

# Executive Summary

## Iowa Self-Sufficiency Wages

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A report for

### **The Iowa Policy Project**

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By Jan L. Flora, Martha M. Dettman, Stacy Bastian, Georgeanne Artz, Margaret Hanson

In 2002, between 114,000 and 166,000 of Iowa's families had before-tax incomes that were insufficient to cover basic household and work-related expenses. They represent between 14 percent and 21 percent of all Iowa families, and included between 19 percent and 28 percent of Iowa's children. (See Appendix Table 2 of the full report for an explanation of these estimates.) Why are the parents of perhaps one in four of Iowa's children unable to generate a yearly income that covers the basics?

Compared to U.S. figures, people in Iowa work above-average numbers of hours, the percentage of female-headed households is below average, and young people in the work force have an above-average rate of high-school graduation. Thus, this paper focuses on a different reason for the high proportion of Iowans not achieving self-sufficiency: low wages. We calculated self-sufficiency wages for all counties in Iowa and aggregated them to the state level. We present the method by which self-sufficiency wages were measured and the reasoning behind the choices we made, present the results and examine prevailing wage levels in comparison with self-sufficiency. We also look at occupational projections at the state level in order to better understand where we may be headed unless policies are changed. We then suggest policy options that would reduce the numbers of children in families that are presently unable to make ends meet with the jobs the parents currently hold.

### What is a Self-Sufficiency Wage?

A self-sufficiency wage generates an annual income that covers current expenditures for bare necessities for households of a specified composition. Since most persons receiving a self-sufficiency wage or less do not generally receive employer-paid health insurance, we assume that the employer does not provide health or other benefits that contribute to basic maintenance. The wage requires a bare-bones, no-frills household budget. It does not include money for leisure activities or for purchase of luxury (including non-generic) goods. Furthermore, it does not allow for savings for retirement, for down payment on a home, or for higher education for adults or their children.

### *Assumptions Behind Calculation of a Self-Sufficiency Wage*

Because we are concerned about the high level of child poverty in Iowa and in the United States and its implications for those children and their families and for society as a whole, we have chosen to look at self-sufficiency of families with children. Hence, the self-sufficiency wage should be high enough to allow young families to provide for their children. In order to simplify our analysis, we examined family structures with two children.

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Secondly, we assumed the families did not have access to social welfare programs such as TANF, food stamps, food pantries, Medicaid, etc. Not even a majority of families with low-wage workers receive any one of these programs. Also, a wage plus private and public income supplements could not appropriately be called a *self-sufficiency* wage. A related assumption is the growing importance in our society of the working poor: those who have incomes that are too high to receive most means-tested social programs, but still too low to make ends meet.

The study also assumes that adults in the family would work full time — 40 hours per week for 50 weeks a year — and calculates a wage for one-parent (female) and two-parent families with two children. Full-time child care is assumed for infants, toddlers and preschoolers.

**Results: Self-Sufficiency Wage for the State of Iowa**

Table S1 shows the self-sufficiency wages for six different types of families for the state of Iowa. The average self-sufficiency wage in Iowa for single-parent families ranges from \$13.80 for a mother with one infant/toddler and a preschooler to \$10.20 for a mother with both children in school (one in elementary or middle school, the other in high school). For two-parent families with both adults working full time, the self-sufficiency wage is \$8.20 with two children needing full-time child care (an infant/toddler and a pre-schooler). The self-sufficiency wage for a family of four in which only one parent works while the other cares for the children is about equal to that for a family of three in which both children are in school — \$10.00 vs. \$10.20. It is also interesting to note that for a two-parent family with two small children, the cost (in child care) of the second adult working is \$2.06 per hour. That is, over one-fourth of the \$8.20 self-sufficiency wage for the second wage earner goes into child-care expenses. Or viewed another way, a near poor parent in a two-parent family subsidized by the government to take care of his/her two children could be paid as little as \$3 per hour to care for each of two young children, and would be as well off financially as when both parents worked. Arguably there could be social value in a parent caring for children not yet in school, rather than both parents working full-time at low-wage (\$8-plus per hour) jobs that may offer little flexibility for dealing with emergencies.

