

RESEARCH POLICY BRIEF

Eliminating Subminimum Wages Does Not Cost Workers with Disabilities Their Jobs

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For decades, policymakers have hesitated to eliminate Section 14(c) subminimum wages out of fear that doing so would cost workers with disabilities their jobs. This study, the first national quasi-experimental analysis, finds no evidence of aggregate job loss and finds suggestive evidence of improved economic self-sufficiency among affected workers.

~2,000

Workers per state formally exited 14(c) sheltered employment within two years of policy implementation

12.4%

Estimated decline in welfare income receipt; workers show greater economic self-sufficiency after elimination

15

States with staggered elimination timing, using DOL records 2015–2024 linked to CPS data 2009–2024

Study Overview and Key Findings

This study provides the first national-level quasi-experimental analysis of the labor market effects of eliminating Section 14(c) subminimum wage employment (SWE) for people with disabilities. Using administrative data from the U.S. Department of Labor combined with Current Population Survey data over fifteen years, and exploiting the staggered timing of elimination laws across fifteen states, the research identifies causal effects of the policy while controlling for state-specific economic trends.

RESEARCH ABSTRACT & HIGHLIGHTS

Study Design: Panel dataset combining the universe of DOL Section 14(c) administrative records (2015–2024), obtained via FOIA, with CPS individual-level data (2009–2024). Event study and difference-in-differences designs exploit staggered elimination across 15 states.

Finding 1 – Direct Effect: Elimination policies significantly reduced formal subminimum wage employment by approximately 2,000 workers per state within two years. Effects are precisely estimated with no evidence of differential pre-trends.

Finding 2 – No Spillover Employment Loss: No statistically significant reductions detected in overall employment rates, competitive integrated employment, or hours worked among workers with disabilities following elimination. The feared job-loss effect does not materialize at the aggregate level.

Finding 3 – Welfare Reduction: Estimates show statistically significant reductions in welfare income receipt, indicating that elimination increases economic self-sufficiency rather than welfare reliance.

Policy Implication: Elimination of subminimum wages removes formal sheltered employment without the job losses critics predicted. Results inform ongoing federal and state deliberations over phasing out the Section 14(c) program.

What Is Section 14(c) and Why Has It Persisted?

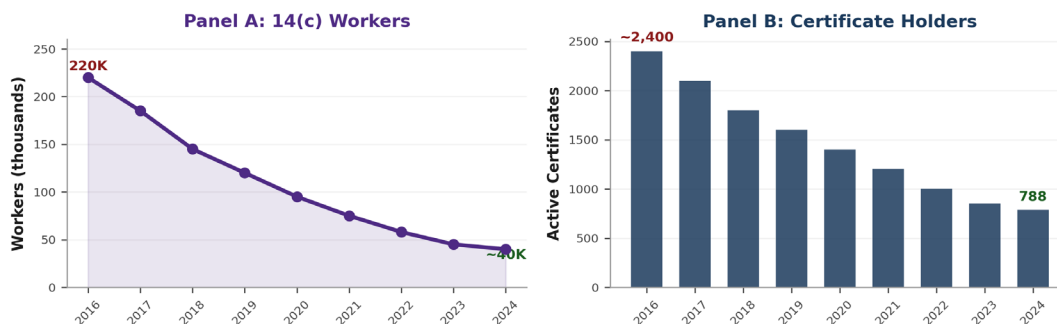
Section 14(c) of the Fair Labor Standards Act of 1938 authorizes employers to pay workers with disabilities below the federal minimum wage, in some cases as little as \$0.25 per hour, after obtaining special certificates from the U.S. Department of Labor's Wage and Hour Division. Certificates are issued based on a productivity-comparison formula: employers must measure a worker's output against a nondisabled peer performing the same job and pay wages proportional to the productivity ratio. The process is administratively cumbersome, with DOL processing times ranging from 2 days to over 2 years.

