Self Sufficiency in Marin

Comparing Measures of Income Adequacy and Poverty

COUNTY OF MARIN, DEPARTMENT OF HEALTH AND HUMAN SERVICES

2012

EXECUTIVE SUMMARY

Since 1964, the Federal Poverty Level has been the most commonly used measure of income adequacy in the U.S. The FPL was developed at a time when food made up the largest portion of most household budgets. Today, however, food is no longer the largest household expense (it's not even second). According to 2010 Bureau of Labor Statistics, housing costs make up 34% of the average household budget. [1] In most areas, families can have incomes above the FPL and yet still struggle to meet basic needs. For this and other reasons described in this report, alternative measures of poverty and self-sufficiency have been developed in an effort to truly capture critical costs associated with making ends meet for the 21st century household.

The following report summarizes some alternative methods for measuring poverty and self sufficiency. Some are budget based and approximate how much income is needed for typical household expenses. For example, the Self Sufficiency Standard is a measure based on geographic area and varies by household composition (i.e., one adult and one child, or one adult and two children, two adults and one child, and so on). Although estimating household expenses by family size provides a better approximation of the typical budget needed to make ends meet, determining the costs associated with several categories of expenses - by geography and adjusting for family size can be labor intensive as described later in this report.

In looking for a balance in measuring income adequacy that corresponds to the modern needs of today's families yet is practical in calculating and applying to Marin, Health and Human Services selected the Housing Wage as the recommended measure of determining self sufficiency. The housing wage offers a simple, easy to understand measure of income adequacy that allows one to quickly compare wages to the cost of affordable housing. As mentioned previously, housing is the biggest expense of most household budgets, so it seems appropriate to use a measure based on basic housing costs to determine how many in Marin are able to afford housing. While the FPL remains the official poverty measure for a variety of purposes including benefit eligibility determination, the housing wage offers a better perspective on what it takes to get by in Marin.

Self Sufficiency in Marin

Comparing Measures of Income Adequacy and Poverty

"Economic security means not just hovering above the "official" federal poverty line, but having enough money to build a more stable and prosperous future. To be truly economically secure, and leave poverty behind for good, people need enough money to be able to pay for the basics like rent, food, child care, health care, transportation, and taxes, and enough money to develop savings and assets." [2]

The Federal Poverty Level (FPL) is the most commonly used measure of poverty. However, many researchers, policy makers, and even the general public have suggested that the FPL is out dated and does not provide an accurate picture of poverty.

The Federal Poverty Level (FPL) developed in 1964, is calculated using only the cost of food, which is assumed to be one-third of a household's budget. However, the FPL does not consider other critical costs such as housing or child care, and it does not vary based on geography, or the ages of children in the household. (Since childcare costs make up a significant portion of most families' budget, it is worth noting that families with younger children pay more in childcare costs). "For a family of four—whether they live in a high cost market like San Francisco, CA or a more affordable market like Baton Rouge, LA—the poverty line is $22,113 in annual household earnings."[2] Many families may have income above the FPL, yet still lack enough income to meet basic needs.

In response to these shortcomings of the FPL, alternative measures of poverty and self sufficiency have been developed, most notably the long awaited Supplemental Poverty Measure (SPM) recently released by the Census Bureau. The SPM and other alternative measures attempt to account for typical family expenses. The SPM, for example, calculates a poverty threshold based on food, clothing, shelter and utilities. The Self Sufficiency Standard (SSS), another alternative measure, calculates the amount of income needed to meet basic needs which in addition to food, shelter, clothing and utilities, includes childcare, transportation and out of pocket medical expenses. The variations in thresholds among the different measures are a result of the differences in how thresholds are calculated.

Following are brief descriptions of the Federal Poverty Level, SPM and the SSS as well as the some of the alternative income adequacy measures. Measures are provided for a family of four because it is the household unit most widely available for the measures described below.

The Official Federal Poverty Measure

<u>Federal Poverty Level (FPL):</u>

Developed in 1964, the federal poverty level (sometimes referred to as the federal poverty line) is based on food costs and assumes that food makes up one-third of households' budgets. A survey conducted in the 1950s suggested that many most families' food budgets comprised one third of household spending. Although implicit, the FPL *is* a budget based measure since it derived from the cost of food and multiplied by three to account for other expenses. However, most households in the 1950s consisted of only one working parent. Therefore, many work related expenses, like childcare were not part of most of household budgets. Today, research suggests that food costs comprise 10% to 20% [3]of most household budgets. Housing and transportation are the largest household expenses.[4]

The federal poverty level does not vary by geographic areas, even though housing, food and medical expenses vary significantly among localities. The FPL has long been criticized for being too low. Many families struggle to make ends meet yet based on the FPL, often do not qualify for assistance programs or services. [5]

The FPL for a family of four in 2010 was $22,050.[6]

Budget Based Measures

<u>Supplemental Poverty Measure (SPM):</u>

The Supplemental Poverty Measure was recently released by the Census Bureau as a complement to the official poverty measure. Not intended as a replacement, the SPM, according to a report released by the Census Bureau, is intended to be used as an "additional macroeconomic statistic providing further understanding of economic conditions and trends."[7] The SPM thresholds were produced for three housing status groups- homeowners with a mortgage, homeowners without a mortgage, and renters (the rational being that these housing groups will have different expenses).

