Indiana Business Review

Where Does the Money Go?

Spring 2006
A publication of the Indiana Business Research Center
at the Kelley School of Business, Indiana University

IBRC | KELLEY School of Business
Indiana Business Research Center

Spring 2006
Volume 81, No. 1

Table of Contents

Not All Hoosiers on Level 'Paying' Field

With the cost of gasoline well above $2 a gallon, increases in home heating bills and the concomitant price increases in food and health care, the cost of living is an ever-present issue for many Hoosier families. This first issue of the *IBR* in 2006 focuses on consumer behavior with a graphically punctuated and wryly insightful article by Morton Marcus. We follow that with a further exploration of self-sufficiency standards and the work done by the Indiana Institute for Working Families, which includes comparisons to the methods used in the metropolitan area-focused standards published in last fall's *IBR*. Both articles shed light on the important need to better measure and reflect the actual costs for a family to be financially independent.

Carol O. Rogers

Where Does the Money Go?

Morton J. Marcus, Director Emeritus
Indiana Business Research Center, Kelley School of Business, Indiana University

U.S. SPENDING

The U.S. Bureau of Labor Statistics (BLS) has released consumer spending data for 2004, telling an interesting story of how we Americans spend our money.[1]

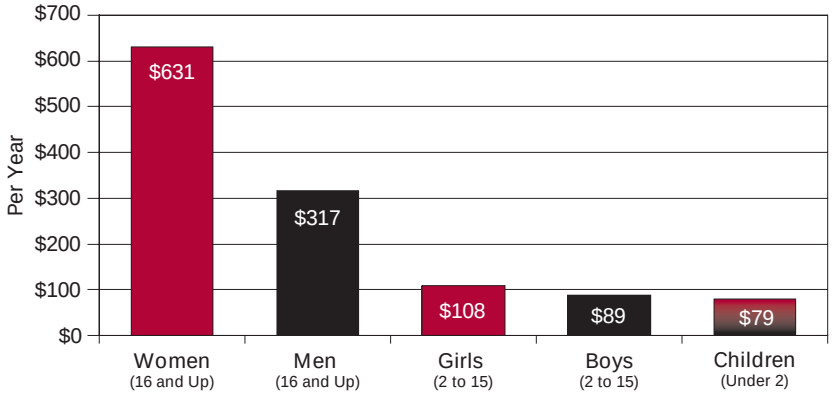
We have always believed that our spending on clothing for females is greater than that for males. From these data, we can confirm that American households spend nearly twice as much on women's clothes than on men's clothing. These are not per person figures, but per household.

Spending will vary by many factors. Income makes a difference in spending as does education, age, race, urban or rural setting, and region of the country. In this article, we'll focus on differences by age.

Let's return to those expenditures for apparel. Spending for males and females both rise until we reach the 45 to 54 age group, then declines. The large difference between spending on females and males in the oldest group (75 and up) is because there are 138 women for each 100 males. In the 45 to 74 age groups, the ratio is closer to 1:1.

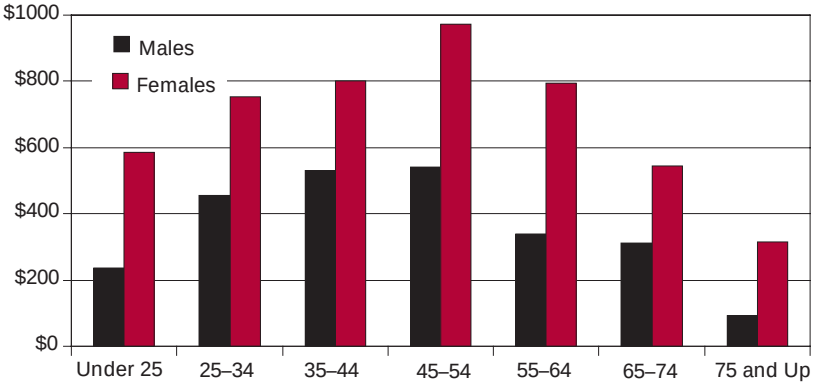
There are many differences related to age. Home ownership, as expected, rises while renting falls as we age. But as we get older, we shed our mortgages.

