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Policy Brief

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California health care minimum wage: New estimates for impacts on workers, patients, and the state budget

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In October 2023, Governor Newsom signed Senate Bill 525, which will increase the minimum wage for health care workers to $25 per hour in the coming years.[1] The law sets a minimum wage for workers at most health care facilities — such as general and surgical hospitals, psychiatric hospitals, outpatient clinics, offices of physicians, and home health agencies. Workers in Skilled Nursing Facilities (SNFs) will only receive the wage increases if a separate law enacting an SNF patient care minimum spending requirement is enacted. The minimum wage applies to all low-wage workers employed by covered facilities regardless of job title — for example, medical assistants, certified nursing assistants, dietary service workers, and housekeepers — in addition to contracted and subcontracted workers if they work primarily on the premises of covered health facilities.

Wage increases will begin in June 2024 and reach the $25 minimum standard in 2026, 2027, or 2028 for the vast majority of California health care workers affected by the law. The schedule for reaching the $25 minimum hourly wage depends on industry, employer size, and other employer characteristics. For example, the $25 minimum wage is required by mid-2026 for large health systems with 10,000 full-time equivalent employees or more, dialysis clinics, and Los Angeles County health facilities, and not until 2033 for hospitals in rural areas and those predominantly providing care to Medi-Cal and Medicare patients.

This brief analyzes the impact the law is projected to have on workers, patients, and the state budget in the first year of the policy. It is an update of our June 2023 brief "Proposed health care minimum wage increase: State costs would be offset by reduced reliance on the public safety net by health workers and their families,"[2] and also builds on our April 2023 brief "Proposed health care minimum wage increase: What it would mean for workers, patients, and industry,"[3] both of which analyzed preliminary versions of the bill.

In his January 2024 budget proposal, Governor Newsom asked the Legislature to "add an annual 'trigger' to make the minimum wage increases subject to General Fund revenue availability, clarify the exemption for state facilities, and make other implementation clarifications."[4] State policymakers' discussions of possible changes to the law are still ongoing; therefore, the estimates in this brief reflect the provisions in the law as enacted in October 2023.

Impacts on workers and patients

We estimate that up to 426,000 California workers are projected to see an average annual earnings increase of $6,400 in the first year of the policy, representing a 19% increase on average compared to projected wage growth without the law. The average cumulative pay increase is projected to grow to 25% by the fourth year of implementation. The law will predominantly benefit workers of color and women, many of whom are currently struggling to make ends meet, as reported in our April 2023 brief.

The estimated number of workers affected by the law includes 322,000 workers (76%) employed directly by health care facilities and earning below the minimum standards, and 76,000 workers (18%) who will receive indirect wage increases due to spillover effects on the wages of workers in the same facilities earning somewhat above the new minimum wage. We include spillover effects for workers making up to $3 per hour above each new minimum wage based on the evidence in the economics literature,[5] and assume that indirectly affected workers will receive a quarter of the difference between their current wage and the new minimum wage. We estimate an additional 28,000 contracted workers (7%) will also receive increases because they work on-site at health care facilities and are employed by contractors such as janitorial or security firms.

We do not include estimates of horizontal wage spillover effects that could potentially materialize as a result of health facilities in the same geographic region being subject to different SB 525 implementation timelines. In other words, to what extent would health facilities with a lower minimum wage raise pay beyond what is required in the law in order to compete for workers with health facilities paying a higher new minimum wage? There is surprisingly little evidence of significant horizontal wage spillover effects in the United States.[6] A study of pay for nurses at Veterans Administration hospitals found that for every dollar wage increase, nurses at hospitals within 15 miles received a 20-cent increase in pay, and those 15 to 30 miles away received an increase of 10 cents.[7] These effects are smaller than what would already be required by the SB 525 wage schedule for employers that are given a longer timeline to reach a $25 minimum pay rate.

Increasing health care worker pay will also help to address worker shortages, turnover, and morale and improve patient care. Research has associated higher pay, reductions in worker turnover, and improved staffing levels with better quality of care for consumers, as summarized in our April 2023 brief.

