

## EPI ISSUE GUIDE

# Poverty and Family Budgets

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Inquiries about the *Issue Guide on Poverty and Family Budgets* should be directed to Chauna Brocht [[cbrocht@epinet.org](mailto:cbrocht@epinet.org)].

## EPI ISSUE GUIDE

# Poverty and Family Budgets

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### General Information on Poverty Measurement and Basic Family Budgets:

[Frequently asked questions \(FAQ\) about poverty and family budgets](#)

[Creating a Basic Family Budget: EPI Methodology and Links to Data Sources](#)

[Basic Family Budget Studies by State](#)


[Basic Family Budget Calculator \(online supplement\)](#)

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### Key Tables and Charts:

- [Numbers of families and persons below family budgets and poverty level](#) (Table 2 from *Hardships in America* )
  - [Share of families with income less than family budget compared to one and two times the poverty threshold, by demographic characteristics](#) (Table 3 from *Hardships in America* )
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### Key EPI Publications:

[Hardships in America: The Real Story of Working Families.](#)  Heather Boushey, Chauna Brocht, Bethney Gunderson, Jared Bernstein, 2001.

[How Much is Enough: Basic Family Budgets for Working Families.](#) Jared Bernstein, Chauna Brocht and Maggie Spade-Aguilar, 2000.

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### **Resources on Basic Family Budgets:**

*A century of family budgets in the United States*, by David S. Johnson, et al., Monthly Labor Review

<http://www.bls.gov/opub/mlr/2001/05/art3abs.htm>

Wider Opportunities for Women (WOW)

<http://www.wowonline.org/pubs.htm>

*WOW has completed self-sufficiency studies for over 12 states. Contact Jennifer Brooks at [jbrooks@wowonline.org](mailto:jbrooks@wowonline.org) for more information on the self-sufficiency standard.*

Wisconsin Family Income Resource Simulation Tool

<http://www.wisconsinsfuture.org/>

*This is an interactive family budget that can be modified to show the impact of various social policies. Contact the Institute for Wisconsin's Future to order a copy.*

### **Resources on the Official Federal Poverty Measure:**

*Let The War On The Poverty Line Commence* by Jared Bernstein, Foundation for Child Development Working Paper, June 2001

<http://www.ffcd.org/bernstein.html>

Poverty in the United States: 1999 U.S. Census Bureau

<http://www.census.gov/hhes/www/povty99html>

*The Census Bureau's annual report on the number of people in poverty (includes estimates by state and estimates by race, gender, and family type for the nation).*

Small Area Income and Poverty Estimates, U.S. Census Bureau

<http://www.census.gov/hhes/www/saipe/stcty/estimate.html>

*County-level poverty estimates are available for 1997.*

Number of Poor and Poverty Rate, by State: 1980-99, U.S. Census Bureau

<http://www.census.gov/hhes/poverty/histpov/hstpov21.html>

Poverty Thresholds, U.S. Census Bureau

<http://www.census.gov/hhes/poverty/threshld.html>

*Poverty thresholds are used by the Census Bureau to determine the number of people in poverty.*

Poverty Guidelines, U.S. Department of Health and Human Services

<http://aspe.hhs.gov/poverty/poverty.htm>

*Poverty guidelines are used to determine eligibility for many government programs.*

Resources on Poverty Guidelines, Poverty Thresholds, and the History of the U.S. Poverty Lines, U.S. Department of Health and Human Services

<http://aspe.hhs.gov/poverty/contacts.htm>

*Links to many useful papers on the history of poverty measurement in the U.S.*

Poverty USA tour, Catholic Campaign for Human Development

<http://www.nccbuscc.org/cchd/povertyusa/tour2.htm>

### **Resources on Revising the Official Poverty Measure:**

"Deciding Who's Poor" (April 2000)

by Barbara Bergmann from *Dollars and Sense* magazine

<http://www.igc.org/dollars/2000/0300bergmann.html>

*Provides an overview of alternative methods for measuring poverty.*

*Jobs for the Future* --a survey prepared for the Low-Wage Workers in the New Economy Conference (May 2000)

<http://www.jff.org/programs/cluster3/projects/careeradvstrat.html>

*Survey showing most Americans think a family of four requires twice the official poverty threshold to make ends meet*

*Proposed Changes in the Official Measure of Poverty* (November 1999)

by Kathryn Porter, Center on Budget and Policy Priorities.

<http://www.cbpp.org/11-15-99wel.htm>

*Provides an explanation of the National Research Council's recommendations for changing the poverty thresholds and an explanation of the Census Bureau's Experimental Poverty Measures.*

*Measuring Poverty: A New Approach* (1995)

Constance Citro and Robert Michael, eds., National Academy Press

<http://www.census.gov/hhes/poverty/povmeas/toc.html>

*This book outlines the National Research Council's Panel on Poverty and Family Assistance's recommendations for changing the poverty thresholds.*

Census Bureau's web page on recent poverty measurement research

<http://www.census.gov/hhes/www/povmeas.html>

*Includes links to Census Bureau "Experimental Poverty Measures" reports, which provide estimates using the recommendations of the Panel on Poverty and Family Assistance.*

Press release stating that the Census Bureau has no plans to adopt the Experimental Poverty Measures as the official poverty measure

<http://www.census.gov/Press-Release/www/1999/cb99-204.html>

Institute for Research on Poverty, University of Wisconsin

<http://www.ssc.wisc.edu/irp/research/home.htm#povmeas>

*Proceedings of conferences on poverty measurement.*

*Drawing the Line: Alternative Poverty Measures and Their Implications for Public Policy* (1990)

by Patricia Ruggles, The Urban Institute

<http://www.urban.org/pubs/catalog/socserv.htm>

*This book explores the conceptual issues involved in developing poverty measures.*

"Relative or Absolute — New Light on the Behavior of Poverty Lines Over Time" by Gordon M. Fisher, Department of Health and Human Services

<http://aspe.hhs.gov/poverty/papers/relabs.htm>

*This article examines how, historically, poverty lines have reflected public opinion on what a family needs to meet their basic needs.*

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For more information or questions about poverty measurement or basic family budgets, contact [Chauna Brocht](mailto:Chauna Brocht) at [cbrocht@epinet.org](mailto:cbrocht@epinet.org).

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## POVERTY AND FAMILY BUDGETS

# Frequently Asked Questions

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### **How does the federal government measure poverty?**

Once a year, the Census Bureau determines the number of people in poverty. Those considered "poor" live in families with incomes below the poverty threshold for their family type (based on family size and number of children in the family). For example, in 1999 the poverty threshold for a family of four with two children was \$16,895, making such a family officially "poor."

To measure income, the Census Bureau uses a nationally representative survey. The official poverty definition counts money income before taxes, including wages, salaries, interest, dividends, self-employment income, welfare payments (TANF), unemployment insurance, and social security payments. Realized capital gains and non-cash government benefits (such as public housing, Medicaid, and food stamps) are excluded from this definition of income. There are, however, no poverty measurements for people in military barracks and institutional group quarters or for unrelated individuals under age 15 who live together (such as foster children); these people are not counted as either "poor" or "non-poor."

