



INDEPENDENT FISCAL OFFICE

Second Floor, Rachel Carson State Office Building
400 Market Street
Harrisburg, Pennsylvania 17105

June 27, 2017

Senator David G. Argall
171 Main Capitol Building
Harrisburg, PA 17120

Dear Senator Argall:

In response to your request, the Independent Fiscal Office (IFO) analyzed projections provided by the Department of Human Services (DHS) regarding the impact on DHS-administered programs of an increase in the minimum wage to \$12 per hour. The department's projections are summarized in the table below. Please note that the table includes only state funds, and federal funds are excluded.

State Savings and Costs from \$12 Minimum Wage – DHS Projections

| Program Savings | Amount |
|-----------------------|-------------|
| Medical Assistance | \$231.7 |
| Subsidized Child Care | <u>None</u> |
| Total Savings | \$231.7 |

| Program Costs | Amount |
|--|----------------|
| Subsidized Child Care | \$94.4 |
| Community Base Programs for Persons with Disabilities and Seniors | \$61.9 |
| Community Base Programs for Persons with Intellectual Disabilities | None |
| Nursing Facilities | <u>Minimal</u> |
| Total Costs | \$156.3 |

| | |
|-------------|--------|
| Net Savings | \$75.4 |
|-------------|--------|

Notes: Dollars in millions. Excludes savings and costs from federal funds.
Source: Pennsylvania Department of Human Services.

The sections that follow provide additional details regarding the savings and costs projected by DHS. Each section contains (1) a brief overview of the affected program, (2) a discussion of the methodology and key assumptions used by DHS to make the projections and (3) IFO comments on the projections, assumptions or methodology. The savings and cost projections provided by DHS assume that the minimum wage increase and its impacts are fully phased-in, although it is likely that the full impact of the increase would take some time to materialize. The following discussion for individual programs does not further reference the phase-in of the impact.

Medical Assistance

Medical Assistance (MA), also known as Medicaid, provides health care for low-income and other eligible individuals. Medical services include physical healthcare along with mental and substance abuse services. In January 2017, there were about 2.9 million people enrolled in Pennsylvania's MA program, of which approximately 2.0 million were enrolled in categories that use income to determine eligibility.¹ For traditional Medicaid, individuals and households whose incomes are less than or equal to 100 percent of the federal poverty level (FPL) are eligible.² Individuals or households with income greater than 100 percent of FPL, but less than or equal to 138 percent of FPL qualify under Medicaid expansion, which provides a higher federal cost-share.

DHS methodology and key assumptions

The DHS projection assumes that approximately 111,600 individuals would become ineligible for MA, with state savings equal to \$173 per member per month for a full 12-month period. (Note: total savings, including federal, would be \$539 per member per month.)

The following apply:

- The estimate is based on enrollment as of January 2017, and it excludes MA eligibility categories that do not have income limits.
- DHS arrived at the estimate of 111,600 affected individuals by analyzing administrative data in its possession and applying a 10 percent cutback to account for individuals who would maintain non-income based eligibility.
- The estimate does not account for individuals who maintain eligibility but who move to a category that has a higher federal reimbursement rate (thus a lower state share). This could occur if the minimum wage increase pushes an individual into eligibility under Medicaid expansion, which has a higher federal share.
- The state and federal division of the per member per month cost was based on an average split across all Managed Care Organizations serving the MA population.

¹ FY 2017-18 Executive Budget, page E23-22. Includes those eligible under traditional and expanded Medicaid. Individuals who qualify based on income also may qualify under other categories.

² The 2017 FPL is \$12,060 for a single individual, \$16,240 for a family of two and \$20,420 for a family of three.

IFO comments

DHS analyzed MA administrative data, including family size and hours worked, and it projects 124,000 individuals would lose MA eligibility under a \$12 minimum wage. This estimate assumes that the affected individuals would work the same number of hours after a minimum wage increase as they did before the increase. The number of affected individuals appears to be reasonable, but the IFO did not have the opportunity to replicate this calculation due to the limited scope of this letter.