Impact on the state budget

Total health care expenditures in California are projected to increase by 0.5%, or $2.7 billion, in the first year of the law, due to increased labor costs. The state will bear only a fraction of these increased expenditures through its roles as the employer of certain health care workers, the purchaser of health benefits for state employees, and the payer of Medi-Cal benefits alongside the federal government. Our estimate of the net state budget impact–up to the low hundreds of millions of dollars in Fiscal Year 2025–is summarized in Exhibit 1 and discussed in the following sections. An appendix comprehensively and systematically details our methodology and includes estimated state expenditures through Fiscal Year 2028.[8]

The estimated increase in total health care expenditures includes the wage increases for all affected workers and the associated increases in payroll taxes, workers compensation, and retirement contributions; there are also some estimated offsets due to savings for employers from lower turnover. Our cost estimate conservatively includes wage increases for Kaiser Permanente workers even though, prior to the enactment of Senate Bill 525, Kaiser Permanente and the Coalition of Kaiser Permanente Unions agreed to a contract that increases the minimum wages for these California workers on a schedule mirroring the schedule in the law.[9]

Exhibit 1: Estimated state General Fund budget impacts of increases in the minimum wage for health care workers, Fiscal Year 2025 (2024 dollars)

State costs	
+ Up to $218 million	Hypothetical maximum increase in Medi-Cal payments to affected health sectors other than SNFs; no requirements in law to adjust payments, cost depends on how state chooses to adjust provider or managed care rates
+ $128 million	Increased SNF reimbursement if minimum patient care spending law enacted by 7/1/24
+ $15 million	Increased state costs for higher CalPERS premiums
+ $7 million	Increased wages for state employees at 12 covered health facilities
State savings	
– Low hundreds of millions	Medi-Cal caseload savings due to the health care minimum wage reducing health care workers and their families' need to rely on Medi-Cal
– Unknown amount	Potential increases in sales and income tax revenue to the extent there is a net increase in federal health care payments to the state
Net state budget impact	
= Up to low hundreds of millions of dollars, depending on state decisions	

Source: UC Berkeley Labor Center analysis. See the Appendix, "Data and methods for estimating the effects of SB 525 on workers and the California budget," https://laborcenter.berkeley.edu/data-and-methods-health-care-minimum-wage-february-2024/, for sources and methods.

State costs

The health care minimum wage law does not establish any specific requirements for changing Medi-Cal managed care and/or provider rates. If the state decides to increase Medi-Cal rates, the Medi-Cal share of the increase in labor costs should only reflect a fraction of the overall increase in total health care expenditures due to the law given that the state- and federally-funded Medi-Cal program paid for 20.6% of California personal health care expenditures in 2019, according to Center for Medicaid and Medicaid Services estimates.[10]

If the state decides to immediately cover the entire Medi-Cal share of the labor cost increase for Medi-Cal providers other than SNFs (the distinct context for SNFs is discussed below), state General Fund spending could increase by up to $218 million in the first year, growing to $278 million by the fourth year. This is a hypothetical maximum estimate that is not specific to any particular mechanism for increasing provider rates. The state cost could be substantially less depending on how and when the Department of Health Care Services adjusts Medi-Cal payments to managed care plans, and fee-for-service payments to hospitals, clinics, or other health care entities to reflect the increased labor costs. Our estimate of the Medi-Cal General Fund impact reflects sector-specific assumptions about the share of expenditures paid by Medi-Cal, ranging from between 15% and 41% for sectors other than SNFs. The federal government pays between 51% and 64% of Medi-Cal expenditures, also varying by health sector.

We estimate the state budget impact related to SNFs separately due to two factors unique to this health facility type. First, longstanding California law requires the Medi-Cal program to increase the SNF reimbursement rate to reflect the Medi-Cal share of costs for new state or federal mandates, including increases in the minimum wage.[11] This means that there is more certainty in how SNFs will be reimbursed for increased labor costs than there is for other health care facility types. Second, the vast majority of SNFs are not subject to the health care minimum wage law unless a patient care minimum spending requirement is enacted in law.[12] If the Legislature passes and the Governor signs a law requiring a particular level of minimum spending on patient care before July 1, 2024, the state cost to increase daily rates to reflect the minimum wage is estimated to be $128 million in the first year of SB 525 implementation, growing to $149 million in the fourth year.

State spending on CalPERS health insurance premiums could increase assuming that the increase in labor costs is passed through to CalPERS premiums and ultimately to the state.

The state cost to increase wages for state employees will be limited because the law only applies to certain types of health facilities and the law excludes the Department of State Hospitals. We identified 12 state-owned health facilities covered by the law, but the scope could change if the law is amended.