The wage distribution under 14(c) has been strikingly low. Administrative data show that nearly half of all workers under these certificates earned less than \$3.50 per hour, approximately 10 percent earned \$1.00 or less, and nearly 2 percent earned \$0.25 or less. Most 14(c) employment occurs in sheltered workshop settings: facilities that serve only people with disabilities, with little integration into the broader workforce and few pathways to career advancement.

Proponents of subminimum wages argue these settings provide essential employment for individuals who might otherwise struggle to be hired at market wages, particularly those with the most significant cognitive or physical disabilities. **Critics** counter that sheltered workshops perpetuate segregation, suppress wages through productivity formulas rather than labor market competition, discourage employer investment in accommodations, and create fiscal costs for taxpayers that exceed those of supported competitive integrated employment. Empirical evidence on poverty rates, SSI/SSDI reliance, and wage gaps generally supports the critics' perspective (Maroto and Pettinicchio, 2023; Cimera, 2000; Crandell, 2022; U.S. Commission on Civil Rights, 2020; Yin et al., 2014).

Despite these concerns, momentum toward elimination has been uneven. In 2016, approximately 220,000 workers held jobs under 14(c) certificates. By 2024, that figure had fallen to roughly 40,000, driven partly by voluntary employer exits following a 2016 federal requirement that 14(c) employers provide career counseling to their workers, and partly by state elimination laws. As of July 2023, fifteen states had enacted restrictions or full eliminations. In July 2025, the Department of Labor withdrew a proposed rule to phase out the federal program, leaving the national 14(c) system intact and making state-level action the primary path forward.

Decline of Subminimum Wage Employment in the United States



Workers under 14(c) certificates declined from approximately 220,000 in 2016 to roughly 40,000 by 2024. Data: DOL Wage and Hour Division (FOIA).

DEBATE IN BRIEF:

Whether or not eliminating subminimum wages causes job losses for people with disabilities has been the central, and until now empirically unresolved, question in this policy debate. This study provides the first national evidence to answer this question.

EVIDENCE

A Novel Dataset and Rigorous Methods

Prior studies of subminimum wage elimination have been limited to single-state analyses, small samples, and data sources that cannot distinguish 14(c) workers from other low-wage workers. This study overcomes those limitations through two innovations.

First, through a Freedom of Information Act (FOIA) request to the DOL Wage and Hour Division, the research team obtained the complete universe of Section 14(c) certificate holder records from 2015 to 2024, covering approximately 1,500 to 2,000 employers annually. These records, validated by DOL, allow precise measurement of formal sheltered employment that survey data cannot identify.

Second, these administrative records were linked with Current Population Survey (CPS) Annual Social and Economic Supplement (ASEC) and Outgoing Rotation Group (ORG) data spanning 2009 to 2024, creating a panel that tracks both the 14(c) sector directly and broader labor market outcomes for people with disabilities.

The analysis exploits the staggered timing of elimination laws across fifteen states using event study and difference-in-differences designs, comparing outcomes in states before and after elimination against states that had not yet acted, controlling for state unemployment rates, minimum wage levels, GDP per capita, SSI caseloads, EITC rates, and individual demographics.

WHY THIS MATTERS METHODOLOGICALLY:

Previous studies using single-state analyses could not rule out that their findings reflected unique state local conditions. The national quasi-experimental design used here, with pre-trend tests and multiple robustness checks, provides a stronger basis for causal inference than prior work. This means that we can be more certain that these findings are representative of national-level phenomena than previous analyses.

