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# Policy Brief

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# Estimating the impact of California's $20 fast-food minimum wage on Medi-Cal eligibility

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## Introduction

California's AB 1228 took effect on April 1, 2024, increasing the minimum wage for many of the state's fast-food workers to $20 an hour. The legislation also established an 11-member Fast Food Council, made up of employers, workers, and government representatives, charged with creating standards for wages, working conditions, and training in the industry. AB 1228 aims to improve job quality in an industry that employs over 700,000 people in the state, a sizable number of whom experience low pay, underemployment, irregular work schedules, wage theft, and health and safety issues (Huang et al. 2021; Schneider and Harknett 2022). These experiences are disproportionately felt by women and workers of color, who make up a majority of the fast-food workforce in California (Huang et al. 2021).

Early research on the effects of AB 1228 shows the new minimum wage increased fast-food workers' wages, while modestly increasing prices for customers without reducing employment (Reich and Sosinskiy 2024). Additional research on the early impact of AB 1228 shows no significant evidence of employers using strategies such as decreasing workers' hours, increasing just-in-time scheduling, or increasing understaffing in response to the new minimum wage (Schneider, Harknett, and Bruey 2024).

Our report adds to this early body of research on the impact of AB 1228 by estimating how eligibility for Medi-Cal–one of the largest social safety net programs in California–might change for workers covered under this law. From this, we also estimate potential reductions in federal and state Medi-Cal spending. Fast-food workers losing Medi-Cal coverage due to higher earnings can take up an employer-sponsored health insurance plan assuming one is offered, they are eligible, and the plan is affordable. Alternatively, workers can enroll in a subsidized plan through Covered California. We consider two example premium cost scenarios for single adult fast- food workers switching from Medi-Cal to Covered California.

Nationally, data show that fast-food workers are less likely to be enrolled in, offered, or eligible for employer-sponsored insurance. The lack of employer coverage, combined with low wages in the industry, results in heavy reliance on Medi-Cal and other public programs by fast food workers (Huang et al. 2021).

We estimate that due to the increase in the fast-food minimum wage:

- Between 41,300 and 73,800 fast-food workers enrolled in Medi-Cal will no longer earn wages low enough to be eligible for the program.
- Associated reductions in combined federal and state spending could be between $303.7 million and $523.1 million. State spending alone on Medi-Cal could decrease between $38.7 million and $66.6 million.
- For many workers who switch from Medi-Cal to Covered California, the pay increase from the $20 minimum wage should more than cover premium expenses.

# Methods

We use nationally representative data from the U.S. Census American Community Survey (ACS) 2019-2023 to estimate the number of fast-food workers who might no longer be eligible for Medi-Cal due to an increase in the minimum wage to $20 an hour. Our sample represents front-line fast-food workers (non-supervisors) including Cashiers and Fast Food and Counter Workers employed in the Restaurants and Other Eating Places industry. We restrict our sample to civilian workers in California between the ages of 18-64, who were employed and worked for wages, had non-zero earnings information, and worked at least half the year (27 weeks) and at least 10 hours per week.

Our analytical approach involves simulating an increase in workers' total "family" income as a result of the new minimum wage.[1] Then we compare the new adjusted total family income relative to the Federal Poverty Level (FPL) for fast-food workers who were enrolled in Medi-Cal. We identify adult fast-food workers who themselves would no longer be eligible for Medi-Cal; we do not consider changes in eligibility for family members of fast-food workers who are enrolled. Workers with adjusted total family income less than 138% FPL were considered eligible for Medi-Cal. Workers with adjusted total family income greater than 138% FPL were considered not eligible for Medi-Cal.

There is some uncertainty in how many workers are enrolled in Medi-Cal. In the ACS, workers report if they are enrolled in a state Medicaid program (called Medi-Cal in California); however, research consistently finds that people underreport their enrollment (Hest 2021). Additionally, some workers report enrollment in Medicaid but also report family income greater than eligibility limits. One reason this can occur is the individual was eligible at the time they enrolled in the program but later saw an increase in their income that was captured during the time they were surveyed. We address this uncertainty in two ways. We adjust for the Medi-Cal undercount by increasing the number of enrollees by 18% (see methodological appendix for details) and estimate a range of workers potentially affected. Our high-end estimate reflects changes in eligibility for workers who reported in the ACS that they were *enrolled* in Medi-Cal regardless of whether their family income was above or below 138% FPL; we refer to this as our *enrolled group*. Our low-end estimate is more conservative and reflects changes in eligibility for workers who reported they were both enrolled in Medi-Cal and, at the time of the survey, reported total family income below 138% FPL; we refer to this as our *restrictive group*. Finally, we estimate the potential reduction in federal and state spending for both the *enrolled* and *restrictive* groups of workers based on annual average costs per enrollee.[2]

