

## **BASIC FAMILY BUDGETS**

### **Working families' incomes often fail to meet living expenses around the U.S.**

*By Sylvia Allegretto*

The ability of families to meet their most basic needs is an important measure of economic stability and well-being. While poverty thresholds are used to evaluate the extent of serious economic deprivation in our society, family budgets—that is, the income a family needs to secure safe and decent-yet-modest living standards in the community in which it resides—offer a broader measure of economic welfare.<sup>1</sup>

The family budgets presented in this report take into account differences in both geographic location and family type. In total, this report presents basic budgets for over 400 U.S. communities and six family types (either one or two parents with one, two, or three children). That the budgets differ by location is important, since certain costs, such as housing, vary significantly depending on where one resides. This geographic dimension of family budget measurements offers a comparative advantage over using poverty thresholds, which only use a national baseline in its measurements.

Basic family budget measurements are adjustable by family type because expenses vary considerably depending on the number of children in a family and whether or not a family is headed by a single parent or a married couple.

The second part of this analysis compares data on actual working family incomes and the associated basic family budgets. Such a comparison can show, for example, what percentage of two-parent families with two children in Pittsburgh, Pa., are actually earning enough income to meet basic family budget thresholds.<sup>2</sup> These comparisons can also show not only the share of *families* falling below family budget thresholds, but the number of *total people*—parents and children—that are affected. Given recent policies that emphasize work as the solution to poverty and economic hardship, this analysis is important because it shows that sometimes work simply isn't enough.

The following are major findings from this analysis:

- The range of basic family budgets for a two-parent, two-child family is \$31,080 (rural Nebraska) to \$64,656 (Boston, Massachusetts). The median family budget of \$39,984 is well above the \$19,157 poverty threshold for this size family.
- Over three times more working families fall below the basic family budget levels as fall below the official poverty line.
- Of the six family types examined, over 14 million people (28%) live in families with incomes below the basic family budget thresholds.
- The incorporation of cost-of-living differences into basic family budgets makes them advantageous in many ways. For example, when using poverty thresholds, approximately 37% of families fall below “twice poverty” (i.e., double the poverty line), whether they reside in cities or rural areas. But when using family budget measures, which embody the higher cost of living in cities, one finds that 42% of families living in cities and 30% of families residing in rural areas fall short of basic family budget thresholds.

## **Beyond measures of poverty to measures of economic hardship**

### ***Limitations and problems of poverty thresholds***

Poverty thresholds are absolute income levels used to measure the number and percentage of those who are the most impoverished and economically deprived in our society. Conceptually, the poverty measure is an important one, and one that is fundamentally different than family budgets. Family budgets are a *relative* measure of the dollar amount families need to live modestly in the communities where they reside.

It is also the case that the poverty measure is woefully outdated and little has been done officially to remedy the situation. For instance, the current methodology for poverty thresholds was designed over four decades ago in 1963 and has only been updated using the Consumer Price Index. Academics, policy analysts, and social scientists—most of whom overwhelmingly agree that the Census poverty measure is seriously outdated—have been engaged in dialogue and debate about alternative measures for some time.<sup>3</sup>

Most analyses of alternative poverty measures find that an updated poverty measure would increase the percentage of those classified as poor (Bernstein 2001).<sup>4</sup> Hence, one barrier to redefining poverty thresholds is political, with most presidents reluctant to have official poverty numbers revised upward during their administrations. The basic family budgets presented here go beyond measures of severe deprivation to encompass a broader spectrum of economic hardship.