KEY FINDINGS

Four Things Policymakers Need to Know

<p>✓ SHELTERED EMPLOYMENT DECLINES SHARPLY</p> <p>States experienced average declines of approximately 2,000 workers under 14(c) certificates within two years. Effects are precisely estimated with clear post-treatment divergence and no differential pre-trends.</p>	<p>✓ NO AGGREGATE EMPLOYMENT LOSS</p> <p>Overall employment rates, competitive integrated employment, and hours worked among people with disabilities showed no statistically significant decline. The feared job-loss effect does not materialize.</p>
<p>✓ REDUCED WELFARE DEPENDENCE</p> <p>Estimates show statistically significant reductions in welfare income receipt. This is the opposite of the public assistance increase that critics predicted. Workers show greater economic self-sufficiency after elimination.</p>	<p>⚠ HIGHEST-NEED WORKERS FACE RISK</p> <p>Aggregate null effects mask compositional churn. Workers with the weakest pre-policy labor market attachment may exit employment rather than transition. The aggregate result should not be read as evidence that all workers fare equally.</p>

WHY WAGES DON'T SHOW A CLEAR SPIKE:

Many workers move to social enterprises or supported employment settings that pay the statutory minimum wage but represent a similar earning level, not a wage gain. Others face search barriers in the competitive market. The absence of a large, measured wage increase reflects transition complexity, not policy failure. Difference-in-differences estimates do point to positive effects on annual wage income, consistent with the observed reductions in SSI benefit receipt.

The figure below presents the event study results for 14(c) worker counts, illustrating the sharp post-elimination decline with no evidence of differential pre-trends.

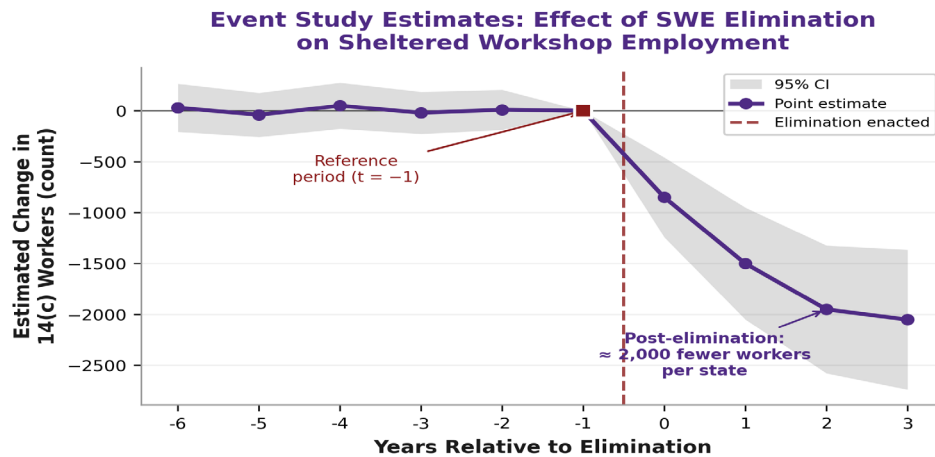


Figure: Event study estimates. Flat pre-trends support causal interpretation. Source: Yin, Seo, & Vu (2026, Labour Economics).

POLICY RECOMMENDATIONS

What States Should Do Now

- 1 Move forward with elimination; the evidence supports it**

The persistent fear that elimination causes broad job losses for people with disabilities is not supported by national evidence. States that have moved forward did not see aggregate employment declines. Hesitation on these grounds is no longer empirically justified.
- 2 Build transition infrastructure before the deadline, not after it**

The workers most at risk are those with the weakest prior labor market attachment and the most significant support needs. Elimination without complementary investment in job coaching, supported employment, and vocational rehabilitation services may leave these individuals without alternatives. Transition funding must be a condition of any elimination timeline, not an afterthought.
- 3 Invest in genuine career pathways, not just wage-floor compliance**

Many workers transitioning out of 14(c) settings move into lateral minimum-wage roles rather than genuine advancement. States should invest in customized employment, employer partnerships, and on-the-job training that create pathways beyond the wage floor, not just to it.
- 4 Build individual-level tracking systems**

Aggregate data can mask winners and losers. States need administrative data systems that track individual workers from 14(c) settings through and after the transition, including whether they moved to competitive employment, non-work day programs, or left employment entirely. Linked VR case management and employer records are important for accountability.
- 5 Do not wait for federal action**

In July 2025, the DOL formally withdrew its proposed national phase-out rule. State action remains the primary driver of reform and is well-supported by the evidence presented here.