It is important to keep in mind that measures of poverty and income adequacy include two components: calculating thresholds and counting the number of people who fall below the threshold. The first component involves calculating the minimum amount needed to meet basic needs. The second component involves calculating the resources available to spend on those basic needs and determining the number of people who meet the threshold.

Under the SPM, only food, clothing, shelter and utilities are included as household expenses in determining the <u>poverty threshold</u>. Other expenses such as transportation, childcare, out of pocket health expenses and taxes are only considered in calculating the household net income to determine poverty status. In addition, non-cash benefits such as food stamps, housing subsidies and school lunch assistance are included as income when determining poverty status.

Not including certain costs in the overall household budget and including non-cash benefits to calculate income results in poverty rates only slightly higher than the official FPL. For example, in 2010, the official poverty threshold for a family of four was $22,050 with a poverty rate of 15%. The preliminary SPM threshold for a family of four in 2010 was $24,343, with a poverty rate of 16%. [8]

A full report on SPM measures had been expected to be released by the Census Bureau, however requested funding for this project was not included in the federal 2011 budget. Preliminary national and regional SPM estimates were released this month. The Census Bureau is currently reviewing methodologies to adjust for geographic differences in the cost of living. It is expected that state and possibly local thresholds will be included in a future SPM reports. However, in July of this year, the Census Bureau issued a working paper which provided estimated state and sub-state level SPM threshold and rates based on 2009 American Community Survey census information. While a threshold was not produced for Marin specifically, the SPM threshold for San Francisco/Oakland/Fremont was estimated to be $31,900 (renters) when adjusted for geographic housing costs.[9] It is also worth noting that the poverty rate under the SPM for California increases to 22% when adjusted for geographic housing costs.[10]

The Self Sufficiency Standard:

The Self Sufficiency Standard was first developed in the 1990s and was initially calculated for the state of Iowa and now has been calculated for 37 states. In 1999, the County of Sonoma officially adopted the Self-Sufficiency Standard as a benchmark for determining success in the county's welfare to work program.

The Self Sufficiency Standard measures how much income is needed for minimal basic needs. The "Standard" varies household expenses by geographic area, family size and the *age* of children in the household (since childcare and food costs vary by age). There are over 100 family compositions provided under the "Standard." This measure also assumes all adults in the household work full-time and thus incurs work-related expenses in addition to housing, food, taxes and healthcare. (Elderly and disabled households are excluded). Cost for each basic expense is based on federal and state publicly available data sources such as HUD's Fair Market Rent, the USDA Low Cost Food Plan, and county level market rates for child care published by state agencies. Because the measure takes into consideration geographic differences in costs, family size and age of children, updating the Standard and calculating the number of households that meet the standard can be a challenge.

TABLE 1

Typical Monthly Expenses for Family of four (2 adults/1 preschooler, 1 school-age)	
Housing	$2006
Food	$1783
Childcare	$827
Transportation	$397
Health Care out of pocket	$452
Misc.	$547
Taxes	$ 1206
Total	$7,218

Updated for 2011, the ***Self-Sufficiency Standard*** reveals that rising costs over the past three years have significantly increased how much families need to earn to make ends meet. The *Self-Sufficiency Standard* for Marin has increased by 18% to $86,629 year for a family consisting of two adults, one preschooler, and one school-age child, while the minimum wage has remained the same, leaving families earning well below what they need to make ends meet.[11] (See Table 1).

Based on the typical monthly household expenses used in the Self Sufficiency Standard, housing and food alone would comprise the entire income of 2 minimum wage earners (see Figure 1). Even in a family with 2 Living Wage earners in Marin, housing and food expenses consume over 100% of household income (see Figure 2). In order to meet basic needs, 2 adult workers in a household would each need 3 minimum wage jobs.

