

# **Young Workers and the Iowa Economy**

**The State of Working Iowa 2008  
Part III**

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## **The Iowa Policy Project**

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## The Iowa Policy Project

Formed in 2001, the Iowa Policy Project is a nonpartisan, nonprofit organization based in Mount Vernon, with its principal office at 20 E. Market Street, Iowa City, IA 52245.

The Iowa Policy Project promotes public policy that fosters economic opportunity while safeguarding the health and well-being of Iowa's people and the environment. By providing a foundation of fact-based, objective research and engaging the public in an informed discussion of policy alternatives, the Iowa Policy Project advances accountable, effective and fair government.

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# The State of Working Iowa 2008

## Part III

# Young Workers and the Iowa Economy

### Introduction

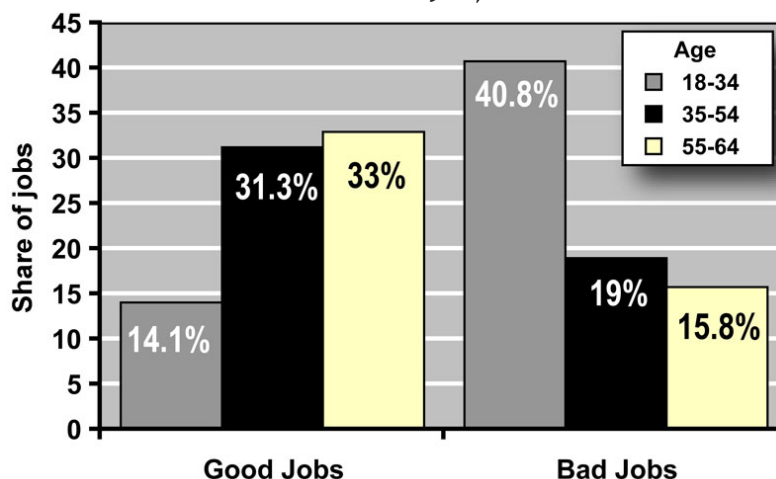
Young Iowans entering the workforce today are confronted with more challenging economic prospects than those faced by the previous generation of young workers. Young workers in Iowa have borne the brunt of declining median wages at a time when older workers (those over the age of 35) have actually experienced modest increases. During the early '80s, when today's 25-year-olds were born, median hourly wages for young men were a full \$0.70/hour higher (in 2007 dollars) than they are today. Young workers are least likely to work in jobs that offer health coverage and, like their peers around the country, young Iowans have the highest rates of unemployment of any age group in the state.

At the same time that wages and benefits have stagnated, the cost of post-secondary education has soared, making it difficult for young graduates to find jobs that make student debt payments affordable. Young Iowans, many of whom are establishing households and families, are faced with a job market in which it costs more to prepare for a good job, and the good jobs are becoming scarcer. When wages are not enough to cover the basics, even with Iowa's comparatively low cost of living, young families struggle to make ends meet.

### Good Jobs for Young Iowans?

Jobs that pay a decent wage and provide benefits are the keystones of economic security for young families. The Center for Economic Policy Research (CEPR) has examined trends in the economy's capacity for creating "good" and "bad" jobs for various age groups, defining a "good" job as one that pays at least \$16 per hour (or about \$32,000 per year), offers employer-provided health insurance, and provides a pension.<sup>1</sup> A "bad" job is defined as one that does not meet any of these three criteria. Nationwide in 2006, about 23 percent of jobs qualify as good, about 29 percent qualify as bad.<sup>2</sup>

Figure 1. Young People in U.S. Least Likely to Hold Good Job, 2004



Source: Schmitt, Center for Economic Policy Research, 2005<sup>1</sup>

Good and bad jobs are not equally distributed across age groups, however. Nationwide, young people occupy both the lowest share of good jobs and the highest share of bad jobs when

compared to all workers. As Figure 1 shows, only 14.1 percent of workers age 18-34 work in a good job and are in fact half as likely as workers over the age of 35 to work in a good job. Even more disturbing is the fact that over 40 percent of young workers are in a bad job; again, they are more than twice as likely as workers over age 35 to work in a bad job.

