



WINGSPREAD CONFERENCE CENTER

**MAKING WORK WORK: ADDRESSING WISCONSIN'S LABOR SHORTAGE THROUGH  
STATE POLICIES TOWARD LOW-WAGE WORKERS**

MARCH 1, 2001

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**WISCONSIN SHARES**

**Goal:** Provide subsidized childcare to working parents.

**Eligibility:** Families with children under age 13 in regulated childcare can enroll in Wisconsin Shares as long as their income does not exceed 185% of the federal poverty line (FPL); they remain enrolled until their income reaches 200% FPL.

**Program Design:** The state of Wisconsin makes payments directly to providers at county rates. Reimbursement rates are set at the 75% percentile of provider rates. Families are assessed a co-pay, which they pay directly to the provider. Co-payments range from \$2-30 per week, depending on family income, number of children in care and type of care used.

**Program Use:** For fiscal year 1999-2000, 33,000 families (over 60,000 children); 84.7% of those receiving the subsidy were employed low-income individuals NOT receiving W-2. The Legislative Audit Bureau estimates that 13.6% of eligible children were assisted last year by the Wisconsin Shares program.

**Budget:** For FY 2000-01, \$201 million was set aside for Wisconsin Shares. However a recent Fiscal Bureau memo indicates that the actual cost of the program is likely to be \$37 million to \$51 million higher than anticipated in the current fiscal year. Wisconsin Shares is funded by a combination of state and federal money. For FY 1999-2000, state GPR contributed \$43.8 million to the \$191.3 million total budget.

**Making Work Work Issue:** Co-pays contribute to high marginal tax rates for families between 100% and 200% FPL. Marginal tax rates range from 6%-28%. Smoothed over a wide range of incomes, average loss of benefits is 13% to 16%. At 200% FPL, when families become ineligible for Wisconsin Shares, there is a dramatic cliff effect. A \$1 earnings increase can put families over the limit, costing them thousands of dollars in subsidies.





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## BADGERCARE

**Goal:** Provide subsidized healthcare to low-income children and their parents.

**Eligibility:** Families can enroll in BadgerCare as long as their income does not exceed 185% of the federal poverty line (FPL); they remain enrolled until their income reaches 200% FPL. Families are eligible if they do not have access to an employer plan in which the employer pays at least 80% of cost.

**Program Design:** Enrollment in BadgerCare provides the Medicaid benefits package to families with incomes up to 200% FPL. Medicaid insures children below 100% FPL and parents below about 60% FPL; Healthy Start provides health insurance to children under six and pregnant women if family income does not exceed 185%. BadgerCare thus attempts to provide a bridge between these two programs and employer-sponsored plans. BadgerCare is funded primarily by federal funds from the Child Health Insurance Program (CHIP). Wisconsin received a waiver enabling the state to cover children AND their parents under this program.

Premiums are assessed for families with incomes above 150% FPL.

**Program use:** As of January 31, 2001 BadgerCare enrollment was approximately 75,000. Combined with Medicaid (130,500) and Healthy Start (105,200), total coverage of low-income families amounts to 314,400.

Enrollment of families above 150% is relatively low, suggesting that co-pays act as a deterrent to families in the higher income category.

**Budget:** For FY 1999-2000, \$63.5 million budgeted. Higher than expected enrollments and a looming budget shortfall led the state legislature to pass a bill in January allocating an additional \$11.5 million to fund BadgerCare through the current fiscal year. Total GPR contributions to the 1999-2000 budget amounted to \$22.3 million. Federal funds contributed over \$40 million. Currently, \$134 million is budgeted for FY 2000-2001 (GPR: \$45.7 million; FED: \$86.3 million).

**Making Work Work Issue:** Co-pays contribute 3% to the high marginal tax rates for families between 150% and 200% FPL. At 200% FPL, families that do not have access to an employer-sponsored plan hit a cliff, where marginal additional income can result in loss of health coverage.

The 200% FPL cliff for BadgerCare happens later than the same cliff for Wisconsin Shares. This is because BadgerCare eligibility allows some income to be disregarded. Thus, eligibility for Wisconsin Shares may cut off before BadgerCare.