FIGURE 1

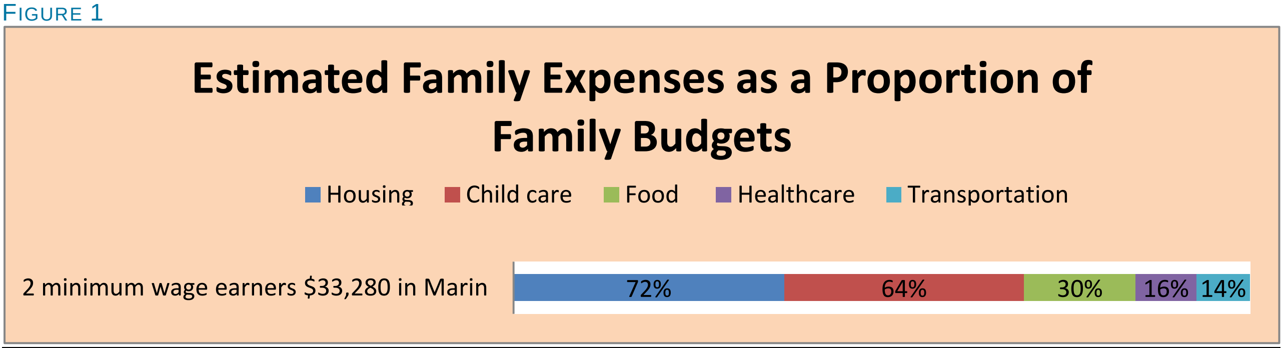
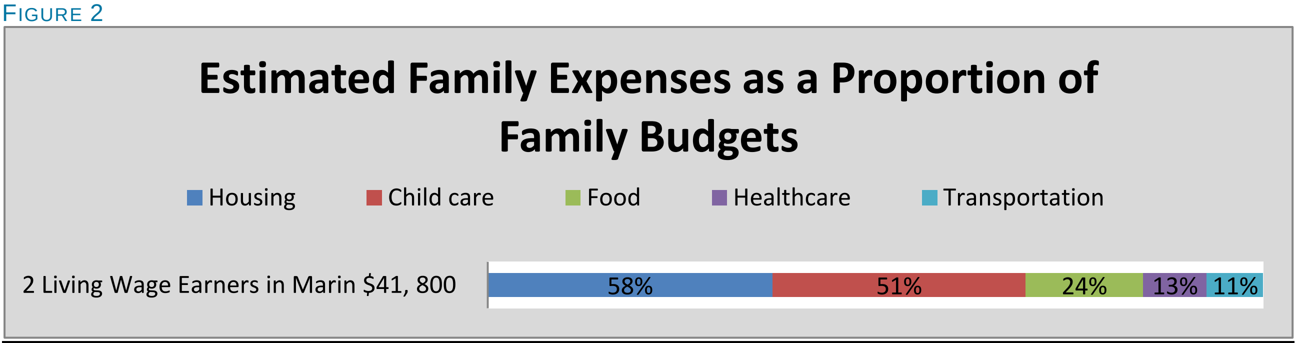


FIGURE 2



California Budget Project:

The California Budget Project (CBP) is a non-partisan, non-profit research organization with a focus on the social and economic impact of policies that impact low and middle-income Californians.

In 2010, CBP released a report which estimated the amount of income families and single adults need to meet a basic standard of living. Similar to the Self-Sufficiency Standard, the CBP measures are budget based and take into consideration the family size and cost of living differences among counties in California.

Much like the SSS, the California Budget Project measures income adequacy based on typical household expenses derived from state and federal data. As is the case for the SSS, the CBP produces measures for each California counties and varies by family size (although it is limited to just 4 family types). For a family of four in Marin, the CBP threshold is $81,820

Other Forms of Measuring Income Adequacy

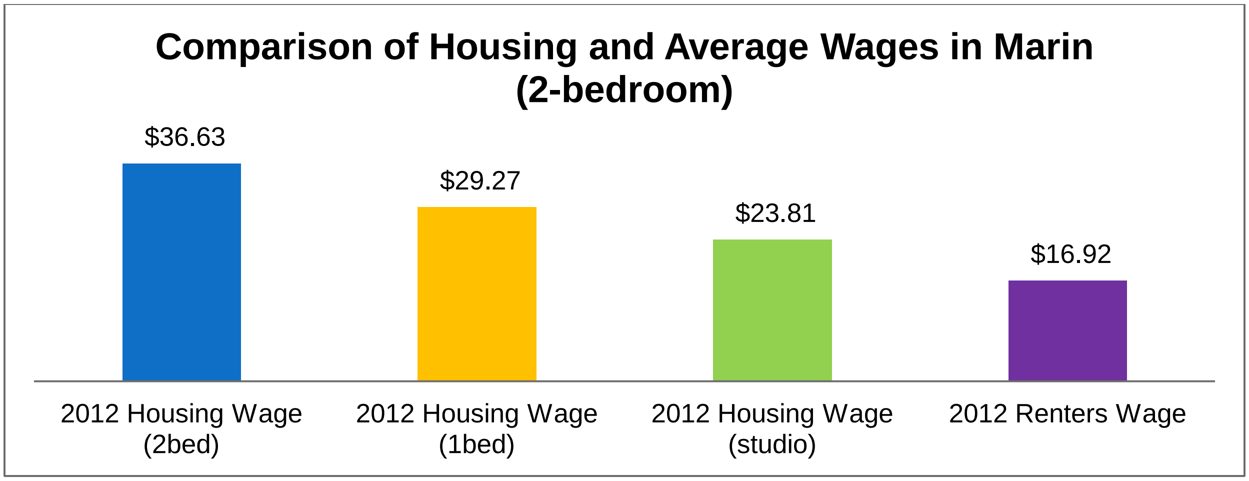
National Low income Housing Coalition Housing Wage:

Established in 1974, the National Low Income Housing Coalition (NLIHC) is an organization focused on research and advocacy for affordable housing. Since 1998, NLIHC has released the annual report *Out of Reach*, comparing wages and housing costs by county. Using Fair Market Rent (FMR) estimates released annually by the U.S. Department of Housing and Urban Development, NLIHC calculates the income needed to afford a modest studio, one, two or three units without paying more than 30% of income on housing. According to the 2011 report, the housing wage required to afford the FMR for a two bedroom apartment is $35.25 per hour or $73,320 annually.

The conventional 30 percent of income that a household should devote to housing costs evolved from the National Housing Act of 1937 which established public housing programs.[12] The 30 percent indicator is not only used as a rent threshold for HUD rental programs, but is also used as a lending ratio for prospective borrowers to qualify for a home loan. Although this measure does not specify other typical household expenses, it is based on what has been historically viewed as an indicator of housing affordability. Additionally, the Housing Wage is a simple ratio that can be quickly calculated based on FMR estimates.

Updated for 2012: In Marin, the FMR for a 2 bedroom apartment is $1,905. In order to afford this rental amount (+utilities), without paying more than 30% of total income on housing, a household would have to earn $76,200 annually or $36.63 per hour. [13] Accordingly, the housing wage in Marin would be $36.63 for a two-bedroom unit. It is worth noting that the national housing wage is $18.25 and in California, the estimated housing wage is $26.02[14] In fact, Marin ties San Francisco and San Mateo County for the top spot for most expensive jurisdiction in the nation.[15]

FIGURE 3



According to the latest census figures, the average income for a renter in Marin is \$35,194 per year or \$16.92[16] per hour (based on 40 hours per week). The rent amount affordable (not more than 30% of income) at the renter wage is \$880 per month. Therefore, the gap between the wage needed to afford a two-bedroom and the wage of the average renter in Marin is \$19.71 or \$12.35 for a one-bedroom. Even for a studio apartment, the average renter wage comes up \$6.89 per hour short. In fact, the average renter would need to work 56 hours per week or hold 1.4 full time jobs in order to afford just *a studio* in Marin. Figure 3 (above) compares housing wages for various unit types against the average renters' wage. In Figure 4 below, selected income levels are compared with one and two-bedroom FMR.