Average Household Expenditures on Apparel, 2004



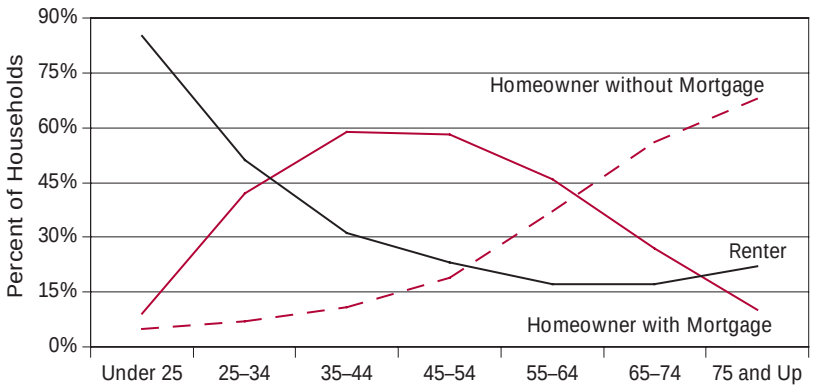
Source: Bureau of Labor Statistics

Household Expenditures on Apparel by Age and Gender, 2004



Source: Bureau of Labor Statistics

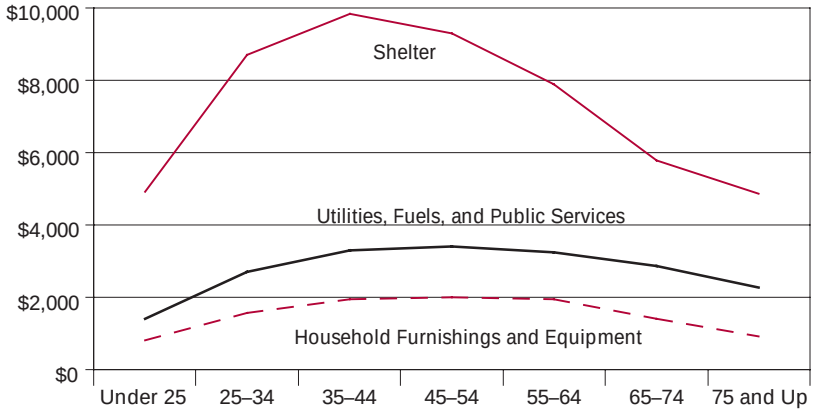
Housing by Age, 2004



Source: Bureau of Labor Statistics

What we spend on shelter rises with age until the ages of 35 to 44. By age 65 and older, our utilities, fuels and public services are equal to almost half of our shelter costs.

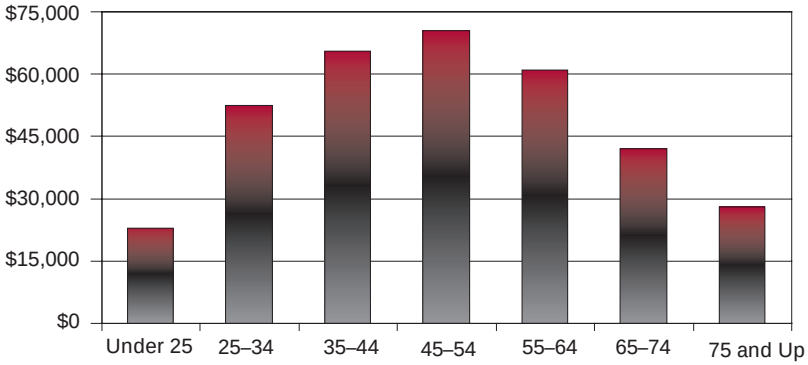
Household Expenditures by Age, 2004



Source: Bureau of Labor Statistics

Household income also rises with age until peaking in the 45 to 54 age group.

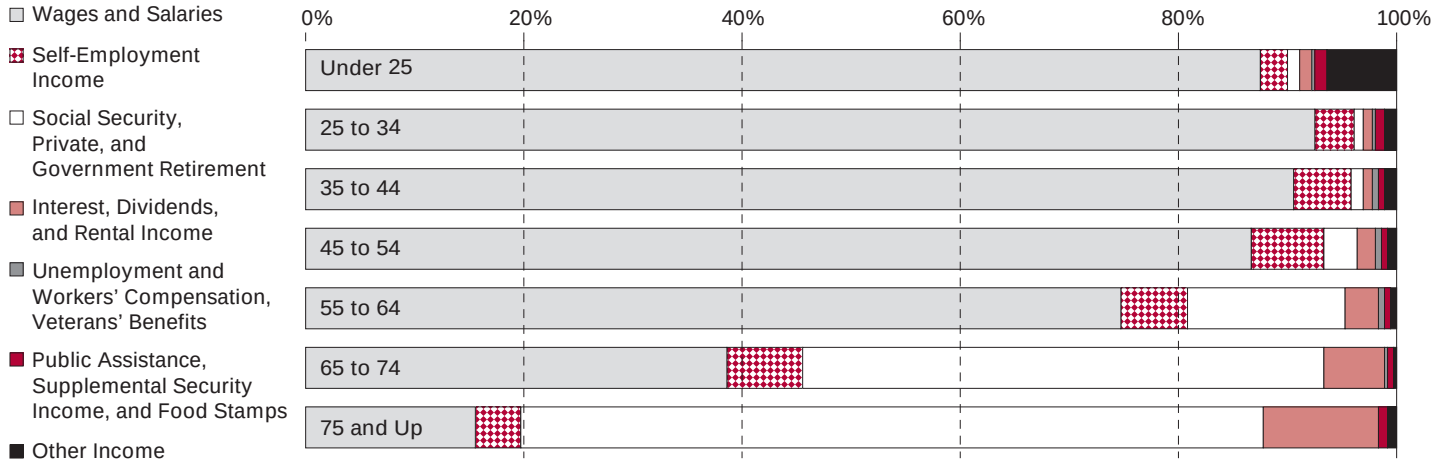
Household Income Before Taxes by Age, 2004



Source: Bureau of Labor Statistics

The sources of income change dramatically over time. As wages and salaries fall as a percent of income, they are replaced by Social Security, private and government pensions.

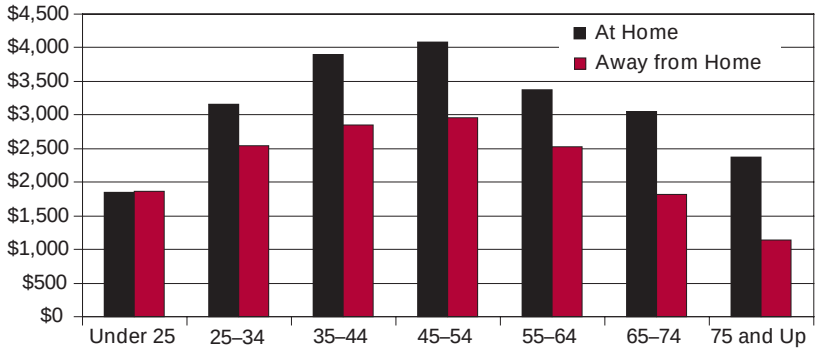
Income Sources by Age, 2004



Source: Bureau of Labor Statistics

Eating away from home accounts for nearly one-third of the food expenditures of those age 75 and older. All other groups spend an even greater portion of their food dollars eating out, with the under 25 group spending half of their food dollars away from home.

