



COMMUNITY ADVOCATES
Where Meeting Basic Needs Inspires Hope

Testimony of David Riemer, Director of Policy and Planning, Community Advocates Public Policy Institute, Before the Joint Committee on Finance March 25, 2009

My name is David Riemer, and I'm now serving as Director of Policy and Planning for Community Advocates in Milwaukee. Community Advocates has been serving low-income residents of Milwaukee for over 30 years. The organization helps homeless individuals, tenants facing problems with their landlords, families threatened with utility cut-offs, families seeking health care, and many more, providing tens of thousands each year with advocacy and other services. As head of the new Public Policy Institute, my job is to identify the primary causes of poverty in Wisconsin and advocate for policy changes that will greatly reduce poverty in our state.

Thank you for this opportunity to testify on the proposed 2009-2011 state budget. Given the enormous constraints that Wisconsin faces today—a severe recession, rising unemployment, increased demand for services, and sharply falling revenues—this seems to me to be a good budget on the whole. Governor Doyle has included many important provisions that will contribute in a substantial way to reducing poverty, helping working families and protecting the middle class. I wanted today to highlight two of the most positive budget provisions that I hope you will preserve, and suggest three changes that I believe will, at no cost, make this an even better budget for Wisconsin's low-income workers.

Protect the State Earned Income Tax Credit

Since 1989, Wisconsin has provided its low-income workers with a state Earned Income Tax Credit (EITC) that encourages work, makes work pay more than welfare, and helps lift many—but not all—low-wage workers above the poverty line.

As you know, the federal EITC does the heavy lifting in this area, providing low-income workers with children with an earnings supplement that in 2009 will equal between 34% of their wages up to a maximum of \$3,043 if they have one child, 40% of wages up to a maximum of \$5,028 if they have two children, and now—thanks to a new provision added by Congress and signed into law by President Obama as part of the “stimulus package,” 45% of wages up to a maximum of \$5,657 if they have three or more children. In addition, Congress and the President have created what might be called a new EITC, the Making Work Pay Tax Credit, that provides most low-income and middle-income workers with \$400 per individual or \$800 per family.

Back in 1989, however, the federal EITC was not adjusted for family size, so a bipartisan group of legislators enacted—and for 20 years the Wisconsin Legislature has continued to fund, with the strong support of every governor—a supplemental state EITC. This supplemental state EITC is a percentage of the federal EITC. The state EITC varies by the number of dependent children in the worker’s household. The state EITC is 4% of the federal EITC for one child if the worker has one child. It rises to 14% of the federal EITC if the worker has two children. And because the federal EITC previously stopped at two children, the state EITC for three or more children was calculated as 43% of the federal EITC for two or more children.

The percentages assigned to the state EITC are not arbitrary. They were chosen to achieve a specific purpose: to make sure that if you worked full-time and year-round in Wisconsin at even the minimum wage, your earnings *plus* the federal EITC *plus* the state EITC—all taken together—should provide you enough “earnings-related income” to get above the poverty line. Because the poverty line rises significantly with the addition of each dependent child, it was important to set the state EITC high enough so that—in combination with earnings (which of course don’t vary by family size) and the federal EITC (which does increase as family size gets bigger)—it provided hard-working Wisconsinites earning low wages the extra boost they needed to “make work pay” more than poverty.

For the most part, the formula worked. But there has historically been a problem with piggybacking the state EITC on the federal EITC for families headed by married couples. **The problem is that married families with children, even if there was a full-time worker, did not always get above the poverty line if their only help was the *prior* federal EITC formula and *prior* state EITC formula.** Thankfully, the recently enacted increase in a variety of federal tax credits including a larger federal EITC for married couples and bigger families, in combination with Governor Doyle’s decision to make no changes in the state EITC formula, fixes the problem. Let me explain the problem and why this budget fixes it.