# Results

We estimate that the $20 minimum wage might increase workers' total family income such that almost six out of ten (58.1%) fast-food workers enrolled in Medi-Cal–or between 41,300 and 73,800 workers–would no longer be eligible (see Exhibit 1). Breaking this down, our low-end estimate of 41,300 workers losing eligibility is based on the

1 We identify families as those in the same health insurance unit. Please see our full methodological appendix for discussion about defining families for analysis involving health insurance eligibility, as well as for a full explanation of our methodology for this report.

2 Average annual Medi-Cal costs vary depending on which eligibility or aid group the individual is receiving services under. We estimate reductions in spending for single adults (not children) in either the Newly Eligible or AFDC-MN aid groups. See methodological appendix for a discussion of how we calculated costs.

total number of fast-food workers who reported they were enrolled in Medi-Cal and reported total family income below 138% FPL at the time they were surveyed. Among this *restrictive group* of 71,000 enrolled workers (21.0% of the total sample), we find that a little more than half (58.1% or 41,300) would see income increases placing them above 138% FPL and thus no longer be eligible for Medi-Cal. Our high-end estimate is based on the total number of fast-food workers who reported they were *enrolled* in Medi-Cal (whether or not their total family income was below 138% FPL). Around one in three (37.5%) fast-food workers in our sample–or around 127,000–were *enrolled* in Medi-Cal. For our high-end estimate we multiply the share of *restrictive group* workers who would lose eligibility for Medi-Cal (or 58.1%) by the total number of *enrolled* workers. Thus our high-end estimate of enrolled workers losing eligibility is 73,800.

We estimate federal and state reductions in Medi-Cal spending for both the high- and low-end estimates using average annual costs per enrollee (See Exhibit 1). We estimate that the total reduction in federal and state spending could be between $303.7 million and $523.1 million. The reduction in state spending alone could be between $38.7 million and $66.6 million.

### Exhibit 1. Estimated number of front-line fast-food workers enrolled in Medi-Cal and losing eligibility given a $20 minimum wage and associated reductions in federal and state spending

| Estimate | Total enrolled | Count losing eligibility | Estimated reduction in spending | |
|---|---|---|---|---|
| | | | All funds | State funds |
| **High-end (*enrolled*)** | 127,000 | 73,800 | $523.1 million | $66.6 million |
| **Low-end (*restrictive group*)** | 71,100 | 41,300 | $303.7 million | $38.7 million |

Note: The high-end estimate represents all fast-food workers in the American Community Survey 2019 - 2023 who stated they were enrolled in Medi-Cal regardless of whether they reported their family income was above or below 138% FPL at the time of the survey (enrolled workers).The low-end estimate represents just those workers who stated they were enrolled in Medi-Cal and reported their family income was below 138% of the Federal Poverty Level at the time of the survey (restrictive group). Cost savings are in 2024 dollars and are based on average annual costs per enrollee. See methodological appendix for more information.

Fast-food workers losing Medi-Cal coverage due to earning a higher wage could take up an employer-sponsored health insurance (ESI) plan assuming one is offered to them, they are eligible, and it's affordable. Nationally, data show that fast-food workers are less likely to be enrolled in, offered, or eligible for employer-sponsored insurance (Authors' analysis of Current Population Survey data 2019-2024).[3] If an affordable employer-sponsored plan is not available, fast-food workers can obtain subsidized coverage through Covered California, the state's Affordable Care Act (ACA) marketplace.[4] Covered California is paid for by a combination of income-adjusted premium contributions from enrollees and federal subsidies–funded in part by penalties on employers who do not meet ACA affordability requirements.[5] While there would be a reduction in federal and state Medi-Cal spending as workers switch to Covered California, federal spending on ACA subsidies might increase. Currently, the Inflation Reduction Act (IRA) includes additional federal subsidies to the ACA to make health insurance more affordable, with premium contribution rates between 0% to 8.5% of household income. However, if the increased federal subsidies are allowed to expire at the end of 2025, workers could pay much more in 2026 (See Dietz et al 2024).

