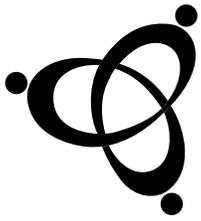


Reversing the Trend: A Longitudinal Study of Living Wages as Compared to Projected Minimum Wages

Seattle Income Inequality Committee Proposal Gives Minimum Wage Workers More Livable Wages

By Ben Henry, M.P.A.



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KEY FINDINGS

In this study of living wage trends and projections as compared to historical earnings and Seattle Mayor Ed Murray's minimum wage proposal, we find that:

- ▶ Earnings Have Not Kept Up with Needs: Current trends demonstrate that earnings have not kept up with living wage levels for all five of the household types that we examine. Washington state's total average wage for all occupations increased 24 percent between 2003 and 2012. Meanwhile, the living wage threshold for a household with a single adult increased 59 percent over that same period. A household with two adults (one of whom is working) with a toddler and school-age child, meanwhile, increased 54 percent.
- ▶ Mayor's Proposal Effectively Reverses Trend of Lagging Minimum Wage-to-Living Wage Ratios: By as early as 2016, depending on the minimum wage category, the percentage of minimum wages to living wages exceed historic highs. In as soon as three years, the minimum wage proposal is projected to produce a minimum wage that is 83 percent of the living wage for a single individual in Washington state, a greater share than at any point in our time series.
- ▶ \$15 a Modest Step to Combat Income Inequality: While the enactment of a \$15 wage floor would give Seattle the highest minimum wage in the nation, \$15 was not enough to make basic ends meet as far back as 2010 for a single individual. And at no point in our series, going back to 2003, was \$15 enough to cover the living wage for other household types, including for a single adult with children.

INTRODUCTION

On May 19, Seattle Mayor Ed Murray introduced to the City Council legislation, developed over several months by the Mayor’s Income Inequality Advisory Committee (IIAC), that creates stepped increases to an eventual, city-wide \$15 minimum wage. The period of increases to that wage floor would range between three and seven years, depending on the size of the employer and benefits offered.

If enacted, the proposal would give Seattle’s minimum wage workers the highest minimum wage in the country.¹

Since 1999, the Alliance – then known as the Northwest Federation of Community Organizations – and the Washington Community Action Network (CAN)! have produced the Job Gap Study, an empirical look at living wages, or how much households need to earn to make basic ends meet, assuming a 40-hour work week, no public assistance and employer-provided health care.

This policy brief examines the Alliance’s Washington state living wage findings between 2003 and 2012, comparing trends in living costs with actual statewide earnings and inflation-adjusted living wage projections as compared to the IIAC’s recommendations.

With this analysis, we seek to answer the following research questions:

- ▶ How does the current minimum wage fare when compared to living wage trends?
- ▶ How does the Mayor’s/IIAC minimum wage model compare with living wage projections?
- ▶ Does the IIAC model accomplish the committee’s goal of mitigating economic inequality?

LIVING WAGE TRENDS: EARNINGS HAVE NOT KEPT UP WITH NEEDS

WHAT IS A LIVING WAGE?

Living wages are what a family needs to earn to meet their basic needs, without public assistance and that provides them some ability to deal with emergencies and plan ahead. It is not a poverty wage.

Living wages are calculated on the basis of family budgets for several household types. Family budgets include basic necessities, such as food, housing, utilities, transportation, health care, child care, clothing and other personal items, savings, and taxes.

In 2012, the most recently available data, living wages ranged from \$16.04 for a single individual to \$30.46 for a household with two adults (one of whom is working) and two children. (See Figure 1.)

