

The Cost of Living in Iowa

2019 Edition

*Basic family budgets:
What it takes to get by, and how many can*

Peter S. Fisher and Natalie Veldhouse

September 2019

The Iowa Policy Project

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The Iowa Policy Project

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Preface

This is the seventh edition of *The Cost of Living in Iowa*. It includes basic family budgets for 10 family types, and the living wage for each family type: the hourly wage that would provide after-tax income sufficient to meet basic needs for a full-time worker. **For the first time, both the budgets and the living wage information are available for all 99 counties. This report also includes new estimates of the proportion of Iowa families whose income falls below the basic needs level.** These estimates had been provided in a separate report in previous years.

These budgets are based on living costs for calendar 2018, and state and federal income taxes for tax year 2018, with one exception: Health care costs reflect insurance rates in effect for calendar 2019. Because premiums for health insurance plans offered on the federal exchange for 2019 were available in December 2018, and because health insurance premiums have increased substantially while most other areas saw only modest increases, or none at all, using 2019 health insurance premiums ensures that the budgets presented here are relevant today and throughout the year.

This edition reflects some changes since the previous edition was released in July 2018. Health costs in the basic needs budgets in this report represent an average of costs under two scenarios: (1) The family is covered by health insurance from an employer, and so pays the employee share of premiums plus out-of-pocket expenses, or (2) the family purchases a bronze plan on the ACA exchange and pays a share of premiums (depending on the premium assistance they would receive) plus out-of-pocket expenses. The previous edition presented separate family budgets for the two scenarios. For most households, costs under the two scenarios are not very different, so we changed to a single average cost in the interest of simplicity and ease of interpretation.

The second change consists of new estimates of transportation costs. These estimates reflect the wealth of data recently made available from the 2017 National Household Travel Survey conducted by the Federal Highway Administration. This survey is conducted only once every eight years.

A subsequent report will focus on work supports and how they affect basic family budgets. This will include illustrations of the cliff effects in certain programs, particularly child care assistance, and the way in which the whole range of work supports help provide a pathway to self-sufficiency for working Iowa families.



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Basic family budgets: What it takes to get by, and how many can

By Peter S. Fisher and Natalie Veldhouse

What does it take to get by these days? This latest edition of *The Cost of Living in Iowa* answers this question. The report details how much working 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 this report represent a very frugal living standard; using costs as of 2018 (with the exception of health insurance), 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 basic budget does not include** savings, loan payments, education expenses, any entertainment or vacation, social or recreational travel, or meals outside the home.

Each basic family budget applies to a particular family type — given the number of family members, the ages of the children, and the employment status and ages of the adults. This report focuses on non-senior Iowa households with a working adult.

Key Assumptions in Basic Needs Budgets

- The family cooks and eats all meals at home, at the cost of the USDA Low-Cost family food plan.
- The cost of rent and utilities is based on the HUD Fair Market Rent (FMR) at the 40th percentile level for a house of appropriate size in each county.
- Health care expenses include insurance premium costs as well as out-of-pocket costs. They represent an average of the employee share of employer sponsored insurance costs, and the household’s health costs with a bronze plan purchased on the Iowa exchange, after premium assistance.
- Workers drive to work, and families have other expenses for basic transportation needs such as school and shopping.
- On weekdays, all children are in child care when not in school during normal working hours, except those in two-parent families with only one parent working, and children age 12 or older.
- Child care costs are calculated using county averages for the home-based care of a 2-year-old toddler, a 4-year old, and a school-age child of 6 to 11 years (before and after school) based on data from Iowa Child Care Resource and Referral Networks. Costs would be higher for families using center-based care, with an infant, or with two children under school age.
- The budget includes expenses for clothing, telephone service, and basic household maintenance items.
- Property taxes are included in rent; sales taxes are included in spending.
- All income consists of wages and salaries; workers are employed full-time and year-round. Payroll taxes are paid on all income, and federal and state income taxes and credits are calculated assuming the standard deduction and use of all available credits and exemptions.

Iowans pay differing amounts for the basic living essentials depending on where they live. A Linn County family and a Clay County family will face different housing costs, commuting times and health insurance premiums; child care costs will differ as well. Basic needs budgets are created for all 99 counties, as well as an average budget for the state.

Work Supports, Health Insurance, and Public Assistance

We focus here on what it costs to get by and on how much a household must earn to cover those costs. When there is a gap between actual earnings and the costs of living, a variety of work supports and public assistance programs are available to low income households to help fill that gap, and these should not be ignored. We include here those work supports that operate through the income tax system: the state and federal earned income tax credits, the federal child tax credits, and the state and federal credits for child care costs. We assume, in other words, that households apply for and receive all such credits when they file their income taxes.

