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Fact Checker: Does raising minimum wage help workers 'make ends meet?'

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"Of course, nothing helps families make ends meet like higher wages. … And to everyone in this Congress who still refuses to raise the minimum wage, I say this: If you truly believe you could work full-time and support a family on less than $15,000 a year, go try it. If not, vote to give millions of the hardest-working people in America a raise."

–President Obama, State of the Union address, Jan. 20, 2015

In his State of the Union address, President Obama once again urged Congress to raise the minimum wage from $7.25 an hour to $10.10 an hour. He posed a challenge to Congress: try living on $15,000 or less a year. (For most members, that would be more than a 90 percent pay cut.)

A reader e-mail about this statement piqued our interest: Would raising the minimum wage really help someone making $15,000 or less a year "make ends meet"? How would that affect the public-assistance benefits they were eligible to receive before the raise in pay? Obama's statement will not face a Pinocchio Test, as he never quite claimed that boosting the minimum wage would allow families to "make ends meet," but it certainly raises some interesting questions.

The Facts

The White House Council of Economic Advisers estimates more than 28 million workers would benefit from the minimum wage increase; 19 million of them would benefit directly and the ripple effect from a shifting wage structure would help the rest. CEA calculations show raising the minimum wage would boost incomes for about 12 million people in poverty, and would lift 2 million out of poverty. This applies to a minimum-wage worker working full time, supporting a family of four and receiving tax credits. This does not take into account any public-assistance programs.

A person working full-time with two children at the current $7.25 minimum earns $14,500 annually, before taxes or tax credits. That is 76 percent of the current federal poverty line. Under the $10.10/hour model, the same person would make $20,200. That is just above the current federal poverty threshold of $19,073.

However, this does not show the full impact of wage increases for workers below the federal poverty line.

If the minimum wage is raised, families below the threshold would see about 2.8 percent increase on their average real income, or about $300, according to the nonpartisan Congressional Budget Office. In general, when the minimum wage is increased and a person's income rises as a result, he or she pays more in taxes and receives less in benefits.

But the extent of the impact depends based on his or her marital status, number of children, types of federal or state benefits the family receives, and the state in which the person lives. (This 2013 Cato Institute report provides a deep-dive into total levels of social safety-net programs offered by state.)

"When people move from not working to working, or from a lower-wage job to a higher-wage job, their change in resources is affected not simply by the change in compensation but by their interactions with government," wrote authors of a December 2012 National Tax Journal article on marginal tax rates and impact of higher wages on low-income families.

A single parent earning minimum wage would be eligible for, but may not necessarily collect, a variety of means-tested programs and tax credits. These supplements include earned income tax credit, child tax credit, Temporary Assistance for Needy Families (TANF) cash assistance, Supplemental Nutrition Assistance Program (SNAP, still popularly known for its former name, food stamps), Medicaid, housing assistance, utility assistance, and Women, Infants and Children program (WIC).

If the minimum wage increases to $10.10, some people who are currently eligible for Medicaid no longer would qualify. Some could qualify for subsidized coverage through health exchanges under the Affordable Care Act. But others who lose Medicaid eligibility may still not qualify to receive subsidies because their income is still too low (if they live in states that have not expanded Medicaid coverage), or may choose not to enroll because they would have to pay a portion of the premiums themselves, CBO found.

While it is impossible to capture exactly what would happen to families below the poverty level, some state-specific studies are telling.

Washington, D.C., and 22 states have raised their minimum wages above the federal minimum. The Urban Institute studied the impact in Washington, D.C., where the minimum wage is being raised from $8.25 to $11.50, by 2016. Among workers affected by this change, half participate in at least one means-tested program. One-third receive federal earned income tax credit, and 28 percent receive SNAP.

A single parent of two children working at the $11.50 minimum makes $6,760 more in annual earnings. But the actual increase in disposable income — after benefits and taxes — for a parent receiving tax credits and SNAP is just $1,328. For a single parent participating in multiple programs (including TANF, housing, SNAP, WIC, utility assistance, tax credits), the disposable income only increases by $227. But since not all families collect all benefits, “the nightmare scenario you can create on a spreadsheet doesn’t really apply in the real world,” said Greg Acs, director of the Urban Institute’s Income and Benefits Policy Center.

In Illinois, researchers at the right-leaning think tank Illinois Policy Institute studied the benefits “cliff” that low-wage workers face as they earn more pay. According to the December 2014 report, a single parent must “increase her or his hourly wage multitudes more in order to recover from the loss in benefits from the peak” in net earned income and benefits before reaching the cliff.

For Chicago and Cook County, which encompasses the city, a parent would have to earn $38 per hour before making up for all of the loss of benefits when he or she earned $12 per hour.

Earnings increase quicker than disposable income does. Each additional dollar of earnings is less than a dollar of additional disposable income, according to the CBO’s 2012 report. The chart below shows the interaction between disposable income and earnings. (For those who want to indulge in the wonkery, this CBO report discusses at length marginal tax rates for low- to moderate-income workers.)

The Bottom Line

Lawmakers may not be able to live on $15,000 or less a year, but millions of Americans are. And setting policies to help them is a much more complex issue than Obama characterizes in his speech: “Of course, nothing helps families make ends meet like higher wages.” This is especially true for the type of family he describes in his “challenge on Congress.”

Research shows a person working full time, making $15,000 or less and raising kids, needs more than the current minimum-wage increase proposal, and it would not make enough of a difference in their disposable income to help make ends meet.

Yet raising the minimum wage too much could hurt workers, and could reduce their purchasing power by increasing the cost of goods and services. Employers may decide to cut jobs because it costs more to pay workers, or replace low-wage workers with machines, technology or more productive higher-wage workers, according to CBO. This demonstrates the dilemma lawmakers face when setting policies to help low-wage workers.