



Economic Policy Institute

Basic Family Budget Calculator for New York City

Testimony by

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Introduction: Family budgets for New York City

The ability of families to obtain an adequate but modest living standard is an important measure of economic performance. While poverty thresholds, generally set at the national level, are used to evaluate the extent of serious economic deprivation in our society, the Economic Policy Institute's (EPI) Family Budget Calculator offers a broader measure of economic welfare. The basic family budgets presented in this testimony measure the income a family needs to secure a safe and decent, yet modest, living standard in the community in which it resides. The basic budgets are relative measures of what incomes are necessary to attain a specific standard of living including expenses for housing, food, child care, transportation, health care, other necessities, and taxes.

EPI's 2013 Family Budget Calculator provides a useful metric for academics and policy experts looking for comprehensive measures of economic security. The following are a sample of findings from the EPI family budgets:

- The basic family budget for a two-parent, two-child family in New York City is \$93,502, which is over four times the official poverty threshold of \$23,283 for this family type (CPS ASEC 2012).
- The basic family budget for a two-parent, two-child family in New York City is \$30,624 higher than the median family budget area of \$63,238 and is the most expensive budget of this family type.
- Nearly two-thirds of the New York City family budget for a two-parent, two-child household is taken up by housing, child care, and health care.
- Across geographic areas and family types, child care costs account for the greatest variability in family budgets. Child care costs for a two-parent, one-child household in New York City are 16.6 percent (\$1,070) of a family's budget, but for a two-parent, three-child household, child care makes up 29.7 percent (\$2,942) of a family's budget.
- Family budgets can be used to assess trends in job quality across regions—measuring what share of a region's workforce earns enough in the labor market to purchase the family budget. For instance, annual wages for two full-time, full-year minimum-wage workers total \$30,160, far below what it takes to live in New York City (DOL 2009).



Family budgets are a better measure of economic hardship

Limitations and problems of poverty thresholds

Poverty thresholds are generally *national* income levels used to measure the number and share of Americans who are economically deprived. Conceptually, the poverty measure is an important one, but one that is fundamentally different from EPI basic family budgets. Families above the poverty threshold are just thought to be free of outright material deprivation. Family budgets offer a broader measure of economic adequacy, measuring the dollar amount families need to obtain in order to live modestly in various communities across the nation.

The poverty measure is also woefully outdated, and little has been done officially to remedy the situation. For instance, the current methodology for poverty thresholds was designed over four decades ago in 1963 (CPS ASEC 2012) and has only been updated since for overall inflation. So, for example, if high-end electronic devices have declined in price a lot over the past generation (and they have), this will put downward pressure on the poverty threshold and measured poverty rates, even though the price of smartphones has very little to do with outright material deprivation of families. Academics, policy analysts, and social scientists—most of whom overwhelming agree that the Census poverty measure is seriously outdated—have been engaged in dialogue and debate about alternative measures for some time.

In response, the first Supplemental Poverty Measure (SPM) was published in 2011 to better reflect both the resources available to families and to provide a more accurate threshold of economic adequacy (Short 2011). This new measure calculates the money it takes to live free of material deprivation—i.e., pay for food, clothing, shelter, and utilities—by adjusting for average expenditures on these items (accounting for geographic differences in housing costs) as opposed to simply adjusting for overall inflation. In addition, to calculate a rate of poverty, the SPM reflects the resources available to households through government policies such as tax credits and in-kind public benefit programs that affect a family's income and hence, their poverty status. While the Supplemental Poverty Measure does provide a more comprehensive measurement than the official poverty threshold, it does not measure child care appropriately and uses geographic variability for its housing calculation only (CCED 2013).



The added value of basic family budgets

The EPI Basic Family Budget Calculator illustrates the income required to adequately afford a safe and decent standard of living for one of six family types living in any of 615 specific U.S. communities. The six different family types include one or two parents with one to three children. Cost-of-living differences are built into the budget calculations by incorporating regional, state, or local variations in prices (depending on item). The basic budgets are relative measures of what incomes are necessary to attain a specific standard of living including expenses for housing, food, child care, transportation, health care, other necessities, and taxes.

The following is a brief description of each budget item and the restrictions and/or working assumptions employed for basic family budget calculations. For a comprehensive discussion of our full methods and data sources, see *2013 Economic Policy Institute Family Budgets Technical Documentation* (Gould et al. 2013b).

