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# POLICY MATTERS OHIO

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## MAKING ENDS MEET: BASIC FAMILY BUDGETS IN OHIO

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## MAKING ENDS MEET: BASIC FAMILY BUDGETS IN OHIO

### EXECUTIVE SUMMARY

The ability of families to meet their basic needs is an important measure of economic stability and well-being. Poverty thresholds are a measure of severe economic deprivation, and they represent an absolute measure without reference to varying prices faced by families. In other words, poverty thresholds are the same whether a family resides in rural Wyoming or New York City. Family budgets represent a *relative measure* of the costs incurred by families to secure a safe and decent-yet-modest standard of living in the communities in which they reside. Family budgets offer a broader measure of economic welfare as the cost of providing for basic needs may be more than twice as high as official poverty levels for families with children, depending on where they live.

In 2005, economist Sylvia Allegretto of the Economic Policy Institute (EPI) calculated the annual cost of securing a safe and decent standard of living for families of varying sizes in different communities throughout the country.<sup>1</sup> Budgets were constructed for six family types with earned income: One or two working parents with one, two, or three young children. In 2004, of the almost two million Ohioans in such families, 22.3 percent lived in families that earned less than they needed to meet the basic family budget for a family of their particular size and configuration.

- In Ohio, basic family budgets ranged from \$23,952 for a single parent with one small child in child care in a rural area to \$61,644 for a family of five that consists of two parents with three children in the Cleveland metropolitan area (it is important to keep in mind that these figures represent costs, not income).
- On the average, incomes at the official poverty level would provide for less than half of the basic family budgets in non-rural areas. In rural areas, a basic family budget is 201 percent of the poverty threshold for a two-parent family with one child. It is 239 percent of the poverty line for a similar family living in Akron.
- The high cost of safe child care is a significant component of the cost of a basic needs budget, ranging from an average of \$404 per month in rural areas for one young child to \$1,656 in urban areas for three young children.

The study took into account the actual costs of housing, food, transportation, medical care, child care, household necessities (clothes, school supplies, telephone, etc.) and taxes required to provide a safe and decent yet-modest standard of living. The Policy Matters Ohio website ([www.policymattersohio.org/making\\_ends\\_meet\\_2006.htm](http://www.policymattersohio.org/making_ends_meet_2006.htm)) has

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<sup>1</sup> Sylvia Allegretto, *Basic Family Budgets: Working Families' Incomes Often Fail to Meet Living Expenses Around the U.S.* 2005 at <http://www.epi.org/content.cfm/bp165>. The Ohio calculations are given by the family budget calculator, which accompanies this report on the website of the Economic Policy Institute at [http://www.epi.org/content.cfm/datazone\\_fambud\\_budget](http://www.epi.org/content.cfm/datazone_fambud_budget). Methodology is given at: [www.epinet.org/datazone/fambud/fam\\_bud\\_calc\\_tech\\_doc.pdf](http://www.epinet.org/datazone/fambud/fam_bud_calc_tech_doc.pdf).

spreadsheets of all six basic family budgets. A link to the EPI family budget calculator may be found at [http://www.epi.org/content.cfm/datazone\\_fambud\\_budget](http://www.epi.org/content.cfm/datazone_fambud_budget). Table 1 shows basic family budgets for families of different sizes and composition in different areas of Ohio:

Table 1  
Basic Family Budgets by Size of Family and Place of Residence in Ohio, 2004

Area	Two Parents			Single Parent		
	1 child	2 children	3 children	1 child	2 children	3 children
Akron	\$36,384	\$45,984	\$61,068	\$31,176	\$40,848	\$56,040
Canton-Massillon	\$32,676	\$42,252	\$56,436	\$27,252	\$37,476	\$52,008
Cincinnati (Ohio portion)	\$35,232	\$44,892	\$61,368	\$30,240	\$39,828	\$56,544
Cleveland-Lorain-Elyria	\$36,360	\$45,972	\$61,644	\$31,404	\$41,040	\$56,820
Columbus	\$34,968	\$44,628	\$59,304	\$29,904	\$39,576	\$54,468
Dayton-Springfield	\$34,500	\$44,160	\$59,580	\$28,956	\$38,892	\$54,540
Hamilton-Middletown	\$34,716	\$44,376	\$58,836	\$29,976	\$39,624	\$54,300
Lima	\$32,520	\$42,084	\$55,716	\$26,688	\$37,032	\$51,024
Mansfield	\$32,436	\$42,000	\$56,136	\$26,520	\$36,948	\$51,456
Steubenville-Weirton (Ohio portion)	\$31,524	\$41,028	\$54,504	\$25,248	\$35,880	\$49,812
Toledo	\$33,984	\$43,656	\$58,392	\$28,296	\$38,292	\$53,352
Youngstown-Warren	\$32,940	\$42,540	\$56,400	\$26,964	\$37,260	\$51,480
Huntington-Ashland (Ohio portion)	\$31,056	\$40,548	\$54,108	\$25,080	\$35,748	\$49,656
Parkersburg-Marietta (Ohio portion)	\$32,064	\$41,592	\$55,968	\$25,992	\$36,540	\$51,288
Wheeling (Ohio portion)	\$31,512	\$41,016	\$54,564	\$25,224	\$35,856	\$49,860
Rural	\$30,540	\$36,600	\$47,532	\$23,952	\$30,072	\$42,552

