

## **Testimony of Sarah Leberstein**

National Employment Law Project

# **S.B. 391: An Act Concerning the Recoupment of State Costs Attributable to Low Wage Employers**

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## **Hearing before the Human Services Committee**

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Good afternoon Senator Moore, Representative Abercrombie, and Members of the Human Services Committee. Thank you for the opportunity to testify today.

The National Employment Law Project is a non-profit, non-partisan research and advocacy organization specializing in employment policy. We are based in New York with offices across the country, and we partner with federal, state, and local lawmakers on a wide range of workforce issues.

Across the country, our staff is recognized as policy experts in areas such as unemployment insurance, wage and hour standards and enforcement, and, as is relevant for today's hearing, the economic impact of low-wage jobs. We have worked with dozens of state legislatures across the country and with the U.S. Congress on measures to boost pay for low-wage workers.

NELP testifies today in support of S.B. 391, which would require certain large employers to pay a quarterly fee for each employee earning \$15 per hour or less. Revenues from the fee would fund the critical state services that most working families rely on to care for both their children and their aging relatives. The legislation allows the appropriate legislative committees – those having cognizance of matters relating to education, human services and appropriations and the budgets of state agencies – to make recommendations on how the state can best direct revenues generated by the fee to expand and improve consumer-directed services for the elderly and disabled and childcare and early learning programs for the children of low-wage workers. The Connecticut Low Wage Employer Advisory Board would also make recommendations on how the state can best use the fee to strengthen child care and healthcare services. S.B. 391 would thus help ensure Connecticut's role as a leader in providing quality care for children, seniors and peoples with disabilities, while easing the enormous burden borne by middle-class families who have been forced to subsidize big corporations through tax expenditures for public services. If large corporations want to avoid the fee they can simply begin paying their employees a decent wage that better allows them to provide for their families.

This reform is desperately needed now. While the unemployment rate has declined in many states across the country, new job growth remains disproportionately concentrated in low-wage industries like retail and food services. In these industries, many of the largest companies – including profitable corporations like Walmart and McDonalds – have adopted a business model of low wages, limited hours, and nonexistent benefits that force a significant share of their workforce to rely on public assistance in order to afford the basics. As a result, the low-wage business model practiced by many of the largest and most profitable employers in the country not only leaves many working families unable to afford the basics, but also imposes significant costs on the public as a whole. On the other hand, the experiences of several leading large employers demonstrate that companies can remain highly profitable while paying fair wages while also improving job recruitment and retention and the quality of services.

## ***Large Corporations Pay Low Wages in Connecticut Even as Profits at Many of These Corporations Have Grown Significantly in the Post-Recession Recovery***

- According to a recent estimate, over half of Connecticut's lowest-paid workers are employed in just two industries, retail (32 percent) and leisure and hospitality (20 percent). Job growth in Connecticut since the end of the Recession has been concentrated in these and other low-paying industries, reducing income tax revenue and straining state revenue streams.<sup>1</sup>
- Among retail employers, it is the large national chains that pay their employees the least: in Connecticut, large retailers – those with 500 employees or more – employ more than 57 percent of retail employees, and on average, these businesses pay their employees 34 percent less than do small and mid-sized retail firms. Data from the 2007 Economic Census (the most recent available source for data) indicate that the average employee at a big retail establishment took home over \$11,000 less each year than her counterpart at a smaller store.
- At the same time, the largest low-wage employers in Connecticut and the U.S. have largely recovered from the recession and remain in strong financial condition today. A 2012 analysis from the National Employment Law Project found that 78 percent of the 50 largest low-wage employers have been profitable every year for the past three years, and 73 percent have higher profits now than before the recession.<sup>2</sup>

## ***Low Wages Force Connecticut's Workers to Rely on Public Assistance in Order to Afford Basic Necessities***

- Connecticut remains one of the highest-cost states in the country, making it nearly impossible for the lowest-paid workers in the state to support a family. For example, according to estimates from the Economic Policy Institute, an adult with one child living in the Hartford area would need to earn at least \$30.00 per hour, working full-time and year-round, just to afford food, housing, childcare, transportation, and other basic necessities.<sup>3</sup>
- Despite the high cost of living in the state, a substantial share of Connecticut's workforce earns wages that are far too low to support a family or even maintain basic economic security. According to data from the U.S. Census Bureau, approximately 25 percent of the state's workforce earns \$12.89 or less per hour.<sup>4</sup>
- When workers and their families do not earn enough to afford the basics, they often have no choice but to rely on public assistance in order to make ends meet. Nationally, nearly three quarters (73 percent) of enrollments in America's major

public benefits programs are from working families.<sup>7</sup> With wages that leave their earnings below subsistence levels, these workers must rely on additional support from programs like the Supplement Nutritional Assistance Program, Medicaid, Children's Health Insurance Programs, and the Earned Income Tax Credit in order to afford basics like food, housing, child care and health care.