FIGURE 1: LIVING WAGES, WASHINGTON STATE, NOMINAL

Year	HH1	HH2	HH3	HH4	HH5
2003	\$10.07	\$15.65	\$20.97	\$19.72	\$13.61
2004	\$10.77	\$16.83	\$22.35	\$20.63	\$14.16
2005	\$11.16	\$17.54	\$23.39	\$21.77	\$14.98
2006	\$11.51	\$18.39	\$25.18	\$23.04	\$15.84
2007	\$12.27	\$19.63	\$26.56	\$24.46	\$16.80
2008	\$13.56	\$21.76	\$28.67	\$27.22	\$18.19
2009	\$15.28	\$20.97	\$28.00	\$28.70	\$18.77
2010	\$14.81	\$19.99	\$27.14	\$27.45	\$17.97
2011	\$16.13	\$21.47	\$28.71	\$29.42	\$19.11
2012	\$16.04	\$22.12	\$29.95	\$30.46	\$19.89

HH1: Single adult
HH2: Single adult with a school-age child
HH3: Single adult with a toddler and a school-age child
HH4: Two adults (one of whom is working) with a toddler and school-age child
HH5: Two adults (both of whom are working) with a toddler and a school-age child

Source: Alliance Job Gap Studies; data refers to year data derived

HOW QUICKLY HAVE LIVING WAGES INCREASED?

Since 2003, living wage growth has been primarily driven by health care and transportation costs. Health care, comprised of premiums and out-of-pocket costs, increased 140 percent between 2003 and 2012 for a household with a single adult with two children, as transportation costs increased 103 percent for single individuals.

Meanwhile, among the five household types, living wage increases over the same period range from 41 percent to 59 percent. (See Figure 2.)

When comparing living wages to average statewide earnings over time, we see that living wage standards have increased markedly faster, with statewide earnings increasing by 27 percent over the same period.

PROJECTIONS: MODEL REVERSES TREND OF LAGGING MINIMUM WAGE-TO-LIVING WAGE RATIOS

Projecting forward, we utilize a conservative methodology to analyze increases in living wages using inflation, consistent with Mayor’s minimum wage model. When compared with these projections, we find that the Mayor’s model reverses the trend of a minimum wage that is increasingly unable to meet living needs.

When examining the minimum wage as a percentage of living wage thresholds, we find that, in as soon as three years, depending on household type and minimum wage category, the percentage of minimum wages to living wages exceed historic highs. The proposal gets minimum-wage workers closer to living wages than at any point in our time series. (See Figures 3 and 4.)

In Figure 3, to simplify the analysis, we examined minimum wage-to-living wage percentages for a household of a single individual. Starting in 2003, we see a statewide minimum wage at its strongest position in the historical time series, in terms of ability

FIGURE 2: EARNINGS VS. LIVING WAGE THRESHOLDS

Earnings, 2003-2012	Percent Change
Washington State*	27%

LIVING WAGES, 2003-2012	Percent Change
HH1: Single adult	59%
HH2: Single adult with a school-age child	41%
HH3: Single adult with a toddler and a school-age child	43%
HH4: Two adults (one of whom is working) with a toddler and school-age child	54%
HH5: Two adults (both of whom are working) with a toddler and a school-age child	46%

HEALTH CARE, 2003-2012	Percent Change
HH1: Single adult	111%
HH2: Single adult with a school-age child	137%
HH3: Single adult with a toddler and a school-age child	140%
HH4: Two adults (one of whom is working) with a toddler and school-age child	126%
HH5: Two adults (both of whom are working) with a toddler and a school-age child	126%

TRANSPORTATION, 2003-2012	Percent Change
HH1: Single adult	103%
HH2: Single adult with a school-age child	33%
HH3: Single adult with a toddler and a school-age child	33%
HH4: Two adults (one of whom is working) with a toddler and school-age child	66%
HH5: Two adults (both of whom are working) with a toddler and a school-age child	56%

HH1: Single adult
 HH2: Single adult with a school-age child
 HH3: Single adult with a toddler and a school-age child
 HH4: Two adults (one of whom is working) with a toddler and school-age child
 HH5: Two adults (both of whom are working) with a toddler and a school-age child

Sources: Occupational Employment and Wage Estimates, Washington State Employment Security Department; Annual Job Gap Studies, Alliance for a Just Society

* Median wage information was not available. The mean hourly and annual wages are averaged over all reported occupations and fluctuate due to suppressions in the data.

