126	\$42,660
4	2 Adults, 1 Infant, 1 Toddler	\$49,920	\$4,940	\$13,772	\$19,760	\$12,480	\$60,513	\$51,500
5	2 Adults, 2 Infants, 1 Toddler	\$49,920	\$4,316	\$25,036	\$19,760	\$13,364	\$70,665	\$60,140
6	2 Adults, 2 infants, 2 Toddlers	\$49,920	\$4,160	\$33,264	\$19,760	\$13,728	\$80,817	\$68,780

Child Care Eligibility and Benefits in 2019 with Minimum Wage of \$15

Tables 5a and 5b estimate the impact of raising the minimum wage to \$15 per hour in 2025. Recall that in calculating these estimates, we adjusted estimates for the federal poverty line, mean child care costs, child care co-pays, and child care benefits in 2025 for projected inflation.

Increasing the minimum wage to \$15 brings even more families with two full-time workers out of poverty. The third column in both tables shows that an increase in the minimum wage from \$7.25 to \$15 boosts the income of one full-time minimum wage worker from \$15,080 to \$31,200 and of two full-time minimum wage workers from \$30,160 to \$62,400. These are, again, substantial increases. At \$15 per hour, full-time workers would still have relatively low incomes, but they would reach a level of income that provides them with a far more comfortable and dignified life than they are able to attain today.

These tables also show us that while an increase in the minimum wage to \$15 per hour would, under current law, increase the co-pay each family would have to provide and reduce the value of their child care subsidy, they would all still receive substantial child care subsidies. For families with one full-time minimum wage worker, co-pays would roughly triple if they have one child and be five times greater if they have five children.

For families with two full-time minimum wage workers, co-pays would increase by roughly three and a half times if they have one child or if they have four children.

Yet, as the fifth column in each table shows, the child care subsidies would remain substantial with a value of \$8,676 to \$49,348 depending on the family. And as the seventh column in each table shows, the benefit of increasing the minimum wage from \$7.25 to \$15 would remain substantial even after the increase in co-pays for subsidized child care. For families with one full-time minimum wage worker the net increase in wages would range from \$11,596 to \$13,174 per family. For families with two full-time minimum wage workers the additional wages would range from \$21,163 to \$23,563.

Because families are allowed to receive child care subsidies up to an income of 235% of the federal poverty line, only families with two full-time minimum wage workers and one child would lose them as a result of the increase in the minimum wage from \$7.25 to \$15. But note that at this income level for a family of two full-time minimum wage workers, the co-pay for subsidized child care has increased to the point that the average child care benefit is only \$4,568. The value of an increase in the minimum wage from \$7.25 to \$15 is worth \$32,240. Even if they lose their child care benefits, the income of these families would be \$28,712 greater than today.

Families with two full-time minimum wage workers and one or two children would no longer be eligible to begin receiving a child care subsidy. This is certainly a negative consequence of an increase in the minimum wage from \$7.25 to \$15. But, even after losing child care benefits, a family with two full-time minimum wage workers and an infant would have an income that is \$10,946 greater than it is with a minimum wage of \$7.25. But the loss of child care benefits would reduce the value of increasing the minimum wage by \$14,311.

Table 5a

Minimum wage of \$15 Per hour in 2025--One full-time minimum wage worker in family								
Family Size	Family Composition	Yearly Wage for 2 Full-Time Min Wage Workers	Estimated Co-Pay Per Year in 2025	Mean Child Care Subsidy Per Year	Benefit of Increasing Minimum Wage Before Change in Co-Pay	Benefit of Increasing Minimum Wage After Change of Co-Pay	235% of Estimated FPL in 2025	200% of Estimated FPL in 2025
2	1 Adult, 1 Infant	\$31,200	\$3,432	\$10,640	\$16,120	\$11,596	\$43,760	\$38,453
3	1 Adult, 2 Infants	\$31,200	\$2,840	\$21,376	\$16,120	\$12,396	\$55,247	\$48,547
4	1 Adult, 1 Infant, 2 Toddlers	\$31,200	\$2,663	\$27,817	\$16,120	\$12,937	\$66,695	\$58,607
5	1 Adult, 2 Infants, 2 Toddlers	\$31,200	\$2,604	\$39,985	\$16,120	\$12,996	\$77,884	\$68,439
6	1 Adult, 2 infants, 3 Toddlers	\$31,200	\$2,426	\$49,348	\$16,120	\$13,174	\$89,073	\$78,272

