



EPI'S FAMILY BUDGETS AND INCOME SUFFICIENCY IN LOS ANGELES

BY ELISE GOULD AND DAVID COOPER

For over a decade, the Economic Policy Institute (EPI) has calculated **basic family budgets** for every area of the United States. These budgets measure how much it costs various representative family types in over 600 local areas across the country to have a modest but adequate standard of living. They measure the income families need by estimating location-specific costs of housing, food, child care, transportation, health care, taxes, and other necessities.

Our methodology is so respected that the family budget tool has been used and cited extensively by living-wage advocates, private employers, academics, and policymakers looking for comprehensive measures of economic security. EPI's family budgets have frequently been used to gauge the adequacy of earnings. In particular, the family budget provides an excellent resource for policymakers seeking to assess the adequacy both of local wage standards and available safety net programs.

Over the past several years, as congressional inaction has led to continued erosion in the purchasing power of the federal minimum wage, a substantial number of states and cities have enacted higher minimum-wage laws. These increases, while not eliminating the need for a higher national wage floor, do help to ensure that regular employment provides the means to achieve a decent quality of life. Cities, in particular, that have raised local minimums have often done so in explicit recognition that higher costs of living in those areas require higher wage standards so that workers there can still meet their basic needs.

Los Angeles is currently debating a higher minimum wage for its workers. This provides an opportune moment to examine how current income levels in the Los Angeles region compare with the family budgets' locally tailored thresholds of a modest but adequate standard of living. In this paper, we use the family budget thresholds to gauge the adequacy of incomes in the Los Angeles metropolitan area.

The major findings of this study include:

- EPI's annual family budgets for families in the Los Angeles metro area range from a low of \$34,324 for one-person families to \$91,949 for families with two parents and three children.
- The shares of expenses going to various categories vary substantially across family types in the Los Angeles metro area: 31 percent of expenses for one-person families go to housing, but larger families with children spend a significant share of their income on child care and health care.
- There are 2 million non-elderly families and single persons with incomes below the family budget threshold in the Los Angeles metro area, roughly 55 percent of all families in the region.
- Counting single persons and individuals in non-elderly families, 4.6 million of the region's 8 million such people—about 57 percent—fall below the family budget threshold.
- The share of people below the family budget threshold varies considerably by race, with whites having the lowest rate of income insufficiency (34.2 percent) and Hispanics facing the highest (77.7 percent).
- Rates of income insufficiency vary dramatically by citizenship status. Non-citizen workers are more than twice as likely as U.S.-born citizens to have income levels below the family budget threshold.

The paper proceeds as follows. First, we describe the components of EPI's family budgets. Next, we discuss the family budgets specific to the Los Angeles metro area. Last, we compare income data for individuals and families with their respective family budget threshold, and describe the demographics of the population that falls below the family budget threshold in the Los Angeles region.

EPI's basic family budgets

The [EPI Family Budget Calculator](#) illustrates the income required to afford an adequate standard of living for eight family types (including single persons) living in over 600 specific U.S. communities. The fact that the budgets differ by location is important, since certain costs, such as housing, vary significantly depending on where one resides. Geographical cost-of-living differences are built into the budget calculations by incorporating regional, state, or local variations in prices (depending on the item). This geographic dimension of EPI's family budget measurements offers a distinct comparative advantage over poverty thresholds, which only use a national baseline in their measurements (e.g., the federal poverty line), or which use a geographic component only for measuring differences in housing prices (e.g., the Supplemental Poverty Measure).

This section provides a brief description of each component of EPI's basic family budgets (which will soon be updated fully with data for 2014) and the restrictions and/or working assumptions entailed in calculating costs of housing, food, transportation, child care, health care, other necessities, and taxes.

Housing costs are based on the Department of Housing and Urban Development's (HUD) fair market rents, or FMRs (HUD 2014). FMRs represent rents (shelter rent plus utilities) at the 40th percentile (i.e., the dollar amount below which 40 percent of standard quality rental units are rented) for privately owned, structurally safe, and sanitary rental housing of a modest nature with suitable amenities. Rents for studio apartments were used for one-person families, one-bedroom apartments were used for two-adult families, 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 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 2014). This plan is the second-least-expensive of four types of food plans and assumes almost all food is bought at the grocery store and then prepared at home. The USDA food plans represent the amount families need to spend to achieve nutritionally adequate diets.