Where Does Virginia Stand?

VIRGINIA — HB1924 (2023)

Virginia enacted HB1924 in 2023, prohibiting new 14(c) certificates while allowing existing holders to continue until July 1, 2030. As of early 2026, only three active certificates covering 58 individuals remained, among the fewest of any state still in transition. Virginia is one of only two Southern states (alongside Tennessee) to have enacted a comprehensive phase-out mandate prior to 2025. The 2030 deadline provides time to build the transition infrastructure those remaining workers need, and the national evidence now supports moving forward with confidence. The RPRJ EPIC project, led by Virginia DARS and evaluated by RISEI Lab at Northwestern, is the primary vehicle for that transition work.

DATA & METHODS

How the Research Was Conducted

Data Source 1: DOL 14(c) Administrative Records (2015–2024). The study's primary contribution is administrative data obtained through a FOIA request to the DOL Wage and Hour Division. The dataset covers the complete universe of Section 14(c) certificate holders from 2015 through 2024, covering approximately 1,500 to 2,000 employers annually. These records allow precise identification of formal sheltered employment that survey data cannot distinguish from other low-wage work.

Data Source 2: Current Population Survey, 2009–2024. The study uses both CPS-ASEC and CPS-ORG files. The CPS has included a six-question disability module since 2008. From CPS-ASEC, we construct annual measures of employment status, competitive integrated employment (CIE), hours worked, and wage and welfare income.

Defining Competitive Integrated Employment. CIE is operationalized as employment where the individual: (i) earns at or above the applicable minimum wage, (ii) is enrolled in a workplace pension plan, (iii) holds a position offering insurance coverage, or (iv) is entitled to paid time off.

Empirical Strategy: Event Study + Difference-in-Differences. The analysis traces dynamic effects using year-relative-to-elimination indicators from six years before to three years after each state's policy. The DID specification uses a continuous treatment variable accounting for mid-year implementation. Six treatment cohorts adopted elimination at different times (2015–2023). The Sun and Abraham (2021) heterogeneity-robust estimator corrects for contamination bias.

Controls and Robustness. State-level controls include effective minimum wages, EITC rates, unemployment rates, per capita GDP, SSI disability caseload shares, and poverty rates. Robustness checks excluding state minimum wage controls and state-specific linear time trends produce consistent results. The preferred specification uses raw worker counts with fixed effects.

LIMITATIONS

Our identification relies on the variation provided by the fifteen states that have adopted SWE reforms to date. While sufficient for estimating aggregate effects, this sample size constrains the precision of our estimates for smaller subpopulations.

Our administrative data allows us to observe the decline of the 14(c) sector, but we cannot link these records to individual-level survey data. Consequently, we cannot trace the specific trajectories of displaced 14(c) workers.

Our results focus on the short-to-medium term dynamics following policy implementation. The longer-term effects on career advancement, human capital accumulation, and earnings growth remain open questions.

Despite these limitations, our findings carry significant implication for the ongoing federal debate regarding the phase out of Section 14(c). The persistence of low-wage work in the survey data, even after SWE elimination, suggests that legislative bans alone are insufficient to guarantee CIE. Without addressing the underlying labor demand constraints, workers may transition into informal, gig-based, or non-compliant arrangements that offer little economic advancement.

CITATION

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ABOUT RISEI LAB

The Research and Innovation for Social and Economic Inclusion (RISEI) Lab at Northwestern University, led by Michelle Yin, is a multidisciplinary research and innovation hub focused on education, workforce development, and inclusive economic mobility. The lab conducts rigorous, policy-relevant research using large-scale data and causal methods, while also designing and evaluating interventions in partnership with federal and state agencies. RISEI's work spans the U.S. and international contexts, with a focus on how policy, systems, and emerging technologies shape pathways to education and employment for individuals with disabilities and other underserved populations.

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