The department applied a 10 percent cutback to arrive at the 111,600 estimate under the assumption that some of the affected individuals would retain MA eligibility through other criteria. The 10 percent cutback, which is based on DHS' staff knowledge of the MA program, is somewhat subjective, but reasonable.

The IFO could not exactly replicate the \$173 per member per month state share with the data provided, but a value close to \$173 was calculated for the state share. Using the assumed \$173 per member per month state share, the savings to MA would be \$231.7 million ($\$173 * 12 * 111,600$).

The federal / state cost share used by DHS assumes that the state share is about 32 percent, which reflects a combination of traditional MA (approximately 48 percent state share) and Medicaid expansion (5 percent state share for 2017). The state share for Medicaid expansion will increase for 2018 through 2020, so the state savings could be different going forward. The DHS analysis did not include the impact of individuals who maintain eligibility, but move from traditional MA to Medicaid expansion. Including these individuals in the analysis would likely increase state savings because the state share is much lower for the Medicaid expansion population.

Subsidized Child Care

Child Care Works, Pennsylvania's subsidized child care program, provides child care subsidies to families with incomes below 200 percent of the FPL, families in approved employment and training activities that receive Temporary Assistance for Needy Families (TANF) and working families that have transitioned off TANF (Former TANF). Generally, the parent(s) must meet minimum work or training requirements, and each family is assigned a weekly co-payment based on the family's size and income.

For FY 2016-17, the Executive Budget estimates that 118,575 children (monthly average) participate in subsidized child care. This includes low-income working families (67,580), TANF families (31,890) and former TANF families (19,105).³ According to DHS, there were approximately 13,000 children on the waiting list for low-income subsidies as of April 2017.⁴

³ FY 2017-18 Executive Budget, page E23-58.

⁴ Bureau of Subsidized Child Care Services.

DHS methodology and key assumptions

DHS notes that the state impact would depend on (1) hours worked, (2) family size and (3) the classification of the recipient as TANF, former TANF or low-income. The federal government shares some of the cost, and the department estimates that the state savings from reduced benefits could range from \$1.3 million to \$3.8 million.

The department's projection does not include a net impact on overall child care subsidies for recipients because those families who no longer qualify due to a higher minimum wage are assumed to be replaced by qualifying families from the waiting list. The department notes that approximately 23 percent of families in the low-income category (14,242 out of 60,796 families) who received subsidized child care as of January 2017 *could* be at risk of no longer qualifying under a \$12 per hour minimum wage. DHS estimates that the waiting list is large enough to fill any slots that become available.

- The analysis was performed assuming households had a single income.
- Already-funded families who experience an increase in wages but remain eligible were assumed to maintain their current co-payments until the next redetermination of eligibility (which occurs every twelve months).

The department anticipates additional program costs due to the added labor costs to providers and assumes that (1) the provider reimbursement rates are increased to adequately cover these additional costs and (2) the number of subsidized slots remains constant. The cost projections are also based on the following assumptions:

- Average hourly wage of \$9.99 for child care workers currently.
- Approximately 40 percent of the children in child care receive a subsidy from the Commonwealth.

IFO comments

The IFO agrees with DHS' assessment that it is unlikely that child care subsidies would decline because of the number of potentially eligible children on the waiting list.

Based on the assumption that service levels would not be reduced (e.g., the number of subsidized slots remains constant), the department's cost estimate is reasonable because subsidy payments to childcare providers likely would be increased to offset the higher labor costs from an increase in the minimum wage. The DHS projection of a \$94.4 million state cost and its assumption that 40 percent of all children in childcare receive a subsidy implies that the total impact on child care providers of a higher minimum wage would be \$236 million ($\$94.4 \text{ million} \div 0.40$). The assumed average wage of \$9.99 per hour suggests that approximately 56,450 full-time equivalent employees would be affected ($\$236 \text{ million} \div \$4,181$, which is the annual increase from \$9.99 to \$12.00 for full-time workers). The DHS projected cost of \$94.4 million does not include the additional payroll taxes employers would be required to pay under the \$12 per hour minimum wage, and the IFO estimates that those additional payroll taxes would be \$7.2 million.