FIGURE 3: REVERSING THE TREND

This chart examines the various schedules on the Mayor’s proposed minimum wage policy, as a percentage of the living wage for a single individual over time. A minimum wage schedule at 100 percent is equivalent to a minimum wage level that meets the Alliance’s historic and projected living wage thresholds. Projected living wages are adjusted for inflation, assuming 2.4 percent growth, consistent with the Mayor’s proposal.

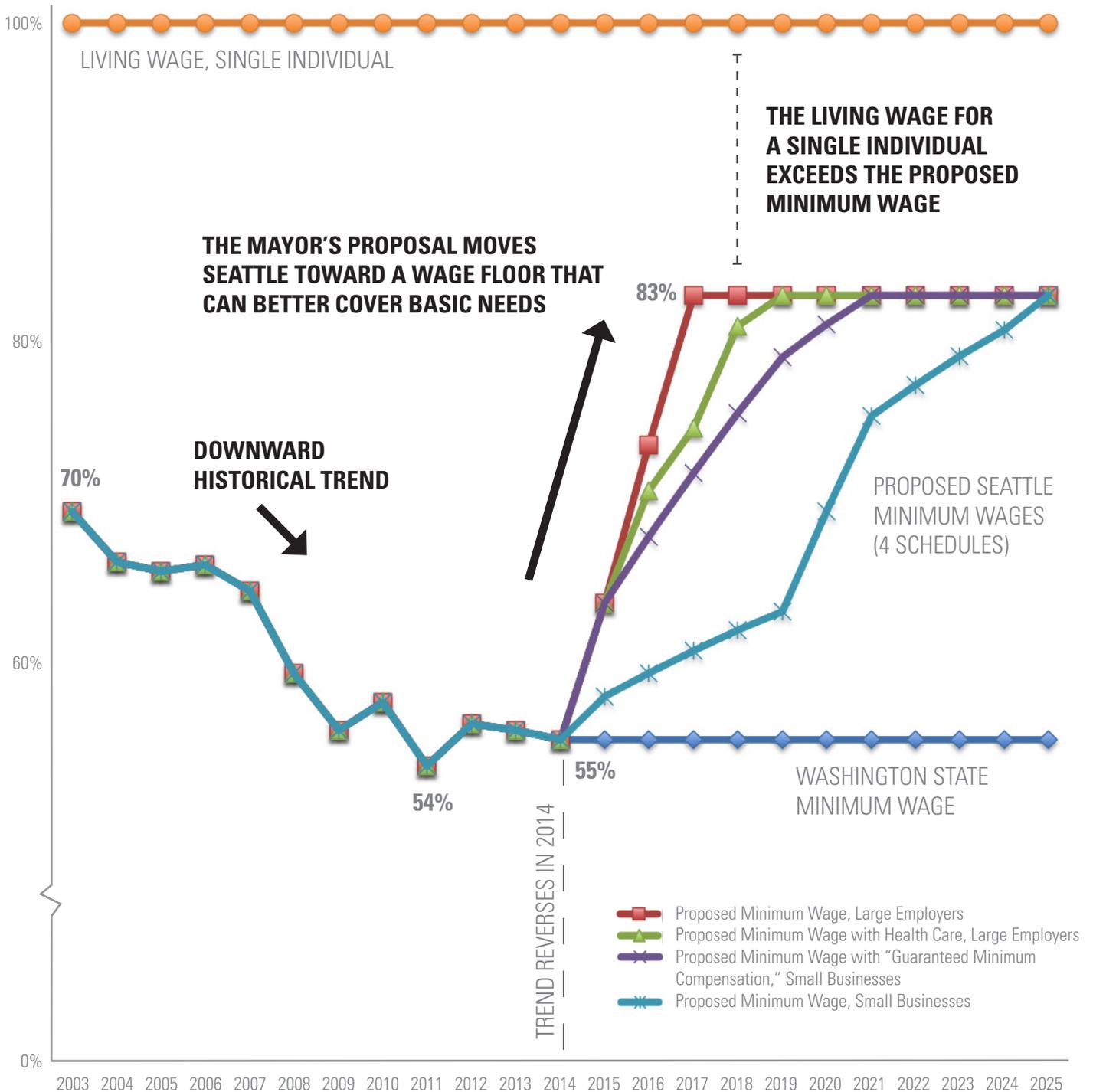


FIGURE 4: PROJECTED WAGES LEVELS

MINIMUM WAGES	2017	2018	2019	2021	2025
Washington State	\$10.01	\$10.25	\$10.49	\$11.00	\$12.10
Seattle Proposed Minimum Wage, Employers > 500 Employees	\$15.00	\$15.36	\$15.73	\$16.49	\$18.13
Seattle Proposed Minimum Wage with Health Care, Employers > 500 Employees	\$13.50	\$15.00	\$15.73	\$16.49	\$18.13
Seattle Proposed Minimum Wage with “Guaranteed Minimum Compensation,” Employers ≤ 500 Employees	\$13.00	\$14.00	\$15.00	\$16.49	\$18.13
Seattle Proposed Minimum Wage, Employers ≤ 500 Employees	\$11.00	\$11.50	\$12.00	\$15.00	\$18.13

LIVING WAGES	2017	2018	2019	2021	2025
HH1: Single adult	\$18.06	\$18.49	\$18.94	\$19.86	\$21.83
HH2: Single adult with a school-age child	\$24.90	\$25.50	\$26.11	\$27.38	\$30.11
HH3: Single adult with a toddler and a school-age child	\$33.72	\$34.53	\$35.36	\$37.08	\$40.77
HH4: Two adults (one of whom is working) with a toddler and school-age child	\$34.29	\$35.12	\$35.96	\$37.71	\$41.46
HH5: Two adults (both of whom are working) with a toddler and a school-age child	\$22.39	\$22.93	\$23.48	\$24.62	\$27.07

to meet basic needs for a single individual, at \$7.01 an hour, or 70 percent of the living wage of \$10.07.

We find that the ratio drops substantially over time, reaching its nadir in 2011, when the minimum wage of \$8.67 was 54 percent of the living wage of \$16.13.