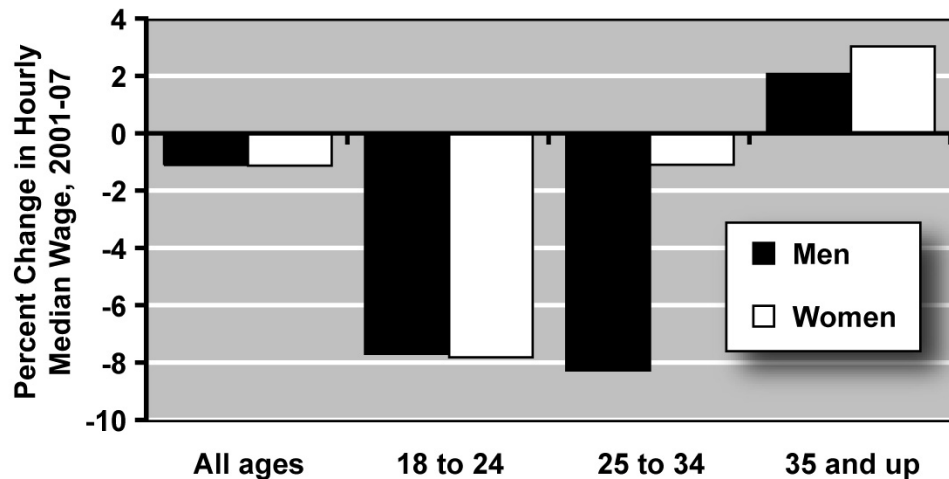
In Iowa, approximately 25 percent of jobs were “good” jobs in 2006, while just under 30 percent of jobs were “bad” jobs.<sup>3</sup> Iowa ranks seventh in the surrounding nine-state region in terms of the share of jobs that are good. Iowa fares better in terms of having a lower share of bad jobs; four other states have a higher share of bad jobs, while four other states have a lower share of bad jobs.

Across the last business cycle, Iowa’s median wage has stagnated. Between 2001 and 2007, the median for all workers fell from \$14.41 to \$14.30 (a slight increase in 2006-7 checking three years of decline). The numbers for all workers, however, mask a stark discrepancy by age. While wages for workers age 35 and older grew slightly (between 2 and 3 percent) over this six-year period, younger workers have been far less fortunate.

Figure 2 illustrates how different age groups of Iowa workers have fared over the past six years since the 2001 recession. Hourly median wages for young male workers age 25-34 declined in real dollars for the fifth straight year in 2007, falling \$0.33 to \$15.05. As Figure 2 shows, since 2001, wages for those young men have fallen \$1.35, an 8.2 percent decline. Median hourly wages for young women age 25-34 declined less steeply, falling only \$0.14 (about 1 percent) to \$13.12. Wages for younger women, between the ages of 18 and 24, experienced the sharpest decline, falling almost 8 percent to \$8.44.

These trends can be traced to a number of factors, including new job growth in sectors with low wages relative to the wages prevailing in declining sectors. Young people entering the workforce are more likely to move into these sectors, which drives their aggregate wages down in comparison to their older peers who occupy jobs in higher-paying sectors. Women in the 25 to 34 age bracket may have experienced a smaller decline than men the same age simply because the difference in male and female wages means that men have more ground to lose as wages stagnate overall. Women’s larger wage growth in the 35 and up age group reflects the same trend of a shrinking gender wage gap.