The federal minimum wage, effective on July 24, 2009, will rise to \$7.25 per hour. That translates into annual earnings (assuming the worker has a full-time, year-round job) of just over \$15,000 per year. So if a family headed by a *single* parent has minimum-wage earnings, then those earnings plus the prior federal EITC formula plus a state EITC formula that still used the federal two-child credit as the basis for the state’s three-child credit would lift families headed by a *single* parent up to 125% of the poverty line if they had one child, 113% of the poverty line if they had two children, and 102% of the poverty line—just barely over it—if they had three children.

There was a serious problem, however, for *married* couples. If they had minimum wage earnings—that is, \$15,000 per year—they remained poor if all they got was the prior federal EITC formula plus a state EITC formula that continued to use the federal two-child credit as the basis for the state’s three-child credit. Specifically, such a family would end up at:

- 99% of the poverty line with one child;
- 94% of poverty with two children; and
- Only 88% of poverty—well below the poverty line—with three children.

In short, if you got married, your spouse stayed home to care for the children, and you worked full-time and year-round at the minimum wage—or if both adults worked in part-time jobs that add up to the equivalent of one minimum-wage job—you would remain below the poverty line if the dollar amounts provided by Wisconsin’s EITC were to obey the state’s old formula, which includes piggybacking the state EITC for families with three or more children on the federal EITC for families with two children.

The good news is that, by simply allowing current law to operate, the budget before you will raise married families with children, who have full-time earnings at even the minimum wage, above the poverty line.

Congress and President Obama included in the recently enacted federal “stimulus package” a number of new or revised tax credits that particularly help low-income workers:

- A new Making Work Pay Tax Credit provides low-income and middle-class workers with an additional earnings supplement—a kind of second federal EITC—equal in most cases to \$400 per individual and \$800 per married couple.
- An expanded Additional Child Tax Credit will help many more low-income workers get a portion if not all of the \$1,000 per Child Tax Credit.
- Finally, the federal EITC has been increased for 2009 for *married couples* and, for both single and married couples with *three or more dependent children*, the credit percent has been increased from 40% to 45%.

Rather than use these increases in the federal credit as the basis for reducing the state EITC in some complicated fashion, Governor Doyle has wisely proposed just leaving the state EITC formula just as it is. As a result, the state EITC for certain married couples is somewhat larger, because the underlying federal EITC for certain married couples is somewhat larger. A second result is that the state EITC for families with *three* or more children is linked to the federal EITC for *three* or more children. This makes the state EITC for families with three children much easier to understand. It also increases somewhat the size of Wisconsin’s EITC for both single persons and married couples with three or more children. But it is the bottom line that I want to focus on.

Together, all of these federal and state tax credit provisions will now interact with earnings, and build on each other, to ensure that all minimum-wage workers—single or married, with smaller families or larger families—can lift their families above the poverty line. The Governor’s budget is of particular help to married couples with full-time earnings at the minimum wage who *previously* fell below the poverty line. If the budget for the state EITC is left intact, married couples in 2009 that have full-time earnings at the minimum wage will *now* end up at 109% of poverty with one child, 106% with two children and 100% with three children.

I urge the Committee and the Legislature to follow the Governor’s lead, make no changes in the state EITC law, and allow Wisconsin to play its part in constructing a federal/state earnings supplement system that guarantees all families headed by full-time workers—even if they work at the minimum wage—an earnings-based income that at the very least exceeds the poverty line.

We need to encourage work. And work should pay—pay more than welfare, and pay more than poverty. Wisconsin’s EITC is a vital part of the framework for achieving these goals. I strongly encourage you to leave that framework intact.

Preserve the Extension of BadgerCarePlus to Childless Adults

I want to commend and thank Governor Doyle, Secretary Timberlake, Medicaid Director Helgerson and all of you—the Wisconsin Legislature—for creating BadgerCarePlus. This bold and creative initiative not only consolidated “family” Medicaid, Healthy Start and BadgerCare into a single, stream-lined program, but also extended coverage to additional low-income children and pregnant woman, and expanded eligibility to childless adults below 200% of poverty (beginning in January in Milwaukee, and starting this July statewide).