**Table S1. Self-Sufficiency Wage and annual income by family structure, size of community and county adjacency, adults working 40 hours/week, 50 weeks/year**

Family Structure (40-hour week)	Earned income needed for self-sufficiency	
	Hourly wage	Annual income
1 adult (F), 1 infant/toddler, 1 preschool child	\$13.80	\$27,600
1 adult (F), 1 preschool child, 1 school age child	\$11.90	\$23,700
1 adult (F), 1 school age child, 1 teen	\$10.20	\$20,400
2 adults (both work), 1 infant, 1 preschool	\$ 8.20	\$32,800
2 adults (both work), 1 preschool child, one school age child	\$ 7.50	\$30,000
2 adults (1 employed outside the home), 1 infant, 1 preschool child	\$10.00	\$20,000

It is important to emphasize that these self-sufficiency wages were calculated conservatively. For instance, child-care costs are only calculated for infants and preschool age children, although young school-age children often require part-time child care. Furthermore, it may be unrealistic to assume that a single parent can work 40 hours per week, particularly when a child is ill or another family crisis arises. No allowance is made for meals eaten out, even though the sole adult or both adults in the family is/are working full time and have little time for meal preparation. The budget does not allow for a second phone (such as a cell phone, which is useful in emergencies). Nor does it include long-distance telephone charges, which would

definitely be a hardship if extended family members were not within the same local exchange. More than half of workers in Iowa make less than is needed by a single parent who must raise two children alone. If one factors in the lower wages earned by women than by men, and since women head most one-parent families, it is even more difficult for single-parent households to attain self-sufficiency.

Nearly one-fourth of workers make less than is needed for self-sufficiency by a young family of four with two full-time wage earners (two adults, an infant or toddler, and a preschooler).<sup>1</sup> This is true even though the annual number of hours worked by all married couples with children exceeds the equivalent of two full-time jobs (4,086 hours per year). This exceeds the national average by 380 hours!

Not only does the self-sufficiency wage that we choose as most appropriate depend on the policy(ies) that are of concern, but it also varies by locality. In Iowa, we found that adjacency to a metropolitan area (more than the size of a place or county) was correlated with the level of the self-sufficiency wage. Using the new 2003 USDA urban adjacency codes, we found that cost of living varies little by size of community when that community is not adjacent to a metro area. If it is adjacent, the larger the community the higher the cost of living that defines a self-sufficiency wage.

## **Job Opportunities and Self-Sufficiency**

What kinds of jobs are realistically available in Iowa to adults with children who lack any higher education or perhaps even a high-school diploma? Figure S1 (Page 4) shows projections of openings and job growth by occupation for the decade ending in 2010.<sup>2</sup> Most job openings are in the low-wage service sector — retail salespersons, cashiers, restaurant servers and fast-food preparers and servers. With the exception of waiters and waitresses in non-fast-food establishments, the growth in these occupations is predicted to be faster than overall job growth in Iowa during the first decade of the new century.

## **An Asset-Based Approach**

A family that achieves a self-sufficiency wage may or may not enhance its chances of escaping from poverty or near poverty over the course of a life or across generations. Wealth generation must accompany income generation. An equal or larger group of Iowans is above the official poverty line but below self-sufficiency<sup>3</sup> and therefore has rarely or never been on welfare. Income subsidies are focused on acquiring and to a degree on keeping a job — any job.<sup>4</sup> They do not encourage acquisition of assets such as a home, additional education, or capital

<sup>1</sup> For the precise numbers and self-sufficiency wages for other family structures see Appendix Table 1.