### ***The added value of basic family budgets***

Basic family budget calculations constitute the income required to adequately afford a safe and decent

standard of living for one of six family types living in any of 400 specific U.S. communities.<sup>5</sup> These budgets are calculated for six different family types (one or two parents with one to three children) and incorporate regional, state, or local variations in prices (depending on item). Therefore, cost-of-living differences are built into the budget calculations. The basic budgets are relative measures of what incomes are necessary to attain a specific standard of living. The budget items that are included in the basic family budgets are: housing, food, child care, transportation, health care, other necessities, and taxes.<sup>6</sup>

The following is a brief description of each budget item and the restrictions and/or working assumptions employed for basic family budget calculations:

**Housing.** Housing costs are based on the Department of Housing and Urban Development's fair market rents (FMRs). FMRs represent 40th percentile rents (shelter rent plus utilities) for privately owned, decent, structurally safe, and sanitary rental housing of a modest (non-luxury) nature with suitable amenities. Rents for two-bedroom apartments were used for families with one or two children, and rents for three-bedroom apartments were used for families with three children (these assumptions were based on HUD guidelines).

**Food.** Food costs are based on the "low-cost plan" taken from the 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.

**Transportation.** Transportation expenses are based on the costs of owning and operating a car for work and other necessary trips. The National Travel Household Survey is used to derive costs that are based on average miles driven per month by size of the metropolitan statistical or rural area multiplied by the cost-per-mile.

**Child care.** Child care expenses are based on center-based child care or family child care centers for four and eight year olds, as reported by the Children's Defense Fund.

**Health care.** Health care expenses are based on an amount that recognizes that not all families receive employer-provided health care. We use 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 the cost of out-of-pocket medical expenses.

**Other necessities.** 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 from the Consumer Expenditure Survey.

**Taxes.** Citizens for Tax Justice (CTJ) computed the taxes for tax year 2004. The six line items from above represent after-tax budgets. CTJ determined the amount of tax liability that each after-tax budget would

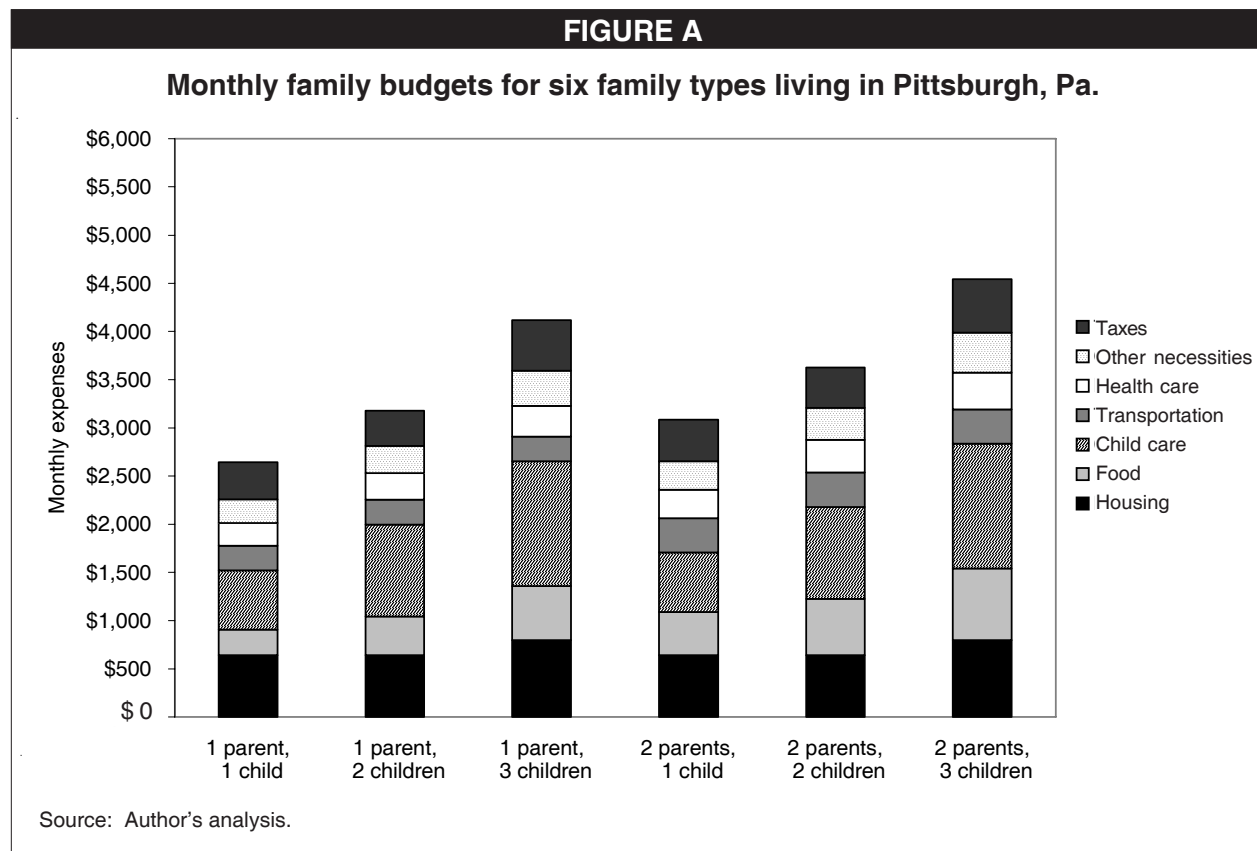
incur. Therefore, the after-tax budget along with the additional tax burden represents the total pre-tax budget. Taxes included federal personal income taxes, federal Social Security and Medicare payroll taxes (direct worker payments only), and state income taxes. Local income or wage taxes were also included. Included in the calculation are federal tax credits for children and the earned-income tax credit.