Health care is a bit more complicated. Individuals can receive health insurance coverage through an employer, on the individual market, or from one or more public programs. There are three major health care programs for low-income families: Medicaid, for adults up to 138 percent of poverty and for children up to 167 percent, hawk-i* for children in families up to 302 percent of poverty, and Affordable Care Act (ACA) subsidies, which disappear between 250 and 400 percent of poverty. The ACA subsidies operate in part through the tax system as premium tax credits on the family's federal income tax return. Like the EITC, the federal additional child tax credit, and Iowa's Child and Dependent Care Credit, the premium tax credits are refundable — the taxpayer receives the full amount even if the credit exceeds the tax due. The excess is refunded.

Health costs in the basic needs budgets in this report represent a weighted average of costs under two scenarios: (1) The family is covered by health insurance from an employer, and so pays the average employee share of premiums in Iowa for their family type, plus out-of-pocket expenses, or (2) the family purchases a bronze plan on the Iowa exchange and pays a share of the premiums (depending on the premium assistance they would receive under the Affordable Care Act) plus average out-of-pocket expenses given bronze plan coverage. The two scenarios are weighted according to the shares of lower-income insured Iowans who receive health insurance from an employer (61.5 percent) and those who must rely on a public health insurance program (38.5 percent).

The next step in our analysis is to determine the before-tax earnings needed to ensure that the family has net resources after taxes sufficient to cover the basic needs budget.

What about other public assistance programs — Temporary Assistance to Needy Families (TANF), food assistance (SNAP, the Supplemental Nutrition Assistance Program), Low Income Home Energy Program (LIHEAP) assistance, and Iowa's Child Care Assistance Program? These four programs are not included in this analysis because they have eligibility ceilings at too low an income level (150 percent of poverty or less) to play any role in most instances. As a family's earnings rise, they lose eligibility for benefits before they reach the level where they can meet the basic needs budget. Most families earning what we call the "family supporting hourly wage" would not benefit from any of these four public assistance programs, or from Medicaid, even though they may benefit from the hawk-i program for their children, and from the Affordable Care Act.¹

* hawk-i is the Healthy and Well Kids in Iowa program, Iowa's health insurance program for children in families not eligible for Medicaid but likely to have financial hardship in securing private health insurance.

Iowa Basic Needs Budgets: Single-Parent Families

There are about 105,000 single-parent families in Iowa.² For a single parent, the challenge of supporting a family with even one child is daunting, to say the least. Table 1 displays the various costs single-parent households incur in order to meet their families’ basic needs. With two children, the basic annual budget exceeds \$44,000 per year, when the majority of jobs in Iowa pay much less than that.

Even with health insurance — either from an employer or with public assistance — the needed wage is over \$22 an hour for the single parent with two children, and

\$19.50 an hour with one preschooler. This is well above Iowa’s median wage, which has yet to reach \$18 an hour. At these wage levels, the family would not be eligible for Medicaid, but the children would be eligible for hawk-i if the family does not have insurance through work, and the parent could receive health insurance premium tax credits through the Affordable Care Act (ACA) that greatly reduce the cost of a bronze plan covering the parent.

Child care costs alone consume 18 to 19 percent of the single-parent’s family budget. With two children of preschool age, the share would be even higher. Data suggest that finding jobs with adequate wages for single parents is extremely challenging. This is particularly true for women, who head the vast majority of single-parent households in Iowa and earn about 79 percent of what their male counterparts earn.³

These findings underscore the critical importance of expanding work-support programs that can fill in the gaps between wages and basic living expenses.

**Table 1. Basic Family Budgets for Single-Parent Families
Statewide Average: 2019**

	One child*	Two children**
Monthly Expenses		
Rent and utilities	\$794	\$794
Food	392	655
Health Care	464	558
Child care	565	691
Clothing & household expenses	294	360
Transportation	561	641
Monthly total	\$3,069	\$3,699
Annual total expenses	\$36,833	\$44,394
Annual before-tax earnings needed	\$40,551	\$46,610
Less: Income & payroll taxes	(4,274)	(4,855)
Plus: EITC & other credits	556	2,639
Net resources	\$36,833	\$44,394
Family supporting hourly wage	\$19.50	\$22.41

*One child age 2 or 3 requiring full-time year-round child care

**Two children age 6-11 requiring before and after school plus summer child care

‘It’s been a struggle to find daycare that will take all of my kids. Even with assistance, there’s no one that’s certified. I had to open my own daycare to have care for my kids.

‘You can’t afford rent and utilities as a single person with kids.’

— Northeast Iowan

Basic Family Budgets: Two-Parent Families with Children

We estimate basic family budgets for five two-parent family types. First, we consider families with both parents working outside the home, and then families with one parent working and one parent at home caring for the children. In the majority of two-parent families in Iowa, both parents work full time, or close to it.

In Table 2 we illustrate the situation for families with two full-time workers: a young family with one preschooler, a family with a 4-year-old and a child age 6-11 needing care before and after school and full time in the summers, and a somewhat older family with two teenagers and a child age 6-11. While expenses are high, with two full-time workers the hourly wage each must earn is now about \$14 to \$16.