- **Housing.** Housing costs are based on the Department of Housing and Urban Development's fair market rents, or FMRs (HUD 2013). FMRs represent 40th percentile rents (shelter rent plus utilities) for privately owned, decent, structurally safe, and sanitary rental housing of a modest (non-luxury) nature with suitable amenities. Rents for two-bedroom apartments were used for families with one or two children, and rents for three-bedroom apartments were used for families with three children (based on HUD guidelines).
- **Food.** Food costs are based on the "low-cost plan" taken from the Department of Agriculture report *Official USDA Food Plans: Cost of Food at Home at Four Levels* (USDA 2013). This plan is the second of four types of food plans and assumes almost all food is bought at the grocer and then prepared at home. The USDA food plans represent the amount families need to spend to achieve nutritionally adequate diets.
- **Transportation.** Transportation expenses are based on the costs of owning and operating a car for work and other necessary trips. The National Household Travel Survey (FHA 2009) is used to derive costs that are based on average miles driven per month by size of the metropolitan statistical area or rural area and multiplied by the cost-per-mile, as provided by the Internal Revenue Service (IRS 2012).
- **Child care.** Child care expenses are based on center-based child care centers for four-year-olds and school-aged children, in urban and rural areas, as reported by the Child Care Aware of America annual report on the cost of child care by state (CCAA 2012).



- **Health care.** Health care expenses have two components: insurance premiums and out-of-pocket expenditures. Premiums are based on total employer-sponsored health insurance premiums (plus-one and family plans) for private-sector employers by family budget area, using the Medical Expenditure Panel Survey Insurance Component (HHS 2013a) and the Bureau of Labor Statistics Employee Benefits Survey (BLS 2013b). Out-of-pocket medical expenditures are calculated for adults and children separately by region and MSA/non-MSA for those with employer-sponsored health insurance (HHS 2013a).
- **Other necessities.** The cost of other necessities includes the cost of clothing, personal care expenses, household supplies, reading materials, school supplies, and other miscellaneous items of necessity from the Consumer Expenditure Survey (BLS 2013a).
- **Taxes.** The family budget components thus far sum to the family's post-tax income. To calculate the family budget tax component, we utilize the National Bureau of Economic Research's Internet TAXSIM (NBER 2013), gather information on federal personal income taxes, state income taxes, and federal Social Security and Medicare payroll taxes, and back out the family's pre-tax income.

Higher expenses for bigger families

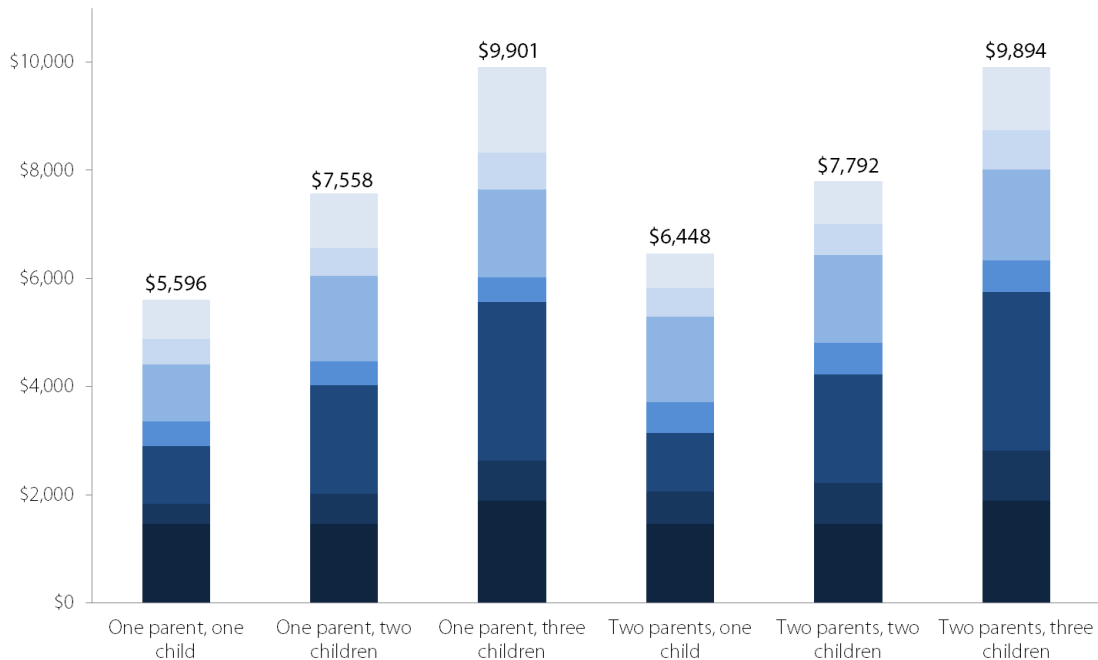
Budgets in New York City rise significantly with family size, since more children require more housing, health care, and child care. Child care costs in New York City can be as low as \$1,070 for a two-parent, one-child household but as high as \$2,942 for a two-parent, three-child household.