**Figure 2. Men Age 25-34 Experience Sharpest Decline in Iowa Wages, 2001-07 (2007 dollars)**

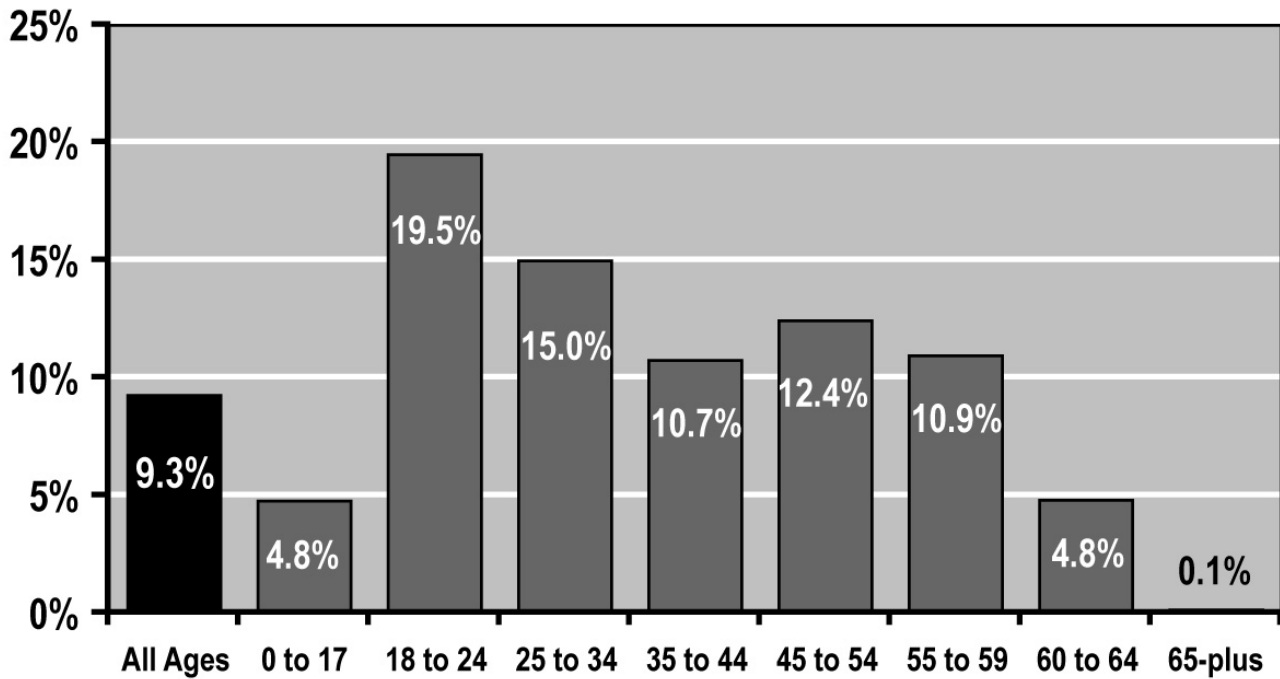


Source: Economic Policy Institute analysis of Current Population Survey (ORG) data

### **Many Young Adults in Iowa Lack Health Coverage**

Young adults (age 18 to 34) in Iowa make up 23 percent of the state’s population but comprise nearly 42 percent of the state’s non-elderly uninsured. As Figure 3 illustrates, almost 20 percent of 18- to 24-year-olds and 15 percent of 25-34-year-olds in Iowa are uninsured. As a group, almost 17 percent of 18- to 34-year-olds are uninsured.

Figure 3. Uninsurance Declines with Age Among Iowa Adults, 2007



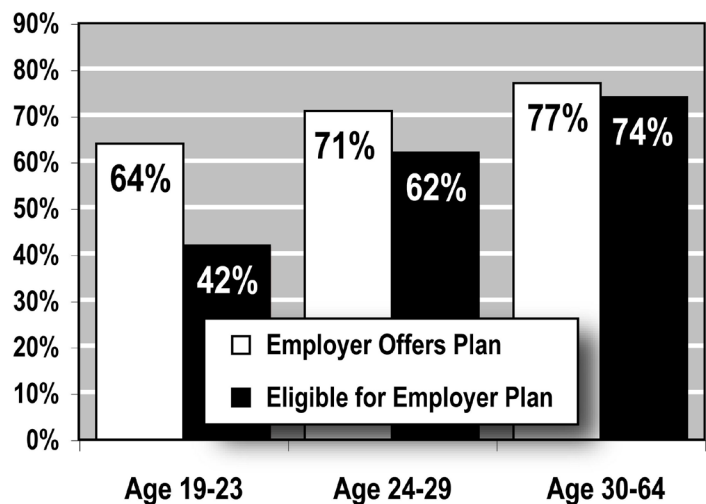
Source: Current Population Survey, Annual Social and Economic Supplement 2008