Household Food Expenditures by Age, 2004

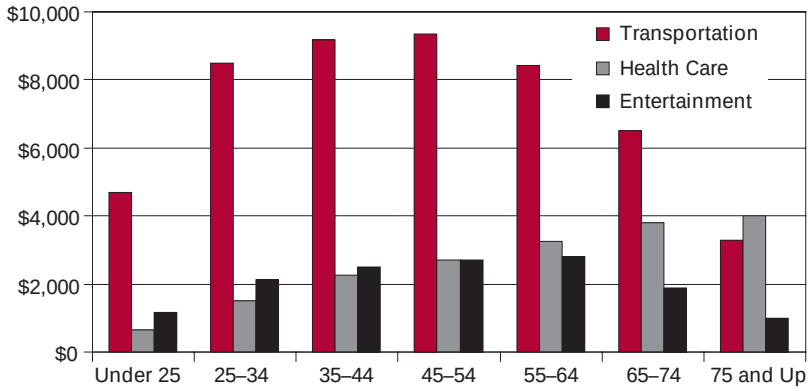


Source: Bureau of Labor Statistics

While we talk a great deal about the costs of health care, we neglect the major expenditures we make for transportation. The average household spends $7,801 on transportation and only $2,574 on health care, including insurance and drugs.

Only for those 75 and older does health care expenditures exceed transportation, yet no one discusses a transportation crisis. Entertainment spending exceeds health care spending until they are even at 45 to 54, after which health care becomes dominant.

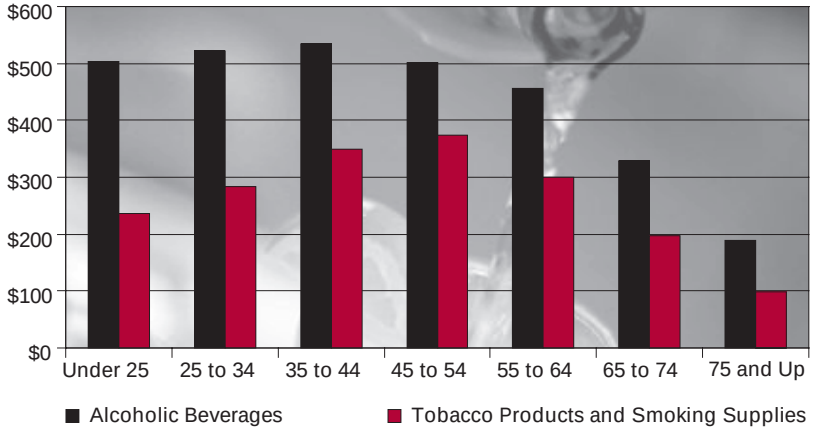
Household Transportation, Health Care, and Entertainment Expenditures by Age, 2004



Source: Bureau of Labor Statistics

As for sin, we spend more at every age on alcoholic beverages than on tobacco products and smoking supplies.

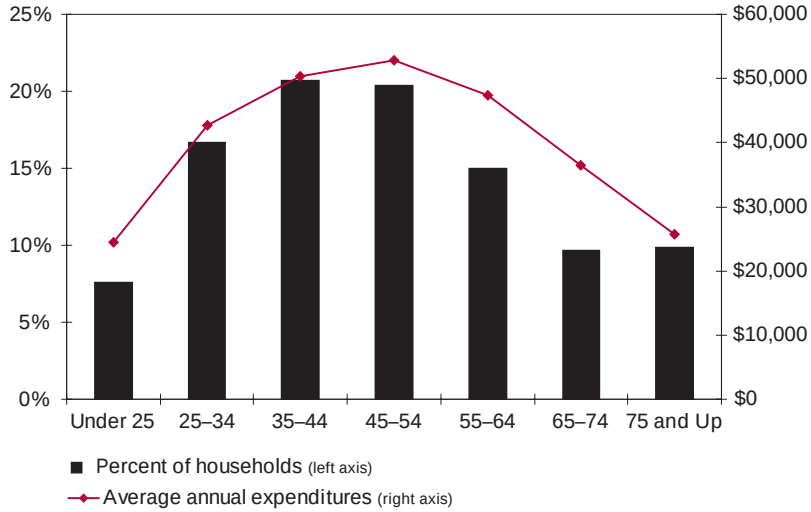
Household Alcoholic Beverages and Tobacco Expenditures by Age, 2004



Source: Bureau of Labor Statistics

As a final note, where is the spending power? The BLS survey is a representative sample of American households. The adjacent graph shows the distribution by age. Also shown is the average annual spending per household by age. From this display of the data, it is evident that the households 75 and older will outspend those under age 25 (the 75 plus group does more spending and are more numerous than the younger group).