State savings

Our April 2023 brief found that health care workers affected by the new minimum wage are less likely to have job-based health coverage than those who earn higher wages. In our June 2023 brief we estimate that almost half of low-wage health workers and their families rely on one or more safety net programs, including Medi-Cal, CalFresh, CalWORKS, and the Federal Earned Income Tax Credit. We found that an estimated 216,000 health care workers who would receive a wage increase with a $25 hourly minimum wage currently have at least one adult in their household enrolled in Medi-Cal and 85,000 have at least one child enrolled. Once the health care minimum wage reaches $25 per hour, most health care workers and their spouses currently enrolled in Medi-Cal will lose this eligibility and will instead become eligible for federally-subsidized insurance through Covered California or will enroll in job-based coverage that they now may be better able to afford. Some children of affected health care workers may lose their Medi-Cal eligibility but the odds of this are low given the higher income eligibility threshold for children.

We estimate that the state and federal government pay a combined $1.66 billion per year (2024 dollars) on Medi-Cal benefits for health care workers (along with their spouses) who would get an increase under SB 525, with the state paying an estimated $731 million of this total. Once the minimum wage reaches $25 per hour, most affected health care workers are likely to have income too high to be eligible for Medi-Cal, except for those who are the sole earners in their households and are working a limited number of hours per week. Estimating a precise amount for year-by-year savings is complex given the multi-year phase-in of the enacted law and that the wage schedule varies based on industry and other employer characteristics. However, it is likely that first-year savings could be in the low hundreds of millions since the largest average wage increase occurs in the first year, with savings growing in subsequent years as the minimum wage approaches $25 per hour. This estimate also considers that the savings due to each wage increase will phase in over the 12-month period following each increase as Medi-Cal eligibility changes are typically determined during the annual renewal process and redeterminations are spread over 12 months.

For the workers who shift from Medi-Cal to Covered California, the federal government will cover the majority of premium costs and households will pay the remainder. Many workers with income just above the Medi-Cal eligibility threshold will pay no premium in Covered California, and others will pay small amounts. Private employers will pay the majority of premiums for workers who newly enroll in job-based coverage after declining that coverage when eligible for Medi-Cal. While workers will face increased health care costs compared to Medi-Cal, in most cases the costs will be much lower than the wage increase they receive. To the extent that health care workers newly enroll in job-based coverage, it could have an indirect cost to the state if the state aims to fully reimburse facilities for the Medi-Cal share of the higher labor costs that result from the law.

The state would likely see an increase in sales and incomes tax revenue insofar as the law results in net new federal dollars coming into the state due to increased Medi-Cal matching funds to reflect higher provider payments. New federal Medicare dollars are difficult to estimate, but Medicare rates would eventually adjust to at least partially reflect the higher wages paid in the state due to the Medicare wage index.[13]

Conclusion

In summary, the new health care minimum wage law, as signed in October 2023, is estimated to increase wages for up to 426,000 California health care workers by an average of $6,400 per year in the first year of the policy alone. This new minimum wage policy will not only increase health care workers' wages and reduce their reliance on public safety net programs, it will also help to address worker shortages, turnover, and morale, and improve patient care. Medi-Cal caseload savings would partially offset state cost increases related to potential increased Medi-Cal payments to providers and increased costs for the wages and benefits of low-wage state employees working in health facilities and affected by the law.

Endnotes

1 California Senate Bill 525. https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240SB525.

2 Lucia, L., Lopezlira, E., Jacobs, K., and Hunter, S. "Proposed health care minimum wage increase: State costs would be offset by reduced reliance on the public safety net by health workers and their families." UC Berkeley Labor Center. June 2023. https://laborcenter.berkeley.edu/health-care-minimum-wage-state-budget/.

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4 Governor Gavin Newsom, Governor's Budget Summary. January 2024. https://ebudget.ca.gov/2024-25/pdf/BudgetSummary/FullBudgetSummary.pdf.

5 Cengiz, D., Dube, A., Lindner, A., and Zipperer, B. "The Effect of Minimum Wages on Low-Wage Jobs." *The Quarterly Journal of Economics*, August 2019 134(3), 1405–1454. https://academic.oup.com/qje/article/134/3/1405/5484905.

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10 U.S. Center for Medicare and Medicaid Services. "Health Expenditures by State of Residence, 1991-2020." Accessed January 2, 2024.

11 California Welfare and Institutions Code 14126-14126.036.

12 Assembly Bill 1537 proposes such a requirement. https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240AB1537.

13 "Chapter 9: Reforming Medicare's Wage Index Systems (June 2023 Report) – MedPAC." Accessed June 22, 2023. https://www.medpac.gov/document/chapter-9-reforming-medicares-wage-index-systems-june-2023-report/.

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