Here again, if the family did not have insurance from an employer, the children would be eligible for hawk-i and the parents could receive ACA subsidized insurance on the exchange.

Families with one stay-at-home parent and one child (Table 3) require, on average, 20 percent 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.

**Table 2. Basic Family Budgets for Families with Two Working Parents
Statewide Average: 2019**

	One child*	Two children**	Three children***
<u>Monthly Expenses</u>			
Rent and utilities	\$794	\$794	\$1,064
Food	610	785	1,039
Health Care	727	798	798
Child care	565	901	346
Clothing & household expenses	356	444	516
Transportation	1,197	1,197	1,215
Monthly total	4,250	4,918	4,978
Annual total expenses	\$50,997	\$59,019	\$59,739
Annual before-tax earnings needed	\$57,798	\$65,056	\$63,491
Less: Income & payroll taxes	(6,981)	(6,691)	(6,174)
Plus: EITC & other credits	180	654	2,422
Net resources	\$50,997	\$59,019	\$59,739
Family supporting hourly wage	\$13.89	\$15.64	\$15.26

*One child age 2 or 3 **One child age 4, one child age 6-11

***One child age 6-11, 2 children age 12-18

**Table 3. Basic Budgets: Families with Two Parents, One Working
Statewide Average: 2019**

	One child*	Two children**
<u>Monthly expenses</u>		
Rent and utilities	\$794	\$794
Food	610	785
Health Care	649	687
Child care	0	0
Clothing & household expenses	356	444
Transportation	1,020	1,020
Monthly total	3,429	3,729
Annual total expenses	\$41,152	\$44,745
Annual before-tax earnings needed	\$46,163	\$46,201
Less: Income & payroll taxes	(5,011)	(4,454)
Plus: EITC & other credits	-	2,998
Net resources	\$41,152	\$44,745
Family supporting hourly wage	\$22.19	\$22.21

*One child age 2 or 3 **One child age 6-10, one child age 12-17

Single-Adult Households

Single, childless adults require far less income to provide for their basic needs. With fewer expenses, a sustaining wage for a single adult is lower than the wage needed for supporting a family.

Rent and transportation are the largest budget items for the single person (Table 4). The required hourly wage is \$13, still well above the state’s meager minimum wage of \$7.25.

**Table 4. Basic Budget for Young, Single Adult, No Children
Statewide Average: 2019**

<u>Monthly expenses</u>	
Rent and utilities	\$542
Food	269
Health Care	267
Child care	0
Clothing & household expenses	225
Transportation	582
Monthly total	1,884
Annual total expenses	\$22,614
Annual before-tax earnings needed	\$27,017
Less: Income & payroll taxes	(4,404)
Plus: EITC & other credits	-
Net resources	\$22,614
Family supporting hourly wage	\$12.99

Married Couples Without Children

We consider two married couple households with no children living at home: a young couple (age 25), and an “empty nester” couple in their mid-50s. In both cases, both adults are employed full time. Expenses are similar with one exception: health insurance costs are 45 percent higher for the older couple.

**Table 5. Basic Budgets: Married Couple, Both Working, No Children
Statewide Average: 2019**

	Young*	Older**
<u>Monthly expenses</u>		
Rent and utilities	\$621	\$621
Food	493	473
Health Care	559	812
Child care	0	0
Clothing & household expenses	294	294
Transportation	1,181	1,181
Monthly total	3,148	3,381
Annual total expenses	\$37,781	\$40,577
Annual before-tax earnings needed	\$44,060	\$47,229
Less: Income & payroll taxes	(6,279)	(6,653)
Plus: EITC & other credits	-	-
Net resources	\$37,781	\$40,577
Family supporting hourly wage	\$10.59	\$11.35

*Both adults in mid-20s **Both adults in mid-50s

‘I think the biggest need is low-income housing. It’s hard to come by. Is it affordable and livable?’

— *Financial Literacy Coordinator in Northwestern Iowa*

Basic Needs Budgets in Iowa's Metropolitan & Non-Metropolitan Areas

Complete family budgets for all 99 counties for each of the 10 family types in this report can be found on the Iowa Policy Project website, www.iowapolicyproject.org. For each county, costs are compared with the statewide average and with the highest and lowest counties.

The highest-cost counties overall are Mills, Story, Pottawattamie and Harrison counties, while the four with the lowest overall basic needs budgets are Jones, Benton, Buchanan and Plymouth counties.

Differences in cost from one county to another can be dramatic. Monthly child care expenses for a preschooler, for example, ranged from a low of \$458 to a high of \$690, a \$232 difference. Monthly rent for a two-bedroom apartment varied from \$664 to \$927 for a married couple with two children. The total annual basic needs budget for a family with two working parents and two children was \$6,000 higher in the highest cost county compared to the lowest cost county.