### **What is the difference between the poverty thresholds and the federal poverty guidelines?**

The poverty thresholds are determined by the Census Bureau and are the standard used in measuring poverty. The poverty guidelines are issued by the Department of Health and Human Services and are used to determine eligibility for many government programs, including food stamps, legal services, and the school lunch program. For practical purposes, the main difference between the two sets of numbers is that the poverty guidelines are more current than the thresholds. The guidelines are updated for the current year in the winter/early spring of that year, whereas the thresholds aren't updated until the sometime in the following year. The poverty guideline for a family of four in 2000 is \$17,050, while the poverty threshold (last calculated for 1999) for the same family is \$17,029.

### **How does the federal government determine the poverty thresholds?**

The original poverty thresholds were developed in the early 1960s by Molly Orshansky, an employee of the Social Security Administration. She based her thresholds on the U.S. Department of Agriculture's (USDA) Economy Food Plan (predecessor of the Thrifty Food Plan), which she used to determine how much a family needed to spend on food to meet their minimum food needs. Orshansky then determined the share of income a family spent on food. In 1955, families of three or more persons (all such families, not just low-income families) spent about one-third of their after-tax money income on food. Because food costs were a third of a family's expenses, Orshansky multiplied the costs of the food plan for different family sizes by three.

These measures were later adopted by the Census Bureau as the official poverty thresholds. The Census Bureau updates the thresholds for inflation each year using the consumer price index. There have been only minor changes to the way the thresholds are calculated since they were adopted.

### **Are the federal poverty thresholds an accurate measure of poverty today?**

As described above, the methodology used to create the poverty thresholds assumes that one-third of family income was spent on food. But, over time, the relative prices of the items that families consume have changed considerably. For example, families spend more of their income on housing, health care, and transportation than they used

to, and less on food. In addition, families now spend more on certain items, like child care, due to the increased number of women in the labor force.

Due to these changes, families now spend less than one-fifth of their income on food. So if we were to multiply food costs by the share of income families spend on food today, we would come up with poverty thresholds higher than those currently in use because food costs would be multiplied by five instead of three.

These official poverty thresholds are made even more out of date because they have not been adjusted to reflect improvements in standards of living. The failure to increase the poverty thresholds as incomes (adjusted for inflation) have grown means those who fall below the poverty line are worse off relative to the typical (median) family now than they were 30 years ago. For example, when the poverty thresholds were first introduced in the early 1960s, the threshold for a family of four—\$16,530 in 1998 dollars—was 42% the median income for that family size. By 1998, because of real growth in the median family income, that value had fallen to 35.4%.

Finally, poverty thresholds have not kept up with public opinion. Around the time poverty thresholds were first introduced in the early 1960s, surveys showed that the public believed that families needed an amount that was 1.4 times the poverty threshold for that year just to get by (Citro and Michael 1995). Today, the majority of Americans say a family needs \$35,000 to get by, almost twice the current poverty line of \$17,184 (Jobs for the Future 2000).

### **What are the other criticisms of the way the federal government measures poverty?**

- **No adjustments for geographic differences.** There is only one set of poverty thresholds for the whole nation. Most researchers agree that there needs to be adjustments to the thresholds based on cost-of-living differences between different regions of the U.S., and between urban, suburban, and rural areas. However, data for making these kinds of adjustments is limited, and researchers are still debating how these adjustments should be made.
- **Exclusion of taxes.** Whether families are able to meet their basic needs depends on their income after paying taxes. In addition, many low-income families receive the Earned Income Tax Credit, which offsets other tax payments, like payroll taxes. The Census Bureau, however, continues to use family income before taxes to measure official poverty.
- **Exclusion of other government benefits.** Many poor families receive government assistance that helps them meet their needs. However, the only forms of government assistance included in the Census Bureau's definition of income are cash payments, like welfare (TANF) payments and Social Security Insurance payments. Most researchers agree that other forms of government assistance, such as food stamps, housing subsidies, free or reduced school lunches for children, and energy assistance should be included when determining whether a family is in poverty.
- **No way to account for differences in childcare and medical care costs.** Currently, the federal poverty thresholds are based on the average share of income a family spent on food in the 1950s multiplied by the cost of food. This method ignores the fact that families have widely varying expenses for certain items, like childcare and medical care. If a family has young children and all of the adults in the family work, that family will have childcare expenses that other types of families don't have. Families who do not get health insurance through an employer will have different health costs than families who try to purchase non-group insurance. Families with a disabled member will have higher medical expenses than will families in which all members are relatively healthy. In

addition, when a family member is seriously ill or injured, the family might have much higher medical expenses that year compared to other years. Although most researchers agree that poverty measurements should include adjustments for the varying expenses faced by families, there is still disagreement about how this should be done.

- **Inadequate system for adjusting for family size.** There are currently different poverty thresholds based on the size of the family and the number of children in the family. The idea that a larger family has greater expenses than smaller families is common sense; the difficulty is developing a system to measure these differences. Some researchers criticize the way the current poverty thresholds adjust for family size, but there is still no agreement on how to make this adjustment.

### **How do the Census Bureau's Experimental Poverty Measures improve on the current methods of measuring poverty?**

The Experimental Poverty Measures are the Census Bureau's first attempt to analyze the effects of the National Research Council's recommended changes to the current poverty measure. The purpose of these Experimental Poverty Measure reports is to examine how the Council's recommendations will change the demographic composition of the poor (for example, elderly versus children) as well as the total number of poor. The report does not make recommendations for a new poverty threshold.

The Experimental Poverty Measures chart the effects of the following changes to the current way poverty is measured:

- Using a percentage of median expenditures by two adult, two child families for food, clothing, shelter, and utilities as the basis of the threshold;
- Using a different measure for adjusting for family size and number of children (called equivalence scales);
- Making geographic adjustments to the thresholds;
- Adding the value of non-cash government assistance (such as food stamps, housing subsidies, school lunches, and energy assistance) to the measure of income; and
- Subtracting expenses such as taxes, costs associated with working (such as childcare), and medical expenses from the measure of income.

The percentage of people in poverty in 1998 increases from 12.7% under the current measure to as much as 15.4% under the experimental measures (depending on what version is used). Using the experimental measures resulted in a lower rate of poverty for children and a higher rate of poverty for the elderly when compared to the current measure (Short et al. 1999). The measures also found lower poverty rates for female-headed households and a higher poverty rate for married couples. Further research found a higher rate of poverty among families in which adult members work full-time compared to the current poverty measure (Iceland 2000).

### **Is the federal government going to change the way it calculates the federal poverty thresholds?**

The federal government has no immediate plans to change the way it calculates the poverty thresholds or the way it measures poverty. In response to press speculation that the Census Bureau was close to issuing new poverty measures, the Census Bureau issued a press release stating that, while it has issued new "experimental poverty measures," none of these experimental measures have been officially adopted.

Unfortunately, adopting a new measure is bound to be a long process. The current effort started in 1992, when Congress assigned the National Research Council the task

of recommending revisions to the measure. By the Census Bureau's own admission, it will take several more years for government researchers to work out the methodological issues surrounding poverty measurement (see the above question regarding [other criticisms](#)).

Even if researchers reach a consensus about poverty measurement, the new measures will have to gain political approval. The Census Bureau cannot change the poverty measure without approval from the Office of Management and Budget. In the past, presidential administrations have been reluctant to change the way poverty is measured, since revising the poverty measures means increasing the number of people who are counted as poor.

