

Economic Self-Sufficiency: The Minimum Cost of Family Support in Indiana's Metropolitan Areas

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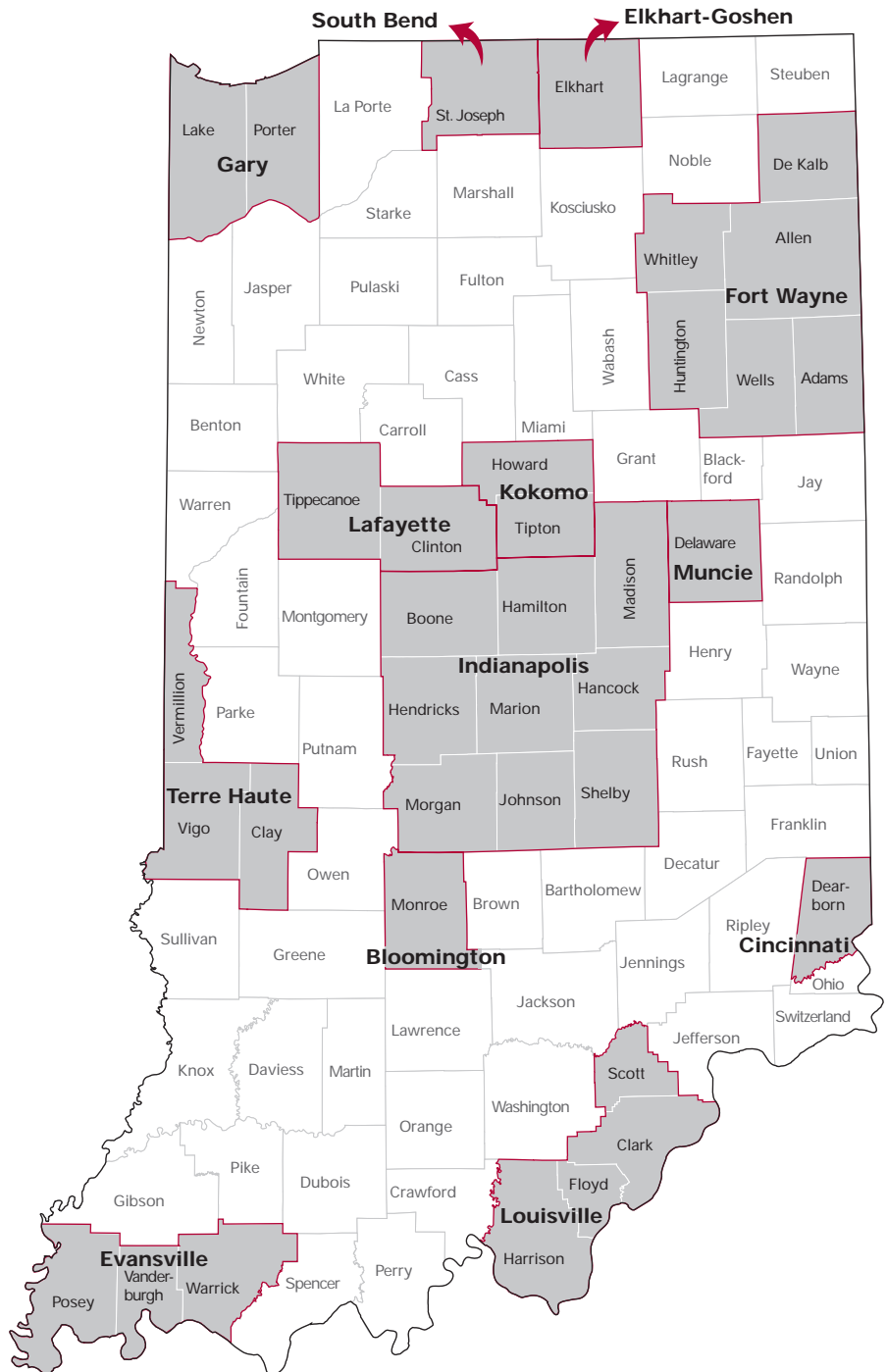
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How much does it cost to support a family in Indiana? This question interests both private businesses and public agencies. Economic development professionals often target a particular wage when recruiting businesses. Social service agencies are interested in the wage needed to support a family and the types of job skills necessary to earn that wage. Indeed, this question is at the root of welfare reform, since a family must be self-sufficient to stay off welfare. The purpose of this analysis is to establish a standard for economic self-sufficiency for various family types in Indiana's metropolitan statistical areas (MSAs), which are seen in **Figure 1**.