Young people often lose health-care coverage when they graduate from high school or college and can no longer be claimed as dependents on their parents’ health-insurance policies. In addition, the years after graduating from high school can be a time of high mobility as young people change jobs, residences and schools from year to year. These factors lead to gaps in coverage as well as care. Only 58.4 percent of 18- to 24-year-old lowans have employment-based insurance, while 77 percent of lowans between the ages of 35 and 44 are covered by employment-based insurance. While those of the 18-24 cohort who are post-secondary students have some access to parental or collegiate health plans, rates of uninsurance remain high — 17 percent (national numbers) for those registered as full-time students, and 39 percent for non-students and part-time students.<sup>4</sup>

These differences in coverage can be explained in part by the types of jobs held by younger workers, which are less likely to offer employee benefits, including health care. A 2007 survey conducted by The Commonwealth Fund found that, nationwide, young workers were least likely to work for employers who offered health plans and also least likely to be eligible for these plans.<sup>5</sup>

Young workers who would be able to take advantage of employer-based health coverage may not participate in insurance plans for a number of reasons, including the unaffordable cost of the employee

Figure 4. Young Workers in the U.S. Struggle to Find Employer-Based Health Coverage



Source: Kriss, et al, 2008

share of the premium or their relative good health. In fact, the Commonwealth Fund also finds that only 45 percent of eligible workers ages 19-23 and 78 percent of those workers age 24-29 take up employer insurance, compared to 84 percent of eligible workers over the age of 30.

### Poverty and Student Debt

Low and declining wages contribute to the fact that young workers in Iowa have some of the highest rates of poverty in the state. Just under 2 percent of full-time, year-round workers in Iowa live in poverty, compared to

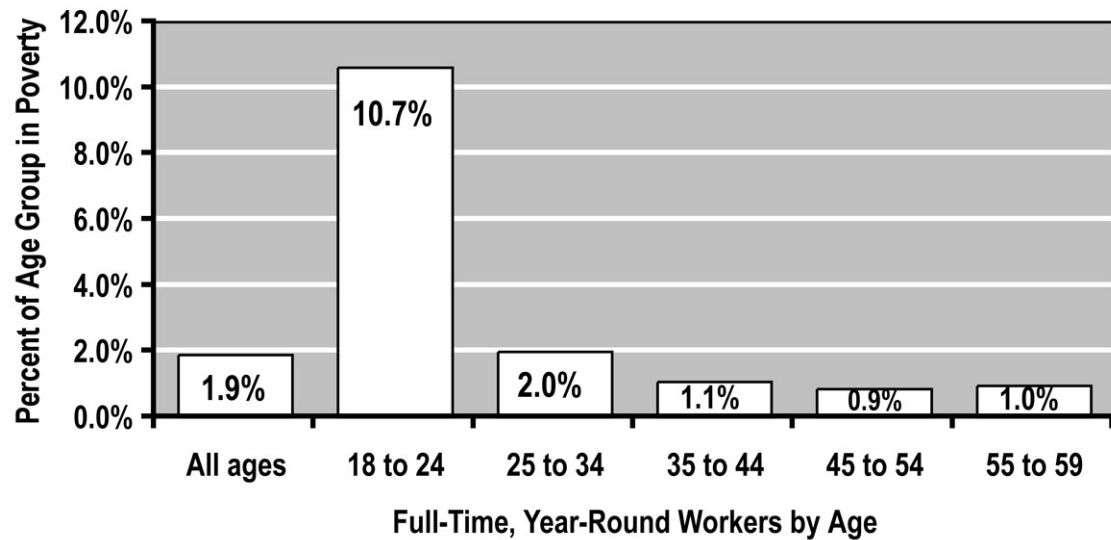
10.7 percent of full-time, year-round workers between the ages of 18 and 24.