### **How do basic family budgets improve on the current method of measuring poverty?**

Basic family budgets improve on the official poverty measure in several key areas:

- Family budgets calculate the costs for every major budget item, including housing, childcare, healthcare, food, transportation, and taxes. As noted above, the official poverty measure is based solely on food costs and the share of income families spent on food in the 1950s. The official measure is unrealistic because it does not take into account the increased share of income families are spending on costs such as housing and child care relative to food.
- Many of the items in family budgets are geographically specific. For some budget items, such as food, there is no reliable data source for local costs. But for the items that vary the most by region, such as housing and child care, the use of locally specific data in family budgets make them a more accurate reflection of the costs faced by families than the official poverty measure.
- Family budgets are a more realistic reflection of the amount of money families have to spend on basic needs because they include taxes, including the Earned Income Tax Credit. Family budgets can also be used to determine the effects of work supports (e.g., child care subsidies) on a family's ability to meet its basic needs.
- Most poverty measures are viewed as a measure of deprivation, or the minimum necessary for survival. Family budgets set a higher standard; these budgets seek to reflect the income a family needs for a safe and decent standard of living. For example, family budgets include the cost of good quality child care, because families shouldn't be expected to skimp in this area. However, most family budgets use a set of conservative assumptions, by not including items such as restaurant meals, vacations, movies, or savings for education or retirement.

Basic family budgets do, however, share some weaknesses common to traditional poverty measures:

- Counting the number of people in poverty requires having a poverty threshold for every family type. To do this, most researchers derive a threshold for a "baseline" family, such as a family with two parents and two children, and then use a formula to generate the threshold for other family types. Although there are drawbacks to adjusting a baseline family to reflect the costs of other family types (for instance, small differences in the formula can cause very different results), it does allow for creating budgets for every family type. Family budgets, in contrast, usually illustrate the needs of a limited number of family types. In order for family budgets to be used to measure poverty, a budget for every conceivable family type would need to be created.
- As noted above in the critique of the official poverty measures, different families face different costs for the budget items based on their life circumstances. Some



families are able to get services outside of the marketplace. For example, some families must pay for child care services, while other families have relatives who can provide these services for free. Some families face costs that other families don't have. For example, a family with an ill or disabled family member will have higher health care costs than a family with healthy family members. Family budgets are created for a model family, and they are not able to account for the variation of costs faced by different families. This is a shortcoming they share with traditional poverty measures.

### How have basic family budgets been used to influence public policy?

Family budget studies are used to influence decisions regarding government programs that support working families and labor market policies. Some key areas where they have been used include welfare reform, living wage and minimum wage increases, and workforce development programs.

- **Welfare reform and family budgets.** The recent attention to family budgets has been in large part a reaction to welfare reform. The foremost goal of welfare reform is for single-mother families to reduce their dependence on government benefits and increase their economic self-reliance through paid employment. This has led many poverty analysts and advocates to ask whether the earnings of former welfare recipients in the low-wage labor market will be high enough to provide for their family's minimum consumption needs, including child care, transportation, and other costs associated with working. Recent "job gap" studies try to answer this question by seeking to determine the number of jobs that pay enough for families to support themselves above the income levels set by family budgets.
- **Living wage and minimum wage laws.** In most cases, the wage floor set by living wage ordinances is based not on a family budget measure but on a percentage of the federal poverty guideline for a particular family size (for example, 130% of the poverty guideline). However, some local living wage campaigns have commissioned researchers to develop basic family budget measures in order to have a more accurate measure of the cost of living in their communities.
- **The Workforce Investment Act (WIA).** The WIA, a companion policy to the broader welfare reform legislation, was established to provide a more efficient and comprehensive system of worker training. Eligibility for "intensive" and "training" services, such as those necessary for someone trying to move from welfare to work, are subject to an income eligibility cap. While the act recommends using the Lower Living Standard Income Level budgets (which were last issued by Bureau of Labor Statistics in the early 1980s) to determine eligibility, communities have advocated for the adoption a family budget measure as a standard for eligibility and a target for the earnings of program participants.

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### References:

Bernstein, Jared, Chauna Brocht, and Maggie Spade-Aguilar. 2000. *How Much is Enough: Basic Family Budgets for Working Families*. Washington, D.C.: Economic Policy Institute.

Citro, Constance and Robert Michael. 1995. *Measuring Poverty: A New Approach*. National Academy Press.

Jobs for the Future. 2000. Survey prepared for the Low-Wage Workers in the New Economy Conference. <http://www.jff.org/programs/cluster3/projects/careeradvstrat.html>

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Porter, Kathryn. 1999. "Proposed Changes in the Official Measure of Poverty." Washington, D.C.: Center on Budget and Policy Priorities,

Short, Kathleen, et al. 1999. "Experimental Poverty Measures." P60-205. Washington, D.C.: U.S. Census Bureau.

U.S. Census Bureau. 1999. "Correction: Today's New York Times Story on Poverty in Error." Press Release, October 18.

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For more information or questions about poverty measurement or basic family budgets, contact [Chauna Brocht](mailto:cbrocht@epinet.org) at [cbrocht@epinet.org](mailto:cbrocht@epinet.org).

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► **poverty and family budgets**

## EPI ISSUE GUIDE

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## Guide to Creating a Basic Family Budget

**The purpose of this guide:** This is a step-by-step guide for creating basic family budgets using the data sources and methodology as recommended in EPI's book, *How Much is Enough? Basic Family Budgets for Working Families* (2000). Before beginning, we strongly recommend that you refer to that book's section "Items for Inclusion" (p. 20-46) for an explanation of the methodology and data sources, as these details are not provided in this guide.

**What you need to get started:** To create a basic family budget using these instructions, you will need a spreadsheet (such as Excel) and Internet access.

**What items are included:** The following items are included in the basic family budget, and should be column headings in your spreadsheet:

- Housing
- Food
- Child care
- Transportation
- Health care
- Other necessities
- Taxes

**Adjusting for inflation:** When creating a basic family budget, you need to make sure all of your data are for the same year. Not all of the necessary data will be available for the year you choose, however. Thus, you need to use the consumer price index (CPI) to inflate all of the dollar amounts into the same year. The Bureau of Labor Statistics' CPI home page (<http://stats.bls.gov/cpihome.htm>) provides the consumer price index, as well as an explanation on how to adjust for inflation and an automatic inflation calculator.

**Family types:** These instructions are for two-parent and single-parent families. When you create your budget, be sure to specify the number of adults in the family, the ages and number of children, and obtain the appropriate data for the family type.

**Annual or monthly amounts:** Be sure to keep all figures in either annual or monthly amounts (whichever you prefer). For this example, we use annual data.

**Geographic area:** You will need to obtain the data appropriate for either your metropolitan statistical area (MSA) or county. An MSA includes the city and surrounding suburbs.

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## The budget items

### 1 -- Housing

The housing portion of the family budget relies on data from the Department of Housing and Urban Development's (HUD) Fair Market Rent (FMR) survey.

**a)** To obtain FMR data for your selected MSA or county, go to HUD's web site at <http://www.huduser.org/datasets/fmr.html>.

**b)** Select the most recent FMR (probably year 2000). If you are not constructing budgets for the current year, you will have to deflate this number to adjust for inflation ([see note above](#)).

