

# The Cost of Living in Iowa

## *2014 Edition*

### *Part 2: Many Iowa Families Struggle to Meet Basic Needs*

Peter S. Fisher  
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April 2014

## **The Iowa Policy Project**

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## ***Authors and Acknowledgments***

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We gratefully acknowledge the generous support of the Northwest Area Foundation, the United Way of Central Iowa, Mid-Iowa Health Foundation, United Way of the Quad Cities, United Way of East Central Iowa, United Way of Johnson County, United Way of North Central Iowa, and United Way of Story County. While these funders support the research that went into this report, they may not necessarily agree with policy recommendations that are included. Policy recommendations are solely the perspective of the authors and the Iowa Policy Project.

## **The Iowa Policy Project**

Formed in 2001, the Iowa Policy Project is a nonpartisan, nonprofit organization. Its principal office is 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 Cost of Living in Iowa — 2014 Edition *Part 2: Many Iowa Families Struggle to Meet Basic Needs*

By Peter S. Fisher and Lily French

Thousands of Iowa families do not earn enough to provide for a basic standard of living without public supports, despite one or more wage earners in the family. Overall, 1 in 6 Iowa households meet this description in recent years. For single parents, the challenge is greater than it is for married couples with children.

This is the finding of Part 2 of the 2014 edition of *The Cost of Living in Iowa*, building on our analysis of what it takes just to get by, for various family types. In Part 1, we constructed typical family budgets consisting of the no-frills basic monthly expenditures on rent, transportation, child care, food, health care, and household expenses needed by families of different sizes and composition in Iowa.<sup>1</sup> In this report we provide estimates of the percent of Iowa working families who do not earn enough before taxes to meet a basic family budget without help from such work supports as child care assistance, food assistance, or health care subsidies.

In this report we consider four kinds of households: single persons living alone, married couples without children living at home, married couples with children under 19 living at home, and single parents with one or more children at home. In Part 1, we presented estimates of the before-tax income required by households of these four types (with varying numbers and ages of children) that would leave the household with after-tax income just equal to the basic needs budget for that type of family. We call this the break-even level of earnings. It is the level needed to attain a basic standard of living in the absence of any work supports beyond the Earned Income Tax Credit (EITC). Taxes must be taken into account in calculating disposable income.

We rely here on data from the most recent three years of the American Community Survey (ACS): 2010-2012 released by the U.S. Bureau of Census.<sup>2</sup> We pool three years of data to get a larger sample in order to increase the reliability of estimates. Since the focus of our report is on working families, we excluded from the sample senior households and those without at least one adult working at least half time. We also cannot consider certain types of households because of difficulties in estimating how income and expenses are shared within the household. We include families with up to three children.<sup>3</sup>

As noted above, nearly 17 percent of Iowa households earned below the break-even level of income. Table 1 shows that the proportion is higher for single persons, lower for married couples (especially those without children at home), and much higher (nearly 3 in 5) for single-parent families. The proportion does not vary greatly by region of the state, though the eight counties of central Iowa have a somewhat lower share and the non-metropolitan counties in the southern third of the state have a significantly higher share of families below break-even: nearly 20 percent.

In this table and those that follow, we show both the estimate and the margin of error. The smaller the sub-population (a particular family type, or a particular region of the state), the smaller the ACS sample and the larger the margin of error of the estimate. That is why we do not present estimates for smaller population groups (e.g., married couples with one child vs. two children, or smaller geographic areas): The margin of error becomes too large.<sup>4</sup>

The proportions in Table 1 cannot be compared to similar statistics in the last version of *The Cost of Living in Iowa* (published in 2012) for a number of reasons. First, that version based estimates on a single year of the ACS (2010) so the sample was only a third the size and the error was larger. Second, the basic family budgets in this latest edition are constructed both for families with health insurance from an employer and those without, and the families

in the ACS sample are assigned the appropriate budget depending on how they answered the health insurance questions. In the previous edition we used only one budget — an average of the costs with and without employer sponsored insurance — for everyone in the sample. Finally, this year’s analysis employed a more accurate accounting of child care costs and a better approach to estimating statewide proportions.<sup>5</sup> As a result, we cannot say anything about trends over time.

Of those Iowa families with income below break-even, about a third earn less than half the needed amount. In other words, those families would need to double their current earnings to break even. For single parents, this is especially significant: 28.7 percent of single parents earn less than half the break-even level. (See Table 2.)

**Table 1. Estimated Proportion of Iowa Families Earning Below the Break-Even Level**

	Proportion Below	Margin of Error*
<b>Statewide</b>		
All Households	16.7%	0.8%
Single persons	27.1%	1.7%
Married couples without children	5.2%	0.7%
Married couples with children under 18	8.9%	1.0%
Single parents	59.1%	3.8%
<b>By Region</b>		
Metropolitan Counties (18)	16.2%	1.1%
Central Iowa (8 counties)	15.6%	1.6%
Linn and Johnson Counties	16.7%	2.6%
Northern Non-Metro Counties (40)	16.5%	1.5%
Southern Non-Metro Counties (32 counties)	19.8%	1.8%

\* The margin of error describes the 95% confidence interval; for example, we can be 95% sure that the proportion statewide for all households is between 15.9% and 17.5% (16.7% plus or minus 0.8%).

