Report of the Ad Hoc Committee on the Living Wage

Summary

Charge to the Committee

“A multi-constituent committee is charged with exploring approaches to building further on the progress made in increasing the minimum level of staff compensation at the College. The Committee will report to President Bloom and to the community during the next academic year on its view of what is best for the institution….It is prudent and right to aim at a higher minimum compensation. This new committee will work to suggest ways this could best be packaged and try to identify consequences of a new system.”

Recommendations

1. The Swarthmore minimum wage should be $10.72/hour.
   Minority Recommendation: the Swarthmore minimum wage should be $13.89/hour.

2. Swarthmore should introduce a new childcare subsidy benefit of up to $550/month for preschool-age children and $325/month for elementary school age children. The College would pay the actual costs of childcare, up to these maxima.
   Minority Recommendation: childcare subsidy should be capped at $5,000 per employee.

3. Swarthmore should modify its current health insurance benefits such that lowest paid employees receive full HMO coverage for their families at no cost to them.

4. Both the childcare benefit and the health insurance supplement should also be provided to employees whose wages are above the minimum, in amounts determined by a sliding scale that provides full benefit for people earning the College minimum, no benefit for employees earning $8/hour above the College minimum, and linearly decreasing benefit for employees in between.

5. Both the childcare benefit and the health insurance supplement should be means-tested. The means testing should be done in as simple and transparent a way as possible. The Committee recommends that employees who desire these new benefits submit a copy of their federal tax return each year, and that that be used to determine whether employees are eligible, and where on the sliding scale they fit.
6. The problem of “wage compression” should be addressed by providing wage increases for employees earning more than the College minimum according to a scale detailed in the report.

7. The College minimum wage and the childcare benefit should be adjusted annually for inflation, so that they maintain their real value over time. The health insurance supplement should keep pace with annual increases in health insurance premiums to the College. In addition, the more complex calculations of the costs of meeting basic needs should be reviewed periodically, and the College minimum should be adjusted accordingly.

8. A multiconstituency Employment Practices Advisory Committee should be created to help monitor changes in the workforce in an effort to detect and correct potential unintended negative consequences of the change in the College’s compensation policy that are detailed in the report. The Committee’s primary concern would be to ensure that the College’s employment principles—as articulated in this report and elsewhere—remained central to its practice. The Committee should participate in the Board of Managers’ annual review of College employment practices with the Human Resources Department.
Report of the Ad Hoc Committee on the Living Wage

February 5, 2004

I. History and Charge

Several members of the Swarthmore College community, including students and staff, organized a Living Wage and Democracy Campaign several years ago. One of the campaign’s objectives was to convince the College to adopt a living wage policy and set a living wage as its minimum wage. Living wage policies have now been adopted in more than 70 locations across the U.S. They establish minimum wages that vary from about $7.50/hour to more than $11/hour (though tilted toward the low end of that range). Though, as we will see shortly, even $11/hour, full year, full time would not yield earnings large enough to cover estimated living costs for a family in Delaware County, these accomplishments in raising the lowest wage stand out against a background of decades-long reduction in the real value of the Federal Minimum wage.

The activities of the Living Wage and Democracy Campaign helped to assure that the issue of a living wage was given serious consideration by the College’s Staff Compensation Review Committee, which had recently been created. Though the committee explicitly considered and rejected the adoption of a living wage policy at the College, it recommended that the College minimum wage be increased to $9/hour. This became College policy in 2001.

This change represented a substantial improvement in the College’s compensation policy. However, many members of the community thought it still left low-paid employees too far below what it costs to live to be acceptable. As a result of faculty discussion of the issue in the spring of 2002, President Al Bloom established an ad hoc committee to reopen investigation of the compensation of lowest-paid staff. The charge to the committee included the following:

A multi-constituent committee is charged with exploring approaches to building further on the progress made in increasing the minimum level of staff compensation at the College. The Committee will report to President Bloom and to the community during the next academic year on its view of what is best for the institution....It is prudent and right to aim at a higher minimum compensation. This new committee will work to suggest ways this could best be packaged and try to identify consequences of a new system.
The committee, co-chaired by Melanie Young, Associate Vice President for Human Resources, and Barry Schwartz, Professor of Psychology, and staffed by representatives from the staff, the faculty, and the student body, began meeting in the fall of 2002. It was unable to complete its work by the end of the 2002-2003 academic year, and thus continued to meet, somewhat reconstituted, in the fall of 2003. The Committee now offers this report for consideration by President Bloom, the Board of Managers, and the entire College community.

**Note on the Committee’s Charge.** We understand that some members of the College community, and of the Ad Hoc Committee itself, may have expected that in addition to making recommendations about changes in College compensation policy, the Committee would make recommendations about how changes in compensation policy might be financed. The Committee gave much thought to this aspect of the living wage issue, and came to the conclusion that recommendations about financing increased compensation costs would entail more than merely suggesting where money might be found. In effect, statements about where the money could come from would be statements about what Swarthmore College’s institutional priorities should be. This is an extremely important, indeed unavoidable, matter, but not one to be decided by an ad hoc committee. Discussion of the funding of increased compensation of low-wage staff must be a discussion of College priorities, and that is a discussion that should involve the entire community. Thus, this report says nothing about the funding of the Committee’s recommendations.