Iowa's metropolitan areas generally have the highest rents and the highest child care costs. On the other hand, the rural counties tend to have the highest health care costs, and higher transportation costs because of the need for longer commutes. Overall, the cost of living is lower outside of metropolitan areas, because the large difference in rents offsets somewhat higher transportation and health costs.

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 do not take into account regional differences in basic living expenses and were developed using outdated spending patterns more than 50 years ago. The calculations that compose the federal poverty guidelines assume food is the largest expense, as it was in the 1960s, and that it consumes one-third of a family's income. Today, however, the average family spends less than one-sixth of its budget on food. Omitted entirely from the guideline, child care has become a major expense for the majority of families; nearly 72 percent of women with a child under 18 are now in the labor force. ⁴ Child care accounts for nearly one-fifth of a household's budget for many families with preschool age children in our Iowa budgets. Transportation and housing also consume a much larger portion of a family's income than they did 50 years ago.⁵ Together, these two costs account for 40 to 60 percent of the family budgets in our analysis.

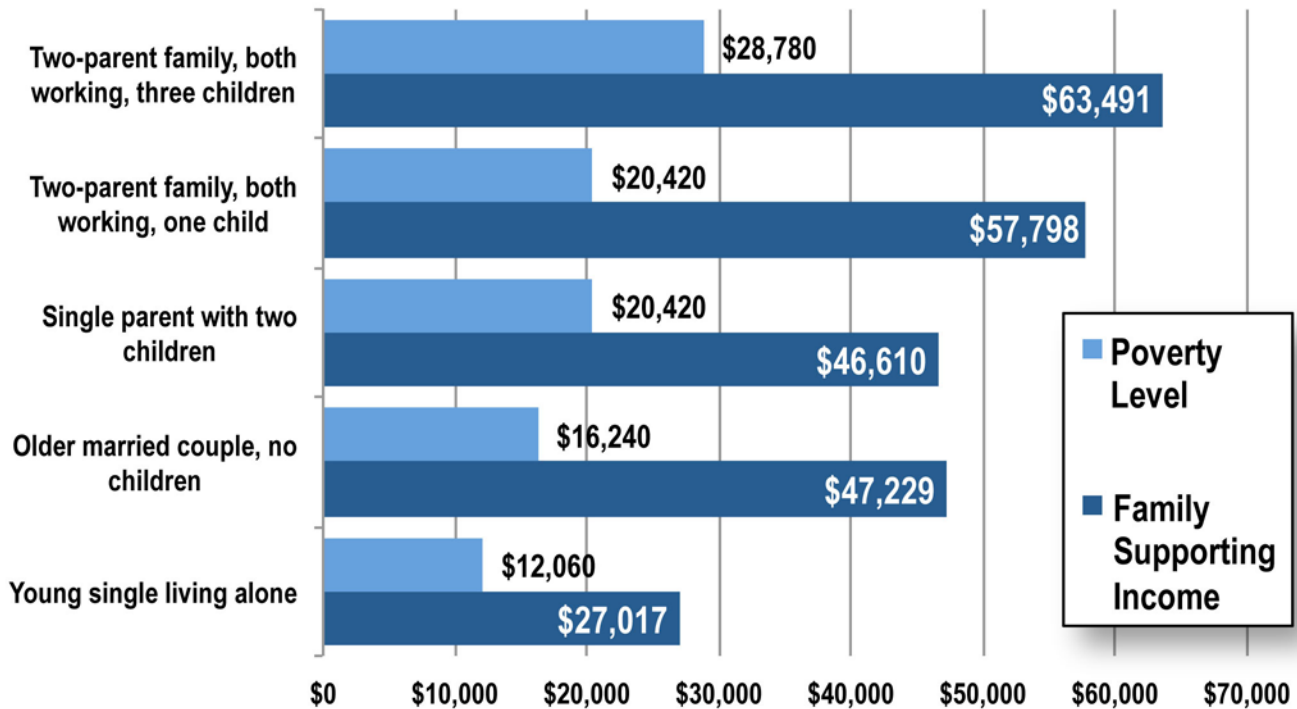
'Rent, child care and transportation are the most costly expenses for families in our area. Not having a vehicle to get to work, appointments and services is a big barrier.'

— Social service provider in Northwest Iowa

'There aren't many child care options in our county. Even if you qualify for child care assistance, many providers don't accept it. Families are stuck between a rock and a hard place.'

— Family Development Center Coordinator in Western Iowa

Figure 1. Cost of Living is Much Higher than the Poverty Level



Considering the vast changes in consumer spending since the poverty guidelines were developed, it is no wonder that this yardstick underestimates what Iowans must earn to cover their basic needs. Figure 1 above shows that a family supporting income — the before-tax earnings needed to provide after-tax income equal to the basic-needs budget — is much higher than the official poverty guidelines. In fact, family supporting income ranges from 1.9 to 2.9 times the federal poverty guideline for the 10 family types discussed in this report. Most families, in other words, actually require more than twice the income identified as the poverty level in order to meet what most would consider basic household needs.