However, when projecting forward in comparison to the Mayor’s model, we see a dramatic reversal of these trends. By 2016, the minimum wage for large employers jumps to 74 percent, higher than at any point in the historical data series. By the following year, it reaches 83 percent.

Other schedules in the model – including small businesses and employers that provide certain benefits – achieve higher minimum wage-to-living wage percentages at slower paces, but all schedules eventually achieve the 83 percent mark.

AMENDMENTS TO MODEL JEOPARDIZE REVERSAL OF NEGATIVE TRENDS

Proposals to make “total compensation” permanent or to introduce sub-minimum wages like the training wage will have the effect of undercutting the model and putting the reversal of downward trends in significant jeopardy.

This would have the effect of keeping minimum

wage-to-living wage ratios with downward slopes, meaning minimum wage workers will continue to fall far short of covering basic needs. This will further exacerbate recent trends of more Washingtonians forced to work multiple jobs or to compromise their basic needs.

A \$15 WAGE FLOOR A MODEST STEP TO ADDRESSING INCOME INEQUALITY

LIVING WAGES STILL EXCEED \$15

While the Mayor’s proposal reverses the trends of a minimum wage unable to meet basic needs, we find that a \$15 wage floor remains modest, in terms of giving minimum-wage workers the ability to meet basic needs, as living wage thresholds are projected to continue to exceed proposed minimum wages. At its height, the proposal peaks at 83 percent of the living wage for the lowest living wage threshold, a household comprised of a single individual. (See Figure 3.)

While the enactment of a \$15 wage floor would give Seattle the highest minimum wage in the nation, \$15 was not enough to make basic ends meet as far back as 2010 for a single individual. And at no point in our data series, going back to 2003,

was \$15 enough to cover the living wage for other household types, including for a single adult with children. (See Figure 1.)