Households by Age and Average Annual Spending, 2004

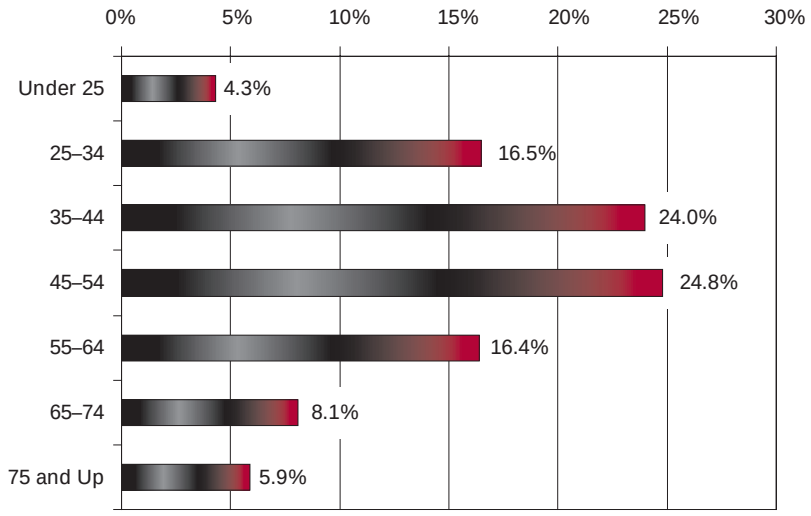


Source: Bureau of Labor Statistics

It is the 45 to 54 age group that has the most influence on the market in terms of aggregate spending. They have 20.4 percent of households compared to the 20.7 percent of their closest rivals, the 35 to 44 group, but they spend $2,300 more per household. Hence the 45 to 54 age group ends up spending 24.8 percent compared with 24.0 percent for the next younger cohort. Together the households age 35 to 54 account for almost half of all consumer spending in the United States.

Given these facts, we might be surprised by the emphasis marketing firms place on the "youth" market. Yet it is no surprise. Youthful spenders are living in those households shown here as 35 to 54. We call those spenders our children.

Percent of Household Spending by Age, 2004



Source: Bureau of Labor Statistics

NOTES

1. Data in the Consumer Expenditure Survey are presented in terms of the "**reference person**—the first member mentioned by the respondent when asked to 'Start with the name of the person or one of the persons who owns or rents the home.' It is with respect to this person that the relationship of the other consumer unit members is determined."

A **household** is defined as "(1) all members of a particular household who are related by blood, marriage, adoption, or other legal arrangements; (2) a person living alone or sharing a household with others or living as a roomer in a private home or lodging house or in permanent living quarters in a hotel or motel, but who is financially independent; or (3) two or more persons living together who use their income to make joint expenditure decisions."

Refining Measures of Economic Stability: The 2005 Self-Sufficiency Standard for Indiana

Jill Nielsen-Farrell
Senior Policy Analyst, Indiana Institute for Working Families, a program of the Indiana Coalition on Housing and Homeless Issues

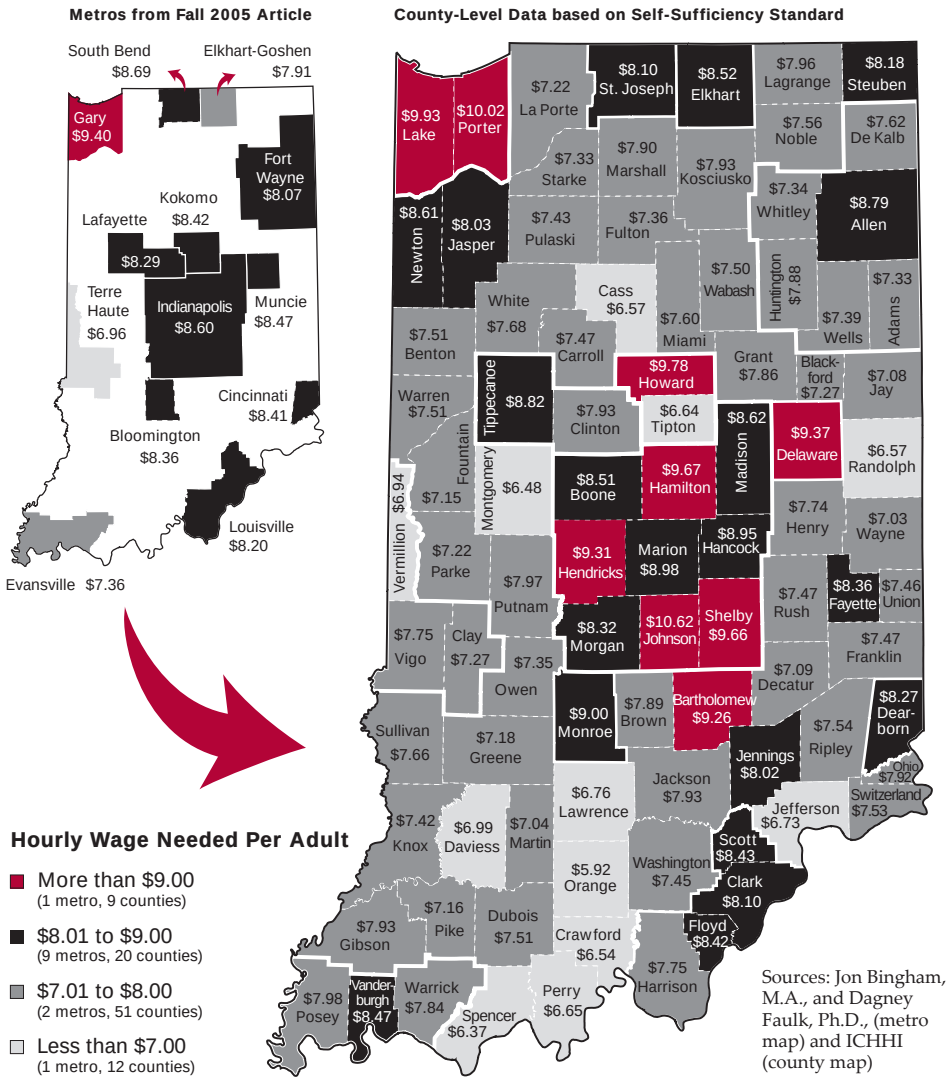
Several methodologies have been developed to estimate the amount of income it takes for families to pay for their basic needs in today's economy. In large part, this has been a response to the outdated formula used to calculate the United States federal poverty level (FPL) threshold. The poverty threshold, developed in the 1960s, is based on a ratio of food costs and does not reflect the fact that health care insurance, childcare, and housing, for example, now dwarf the typical family's food costs. In addition, the threshold makes no adjustment for geographic differences in costs; it assumes that living in New York City costs the same as living in rural Indiana. As a result of these limitations, researchers across the country have created new methods that take into account actual costs on a regional or county basis.[1]