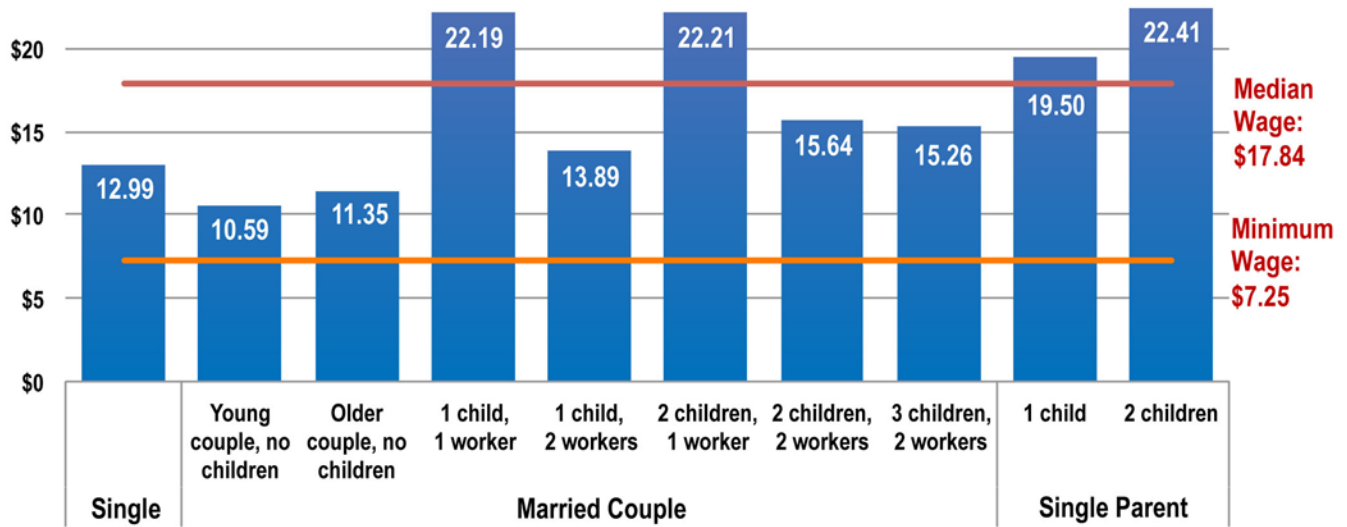
Trends in Basic Expenses for Iowans

Since our last *Cost of Living in Iowa* report one year ago, some components of the family budgets have increased in cost substantially. Average housing costs in Iowa, as measured by HUD Fair Market Rents, increased about 3 percent between 2017 and 2018 for a one-bedroom or two-bedroom apartment. For those with employer sponsored insurance, the average employee contribution to premiums rose about 20 percent for single adults, but fell slightly for family coverage. The cost of the USDA low-cost food plan rose only about 0.6 percent from 2017 to 2018. Average statewide child care costs actually fell slightly, while the cost of clothing and household expenses fell by about 2 percent. The IRS mileage rate, which reflects the overall cost of owning and operating a vehicle, rose 2 percent.

The Adequacy of Wages in Iowa

For single-parent families, the hourly wage required to provide for basic needs exceeds the wage of more than half of Iowa’s current jobs (Figure 2). Even a single person living alone needs \$13 to get by, and any family with children would need well above that rate. Even childless two-earner couples need to earn well above the current minimum wage of \$7.25, in fact more than the \$10.10 minimum that prevailed in Johnson County until the Iowa Legislature rolled it back.

Figure 2. Even with Public Health Insurance or Subsidies, Families Need Far More than Minimum Wage to Get By
Self-sufficiency wage needed for various Iowa family types, compared to overall Iowa median and minimum wage levels



Many Iowa Households Struggle to Meet Basic Needs

Nearly 120,000 Iowa households do not earn enough to provide for a basic standard of living without public supports beyond health insurance, despite one or more full-time wage earners in the family. Overall, 20 percent of Iowa working households meet this description in recent years, with 301,000 people living in those households. For single parents, the challenge is greater than it is for married couples with children.

In this section we provide estimates of the percent of Iowa working families who do not earn enough to meet a basic family budget without help from such work supports as child care assistance or food assistance.