ADDRESSING INCOME INEQUALITY STARTS AT THE FLOOR

Improving the earnings of minimum-wage workers is a powerful way to address economic inequality.

Minimum-wage workers are overwhelmingly adult workers whose families depend on their earnings to make ends meet. In Seattle, a study commissioned by IIAC of the University of Washington's Evans School of Public Affairs found that, of minimum-wage workers, 90 percent are age 19 or over, and a majority are 25 or over. Also, 60 percent have at least some college experience.²

Further, Seattle's minimum wage workers are disproportionately people of color and women. Forty-two percent of those earning \$9.32 an hour or less were people of color,³ greater than Seattle's 34 percent people-of-color population.^{4,5} And 57 percent of minimum-wage workers are women.⁶ Meanwhile, a Puget Sound Sage report finds that women and people of color living in Seattle earn between 44 percent and 71 percent of what white men earn in Seattle, respectively.⁷ Increasing the minimum wage would have a significant impact on these populations.

Finally, the economic stimulus that the model would generate would further mitigate income inequality. Minimum-wage workers have a high propensity to spend, meaning new earnings are quickly reinvested into the economy. Puget Sound Sage estimates that the proposal would result in \$2.9 billion in economic stimulus over the model's 10-year phase-in period.⁸

METHODOLOGY AND DISCUSSION

LIVING WAGES

Over the years, the Job Gap Study has studied living wages to set a benchmark for which we can quantify living needs and the number of jobs available that pay these wages. However, unlike some other living

wage indicators, our study is not a survival wage. It is a basic needs budget, or what an individual needs to earn to make basic ends meet and still have enough left over to build a modest savings and get ahead.

However, it is worth noting that the methodology behind these living wage findings has largely been conservative. For instance, it assumes a 40-hour work week, which serves to understate actual needs. Just 65 percent of minimum-wage workers are employed full-time, compared to 85 percent of all workers.⁹

We also assume a worker receives employer-provided health care and no income is received from public assistance. Budget categories are calculated via a variety of local and national government datasets, and include:

- ▶ Food
- ▶ Housing & utilities
- ▶ Transportation
- ▶ Health care
- ▶ Household, clothing & personal (18 percent, pre-tax)
- ▶ Savings (10 percent, pre-tax)
- ▶ Child care
- ▶ State/federal taxes

This methodology has remained consistent throughout this time series.

For a complete account of our methodology, view our most recent annual Job Gap Study at:

- ▶ http://jobgap2013.files.wordpress.com/2013/12/job-gap-study_2013.pdf.

Data in the time series were taken from previous Job Gap Studies, with the series referencing the year data was derived, not the year of the reports.

GEOGRAPHIC SCOPE

This policy brief examines living wages at the statewide level only. While past Job Gap studies have calculated King County living wages, county-level data was not available in this time series.

In our most recent study, King County living wages were between 5 percent and 15 percent greater than

statewide thresholds, depending on household type. See Exhibit A for King County living wages from 2012.

RATE OF INCREASE IN LIVING WAGES

It is vital that policymakers continue to tie wage floors to inflation so that minimum wages adjust for living costs from year to year, as the Mayor’s proposal and the current statewide minimum wage successfully accomplish. Failure to do so effectively results in annual pay cuts in real dollars to minimum-wage workers.

However, there is evidence that the Bureau of Labor Statistics’ Consumer Price Index does not fully cover actual increases in the cost of living for Washington workers. Our analysis of our historical living wage data finds that living wages have increased faster than inflation.

Looking at CPI-U for the Seattle area, we find that average annual increases in the index amount to

CONCLUSION

These findings paint a picture of growing inequality, increasing challenges for the average worker that are not being met through wages or other sources of income.

The Seattle City Council’s adoption of the IIAC’s recommendations would reverse a clear trend of a minimum wage increasingly unable to meet basic living needs.