In the fall 2005 edition of the *Indiana Business Review*, the article "Economic Self-Sufficiency: The Minimum Cost of Family Support in Indiana's Metropolitan Areas" authored by Jon Bingham, M.A., and Dagney Faulk, Ph.D., of Indiana University Southeast presented a regionally based economic self-sufficiency measure for seven different family types. The methodology used in Bingham and Faulk's article is similar to another existing measure of income adequacy in Indiana: the Self-Sufficiency Standard (see **Figure 1**).

Since 1998, the Indiana Coalition on Housing and Homeless Issues (ICHHI) has collaborated with Diana Pearce, Ph.D., from the University of Washington and the national organization, Wider Opportunities for Women (WOW), to produce the Self-Sufficiency Standard for Indiana.[2] The third edition of the Self-Sufficiency Standard was released in September 2005, with previous editions published in 1999 and 2002. The University of Washington and WOW have successfully completed Self-Sufficiency Standard projects in 35 states, plus the District of Columbia metro area and New York City.

The Self-Sufficiency Standard differs from existing measures in two important ways: 1) it utilizes a more refined methodology by incorporating county-level data where available, and 2) it presents a broader scope of data through calculating income amounts for over 70 different family types in each of Indiana's 92 counties. (For the remainder of this article, the Self-Sufficiency Standard developed by

Figure 1
Self-Sufficiency Comparison for Two Adults and Two School-Age Children



Sources: Jon Bingham, M.A., and Dagney Faulk, Ph.D., (metro map) and ICHHI (county map)

Table 1
Methodological Comparison of Indiana Self-Sufficiency Standard and Economic Self-Sufficiency Measure

Expense Item	The Indiana Self-Sufficiency Standard (Diana Pearce, Ph.D.)	Economic Self-Sufficiency (Dagney Faulk, Ph.D. and Jon Bingham, M.A.)
Food	United States Department of Agriculture (USDA) Low Cost Food plan, varied by number and age of children and number and gender of adults. Refined further by using ACCRAs Cost of Living Index for seven Indiana Metropolitan Statistical Areas (MSAs).	USDA Low Cost Food plan, then deflated based on Midwest numbers from the Consumer Expenditure Survey.
Housing	2005 Housing and Urban Development (HUD) Fair Market Rates (FMRs) for one, two and three bedroom apartments. Refined further by data from the Low Area Low-Income Housing Database for the nine PSA/MSAs.	2005 HUD FMRs for one and two bedroom apartments.
Health Insurance	Employer-sponsored health insurance coverage assumed. 2003 data from Indiana Comprehensive Health Insurance Association. Assumes 20 percent premium payment. Refined further based on plan type ($500 and $1,000 deductible), family type, and region.	Assumes family purchases health insurance coverage. 2005 monthly premiums from ehealthinsurance.com for $2,000 per person deductible, $4,000 per family plan, and 30 percent fee after deductible is reached.
Childcare	Fiscal Year 2003–2004 Market Rates. Averaged infant and toddler rates for "infant." Averaged three- and four-year-old rates with five-year-old rates for "preschool."	Fiscal Year 2003–2004 market rates. Used preschool rate, before- and after-school rate, and a 10 percent discount for a second child.
Transportation	A single adult is assumed to own one car and two-adult families are assumed to have two cars. Does not include car payments. For private transportation costs, used insurance premiums in conjunction with the Federal Bureau of Labor Statistics' consumer price index for vehicle expenses to determine the monthly costs of owning a vehicle. The auto insurance rates were calculated using the top market share company (Allstate) and then grouping into 21 categories. The premiums were collected assuming a 23-year-old female (with no traffic violations) and a married couple (also with no traffic violations). Assumed 12,000 miles of travel per year.	The calculations assume a $250 car payment and that each family owns only one car. The premiums were based on 30-year-old adults with no children, 30-year-old adults with preschool children, and 35-year-old adults with school-age children. The premiums were collected using the Indiana minimum insurance requirements.
Taxes and Credits	Taxes include 2004 federal and state income tax, state sales tax, county tax rate, and county food and beverage tax, if applicable. Includes state and federal earned income tax credit, child tax credit, and childcare tax credit.	Taxes include 2004 federal and state income tax, state sales tax, county tax rate. Includes state and federal earned income tax credit, child tax credit, and childcare tax credit.
Other	Includes 10 percent of all other costs for telephone service, clothing, shoes, paper and cleaning products, diapers, etc.	Uses the 2002–03 Midwest Consumer Expenditure Survey, average expenditures by household reporting incomes between $20,000 and $29,000. Includes telephone service, television/cable, clothes, personal care items, cleaning supplies, etc.