Thanks to what you did in creating BadgerCarePlus, and then funding it with the new hospital tax as well as recently approved federal funds, tens of thousands of our state’s lowest-income uninsured workers will now be able to obtain, at a reasonable cost, good health insurance. I ask the Committee and the Legislature to support what Governor Doyle has included in the budget for BadgerCarePlus.

Let me now turn to the three areas where I would urge you to improve the budget—without spending additional GPR:

I. Extend Addiction Treatment and Mental Health Parity to All BadgerCare Plans

One of the most exciting developments in BadgerCarePlus is the program’s extension to *some* of its newly covered enrollees of “parity” in the treatment of addiction and mental health.

Historically, these two chronic illnesses—addiction to alcohol and other drugs, and mental illness—have faced severe discrimination in both public and private health insurance plans. Individuals who suffered from these chronic illnesses have all too frequently faced limitations in how often they could receive effective treatment, had to pay higher deductibles or co-insurance or co-pays, and quickly ran into out-of-pocket maximums that cut off treatment prematurely—artificial barriers to care that those with other chronic illnesses (including illnesses in which unwise personal behavior was a contributing factor) simply didn’t face. Because of the health insurance discrimination faced by Wisconsinites with addiction and mental illness, many have died or suffered prolonged illness who might have lived and recovered. Yet there have been no savings to taxpayers, insurance companies or employers. In fact, study after study verify that addiction and mental illness *can* be effectively treated, and that when effectively treated any additional cost for the treatment is offset—sometimes tenfold—by *savings* throughout the rest of the health care system, ranging from reduced admissions to emergency rooms to fewer hospital days. It is not only fair to cover addiction and mental illness the same way we cover other chronic illnesses, it is also cost-effective.

Recognizing this, on Oct. 3, 2008, following approval by both the U.S. House and Senate, President Bush signed into law the “Paul Wellstone and Pete Domenici Mental Health Parity and Addiction Equity Act of 2008.” This new law, Public Law 110-343, in general requires group health plans to provide addiction and mental health treatment on a “parity” basis. There’s an

exemption for employers with fewer than 50 employees. There are some other exceptions. But Congress has clearly established as a general policy that here in the United States of America we should no longer discriminate against Americans who happen to have addiction and mental illness as a chronic illness compared to those who have diabetes, hypertension or cancer.

The biggest part of our BadgerCarePlus program—the so-called “Standard” plan that applies to families (i.e., children and their custodial parents) below 200% of the poverty line and low-income pregnant women—already provides addiction and mental health treatment on a “parity” basis. The addiction and mental health benefit provided to enrollees in the “Standard” plan is, at least on paper, very good.

And the good news is that one of the two new BadgerCarePlus expansions you approved in the last state budget—the so-called “Benchmark” plan for children above 200% of the poverty line—will also cover addiction and mental health treatment on a “parity” basis starting Jan. 1, 2010. This improvement in the “Benchmark” plan benefit, which I understand is reflected in the budget before you, occurs because the “Benchmark” plan benefit is set by law (Sec. 49.471(11)(k) of the Wisconsin statute) as the *same* benefit package that state employees receive under the state employee health plan administered by the Department of Employee Trust Funds. Low-income Wisconsinites who have the BadgerCarePlus “Benchmark” plan move to “parity” for addiction and mental health treatment on Jan. 1, 2010 because Wellstone-Domenici requires that your own state employee benefit plan moves to “parity” on that date.

This leaves us with only one BadgerCarePlus component—the “Core” plan for childless adults—without “parity” for addiction and mental health treatment. There is a legal debate as to whether the federal Wellstone-Domenici law requires “parity” for so-called Medicaid managed care plans like the BadgerCarePlus program for childless adults. Some say Congress fully intended that Wellstone-Domenici should apply to such programs; others disagree.

But regardless of the legal question, because “parity” is both fair and cost-effective Wisconsin should proceed as quickly as possible to make sure that—just like the two other components of BadgerCarePlus—the childless adult program should also provide “parity” for addiction and mental health treatment.