**c)** Find your MSA and retrieve the Fair Market Rent survey. Families with one or two children should have two bedroom units; families with more children will need additional bedrooms (two children per bedroom).

**d)** Enter the data in the housing column of your spreadsheet.

**e)** In a separate column, convert the monthly FMR to annual housing costs.

*Example using Baltimore, Md.:*

*For a one-adult, two-child family in Baltimore, Md. in 1999, annual housing costs are \$7,536 (for a two-bedroom apartment).*

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## 2 -- Food

The food portion of the family budget relies on the U.S. Department of Agriculture's (USDA) Low-Cost Food Plan.

**a)** To obtain food costs for your family budget, go to the USDA's web site at <http://www.usda.gov/cnpp/using3.htm>. This link accesses the "Official USDA Food Plans: Cost of Food at Home at Four Levels."

**b)** Select the link for the appropriate year.

**c)** Under the "Monthly Cost – Low-cost Plan" column, find the appropriate cost for each family member. Add the costs together for the total for your family type.

**d)** Place this total in your spreadsheet.

**e)** Convert the monthly figure to an annual figure.

*Example using Baltimore, Md.:*

*For one adult with two children (a preschooler and a school-aged child), annual food costs in 1999 are:*

$$\begin{aligned} & \$138 \text{ (female aged 20-50)} + \$91 \text{ (child aged 3-5)} + \$121 \text{ (child aged 6-8)} = \\ & \$350 \text{ per month} * 12 = \$4,200 \end{aligned}$$

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## 3 -- Child care

The child care portion of the family budget relies on data from the Children's Defense Fund's (CDF) report, *The High Cost of Child Care Puts Quality Child Care Out of Reach for Many Families*. Most of the figures in this report are statewide averages, although data for some cities are included. (Unfortunately, there is no data provided for a few states.)

You can also find out whether your state collects data on the county level. To see if your state has county data, contact your state government and ask them for data from their market survey of child care costs.

- a) To download the CDF report, go to:  
<http://www.childrensdefense.org/release001211.htm>
- b) The appendix to this report contains the data you need.
- c) For each child, locate the statewide average (or city average if available) for the child's age. You will have to decide whether you want to use the costs for a "Child Care Center," a "Family Child Care Home," or an average of the two types.
- d) Enter this annual cost into the family budget spreadsheet.
- e) Adjust the figures for inflation to make them consistent with the other data.

**Example using Baltimore, Md.:**

In 1999, for a family in Maryland with one preschooler and one school-age child in center-based child care, annual child care costs would be:

$$\$5,272 \text{ (preschooler)} + \$4,253 \text{ (school age)} = \$9,525$$

#### 4 -- Transportation

The transportation portion of the family budget relies on data from the Nationwide Personal Transportation Survey and the IRS cost-per-mile rate.

- a) Find the population of your MSA from the Census Bureau web site:  
<http://www.census.gov/population/www/estimates/metropop.html> (if you are in a rural county, you can skip this step).
- b) Select the average annual miles driven for your MSA size using the following table (if you are in a rural county, use the "Non-MSA" column). The table below was created using the methodology described in *How Much is Enough?*

#### Average annual miles driven by MSA population size

	MSA population size					
	Less than 250,000	250,000 - 499,000	500,000 - 999,999	1,000,000 - 2,999,999	More than 3,000,000	Non-MSA
Average annual miles driven	8,437	7,927	8,612	9,121	8,402	10,541

Source: EPI analysis of National Transportation Survey (<http://www.cta.ornl.gov/npts/1990/fat/index.html>) data.

- c) To find the IRS cost-per-mile rate for the current year, go to the IRS web site (<http://www.irs.ustreas.gov/>), then go to this sub-page:  
[http://www.irs.gov/forms\\_pubs/pubs/p4630401.htm](http://www.irs.gov/forms_pubs/pubs/p4630401.htm).
- d) Use the following formula to calculate annual transportation costs for the family in your MSA (this formula only includes trips to work, school, shopping, church, or to visit family members):

$$\text{One parent: } [.69 \text{ (non-social trips 1st adult)} * \text{Average miles}$$

driven \* IRS cost/mile]

*Two parents:* [.69 (nonsocial trips 1st adult) \* Average miles driven \* IRS cost/mile] + [.28 (work trips 2nd adult) \* Average miles driven \* IRS cost/mile]

**Example using Baltimore, Md.:**

Baltimore has a population of 2,483,952. Therefore, the annual miles driven is 9,121. Transportation costs for a one-parent family in 1999 are:

$.69$  (percentage of nonsocial trips) \* 9,121 (annual miles driven) \* \$0.325 (IRS cost-per-mile rate for 1999) = \$2,045

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## 5) Health care

The health care portion of the family budget relies on data collected from an online insurance quote provider ([www.ehealthinsurance.com](http://www.ehealthinsurance.com)) and from the Medical Expenditure Panel Survey (MEPS).

**a)** To obtain the non-group premium (NGP) information, go to <http://ehealthinsurance.com>.

Once at that site, choose the *Individuals and Families* link. Enter the relevant zip code.

Follow the prompts and fill out the online form according to the relevant family type. Fill out one form for each family type. You will receive a list of quotes for various health insurance policies available in the relevant area. Choose the cheapest. If you are doing budgets for more than one area or family size, be sure to choose insurance plans with comparable co-pays and deductibles.

If data is unavailable for your state from this web site, an alternative site is [www.quotesmith.com](http://www.quotesmith.com).

**b)** Enter the information obtained from the site on the spreadsheet.

**c)** Obtain the information on the employee's share of the employer-sponsored health insurance premium (ESP) from: <http://www.meps.ahcpr.gov/mepsdata/ic/1997/Index297.htm>. Choose Table II.D.2

Locate the appropriate state, and then enter the figure on your spreadsheet. Adjust these figures for inflation. Out of pocket expenses (OOP) for 1998 were \$93.76 per month. Adjust this figure for inflation..

**d)** Use the following formulas. Because some people get health insurance through their employer and others must purchase their own insurance, we use a weighted average based on the share of the population that has employer-sponsored health insurance and the share that must purchase private, non-group insurance (families with publicly provided insurance make up the remainder, and their costs are \$0):

Monthly health care costs for single-parent families =  
[0.605(ESP) + 0.317(NGP) + (OOP)]

Monthly health care costs for two-parent families =  
[0.585(ESP) + .339(NGP) + (OOP)]

e) Enter these amounts on your spreadsheet.

f) Convert the monthly costs into annual costs.

*Example using Baltimore, Md.:*

*For a one-parent, two-child family in Baltimore in 1999, non-group health insurance premium rates are \$2,028 a year, and employer-sponsored premiums are \$1,406 a year. Thus, health care costs are:*

$$(0.605 * \$1,406) + (.317 * \$2,028) + \$1,150 = 2,643$$

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## 6 -- Other necessities

The other necessities portion of the family budget relies on data from the Consumer Expenditure Survey on the share of a family's budget they spend on items such as telephone, apparel, personal items, and other necessities. Annual costs for other necessities equals 31% of both annual housing costs and annual food costs combined.