FIGURE 5: AVERAGE ANNUAL CHANGE, 2003-2012

	Percent Change
HH1: Single adult	5.4%
HH2: Single adult with a school-age child	4.0%
HH3: Single adult with a toddler and a school-age child	4.1%
HH4: Two adults (one of whom is working) with a toddler and school-age child	5.0%
HH5: Two adults (both of whom are working) with a toddler and a school-age child	4.4%
Average Washington State Hourly Wage	3.1%
Inflation (CPI-U)	2.3%

Sources: Occupational Employment and Wage Estimates, Washington State Employment Security Department; Annual Job Gap Studies, Alliance for a Just Society; U.S. Bureau of Labor Statistics, CPI-U, Seattle.

about 2.3 percent. This is below the range of average annual increases in living wages by household type, between 4.0 percent and 5.4 percent. (See Figure 5.)

EXHIBIT A: 2012 LIVING WAGES, KING COUNTY, WA

KING COUNTY Monthly Family Budgets	Household 1: Single adult	Household 2: Single adult with a school-age child (age 6-8yrs)	Household 3: Single adult with a toddler (12-24 months) and a school-age child (6-8yrs)	Household 4: Two adults (one of whom is working) with a toddler and a school-age child	Household 5: Two adults (both of whom are working) with a toddler and a school-age child; budgets are combined, income is per adult
Food	\$203	\$386	\$509	\$742	\$742
Housing & utilities	\$926	\$1,112	\$1,112	\$1,112	\$1,112
Transportation	\$620	\$566	\$566	\$1,237	\$1,382
Health care	\$131	\$330	\$458	\$515	\$515
Household, clothing & personal (18%)	\$470	\$599	\$661	\$902	\$938
Savings (10%)	\$261	\$333	\$367	\$501	\$521
Child care	\$0	\$380	\$1,565	\$0	\$1,565
State/federal taxes (annually)	\$5,196	\$6,449	\$9,020	\$6,683	\$10,274
Gross income needed (monthly)	\$3,042	\$4,243	\$5,990	\$5,566	\$3,815
Gross income needed (annually)	\$36,504	\$50,911	\$71,876	\$66,793	\$45,785
LIVING WAGE (HOURLY)	\$17.55	\$24.48	\$34.56	\$32.11	\$22.01

ENDNOTES

- 1 Jamieson, Dave. "Seattle Announces Plan For \$15 Minimum Wage, Highest In Nation," The Huffington Post, May 1, 2014, viewable here: http://www.huffingtonpost.com/2014/05/01/seattle-minimum-wage_n_5248562.html
- 2 Klawitter, Marieka M.; Mark C. Long, Robert D. Plotnick, "Who Would be Affected by an Increase in Seattle's Minimum Wage?" March 21, 2014, p. 11, viewable here: <http://s3.documentcloud.org/documents/1096119/uw-evans-report-on-15-minimum-wage.pdf>
- 3 Klawitter, Long, Plotnick, p. 12.
- 4 State and County Quick Facts, U.S. Census Bureau, 2010, viewable here: <http://quickfacts.census.gov/qfd/states/53/5363000.html>
- 5 "People of color" are defined as the opposite of "White alone, not Hispanic or Latino."
- 6 Klawitter, Long, Plotnick, p. 12.
- 7 Keenan, Nicole Vallesterio, "Economic and Equity Outcomes of a \$15/hr Minimum Wage in Seattle," Puget Sound Sage, April 2014, p. 3, viewable here: [http://www.pugetsoundsage.org/downloads/Economic%20and%20Equity%20Outcomes%20of%20a%20\\$15%20Minimum%20Wage%20in%20Seattle_1.pdf](http://www.pugetsoundsage.org/downloads/Economic%20and%20Equity%20Outcomes%20of%20a%20$15%20Minimum%20Wage%20in%20Seattle_1.pdf)
- 8 Keenan, Nicole Vallesterio, "Implications of the Mayor's Proposal for a \$15 Minimum Wage," Puget Sound Sage, May 12, 2014, viewable here: <http://soundprogress.wordpress.com/2014/05/12/implications-of-mayors-proposal/>
- 9 Klawitter, Long, Plotnick, p. 13.

ABOUT THE AUTHOR

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