

The Budget's Real-Life Effects on Workers in the Public Sector

Low-income workers will find it harder to make ends meet, now that legislation reducing the compensation of public sector workers has gone into effect.

Changes in the biennial budget and budget repair legislation (Act 10) will reduce the incomes and increase costs for most public workers, with working-class public workers taking the biggest hit.

These changes are regressive, hitting lowest-income workers the hardest. Low-income public sector workers may take a hit to their family budget of as much as 15 percent, whereas public sector workers earning a little more and in a different set of circumstances may lose about half that much.

The Wisconsin Council on Children and Families has also published a brief showing how the proposed budget would impact low-income workers in the private sector. (See "The Budget's Real-Life Impact on Wisconsin Families," May 2011.)

Cuts to Programs That Support Low-Income Workers in General

Two cuts in the biennial budget have the potential to have significant monetary effects for low-income families in both the public and private sectors.

One such cut is \$15 million over the biennium to Wisconsin Shares, which provides child care assistance for low-income families.

The amount that the Joint Finance Committee proposes to budget for WI Shares in the 2011-13 biennium should be sufficient to fund the program at the current level of utilization – but spending on the program is at the lowest level since about 2004, thanks in part to the recession. As jobs are

created and unemployed workers head back into the work force, the need for child care is expected to rise, and the costs may exceed the budgeted amount.

There's no information in the biennial budget on the specific policy ramifications of a shortfall in the WI Shares program, because the budget proposes to give the Department of Children and Families broad discretion to make unilateral changes to WI Shares. For purposes of this analysis, we've assumed that families are subject to a 20 percent increase in co-payments.

The second cut is to the Earned Income Tax Credit (EITC), a refundable income tax credit for families with children that offsets the impact of the social security tax and increases the incentive to work. The budget approved by the Joint Finance committee would reduce the state credits in the coming biennium by a total of \$56.2 million (relative to the cost to maintain current law).

Public Sector Workers Will Pay More for Benefits

In addition to paying more for child care and more in income taxes, many public employees will pay more for their fringe benefits now the Supreme Court has cleared the way for 2011 Act 10 to go into effect.

This legislation requires public employees to pay more for retirement benefits and health insurance. Public employees in the Wisconsin Retirement System, which includes state employees and most local government employees, will 5.8 percent of their income towards their retirement benefit.

This legislation also increases the amount that public employees pay for health insurance. That increase will be the same regardless of income, making it especially burdensome for the lowest wage workers.

Real-Life Effects on Families

Here are some examples of how recent legislative changes could affect typical low-income Wisconsin families in the public sector:

Family #1 consists of one parent who is a beginning teacher and one who is a stay at home parent. They have one child. This family earns \$33,800 a year.

This family could expect to see its financial resources go down by an estimated **\$2,785** over a year, or 8 percent. That's the equivalent to over four months of groceries.

Among the costs:

- \$1,960 more in retirement costs; and
- \$825 more for health insurance.

Family #2 includes a single parent who works in a school kitchen. She has two children, one of whom is in child care. This family earns \$21,500 per year.

This family's budget could be decreased by an estimated **\$3,059**, or 14 percent. That's an amount equivalent to nearly six months of grocery costs.

Among the costs:

- \$119 reduction in the state EITC;
- \$249 more in child care copayments;
- \$1,247 more in retirement costs; and
- \$1,444 more for health insurance.

Family #3 includes two state office workers who together earn \$52,000 per year. They have two children, and their income is too high to benefit from the state EITC or subsidized child care.

This family's income could be decreased by **\$4,340** per year, or eight percent of their income. That's an amount equivalent to more than five months of grocery costs for this family.

The costs include:

- \$2,912 more in retirement costs; and
- \$1,428 more for health insurance.

Family #4 includes a single parent who works as a janitor at the University of Wisconsin. He has

three children, two of whom are in child care. This family earns \$23,900 per year.

This family's income could be decreased by **\$3,599**, or 15 percent. This amount is equivalent to about four and a half months of groceries for this family.

Among the costs:

- \$368 reduction in the state EITC;
- \$333 increase in child care copayments;
- \$1,338 more in retirement costs; and
- \$1,560 more for health insurance.

Public Workers Feel the Pinch

Low-income public workers will experience many of the same cuts that workers in the private sector will, plus additional cuts that are targeted specifically at the public sector. The effects of the budget and Act 10 on public workers will be far greater than that for workers in the private sector.

Families similar to the ones we used as examples in this analysis could experience cuts of between five and 15 percent of their income. That's a dramatic amount, especially considering there are other cuts included in the budget that are harder to quantify for individual families but will nevertheless likely drive up their costs. For example, cuts to local transit aid could make it more expensive for low-income workers to get to their jobs.

The changes in the budget and Act 10 will be hard on all public workers, but they will hit those with the lowest incomes the hardest. This is in part because new contributions to health insurance premiums will be calculated as a share of the premium costs, rather than as a share of income.

These changes could push a family that is barely scraping by into insolvency. Many of these families are still reeling from the effects of the recession. Enactment of the budget and budget repair bills will add to their hardship.

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