## The 2004 basic family budgets

In all, basic budgets are calculated for six family types: one or two parents with one, two, or three children, for over 400 communities. The budgets reflect the costs that families actually encounter when they form households in specific geographical areas. The budget costs reflect the income that is necessary for a family to enjoy a relatively safe, modest standard of living.

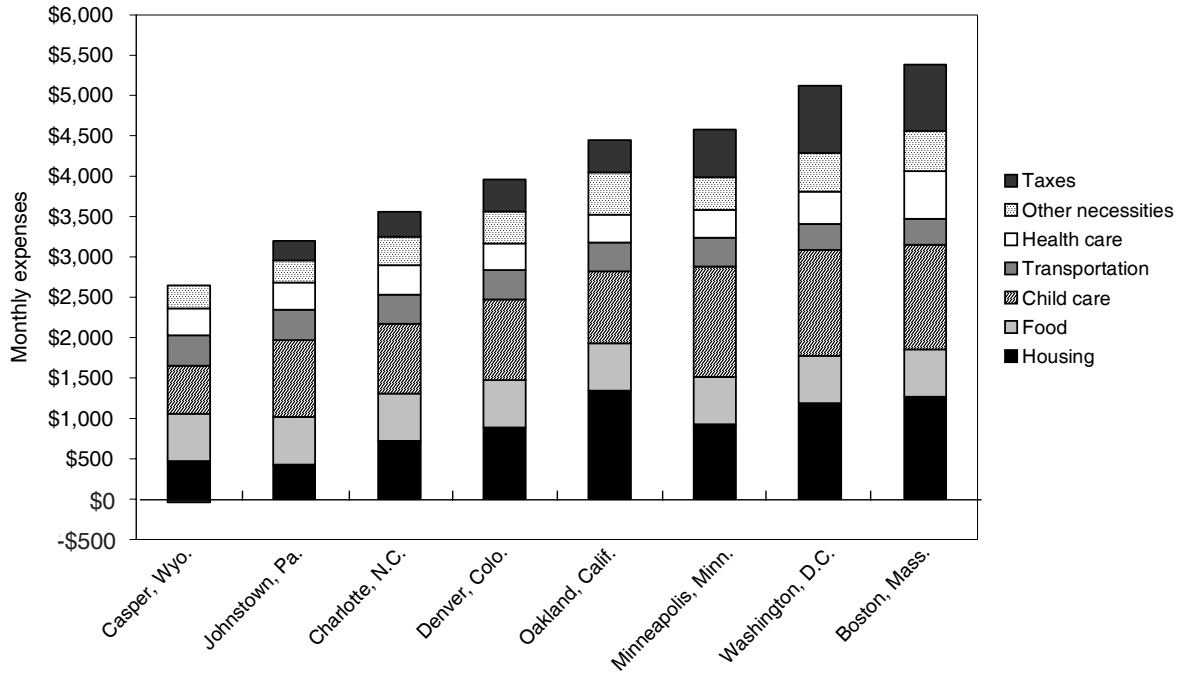
For illustrative purposes, the basic family budgets for six different family types in Pittsburgh, Pa. are depicted in **Figure A**. One of the first items of interest when looking at these budgets is the large share of costs that come from child care. The largest monthly expense faced by families in Pittsburgh with more than one child is child care costs. This is not always the case, especially in areas that have very high property values, such as the District of Columbia and Oakland, California. **Figure B** shows that in these areas rental expenses exceed all other individual budgetary items.