*Example using Baltimore, Md.:*

*For a one-parent, two-child family in Baltimore in 1999, housing costs are \$7,536 a year and food costs are \$4,200 a year. Thus, other necessities costs are:*

$$(\$7,536 + \$4,200) * 0.31 = 3,638$$

---

## 7 -- After-tax annual total

Add all of the annual amounts: Housing + Food + Child care + Transportation + Health care + Other Necessities = After-tax annual total

*Example using Baltimore, Md.:*

*The after-tax annual total for a one-parent, two-child family in 1999 in Baltimore is \$29,587.*

---

## 8 -- Taxes

a) Payroll taxes = 7.65% of after-tax annual total.

b) To calculate income taxes:

Subtract the payroll taxes from the after-tax annual total to get the gross income needed to determine income taxes.

Use the income tax forms from the federal government and your state government to determine the family's income tax burden (or refund from the EITC). Most state tax forms are available online from your state government.

c) Property taxes are already included in the cost of rent, and sales taxes are already included in the other necessities costs.

*Example using Baltimore, Md.:*

*Payroll taxes for a one-parent, two-child family in 1999 in Baltimore are:*

$$\$29,587 \cdot .0765 = \$2,263$$

State and federal income taxes for this family are \$2,971

---

## 9 -- Pre-tax annual total

Add taxes to after-tax annual total.

*Example using Baltimore, Md.:*

*The pre-tax annual total for a one-parent, two-child family in 1999 in Baltimore is \$34,822.*

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If you have questions about these instructions, please contact [Chauna Brocht](mailto:Chauna Brocht) at [cbrocht@epinet.org](mailto:cbrocht@epinet.org).

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## ► poverty and family budgets



## EPI ISSUE GUIDE

# Poverty and Family Budgets

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### Basic family budget studies by state:

#### Arkansas

*Making It Day-to-Day: A Family Income Standard for Arkansas*

Arkansas Advocates for Children and Families, (501) 371-9678 [www.aradvocates.org](http://www.aradvocates.org).

#### California

*Making Ends Meet: How Much Does It Cost to Raise a Family in California?* California Budget Project, (916) 444-0500, [www.cbp.org](http://www.cbp.org).

*The Self-Sufficiency Standard for California* (1996)

by Diana Pearce

Wider Opportunities for Women, <http://www.wowonline.org/pubs.htm>

#### Colorado

*Colorado Family Needs Budget*

Colorado Fiscal Policy Institute, <http://www.cofiscalpolicyinst.org>

#### District of Columbia and metropolitan area

*Self-Sufficiency Standard for the Washington, D.C. Metropolitan Area* Wider Opportunities for Women, <http://www.wowonline.org/pubs.htm>

#### Hawaii

*Barely Making It On Your Own in Hawai'i*

American Friends Service Committee, (808) 988-6266 or [afsc@pixi.com](mailto:afsc@pixi.com)

#### Idaho

*Northwest Job Gap Study*

Northwest Policy Center, <http://depts.washington.edu/npcbox/publications.html>

#### Illinois

*Midwest Job Gap Project*

Northern Illinois University, <http://www.ospr.niu.edu/midwest.htm>

*The Self-Sufficiency Standard for Illinois* (1998)

by Diana Pearce & Jennifer Brooks

Wider Opportunities for Women, <http://www.wowonline.org/pubs.htm>

#### Indiana

*Estimating a Basic Needs Budget for Indiana Families*

Indiana Economic Development Council, <http://www.ladders4success.org>

*The Self-Sufficiency Standard for Indiana* (1999)

by Diana Pearce & Jennifer Brooks

University of Washington, Wider Opportunities for Women,  
<http://www.wowonline.org/pubs.htm>

#### Iowa

*The Self-Sufficiency Standard for Iowa* (1996)

by Diana Pearce

Wider Opportunities for Women, <http://www.wowonline.org/pubs.htm>

## **Kentucky**

*Cost of Living in Rural Kentucky*

by Julie Zimmerman, [jzimm@pop.uky.edu](mailto:jzimm@pop.uky.edu)

## **Maine**

*Getting by in 1999: Basic Needs and Living Wages in Maine*

Maine Center for Economic Policy, <http://www.mecep.org/getby/report.shtml>

## **Maryland**

*Report on the Minimum Standard of Need (1997)*

Montgomery County Community Action Board, Montgomery County Department of Health and Human Services, Community Action Board, (301) 565-7460.

*Self-Sufficiency Standard for the Washington, D.C. Metropolitan Area Wider Opportunities for Women*, <http://www.wowonline.org/pubs.htm>

*How Much is Enough? Basic Family Budgets for Working Families*

by Jared Bernstein, et al.

Economic Policy Institute (estimates for Baltimore, Md.)

<http://www.epinet.org/books/howmuch.html>

## **Massachusetts**

*The Self-Sufficiency Standard for Massachusetts (1998)*

by Diana Pearce and Jennifer Brooks

Wider Opportunities for Women, <http://www.wowonline.org/pubs.htm>

## **Michigan**

*Economic Self-Sufficiency in Michigan*

Michigan League for Human Services, (517) 487-5436

*Midwest Job Gap Project*

Northern Illinois University, <http://www.ospr.niu.edu/midwest.htm>

## **Minnesota**

*The Cost of Living in Minnesota*

Jobs Now Coalition, <http://www.osjspm.org/jobgap.htm>

*Midwest Job Gap Project*

Northern Illinois University, <http://www.ospr.niu.edu/midwest.htm>

## **Missouri**

*The Family-Supporting Wage for the St. Louis Region*

East-West Gateway Coordinating Council, (314) 421-4220.

## **Montana**

*Northwest Job Gap Study*

Northwest Policy Center, <http://depts.washington.edu/npcbox/publications.html>

## **Nebraska**

*Nebraska Economic Self-Sufficiency*

Nebraska Appleseed Center, (402) 438-8853

## **New York**

*The Self-sufficiency Standard for the City of New York*

prepared by Wider Opportunities for Women for the Women's Center for Education and Career Advancement, <http://www.wowonline.org/pubs.htm>

## **North Carolina**

*The Self-sufficiency Standard for North Carolina (1997)*

by Janice Hamilton Outtz et al.

Wider Opportunities for Women, <http://www.wowonline.org/pubs.htm>

## **Ohio**

Midwest Job Gap Project

Northern Illinois University, <http://www.ospr.niu.edu/midwest.htm>

## **Oregon**

*Making the Transition to Self-sufficiency in Oregon*

Oregon Coalition of Community Non-Profits and Children First for Oregon.

<http://www.econw.com/reports.html>

*Northwest Job Gap Study*

Northwest Policy Center, <http://depts.washington.edu/npcbox/publications.html>

## **Pennsylvania**

*The Job Gap in Pennsylvania: Are There Enough Living-Wage Jobs?*

Keystone Research Center, (717) 255-7181.

*The Self-sufficiency Standard for Pennsylvania (1999)*

by Diana Pearce and Jennifer Brooks, University of Washington.

Wider Opportunities for Women, <http://www.wowonline.org/pubs.htm>

*Basic Living Cost and Living Wage Estimates for Pittsburgh and Allegheny County (1997)*

by Ralph Bangs, et al.

University Center for Social and Urban Research, University of Pittsburgh.

## **Tennessee**

*What Is a Living Wage for Memphis?*

University of Memphis' Center for Research on Women, (901) 678-2770.

## **Texas**

*The Self-sufficiency Standard for Texas (1997)*

by Janice Hamilton Outtz et al.