**II. What Is the Cost of Living?**

The Committee began by trying to determine the cost of living for people who live and work in Delaware County. We consulted reports by the Economic Policy Institute (EPI) and the Women’s Association for Women’s Alternatives (WAWA), two organizations that developed region-specific estimates of a living costs based on a wide variety of sources, many of them reports from relevant federal agencies. Both the EPI and WAWA provide detailed estimates of cost of living by aggregating estimates of housing costs, transportation, food, childcare, taxes, healthcare, and so on. To arrive at its own estimates, the Committee took these category-by-category estimates and then modified them based on information specific to Swarthmore College’s compensation practices and living costs in the specific communities in which most of the College’s lowest-paid employees live to arrive at its own estimates. It also included an estimate of the costs of purchase and replacement of durable goods, which the other estimates do not.

As should be obvious, the wage required to meet living expenses depends upon one’s family circumstances. Thus, as EPI and WAWA have done, the Committee developed estimates of a living costs for employees in different circumstances. We focused on three categories: a single employee with no dependents, a single employee with one child, and a single employee with two children. Our estimates of the wages it would take (assuming full-time, full-year work hours: 2080 hours/year) to meet living costs (based on 2003 living expenses) are:
Single Employee: $11.72/hour
Single Employee, One Child: $17.53/hour
Single Employee, Two Children: $21.43/hour

Our estimates of expenses, category by category, and our methods of arriving at them, are detailed in the Appendix at the end of this report.

**The differences in the living wage across these three employee categories stem from the costs of caring for children.** These costs can in turn be divided into two distinct categories: the cost of paid childcare, and the cost of feeding, clothing, housing, and educating children. The Committee dubbed these latter costs “child maintenance” expenses. Paying for the costs of childcare requires full time wage equivalents of about $2.64/hour for a preschool child and $1.89/hour for an elementary school child (these numbers are derived from estimates provided by WAWA and also by Carebridge). The particular significance of these childcare and “child maintenance” estimates will become clear shortly. The Committee acknowledged, discussed, but did nothing about the expenses that some employees incur in caring for relatives other than children.

**III. Differential Need: From “Living Wage” to “Living Compensation”**

The costs of meeting basic needs depend on family circumstances. At the same time, the College should not and can not pay different wages based on family circumstances to people doing the same job. What, then, can be done to provide all employees with a wage that is adequate to meet living expenses?

The Committee’s approach to what appears to be an intractable problem was to consider increases in benefits as well as increases in wages. We asked whether there was a way to combine changes in wages with changes in benefits such that wage rates were determined by the work people did but benefits were at least in part determined by family circumstances, so that each employee’s total compensation was adequate to support his or her family.

The two obvious areas of expense to consider as potential benefits were childcare and health insurance, because they are already treated as benefits by many employers as well as the federal tax code, and because they make up such a significant portion of total living expenses. By excluding the costs of childcare and health insurance from the living wage estimates above, the committee arrived at the following revised estimates of the costs of living:

Single Employee: $10.72/hour
Single Employee, One Child: $13.89/hour
Single Employee, Two Children: $15.15/hour
The College could provide equal pay for equal work and at the same time provide for differential needs of people living in different family circumstances by setting the College’s minimum wage based on the three numbers above and also providing a childcare benefit of up to $550 per child per month and a health insurance benefit (to supplement the College’s existing health insurance program) of up to $285 per month.

The question that remained was which of the three numbers above should be set as the College minimum wage. If we set the wage at $10.72/hour, the College minimum compensation would not meet the costs of living of employees with children because $10.72/hour does not include any of the costs associated with maintaining children. If we set the wage at $15.15/hour, virtually everyone would earn enough to meet basic family needs, but many employees would earn far more than the standards we established for their family circumstances. And if we compromised with a wage of $13.89/hour, some employees would be short of meeting basic needs and others would exceed them. The Committee wrestled for many hours at many meetings with this issue, and never reached a consensus about it. We thus present two sets of recommendations, the first endorsed by a majority of the Committee, and the second endorsed by a substantial minority of the Committee:

IV. Recommendations

**Majority Recommendations**

1. The Swarthmore minimum wage should be $10.72/hour.
2. Swarthmore should introduce a new childcare benefit for lowest paid workers of up to $550/month for preschool-age children and $325/month for elementary school age children. The College would pay the actual costs of childcare, up to these maxima. The Committee agreed that whatever tax liability is created by the childcare benefit should be borne by the employees, and not by the College, except for the College’s contribution to FICA.
3. Swarthmore should modify its current health insurance benefits such that lowest paid employees receive full HMO coverage for their families at no cost to them.
4. Both the childcare benefit and the health insurance supplement should be provided to employees whose wages are above the minimum, in amounts determined by a sliding scale that provides full benefit for people earning the College minimum, no benefit for employees earning $7/hour above the College minimum, and linearly decreasing benefit for employees in between.
5. Both the childcare benefit and the health insurance supplement should be means-tested. Since the idea of a living wage is in part need based, provision of extra benefits should be need based. It should be noted that all three family circumstances listed above consist of households with a single adult. The childcare and health insurance needs of families with two adults will be different from any of these cases. If both adults are employed, their combined income may well exceed the cost of living requirements for this region, so that they can meet childcare and health insurance costs out of their wages. If only one adult is employed, then presumably the other adult can provide childcare, so that there is no need for paid childcare. The means testing should be done in as simple
and transparent a way as possible. The Committee recommends that employees who desire these new benefits submit a copy of their federal tax return each year, and that that be used to determine whether employees are eligible, and where on the sliding scale they fit. The Committee urges that access to this financial information be restricted only to those charged with determining benefit eligibility, and that employee privacy be respected as much as possible.