Source: Respective authors

Diana Pearce, Ph.D., will be referred to as the *SSS*.)

Methodology

Table 1 compares the methodology of the *SSS* with the methodology used to calculate the regional measure by Bingham and Faulk. Both measures take into account the same cost areas and the methodologies are similar, though not identical. For example, each includes the financial impact of food, housing, childcare, transportation, health insurance, taxes, and tax credits on a family's budget. Both also include a miscellaneous cost category but are very conservative with neither measure including line items for savings, retirement, vacations, etc. However, because of different assumptions—such as health insurance coverage and transportation costs—the income numbers are slightly different. More importantly, the refined methodology used in the *SSS* allows for the calculation of county-level income amounts as well as data for over 70 family types. In contrast, the Bingham and Faulk measure calculates income amounts for just seven family types and assumes all counties within the MSAs have identical costs of living. There are no income amounts calculated for counties falling outside the thirteen MSAs, leaving out most rural areas in the state.

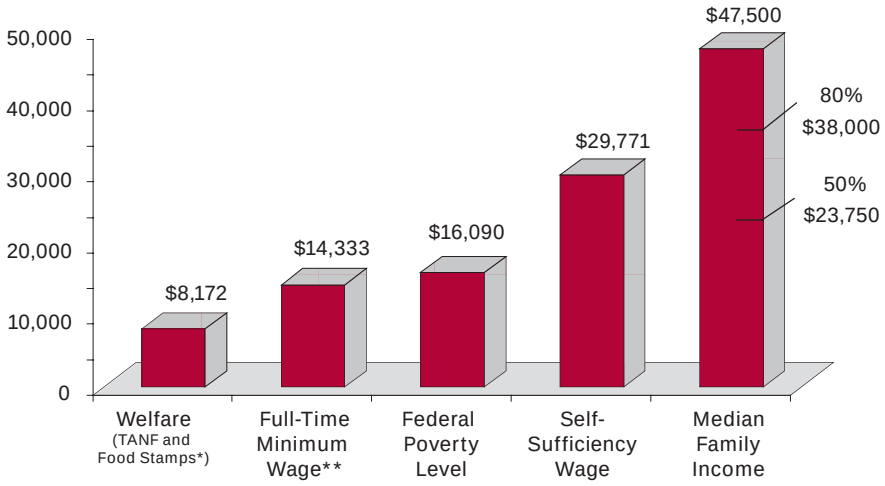
Table 2 details the hourly *SSS* wage for four family types across a select number of counties in Indiana.[3] In general, the *SSS* tends to be lower in rural counties and higher in urban areas. For example, in Lake and Marion counties, more income is needed to cover basic costs. The family income required (i.e., wage adequacy) is also impacted by the number of children and their ages. For example, childcare for an infant or preschool-age child is obviously more expensive than that of a school-age child, and the *SSS* reflects those differences.

Table 2
Self-Sufficiency Standard Hourly Wages for Selected Counties by Family Type

County	Single Adult	Single Parent		Two Parents*
	No Children	Infant and Preschooler	School-Age and Teenager	Infant and Preschooler
Allen	$7.36	$14.20	$10.70	$9.07
Clark	$7.46	$13.32	$10.05	$8.64
Delaware	$7.33	$14.55	$11.19	$9.15
Howard	$7.28	$14.99	$11.66	$9.35
Lake	$8.11	$16.69	$12.47	$9.96
Marion	$8.22	$17.91	$11.24	$10.71
St. Joseph	$7.47	$14.58	$10.12	$9.14
Vanderburgh	$7.47	$13.99	$10.44	$9.11
Vigo	$6.84	$12.43	$9.56	$8.30

*Per adult
Source: Indiana Institute for Working Families, ICHHI

Figure 2
The Self-Sufficiency Standard Compared to Other Benchmarks, 2005
(Based on the Self-Sufficiency Standard for a Family with One Adult, Preschooler and School-Age Child in Delaware County)



*The TANF benefit is $3,456 annually ($288 per month) and the Food Stamp benefit is $4,716 annually ($393 per month) for a family of three in Delaware County in 2005.
** Indiana's full-time minimum wage is $5.15 per hour. Calculated before taxes and tax credits this amounts to $10,712 per year. The amount in the second bar includes the net effect of the addition of the EITC and the subtraction of federal, state, and county taxes.
Source: Indiana Institute for Working Families, ICHHI

Utilizing Alternative Measures of Income Adequacy

Comparison Tool. The *SSS* can be contrasted with several other income benchmarks. Median family income in Delaware County for a family of three was $47,500.[4] The *SSS* for this family was $29,771, almost double the FPL of $16,090 (see **Figure 2**). If the parent was working full-time at minimum wage, he or she would earn $5.15 an hour in Indiana—or $14,333 annually. If the family was receiving cash assistance through Temporary Assistance for Needy Families (TANF—the traditional "welfare" program) and receiving the maximum in food stamp benefits, they would receive $8,172 annually, an amount that would decline as the parent began working and earnings increased.[5]

Program and Policy Development. The *SSS* can be used to develop new programs and policies. The United Way of La Porte County, in collaboration with other partners, has used the *SSS* to spearhead an

Table 3
Impact of Work Support on Wage Adequacy, Single Parent with a Preschooler and a School-Age Child, Marion County, 2005