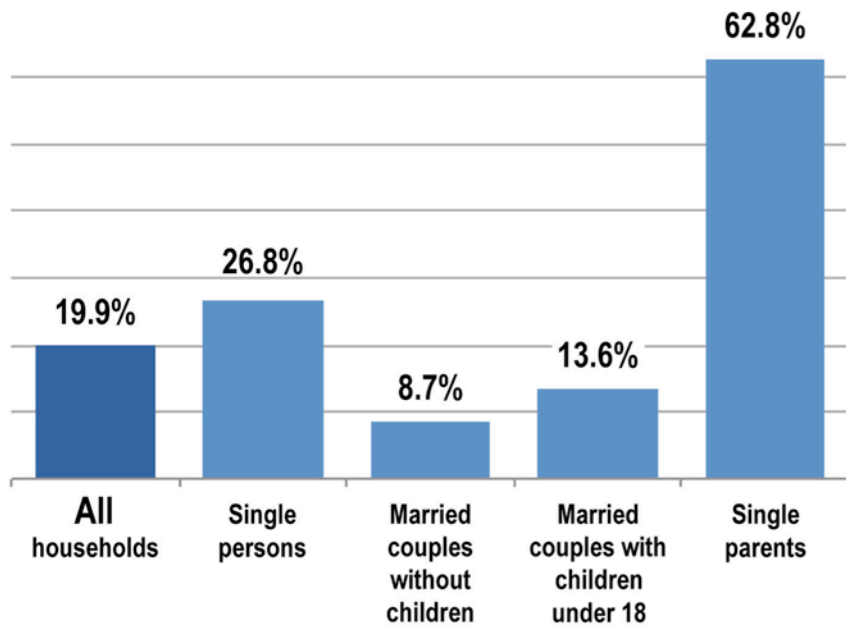
We consider four kinds of households: single persons living alone, married couples without children living at home, married couples with children under 19 living at home, and single parents with one or more children at home. In Part 1, we presented estimates of the before-tax income required by households of these four types that would leave them with after-tax income just equal to the basic needs budget for that type of family. We call this self-sufficiency income. It is the level needed to attain a basic standard of living without the help of any work supports beyond the tax credits received when paying state and federal income taxes, and public health insurance in the case of families without insurance through an employer.

The estimates here are not strictly comparable with those in the 2018 edition because of changes in the methodology for estimating health care and transportation costs, as noted in the preface of this report.

The estimates presented here are based on data from the U.S. Census Bureau’s American Community Survey, a sample of nearly 30,000 Iowa households. Since the focus of our report is on working families, we excluded senior households and those without at least one adult working full time (defined as 30 hours per week or more).

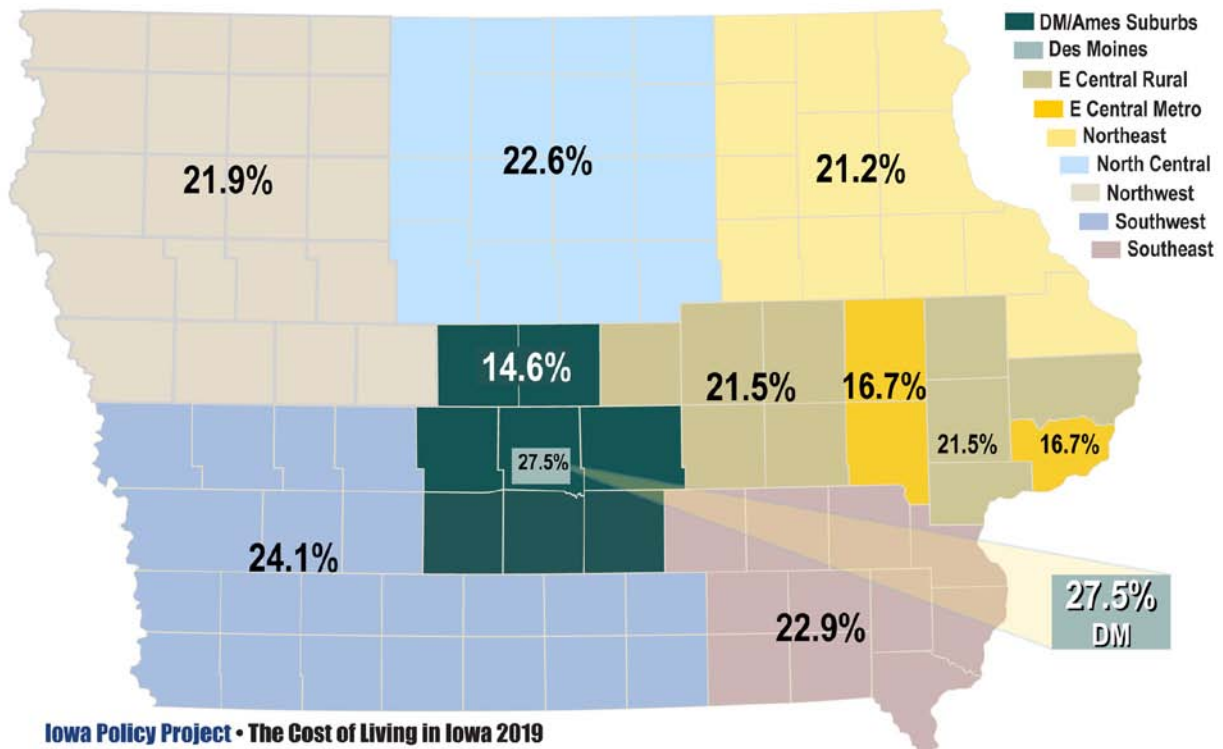
As noted above, 1 in 5 Iowa working households earned below the self-sufficiency level of income. Figure 3 shows a higher proportion for single persons, lower for married couples (especially those without children at home), and much higher (over 3 in 5) for single-parent families. This is consistent with research showing higher poverty rates among single-parent households, due to single household incomes, child care expenses, and generally lower educational attainment and wages.⁶