**Minority Recommendations**

1. **Wage Rate.** A substantial minority of the Committee endorses all the above recommendations with the exception of the first. It recommends that the College minimum wage should be $13.89/hour. This group offered several reasons for its position:
   A. While people can survive on less than $13.89/hour, we believe that if they are going to work in this community, they should not have to.
   B. Assuming the College will address issues of wage compression as the Committee has recommended it do (see below), each person whose compensation is affected by either plan will receive a greater raise if the floor is raised to $13.89/hour than they will if the floor is raised to $10.72. In other words, the higher rate allows the College to have a stronger positive effect for every employee in its low and middle wage ranges. We see this greater increase as a more appropriate reflection of how valuable all these employees' work is to the institution.
   C. While our endorsement of the higher wage may have the effect of helping some individuals care more effectively for their families, this is only one of several motivations. Our priority is setting a fair wage, and for us this is accomplished by assigning even greater monetary value to the varieties of work done at the College.

2. **Child Care Subsidy.** If the College implements the recommendations above, its annual cost for childcare for the children of lowest paid employees will be as much as $6600 per child. The Committee considered whether this childcare benefit should be capped at some amount. A majority of the Committee thought that there should be no cap on the childcare benefit, that employees should receive up to $550/month for each preschool-age child and $325/month for each elementary school-age child, subject to means testing (see below). A substantial minority of the Committee (not necessarily overlapping with the minority above) thought that there should be a cap of $5,000 per employee on the childcare benefit. This minority offered several reasons for its position:
   A. The decision to have children is a personal one, and it is not the role of the employer to supply, dollar for dollar, the costs associated with that decision, or any other decision employees might make about how they live their lives.
   B. $5,000 is a generous addition to anyone’s compensation, and, by itself, is a wonderful benefit that no other employer in this area offers.
   C. According to federal tax code, $5,000 is the limit that can be spent on dependent care with tax free dollars. Any subsidy over this amount will be subject to additional tax, making it somewhat more expensive for the College and less valuable for the employee.
Note on tax consequences of these benefit changes: The Federal tax code currently allows up to $5,000 per year in childcare expenses to be sheltered from taxation, when it is put in a dependent care spending account. This is true whether the employee or the employer puts the money into that account. Childcare subsidy above $5,000 would have to be treated as ordinary income and subject to taxation. Thus if an employee received a subsidy of, say, $13,200 for childcare for two preschool-aged children, $8,200 of that would be taxable income. As indicated above, the Committee agreed that whatever tax liability is created by the childcare benefit should be borne by the employees, and not by the College, except for the College’s contribution to FICA.

Sliding Scale of Benefit Eligibility

The Committee recommends that eligibility for these new benefits should not be all-or-nothing, that instead, as wages rise, employees should remain eligible for a fraction of the maximum benefits. There are two reasons for this recommendation. First, having wages rise from, say $11/hour to $12/hour does not suddenly enable one to meet the full costs of childcare and health insurance. And second, all-or-nothing benefits would have the perverse effect on many employees that as their wages rose, their total compensation, and thus their standard of living, would fall. In order to avoid these perverse effects, benefit eligibility must be graduated over a $7/hour wage range. Thus, we propose that as wages go up, employees should be eligible for a linearly decreasing percentage of the maximum total new benefit. Concretely, we propose the following as a possible sliding scale, based on a new college minimum of $10.72/hour:

$11/hour—100% of new benefits
$12/hour—88.5% of new benefits
$13/hour—75% of new benefits
$14/hour—62.5% of new benefits
$15/hour—50% of new benefits
$16/hour—37.5% of new benefits
$17/hour—25% of new benefits
$18/hour—12.5% of new benefits

If, instead, the College minimum is raised to $13.89/hour, then a possible sliding scale would be:

$14/hour—100% of new benefits
$15/hour—88.5% of new benefits
$16/hour—75% of new benefits
$17/hour—62.5% of new benefits
$18/hour—50% of new benefits
$19/hour—37.5% of new benefits
$20/hour—25% of new benefits
$21/hour—12.5% of new benefits
Means Testing

As indicated above, we propose means testing for these additional benefits, primarily to take account of the contributions of a second adult, either to household income or to childcare, but also to take account of independent sources of income. The means testing should be done in as simple and transparent a way as possible, with eligibility determined by a sliding scale analogous to the ones above. The Committee recommends that employees who desire these new benefits submit a copy of their federal tax return each year, and that that be used to determine whether employees are eligible, and where on the sliding scale they fit. The Committee urges that access to this financial information be restricted only to those charged with determining benefit eligibility, and that employee privacy be respected as much as possible.

V. Addressing Wage Compression

When the Staff Compensation Review Committee (SCRC) made its recommendations two years ago, one of the main reasons that it rejected the adoption of a living wage was the problem of “wage compression” that a “living wage” would introduce. Quite simply, wage compression is a reduction in the spread of wages across the wage scale. If the current wage scale among employees who are paid hourly wages runs from, eg., $9/hour to $20/hour, and the minimum is raised to, eg., $13/hour, employees earning more than $13/hour suddenly find themselves earning only slightly more than people they had previously out-earned by a substantial amount. The SCRC judged the wage compression issue to be a daunting stumbling block—large enough to limit what could feasibly be done to improve the compensation of lowest paid workers.