<sup>2</sup> “Annual average openings in the sum of the numerical growth over the projection period divided by the number of years in the projection period and an estimate of the number of jobs that will arise from the need to replace workers who will die retire, or permanently leave the occupation for other reasons each year over the projection period.” (U.S. Department of Labor, 2003; available at: <http://www.projectionscentral.com/projections.asp?page>About>)

<sup>3</sup> While 59,000 families and 70,000 children are below the official poverty line, an additional 55,000 to 107,000 families and 71,000 to 135,000 children are below the self-sufficiency income level, but not officially defined as poor (See Appendix Table 2 and U.S. Bureau of Labor Statistics and U.S. Bureau of the Census, 2003).

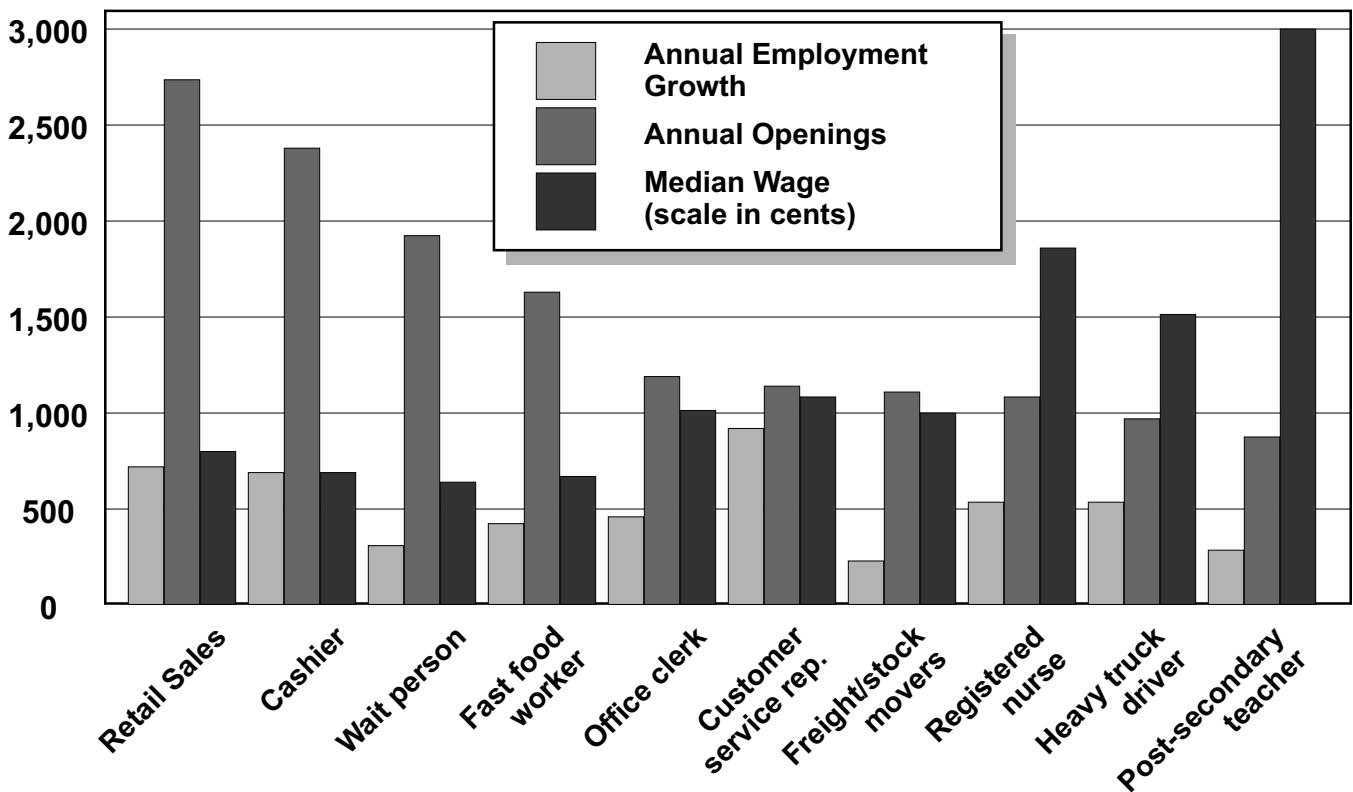
<sup>4</sup> Gordon, Fisher, and Ditsler (2003:27) state that the post-welfare (TANF) workers earned less than \$7.50 per hour in 2000, which ranges from some what over half to three-fourths of the self-sufficiency wage for a single wage-earner family (Table S1). The overwhelming majority of families on welfare and who leave welfare are single-parent families.

for starting one’s own business — assets that truly enhance financial stability and/or facilitate further income generation capacity and wealth acquisition.