There are three simple reasons for this policy:

- First, it’s illogical to have “parity” for the two other components of BadgerCarePlus, the Standard Plan and the Benchmark Plan, but omit “parity” for the childless adult program and its Core Plan.
- Second, it’s both illogical and unfair to omit “parity” for the BadgerCarePlus childless adult program while federal law *requires* every single Wisconsin employer with 50 or more employees that has a health care plan to provide “parity” for addiction and mental health treatment.
- Third, quite simply, “parity” works. Providing treatment for people with addiction and mental illness can be highly effective, will save lives, will improve health, and—in the context of a well-designed managed care program such as the one that the Department of Health Services has created for low-income childless adults—will cost less than it saves.

In addition to the predictable net savings in the BadgerCarePlus program itself, we'll save money in the criminal justice system, there will be savings due to less domestic violence, and tax revenues will increase.

My hope is that, between now and the end of the year, the Department of Health Services, which is already looking carefully at this issue, will decide to go ahead with “parity” for the BadgerCarePlus childless adult program. If not, I would ask the Legislature to take action to ensure that “parity” applies across the board in our health care program for low-income adults. Because I believe the implementation of “parity” is cost-neutral, I am not asking that you increase the BadgerCarePlus appropriation in the budget. What is needed, rather, may be a budget provision that encourages or even directs the Department to move as quickly as possible to ensure that all components of BadgerCarePlus—including the childless adult program—provide treatment for addiction and mental illness on a “parity” basis.

II. Create a Wisconsin Job Openings Survey and Job Shortage Report

Let me conclude with two final recommendations that both aim to reduce poverty in Wisconsin.

First, although we have excellent information from the federal Bureau of Labor Statistics (BLS) about how many Wisconsinites are unemployed, we have no data on how many job vacancies our state's employers have available. This means we don't have a clue about our job shortage: that is, the gap between the number of job seekers and the number of job openings. The Department of Workforce Development needs to begin to collect Wisconsin-specific job vacancy data, and calculate Wisconsin's job shortage, in order for us to obtain the “map” we need to make rational budget and policy decisions about job creation, job training and job placement programs.

Because BLS collects *national* data on both unemployment and job vacancies, we can calculate the *national* job shortage. As two recent Community Advocates Public Policy Institute reports (one of which I've attached) show, the national job shortage is well over 8 million—by now, it's probably well over 10 million.

But because neither the BLS, nor our own DWD, nor any other organization counts the number of job vacancies we have at the state level, we can only guess at Wisconsin's job shortage. Using the famous 2% rule—Wisconsin has about 2% of the U.S. population, therefore we're 2% of everything—this state's job shortage is perhaps between 150,000 and 200,000. But since we have no real survey of Wisconsin employers, we really don't know what the state's job shortage is, or how fast it's growing.

As a result of our ignorance about the details of Wisconsin job shortage—that is, exactly how many of the state's unemployed job seekers stack up against how many state job vacancies—we're flying in the dark, without an instrument panel or a map, in our effort to fashion state policies that are effective in driving down the unemployment rate to a much lower level.

- We don't know how much of Wisconsin's unemployment problem can be solved only by creating *new* jobs, i.e., by reducing the job shortage itself.
- We likewise don't know how much of our unemployment can be solved by doing a better job of filling *existing* jobs, either by dealing with a skills mismatch (not enough

unemployed workers have the skills needed to fill some of the job openings we do have), addressing the spatial mismatch (not enough unemployed workers have access to mass transit, or driver's licenses and cars, and thus literally cannot travel to some of the job openings we do have), or providing better information about what jobs are "out there" or what unemployed workers are "out there."

I urge the Committee to direct DWD to conduct regular statewide job vacancy surveys, either by contracting with BLS, doing the job itself, or hiring a local vendor like the UWM Employment and Training Institute, which used to do such surveys (from 1993 through 2006) for the metro Milwaukee area. I don't believe the cost would be significant, and so I believe it could be paid for out of DWD's existing appropriation.

We can only drive down poverty if we get the unemployed into jobs. But to get the unemployed into jobs, we urgently need to know to what extent the obstacle is a job shortage and to what extent the need to improve our job training, job transportation or job information systems. To get this information, in turn, DWD needs to regularly and consistently measure the number of job vacancies in Wisconsin.