Wider Opportunities for Women. <http://www.wowonline.org/pubs.htm>

## **Vermont**

*The Vermont Job Gap Study*

Peace and Justice Center, <http://www.vtlivablewage.org/jobgapstudy.html>

## **Virginia**

*The Self-sufficiency Standard for the Washington, D.C. Metropolitan Area*

Wider Opportunities for Women. <http://www.wowonline.org/pubs.htm>

## **Washington**

*Northwest Job Gap Study*

Northwest Policy Center, <http://depts.washington.edu/npcbox/publications.html>

## **Wisconsin**

*Midwest Job Gap Project*

Northern Illinois University, <http://www.ospr.niu.edu/midwest.htm>

*Wisconsin Family Income Resource Simulation Tool* (interactive family budget for Wisconsin). <http://www.wisconsinsfuture.org/>

*The Self-sufficiency Standard for Wisconsin*  
Wider Opportunities for Women. <http://www.wowonline.org/pubs.htm>

### **All 50 States**

*Working Hard, Earning Less*

National Priorities Project (state-by-state breakdowns).

<http://www.natprior.org/grassrootsfactbook/jobgrowth/jobgrowth.html>

### **National**

*Poverty and Single Parent Families: A Study of Minimal Subsistence Household Budgets* (1998)

by Trudi Renwick

Garland Publishing

"A Budget-Based Definition of Poverty"

by Renwick, Trudi and Barbara Bergmann.

*The Journal of Human Resources*, Volume 28, No. 1. May 1993..

*The Forgotten Americans* (1992)

by John Schwartz and Thomas Volgy

W.W. Norton.

*Toward Valid Estimates of Poverty Among Families With Children: A New Measure of Relative Deprivation*

by Susan D. Einbinder, (213) 740-3347

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If you know of studies not listed here, please contact Chauna Brocht at [cbrocht@epinet.org](mailto:cbrocht@epinet.org).

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For more information or questions about poverty measurement or basic family budgets, contact Chauna Brocht at [cbrocht@epinet.org](mailto:cbrocht@epinet.org).

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► **poverty and family budgets**

**TABLE 2 Numbers of families and persons below family budgets and poverty level**

	Number below (000s)	
	Family budget	Poverty line
Families	4,229	1,485
Persons	14,154	4,926
White	7,011	2,042
African American	2,758	1,184
Hispanic	3,730	1,456
Other	655	244
Adults	6,686	2,175
Children	7,468	2,751
White	3,576	1,073
African American	1,580	729
Hispanic	1,958	809
Other	354	140

Source: Authors' calculations from the pooled 1997-99 March CPS.

Note: Sample is families with positive earnings, one to two parents, and one to three children under the age of 12.

**TABLE 3 Share of families with income less than family budgets and less than one or two times poverty threshold, by demographic characteristics**

	Share of families below		
	Family budget	Poverty line	Twice poverty line
<b>ALL</b>	28.9%	10.1%	28.4%
<b>Race/ethnicity*</b>			
White	20.3	6.2	20.5
African American	52.1	22.3	50.2
Hispanic	56.3	21.5	54.1
Other	28.5	10.4	25.6
<b>Education</b>			
Less than high school degree	68.6	34.1	68.8
High school degree only	38.1	13.3	38.2
Some college	27.6	7.5	26.4
College degree	7.7	1.6	7.2
<b>Age</b>			
18-30	46.8	19.4	46.8
31-45	20.1	5.6	19.4
46+	21.6	6.6	21.0
<b>Location</b>			
City	39.3	15.0	36.6
Suburbs	21.7	6.1	19.5
Rural	32.8	13.1	38.3
<b>Region</b>			
Northeast	29.7	8.2	23.6
Midwest	23.4	9.1	24.7
South	30.0	11.5	32.5
West	32.0	10.7	29.6
<b>Work status</b>			
Full-time, full-year	20.9	3.9	19.9
Less than full-time, full-year	46.8	24.1	47.5
<b>Family type</b>			
One adult with one child	60.3	22.5	53.7
One adult with two children	75.3	34.5	67.8
One adult with three children	87.8	60.6	83.9
Two adults with one child	16.9	4.1	16.1
Two adults with two children	18.5	5.2	20.8
Two adults with three children	35.2	11.9	36.7

\* White, African American, and Other exclude Hispanics.

Note: Sample is families with positive earnings, one to two parents, and one to three children under the age of 12.

Source: Authors' calculations from the pooled 1997-99 March CPS.

**TABLE 4 Distribution of families by family budget and poverty status**

	Family budget	Poverty line	All
<b>Race/ethnicity*</b>			
White	50.5%	43.6%	71.7%
African American	21.8	26.6	12.1
Hispanic	23.5	25.6	12.1
Other	4.1	4.3	4.2
Total	100.0	100.0	100.0
<b>Education</b>			
Less than high school degree	23.9	33.9	10.1
High school degree only	39.1	38.9	29.6
Some college	29.0	22.4	30.3
College degree	8.1	4.8	30.1
Total	100.0	100.0	100.0
<b>Age</b>			
18-30	52.5	62.0	32.4
31-45	41.9	33.1	60.2
46+	5.6	4.9	7.5
Total	100.0	100.0	100.0
<b>Location</b>			
City	36.2	39.8	26.5
Suburbs	39.1	31.9	51.9
Rural	24.6	28.3	21.6
Total	100.0	100.0	100.0
<b>Region</b>			
Northeast	18.9	14.8	18.3
Midwest	19.1	21.2	23.6
South	36.9	40.3	35.5
West	25.1	23.8	22.6
Total	100.0	100.0	100.0
<b>Work status</b>			
Full-time, full-year	50.0	26.7	69.2
Less than full-time, full-year	50.0	73.3	30.8
Total	100.0	100.0	100.0
<b>Family type</b>			
One adult with one child	21.3	22.7	10.2
One adult with two children	15.7	20.5	6.0
One adult with three children	5.3	10.4	1.7
Two adults with one child	19.9	13.8	34.0
Two adults with two children	23.1	18.5	36.1
Two adults with three children	14.7	14.1	12.0
Total	100.0	100.0	100.0

Note: Sample is families with positive earnings, one to two parents, and one to three children under the age of 12.

Source: Authors' calculations from the pooled 1997-99 March CPS.

**TABLE 5 Percent and number of persons in families with incomes less than family budgets, by state**

State	Below family budgets	
	Percent	Number (000)
<b>Northeast</b>	28.6%	2,746
Maine	31.5	60
New Hampshire	34.7	77
Vermont	28.4	33
Massachusetts	27.9	293
Rhode Island	27.1	46
Connecticut	17.9	124
New York	37.5	1,247
New Jersey	21.0	332
Pennsylvania	23.7	535
<b>Midwest</b>	21.5%	2,628
Ohio	21.9	473
Indiana	17.8	208
Illinois	25.5	651
Michigan	20.2	380
Wisconsin	19.9	205
Minnesota	16.7	161
Iowa	20.9	103
Missouri	20.6	196
North Dakota	36.9	35
South Dakota	20.1	21
Nebraska	23.4	79
Kansas	24.3	116
<b>South</b>	28.5%	5,086
Delaware	27.8	38
Maryland	16.3	155
District of Columbia	41.9	26
Virginia	20.3	251
West Virginia	37.1	68
North Carolina	23.6	358
South Carolina	25.5	203
Georgia	29.0	410
Florida	29.7	751
Kentucky	29.9	211
Tennessee	32.6	391
Alabama	31.7	233
Mississippi	26.1	118
Arkansas	27.7	130
Louisiana	24.9	192
Oklahoma	25.5	136
Texas	34.0	1,414
<b>West</b>	31.6%	3,694
Montana	39.8	54
Idaho	39.1	96
...	...	...