Source: Economic Policy Institute, Basic Family Budget Calculator

## MAKING ENDS MEET: BASIC FAMILY BUDGETS IN OHIO

### A NEW LOOK AT ECONOMIC NEED

A measure of economic deprivation is an important tool of public policy. It is also a relatively recent innovation to the United States Census (which was mandated in the Constitution and first implemented in 1790.) In the early 1960s, Social Security Administration researcher Molly Orshansky first devised a way to measure the economic well being of people and families. She looked at consumer spending patterns and found about one-third of family income was spent on food. She calculated the lowest annual cost for a nutritionally sound family diet and multiplied it by three for different family sizes. This measure was adopted by the U.S. Census Bureau as the official poverty threshold and is still used, updated by the Consumer Price Index annually.<sup>2</sup>

There are two primary problems with this approach today. One is that the relative prices of the items that families consume have changed considerably in the past 50 years. For example, families spend more of their income on housing, health care and transportation than they used to, and less on food. Today many parents are in the labor market; the cost of day care or after-school care for children may take more than 30 percent of a basic family budget. Over the years, however, the methodology for calculating poverty thresholds has not changed. Poverty lines have been adjusted for inflation, but not for new factors in the cost of living.

Second, poverty measures do not reflect the regional variation in cost of living. The same national poverty threshold that applies to families in New York City applies to families in Casper, Wyoming, where costs are significantly different.

In 2005, Sylvia Allegretto of the Economic Policy Institute (EPI) published “*Basic Family Budgets: Working Families’ Incomes Often Fail to Meet Living Expenses Around the U.S.*,” which analyzed the cost of basic needs for six family types (one or two parents with one to three young children) living in each of 439 specific U.S. communities. Overall, she found that 22.3 percent of the nearly two million people living in one of the Ohio families studied have incomes below the family budget thresholds.<sup>3</sup> The study included the costs of housing, food, child care, transportation, health care, other necessities, and taxes faced by families living in each community:

- **Housing costs** included the cost of shelter and utilities and were based on “fair market rents” at the 40<sup>th</sup> percentile<sup>4</sup> as defined by the U.S. Department of Housing

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<sup>2</sup> Sylvia Allegretto, *Basic Family Budgets: Working Families’ Incomes Often Fail to Meet Living Expenses Around the U.S.* 2005.

<sup>3</sup> The Economic Policy Institute family budget calculator is at [http://www.epi.org/content.cfm/datazone\\_fambud\\_budget](http://www.epi.org/content.cfm/datazone_fambud_budget)

<sup>4</sup> HUD user datasets website, “Census 2000 Special Tabulations of Rents used to Rebenchmark FMRs and set Bedroom Rent Ratios” at <http://www.huduser.org/datasets/fmr/CensusRentData/ReadMe.doc> . Rent categories go

and Urban Development for privately owned, non-luxury, structurally safe and sanitary rental housing in each community. Rents for two-bedroom apartments were used for families with one or two children; rents for three-bedroom apartments were used for families with three children. These rents are based on 2004 data.

- **Food costs** were based on the "low-cost plan" taken from the U.S. Department of Agriculture's report, "*Official USDA Food Plans: Cost of Food at Home at Four Levels.*" The USDA food plans represent the amount families need to spend to achieve nutritionally adequate diets using only food prepared at home (no restaurant meals); they present a national average with no adjustment for region.<sup>5</sup> These figures are based on 2004 data.
- **Transportation expenses** were based on the costs of owning and operating a car for work and other necessary trips. The National Travel Household Survey was used to derive costs based on average miles driven per month by size of the metropolitan statistical or rural area, multiplied by the 2004 cost-per-mile published by the Internal Revenue Service.<sup>6</sup>
- **Child care expenses** Child care costs are calculated for each state, and within each state costs are differentiated between urban and rural areas based on family size. However, for each state only one specific urban and rural area is available. Costs are calculated for 4-year-olds in one-child families, one 4-year-old and one school-age child in two-child families, and a 4-year-old and two school-aged children in three-child families. These figures are reported by the Children's Defense Fund. Data for 2000 were converted into 2004 dollars by using the Bureau of Labor Statistics child care deflator.
- **Health care costs** are based on a weighted average of the employee share of the premium for employer-sponsored health insurance and non-group premium costs from an online insurance quote, plus an estimated cost of out-of-pocket medical expenses. This is a statewide average of 2004 costs.
- **The cost of other necessities** includes the cost of clothing, personal care expenses, household supplies, reading materials, school supplies, and other miscellaneous items of necessity in 2004 from the Consumer Expenditure Survey.<sup>7</sup>
- **Taxes** - Citizens for Tax Justice (CTJ) computed the taxes for tax year 2004 and included federal personal income taxes, Social Security and Medicare payroll