Income	Wages Only	Work Supports			
	No Work Supports	Childcare	Childcare, Food Stamps, WIC[1], and Medicaid	Childcare, Food Stamps, WIC, and CHIP[2] (Hoosier Healthwise)	Housing, Childcare, Food Stamps, WIC, and CHIP (Hoosier Healthwise)
Total Monthly Income:	**$1,702**	**$1,702**	**$1,702**	**$1,702**	**$1,702**
Monthly Costs:					
Housing	$652	$652	$652	$652	$511
Child Care	$1,118	$119	$119	$119	$119
Food	$361	$361	$239	$239	$268
Transportation	$239	$239	$239	$239	$239
Health Care	$218	$218	$0	$108	$108
Miscellaneous	$259	$259	$259	$259	$259
Taxes	$220	$220	$220	$220	$220
Earned Income Tax Credit (-)	*	*	*	*	*
Child Care Tax Credit (-)	-$33	-$33	-$33	-$33	-$33
Child Tax Credit (-)	$0	$0	$0	$0	$0
Total Monthly Expenses	**$3,031**	**$2,032**	**$1,693**	**$1,801**	**$1,689**
Shortfall (-) or Surplus	-$1,329	-$330	$9	-$99	$13
Wage Adequacy* (Total Income/Total Expenses)	56%	84%	101%	95%	101%

*Wage adequacy at $9.67 (127% FPL, the childcare eligibility level)
1. The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) was established through the Child Nutrition Act of 1966. At this time, WIC services are available in all 50 states, the District of Columbia, and U.S. territories.
2. Children's Health Insurance Program (CHIP)
Source: Indiana Institute for Working Families, ICHHI

innovative childcare initiative. This initiative seeks to address the gap between where eligibility for the childcare voucher program for low-income families ends and where the *SSS* begins. To qualify for a childcare voucher in Indiana, a single parent family with two children can earn no more than $9.62 an hour.[6] In La Porte County, a single parent with an infant and preschool-age child who earns less than $14.16—a hourly wage falling below the *SSS*—can receive a subsidy to pay for childcare.

Table 3 uses Marion County data to model the impact work support programs—such as childcare vouchers—have on wage adequacy. A childcare voucher alone brings a full-time minimum wage worker with one preschooler and one school-age child up to an 84 percent of wage adequacy as compared to the *SSS*. Without that voucher, the same worker achieves just 56 percent of wage adequacy. This demonstrates the critical role that childcare assistance plays in enabling low-wage workers to enter and remain in the workforce. More individuals in the workforce result in a stronger tax base and more vibrant state and local economies.

Use in Economic, Workforce, and Education Systems. The *SSS* has been used extensively throughout the economic, workforce, and education systems in several states, including Indiana. In economic development, the *SSS* has been used to conduct targeted sector analysis and evaluate business development and tax abatement proposals. For example, when a business is interested in locating into a county, how do the business's wages compare to the *SSS*? What will the difference between wages and the *SSS* mean to the taxpayers in that community if the gap is significant? For example, will children of workers qualify for publicly financed health insurance, and how much will that cost Indiana taxpayers? Will the gap put pressure on local service providers, such as food banks and pantries? This information can help economic development officials determine incentive packages accordingly. The *SSS* has been used in this way in the north central Indiana workforce region.

Within workforce development, the *SSS* has been used by regional or local workforce investment boards to determine priorities for limited training dollars. If the worker's income falls below the *SSS*, training dollars are made available. The *SSS* has also been used within the WorkOne system as a counseling tool with dislocated, unemployed and underemployed workers. How do wages of various occupations compare with a worker's standard? Could advanced training and education assist that worker in achieving self-sufficiency? In Illinois, an online Self-Sufficiency Standard calculator is housed within the Department of Employment Security and used extensively throughout their workforce development system.[7]

In education, the *SSS* has been used in career counseling with high school and college students in conjunction with the Census Bureau data on average earnings of higher education graduates. Using these two data sources shows what the student needs to earn to support themselves and how higher education can help them to achieve that goal. This can make a compelling case not just for pursuing advanced degrees but as a technique to retain students.