Figure A examined only one community—(Pittsburgh, Pa.)—but six different family types. This



**FIGURE B**

**Monthly family budgets in eight communities for a family with two parents and two children**



Source: Author's analysis.

analysis provides insight into how the budgets vary by family size. Figure B, on the other hand, holds the family type constant—two parents and two children—while varying the geographic location. Figure B illustrates how, given a family type, the budgets differ substantially by location. For example, rental property in Oakland, California is almost three times what it is in Casper, Wyoming. Monthly rent for a two bedroom apartment is \$470 in Casper, Wyoming, \$888 in Denver, Colorado, and \$1,342 in Oakland, California.

Figure B demonstrates the importance of accounting for cost-of-living variations when calculating relative budgets. In other words, these basic family budgets allow for comparisons that hold living standards constant. In contrast, the single poverty threshold for a family of four—\$19,157 in 2004—applies regardless of location. A family of four is deemed to subsist in poverty if its income is below this level, whether it resides in Casper, Wyoming or Oakland, California.

**Table 1** provides individual budget item outlays for the geographic locations shown in Figure B. Annual totals are also calculated. Family budgets as a percent of the poverty threshold are given in the last row of the table. For example, Table 1 shows that the annual basic family budget for Casper, Wyoming is 163% of the poverty level, while it is 338% in Boston, Massachusetts.

**Family budgets and the budgets of working families**

**TABLE 1**  
**Sample family budgets in eight areas for a family with two parents and two children**

| Budget item                  | Casper, Wyo.    | Johnstown, Pa.  | Charlotte, N.C. | Denver, Colo.   | Oakland, Calif. | Minneapolis-St. Paul, Minn. | Washington, D.C. | Boston, Mass.   |
|------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------------------|------------------|-----------------|
| Housing                      | \$470           | \$428           | \$719           | \$888           | \$1,342         | \$928                       | \$1,187          | \$1,266         |
| Food                         | 587             | 587             | 587             | 587             | 587             | 587                         | 587              | 587             |
| Child care                   | 595             | 954             | 866             | 1,001           | 892             | 1,364                       | 1,316            | 1,298           |
| Transportation               | 375             | 375             | 358             | 358             | 358             | 358                         | 321              | 321             |
| Health care                  | 335             | 338             | 368             | 334             | 345             | 345                         | 398              | 592             |
| Other necessities            | 285             | 274             | 353             | 398             | 521             | 409                         | 479              | 500             |
| Taxes                        | -40             | 243             | 310             | 394             | 406             | 588                         | 832              | 824             |
| <i>Monthly total</i>         | <i>\$2,607</i>  | <i>\$3,199</i>  | <i>\$3,561</i>  | <i>\$3,960</i>  | <i>\$4,451</i>  | <i>\$4,579</i>              | <i>\$5,120</i>   | <i>\$5,388</i>  |
| <b>Annual total</b>          | <b>\$31,284</b> | <b>\$38,388</b> | <b>\$42,732</b> | <b>\$47,520</b> | <b>\$53,412</b> | <b>\$54,948</b>             | <b>\$61,440</b>  | <b>\$64,656</b> |
| Percent of poverty threshold | 163%            | 200%            | 223%            | 248%            | 279%            | 287%                        | 321%             | 338%            |

As stated before, family budgets represent the amount of money a family needs to manage at a basic level. These budgets are not based on what families actually spend, but rather on the realistic costs of the seven basic items that constitute the budgets. Using data from the March Current Population Survey (CPS), a nationally representative survey by the U.S. Bureau of the Census, allows for a comparison of reported family incomes and basic family budgets.<sup>7</sup> The CPS contains extensive information on families, including income, geographic location, and number of children. The CPS allows for a comparison of income data for a two-parent, two-child family living in Denver, Colorado to the basic family budget threshold for that family type and location.