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**FEDERAL EARNED INCOME TAX CREDIT**

**Goal:** Lift low-wage households out of poverty; this refundable credit supplements workers' earnings.

**Eligibility:** The federal credit is available to all households with earnings (low-income workers without children are eligible but have a maximum credit of only \$353 in 2000).

**Program Design:** In 2000, the maximum federal credit for a family with two children (or more) was \$3888, \$2353 for a family with only one child. Families with one child receive the maximum credit as long as their incomes are between \$6920 and \$12,690. Families with two or more children receive the maximum credit when their incomes are between \$9720 and \$12,690. The credit phases out completely by \$31,152 for all families (\$27,413 for families with one child).

The federal credit is refundable, meaning that families without tax liability or with minimal tax liability get the credit amount back from the federal government.

**Program Use:** Use of both federal and state earned income credits has declined steadily since 1996. In 1999, 238,217 Wisconsin tax filers received the federal credit (185,442 were families with children). With an average credit of \$1521, 1999 federal EIC payments in Wisconsin amounted to over \$359 million. In 1996, the benchmark year for EIC utilization, 195,980 Wisconsin tax filers with children received the federal tax credit.

The following graph illustrates the phase-out rates for the federal EIC:



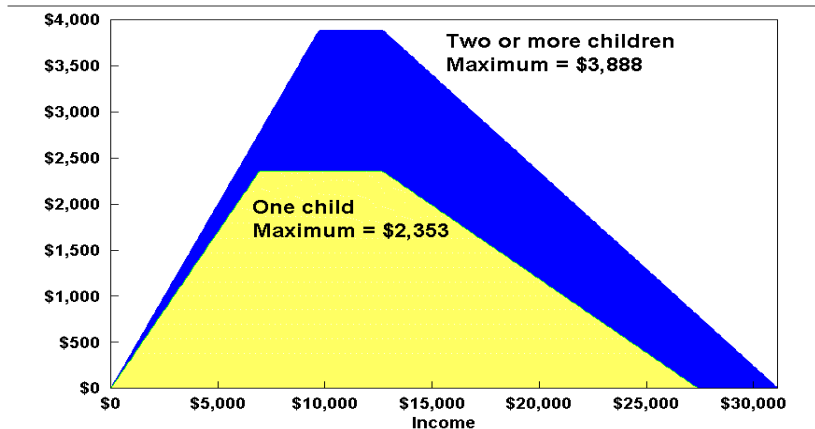


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**Federal Earned Income Tax Credit  
Tax Year 2000**



Source: Nicholas Johnson, "A Hand Up: How State Earned Income Tax Credits Help Families in 2000." Center on Budget and Policy Priorities, 2000.

**Making Work Work Issue:** The phaseout rate for the federal earned income credit contributes substantially to high marginal tax rates for working families. Once family incomes exceed \$12,690, the credit phases out at an approximate rate of 21%. This means that for every additional dollar earned over \$12,690, workers lose 21 cents out of the federal credit.





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**STATE EARNED INCOME TAX CREDIT**

**Goal:** Lift low-wage households with children out of poverty; coupled with federal credit, supplements earnings of low-income working parents.

**Eligibility:** Wisconsin's credit is calculated as a percentage of the federal EIC, depending on number of children in household. For a family with 1 child the Wisconsin credit is 4% of the federal credit awarded. A family with 2 children receives a state credit that is 14% of the federal credit. Wisconsin's credit is unique in that it also includes a category for families with 3 or more children (the federal only distinguishes between families with one child and two or more children). Families with 3 or more children receive a state credit set at 43% of the federal credit.

**Program Design:** The maximum credits are:

- \$94 for family with 1 child
- \$544 for a family with 2 children
- \$1671 for a family with 3 or more children

One child families receive the maximum credit when income is between \$6920 and \$12,690. Families with two or more children receive the maximum credit when income is between \$9720 and \$12,690. Phaseout begins around \$12,700 and families lose credits completely by \$27,414 (one child) and \$31,152 (two or more children). The state EIC is refundable.

**Program Use:** As with the federal credit, use of the state EIC has declined steadily in recent years. For tax year 1999, 185,442 tax filers claimed state EIC, with an average credit \$318. Total cost for fiscal year 1999-2000 was \$59.1 million, \$4 million less than budgeted.