FIGURE 4

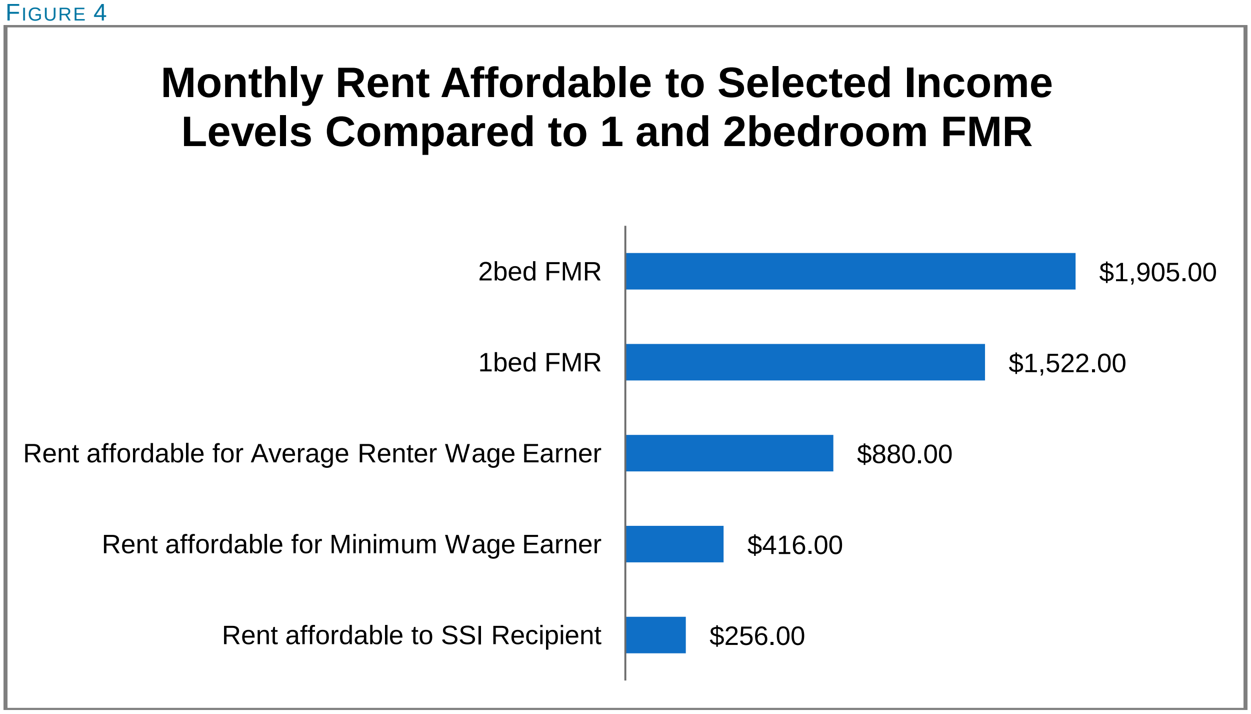
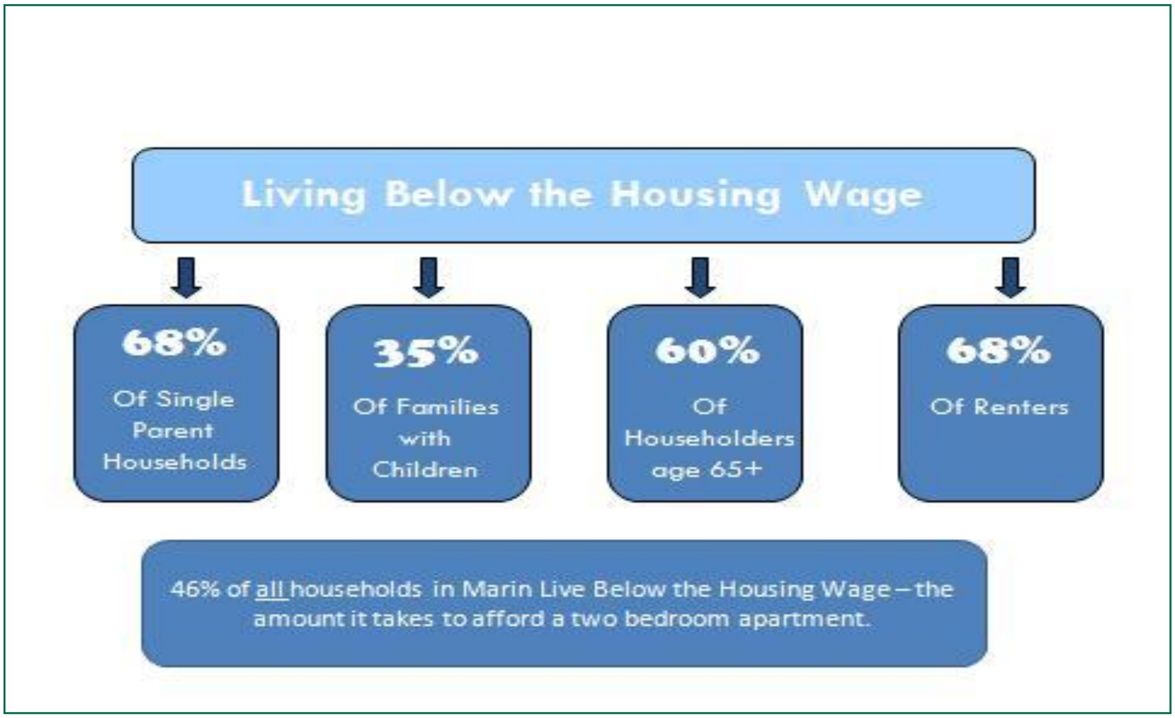


Figure 4, demonstrates that for the average renter wage earner, the income gap for a two-bedroom unit is $1,025 ($1,905 - $880) or for a one-bedroom unit the gap is $652 per month.

Based on 2010 American Community Survey estimates, 68% of renters in Marin earn less than the 2-bedroom housing wage. Additionally, 35% of Marin's families with children and 60% of seniors in Marin have incomes that fall below the housing wage (see Figure 5).