**Conclusion**

Poverty is costly to society. It is our collective choice whether to choose an asset-based approach to poverty reduction, by legislating higher wages and judiciously crafting government and local civic programs that encourage those in or near poverty to acquire the human, social and economic assets they need to contribute to society.

**Figure S1. Projected Top 10 Occupations with Job Openings**



**Policy recommendations**

■ **Raise the minimum wage in Iowa.**

This would offer an important first step to help families below the self-sufficiency standard work their way to self-sufficiency and provide their children with the skills and assets to contribute in society. The minimum wage has lost 39 percent of its value since 1968. Raising it would put more money in the hands of people who spend all of their income, and stimulate the Iowa economy. At the self-sufficiency wage for two-earner families with young children, the wage would rise to between \$6.85 and \$7.70, depending on assumptions about children’s ages.

■ **Make the Iowa Earned Income Tax Credit refundable.**

The Iowa Earned Income Tax Credit only applies if the individual has a positive tax liability against which to apply it. A positive policy step would be to make the Iowa EITC refundable. Those in greatest need of the state EITC — those workers with incomes so low that they have

no tax liability — are in the group that pays the highest proportion of their incomes on sales tax, since they spend all their earnings.

■ **Enact state and local “living wage” laws.**

So-called “living wage” laws that would ensure that firms awarded state or local government contracts pay self-sufficiency wages. Self-sufficiency wages can be used as a guideline for determining the minimum wage to be paid by such firms.

■ **Target business incentives to firms paying self-sufficiency wages and good benefits.**

The state of Iowa has in the past few years increased the wage and benefits requirements for firms receiving state economic development funds. However, most of these relate to the *average* or *median* wage in the county or region, and should be revised to also include a *minimum* wage to be paid by firms receiving incentives. The state should examine the guidelines in light of self-sufficiency wages and revise some of the wage requirements upward. Among local governments, only Des Moines has wage requirements for firms receiving economic development funds. The Governor and the Iowa Department of Economic Development should encourage localities to adopt such requirements, particularly for use of federal or state monies.

■ **Expanding access to high quality, professional and affordable child care.**

Iowa ranks first in the nation in the proportion of parents of children under 6 who are working. At the very least the maximum income allowable for child-care subsidies should be brought up to the self-sufficiency income of parents with children in need of full-time child care (40 hours per week). For a single mom working 40 hours per week with two children, that would involve raising the maximum allowable income from \$16,670 to \$23,500 (if she had one preschool child) or \$27,500 (if both children needed day care).

■ **Expanding Individual Development Accounts.**

The Individual Development Account (IDA) could be an important public-private mechanism to encourage asset building by low-income persons. The family or individual concerned makes contributions to a savings account, which is matched from other (public, private and community) sources. Funds in the account can only be spent for education or training, starting a business, or buying or repairing a home, or in some cases for purchasing a car or computer, if they are necessary for one’s work. Iowa was the first state to pass an IDA enabling law in 1995, but the state did not contribute significant funds until FY2000.

■ **Ensure access to health insurance for Iowans with less than a self-sufficiency wage.**

The first step is to ensure that the HAWK-I program reaches all eligible children. Although Iowa is making progress in covering all eligible children, 13 percent of children at or below 200 percent of poverty were not covered for the period 2000-2002 (U.S. Census Bureau, 2003).

## **The Iowa Policy Project**

For the full report, see  
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The Iowa Policy Project was founded in the summer of 2000 to produce and disseminate research on a broad set of issues of importance to the citizens of Iowa. We are a non-profit and non-partisan organization. We engage scholars to produce sound, independent research.