Modify W-2 To Provide for Wage-Paying Transitional Jobs

My final recommendation literally costs nothing. In fact, at no GPR cost, it will bring federal dollars *into* Wisconsin.

In the W-2 program, low-income enrollees in so-called Community Service Jobs don't really have jobs. They're paid a flat grant of \$673 per month.

If we changed the W-2 Community Service Jobs into *real* jobs—Transitional Jobs that paid the minimum wage for each hour of work performed—the state could still spend \$673 per month for each job slot, but enrollees and Wisconsin itself would be better off because those wages would trigger the payment of hundreds of dollars of *federal* tax credits.

If you get a cash grant for performing work, you don't qualify for any earnings-based federal tax credits. But if you earn wages for performing work, you:

- Don't lose any FoodShare (Food Stamps) payments;
- Don't lose your eligibility for BadgerCarePlus;
- *Do* qualify for the federal EITC;
- *Do* qualify for the new federal Making Work Pay Tax Credit;
- *Do* qualify for the expanded federal Additional Child Tax Credit;
- *Do* pay Social Security (FICA) and Medicare taxes; and thus
- *Do* build up credit for Social Security and Medicare eligibility and benefits.

Another benefit of transforming W-2's Community Service Jobs from cash grants to wage-paying Transitional Jobs is that it will accelerate the movement of W-2 enrollees into the regular job market. A Community Service Job isn't a *real* job. It doesn't look or feel like a *real* job. It's an "ersatz" job—a cheap imitation of the real rewards, and the real demands, of the labor market. Why? As structured today, W-2's so-called Community Service Jobs don't pay wages, aren't

subject to payroll taxes, don't qualify the job-holder as a true employee, don't require the job-holder to work first and get paid later, and let job-holders get the grant even if they miss work.

A wage-paying Transitional Job, by contrast, is a real job. It pays a wage. Those wages are subject to payroll tax—and qualify for the EITC and other earnings-based credits. The employee is a true employee, which means working first and getting paid later and only getting paid for hours actually worked.

Because W-2's so-called Community Service Jobs are not *real* jobs, they don't habituate individuals to the demands and rewards of the *real* labor market, and thus impede their movement into the regular, private-sector economy. By contrast, based on what I've observed in Milwaukee's New Hope Project and other Transitional Job experiments around the country, Transitional Jobs—precisely because they do replicate the demands and rewards of *real* work—make it easier to move into regular, private-sector jobs.

The inner mechanics of transforming W-2's Community Service Jobs into real, wage-paying Transitional Jobs are a bit complex. There may be a need to seek and obtain a federal waiver, because workers who are paid \$673 per month will, at the upcoming minimum wage of \$7.25 per hour, work fewer than 30 hours per week, which is now a federal requirement under the Temporary Assistance to Needy Families (TANF) program.

So my request is that the Legislature direct the Department of Children and Families to:

- **Create an effective Transitional Jobs program that (a) costs no additional GPR (including after taking the cost of the state EITC into account), (b) increases the income of W-2 recipients by leveraging the federal EITC and other earnings-based tax credits), and (c) is either compatible with the federal TANF law or is based upon an appropriate federal waiver; and**
- **Pursue and secure such federal waivers as Wisconsin may need.**

Transforming W-2's largest program into a true Community Service Jobs program—one where low-income adults in Transitional Jobs earn real wages and prepare themselves through real work for far better real work in the private sector—will not only increase the income and enhance the future job prospects of the poor; it will also improve the overall effectiveness of the W-2 program, and bring much needed federal dollars back to Wisconsin.

Conclusion

Thank you for this opportunity to formally introduce the Community Advocates Public Policy Institute, to share with you our views on some—by no means all—of the good anti-poverty measures included in the 2009-2011 budget, and to suggest several changes that would strengthen Wisconsin's ability to improve the health, the employment, and the income of our state's low-income residents.

I'd be pleased to answer any questions you may have.