In addition to lower wages, young people in Iowa often have the added costs of student loan repayment. The Project on Student

Debt ranks Iowa sixth in the nation for size of average debt,<sup>6</sup> which the Iowa College Student Aid Commission estimates to be \$24,990.<sup>7</sup> Student debt has grown substantially in Iowa over the past decade. After adjusting for inflation, the University of Iowa is the only one of the state's Regents institutions to report relatively constant debt numbers between 1996 and 2006, while Iowa State University graduates saw an average debt increase of 40 percent and University of Northern Iowa graduates experienced an average 48 percent debt increase during the same period.<sup>8</sup>

Using data from the Iowa College Student Aid Commission, the Legislative Services Agency estimates that an Iowa graduate with average student loan debt will need to make monthly payments of \$293 to pay off his or her loans on a standard, 10-year repayment schedule, assuming a 7.22 percent annual interest rate. Table 1 (right) builds on data from *The Cost of Living in Iowa*, an Iowa Policy Project report from January 2008, to show the impact of including debt repayments in a basic needs

**Figure 5. Young Workers Age 18 to 24 Have Highest Poverty Rate in Iowa, 2007**



Source: Current Population Survey, Annual Social and Economic Supplement 2008

**Table 1. Student Debt Has Substantial Impact on Budgets of Young Adults**

	Monthly Costs	Mo. Costs w/ Debt
Child Care	\$0	\$0
Clothing/Other Necessities	\$168	\$168
Food	\$217	\$217
Health Care	\$147	\$147
Housing	\$455	\$455
Transportation	\$425	\$425
Income Taxes	\$305	\$305
Student Debt Payment	--	\$293
Monthly Total	\$1,717	\$2,010
Annual Total	\$20,604	\$24,120
Family Supporting Wage	\$9.91	\$11.60

Source: IPP analysis of Iowa Student Aid Commission and Cost of Living in Iowa data



budget for a single adult in Iowa.<sup>9</sup> As an alternative to outdated federal poverty guidelines, these basic needs budgets help illustrate the minimum costs associated with fulfilling basic needs for different types of families in Iowa. Typically such budgets do not include estimates for debt payments (or savings), but these costs are a major part of young graduates' budgets. As the table indicates, simply adding a student debt payment to the basic budget of a single adult in Iowa increases by more than 15 percent the hourly wage he or she needs to earn to make ends meet.

The Iowa College Student Aid Commission recommends that the maximum affordable level of debt repayment is 8 percent of a graduate's starting salary, which means that a starting salary for feasible repayment on an average student loan debt would be \$43,950 or \$21.13/hour for full-time employment. Given that Iowa's 2007 hourly median wage is \$14.30, Table 2 shows that a graduate would have to be earning more than 70 percent of wage earners in the state in order to be able to afford debt repayments.

**Table 2. High Wages Needed for Affordable Student Loan Repayment in Iowa**

<i>Decile</i>	<i>Wage</i>
10th percentile	\$ 7.72
20th percentile	\$ 9.28
30th percentile	\$10.90
40th percentile	\$12.39
50th percentile	\$14.30
60th percentile	\$16.38
70th percentile	\$18.91
Feasible student loan repayment wage	\$21.13
80th percentile	\$22.76
90th percentile	\$30.13

*Source: Iowa Student Aid Commission and Economic Policy Institute analysis of Current Population Survey data*

***Policy Recommendations***

Good jobs are central to creating economic opportunities that make it possible for all working Iowans — including young Iowans — to support their families with security and dignity. State policymakers can and must support these jobs by committing to “high road” economic development that directs public money only to jobs that pay decent wages and benefits. For instance, the Community Economic Betterment Account (CEBA) program administered by the Iowa Department of Economic Development (IDED) requires that companies receiving various subsidy awards and incentives meet wage standards of at least 130 percent of the county average. When wage standards are adjusted down to meet political demands, as has occurred repeatedly with the Iowa Values Fund,<sup>10</sup> or set so low that they bid down local wages, as with Iowa's Enterprise Zone program,<sup>11</sup> Iowa's working families, especially young families, pay the price.