The IFO used May 2016 data from the U.S. Bureau of Labor Statistics, Occupation Employment Statistics, to estimate that the average hourly wage for child care workers in Pennsylvania is \$10.25. The IFO performed a separate computation with an average wage of \$10.25, and found that substituting this wage for the \$9.99 estimate would reduce the projected costs by \$12.2 million in wages and \$0.9 million in payroll taxes. However, the \$9.99 utilized by DHS seems reasonable because it is possible that providers accepting families that qualify for subsidized child care may pay a slightly lower average wage than facilities that do not accept child care subsidies.

The IFO does not have data to confirm DHS's assumption that 40 percent of the children in child care receive a subsidy from the Commonwealth. However, that percentage also appears to be reasonable.

Community Base Program for Persons with Intellectual Disabilities

Intellectual and developmental disability services under the Community Base Program are administered through county Mental Health/Intellectual Disabilities (MH/ID) program offices. The county offices (1) serve as referral points and (2) contract with providers for the delivery of services. Services include supports coordination, family aide, family respite care, education training, recreational therapy and recreation/leisure time activities, vocational therapy, dental hygienic services, employment training and home modifications. An estimated 23,595 individuals will receive these services in FY 2016-17.⁵

The Community Base Program serves individuals who are not eligible for the Intellectual Disabilities - Community Waiver Program, as well as those Medicaid-eligible individuals who are not yet enrolled in the waiver program.

DHS methodology and key assumptions

The DHS analysis projects no additional cost for this program because the most recent rates approved by the Office of Developmental Programs assume a \$13 per hour wage.

IFO comments

The IFO verified that a \$13 per hour wage was incorporated into the rates issued by the Office of Developmental Programs, so there would be no impact to the program.

The department did not include the Intellectual Disabilities – Community Waiver Program in its analysis; however, the IFO does not anticipate additional costs occurring with this program.

⁵ FY 2017-18 Executive Budget, page E23-56.

Nursing Facilities

Nursing facility care is available to MA recipients who are determined to be clinically eligible. Nursing facility care involves daily medical treatment and rehabilitation services prescribed by a licensed physician. The services are provided by or under the supervision of licensed professional nursing personnel or other professional health personnel.

DHS methodology and key assumptions

DHS projects that the impact will be minimal because only positions in the food services and housekeeping areas would be affected. The DHS analysis assumed an average wage of \$10.50 per hour for those positions. The costs for food service and housekeeping constitute a small percentage of nursing facility costs, and it is unlikely that the reimbursement rates would be adjusted because of the minimum wage increase.

IFO comments

The IFO agrees with the assumption that a small percentage of the total nursing facility costs are due to food service and housekeeping, and that it is unlikely that reimbursement rates would be adjusted more than a nominal amount, if at all, due to the increase in the minimum wage.

Community Base Programs for Persons with Disabilities and Seniors (OLTL Waiver)

The Office of Long-Term Living (OLTL) administers five waiver programs that support individuals with disabilities and seniors who wish to remain in the community as long as possible. With the exception of the OBRA Waiver, each of these programs are for individuals who need a level of care that a skilled nursing facility would normally provide.

- The Aging Waiver is for individuals age 60 or older who meet certain financial requirements.
- The Attendant Care Waiver is for individuals age 18 to 59 who have a physical impairment that is expected to last 12 months or longer.
- The CommCare Waiver is for individuals age 21 or older with a traumatic brain injury who meet certain financial requirements.
- The Independence Waiver is generally for individuals aged 18 to 60 who meet certain financial requirements and have a physical disability that results in substantial functional limitations in three or more major life activities (i.e., self-care, understanding and use of language, learning, mobility, self-directions and/or capacity for independent living).
- The OBRA Waiver is primarily for individuals aged 18 to 59 who meet certain financial requirements and have a severe development physical disability that results in substantial functional limitations in three or more major life activities requiring an intermediate care facility or other related conditions level of care.