- In Connecticut, too, a majority of enrollments in key public assistance programs – the Medicaid/Children's Health Insurance Program (CHIP) and Temporary Aid to Needy Families – were from working families. In fact, Connecticut spends \$486 million a year to provide CHIP and TANF to working families, essentially subsidizing some of the state's largest and most profitable employers. With a current state budget deficit of \$220 million, however, these vital services are at risk and working families may face even greater hurdles to receiving the supports they need to go to work each day and care for their families.

### ***Low Wages Paid By Large Profitable Employers Present a Significant Cost to the Public***

- Data available for some of the largest employers in the retail and fast-food industries indicate that the low wages paid by profitable companies like Walmart and McDonalds entail substantial costs for the public as a whole.
- A 2013 report from the Democratic Staff of the U.S. House Committee on Education and the Workforce estimates that low wages paid at a single Walmart supercenter cost taxpayers between \$900,000 and \$1.7 million on average per year.<sup>8</sup>
- Similarly, a 2013 study from the University of California-Berkeley found that the low-wages paid by companies in the fast-food industry cost taxpayers an average of \$7 billion per year.<sup>9</sup> A companion study from the National Employment Law Project found that the bulk of these costs stem from the 10 largest fast-food chains, which account for an estimated \$3.9 billion per year in public costs.<sup>10</sup>

### ***The Low Wage Employer Fee Would Provide a Much-Needed Source of Funding for Child Care and Healthcare Services to Better Meet the Needs of Connecticut's Working Families.***

- The Low Wage Employer Fee would help fill a growing gap in funding for childcare and healthcare services, allowing Connecticut to better meet the needs of the overwhelming majority of low-wage workers who are adults with families to support, and especially those who are the sole source of income for their households.
- Quality child care is unaffordable for low-income families and even for many middle-income families in Connecticut and the need for subsidized care is on the rise.<sup>11</sup> The proportion of young children in poverty in Connecticut grew 25% over the last five years (from 11% to 17%). Many of these children are not receiving the services they need: over 80% of infants and toddlers and at least 25% of

preschoolers living in financially struggling families (those earning under 75% of the state median income) are not served by any form of state or federal early care and education subsidy. Yet the state's spending on early care and education has decreased in recent years.

- Affordability of long-term care services is also a huge obstacle in Connecticut. The cost of nursing home care, for example, is far beyond what an average family can afford. According to a 2014 "State Scorecard," the median annual private pay cost for a nursing home as a percentage of median household income for Connecticut residents age 65 and older is 359 percent.<sup>12</sup>
- The Low Wage Employer Fee would thus help ensure the state's role as a leader in providing quality care for children, seniors and peoples with disabilities, while easing the enormous burden borne by middle-class families who have been forced to subsidize big corporations by paying for public services.

***The Experiences of Several Leading Large Employers Demonstrate that Higher Wages Are Consistent with a Profitable Business Model.***

- Many leading companies such as Costco and Trader Joe's have chosen to invest in higher wages for their front-line employees as part of a highly competitive business strategy. These companies' experiences show that paying higher wages results in significant savings – including reduced employee turnover and increased productivity<sup>13</sup> – that help offset the cost of raising wages.
- For example, a Harvard Business Review study by MIT Professor Zeynep Ton shows that the starting wage for full-time employees at Trader Joe's ranges between \$40,000 and \$60,000 per year, more than twice what many of its competitors offer, and yet the sales revenue per square foot at Trader Joe's are three times higher than the average U.S. supermarket.<sup>14</sup>
- Costco CEO Craig Jelinek recently affirmed the significant business savings and efficiencies gained through higher wages, stating, "We pay a starting hourly wage of \$11.50 in all states where we do business, and we are still able to keep our overhead costs low. An important reason for the success of Costco's business model is the attraction and retention of great employees. Instead of minimizing wages, we know it's a lot more profitable in the long term to minimize employee turnover and maximize employee productivity, commitment and loyalty."<sup>15</sup>

Thank you so much for the opportunity to testify today. I am happy to answer questions.

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<sup>1</sup> <http://www.ctvoices.org/sites/default/files/econ12raiseminwage.pdf>; Nicholas Defiesta, “10 Charts That Explain Connecticut’s Economic Recovery,” January 13, 2016, Connecticut Voices for Children, available at <http://www.ctvoices.org/blog/20160113/10-charts-explain-connecticut%E2%80%99s-economic-recovery> (“Of the state’s eight largest industries, only three had the same number of jobs, or more, than they had when the recession began – professional services, health care & social assistance, and accommodation & food services.”)