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from 0 to \$2500 by \$25 increments (except for the first interval which goes from \$1 to \$99.) There are 99 rent categories.

<sup>5</sup> The USDA reports food costs on a monthly basis, so family budget food costs were determined by averaging food costs over a 12-month period after adjusting all costs to a constant dollar amount using the CPI-U food-at-home deflator.

<sup>6</sup> NTHS calculates average trip lengths for five MSA sizes and for areas not in an MSA. Transportation costs per mile are from the IRS cost-per-mile rate, which includes the cost of gas, insurance, vehicle registration fees, maintenance, and depreciation. The calculation includes only costs for non-social trips (work, school, church, errands) for the first adult, and costs for work trips for the second adult.

<sup>7</sup> Included in the "other necessities" category are the costs of: clothing, personal care expenses, household supplies, reading materials, school supplies, and other miscellaneous items. The Consumer Expenditure Survey says that purchasing these basic items costs a family the equivalent of 27 percent of housing and food costs, so that figure was used to calculate the cost of other necessities for each family budget.

taxes (direct worker payments only), and state and local income taxes. Federal tax credits for children and the earned-income tax credit were taken into account. Sales and excise taxes were not counted.

The disparity between the official poverty threshold and basic family need is apparent in Ohio across all regions of the state. A small family with a single parent and one child in a rural area in Ohio, for example, needs \$23,952 annually to make ends meet (Table 2). Their basic family budget is 84 percent higher than the 2004 official poverty threshold of \$13,020. A similar family living in Cleveland needs \$31,404 for their basic family budget, which is 31 percent more than in rural areas because of higher costs of living in urban areas. The basic budget for this family is 241 percent of the official poverty line.

Table 2  
**Basic Family Budget for a One Parent, One Child Family  
 Ohio, 2004**

<b>One Parent, One Child</b>	<b>Annual Income</b>	<b>Poverty Level</b>	<b>Family Budget as % of Poverty Threshold</b>
Rural Areas in the State	\$23,952	\$13,020	184%
Huntington-Ashland (Ohio portion)	\$25,080	\$13,020	193%
Wheeling (Ohio portion)	\$25,224	\$13,020	194%
Steubenville-Weirton (Ohio portion)	\$25,248	\$13,020	194%
Parkersburg-Marietta (Ohio portion)	\$25,992	\$13,020	200%
Mansfield	\$26,520	\$13,020	204%
Lima	\$26,688	\$13,020	205%
Youngstown-Warren	\$26,964	\$13,020	207%
Canton-Massillon	\$27,252	\$13,020	209%
Toledo	\$28,296	\$13,020	217%
Dayton-Springfield	\$28,956	\$13,020	222%
Columbus	\$29,904	\$13,020	230%
Hamilton-Middletown	\$29,976	\$13,020	230%
Cincinnati (Ohio portion)	\$30,240	\$13,020	232%
Akron	\$31,176	\$13,020	239%
Cleveland-Lorain-Elyria	\$31,404	\$13,020	241%

Source: EPI Family Budget Calculator. Poverty thresholds from U.S. Census Housing and Household Economics Division, (last adjusted August 2005).

Basic family budgets represent the dollar amount that is necessary for a family to secure a safe and decent standard of living in the community in which it resides. Even in the best of times, many parents in low-wage jobs will not earn enough market-based income to meet their family's basic needs. When work is not enough, publicly provided work supports are needed to assist workers: a full-time, full-year worker who is paid \$6.00 per hour (.85¢ above the federal minimum wage) will earn pre-tax about \$12,500 a year, which is below the poverty threshold of \$13,020 for a single parent with one child.

Work supports such as child care tax credits and subsidies for food, housing, transportation, and health care have been effective in increasing post-tax incomes and consumption for working families. The data presented here, however, reflects neither subsidies nor sources of income. Instead, it illustrates why subsidies and other forms of assistance may be needed even in families where two parents may work.