Methodology

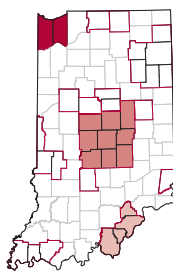
The cost-of-living calculations are based on the family budget required for a minimally decent standard of living without state or federal subsidies for food, housing, transportation, childcare, or health care.¹ First, the monthly budget needed to support a family is estimated. Budget items include food, housing, health care, transportation, childcare, and other. Any applicable sales taxes are included. Second, the monthly budget is converted to an annual total needed to support each type of family. Third, before-tax income is calculated to determine the level of income including taxes that each type of family needs. The estimates incorporate 2004 federal, state, and county income taxes (including federal child tax credit and both federal and state earned income credits) as well as payroll tax liabilities. Finally, the required annual income before taxes is converted to an hourly wage based on forty hours a

Figure 1
MSAs and Component Counties Used in the Analysis



Source: IBRC, using authors' definitions

Table 1
Budget Data for Gary, Indianapolis, and Louisville MSAs

Data for all MSAs are available online at www.ibr.indiana.edu/ibr/  Budget Item (\$)	Couple	Single Parent		Family of Four			
	2 Earners: ages 20-50 No Children	1 Earner: age 20-50 2 Children ages 2 and 3-5	1 Earner: age 20-50 2 Children ages 6-8 and 9-11	2 Earners: ages 20-50 2 Children ages 2 and 3-5	2 Earners: ages 20-50 2 Children ages 6-8 and 9-11	1 Earner: age 20-50 2 Children ages 2 and 3-5	1 Earner: age 20-50 2 Children ages 6-8 and 9-11
GARY							
Food	353	357	449	507	599	507	599
Housing and Utilities	586	716	716	716	716	716	716
Health Care	142	182	206	237	268	237	268
Transportation	440	446	448	450	458	450	458
Child Care	0	779	665	779	665	0	0
Other	242	238	238	253	253	253	253
Monthly Budget Total	1,763	2,718	2,722	2,942	2,959	2,163	2,294
Annual Budget Total *	21,159	32,614	32,662	35,302	35,506	25,954	27,526
Overall Tax Liability**	3,466	2,465	2,482	2,026	2,098	-2,073	-859
Annual Income before Taxes	24,625	35,080	35,144	37,329	37,604	23,881	26,667
Monthly Income before Taxes	2,052	2,923	2,929	3,111	3,134	1,990	2,222
Hourly Wage***	6.16	17.54	17.57	9.33	9.40	11.94	13.33
Federal Poverty Threshold (2004)	12,649	15,219	15,219	19,157	19,157	19,157	19,157
Percent of Federal Poverty Threshold	195%	231%	231%	195%	196%	125%	139%
INDIANAPOLIS							
Food	353	357	449	507	599	507	599
Housing and Utilities	549	655	655	655	655	655	655
Health Care	120	156	176	202	229	202	229
Transportation	415	414	420	425	434	425	434
Child Care	0	752	570	752	570	0	0
Other	242	238	238	253	253	253	253
Monthly Budget Total	1,679	2,572	2,508	2,794	2,740	2,042	2,170
Annual Budget Total *	20,151	30,867	30,094	33,531	32,878	24,502	26,038
Overall Tax Liability**	3,437	1,313	469	1,873	1,528	-2,428	-1,737
Annual Income before Taxes	23,589	32,181	30,564	35,405	34,406	22,075	24,302
Monthly Income before Taxes	1,966	2,682	2,547	2,950	2,867	1,840	2,025
Hourly Wage***	5.90	16.09	15.28	8.85	8.60	11.04	12.15
Federal Poverty Threshold (2004)	12,649	15,219	15,219	19,157	19,157	19,157	19,157
Percent of Federal Poverty Threshold	186%	211%	201%	185%	180%	115%	127%
LOUISVILLE							
Food	353	357	449	507	599	507	599
Housing and Utilities	503	597	597	597	597	597	597
Health Care	110	142	160	185	208	185	208
Transportation	407	404	410	417	425	417	425
Child Care	0	627	570	627	570	0	0
Other	242	238	238	253	253	253	253
Monthly Budget Total	1,615	2,365	2,424	2,586	2,652	1,959	2,082
Annual Budget Total *	19,383	28,378	29,086	31,030	31,822	23,506	24,982
Overall Tax Liability**	3,225	-422	-57	555	984	-2,670	-2,308
Annual Income before Taxes	22,609	27,957	29,030	31,586	32,806	20,837	22,675
Monthly Income before Taxes	1,884	2,330	2,419	2,632	2,734	1,736	1,890
Hourly Wage***	5.65	13.98	14.52	7.90	8.20	10.42	11.34
Federal Poverty Threshold (2004)	12,649	15,219	15,219	19,157	19,157	19,157	19,157
Percent of Federal Poverty Threshold	179%	184%	191%	165%	171%	109%	118%

*Calculations not rounded.