For illustrative purposes, the family budgets for six different family types in New York City are depicted in **Figure A**. Some items, such as transportation, do not change much with the number of children in a family, but an expense like child care does. In New York City, child care consumes a sixth of the budget for a one-child, two-parent family, but for a family with three children it accounts for nearly 30 percent.

All six family types exceed the official poverty threshold by at least 400 percent for their family type. For a two-parent, two-child family, the official poverty threshold was \$23,283 in 2012.



Figure A Monthly family budgets (in 2012 dollars) in New York, NY, by family type, 2013



Source: Economic Policy Institute Family Budget Calculator

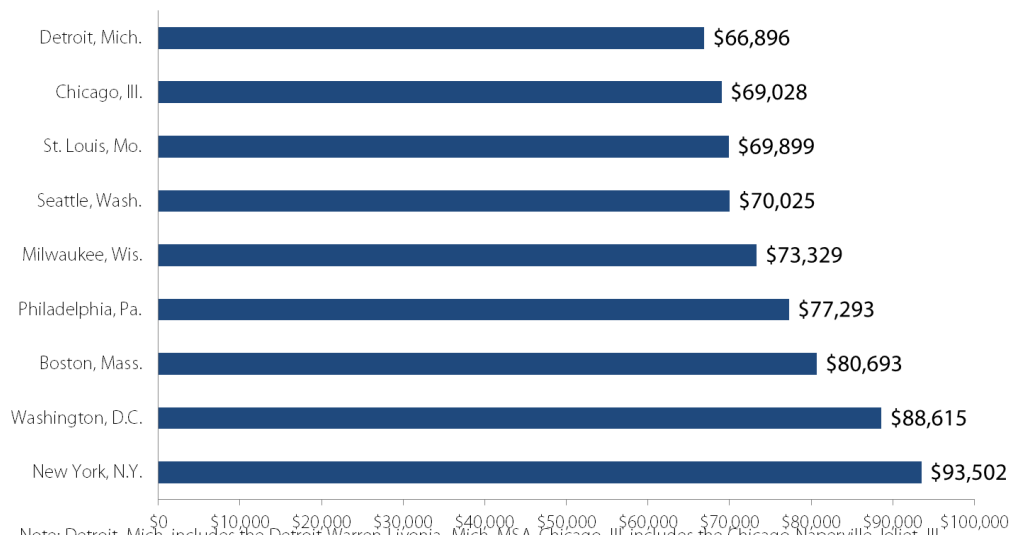
Large variation across the United States

As with family types, many costs vary widely by geographic area, yet neither the official poverty measure nor the Supplemental Poverty Measure accounts for these differences at the same level of detail as do EPI's family budgets.

Figure B, which compares the budgets for a family of four in New York City compared with several different large urban areas, depicts the importance of accounting for geographic differences in the cost of living. For a New York City family to afford the same standard of living as a Detroit family, the former's annual income would need to be \$93,502—39.8 percent (\$26,607) higher than the latter's. New York City's surrounding areas (Nassau, Suffolk, and Westchester counties), Washington, D.C., and Boston follow closely behind New York City. Among the cities listed in Figure B, EPI's family budgets range from 2.5 to 3.1 times bigger than the thresholds for those areas calculated by the Supplemental Poverty Measure (CPS ASEC 2012). In New York City, the family budget is 3.1 times the Supplemental Poverty Measure, which for a two-parent, two-children renting household is \$29,833.