FIGURE 5



Since Marin has one of the most expensive housing markets in the nation, it should come as no surprise that even moderate wage earners like paramedics and preschool teachers have incomes that fall below the housing wage. The reality is that many workers spend more than 30% of their income on housing; some may spend as much as 50% or more of their earnings. Table 2 provides a few examples of jobs and corresponding hourly wage estimates compared to rents in Marin

TABLE 2

Occupation	Bay Area Hourly Wage	Monthly Income (based on 40 hour work week)	Affordable Rent	Rent Gap for 1bd in Marin ($1,522)	Rent Gap for 2bd in Marin ($1,905)
Home Health Aides	$11.75	$2037	$611	-$911	-$1294
Retail Salespersons	$13.43	$2328	$698	-$824	-$1207
Security Guards	$14.96	$2593	$778	-$744	-$1127
Preschool Teachers	$18.49	$3205	$961	-$561	-$944
Dental Assistants	$22.14	$3838	$1151	-$371	-$754
Emergency Medical Technicians (EMT) and Paramedics	$25.97	$4501	$1350	-$172	-$555

NOTE: Because 2 bedroom rental units are the most common, HUD calculates FMR estimates based on this unit size. HUD makes adjustments to rental estimates for other unit sizes based primarily on the 2 bedroom unit rates. Here are the 2012 FMR for Marin by unit size:

0/Studio bedroom unit - $1,238
1 bedroom unit - $1,522
2 bedroom unit - $1,905
3 bedroom unit - $2,543

Department of Housing and Urban Development (HUD) and State Income Limits

Each year, HUD sets the maximum amount of income to determine eligibility for housing subsidies. These income limits are used by many public agencies including California's Department of Housing and Community Development to determine eligibility for affordable housing programs. Income limits are expressed as a percentage of the median income for the area (AMI) based on household size and for extremely low (30% AMI), very low (50% AMI) and low income (80% AMI) categories. The current income limits for a family of four in Marin are: Extremely Low- $32,050; Very Low-$53,400; and Low- $85,450. [17]

HUD's "low" income limit of $85,450 for Marin is similar to the Self Sufficiency Standard and the California Budget Project measurement.

Marin's Living Wage

In an effort to promote a basic living standard for working residents and to alleviate the potential strain to County services, Marin adopted a Living Wage policy in 2002. The current Living Wage in Marin is $10.05 per hour with health benefits or $11.55 per hour if the employer does not provide health benefits. [18] The Living Wage does not take into consideration the costs of basic necessities.

Summary

While the SPM explicitly accounts for some household expenses based on geographic differences, other expenses such as childcare, out of pocket medical costs and transportation are not included in the threshold, but accounted for in determining household income. This may be problematic when you consider the following example:

A family of four has an income of $27,000 but cannot afford medical insurance. This family's income places them above the national SPM of $24,343. However, another family of four with an income of $29,000 does purchase medical insurance and has out of pocket expenses of $5000 annually. Under the SPM, the second family would be considered to have an income of $24,000, which is less than the threshold. So the family (all else being equal) with less income and no medical insurance, would be above SPM and the family with more income and insurance would be considered poor.

In addition, the SPM takes into account federal assistance benefits when determining income (i.e. food stamps, housing subsidies, school lunch assistance). This may provide insight on impact these programs may have on alleviating hardships to low income households. In fact, under the initial SPM estimates, poverty rates declined among certain groups. However, in order to be eligible for benefits under these federal assistance programs requires the recipient have limited resources. Therefore, including federal assistance to determine income in this way, may be confusing when reporting overall poverty figures,

When comparing measures of poverty it is important to note that the SPM and alternative measures differ in how certain costs are calculated which contribute the variations in threshold amounts. These differences are due to geographic variations in basic expenses which some measures take into account at a local level, while others, such as the SPM only take regional differences in some costs into account. Another factor that contributes to variations in threshold amounts is using actual expenses versus estimates and capping expenses. Under the SPM, for example, childcare costs are capped while the SSS estimates childcare costs based on state survey data.

The budget based measures produce poverty and income inadequacy rates higher than the official federal poverty levels. Under the Self Sufficiency standard, 23% of Marin households did not have sufficient income to meet basic needs.[19] Based on poverty estimates from the U.S. Census Bureau, the FPL for Marin in 2010 was estimated to be 9%.[20]

What the variances in the different measures probably reveal most is that capturing the level of need and what it takes to be self-sufficient is challenging. Looking solely at the measures will not reveal the day to day choices families make or what they give up in order make ends meet.