<sup>2</sup> National Employment Law Project, “Big Business, Corporate Profits, and the Minimum Wage,” Data Brief, July 2012, available at: [http://nelp.3cdn.net/e555b2e361f8f734f4\\_sim6btdzo.pdf](http://nelp.3cdn.net/e555b2e361f8f734f4_sim6btdzo.pdf).

<sup>3</sup> EPI Family Budget Calculator, <http://www.epi.org/resources/budget/>, accessed March 7, 2016.

<sup>4</sup> Occupational Employment Statistics, May 2014, Connecticut.

<sup>5</sup> National Employment Law Project, “An Unbalanced Recovery: Real Wage and Job Growth Trends,” Data Brief, August 2014, available at: <http://www.nelp.org/page/-/Reports/Unbalanced-Recovery-Real-Wage-Job-Growth-Trends-August-2014.pdf?nocdn=1>

<sup>6</sup> [http://www.bls.gov/emp/ep\\_table\\_104.htm](http://www.bls.gov/emp/ep_table_104.htm)

<sup>7</sup> [http://laborcenter.berkeley.edu/publiccosts/fast\\_food\\_poverty\\_wages.pdf](http://laborcenter.berkeley.edu/publiccosts/fast_food_poverty_wages.pdf)

<sup>8</sup> [http://democrats.edworkforce.house.gov/sites/democrats.edworkforce.house.gov/files/documents/WalMartReport\\_May2013.pdf](http://democrats.edworkforce.house.gov/sites/democrats.edworkforce.house.gov/files/documents/WalMartReport_May2013.pdf).

<sup>9</sup> [http://laborcenter.berkeley.edu/publiccosts/fast\\_food\\_poverty\\_wages.pdf](http://laborcenter.berkeley.edu/publiccosts/fast_food_poverty_wages.pdf).

<sup>10</sup> <http://www.nelp.org/page/-/rtmw/uploads/NELP-Super-Sizing-Public-Costs-Fast-Food-Report.pdf>.

<sup>11</sup> Cyd Oppenheimer, Tamara Kramer & Edie Joseph, “Connecticut Early Care & Education Progress Report, 2013,” Connecticut Voice for Children, available at <http://www.ctvoices.org/sites/default/files/ece13progressreport.pdf>.

<sup>12</sup> The AARP Public Policy Institute, The Commonwealth Fund, and the SCAN Foundation, “2014 State Scorecard on Long-Term Services and Supports for Older Adults and People with Physical Disabilities,” available at <http://www.longtermscorecard.org/>. Only two states (New York and Alaska) had higher nursing home private pay costs than Connecticut. “State Long-Term Services and Supports Scorecard: How One State Improved,” AARP, June 2015, <http://www.aarp.org/content/dam/aarp/ppi/2015/connecticut-state-long-term-services-supports-scorecard.pdf>.

<sup>13</sup> A 2003 study by economists at the University of California–Berkeley examined the effects of a wage increase for workers at the San Francisco Airport, finding that annual turnover among security screeners plunged from 95 percent to 19 percent when their hourly wage rose from \$6.45 to \$10 per hour. After wages increased at the airport under a living wage policy, 35 percent of employers reported improvements in work performance, 47 percent reported better employee morale, 44 percent reported fewer disciplinary issues, and 45 percent reported that customer service had improved. Michael Reich, Peter Hall, Ken Jacobs, “Living Wages and Economic Performance,” Institute of Industrial Relations, March 2003, available at [http://www.irl.berkeley.edu/research/livingwage/sfo\\_mar03.pdf](http://www.irl.berkeley.edu/research/livingwage/sfo_mar03.pdf). Costco recently announced an increase in starting wages for its hourly employees nation-wide. See Shannon Pettypiece, “Costco Will Raise Minimum Wage as Competition for Workers Grows,” Bloomberg Business, March 3, 2016, available at <http://www.bloomberg.com/news/articles/2016-03-03/costco-raising-minimum-wage-as-competition-for-workers-grows>

<sup>14</sup> Zeynep Ton, “Why Good Jobs are Good for Retailers,” Harvard Business Review, January 2012, available at <http://hbr.org/2012/01/why-good-jobs-are-good-for-retailers/ar/1>

<sup>15</sup> See <http://www.businessforafairminimumwage.org/news/00272/costco-eileen-fisher-and-small-business-owners-nationwide-support-fair-minimum-wage-act-i>