**Making Work Work Issue:** Like the federal credit, the state EIC phases out rapidly. Once family incomes exceed the maximum credit income of \$12,690, they lose substantial amounts of their state EIC with every additional dollar earned. For families with one child, the marginal tax rate is from the state EIC is 16%. For families with two children, the rate is 21%.





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**STATE HOMESTEAD CREDIT**

**Goal:** Provide property tax relief (and, as a result, rent relief) for low-income individuals.

**Eligibility:** Individuals over 18 who own or rent their own residence and have total household income below \$24,500. (There is a \$250 deduction from income for each dependent, but not for a spouse.) The program was originally conceived as a credit for low-income elderly taxpayers, but in 1974 was extended to all low-income households.

**Program Design:** This is a “circuit-breaker” credit, which is designed to provide relief once property taxes exceed a taxpayer’s ability to pay them. For claimants with household income of not more than \$8,000, the credit equals 80% of property taxes (or rent constituting property taxes) up to a maximum of \$1,450 in property taxes. The maximum credit is \$1,160. The credit declines steadily as income increases. For renters, the rent constituting property taxes is calculated as 20% of rent if heat is included and 25% of rent if heat is not part of the rent payment. The upper income limit for eligibility was increased from \$19,154 in tax year 1998 to \$24,500 this year; however the other credit parameters have not been changed or adjusted for inflation since at least 1991.

**Program Use:** Median household income of claimants in 1999 was \$10,403. In all, 171,700 filers received the homestead credit in 2000. Only about 12% of these claimants owed taxes. Almost half of the claimants (48%) are age 65 and older. The average credit last year was \$460. Total Homestead benefits in 1999-2000 were \$80 million (compared to \$112 million in 1990-91). Program use and cost declined over the course of the 1990s, as the combination of inflation and no adjustments in parameters eroded the scope of the program.

**Making Work Work Issue:** The Homestead Credit begins declining when income reaches \$8,000, and it declines steadily – at a rate of about \$7 for each \$100 increase in income. In other words, the phaseout of this credit typically contributes 7% to the implicit marginal tax rate.

The income ceiling is adjusted very slightly for families with children (\$250 per dependent). But even after taking that into account, the point at which the credit completely phases out ranges from 285% of the federal poverty level for a single person with no children to 122% of FPL for a two-parent family with three children.





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**FOOD STAMPS**

**Goal:** Assist low-income individuals and families with purchasing food.

**Eligibility:** The food stamp program is a federally funded entitlement. Households are eligible if gross income is below 130% FPL. There are additional eligibility tests: net income (gross income minus expenses for deductible items like childcare, medical expenses and some shelter costs) must be below 100% FPL. The gross income limit is waived if the household has elderly or disabled members.

**Program Design:** Families are issued monthly benefit amounts determined by income. In 2000, Wisconsin began switching over to the electronic benefit system (EBT or QUEST), which means families now receive their benefits on a debit card instead of coupon booklets.

**Program Use:** The Legislative Audit Bureau issued the following findings regarding those receiving food stamps during the month of January 2000:

- 75,297 households, representing 198,549 individuals, were receiving food stamps.
- 56 percent of the recipients were children, and 8 percent were over 60.
- Among the 67,900 participant ages 18 through 60, almost 29% were disabled.
- More than two-thirds of the assistance groups had no earned income.
- Among food stamp participants with earnings, average annual earned income was approximately \$11,200.
- 28.6 percent of food assistance groups received benefits of \$10 or less per month, while 3.9 percent received more than \$500 per month.
- Almost 50 percent received monthly benefits of less than \$100.

**Budget:** FY 1999, Program benefits totaled \$122.7 million, almost entirely paid for with federal funds. State and federal monies are combined to pay for the \$45 million in administrative costs.

**Making Work Work Issue:** Food stamp benefit levels phase out sharply. The phaseout rate, which averages 27%, contributes to the overall high marginal tax rates experienced by some working families. When families lose food stamps entirely (when their income exceeds 130% FPL), they experience a cliff effect. The food stamp cliff usually creates a setback in disposable income: a small raise in hourly wage actually produces a decline in total monthly income.