**Including federal, state, and local income taxes, federal and state earned income tax credit, federal credit for child care expenses, child tax credit, additional child tax credit and payroll taxes.

***Each earner works an eight-hour work day, five-day work week, and fifty-week work year

Source: Authors' calculations

week, fifty weeks a year of paid employment per earner. Earnings are also converted to a percentage of the 2004 federal poverty threshold.

Assumptions

The calculations are based on the following assumptions (see calculation notes for further details):

1. The family cooks and eats all of its meals at home at the cost of the U.S. Department of Agriculture (USDA) low-cost family food plan.
2. A family with no children rents a one-bedroom apartment. A family with two children rents a two-bedroom apartment.
3. The cost of rent and utilities is the Housing and Urban Development (HUD) fair market rent (fortieth percentile of rents for the local area for that size unit).
4. All adult family members work full time (except for the calculations for families of four with one wage-earner and one homemaker).
5. The family purchases basic health insurance (not through an employer-provided plan).
6. The family owns one automobile.
7. The workers drive to work and have other necessary transportation expenses.
8. Each child is in age-appropriate childcare (except for families of four with one wage-earner and one homemaker).
9. Childcare costs are based on the area average for licensed home-based childcare centers from the Indiana Family and Social Services Administration.
10. The family has average expenses (among low-income

Table 2
Hourly Wage and Annual Budget by MSA and Family Type

MSA		Couple	Single Parent			Family of Four		
		2 Earners: ages 20-50 No Children	1 Earner: age 20-50 2 Children ages 2 and 3-5	1 Earner: age 20-50 2 Children ages 6-8 and 9-11	2 Earners: ages 20-50 2 Children ages 2 and 3-5	2 Earners: ages 20-50 2 Children ages 6-8 and 9-11	1 Earner: age 20-50 2 Children ages 2 and 3-5	1 Earner: age 20-50 2 Children ages 6-8 and 9-11
Bloomington	Wage	5.71	15.16	14.83	8.49	8.36	10.69	11.60
	Annual Budget	19,587	29,962	29,530	32,614	32,266	23,950	25,426
Cincinnati (pt)	Wage	5.75	16.38	14.94	8.93	8.41	11.19	12.30
	Annual Budget	19,803	31,282	29,756	33,934	32,492	24,814	26,290
Elkhart-Goshen	Wage	5.76	14.35	13.89	8.09	7.91	10.86	11.89
	Annual Budget	19,647	28,798	28,208	31,462	30,992	24,166	25,702
Evansville-Henderson (pt)	Wage	5.34	13.10	12.84	7.46	7.36	9.94	10.85
	Annual Budget	18,519	27,351	27,010	30,003	29,746	22,798	24,274
Fort Wayne	Wage	5.49	13.36	14.25	7.59	8.07	10.20	11.12
	Annual Budget	18,867	27,562	28,726	30,214	31,462	23,146	24,622
Gary	Wage	6.16	17.54	17.57	9.33	9.40	11.94	13.33
	Annual Budget	21,159	32,614	32,662	35,302	35,506	25,954	27,526
Indianapolis	Wage	5.90	16.09	15.28	8.85	8.60	11.04	12.15
	Annual Budget	20,151	30,867	30,094	33,531	32,878	24,502	26,038
Kokomo	Wage	5.50	14.38	14.96	8.10	8.42	10.36	11.28
	Annual Budget	18,915	28,921	29,674	31,573	32,410	23,410	24,886
Lafayette	Wage	5.78	14.91	14.69	8.37	8.29	10.90	11.89
	Annual Budget	19,779	29,602	29,307	32,254	32,043	24,274	25,750
Louisville (pt)	Wage	5.65	13.98	14.52	7.90	8.20	10.42	11.34
	Annual Budget	19,383	28,378	29,086	31,030	31,822	23,506	24,982
Muncie	Wage	5.57	14.01	15.06	7.91	8.47	10.31	11.23
	Annual Budget	19,155	28,462	29,854	31,114	32,590	23,362	24,838
South Bend	Wage	5.72	14.74	15.57	8.28	8.69	10.76	11.74
	Annual Budget	19,659	29,456	30,416	32,120	33,200	24,094	25,630
Terre Haute	Wage	5.27	12.78	12.03	7.30	6.96	9.87	10.79
	Annual Budget	18,183	26,794	25,815	29,446	28,551	22,606	24,082

Source: Authors' calculations

households) for clothing and other miscellaneous services such as telephone service, cable television, etc.