Figure 3. Six in 10 Single Parents in Iowa Earn Below Basic Needs
Proportion of Iowa Working Households at Incomes below Self-Sufficiency Level



Iowa’s more rural regions generally have a larger share of families with incomes below self-sufficiency than urban and suburban counties, though the city of Des Moines has the highest share of all: 27.5 percent. We divided the state into nine regions, based on Census “Public Use Microdata Areas.”⁷ The map in Figure 4 shows the share of households below self-sufficiency for each region.

Figure 4. Southern Iowa has Greatest Share of Working Households Below Basic Needs
Proportion of Iowa Working Households with Incomes below Self-Sufficiency Level, by Region



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The city of Des Moines has the largest share of households with incomes below the self-sufficiency level (27.5 percent) compared to other regions. The region with the lowest share of such households is the area composed of the Des Moines suburbs and Ames (Polk County outside Des Moines plus the 7 counties surrounding Polk). Second lowest are the eastern metro counties: Linn, Johnson and Scott. In the remainder of the state — rural counties, plus the other metro areas (Dubuque, Waterloo, Sioux City and Council Bluffs) — the percent of families below self-sufficiency ranges from 21 to 24 percent.

Of those Iowa households with income below self-sufficiency, about 22 percent earn less than half the needed amount. In other words, those families would need to at least double their current earnings to meet basic household expenses without public assistance.

How far do Iowa working households fall short of the self-sufficiency level of income? In Figure 5, we show the average size of the “basic needs gap” — the difference between actual before-tax income and the self-sufficiency level of income. Among all working households in the state with income below self-sufficiency, the average shortfall is \$12,925 per year. While smaller households face a smaller gap, for married couples with children it is \$15,591 and for single parents a daunting \$17,176.

Nearly 120,000 working households in Iowa do not earn enough to cover a basic family budget (see Table 6). Of the 301,000 Iowans living in households with income below self-sufficiency, 26 percent were in single-parent families. These are conservative estimates because we do

Figure 5. Average Basic Needs Gap Statewide Ranges from \$8,000 to \$17,000
What it takes for households with income below self-sufficiency to break even

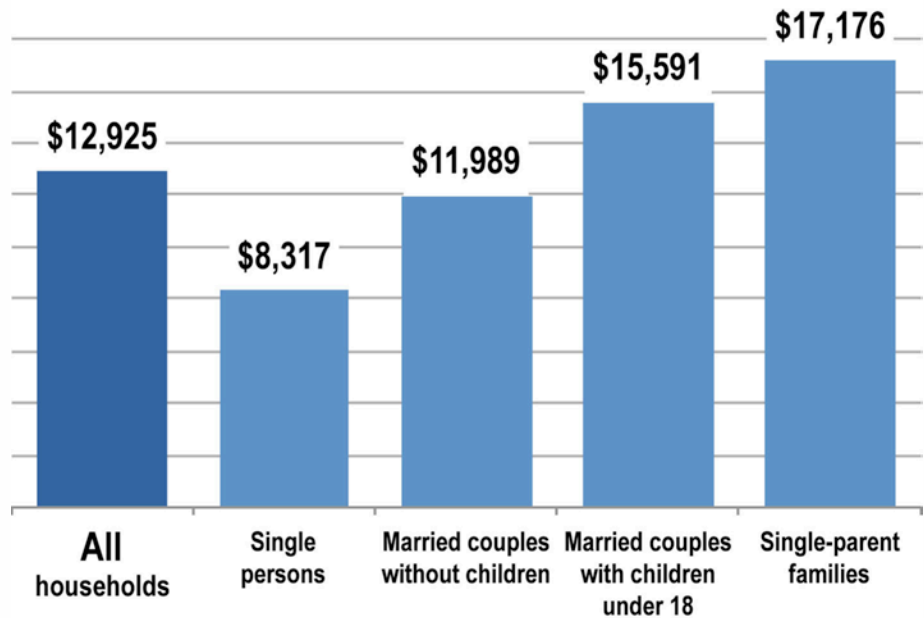


Table 6. 120,000 Working Households Cannot Meet Basic-Needs Budget
Estimated Number of Working Families with Income Below Self-Sufficiency

	Households	Persons	Percent of Households
Statewide			
All	119,507	301,178	19.9%
Single persons	43,481	43,481	26.8%
Married couples without children	14,572	29,144	8.7%
Married couples with children under 18	29,814	135,263	13.6%
Single parent families	31,640	93,290	62.8%
By Region			
Des Moines	9,516	24,721	27.5%
Ames/DSM Suburbs	17,964	45,861	14.6%
East Central Metro	17,557	42,589	16.7%
East Central Rural	9,860	25,108	21.5%
Northeast	21,601	54,893	21.2%
North Central	5,135	12,100	22.6%
Northwest	15,531	39,852	21.9%
Southwest	12,908	32,313	24.1%
Southeast	9,435	23,741	22.9%

not include households that contain adult relatives of the head other than the spouse, multi-family households, or single persons sharing a residence. No doubt some of those households are struggling as well.