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 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 2014).

Child care expenses are based on costs of center-based child care and family-based care for four-year-olds and school-age children, as reported by the Child Care Aware of America annual report on the cost of child care by state (CCAA 2014). We assume all families in urban areas utilize center-based care and all families in rural areas utilize family-based care.

Health care expenses have two components: Affordable Care Act (ACA) insurance premiums and out-of-pocket expenditures. Premiums are based on the lowest-cost bronze plan in the rating area adjusted for family size, age of user, and tobacco surcharge (Henry J. Kaiser Family Foundation 2014). For the purpose of this family budget all members of the family are assumed to be non-smokers, and all adults are assumed to be 40 years old. Out-of-pocket medical expenditures are calculated for adults and children separately by region and are differentiated between metropolitan statistical areas and non-metropolitan statistical areas for those covered by private insurance (HHS 2013).

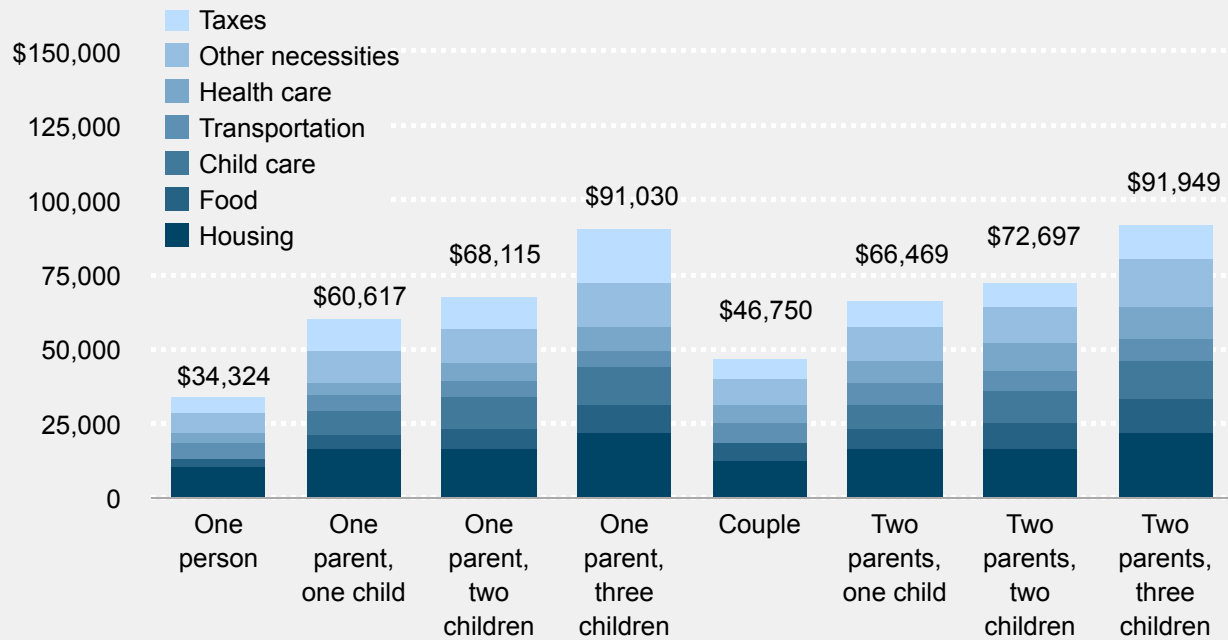
EPI's basic family budgets include the costs of other necessities such as apparel, entertainment, personal care expenses, household supplies (including furnishings and equipment, household operations, housekeeping supplies, and telephone services), reading materials, school supplies, and other miscellaneous items of necessity as reported for the second quintile from the Bureau of Labor Statistics Consumer Expenditure Survey (BLS 2013).

The family budget components enumerated thus far sum to the family's post-tax income. To calculate the tax component of family budgets, we utilize the National Bureau of Economic Research's Internet TAXSIM (NBER 2013) to gather information on federal personal income taxes, state income taxes, and federal Social Security and Medicare payroll taxes.