The monthly budget provides a conservative estimate for a minimally decent, “no frills” standard of living. There are no allowances for saving to buy a home or a car, paying for college, or retirement. These calculations also do not include ordinary entertainment such as movies, eating out, or family vacations. Additionally, furniture and appliance purchases, major car repairs, and deductible/copay expenses for medical emergencies are not included in these calculations.

MSA Estimates

Table 1

summarizes the monthly budget estimates, annual tax consequences and resulting hourly wages needed for the Indianapolis, Gary, and Louisville MSAs, respectively. Tables for the remaining MSAs are available through the IBR website at www.ibrc.indiana.edu/ibr.

The Indianapolis MSA results indicate two earners with no children need to earn a minimum of \$5.90 per hour *per earner* to cover the expenses listed in the monthly budget. By comparison, two earners with two children need to earn \$8.85 per hour *per earner* (preschool children) or \$8.60 per hour *per earner* (school-age children). A family of four with one wage earner and one homemaker avoids childcare expenses and receives large tax refunds (due to tax credits) such that the wage earner needs to earn \$11.04 per hour (preschool children) or \$12.15 per hour (school-age children). However, a single head of household with two children must earn \$16.09 per hour

(preschool children) or \$15.28 per hour (school-age children) to provide for the family.

For perspective, in the Indianapolis MSA, families with single heads of household need an annual income that is over twice the federal poverty threshold to have a minimally decent standard of living. Two-earner families need annual incomes that are 180 percent to 186 percent of the threshold. Meanwhile one-earner families of four need an annual earned income 115 percent to 127 percent of the federal poverty threshold.

Table 2 summarizes the hourly

wages by family type for the thirteen Indiana MSAs. Not surprisingly, required wages are highest in the Gary MSA. In contrast, Terre Haute and Evansville require the lowest wage

levels to provide for a family. Single-parent families with children require the highest wages to support a family at a decent level, while families with two earners and no children require the lowest wages.

Conclusions

When looking over the wage estimates for Indiana’s MSAs, a few points stand out. Wage estimates vary substantially for the different types of families. The poverty threshold does not come close to providing a minimally decent standard of living. The income tax treatment of a family of four with one earner is considerably more favorable than for single parents or two-earner households.

Finally, in the wage estimates presented here, we assume that each family owns one vehicle. This may not be realistic, particularly in two-earner families, since family members are likely to work in different locations. An additional vehicle will substantially impact the

family budget. Another weakness of this analysis is that saving for emergencies, buying a house, college, or retirement is not incorporated. Incorporating these types of savings would involve a sizeable increase in the required wage. The budget estimates presented here exclude entertainment, major car repairs, and the purchase of household furniture and appliances. Thus, the calculations provide a conservative estimate of the income needed for a minimally decent standard of living.

Calculation Notes

Food: Calculated from the *Official USDA Food Plans: Cost of Food at Home at Four Levels, U.S. Average, December 2004*, using the monthly cost for families. The low-cost plan was used. The U.S. average was deflated by 7.75 percent based on the Consumer Expenditure Survey. Expenditures on food at home in the Midwest are 7.75 percent lower than the national expenditure.

Housing: Calculated from the *Fair Market Rents 2005 for Existing Housing* from HUD for one- and two-bedroom apartments. According to HUD, the fair market rent for an area is “the amount that would be needed to pay the gross rent (shelter plus utilities) of privately owned, decent, and safe rental housing of a modest (non-luxury) nature with suitable amenities.”

Health Care: Since many jobs that pay hourly wages do not include medical benefits, it is assumed that the family buys its own insurance. However, if an employer does offer medical benefits, the employee’s portion of the monthly premium for the family and the amount of annual benefit usage *may* be of comparable cost. The 2005 monthly family premiums (assuming no tobacco usage in the last twelve months) were obtained from eHealthinsurance.com (“Unicare Saver 2000” PPO). The policy has an annual deductible of \$2,000 per

“Based on this research, The poverty threshold does not come close to providing a minimally decent standard of living.”