The Committee spent a great deal of time working on the wage compression issue. Wage compression is a complex and vexing matter, shot through with economic assumptions about how accurately prevailing wages reflect what a job is “worth” and psychological assumptions about how much people care about what others around them are earning. One view is that the market in general pays people what their jobs are worth so that “overpaying” at the bottom and decreasing wage differentials is unfair to those higher up on the scale. On this view, whatever increase is provided at the bottom should be continued all the way up the wage scale. A second view is that raising the wages of the lowest paid says nothing about treatment of the higher paid. Raising the floor makes some people better off without making anyone worse off. Psychologically, there is much evidence that people evaluate how they are doing by comparing themselves with those around them, so that subjectively, raising the wages of those at the bottom while doing nothing for those higher up would make higher salaried workers feel worse off. On the other hand, there is evidence that people rather quickly adapt to their relative financial position, so that whereas raising the floor and doing nothing else would create some unhappiness among employees in the short run, they would soon get accustomed to the new wage scale. A final consideration is that all College employees could use a little more money in their paychecks, and that allocation of College resources is to a large
degree a zero-sum game, so that higher paid employees might feel legitimate resentment that a very sizeable amount of College resources went to the lowest paid workers with nothing going to those with slightly higher wages.

Though it would reduce the wage spread to raise the College minimum and do nothing for those earning wages above the new minimum, looked at historically, the new range created would not be dissimilar to what the College wage range was 25 years ago. In other words, like the rest of U.S. society, Swarthmore College has experienced a significant growth of income inequality in the last 25 years. What this fact suggests is that we could think about wage compression as a non-issue and devote our energy to educating the community about what wage differentials have been historically and about the possibility that making someone better off does not make oneself worse off. This view represents one end of a continuum of possibilities about what to do about wage compression.

On the other hand, the Committee was convinced that were the College to ignore wage compression significant morale problems might be created among staff that might not go away as they got accustomed to the new wage schedule. Honoring some employees’ concerns about wage differentials and extending the wage increase throughout the wage scale represents the other end of the continuum.

Still, we are faced with the reality that preventing wage compression as a consequence of raising the College minimum wage could cost the College as much as $4 million a year. Moreover, preventing wage compression would also mean that the bulk of new College resources devoted to compensation enhancement would actually end up going to people who earned more than (in some cases much more) than what is needed to meet basic living costs.

The Committee thus decided that some wage compression was inevitable. But it also decided that something should be done to preserve wage differentials in the interest of staff morale. The Committee recommends that wage decompression be achieved according to the following table. The table below presents a model of decompression assuming that the College minimum wage is raised to $10.72/hour and a model of decompression assuming the College minimum wage is raised to $13.89/hour.
<table>
<thead>
<tr>
<th>Current Rates</th>
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<tr>
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<td>$20.001</td>
<td>$21.37</td>
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</tbody>
</table>

* Employees receive no salary adjustment

This scale is meant to meet two different criteria. First, it is meant to preserve ordinal rankings so that an employee’s relative wage position on the new scale is the same as his or her position on the old one. Second, it is meant to make the wage decompression adjustments smaller as wages go up. Indeed the wage increases for those near the top of the scale are mere token increases. However, it should be remembered that many of these employees will also be eligible for some fraction of the childcare benefit and health insurance supplement discussed in Section IV above.

**VI. Commentary**

Given the expense involved in adopting a policy that compensation should be adequate to meet basic needs, and the multiple demands on College resources that are always present, there seem to be three reasonable goals that any new policy should strive to meet:

1. All employees receive compensation that meets basic needs.
2. All new resources committed to the new compensation program are directed at those whose compensation was previously inadequate to meet basic needs.
3. Goals (1) and (2) be met while conserving College resources to the greatest extent possible.

We have recommended that the childcare benefit and health insurance supplement be means tested, as a way of conserving College resources, and insuring that College resources go where they are most needed.

Achieving the first goal would mean that we met our fundamental objective, and achieving the second goal would mean that we did so without being careless with College
resources. The recommendations in Sections IV and V meet neither of these goals fully. They do not meet the goal of providing adequate compensation for employees living as the only adult in families with children, though they go a long way in that direction. And they do not meet the goal of targeting all new resources to the lowest paid employees, because of both the wage decompression recommendation and the sliding scale of eligibility for childcare benefits and health insurance supplements.

The $10.72 and $13.89 targets for a College minimum wage represent two different compromise approaches to the goals just identified. A wage of $10.72 as the college minimum is obviously much more affordable to the College than a wage of $13.89. In addition, it meets the needs of employees without children. However, a $10.72 wage fails to meet the needs of employees with children.

A wage of $13.89 meets the needs of employees with one child. However, it fails to meet the needs of employees with more than one child, and it exceeds the needs of employees with no children. It represents an effort to meet the needs of the “average” employee, with the understanding that shooting for “averages” will of necessity miss the mark, both undershooting and overshooting, for many individuals.

Our divided views about whether childcare benefits should be capped also represent two different compromise approaches to the Committee’s goals. A cap on childcare of $5,000 will reduce costs to the College while still going a long way toward meeting the needs of employees. However, it will also leave all employees with children short of meeting basic needs, and it will leave employees with multiple children, substantially short of meeting basic needs.

We adopted sliding scales for provision of childcare benefits and health insurance supplements because many employees who earn wages above $10.72 or $13.89 will still be well below meeting basic needs if they have families. In addition, the sliding scale extends fairly high up the wage structure because otherwise, employees would often face situations in which they earned a raise in pay but their total compensation went down. For example, if a pay raise of $1/hour costs an employee a childcare subsidy of $1.50/hour, the pay raise actually makes the employee worse off. To prevent these perverse consequences of pay raises, the rate at which the new benefits decrease must be quite slow.