Figure B Annual family budgets (in 2012 dollars) for four-person families* in selected areas, 2013



Note: Detroit, Mich. includes the Detroit-Warren-Livonia, Mich. MSA, Chicago, Ill. includes the Chicago-Naperville-Joliet, Ill. MSA, St. Louis, Mo. includes the St. Louis, Mo.-Ill. MSA, Seattle, Wash. includes the Seattle-Bellevue, Wash. MSA, Milwaukee, Wis. includes the Milwaukee-Waukesha-West Allis, Wis. MSA, Philadelphia, Pa. includes the Philadelphia-Camden-Wilmington, Pa.-N.J.-Del.-Md. MSA, Boston, Mass. includes the Boston-Cambridge-Quincy, Mass.-N.H. MSA and Washington, D.C. includes the Washington-Arlington-Alexandria, D.C.-Va.-Md. MSA.
* Four-person families assume two parents and two children.
Source: Economic Policy Institute Family Budget Calculator

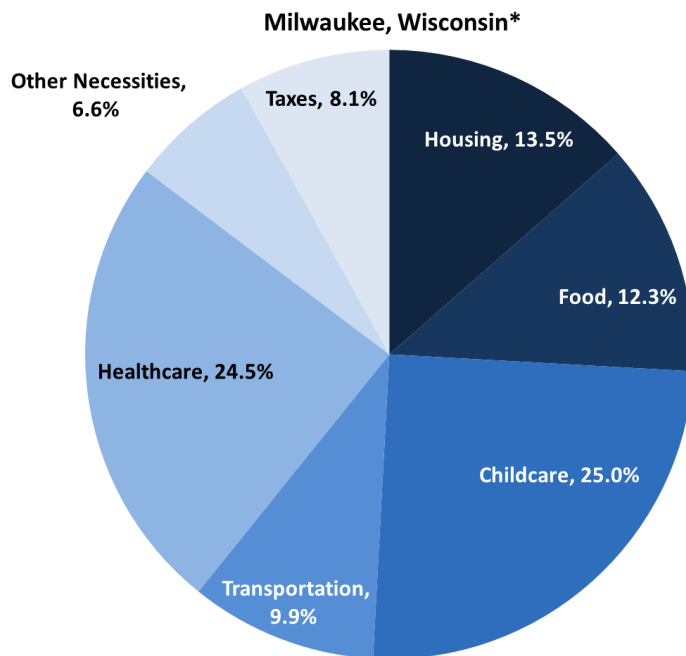
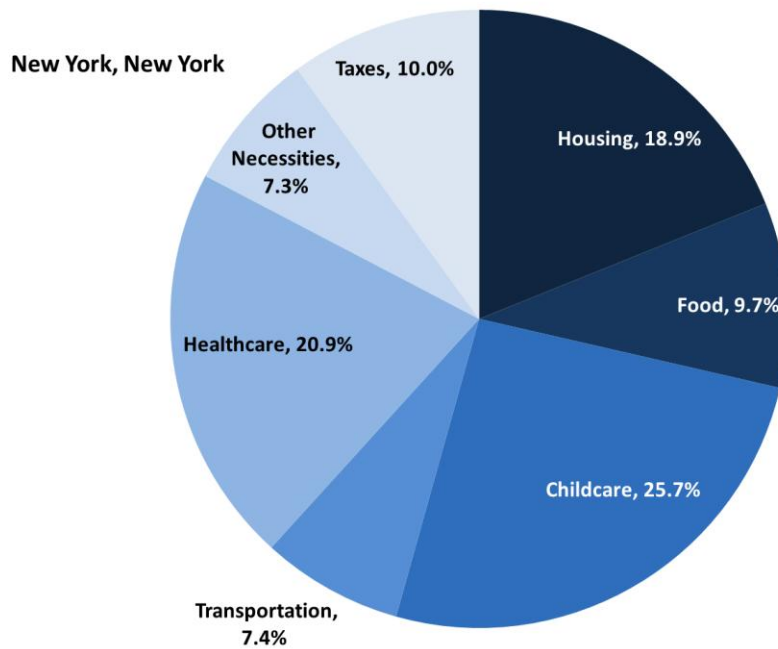
A high degree of variation exists in family budgets across geographic areas, especially among the housing, health care, and child care components. **Figure C** holds family size constant and compares the share of family budgets taken up by each of the family budget components in three different areas—New York, N.Y., Milwaukee, Wis., and Seattle, Wash.—for two-parent, two-child families.