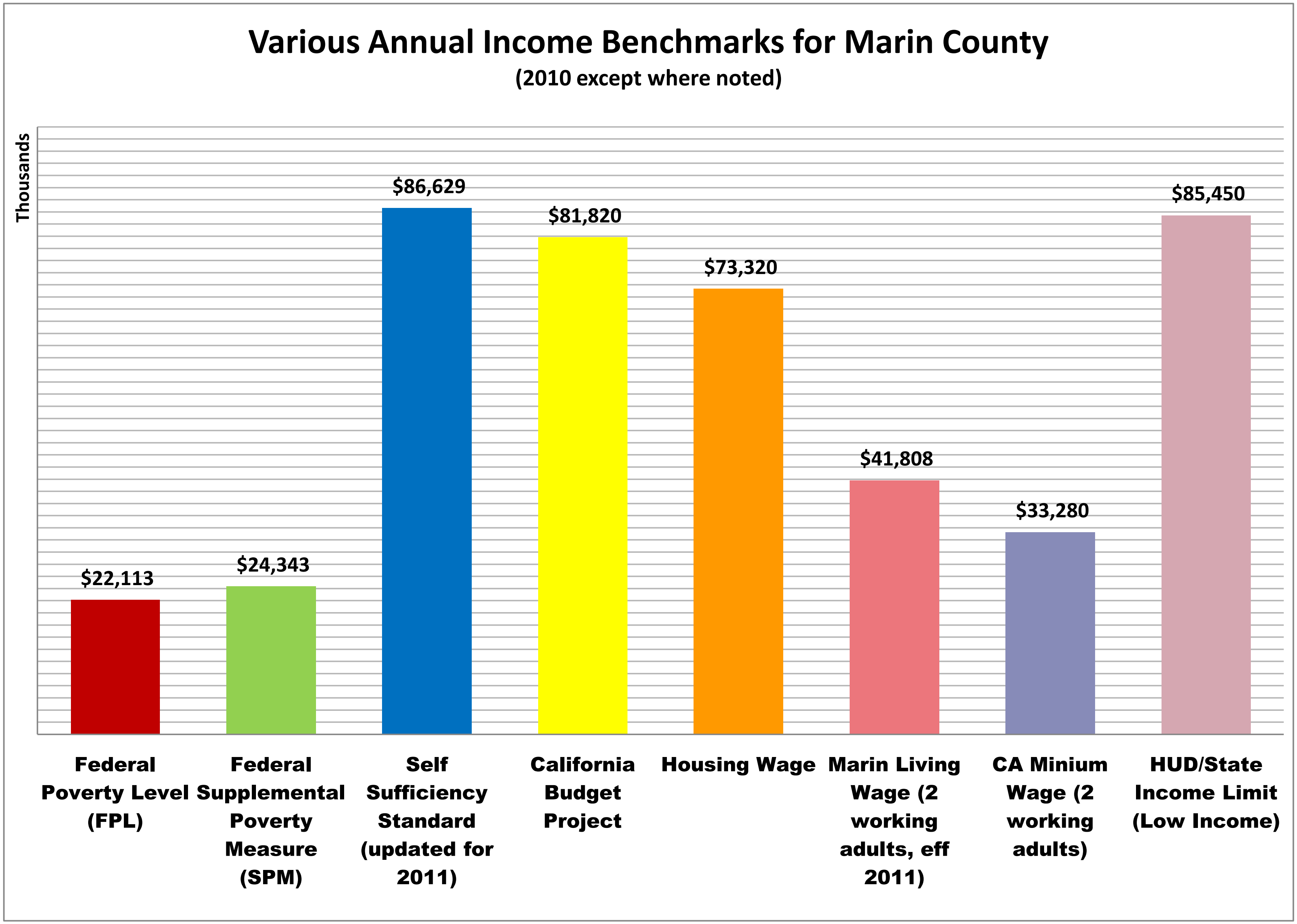
End Notes

[1] Bureau of Labor Statistics, Consumer Expenditures-2010. Retrieved July 19, 2012. (http://www.bls.gov/news.release/cesan.nr0.htm).

[2] Insight Center for Community Economic Development. http://www.insightcced.org/home/economic-security-2.html. Retrieved October 26, 2011.
[3] Based on a 2008 USDA report on Expenditures on Children, changes in agriculture over the past 50 years have resulted in lower family food budgets and making up a lower proportion of overall household budgets. The California Budget Project and the Self Sufficiency Standard measures calculate food costs at 10%-15%.
[4] Bureau of Labor Statistics, Consumer Expenditures-2010. Retrieved July 19, 2012. (http://www.bls.gov/news.release/cesan.nr0.htm).