EPI's basic family budgets sum each of these components to get the total cost of living in each area across the United States. Notably, these budgets do not include several components of what might be considered a middle-class lifestyle. In particular, they do not include any savings: There are no savings for a rainy day (e.g., job loss or unexpected medical

FIGURE A

Annual family budgets in Los Angeles, by family type, 2013



Source: EPI analysis of EPI Family Budget Calculator (2015, forthcoming)

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bills), savings for retirement (except through Social Security payments), or further investments in their children (e.g., college savings). Thus, these are adequate but decidedly modest family budgets.

LA metro area family budget thresholds

The basic family budgets for our eight family types, from one person up to two-parent, three-children families, are shown in **Figure A**.¹ Unsurprisingly, the lowest family budgets are for only one person, at \$34,324 a year. Except for child care (in which case families composed of two adults with no children also spend nothing), one-person families have the lowest expenses in every category. For example, they require only efficiency housing and only need to purchase other items, such as food and health care, for one.

Family budgets vary as much by family size as by family composition. For instance, a four-person family with one parent and three children is more expensive than a four-person family with two parents and two children. This sensitivity to family composition is an important advantage of EPI's family budgets over other measures of income sufficiency.

Our family budgets are consistent with the way food is measured for official poverty thresholds (which are based on a food budget) in the sense that adults require more food than children. In fact, our food budgets for same-sized families are higher when there are relatively more adults. That is, the monthly food budget for three-person families is \$608 for two-parent, one-child families, but slightly less (\$575) for families with one parent and two kids.

One of the improvements EPI's family budgets have over official poverty measures is the explicit acknowledgement of the high cost of child care. This expense is one of the reasons that one-parent, three-child families are more costly than two-parent, two-child families. The other reason is the fact that the second parent shares a room, while the third child in our budgets requires an extra room so that three children of varying ages (and likely genders) are not sharing one bedroom.

These explicit returns to scale in expenses are demonstrated in **Figure B**. It illustrates the relative shares of family budgets for one-parent, one-child families and two-parent, two-child families. The monthly housing costs are the same, at \$1,375—both require a two-bedroom apartment. However, since larger families have larger overall budgets, their housing costs are a smaller share of their overall expenses. Housing is about 27 percent of expenses for the smaller family, but only about 23 percent for the larger family. Other expenses, such as food and health care, are nearly proportional to the number of adults and kids in the family. They are just about twice as costly for our two-parent, two-child family as for our one-parent, one-child family.

In the next section, we compare the eight Los Angeles-specific family budgets with actual family incomes in the Los Angeles metro area to assess the extent to which families in the region are meeting the family budget's threshold of a modest but secure standard of living.

Comparison of Los Angeles metro area incomes to EPI's family budgets

Equipped with the family budgets' geographically tailored thresholds, we can compare reported income levels with the appropriate family budgets to understand whether families and individuals in a particular region have adequate levels of income. To do this, we use data from the Census Bureau's American Community Survey (ACS). For this brief, we analyze data from the 2011–2013 ACS for all persons in non-elderly families living in the Los Angeles-Long Beach-Anaheim Metropolitan Statistical Area (hereafter referred to as the Los Angeles MSA, or simply Los Angeles) in one of the family types for which we are able to generate a family budget.²

As shown in **Table 1**, there are roughly 2 million families or single persons in the Los Angeles MSA with total family incomes below their respective family budget threshold, representing more than half of all families in the region. When single persons and people within families are tallied individually, nearly 4.6 million people in Los Angeles live with income levels below their respective family budget threshold—over 57 percent of the area population.