Finally, we wish to acknowledge again that there is a wide range of family circumstances other than childcare that place financial burdens on employees. Many employees bear financial and other responsibilities for parents and other elderly relatives. Some employees may share in the costs of raising nieces and nephews or provide financial assistance to siblings. The range of responsibilities that many wage earners have in modern America is almost endless. However, the Committee thinks it ill-advised to introduce complexities of this sort at the start of a program that already has many complexities that need to be negotiated.
VII. The Costs

The Committee undertook to estimate the costs to the College of this series of recommendations. The costs associated with wage changes are easy to estimate. The costs associated with benefit changes are much more difficult to estimate. How many children do our relevant employees have? How old are they? Will they be eligible for the childcare benefit after means testing? And will the health insurance supplement encourage some people who currently have insurance only for themselves to insure their families? Will it encourage other people to switch insurance coverage from their spouse’s employer to the College? The Committee did its best to estimate the number of covered children both by surveying employees informally and by examining demographic data. It could not, however, assess the consequences of means testing. With regard to health insurance, the Committee assumed the financial worst: that every eligible employee would choose family HMO coverage through the College. So the estimates for benefits presented below are the highest possible estimates. It is likely that means testing will make the costs of childcare and the health insurance supplement significantly lower, even if all employees elect to participate in both programs. An informal survey of employees last year indicated that 80% of employees with children have partners. This suggests that means testing will reduce the costs of childcare and health insurance considerably. Here, then, are our estimated annual costs, all of them approximate:

1. Annual cost of raising the minimum wage
   a. To $10.72/hour $90,000
   b. To $13.89/hour $575,000

2. Annual cost of responding to wage compression
   a. Minimum of $10.72/hour $528,000
   b. Minimum of $13.89/hour $968,000

3. Annual cost of childcare*
   a. $10.72/hour minimum and sliding scale to $18 $256,000
   b. $13.89/hour minimum and sliding scale to $21 $342,000
   c. $5000/employee cap and sliding scale to $18 $193,000

4. Annual cost of childcare—means tested*
   a. $10.72/hour minimum and sliding scale to $18 $96,000
   b. $13.89/hour minimum and sliding scale to $21 $205,000
   c. $5000/employee cap and sliding scale to $18 $73,000

5. Annual cost of health insurance**
   a. $10.72/hour minimum and sliding scale to $18 $90,000
   b. $13.89/hour minimum and sliding scale to $21 $135,000
* Calculated without wage changes due to wage compression adjustments

** Calculated without means testing based on current usage. We assume that there will be an increase in the number of people who elect College health insurance, so we assumed full benefits for all as a way of allowing for this increased participation.

Note 1: Not included here are potential administrative costs that would be incurred by Human Resources for overseeing the implementation of these recommendations. It seems to the Committee quite likely that an increase in personnel would be necessary.

Also not included are the increased FICA costs, which are 7.65% of the additional payroll amount and retirement contributions, which are 8% for those employees who are eligible for this benefit.

Note 2: The Benefit Bank: If the College adopts the compensation policies outlined here, the function of the Benefit Bank will change dramatically, since low wage employees will have childcare and health insurance completely or substantially covered, and moderate wage employees will have a significant fraction of those costs covered. Thus, the Committee believes that adoption of these compensation policies may result in a reassessment of existing benefit coverage.

VIII. Future Adjustments in Compensation of the Lowest Paid

The Committee recommends that the College minimum wage and the childcare benefit be adjusted annually for inflation, so that they maintain their real value over time. The health insurance supplement should keep pace with annual increases in health insurance premiums to the College. But in addition to this, periodically (perhaps every five years), the more complex calculations of the costs of meeting basic needs should be reviewed, and the College minimum should be adjusted accordingly. It is convenient but almost certainly false to assume that changes in the national cost of living, aggregated over all regions of the country and all points on the income scale, is a decent proxy for local changes in the cost of living faced by low-income employees. Even if the discrepancies are small, it should be kept in mind that for people living on the edge of financial viability, even small drops in real income can be very significant.

IX. Challenges of Unintended Negative Consequences

As the question of a living wage has been discussed in the last few years at the College, concerned community members have identified a variety of potential unintended consequences that could have negative effects on the lowest paid employees at the College. The Committee took these possibilities quite seriously. In this section of the report, we identify and address them.
A. Job Loss

The potential problem is that as the wage bill goes up, the College may substitute capital for labor, or make do with fewer employees. Even if the College didn’t fire people, as time went by perhaps not all people who left would be replaced. We don’t want to make it impossible to cut jobs at times when the College’s needs really change, but we do want to make sure that implementation of the recommended compensation changes doesn’t cause any such job loss. To a large extent, we have to count on the College’s good will that barring financial emergency, job reduction, should it occur, will be driven by changes in College needs rather than efforts to save money. In addition the College can minimize wage/operations tradeoffs from all but the highest level College administrators by adopting a procedure for budgeting in which each department has separate budgets for personnel and operations, so that tradeoffs between people and other expenses are not made by any but the highest level administrators. We understand that this is already the structure of budgeting at the College, but we want to articulate it as a principle the College should continue to uphold. Only senior staff should be able to make a decision to cut the workforce.