Good jobs that pay competitive wages allow young workers to support their families while they repay student loans. Adequate funding for Iowa's public universities and community colleges is also a crucial component to making student debt manageable. Between 2001 and 2004, 9 percent state budget cuts resulted in 14-16 percent cuts in funding to the Regents universities. These cuts were followed by tuition and fee increases of over 60 percent.<sup>12</sup> When state budgets shrink in times of fiscal crisis, students end up with higher tuition bills and increased fees, which can lead to unsustainable levels of debt.

Young Iowans have been the focus of much recent attention from policymakers concerned with the state's so-called “brain drain” crisis. The Generation Iowa Commission, appointed by Governor Culver in 2007, has made a number of recommendations that aim to address the economic challenges currently facing young Iowans. Unless the state redoubles its commitment to high-road economic development and better supports higher education, young people will continue to leave the state.

## Endnotes

<sup>1</sup> Schmitt, John (2005). How Good is the Economy at Creating Good Jobs? Center for Economic and Policy Research. Available from: <http://www.cepr.net/index.php/publications/reports/how-good-is-the-economy-at-creating-good-jobs/>.

<sup>2</sup> Fremstad, Shawn, Rebecca Ray, Liz Chimienti, and John Schmitt (2008). *Movin' On Up: Reforming America's Social Contract to Provide a Bridge to the Middle Class*. Center for Economic and Policy Research. Available from: [http://www.cepr.net/documents/publications/btg\\_2008\\_02.pdf](http://www.cepr.net/documents/publications/btg_2008_02.pdf).

<sup>3</sup> Ibid.

<sup>4</sup> Kriss, Jennifer et al. (2008). *Rite of Passage? Why Young Adults Become Uninsured and How New Policies Can Help*, 2008 Update. The Commonwealth Fund, Figure 3. Available from: [http://www.commonwealthfund.org/publications/publications\\_show.htm?doc\\_id=687669](http://www.commonwealthfund.org/publications/publications_show.htm?doc_id=687669).

<sup>5</sup> Ibid, p. 18.

<sup>6</sup> The Project on Student Debt (2007). *Student Debt and the Class of 2006*. Available from: [http://projectonstudentdebt.org/files/pub/State\\_by\\_State\\_report\\_FINAL.pdf](http://projectonstudentdebt.org/files/pub/State_by_State_report_FINAL.pdf).

<sup>7</sup> Iowa College Student Aid Commission (2007). *Debt Upon Graduation: Four Year Baccalaureate, 2005-2006*. Available from: <http://www.iowacollegeaid.gov/docs/file/research/FourYearBaccalaureateSummary09112007.pdf>.

<sup>8</sup> Legislative Services Agency (2007). *Iowa College Student Debt. Issue Review*, October 20, 2007. Available from: <http://www.legis.state.ia.us/lsadocs/IssReview/2008/IRMDF001.PDF>.

<sup>9</sup> Ditsler, Elaine and Beth Pearson (2008). *The Cost of Living in Iowa*. The Iowa Policy Project. Available from: <http://www.iowapolicyproject.org/2008docs/080118-COL.pdf>.

<sup>10</sup> Gordon, Colin (2004). *Bending the Rules: The Promise and Practice of the Grow Iowa Values Fund*. The Iowa Policy Project. Available from: <http://www.iowapolicyproject.org/2002-2004docs/040708-ivf.pdf>.

<sup>11</sup> Gordon, Colin (2008). *EZ Money: Assessing Iowa's Enterprise Zone Program*. The Iowa Fiscal Partnership. Available from: <http://www.iowafiscal.org/2008docs/080421-EZ.pdf>.

<sup>12</sup> For a discussion of the relationship between state budget cuts and education funding in Iowa, see Varner, Jeremy and Elaine Ditsler (2004). *Iowa's State Fiscal Crisis and Its Impact on Education: Erosion of Support at All Levels*. The Iowa Fiscal Partnership. Available from: <http://www.iowapolicyproject.org/2002-2004docs/041122-ifp-educ-full.pdf>.