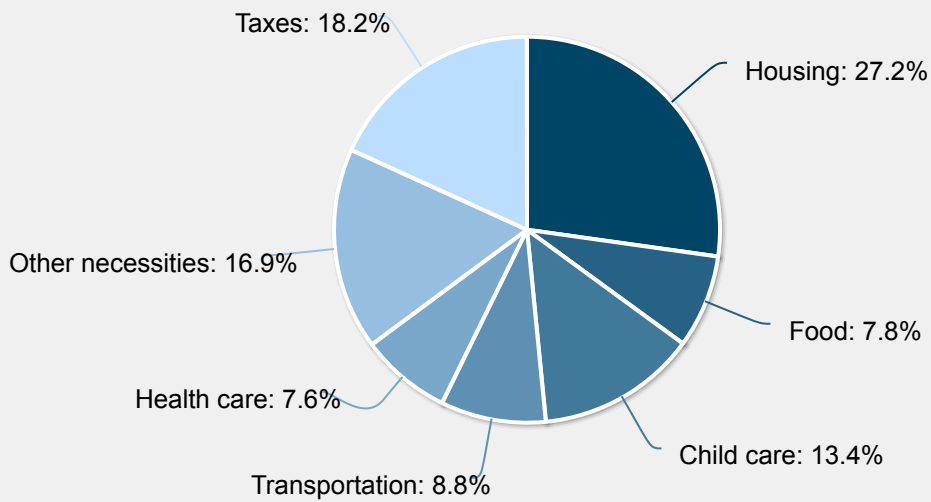
Table 2 shows demographic characteristics of the Los Angeles population and those below their respective family budget threshold. There are some notable differences in the rates of income adequacy by demographic category. First, the data show that two-thirds of all children in the region live in families with incomes too low to reach the family budget threshold of a modest yet secure standard of living. These children account for 35 percent of all individuals in the region below the family budget threshold.

The table also shows that single individuals are more likely than married persons to have inadequate levels of income—single parents, in particular. Single parents make up about 9 percent of the Los Angeles population, yet account for 12 percent of those below the family budget threshold. In fact, more than three in four single parents are below the family budget threshold. In contrast, about half of married parents have income levels inadequate to meet the family budget line—a slightly smaller rate than the overall area population.

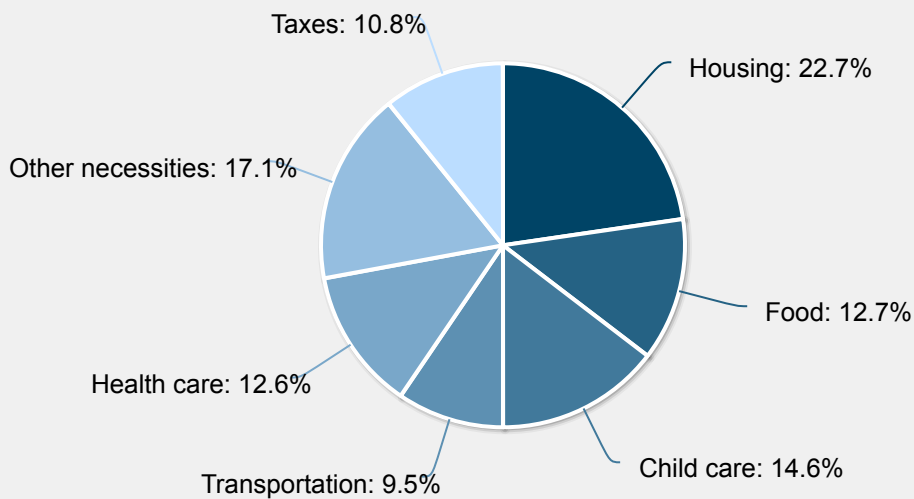
FIGURE B

Variation in the components of Los Angeles family budgets, by family size, 2013

One parent, one child



Two parents, two children



Source: EPI analysis of EPI Family Budget Calculator (2015, forthcoming)

TABLE 1

Number and share of families, individuals in families, and single persons in the Los Angeles metro area below the family budget threshold

	Estimated population	Below family budget threshold	Share below family budget threshold
<i>Families and single persons</i>	3,665,358	2,004,129	54.7%
<i>Individuals in families and single persons</i>	8,013,734	4,589,204	57.3%

Note: Figures reflect families and persons in non-elderly households who fit one of the eight available family budget types. See endnote two for details.

Source: EPI analysis of American Community Survey microdata, 2011–2013

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Looking at differences among racial and ethnic groups, Los Angeles's large Hispanic population comprises a majority (58.3 percent) of all persons below the family budget threshold. Hispanic individuals are also far more likely than non-Hispanic whites to have incomes below the family budget line. More than three-fourths of all Hispanic persons in Los Angeles have incomes below the family budget line, compared with about one-third of all non-Hispanic whites. Non-Hispanic blacks or African Americans are a much smaller portion of the population, yet they too are far more likely than whites to have incomes below the family budget threshold. Nearly two-thirds (65.2 percent) of African Americans in Los Angeles have incomes below the family budget line. Asians, Pacific Islanders, and individuals of other races are also more likely than whites to fall short of the family budget line, but significantly less likely than blacks or Hispanics. Just less than half (46.6 percent) have total family income below the family budget threshold.