Table 5b

Minimum wage of \$15 Per Hour in 2025--Two full-time minimum wage workers in family								
Family Size	Family Composition	Yearly Wage for 2 Full-Time Min Wage workers	Estimated Co-Pay Per Year in 2025	Mean Child Care Subsidy Per Year	Benefit of Increasing Minimum Wage Before Change in Co-Pay	Benefit of Increasing Minimum Wage After Change of Co-Pay	235% of Estimated FPL in 2025	200% of Estimated FPL in 2025
3	2 Adults, 1 Infant	\$62,400	\$12,108	\$0*	\$32,240	\$17,636	\$55,247	\$48,547
4	2 Adults, 1 Infant, 1 Toddler	\$62,400	\$6,983	\$14,311	\$32,240	\$22,917	\$66,695	\$58,607
5	2 Adults, 2 Infants, 1 Toddler	\$62,400	\$7,160	\$26,242	\$32,240	\$23,000	\$77,884	\$68,439
6	2 Adults, 2 infants, 2 Toddlers	\$62,400	\$6,509	\$36,079	\$32,240	\$23,859	\$89,073	\$78,272

*Does not qualify for child care subsidy so co-pay would be the whole cost of child care. If a family with 2 adults and 1 infant temporarily decreased their hours to receive under \$48,547 a year in income, they would pay a co-pay of \$7,540 with a mean child care benefit of \$4,568.

Dealing With the Negative Impact of Raising the Minimum Wage

We undertook this research because some supporters fear that raising the minimum wage would have the perverse effect of causing many low-income families that now benefit from substantial child care subsidies to lose them. This is the “cliff effect.”

Summary of Findings

First, we have found that for most family configurations, and for all families with only one full-time minimum wage worker, there is no cliff effect.

We have found, secondly, that the only families that are already receiving child care subsidies who might lose them are those two full-time minimum wage workers and one or two children.

Finally, the extent to which a family of two full-time minimum wage workers and two children would benefit from an increase in the minimum wage would be reduced a great deal—by \$14,311—as the minimum wage increases from \$7.25 to \$15 per hour. The accompanying paper to this one examines all the taxes and benefits received by various family configurations and shows that at a \$15 per hour minimum wage a two-minimum wage worker family that was receiving child care benefits would face a benefit cliff. Their post-benefit, post-tax income would actually be lower at a \$15 per hour minimum wage than one at the current minimum wage of \$7.25.

The Extent of the Problem

What we can’t say at this point is how many families fall into these categories. We do know that about 55% of minimum wage workers work full time. But presently we don’t have data about how many families there are consisting of two full-time minimum wage workers and one or two children.

More importantly, we don’t know how many families there are in which two minimum-wage workers are able, even if they are willing, to work full time for the entire year. We know that minimum wage work is

often transient. Indeed, one reason we have called for fair scheduling laws is that so many minimum wage workers aren't able to work full time when they want to do so.

We also have reason to believe that many two-income minimum worker families with children might have good reason not to work full time. They may want, or need, to take some time off to care for children who are sick. And, as we will discuss in more detail below, some families might decide that a higher minimum wage allows them to take some time off from work.

Thus, many two-worker minimum wage families with one or two children that, whether by choice or necessity, don't work full time are likely to retain eligibility for child care subsidies even when the minimum wage is increased to \$15.

If, for example, the minimum wage workers in a family with two workers and one child, worked on average 40, not 52, weeks a year, they would be initially eligible for child care subsidies. And they would stay eligible even if they worked 46 weeks a year on average.

Similarly, if the minimum wage workers in a family with two children, each worked only 49 rather than 52 weeks a year, their income would be just below 200% of the federal poverty line and they would be initially eligible for child care subsidies. Then, they could stay on the program even if they were able to work for 52 weeks a year.

Given the uncertainties of minimum wage work, we believe it is likely that many families of the kind who might lose child care subsidies are not likely to do so because they are not able to work a full 52 weeks a year.

How Families Could Adjust to the Problem

That some reduction in work hours allows families with two minimum wage workers to secure and retain child care benefits suggests that they could deliberately adjust their work hours to secure child care benefits.

