

THE COST OF LIVING IN IOWA

Basic Needs Budgets for Working Families — 2011

What does it take to get by these days? The latest edition of “The Cost of Living in Iowa” from IPP answers this question. The report, using 2011 data, details how much families must earn in order to meet their basic needs and underscores the importance of public work support programs for many Iowans, who despite their work efforts, are not able to pay for the most basic living expenses.

The basic-needs budgets constructed for the report represent a very frugal living standard; using 2011 costs, the budgets are based on what is needed to “survive” rather than “thrive.” This includes allowances for rent, utilities, food prepared at home, child care, health care, transportation, clothing and other household necessities. The budgets show the after-tax income an Iowa family would require to meet basic needs without the benefit of public assistance or work supports; this report focuses on non-senior Iowa households with an adult working at least half time. Budgets are constructed for each of Iowa’s 99 counties, for 10 metropolitan areas, and for four rural regions.

Working Iowans Struggling to Pay for Basic Living Expenses

Iowans work hard to support their families. Iowa ranks first in the nation in the percent of children under 6 years of age with all parents in the labor force (75.6 percent). Despite their work efforts, families’ earnings are not keeping up with rising costs. Statewide, almost 23 percent of working Iowa families are earning incomes below what is needed to meet their basic needs (see Table 1), with nearly 3 of 4 single-parent households falling short. More than a quarter of single adults and more than one-fifth of married couples with children also fall short.

Table 1. Over 1 in 5 Iowa Working Families Have Incomes Below Basic Needs

	Proportion Below	Margin of Error*
Single persons	28.0%	3.0%
Married couples without children	12.1%	1.8%
Married couples with children under 18	22.9%	2.3%
Single parents	74.0%	7.8%
All Households	22.7%	1.4%

*Source: IPP analysis of data from 2010 American Community Survey.
* The margin of error is the 95% confidence interval; for example, we can be 95% sure that the proportion statewide for all households is between 21.3 percent and 24.1 percent.*

Cost of Living Threshold Is More Accurate Than Federal Poverty Guideline

Federal poverty guidelines are the basis for determining eligibility for public programs designed to support struggling workers. However, the federal guidelines are based on outdated spending patterns and do not take into account regional differences in the cost of living. Considering the vast changes in consumer spending patterns since the poverty guidelines were developed 45 years ago, it is no wonder that this yardstick underestimates what Iowans must earn to cover their basic needs. Table 2 shows that a family supporting income is about twice the federal poverty guideline.

Basic Family Budgets: Two-Parent Families

In the majority of two-parent families in Iowa, both parents work full time. If they have only one child, each working parent must earn \$11.53 per hour to make ends meet (see Table 3). For families with two children, each parent must earn \$14.15 per hour, or 23 percent more.

Families with one stay-at-home parent require about one-third less household income than families with two working parents. This is largely because families with one stay-at-home parent do not have to pay child care costs; they also save money on transportation. However, the working parent must earn significantly higher wages than if both parents were working. Working adults in families with one child and one stay-at-home parent must earn \$16.77 per hour to support the family. With two children in the family, the working parent must earn \$18.99.

Work Supports Can Help

For families who receive them, work supports can close part of the gap between low wages and the high cost of basic needs. These are programs that reward workforce participation by decreasing basic living expenses (such as child care, food, health insurance and utilities) or increasing take-home pay through tax credits. Eligible Iowans can access the following work support programs: Child Care Assistance (CCA), Food Assistance (FA), public health insurance for adults (Medicaid or IowaCare) and children (*hawk-i*), the Low-Income Home Energy Assistance Program (LIHEAP), and the federal and state Earned Income Tax Credits (EITC).

However, as incomes rise, families experience significant financial cliffs when work supports discontinue before they are able to replace the assistance with adequate income.

Table 2. Official Poverty Thresholds Far Below Family Supporting Incomes

Family Type	Family Supporting Annual Income	Federal Poverty Guidelines, 2011	Ratio: Family Supporting Income to Poverty Level
Single adult	\$20,138	\$10,890	1.8
Single parent with one child	\$32,276	\$14,710	2.2
Single parent with two children	\$42,540	\$18,530	2.3
Two-parent family with one child	\$31,791 - \$41,223	\$18,530	1.7 to 2.3
Two-parent family with two children	\$37,203 - \$50,288	\$22,350	1.7 to 2.3

Note: Range for two-parent families is with one working vs. both working. One child means a child age 2 or 3; a second child is assumed age 6 to 10.

Table 3. Basic Family Budgets for Families with Two Parents, Both Working

	One child*	Two children**
<u>Monthly Expenses</u>		
Child care	\$502	\$807
Clothing & household expenses	369	398
Food	576	739
Health care	507	577
Rent and utilities	630	819
Transportation	851	851
Monthly total	\$3,435	\$4,191
<u>Annual Total Basic Expenses</u>	\$41,223	\$50,288
<u>Income and Taxes</u>		
Before-tax earnings needed	\$46,130	\$56,586
Less: Income & payroll taxes	(5,119)	(6,343)
Plus: EITC & other credits	212	44
Net after-tax income	\$41,223	\$50,288
<u>Family supporting hourly wage</u>	\$11.53	\$14.15

*One child age 2 or 3

**One child age 2 or 3; second child assumed to be age 6-10

Find the full report at: <http://www.iowapolicyproject.org/2012Research/120531-COL.html>. Also there, find basic family budgets for seven family types for each of Iowa's 99 counties. Research for this report was supported by the Northwest Area Foundation, the United Way of Central Iowa and the United Way of Johnson County. Recommendations are solely the perspective of the authors and the Iowa Policy Project.