[5] The Self Sufficiency Standard for California, 2011. Methodology Appendix. Prepared for the Insight Center for Community Economic Development. Retrieved October 27, 2011. www.insightCCED.org.

[6] See http://aspe.hhs.gov/poverty/figures-fed-reg.shtml. Retrieved November 27, 2011.
[7].Interagency Technical Working Group, *Observations from the Interagency Working Group on Developing a Supplemental Poverty Measure*, March 2010.
[8] Based on Current Population Survey, 2011. Short, K. *The Research Supplemental Poverty Measure: 2010.* Issued November 2011
[9] Renwick, T. *Geographic Adjustments of Supplemental Poverty Measure Thresholds; Using the American Community Survey Five Year Data on Housing Costs.* Issued July 2011.
[10] Table 3: State Poverty Rates Official vs. SPM: Geographically Adjusted with the Rent Index, Renwick (2011)/.
[11] The Self Sufficiency Standard for California, 2011. Prepared for the Insight Center for Community Economic Development. Retrieved October 27, 2011. www.insightCCED.org.
[12] Schwartz and Wilson. Who can afford to live in a home? A look at data from the 2006 American Community Survey. http://www.census.gov/hhes/www/housing/special-topics/files/who-can-afford.pdf
[13]Out of Reach 2012. National Low Income Housing Coalition www.nlihc.org
[14] ibid
[15] ibid
[16] Ibid. The estimated average renter hourly wage is based on the average weekly earnings as reported by the BLS in the Quarterly Census of Employment and Wages. For each county, the mean hourly earnings are multiplied by the ratio of median renter income to median total household income in the ACS (2006-2010).
[17] See: http://hcd.ca.gov/hpd/hrc/rep/state/inc2k11r613.pdf. . Retrieved November 27, 2011.
[18] See http://www.co.marin.ca.us/depts/AD/main/LWO/livingwage Retrieved November 30, 2011.
[19] Pearce, D. Overlooked and Undercounted 2009.
[20] Table 1: 2010 Poverty and Income Estimates-Counties. U.S. Census Bureau, Small Areas Estimates Branch. Release Date: Nov. 2011.



Various Annual Income Benchmarks for Marin County
(2010 except where noted)
Thousands
$22,113
$24,343
$86,629
$81,820
$73,320
$41,808
$33,280
$85,450
Federal Poverty Level (FPL)
Federal Supplemental Poverty Measure (SPM)
Self Sufficiency Standard (updated for 2011)
California Budget Project
Housing Wage
Marin Living Wage (2 working adults, eff 2011)
CA Minium Wage (2 working adults)
HUD/State Income Limit (Low Income)

Exhibit 1

Comparison of Poverty and Income Adequacy Measures at a Glance

	Federal Poverty Measure (FPL)	***Supplemental Poverty Measure(SPM)***	***Self Sufficiency Standard (SSS) and California Budget Project***	***Housing Wage***
Threshold Components				
	Food – 1/3 of Household budget All other costs – 2/3	Food, housing, Clothing, Utilities and nominal amount for misc. costs	Food, Housing, clothing, transportation, childcare, utilities, taxes, healthcare	Housing -30% of Income
Income Components				
	Gross income	Gross income from all sources including in kind federal benefits. Reduced by transportation, childcare and healthcare costs for a **Net Income**	Net Income	Gross Income
Determination of Poverty Status				
	Compares income to threshold	Compares net income to threshold	Compares income to threshold	Calculates Hourly Wage needed to afford Fair Market Rent (FMR)
Highlights and Distinctions				
	Based on "typical" family budget in the 1950s when most households spent greater portion of income on food. Does not take geographic differences in costs into account	Includes basic necessities food, clothing, housing and utilities in calculating thresholds. However, other expenditures (childcare, healthcare, etc.) are used to determine income.	Includes food, housing, clothing, utilities, childcare, out of pocket medical expenses and transportation.	Expressed in hourly wage needed to afford modest rental units.
		Accounts for regional variations in costs, but not in detail at this time. County level costs may be used to calculate threshold.	Geographically specific to county/locality.	Geographically specific to county.
		Accounts for expenditure differences amount renters and homeowners. Distinguishes between renters, home owners with a mortgage and homeowners without a mortgage.	Assumes all adults in the household are working, therefore the total population (disabled and elderly) are not reflected.	2011 Marin Hourly Wages[1]: Studio - $23.81 1bed - $29.27 2bed-$36.63 3bed-$48.90
			SSS: Includes over 100 family compositions, adjusts for number and age of children in a household.	

[1] National Low Income Housing Coalition – Out of Reach 2011. See http://www.nlihc.org/ (Retrieved January 31,2012).