B. Qualification creep

The concern here is that as Swarthmore compensation diverges further from the market, College jobs will become attractive to people who have opportunities to make this level of wage elsewhere—that is, people with more extensive qualifications and/or more experience. These applicants could crowd out many people who would have been likely to be hired by the College had wages been lower, types of persons whose opportunities for employment at the College we would like to maintain. The task here is to adopt and maintain hiring criteria that match people to jobs so that employees won’t be overqualified and in the longer term, dissatisfied with the work they have to do. Relevant experience should still be considered, but there should be no presumption that the more formal education a person has, the more qualified he or she is for a particular job.

C. Discrimination against people with families

If the College implements some benefits that only workers with dependents will receive, we want assure that nowhere in the hiring process does this create a pressure to hire people without dependents in order to save the College money.

D. Contracting out for services

We want to ensure that contracting jobs out to private vendors is not a means for the College to get around the enhanced low-wage compensation policy in order to save money. The Committee’s view is that it would be unacceptable to turn to outside contractors in response to implementation of the kind of compensation policy we are recommending.

E. Loss of federal low-wage benefits

Finally, a concern that has been raised as living wage policies have been discussed on the campus is that a consequence of raising the wages of low paid workers can be to decrease their eligibility for certain means-tested benefits, most notable the Earned Income Tax Credit (EITC). The concern, in other words, is that raising the wages
of low-paid employees could shift expenses from the government to the College, without making employees better off. There are a few things to be said about this concern. First, we have no way of knowing whether all employees eligible for participation in government programs actually take advantage of them, so it is hard to judge what proportion of employees would be affected by the interaction of increased compensation and the EITC. Second, unless the tradeoff between the raise provided by the College and the EITC benefit is very high (in principle, the reduction in EITC benefit, combined with other tax increases, could even be greater than 100% of the earnings increase, actually making employees worse off), this issue is not really different from one the College faces every year when it raises the salaries of employees only to see a fraction of those raises go to various levels of government in the form of taxation. In other words, College raises are never 100% “efficient” in raising employee living standards. But the rate of reduction of EITC benefits as earnings increase in certain ranges is much higher than the tax rate in these ranges, and thus deserves some careful attention.

The Committee undertook to estimate how increases in wages would affect EITC benefit levels. The answer to this question depends on both specific wage levels and specific family circumstances, but here are some illustrative examples.

One Parent, One Child
1. Raise wages from $9 to $11: Gross wages go up $4160 per year and EITC goes down $664.
2. Raise wages from $11 to $13: Gross wages go up $4160 per year and EITC goes down $664.
3. Raise wages from $13 to $15: Gross wages go up $4160 per year and EITC goes down $664.

Two Parents, Two Children
1. Raise wages from $9 to $11: Gross wages go up $4160 per year and EITC goes down $876.
2. Raise wages from $11 to $13: Gross wages go up $4160 per year and EITC goes down $876.

Thus it is clear that employees will be made substantially better off by a wage increase even when decreases in EITC benefits are factored in. And please note that the figures above do not include benefits to employees of either the proposed childcare benefit or the health insurance supplement.

Recommendation: The Committee believes that tracking and minimizing the potential unintended negative consequences of the sort identified above is, ultimately, a responsibility of College administration and the Board of Managers. However, we also believe that an advisory committee may be helpful in setting and monitoring standards and guidelines for each of these problem areas, as well as in receiving information on an annual basis and helping to determine whether corrective action needs to be taken. Thus, we propose the creation of a multiconstituency Employment Practices Advisory
Committee that considers changes in the workforce. The Committee’s primary concern would be to ensure that the College’s employment principles—as articulated in this report and elsewhere—remain central to its practice. As a standing committee, it would have the opportunity to monitor the overall patterns in the College’s practices over time, and its members would be able to bring that long-term perspective to all specific decisions. The Committee would normally discharge its responsibilities by participating in the Board of Managers’ annual review of College employment practices with the Human Resources Department.

X. The Place of a New Compensation Policy in the College’s Mission

As indicated in Part I of this report, when the Committee contemplated making recommendations about how increased compensation at the lowest wage levels might be funded, it quickly realized that any such recommendations would entail more than just the identification of potential sources of money. They would amount to recommendations about how the College should set priorities, about how the compensation of staff relates to the central mission of the College. The Committee agreed unanimously that this is a matter for the entire community to work through. Committee members may have special knowledge of the intricacies of the living wage issue that would lead it to speak, as a body, to the community, but it has no special knowledge about College priorities and College mission. So whereas many members of the Committee are eager to speak as individuals about the centrality of a living wage to the College’s mission, and will do so when the opportunity arises, the Committee as a whole will not speak to the issue in this report.

XII. Members of the Committee

<table>
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<tr>
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<tbody>
<tr>
<td>Melanie Young</td>
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<tr>
<td>Barry Schwartz</td>
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<td>Carolyn Evans</td>
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<td>Lynn Grady</td>
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<td>Jeff Jaquith</td>
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<td>Debra Kardon-Brown</td>
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<td>Gary Morrisey</td>
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<td>Andre Singleton</td>
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<td>Aurora Camacho de Schmidt</td>
<td>Bob DuPlessis</td>
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<td>Charles Grinstead</td>
<td>Rob Hollister</td>
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<td>Rob Hollister</td>
<td>Sarah Willie</td>
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<tr>
<td>Al Bradbury</td>
<td>Bernadette Baird-Zairs</td>
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<td>Emily Brown</td>
<td>Al Bradbury</td>
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<tr>
<td>Rachel Burstein</td>
<td>Stefanie Fox</td>
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<tr>
<td>Andy Zuppann</td>
<td>Nate Wessler</td>
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</tbody>
</table>
Appendix . Determining the Costs of Living