Certain family types and demographic particulars add to the likelihood that a family's income will fall below basic budget levels. **Table 2** presents the share of families with incomes that fall short of basic family budget levels. Families headed by single parents, young workers, or workers with less than a college degree are the most likely to face economic hardship. For comparative purposes, the share of families with incomes less than poverty and twice poverty are also shown in Table 2.

Overall, 29.7% of working families in the United States have incomes below basic family budget levels. As for poverty measurements, the CPS data finds that 9.4% of working families are below the official poverty thresholds, and the percentage of families living below twice poverty—28.0%—is similar to those subsisting below basic family budget levels.

The remainder of Table 2 gives demographic breakdowns of the shares of families that fall below the three threshold measures. A majority of African American and Hispanic working families and over two-thirds of families headed by someone with less than a high school degree earn less than what is needed to meet the basic family budget threshold. Even a college degree does not completely insulate a family from economic struggles, as 8.7% of families headed by someone with at least a bachelor's degree have incomes below family budget levels.

**TABLE 2**  
**Share of families with income less than family budget, poverty line, and twice poverty**  
**(by demographic characteristics)**

|                                | Share of families below: |              |                    |
|--------------------------------|--------------------------|--------------|--------------------|
|                                | Family budget            | Poverty line | Twice poverty line |
| <b>ALL</b>                     | 29.7%                    | 9.4%         | 28.0%              |
| <b>Race/ethnicity</b>          |                          |              |                    |
| White                          | 20.1%                    | 5.5%         | 19.8%              |
| African American               | 52.8                     | 21.2         | 47.6               |
| Hispanic                       | 56.8                     | 18.7         | 52.8               |
| Other                          | 28.3                     | 7.3          | 25.3               |
| <b>Education</b>               |                          |              |                    |
| Less than high school degree   | 69.2%                    | 28.9%        | 68.7%              |
| High school degree only        | 41.5                     | 13.6         | 40.5               |
| Some college                   | 29.8                     | 7.8          | 26.9               |
| College degree                 | 8.7                      | 1.7          | 7.4                |
| <b>Age</b>                     |                          |              |                    |
| 18-30                          | 47.9%                    | 17.9%        | 46.8%              |
| 31-45                          | 21.3                     | 5.4          | 19.5               |
| 46+                            | 21.9                     | 6.0          | 20.1               |
| <b>Work status</b>             |                          |              |                    |
| Full-time, full-year           | 22.8%                    | 4.2%         | 20.6%              |
| Less than full-time, full-year | 42.5                     | 19.0         | 42.1               |
| <b>Family type</b>             |                          |              |                    |
| One adult with one child       | 59.9%                    | 20.8%        | 50.8%              |
| One adult with two children    | 73.7                     | 31.4         | 67.0               |
| One adult with three children  | 92.5                     | 55.6         | 86.9               |
| Two adults with one child      | 18.5                     | 3.7          | 16.0               |
| Two adults with two children   | 19.8                     | 5.5          | 22.1               |
| Two adults with three children | 36.2                     | 10.4         | 34.4               |
| <b>Location</b>                |                          |              |                    |
| City                           | 42.5%                    | 14.2%        | 37.6%              |
| Suburbs                        | 23.3                     | 5.7          | 19.7               |
| Rural                          | 30.5                     | 12.3         | 37.0               |
| <b>Region</b>                  |                          |              |                    |
| Northeast                      | 30.4%                    | 7.4%         | 22.5%              |
| Midwest                        | 23.4                     | 7.6          | 24.1               |
| South                          | 31.3                     | 11.8         | 32.6               |
| West                           | 32.7                     | 8.9          | 29.2               |

More than two out of 10 families headed by a full-time, full-year worker fall below basic budget levels. Households headed by single parents rarely attain incomes above family budget thresholds: just 40.1%, 26.3%, and 7.5% of single parent families with one, two, or three children, respectively, have incomes that meet basic family budget thresholds. Single parents face serious challenges to economic sustainability.