Exhibit 2 provides two example scenarios of premium contributions for single adult fast-food workers switching from Medi-Cal to Covered California. Currently, at $20 an hour, a single adult *part-time* worker (employed 20 hours a week and year-round) would have an income low enough to pay $0 in premiums. If IRA subsidies expire, the worker could pay around $399 a year (in 2024 dollars). At current rates, a *full-time* fast-food worker (employed 30 hours a week and year-round) could pay around $711 in premiums a year. However, if IRA subsidies expire the worker could pay more than double that amount in premiums. For most workers, the pay increase from the $20 minimum wage should more than cover premium expenses; however, loss of federal IRA subsidies after 2025 would eat into workers' wage gains much more than at current rates.

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3 Only 16.9% of fast-food workers are ESI policyholders compared to 59.4% of all workers in the U.S. Fast-food workers are less likely to work for employers who offer health insurance to any employee (61.2% compared to 82.6%). Less than half (42.2%) of fast-food workers report being eligible for an ESI plan compared to 77.7% of all U.S. workers. For fast-food workers ineligible for ESI, almost nine in ten report they either do not work enough weeks or hours (80.0%) or have not worked for the employer long enough (7.2%). Of fast-food workers who are eligible for ESI, some do not purchase coverage because they are covered by another plan (49.3%), the plan is too expensive (39.5%), or they have not worked for the employer long enough (7.2%).

4 Coverage through Covered California is only available for citizens and lawfully present immigrants.

5 The Affordable Care Act requires "employer shared responsibility," meaning that employers with at least 50 FTE employees should provide a plan for workers employed at least 30 hours a week that meets minimum standards and is affordable. In 2024, the employee's contribution should have been no more than 8.39% of household income, rising to 9.02% in 2025 (HealthCare.gov 2024). Employers that do not meet these conditions pay a penalty.

**Exhibit 2. Example annual Covered California premium contribution scenarios for single adult fast-food workers employed year-round earning $20 an hour**

| Scenarios | Estimated difference in annual earnings from minimum wage increase | Covered California annual premium contribution (rate) | |
|---|---|---|---|
| | | Current | If IRA subsidies expire in 2026 |
| Part-time fast-food worker (20 hours a week) | $3,172 | $0 (0.00%) | $399 (1.92%) |
| Full-time fast-food worker (30 hours a week) | $4,758 | $711 (2.28%) | $1,962 (6.29%) |

Notes: Scenarios are for a single adult. The part-time worker scenario is based on the 25th percentile of the number of weeks and hours workers were employed in our sample (20 hours a week and 52 weeks a year). The full-time worker scenario is based on the median workers' hours (30 hours) and weeks (52 weeks). Please see methodology for our sample restrictions. The estimated difference in annual earnings represents an increase from $16.95 (based on Reich and Sosinskiy (2024)) to $20.00 given the number of hours and weeks the 25th and 50th percentile workers were employed. Amounts are in 2024 dollars. Covered California premium contribution rates come from Dietz et al. 2024.

# Discussion

A $20 minimum wage represents an important first step to increasing job quality in the fast-food industry, but more work is required of the Fast Food Council. The Fast Food Council has the authority to increase wages by a maximum of 3.5% a year to keep up with inflation, if they deem it appropriate to do so. The Council must actively approve any yearly increases, unlike the California state minimum wage and many local city and county minimum wages which increase automatically by CPI.

Yearly cost-of-living adjustments would preserve real increases to fast-food workers' earnings. Furthermore, a $20 an hour minimum wage is still below living wage estimates. The MIT Living Wage calculator estimates that a single adult working full-time and all year in California would need to earn a minimum of $27.32 to afford basic expenses and be self-sufficient (MIT 2024). A worker supporting a family would need to earn much more.

Our analysis highlights the significant implications of AB 1228 on Medi-Cal eligibility and associated public spending. As wages for fast-food workers increase, thousands of workers will no longer be eligible for Medi-Cal coverage due to higher earnings, leading to substantial reductions in both federal and state healthcare expenditures. While some workers may transition to employer-sponsored health insurance if available and affordable, others will likely rely on subsidized plans through Covered California. Encouragingly, our findings suggest that the wage increase should be sufficient to offset premium costs for many workers making this transition. These results underscore the broader economic and policy considerations of wage increases in low-wage industries, particularly in balancing income gains with changes in access to social safety net programs.

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