Table 3
Vehicle Usage by Family Type

Family Type	Percent of Baseline	Monthly Mileage	Monthly Cost
2 drivers, no children	120	960	\$115
1 driver, 2 preschool children	110	880	\$105
1 driver, 2 school-age children	120	960	\$115
2 drivers, 2 preschool children	130	1,040	\$125
2 drivers, 2 school-age children	140	1,120	\$134

Source: Authors' calculations

person (\$4,000 per family) with a 30 percent fee for most services after the deductible. There is a \$30 copay for doctor's office visits (two visits per person per year with the deductible waived). Annual maximum out-of-pocket expenses (after deductible) are \$3,000 per person (\$6,000 for family). Prescription drug coverage provides a \$500 maximum annual benefit per member. This coverage includes a \$10 copay for generics and a \$25 copay for brand name drugs (after a separate \$200 deductible on brand names). The health insurance premiums were for 30-year-old adults with no children, 30-year-old adults with preschool children (ages 2 and 4), or 35-year-old adults with school-age children (ages 7 and 10), as appropriate for each family type.

The monthly health care cost estimate incorporates the insurance premium and one month's average cost of office visits and prescriptions. It is assumed that each adult has one office visit while each child has two office visits during the year. One generic prescription for each family member per year is incorporated into the estimates.

Transportation: The calculations assume that a family finances a moderately priced used car that is six years old from a used car lot. If a family financed a 1999 Ford Taurus with around 70,000 miles and a list price of around \$8,000 from Car Max at a 5 percent interest rate with a \$400 down payment, monthly payments would be around \$250 (including tax, tag, and title).²


Insurance quotes (meeting the minimum requirements for Indiana) were obtained from the SafeAuto Insurance Company for Indianapolis, Gary, and Clarksville (Louisville MSA). These rates were applied to the other MSAs according to the rate pattern observed when collecting the health insurance rates. The quotes assume that each driver has a clean driving record and each worker goes to one job site. Of note, the premiums were higher for one single driver than for two married drivers combined. The auto insurance premiums were for 30-year-old adults with no children, 30-year-old adults with preschool children, or 35-year-old adults with school age children as appropriate for each family type.

Gas (at \$2.25 per gallon) and basic maintenance costs were estimated using a baseline assumption that one driver with no children would drive 800 miles per month. A second driver would increase usage by 20 percent (of the baseline). Two preschool children in a family increase usage by 10 percent while two school-age children add 20 percent. Thus, vehicle usage for each family type can be seen in **Table 3**.

Childcare: The Indiana Family and Social Services Administration provides information on childcare costs (seventy-fifth percentile) for each county in Indiana. The fiscal year 2003–2004 age appropriate market rates for full-time care for preschool children and before and after school care for school-age children in licensed homes were used for the

calculations. A 10 percent discount is included for a second child. (Care in licensed childcare centers costs 5 to 10 percent more.) For MSAs that include more than one county, the median rate was used.

Other: Expenditures on other goods and services are from the 2002–2003 Consumer Expenditure Survey (for the Midwest region) and are based on average expenditures by households reporting income between \$20,000 and \$29,999. Expenditures included in this category include telephone services, television (cable) and radio, clothing, housekeeping supplies, and personal care products and services.

County Tax Rate: Local income tax rates vary by county in Indiana. For MSAs that include more than one county, the median tax rate was used. 

Data for individual MSAs are available online at
www.ibrc.indiana.edu/ibr/

Notes

1. Income limits for various subsidy programs: To qualify for a childcare voucher, gross income (family income before taxes) must be less than 127 percent of the poverty level. For food stamps, gross income must be less than 130 percent of the poverty level. (Asset limits also apply.) For Indiana health care programs for low-income families, gross income must be less than 150 percent of the poverty level for children to qualify for the program and less than 25 percent of the poverty level for adults to qualify. To qualify for WIC, gross income must be less than 185 percent of the poverty level. To qualify for a Section 8 housing voucher, gross income must be 30 percent or less of median family income for the metro area, adjusted for family size. (Households with incomes 80 percent of median or less qualify, but 30 percent or less is the target.) The median family income in 2005 in the Louisville MSA, for example, is \$58,200.
2. Though not included in the transportation calculations, public transportation may be an alternative for some families in certain metropolitan areas. For reference, the monthly cost for a bus pass is: \$50 in Indianapolis, \$45 in Gary, and \$28 in the Louisville MSA.