**TABLE 7 Proportion of persons in families experiencing hardships**

	NSAF proportion		SIPP proportion	
	One or more hardships	Two or more hardships	One or more hardships	Two or more hardships
<b>Critical hardships</b>				
All	15.8%	2.5%	9.2%	1.9%
Below 100% poverty	29.4	6.8	28.6	6.5
Between 100% and 200% poverty	24.5	4.6	17.4	4.1
Above 200% poverty	10.7	0.9	4.4	0.6
<b>Serious hardships</b>				
All	45.4	19.7	17.9	3.8
Below 100% poverty	74.1	44.1	46.1	15.3
Between 100% and 200% poverty	63.2	33.9	32.4	6.2
Above 200% poverty	30.1	8.5	10.1	1.4

Sources: Authors' calculations from the 1993 SIPP (for calendar year 1995) and 1997 NSAF (for calendar year 1996).

**TABLE 8 Proportion of persons living in families with incomes above and below 200% of poverty and experiencing hardships**

	Below 200% poverty	Above 200% poverty
<b>Critical hardships</b>		
<i>Food insecurity</i>		
Not enough food to eat*	12.6%	1.6%
Missed meals	17.5	3.4
<i>Insufficient health care</i>		
Did not receive necessary medical care	12.7	8.0
<i>Housing problems</i>		
Evicted*	1.1	0.1
Utilities disconnected*	4.1	0.6
Doubling up with friends or family	2.4	0.3
<b>Serious hardships</b>		
<i>Food insecurity</i>		
Kind of food*	28.8	8.4
Worried about having enough food	41.1	11.0
<i>Insufficient health care</i>		
Emergency room is main source of care	7.3	2.3
No health insurance coverage	35.9	9.9
<i>Housing problems</i>		
Unable to make housing or utility payments	25.0	7.8
Telephone disconnected	10.4	3.0
<i>Inadequate child care</i>		
Child cares for self	5.1	6.8
Child not in after-school or enrichment activities	21.2	8.5
Inadequate adult-to-child ratio in child care facility	6.0	8.5

\*Data for these variables come from the SIPP.

Sources: Authors' calculations from the 1993 SIPP (for calendar year 1995) and 1997 NSAF (for calendar year 1996).

Wyoming	23.4	12
Colorado	20.7	173
New Mexico	40.2	122
Arizona	35.0	337
Utah	30.7	130
Nevada	30.1	117
Washington	20.5	250
Oregon	36.0	251
California	33.1	2,007
Alaska	32.7	53
Hawaii	45.7	93
U.S.	27.6%	14,154

Note: Sample is families with positive earnings, one to two parents, and one to three children under the age of 12.

Source: Authors' calculations from the pooled 1997-99 March CPS.

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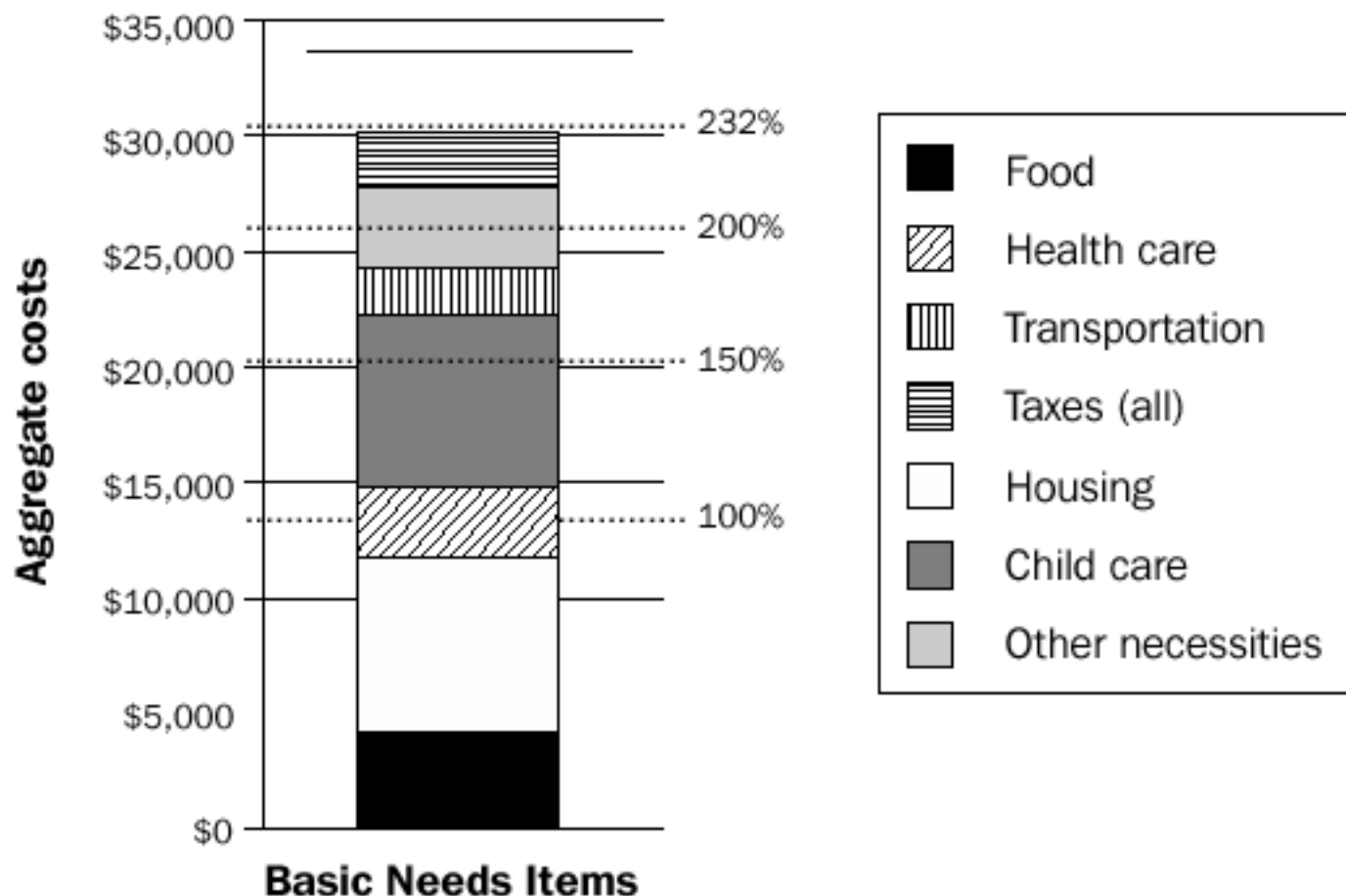
**TABLE 6.14** Poverty by state, two-year averages, 1988-98