Table 2 also includes information on the place of birth and citizenship of the Los Angeles population and those below the family budget line. As the table shows, immigrants in the Los Angeles region are more likely than native-born persons to be below the family budget threshold, with 66.3 percent of those born outside of the United States below the family budget line, compared with 53.1 percent of those born in the United States. Still, the immigrant share of those below the family budget threshold is not as disproportionate as these rates suggest. Immigrants make up about 32 percent of people in the MSA, and account for about 36 percent of people below the family budget line.

Differences in regional rates of income adequacy vary far more by citizenship status. Individuals lacking U.S. citizenship are far more likely to have an income level insufficient to achieve the family budget's modest but secure standard of living. Nearly 80 percent of non-citizens living in Los Angeles are below the family budget line. Non-citizens make up 17.4 percent of the non-elderly population, yet account for nearly a quarter (24.1 percent) of those below the family budget threshold.

Whereas Table 2 described the full non-elderly population in the Los Angeles MSA, **Table 3** shows data solely on workers in the Los Angeles MSA. Of the roughly 3.7 million non-elderly people both living and working in the Los Angeles MSA, 1.64 million (or roughly 44 percent) are in families with total family incomes below the family budget threshold.³

TABLE 2

Demographics of individuals in families living in the Los Angeles metro area below the family budget threshold

Category	Estimated total population	Share of the total population	Below family budget threshold	Share of category below family budget threshold	Share of total below family budget threshold
Total	8,013,734	100.0%	4,589,204	57.3%	100.0%
Sex					
Female	4,045,587	50.5%	2,379,626	58.8%	51.9%
Male	3,968,147	49.5%	2,209,577	55.7%	48.1%
Age					
Adult (age 18+)	5,625,156	70.2%	2,981,353	53.0%	65.0%
Child (age <18)	2,388,578	29.8%	1,607,851	67.3%	35.0%
Family status					
Married parent	1,583,263	19.8%	810,837	51.2%	17.7%
Married, no children	1,113,490	13.9%	344,011	30.9%	7.5%
Single parent	713,828	8.9%	550,004	77.0%	12.0%
Single, no children	4,603,154	57.4%	2,884,352	62.7%	62.9%
Race/ethnicity					
White	2,613,417	32.6%	894,187	34.2%	19.5%
Black or African American	572,136	7.1%	372,838	65.2%	8.1%
Hispanic	3,444,872	43.0%	2,677,648	77.7%	58.3%
Asian or other race	1,383,309	17.3%	644,531	46.6%	14.0%
Place of birth					
Outside U.S.	2,536,841	31.7%	1,671,555	66.3%	36.4%
U.S. state	5,476,894	68.3%	2,910,206	53.1%	63.4%
U.S. territory	14,738	0.2%	7,443	50.5%	0.2%
Citizenship					
Born citizen	5,562,706	69.4%	2,951,911	53.1%	64.3%
Naturalized	1,054,697	13.2%	529,478	50.2%	11.5%
Not U.S. citizen	1,396,331	17.4%	1,107,814	79.3%	24.1%

Note: Figures reflect persons in non-elderly households who fit one of the eight available family budget types. See endnote two for details.

Source: EPI analysis of American Community Survey microdata, 2011–2013

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Many of the same patterns observed in the data on the overall population are unchanged when looking solely at workers. For instance, roughly three quarters of all single-parent workers fall below the family budget threshold; African American and Hispanic workers again have the highest rates of income inadequacy, with 45.6 percent and 67.8 percent of

TABLE 3

Demographics of workers living and working in the Los Angeles metro area in families below the family budget threshold

