

Making payroll: Nonprofits and the minimum wage

by [Robert D. Francis](#) in the [October 29, 2014](#) issue



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A movement is under way to raise the federal minimum wage, and the face of that movement is the fast-food worker. In September, hundreds were arrested in protests for higher pay. This followed coordinated job walkouts in 2012 and 2013. These days, I get a lot of advocacy e-mails supporting a higher minimum wage—and they almost always include a quote from a McDonald's, Subway, or Burger King employee.

It's a savvy strategy. Putting fast-food workers in the center of the debate provides sympathetic and effective spokespeople; it also shines a spotlight on fast-food executives and the megacorporations they run. With corporate profits soaring and American CEOs making hundreds of times the salary of the average worker, these are perfect villains.

But there are other low-wage employers. One group in particular might elicit a more sympathetic response: nonprofit organizations. Many nonprofits, including some faith-based charities and social service organizations, find themselves in the unenviable role of fighting poverty while paying poverty wages. Even professional nonprofit staffers often feel undercompensated, as a 2012 *Chronicle of Philanthropy* survey confirmed, and many classes of nonprofit employees are truly in the low-wage category: child- and elder-care workers, home health aides, custodians, food service workers, and others.

One organization that exemplifies this dilemma is Mosaic, a Lutheran social ministry serving people with intellectual and developmental disabilities in ten states. According to Cindy Schroeder, chief financial officer, Mosaic employs about 5,000 people. Of these, 1,855 make less than \$10.10 per hour, the proposed minimum wage supported by President Obama and some in Congress. (The current federal minimum is \$7.25.)

Mosaic calculates that it would cost an additional \$3 million annually just to bring these employees up to \$10.10. However, the organization aims to pay more than the minimum—and it would cost significantly more than \$3 million to keep pay at the same proportional level above the minimum wage that it is now. Mosaic's overhead is already just under 10 percent, says Schroeder. None of the available options for coming up with new money to pay low-wage workers is very palatable.

Since 70 percent of Mosaic's costs are employee related, one place to look for cuts is with the professional staff. But one can understand Mosaic's reluctance to reduce employee pay, which Schroeder characterizes as market rate. Another option would be trimming health insurance benefits. But even if this route were appealing—which it isn't for nonprofits that are trying to do right by their workers—the employer mandate of the Affordable Care Act rules it out.

Mosaic could divert some of its privately raised funds to cover the tab, but donors don't usually take kindly to having their dollars subsidize wages. Nonprofits rely on donations to invest in areas outside the usual budget items—in research, innovation, infrastructure, and the like. And in any case, Mosaic has a policy against using gift dollars for wages—because the unpredictability of such funds could put jobs at risk.

The crux of the matter is that most of Mosaic's funding comes from Medicaid, in the form of reimbursements. These are notoriously low.

A simple solution would be for the government to actually pay the full cost of providing the services it outsources to nonprofits and charities. Mark Stutrud of Lutheran Social Services of Michigan—another employer caught on the horns of this dilemma—says he supports a minimum wage increase as a matter of worker justice. But he adds that if the government mandates higher wages, it also needs to start paying full freight.

The Independent Sector takes a similar position. IS is a national alliance of leaders in the charitable and philanthropic sector, and it has called on nonprofit and

philanthropic organizations to pledge to pay a living wage to all workers. IS acknowledges that the current federal minimum wage does not meet this standard.

But IS also points out that state and federal reimbursement rates make such wages impossible. IS sympathizes with nonprofit employers who must “balance a commitment to continued employment of staff with benefits . . . and providing services to as many people as possible.” The group urges nonprofits that are able to raise wages to do so and calls on governments to increase reimbursement rates. It also suggests minimum wage exemptions for “some seasonal, part-time, and youth employees.”

How are nonprofits reacting to the recent push to raise the minimum wage? It’s hard to say overall. Certainly some nonprofit service providers, such as Catholic Charities USA, have been vocal supporters of a wage increase. But many find themselves caught between their sense of justice and the reality of their bottom line, and they are likely to simply keep quiet.

Making noise, after all, is likely to attract skeptics who want nonprofits to open their books further, to make sure that overhead is low and executive compensation not too high. While the media love to draw attention to extravagantly compensated nonprofit CEOs, the reality is that the vast majority of nonprofits pay their executives and professional staff very reasonably at best. And nonprofits are right to say they are scrutinized quite a bit already. In many respects, they are under much more scrutiny than the for-profit corporations that have damaged the economy—corporations that, through the tax code, continue to get their own taxpayer subsidies.

The question remains: How can we as a society increase the wages for our lowest-paid workers while not unduly harming groups that serve poor and vulnerable people?

First, we can support policies that support nonprofits. Congress and the president can preserve existing tax incentives for charitable giving—such as the charitable tax deduction—in the face of proposals from both parties to curb them. Local and state governments, especially in places that raise the minimum wage above the federal standard, can minimize efforts to creatively extract revenue from nonprofits by what are known as PILOTs, or payments in lieu of taxes. States that haven’t done so can accept the Affordable Care Act’s Medicaid expansion. Along with covering a lot of

low-income nonprofit employees, this would mean that more of the people who walk in nonprofit health providers' front doors have insurance—thus reducing the uncompensated care often asked of nonprofits. Low Medicaid reimbursement rates are better than no reimbursement at all.

Nonprofits themselves are not off the hook. They can do more to connect their own workers to the public benefits for which they qualify. This is the idea behind Bridging the Gap, an initiative of the National Human Service Assembly. This is not, of course, a solution to the core problem. McDonald's or Wal-Mart might be chided for pushing employees toward public benefits as they sit on billions in profits. People may be more sympathetic to break-even nonprofits doing the same.

Nonprofits are used to seeing their tasks expand while their resources shrink, and many are doing all they can to become more effective and efficient. They are diversifying their revenue sources, increasing collaboration (even to the point of merging), and looking to innovations like social enterprise to backfill low reimbursement rates and budget gaps.

Those nonprofits that truly cannot raise wages should still institute policies friendly to their low-wage workers—such as predictable scheduling, paid sick leave, direct deposit and other alternatives to predatory check-cashing services, and benefits like financial counseling. Nonprofits can also better value workers by inviting their input, expressing appreciation for their work, and fully integrating them into the organization's culture and community.

Of course, the ideal solution would be a society that pays a living wage while also adequately funding its safety net—including offering adequate reimbursement to nonprofits that are doing the work the government asks them to perform.

Congress isn't likely to raise the minimum wage any time soon. But sooner or later there will be a federal increase. In the meantime, many states and localities are forging ahead, as Seattle did with a recent increase to \$15 an hour. Organizers, advocates, and policymakers would do well to engage not just fast-food workers but also their allies in the nonprofit community—allies who want to do right by their employees but aren't sure how to make a wage increase work.

Meanwhile, nonprofits will continue to do what they are always asked to do: more with less.