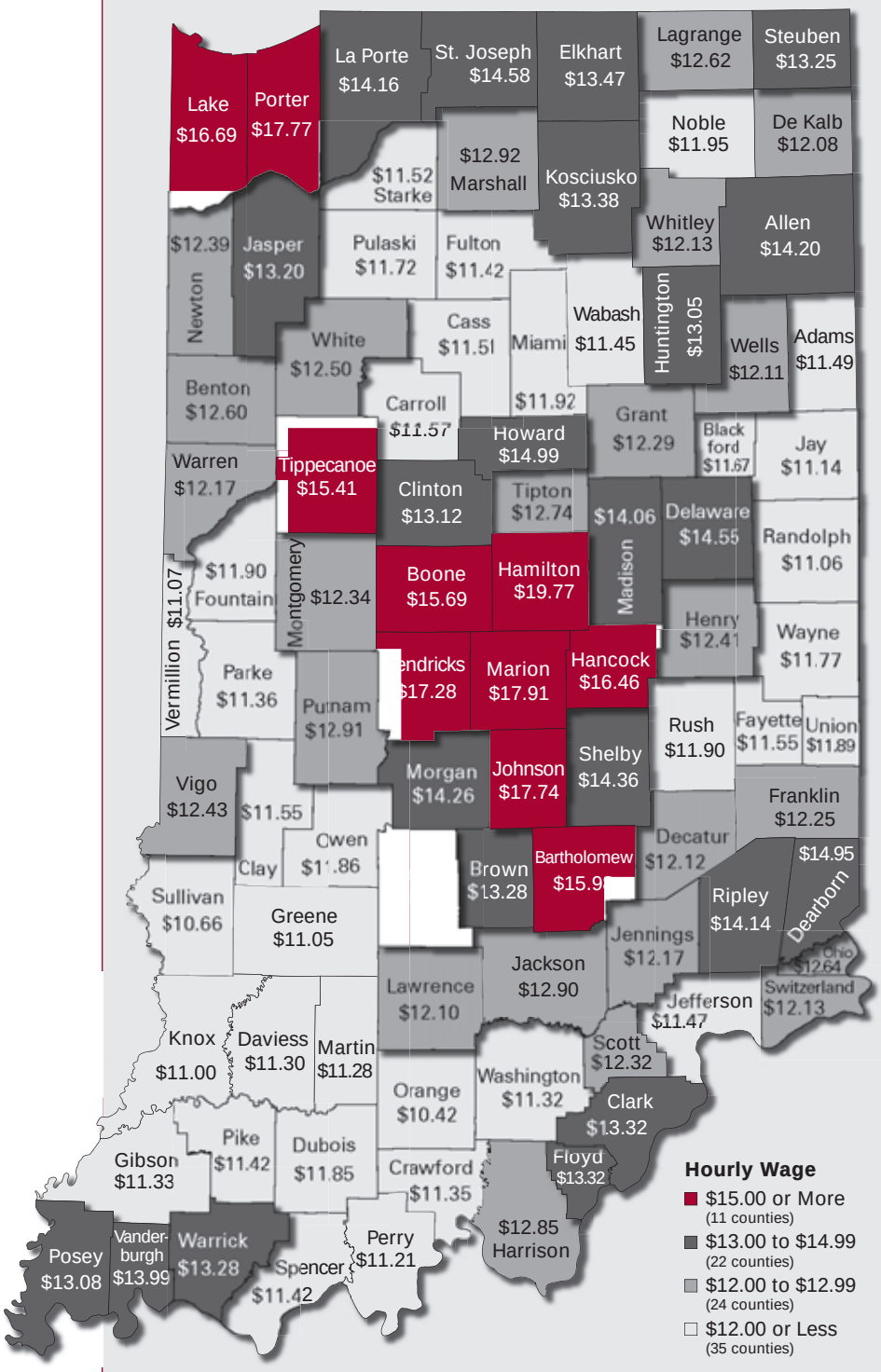
Conclusion

Over the past several years, thousands more families have fallen into poverty. But what do these numbers really tell us? The FPL is obviously inadequate as a measure of need and fails to reflect actual costs of living, even at the most basic level. Clearly, a broader discussion of wages and income must take place across the state. Self-sufficiency is often cited as a goal for low-income families in Indiana. It is important to be very specific about what that goal represents. Continuing debate and research on appropriate measures of self-sufficiency are essential to design effective programs and policies that help families achieve that goal. The Self-Sufficiency Standard provides a solid, research based context to frame this discussion as well as a tangible goal for the solutions.

Notes

1. For a thorough discussion of the poverty threshold, see Gordon M. Fisher, *The Development of the Orshansky Poverty Thresholds and Their Subsequent History as the Official U.S. Poverty Measure*, 1992. Online: www.census.gov/hhes/www/povmeas/papers/orshansky.html.
2. *The 2005 Self-Sufficiency Standard for Indiana: Where Economic Independence Begins* is available online at www.ichhi.org/index.asp?action=programs_ichhi_publications.
3. Data for all family types are available by contacting Jill Nielsen-Farrell at the Indiana Coalition on Housing and Homeless Issues at jnielsen@ichhi.org.
4. The *SSS* uses the U.S. Department of HUD calculation of median family income which uses Core-Based Statistical Areas. HUD's methodology differs slightly from the Census Bureau's calculation for median family income. A description can be found at www.huduser.org/datasets/il/IL05Est/FY05-CBSA-medians-calculation-methodology.pdf.
5. It is important to note that Indiana's TANF program has rigorous eligibility and work requirements as well as a two-year time limit on benefits.
6. There is currently a waitlist of several thousand children for childcare vouchers in Indiana. In Fiscal Year 2005, Indiana had a monthly average waitlist of 7,600 children. The La Porte County initiative will also serve families who are eligible but on the waitlist so they can immediately find and maintain employment.
7. See www.ides.state.il.us/calculator.

Hourly Self-Sufficiency Wages Needed for Support for a Single Parent with One Infant and One Preschooler



Source: IBRC, using ICHHI data

Indiana Business Review

Spring 2006

Inside this Issue…

Next Issue: Summer 2006

- To and From—Indiana's Migration Patterns
- Ex-Urban and Sub-Urban: The Proximity Factor in Population Change

Digital Connections

Indiana Business Review
Your source for credible analysis on current issues affecting the economy, the IBR online has searchable archives.
www.ibrc.indiana.edu/ibr

InContext
Current workforce and economic news with searchable archives.
www.incontext.indiana.edu

Indiana Economic Digest
The news behind the numbers, the Digest is a unique partnership with daily newspapers throughout Indiana providing access to daily news reports on business and economic events.
www.indianaeconomicdigest.net

STATS Indiana
Award-winning economic and demographic site provides thousands of current indicators for Indiana and its communities in a national context.
www.stats.indiana.edu

Indiana University Kelley School of Business

Indiana Business Research Center
Kelley School of Business
1275 East Tenth Street, Suite 3110
Bloomington, IN 47405-1701

Nonprofit Organization
U.S. Postage
PAID
Bloomington, Indiana
Permit No. 2

ADDRESS SERVICE REQUESTED