In most families, especially those in urban areas with more than one child, the family budget is between two and three times the poverty line. In part, this is because workers in America bear high costs associated with labor force participation, such as transportation to and from work and child care. As shown in the family budgets, child care costs may account for more than 30 percent of the budget for a family with two children.<sup>8</sup> This expenditure in particular highlights an important leverage point for a targeted subsidy to narrow the gap between earnings and needs.

The gap between the basic family budget and the poverty line grows with the size of family. Because of the high cost of child care, adding one more child dramatically increases the basic family budget. Table 3 shows the seven items in a basic family budget in rural Ohio, and in urban Ohio areas, as represented by Columbus. Sharp differences in cost are evident in housing, child care, transportation and taxes. The family in the urban area faces monthly costs nearly \$1000 higher than the family in rural Ohio. The budget for the rural family budget here is 211 percent of the poverty threshold; the urban family budget is 263 percent of the poverty line.

Table 3  
**Annual Basic Family Budget of a Two Parent, Three-Child Family  
 Rural and Urban Ohio, 2004**

<b>Budget Item</b>	<b>Rural Area</b>	<b>Columbus</b>
Monthly housing	\$659	\$807
Monthly food	\$744	\$744
Monthly child care	\$1,090	\$1,656
Monthly transportation	\$420	\$358
Monthly health care	\$370	\$370
Monthly other necessities	\$379	\$419
Monthly taxes	\$299	\$588
Monthly total	\$3,961	\$4,942
Annual total	\$47,532	\$59,304

Source: EPI Family Budget Calculator

Because of the high cost of child care, large families in which one parent stays home and cares for the children may face a much lower family budget. An urban family with three children who are not in child care has an annual family budget that is approximately \$20,000 less than that of a family with three children in child care or after care.

<sup>8</sup> See EPI's family budget calculator for the make-up of each family budget in each geographic area.

## CONCLUSION

Median family income in Ohio in 2004 was \$53,692 and the median family size was 3.18 members.<sup>9</sup> Even for the family of average income in Ohio, an unexpected expense, such as illness or job loss, can derail family finances and cause serious or even critical hardship.<sup>10</sup> A recent survey conducted by the Freestore Foodbank in Cincinnati reported that 40 percent of their customers, who are mostly working people, say they have to decide whether to pay rent or buy food. Another 28 percent have to choose between buying medicine or food. Many seek out small, very expensive loans (“payday” loans), paying on the average \$800 for a \$325 short term loan.<sup>11</sup>

One conclusion that may be drawn from this study is that even in the best of times, many parents in low-wage jobs will not earn enough market-based income to meet their family's basic needs. When work is not enough, publicly provided work supports are needed to assist workers. A full-time, full-year worker who is paid \$5.15 per hour earns about two thirds of the poverty line of \$13,020 for a single parent with one child. The basic family budget highlights the need for work supports like child care to narrow the gap between earnings and needs.

Another important conclusion to be drawn here is that the way our society measures poverty is outdated. The current methodology, based solely on the cost of food, was designed over four decades ago. It has been adjusted for inflation, but assumptions have not been updated to reflect new economic necessities. The general public is aware of this; polls show that poverty thresholds have not kept up with public opinion. Around the time poverty thresholds were first introduced in the early 1960s, surveys showed that the public believed that families needed an amount that was 1.4 times the poverty threshold for that year just to get by. Today, the majority of Americans say a family needs \$35,000 to get by, considerably above current poverty thresholds.<sup>12</sup>

Policy makers need a more accurate measure of economic need to identify how public policy can best address the economic hardships of individuals and communities. The basic family budget provides such a tool. Applied to Ohio, it shows that economic hardship based on basic family budgets threatens many working families with small children, a finding that should be of concern to all.

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<sup>9</sup> American Community Survey, 2004

<sup>10</sup> Heather Boushey, Chandra Brocht, Bethany Gunderson and Jared Bernstein, Hardship in America, The Real Story of Working Families. The Economic Policy Institute, 2001. Two levels of economic hardship are faced by families struggling to earn enough income to meet basic needs as outlined here. The first, described as a ‘critical hardship,’ occurs when families are simply unable to meet basic needs. The second, ‘serious hardship,’ occur when families lack the tools to maintain employment and a healthy, stable home environment

<sup>11</sup> Rebecca Goodman, “Food bank head witnesses broad range of poverty,” *The Cincinnati Enquirer*, 6/6/06

<sup>12</sup> Economic Policy Institute, *Poverty and Family Budgets Issue Guide*, ‘Frequently Asked Questions,’ at: <http://www.epi.org/content.cfm/bp165>

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