The Committee began with two sets of data on basic needs budgets local to our area: the organization then called the Women’s Association for Women’s Alternatives, or WAWA (their name has recently changed to PathWaysPA, Inc.), and the Economic Policy Institute, or EPI. We drew more of our data from WAWA because their report, *The Self-Sufficiency Standard for Pennsylvania*, includes data specific to Delaware County and was published more recently, in 2001. The most recent EPI data was current in 1999 and specific to Philadelphia. However, EPI served as an important secondary source, especially for information on methods of calculating particular budget lines. The first table below shows the data from WAWA and EPI with which we began the process. Below that we delineate the sources and rationale for the choices we made about each line. The Appendix concludes with the final table of figures by which the Committee agreed to define living wage levels for the purposes of our recommendation.

Starting Point: Local Figures for Basic Needs Budgets from WAWA and EPI (in dollars)

<table>
<thead>
<tr>
<th></th>
<th>One adult</th>
<th>One adult + one child</th>
<th>One adult + two children</th>
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</thead>
<tbody>
<tr>
<td><strong>Housing</strong></td>
<td>657</td>
<td>722</td>
<td>812</td>
</tr>
<tr>
<td><strong>Food</strong></td>
<td>168</td>
<td>230</td>
<td>255</td>
</tr>
<tr>
<td><strong>Child care</strong></td>
<td>0</td>
<td>514</td>
<td>572</td>
</tr>
<tr>
<td><strong>Transportation</strong></td>
<td>255</td>
<td>157</td>
<td>293</td>
</tr>
<tr>
<td><strong>Health care</strong></td>
<td>79</td>
<td>178</td>
<td>179</td>
</tr>
<tr>
<td><strong>Taxes</strong></td>
<td>341</td>
<td>407</td>
<td>529</td>
</tr>
<tr>
<td><strong>Other/miscellaneous</strong></td>
<td>116</td>
<td>295</td>
<td>211</td>
</tr>
<tr>
<td><strong>Monthly total</strong></td>
<td>1617</td>
<td>2503</td>
<td>2852</td>
</tr>
<tr>
<td><strong>Hourly wage equivalent</strong></td>
<td>9.19</td>
<td>14.22</td>
<td>16.21</td>
</tr>
</tbody>
</table>

**Housing**

WAWA’s housing numbers referred to the Fiscal Year 2001 Fair Market Rents, published each year by the U.S. Department of Housing and Urban Development and specific to particular metropolitan housing markets and non-metropolitan housing surveys. WAWA states that the fair market rents “are intended to reflect the cost of housing that meets minimum standards of decency, but is not luxurious.”2 They are calculated as the 40th percentile cost of a given size unit of housing in the area. However, some on the Committee argued that WAWA’s overall Delaware County figures for

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1 WAWA provides figures for various ages of children. We assumed children to be of preschool age, which is the most expensive stage of childhood.
housing might be higher than necessary for our purposes, since many staff members live in the lower-cost areas of the county. The Committee agreed to use these lower figures for housing, in part as a compromise at the same time we decided to add the category of durable goods into the budget. A Committee member examined data on zip codes in which staff members reside and found that while no single zip code represented a majority of the staff, Chester (19013) had a plurality of employees. A survey of rental properties provided by the Delaware Housing Authority was used to calculate a weighted average of the top five zip codes based on the number of College employees living in each. The resulting figures were $585 for a one-bedroom unit (assumed to be the appropriate size for one adult) and $774 for a two-bedroom unit (assumed to be the appropriate size for one adult with one or two children). Because a relatively small number of data were available for Swarthmore (19081, where 15 employees live) the Committee member also calculated the average with Swarthmore excluded, and the Committee decided to use these slightly lower figures, as shown below.

<table>
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<tr>
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<th>One adult</th>
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<th>One adult + two children</th>
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<tbody>
<tr>
<td>Housing</td>
<td>545</td>
<td>766</td>
<td>766</td>
</tr>
</tbody>
</table>

**Food**

Both WAWA and the Economic Policy Institute) use the Low-Cost Food Plan published by the United States Department of Agriculture. The USDA figures represent the average for the country. There were reasons to think this figures might be low for our area. A Committee member learned that in the Philadelphia area, groceries cost about 105.1% of the national average. Additionally, considerations like the type of store available can affect the price tag of the Low-Cost Food Plan. As noted in a study from the Journal of Nutrition Education, food from small grocery stores often costs more than food from supermarkets. Unfortunately, as noted in a recent Philadelphia Inquirer article, the lack of supermarkets is a serious problem in many poor communities, and the problem is particularly severe in our region. The Committee decided to take the conservative approach of addressing only the first problem, multiplying the USDA’s food figures by 105.1% to make them specific to the Philadelphia region.

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<th>One adult</th>
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<th>One adult + two children</th>
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<tbody>
<tr>
<td>Food</td>
<td>177</td>
<td>268</td>
<td>356</td>
</tr>
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</table>

**Child Care**

When the Committee decided to recommend a full child-care subsidy for the

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4 “Comparing the cost of a Thrifty Food Plan market basket in three areas of New York state.” Journal of Nutrition Education, Jan-Feb 1992, v 24, n1 p71S (Infotrac)
College’s lowest-paid employees, we reasoned that the costs of child care would no longer need to be included in our calculation of a wage rate. Of course, this means that the Committee’s recommended wage level is contingent upon its recommendation of a child care subsidy.