In New York City, where monthly rent for a two-bedroom apartment is \$1,474, families can expect almost a fifth (18.9 percent) of their budget will be spent on housing. In contrast, Milwaukee residents only spend 13.5 percent of their budget on housing costs. While families in both New York City and Milwaukee devote at least a quarter of their monthly budgets to child care, less than a fifth (19.2 percent) of family budgets in Seattle goes to child care.

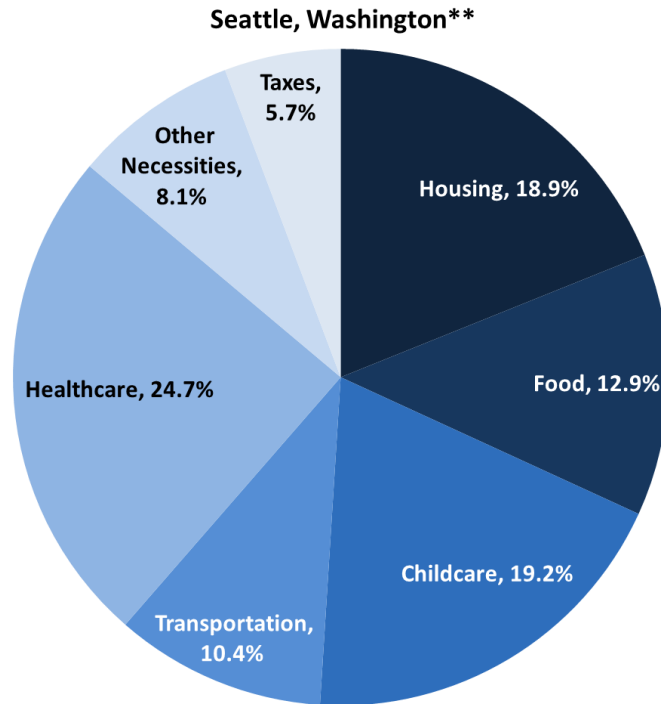
Health care costs also vary considerably across geographic areas. Families in Milwaukee and Seattle spend nearly a quarter of their budgets on health care, but New Yorkers only need to allocate 20.9 percent to health care. New Yorkers spend a larger share of their budgets on taxes than residents of both Milwaukee and Seattle, but much less on transportation.



Variation in the components of family budgets, by geographic area, 2013



* Milwaukee, Wisconsin, includes the Milwaukee-Waukesha-West Allis, Wis. MSA



** Seattle, Washington, includes the Seattle-Bellevue, Wash. MSA

New York City: Minimum wage, and how New Yorkers make ends meet

Even in the best of times, many parents in low-wage jobs will not earn enough market-based income to meet their family's basic needs. A full-time, full-year worker in New York City who is paid \$7.25 per hour (the minimum wage) will earn pre-tax about \$15,080 a year, which is below the poverty line of \$15,825 for a single parent with one child. It is encouraging that the New York State Assembly signed a minimum-wage increase (Bill No. A03007D), effective December 31, 2013, to \$8.00 an hour, with provisions to scale up the minimum wage to \$9.00 an hour by December 31, 2015. However, even two full-time workers making \$9.00 an hour will make an annual salary of \$37,440—still short \$39,938 of the \$77,378 needed for even the smallest two-parent, one-child family budget.

When earnings from work do not push families over the family budget thresholds, publicly provided work supports can also assist workers. The Earned Income Tax Credit (EITC), child care subsidies and tax credits, food stamps (SNAP), and subsidies for housing, transportation, and health care have been effective in increasing post-tax incomes and consumption for working families. Being a working member of our economy has associated costs, such as transportation to and from work and the expense of child care. As shown in the family budgets, child care costs, on average, account for around 20 percent of the typical budget area for a family with two children. Thus, this particular expenditure is clearly an



important leverage point for using work supports to narrow the gap between earnings and needs. The EPI family budgets can provide a crucial barometer for how many Americans are able to obtain an adequate but modest living standard, and can also be paired with future research to document what income sources are providing (or failing to provide) the resources necessary to meet these budgets.

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