DHS methodology and key assumptions

The DHS projection is based on the following data and assumptions:

- 60,000 individuals are covered by the waivers.
- Each waiver participant receives 5.2 hours of personal care services per day for 365 days.
- The average wage for personal care workers is \$10.89 per hour (according to data that DHS obtained from the Department of Labor and Industry).

State costs represent approximately 48 percent of the total cost and are based on the standard federal / state share (standard FMAP).

IFO comments

The assumptions used by DHS for the projection of costs are reasonable. However, the DHS computation appears to omit the additional employer payroll taxes (7.65 percent for Social Security and Medicare) that would occur due to the higher wages. If these payroll taxes were included, the additional cost to the program would be \$4.7 million (7.65 percent of \$61.9 million).

The overall estimate is sensitive to the average wage used for the personal care workers as well as the number of hours each participant needs care. The department used \$10.89 per hour for the average wage of personal care workers, which is a reasonable estimate. However, if that estimate was increased or decreased by \$0.10 per hour (to \$10.79 per hour or \$10.99 per hour), and everything else was held constant, the overall cost would change by \$6.0 million (9 percent).

The department also assumed that each waiver participant currently needs an average of 5.2 hours of care each day. While the IFO has no data to verify this assumption, it appears to be reasonable. However, if that assumption is changed by one-half hour per day (to 4.7 or 5.7 hours each day) and everything else is held constant, the total cost would change by \$6.4 million (10 percent).

Summary

The department projected \$231.7 million in state cost savings, \$156.3 million of increased program costs and a \$75.4 million net savings for the fully phased-in increase in the minimum wage to \$12 per hour.

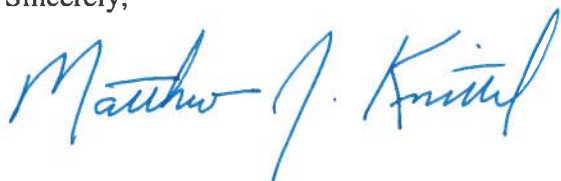
- All of the state savings are derived from Medical Assistance, and the projection may be somewhat conservative because it does not include lower state costs associated with individuals moving from the traditional Medicaid category, which has a 48 percent state share, to the Medicaid expansion category, which has a 5 percent state share (for calendar year 2017).
- The department estimates that approximately 5.6 percent of individuals (111,600 out of nearly 2 million) currently eligible for Medical Assistance based on income would not be eligible under the \$12 per hour minimum wage.

- There are no projected savings from lower child care subsidies because it is assumed that the slots made available by families losing eligibility will be filled by children on the waiting list.
- Higher program costs for subsidized child care (\$94.4 million) are based on the assumptions that (1) the current number of subsidized child care slots would be maintained and (2) currently the average wage for child care workers is lower than the proposed minimum wage. The assumptions provide a reasonable basis to make a projection. The IFO found that the DHS computations for this program did not include the additional payroll taxes incurred by employers due to the higher minimum wage.
- Higher program costs for the Community Base Program for Persons with Disabilities and Seniors (\$61.9 million) are based on assumptions for the number of individuals covered by the waivers, the average daily hours of personal care service per recipient and the average hourly wage for personal care workers. The assumptions provide a reasonable basis to make a projection. The IFO found that the DHS computations for this program did not include the additional payroll taxes incurred by employers due to the higher minimum wage.
- The program cost increases for nursing facilities would be minimal because only food and housekeeping services are likely to be affected by the increase in the minimum wage.
- The program costs for the Community Base Programs for Persons with Intellectual Disabilities would not be affected because the rate schedule for the program already anticipates an hourly wage that is higher than the proposed minimum wage.

The department's assumptions and the resulting projections appear to be reasonable, and they provide a useful basis for policymakers to assess the impact of the \$12 per hour minimum wage when fully implemented. Certain assumptions could be modified to produce different results, but the changes would not be material. One should not expect the full impact of the savings or costs to materialize immediately. Rather, the impact will occur over an extended period of time.

I hope you find this information to be useful. Consistent with IFO policy, this letter will be posted to the office's website no later than the third business day following transmittal. Please contact me at (717) 230-8293 if we can provide additional assistance.

Sincerely,



Matthew Knittel
Director