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<th>One adult + one child</th>
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<tbody>
<tr>
<td>Child care</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
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</table>

**Transportation**

The Committee used WAWA’s figures for transportation. WAWA assumed that workers must use cars for transportation because studies showed that in Delaware County the numbers of workers using public transportation to get to work were not substantial. WAWA figured in the costs of auto insurance, relevant taxes, gas, and maintenance, but did not include the cost of buying the car itself.

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<th>One adult + two children</th>
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<tbody>
<tr>
<td>Transportation</td>
<td>255</td>
<td>293</td>
<td>293</td>
</tr>
</tbody>
</table>

**Health Care**

The Committee broke the category of health care down into two categories to describe the College’s health care situation. The first line reflects the costs of health insurance under the current Benefit Bank system. The second reflects average monthly costs of co-payments and prescriptions among Swarthmore employees.

<table>
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<th>One adult</th>
<th>One adult + one child</th>
<th>One adult + two children</th>
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</thead>
<tbody>
<tr>
<td>Health insurance</td>
<td>0</td>
<td>0</td>
<td>53</td>
</tr>
<tr>
<td>Co-payments and prescriptions</td>
<td>8</td>
<td>14</td>
<td>20</td>
</tr>
</tbody>
</table>

**Taxes**

Taxes were calculated on the basis of the increases in compensation estimated by the living cost figures and childcare subsidies, using the relevant tax tables.

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<tbody>
<tr>
<td>Taxes</td>
<td>360</td>
<td>460</td>
<td>494</td>
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</table>

**Durable Goods**

Although neither WAWA nor the Economic Policy Institute included this category, some basic budget calculations do include a category for durable goods, meaning items such as furniture and major appliances that are necessary but need not be purchased on every month. The Committee decided to include this category in our
calculations. (On the other hand, we decided not to include money for a number of other
categories of costs that some Committee members advocated factoring in, including
emergencies, education costs, and savings.) A Committee member used figures from the
2001 Consumer Expenditure Survey, conducted by the Bureau of Labor Statistics in
2001, to determine the average amounts of money spent on vehicle purchases, furnishings
and appliances in the general income bracket corresponding to the living wage level we
were setting. These became the durable goods figures.

<table>
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<th>One adult</th>
<th>One adult + one child</th>
<th>One adult + two children</th>
</tr>
</thead>
<tbody>
<tr>
<td>Durable goods</td>
<td>203</td>
<td>203</td>
<td>203</td>
</tr>
</tbody>
</table>

**Other/Miscellaneous**

The Committee chose to use the Economic Policy Institute’s method for
calculating the costs of miscellaneous items, because their method seemed more
comprehensive than the one used by WAWA. The EPI broke this category down into
subcategories: Telephone, Clothing & Personal Care, Household Supplies, and
Entertainment (includes television, music, and toys, but not pets, video rentals, movies, or
sporting-related expenses). They then used a Federal Communications Commission
study and the Bureau of Labor Statistics’ Consumer Expenditures Survey to estimate the
percentage of the combined housing and food budget that these items actually make up
for the lowest quintile of consumers. They concluded that these categories of spending
were equal to 28.5% of the sum of the housing and food budgets. We applied this
formula to the WAWA numbers for housing and food.

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<th>One adult</th>
<th>One adult + one child</th>
<th>One adult + two children</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other/miscellaneous</td>
<td>236</td>
<td>307</td>
<td>332</td>
</tr>
</tbody>
</table>

**Inflation**

WAWA’s report was published in September 2001. We made a rough calculation
of the effects of inflation since then by using the CPI-W, the Consumer Price Index –
Urban Wage Earners and Clerical Workers, for the Philadelphia-Wilmington-Atlantic
City area, as published by the Bureau of Labor Statistics. According to this measure,
from October 2001 to October 2003, inflation increased prices by about 4.3%. Therefore,
multiplying the wage figure by 104.3% gave us an approximation of the equivalent value
in 2003 dollars.
Final Recommendation: Living Wage Assuming a Full Child-Care Subsidy (in dollars)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Housing</td>
<td>545</td>
<td>766</td>
<td>766</td>
</tr>
<tr>
<td>Food</td>
<td>177</td>
<td>268</td>
<td>356</td>
</tr>
<tr>
<td>Child care</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Transportation</td>
<td>255</td>
<td>293</td>
<td>293</td>
</tr>
<tr>
<td>Health insurance</td>
<td>0</td>
<td>0</td>
<td>53</td>
</tr>
<tr>
<td>Co-pays &amp; prescrips.</td>
<td>8</td>
<td>14</td>
<td>20</td>
</tr>
<tr>
<td>Taxes</td>
<td>360</td>
<td>460</td>
<td>494</td>
</tr>
<tr>
<td>Durable goods</td>
<td>203</td>
<td>203</td>
<td>203</td>
</tr>
<tr>
<td>Other/miscellaneous</td>
<td>236</td>
<td>307</td>
<td>332</td>
</tr>
<tr>
<td>Monthly total</td>
<td>1784</td>
<td>2311</td>
<td>2517</td>
</tr>
<tr>
<td>Hourly wage equivalent (2001)</td>
<td>10.29</td>
<td>13.33</td>
<td>14.52</td>
</tr>
<tr>
<td>Hourly wage equivalent, adjusted for inflation (2003)</td>
<td>10.73</td>
<td>13.90</td>
<td>15.14</td>
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