	1988-89	1997-98	Percentage-point change (1988/89)-(1997/98)
<b>NORTHEAST</b>			
<i>New England</i>			
Maine	11.8%	10.3%	-1.6
New Hampshire	7.2	9.5	2.3
Vermont	8.1	9.6	1.6
Massachusetts	8.7	10.5	1.8
Rhode Island	8.3	12.2	3.9
Connecticut	3.5	9.1	5.6
<i>Middle Atlantic</i>			
New York	13.0%	16.6%	3.6
New Jersey	7.2	9.0	1.8
Pennsylvania	10.4	11.2	0.8
<b>MIDWEST</b>			
<i>East North Central</i>			
Ohio	11.5%	11.1%	-0.4
Indiana	11.9	9.1	-2.8
Illinois	12.7	10.7	-2.1
Michigan	12.7	10.7	-2.0
Wisconsin	8.1	8.5	0.4
<i>West North Central</i>			
Minnesota	11.4%	10.0%	-1.4
Iowa	9.9	9.4	-0.5
Missouri	12.7	10.8	-1.9
North Dakota	11.9	14.4	2.5
South Dakota	13.7	13.7	0.0
Nebraska	11.6	11.1	-0.5
Kansas	9.5	9.7	0.2
<b>SOUTH</b>			
<i>South Atlantic</i>			
Delaware	9.3%	10.0%	0.6
Maryland	9.4	7.8	-1.6
District of Columbia	16.6	22.1	5.5
Virginia	10.9	10.8	-0.1
West Virginia	16.8	17.1	0.3
North Carolina	12.4	12.7	0.3
South Carolina	16.3	13.4	-2.9
Georgia	14.5	14.1	-0.4
Florida	13.1	13.7	0.6
<i>East South Central</i>			
Kentucky	16.9%	14.7%	-2.2
Tennessee	18.2	13.9	-4.4
Alabama	19.1	15.1	-4.0
Mississippi	24.6	17.2	-7.5
<i>West South Central</i>			
Arkansas	20.0%	17.3%	-2.7
Louisiana	23.1	17.7	-5.4
Oklahoma	16.0	13.9	-2.1
Texas	17.6	15.9	-1.7
<b>WEST</b>			
<i>Mountain</i>			
Montana	15.1%	16.1%	1.0
Idaho	12.5	13.9	1.4
Wyoming	10.3	12.1	1.8
Colorado	12.3	8.7	-3.6
New Mexico	21.3	20.8	-0.5
Arizona	14.1	16.9	2.8
Utah	9.0	9.0	-0.1
Nevada	9.7	10.8	1.1
<i>Pacific</i>			
Washington	9.2%	9.1%	-0.1
Oregon	10.8	13.3	2.5
California	13.1	16.0	3.0
Alaska	10.8	9.1	-1.7
Hawaii	11.2	12.4	1.2
<b>TOTAL U.S.</b>	12.9%	13.0%	0.1

Source: U.S. Bureau of the Census, poverty web site.

**FIGURE 2A**

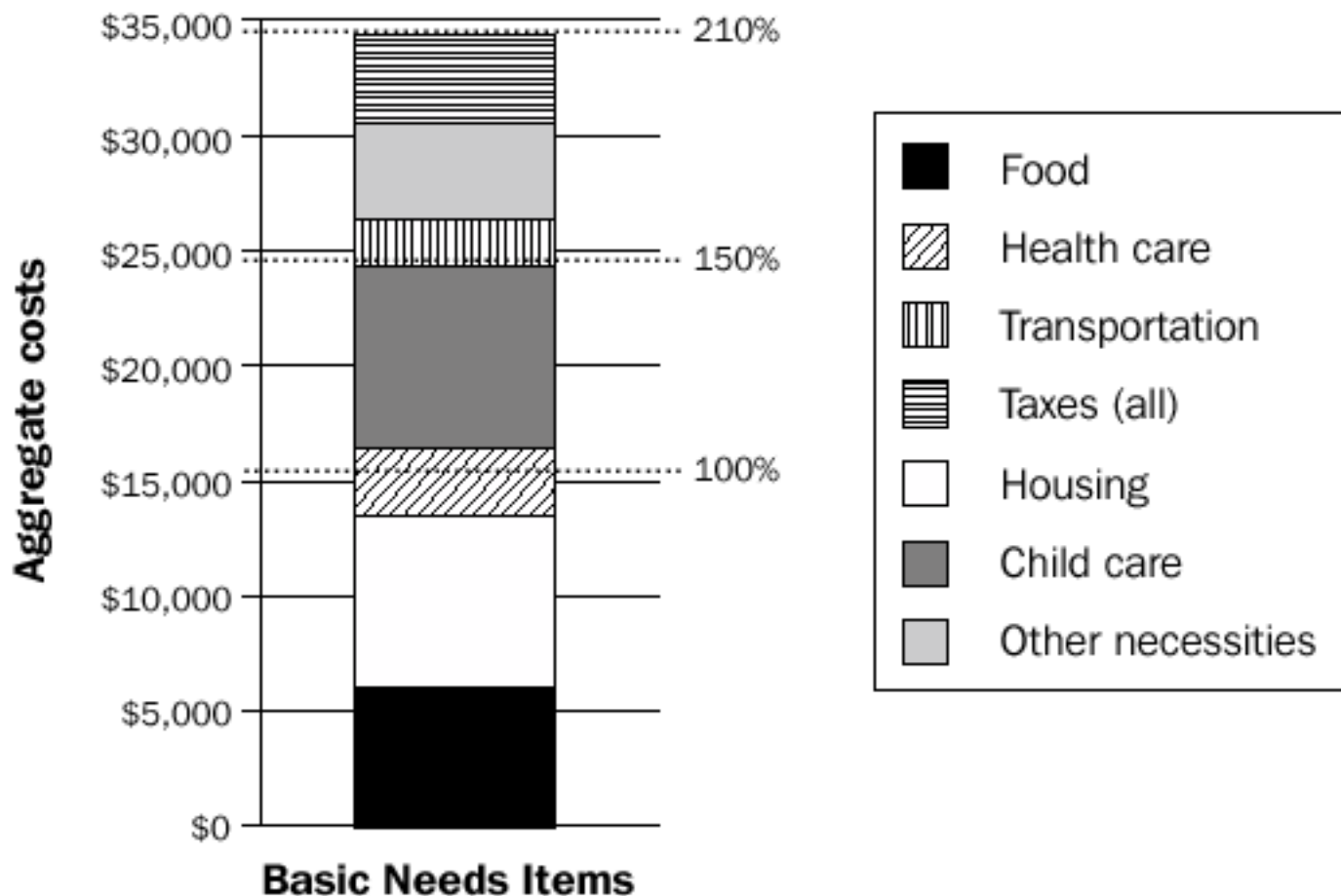
**Comparison of a basic needs budget for one adult/two children and the poverty thresholds**



Source: *How Much is Enough: Basic Family Budgets for Working Families*.  
Jared Bernstein, Chauna Brocht and Maggie Spade-Aguilar, 2000  
Washington, D.C., Economic Policy Institute.

**FIGURE 2B**

**Comparison of a basic needs budget for two adults/two children and the poverty thresholds**



Source: *How Much is Enough: Basic Family Budgets for Working Families*.  
Jared Bernstein, Chauna Brocht and Maggie Spade-Aguilar, 2000  
Washington, D.C., Economic Policy Institute.