**Table 2. Estimated Proportion of Iowa Families Earning Less than Half the Break-Even Level, Statewide**

	Proportion Below	Margin of Error*
All Households	6.1%	0.5%
Single persons	9.2%	1.1%
Married couples without children	1.4%	0.4%
Married couples with children under 18	2.8%	0.6%
Single parents	28.7%	3.6%

How far do Iowa families fall short of the break-even level of income? In Table 3, we show the average size of the “basic needs gap” — the difference between actual before-tax earnings and the break-even level of earnings needed to meet basic needs. Among all households in the state with income below break-even, the average shortfall is \$14,274 per year. While smaller households

face a smaller gap, for married couples with children it is \$16,768 and for single parents a daunting \$21,462.

At least 100,000 households in Iowa do not earn enough to cover a basic family budget. We say at least, because we do not provide estimates for households that include adult relatives of the head of the household or spouse (adult children, siblings, aunts and uncles, parents) because it is not clear what to assume in such instances regarding the sharing of income and expenses. No doubt some of those households are struggling as well. Of the 100,000 households we identified, over a quarter consist of single-parent families, and a little over half live in 18 metropolitan counties.

Clearly work alone does not produce sufficient income to meet the basic needs of a large number of Iowa families. Such families must rely on a variety of work support programs if they are to achieve a basic standard of living. A previous report looked at one such program, Iowa’s Child Care Assistance (CCA) program.<sup>6</sup> A final report in *The Cost of Living in Iowa 2014* series will consider a broader range of programs and the role they play in helping families make ends meet.

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**Table 3. Average Size of the Basic Needs Gap, Statewide (Break-even income less actual income)**

	Needs Gap		Margin of Error*
All Households	\$	14,274	\$ 621
Single persons		9,774	500
Married couples without children		10,923	1,191
Married couples with children under 18		16,768	1,560
Single parents		21,462	1,501

**Table 4. Estimated Number of Households Earning Below the Break-Even Level**

	Households
<b>Statewide</b>	
All Households	101,754
Single persons	46,609
Married couples without children	9,488
Married couples with children under 18	18,452
Single parents	27,205
<b>By Region</b>	
Metropolitan Counties (18)	55,506
Central Iowa (8 counties)	24,098
Linn and Johnson Counties	12,418
Northern Non-Metro Counties (40)	21,562
Southern Non-Metro Counties (32 counties)	19,242

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<sup>1</sup>*The Cost of Living in Iowa, 2014 Edition, Part 1: Basic Family Budgets*. Peter S. Fisher Lily French, February 2014, the Iowa Policy Project. <http://www.iowapolicyproject.org/2014Research/140226-COL.html>

<sup>2</sup> Steven Ruggles, Katie Genadek, Ronald Goeken, Josiah Grover, and Matthew Sobek. *Integrated Public Use Microdata Series: Version 6.0* [Machine-readable database]. Minneapolis: University of Minnesota, 2015. IPUMS-USA is available at [www.ipums.org](http://www.ipums.org)

<sup>3</sup> Of the 75,500 persons in the Iowa sample to begin with, we eliminated 18,400 because the head or spouse was age 65 or older, 3,835 because the household consisted of single adults sharing accommodations, and 10,700 because there were more than 5 members of the household, or the household included a subfamily or more than one family. The 56,000 persons remaining were in 23,260 households. Of those, 2,540 households were eliminated because they included an adult other than the head or spouse, and 2,320 because they did not include a working adult. That left a sample of 18,179 households containing a single person living alone, or a single adult or a married couple with children under 19 but no other adults in the household.

<sup>4</sup> We are also limited by Census geography. Since we must use the Public Use Microdata sample of the ACS, the smallest geographic area we can identify is the Public Use Microdata Area (PUMA). There are 24 PUMAs in the state under the most recent delineation, based on the 2010 census. Because we are restricted to PUMAs, the 18 counties we describe as “metropolitan” include the central counties of eight of the nine MSAs (Council Bluffs being the exception) in the state as well as four surrounding counties that are part of MSAs, but also six counties that are near but not part of an MSA. The 18 exclude nine other counties that are part of an MSA. The 40 northern “non-metro” counties include two that are part of the Waterloo MSA, and the 32 southern “non-metro” counties include four that are part of an MSA. Nonetheless, the categories do roughly represent the situation in metropolitan vs. non-metropolitan areas.

<sup>5</sup> In the previous edition we used basic budgets that assumed that all children in the household over 6 needed child care before and after school and in the summer. In this edition, we take out such child care costs for children over age 12. This would have the effect of lowering the budgets of some families (married couples with children age 12-18 and with both parents working) and hence lowering the proportion with income below basic needs. Also, to compute statewide proportions in the last edition we compared each family’s actual income with a statewide average budget for that family type. In this edition, we compare each family’s income with the average budget appropriate for the PUMA in which the family lives to determine if income is below break-even, and then count the number of such families across the state. This is more accurate, but it is impossible to say if it results in a lower or higher proportion than the previous approach.

<sup>6</sup> Peter Fisher and Lily French, *Reducing Cliff Effects in Iowa Child Care Assistance*, March 2014. The Iowa Policy Project. <http://www.iowapolicyproject.org/2014docs/140313-CCA-cliffs.pdf>