Perhaps predictably, families headed by those with less education, by single parents, or by younger workers (or a combination of such) struggle to attain incomes that meet family budget thresholds. But maybe not so expected are the significant percentages of families headed by educated workers, full-time, full-year workers, and older workers who are also finding it difficult to have a standard of living that is above the *basic* level represented by these family budgets.

Table 2 offers insight into the importance and value of incorporating cost-of-living differences into economic hardship measures. Families living in cities or rural areas are more likely to have incomes that fall below poverty or twice poverty levels, and their percentages are similar for either locale. For example, approximately 37% of families living in a city or a rural area have incomes below twice poverty. These percentages differ significantly when family budget levels are the measure of comparison. Generally, the cost of living in cities is higher than in suburbs or rural areas. Hence, the percentage of families living below family budget levels is much higher in cities (42.5%) compared to those living in suburbs (23.3%) or rural areas (30.5%).

Regional poverty rates are highest in the South. But when hardship is measured using basic family budgets, it is the Western region that has the largest share of families with income less than the family budget threshold (32.7%). The Midwest region has the lowest percentage of families falling below basic family budget levels (23.4%).

**Table 3** offers additional insight into cost-of-living variances in the family budgets. It is one thing to discuss the number of *families* that don't earn enough to meet their basic budgetary needs, but what does that mean in terms of actual numbers of *people*? Table 3 gives, by state and region, the percentage and number of *persons* in families with incomes less than family budget levels. Of the six family types examined, over 14 million people (about 28% of those examined) live in families with incomes below the basic family budget thresholds. Again, it is the Western region that has the largest percentage of people living below family budget thresholds (32.1%). The Southern region (due to its large share of the overall population) has the greatest number of persons—almost 5.5 million—living in families with incomes below family budget levels.

States that traditionally have high levels of poverty, such as Arkansas and Mississippi, also have high percentages of people—26.8% and 29.6%, respectively—living in families with incomes below basic budget levels. However, some high cost-of-living states, such as New York and California, have even higher percentages of people below family budget levels (35.3% and 33.7%, respectively). The District of Columbia, at 48.0%, has the highest *share* of persons in families with incomes less than family budget levels, and California, at 2 million people, has the greatest *number of persons* living in families with incomes below basic budget amounts.

Across the country significant numbers of working families are finding it difficult to make ends meet. Something has got to give when families do not have the means to subsist at a basic level. Under such circumstances, health insurance or safe, dependable child care could possibly be out of reach. Public policy, especially in the form of work supports, is critical to help working families attain a safe and decent standard of living.

## **The role of public policy**

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. It is telling that a full-time, full-year worker who is paid \$6.00 per hour (.85¢ *above* the minimum wage) will earn pre-tax about \$12,500 a year, which is below the poverty line of \$13,020 for a single parent with one child. Work supports such as the Earned Income Tax Credit (EITC), child care