Category	Estimated total workforce	Share of the total workforce	Below the family budget	Share of category below the family budget threshold	Share of total below family budget threshold
Total	3,698,225	100.0%	1,638,830	44.3%	100.0%
Sex					
Female	1,698,467	45.9%	767,498	45.2%	46.8%
Male	1,999,758	54.1%	871,332	43.6%	53.2%
Family status					
Married parent	1,052,379	28.5%	462,711	44.0%	28.2%
Married, no children	728,196	19.7%	166,099	22.8%	10.1%
Single parent	432,107	11.7%	320,380	74.1%	19.5%
Single, no children	1,485,543	40.2%	689,640	46.4%	42.1%
Race/ethnicity					
White	1,401,824	37.9%	350,089	25.0%	21.4%
Black or African American	241,745	6.5%	110,133	45.6%	6.7%
Hispanic	1,396,744	37.8%	946,449	67.8%	57.8%
Asian or other race	657,913	17.8%	232,159	35.3%	14.2%
Education					
Less than high school	546,640	14.8%	463,750	84.8%	28.3%
High school	641,539	17.3%	403,132	62.8%	24.6%
Some college	1,060,740	28.7%	481,322	45.4%	29.4%
Bachelor's	943,727	25.5%	224,630	23.8%	13.7%
Advanced degree	505,580	13.7%	65,997	13.1%	4.0%
Place of birth					
Outside U.S.	1,520,769	41.1%	891,766	58.6%	54.4%
U.S. state	2,169,196	58.7%	744,159	34.3%	45.4%
U.S. territory	8,260	0.2%	2,905	35.2%	0.2%
Citizenship					
Born citizen	2,213,573	59.9%	758,857	34.3%	46.3%
Naturalized	688,764	18.6%	285,820	41.5%	17.4%
Not U.S. citizen	795,889	21.5%	594,154	74.7%	36.3%

Note: Figures reflect employed persons in non-elderly households who fit one of the eight available family budget types. See endnote two for details.

Source: EPI analysis of American Community Survey microdata, 2011–2013

these workers, respectively, below the family budget threshold; and immigrant and non-citizen workers again show significantly higher rates of income inadequacy than their native-born and citizen counterparts.

The shares of each category falling below the family budget threshold decline substantially as the sample is restricted to workers because children and non-working adults, who have lower incomes, are removed from the data. Overall, the share of workers below the family budget threshold is 13 percentage points smaller than the share of the total population below the family budget line—a decline of 22.6 percent.

This decline differs across racial, ethnic, immigrant, and citizenship categories, yet the most notable change—or in fact, relative lack of change—is for non-citizen workers. Looking back to Table 2, 79.3 percent of non-citizens in the Los Angeles area population have family incomes below the family budget threshold. Looking only at non-citizen workers in Table 3, 74.7 percent have total family incomes below the family budget threshold. This decline of only 4.6 percentage points—or 5.9 percent—is much smaller than reductions for domestic-born citizens (18.8 percentage points, or 35.4 percent) and naturalized citizens (8.7 percentage points, or 17.3 percent) when children and non-working adults are removed from the sample. It is also a small change compared with the reduction in the population being analyzed; the total non-citizen population is 1.4 million, while the non-citizen workforce is roughly 800,000, about 43 percent smaller. That rates of income inadequacy fall more sharply for citizens than non-citizens when the sample is restricted to workers suggests that lack of citizenship is a significant barrier to achieving adequate levels of income, even among non-citizens who work.

Conclusion

The EPI family budgets provide a valuable tool for understanding what it actually takes to achieve a modest level of economic security in hundreds of communities throughout the country. Moreover, for policymakers seeking to assess whether labor standards are ensuring that regular employment provides the means to a decent quality of life, the family budget's threshold of a modest but secure standard of living is arguably a more useful target than traditional measures of poverty. Applying the family budget thresholds to Census Bureau data on Los Angeles shows that much—indeed, more than half—of the region's residents are struggling to achieve economic security. As policymakers in Los Angeles consider measures to raise incomes for area residents, they should be fully aware of just how far many in the community are from this benchmark.

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Endnotes

1. In this paper, the family budgets are presented in 2013 dollars to correspond with the micro data available to make assessments of family and individual income sufficiency in the Los Angeles metropolitan area.
2. The eight family budget thresholds we generate cover 83 percent of all families and persons in the Los Angeles MSA. We analyze only non-elderly families, defined as families with at least one adult below age 65. Throughout this brief, subfamilies—i.e., families who live in the household of someone else—are treated as separate families, even in cases where the subfamily may be related to the householder. For example, adult children living with their parents or adult siblings living together are treated as separate family units when comparing their income levels with the corresponding family budget thresholds. This is done under the assumption that a secure yet modest standard of living should not require subfamilies to share housing.
3. Once again, these figures exclude workers in families outside the eight types for which we have family budget thresholds.

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