This strategy would not really make sense for a family with two full-time minimum wage workers and one child. The reduction in work hours and wages necessary to be initially eligible for subsidized child care is \$13,853—and to retain eligibility for it is \$7,153 while the value of subsidized care for one child would be only \$4,568. And given that there is a waiting list for securing child care benefits, such a family would have to reduce their income for an unknown, and possibly long, period of time.

On the other hand, a family with two full-time minimum wage workers and two children would likely make a different calculation. If they do not already receive child care subsidies, they could become eligible for them if they only worked on average 49 weeks a year instead of 52 weeks a year. Then, once they secured child care subsidies, they could both work 52 weeks a year without losing them.

Requiring families to adjust work hours to secure child care subsidies is both potentially burdensome and unfair. It would require difficult choices about putting off meeting immediate needs to save for weeks that one does not work. And many people with low-incomes don't have easy access to bank accounts. It would be helpful if social service agencies provided counseling to families about how to deal with these difficulties. Yet we should also remember that one reason we want to increase the minimum wage—and wages generally—is so that men and women do not have to work week after week without a vacation in order to support their families. Indeed, the inability of low-income workers to take time off while providing for their families is one of the great injustices of our time. It would be preferable if everyone at all levels of work could receive paid vacation time. But raising the minimum wage so that working people can at least afford to take unpaid time off is certainly a step forward. Indeed, at a \$15 minimum wage we would expect that, regardless of the impact child care subsidies, some families and especially those with young children, would choose to reduce their work time to some degree, enabling them to spend more time at home and to take vacation time.

Should Child Care Policy Be Adjusted Along with the Minimum Wage?

Child care, especially high-quality child care, is expensive. And in an ideal world, families at much higher levels of income would be eligible for subsidized infant care, and universal pre-K education would be available for toddlers younger than school age. In such a world, we would not have to worry about benefit cliff effects when the minimum wage is increased.

And in a better world, Pennsylvania might choose to slightly adjust the income eligibility levels for subsidized child care when raising the minimum wage so as to ensure that no family loses child care benefits.

But, currently, we do not live in such a world. The biggest child care problem we face in Pennsylvania is not that eligibility levels for subsidized child care are set too low, but that not enough funds are provided to ensure that all children eligible for such care can receive it. As of June 29, 2018, about 10,000 children who were eligible for subsidized child care were on a waiting list because there were insufficient funds to serve them all.² (There are some indications that waiting list has dropped in the last year.) Many of those children come from families which will remain, even after an increase in the minimum wage, far below the 200% of federal poverty line cut-off because their parents find it impossible to work full time even at the minimum wage. Yet, even though they are eligible for child care benefits, the state does not appropriate enough money to provide benefits to all who are eligible.

Thus, while there is a case in theory for some adjustment in income eligibility rules for child care benefits when the minimum wage is increased, we believe that any increase in funding should go first to reducing the waiting list for subsidized child care. This is a critical and immediate need.

Conclusion

Because it is important to watch out for the unintended consequences of changes in public policy, it is reasonable to be concerned about potential “benefit cliffs” as a result of raising the minimum wage. We undertook this work in order to determine whether a substantial increase in the Pennsylvania minimum wage from \$7.25 to \$12, and then in increments to \$15, would make it harder for low-income families in the state to secure subsidized child care.

Our conclusion is that there is little reason to fear a benefit cliff from the loss of subsidized child care. At a \$12 minimum wage, no problems arise. At a \$15 minimum wage, no problems arise for families with one full-time minimum wage worker or for families with two full-time minimum wage workers with more than two children. The benefits of raising the minimum wage to \$15 are far greater than the loss of child care subsidies for families with two full-time minimum wage workers and one child. And families with two full-time minimum wage workers and two children could make a slight reduction in their work hours in order to become initially eligible for subsidized child care while returning to full-time work once they are on the program. And while small changes in eligibility requirements would eliminate these problems entirely, we believe that any new funding for child care subsidies should go first to eliminating the substantial waiting list for children that are already eligible.

² 2018-2019 OCDEL Budget Overview, The Pennsylvania Key, <https://www.pakeys.org/2018-19-pennsylvanias-early-learning-and-supports-budget/>.