**TABLE 3**  
**Percentage and number of persons in families with incomes less than family budgets**  
**(by state)**

| Below family budgets |              |                          | Below family budgets |              |                          |
|----------------------|--------------|--------------------------|----------------------|--------------|--------------------------|
| State/region         | Percent      | Number<br>(in thousands) | State/region         | Percent      | Number<br>(in thousands) |
| <b>Northeast</b>     | <b>28.5%</b> | <b>2,638</b>             | <b>Midwest</b>       | <b>21.6%</b> | <b>2,445</b>             |
| Maine                | 28.9         | 47                       | Ohio                 | 22.3         | 439                      |
| New Hampshire        | 21.9         | 43                       | Indiana              | 24.1         | 267                      |
| Vermont              | 20.3         | 22                       | Illinois             | 22.0         | 488                      |
| Massachusetts        | 31.8         | 350                      | Michigan             | 22.6         | 409                      |
| Rhode Island         | 28.9         | 50                       | Wisconsin            | 17.8         | 172                      |
| Connecticut          | 22.3         | 151                      | Minnesota            | 18.3         | 169                      |
| New York             | 35.3         | 1,106                    | Iowa                 | 20.5         | 96                       |
| New Jersey           | 23.3         | 383                      | Missouri             | 22.6         | 200                      |
| Pennsylvania         | 23.5         | 485                      | North Dakota         | 26.2         | 25                       |
| <b>South</b>         | <b>29.9%</b> | <b>5,494</b>             | South Dakota         | 14.9         | 15                       |
| Delaware             | 23.4         | 31                       | Nebraska             | 19.5         | 61                       |
| Maryland             | 20.2         | 179                      | Kansas               | 22.5         | 102                      |
| District of Columbia | 48.0         | 31                       | <b>West</b>          | <b>32.1%</b> | <b>3,728</b>             |
| Virginia             | 23.4         | 284                      | Montana              | 40.3         | 44                       |
| West Virginia        | 38.1         | 86                       | Idaho                | 37.5         | 92                       |
| North Carolina       | 32.7         | 476                      | Wyoming              | 16.3         | 11                       |
| South Carolina       | 25.2         | 177                      | Colorado             | 27.6         | 255                      |
| Georgia              | 25.6         | 451                      | New Mexico           | 35.3         | 119                      |
| Florida              | 31.0         | 822                      | Arizona              | 33.5         | 345                      |
| Kentucky             | 27.7         | 217                      | Utah                 | 26.9         | 120                      |
| Tennessee            | 25.8         | 287                      | Nevada               | 32.0         | 126                      |
| Alabama              | 33.8         | 308                      | Washington           | 26.9         | 292                      |
| Mississippi          | 29.6         | 134                      | Oregon               | 29.9         | 176                      |
| Arkansas             | 26.8         | 124                      | California           | 33.7         | 2,048                    |
| Louisiana            | 28.2         | 227                      | Alaska               | 28.2         | 35                       |
| Oklahoma             | 34.9         | 198                      | Hawaii               | 37.2         | 63                       |
| Texas                | 35.0         | 1,462                    | <b>United States</b> | <b>28.3%</b> | <b>14,305</b>            |

subsidies and tax credits, and subsidies for housing, transportation, and health care have been effective in increasing post-tax incomes and consumption for working families. But more needs to be done to assist struggling low- and middle-wage workers. Being a working member of our economy has associated costs, such as transportation to and from work and the expense of child care. As shown in the family budgets, child care costs, on average, account for around 25% of the typical budget for a family with two children. Thus, this particular expenditure is clearly an important leverage point for using work supports to narrow the gap between earnings and needs.

## Endnotes

1. For a historical overview of family budgets, see Johnson, et al. (2001).
2. This Briefing Paper may be used in conjunction with the interactive web-based basic family budget calculator that is available on the Economic Policy Institute's Web site: [http://www.epi.org/content.cfm/datazone\\_fambud\\_budget](http://www.epi.org/content.cfm/datazone_fambud_budget).
3. See Bernstein (2001).
4. For a dissenting view, see Robert Rector, *Understanding Poverty and Economic Inequality in the United States*, <http://www.heritage.org/Research/Welfare/bg1796.cfm>.
5. For information on family budget and self-sufficiency budgets, their components, and conceptual issues, see Bernstein, Brocht, and Spade-Aguilar (2000) and Wider Opportunities for Women at [www.wowonline.org](http://www.wowonline.org).
6. A detailed technical documentation that describes the methodological approach employed in the budget calculations of each budget item is available at: [www.epi.org](http://www.epi.org).
7. For more on CPS methodology, see Boushey, et al. (2001) Appendix B.

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Wider Opportunities for Women Self-Sufficiency Standards can be found at: [www.wowonline.org](http://www.wowonline.org).

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