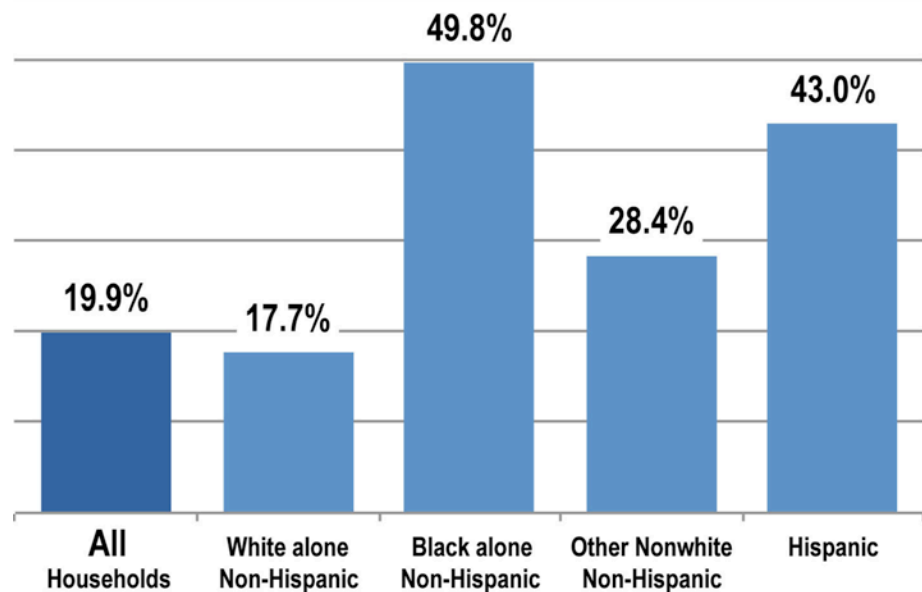
Clearly work alone does not produce sufficient income to meet the basic needs of a large number of Iowa households. Such households must rely on a variety of work support programs if they are to achieve a basic standard of living. An upcoming final report for *The Cost of Living in Iowa 2019* will consider a broad range of programs and the role they play in helping families make ends meet.

More female-headed working households had incomes below the self-sufficiency level (24.3 percent) compared to male-headed households (16.3 percent). Research on gender, wages, and poverty describes wage discrimination and family structure as contributing factors to this disparity (Iceland, *Poverty in America*).

Disparities in self-sufficiency are also apparent among racial and ethnic groups in Iowa (Figure 6). These findings align with research on poverty and income inequality, which show that the racial wage gap, segregation in employment and discriminatory housing policies have impacted economic opportunity for Iowans of color.⁸

Our analysis shows 49.8 percent of working households headed by African-Americans had incomes below the self-sufficiency level compared to 17.7 percent of working households headed by whites. Similarly, a larger share of Hispanic-headed working households had incomes below the self-sufficiency level (43 percent) compared to white households (17.7). While African American and Hispanic households are far more likely than white households to have incomes below the self-sufficiency level, it is still the case that a large majority (88 percent) of all those households below self-sufficiency are white and non-Hispanic.

Figure 6. African-American Iowans Greatest Share Below Basic Needs Incomes
Iowa Working Households with Income below Self-Sufficiency, by Race and Ethnicity



These disparities and the policies shaping them have consequences for all Iowans. When families and communities of color face barriers to economic opportunity, we fail to reach our potential as a state. Iowa has an opportunity to acknowledge the historical roots of these disparities and enact policies to eliminate them. Investing in education, increasing the minimum wage while indexing it to the cost of living, enforcing fair housing, and expanding housing assistance would all serve to ensure more Iowans of color are able to meet basic needs.⁹

Conclusions

The cost of living in Iowa continues to rise. This latest Cost of Living in Iowa analysis confirms and puts an even stronger emphasis on those that preceded it: Official measures of poverty vastly understate the fundamental issue that any such measure should illustrate — what does it take a family to get by on a no-frills household budget, and how does that relate to the pay working families receive, particularly at the low end of the scale. How far, in other words, does a full-time paycheck go in a historically low-wage state that is a prominent laggard in raising pay standards and makes virtually no attempt, as we have shown elsewhere, to enforce the weak minimum wage and weak workplace protections that we have.

Working families and individuals in Iowa must earn substantially above the official poverty threshold — in some cases nearly three times the poverty level — to achieve a very basic standard of living in Iowa without the help of public supports. Even with health insurance from their job or assistance from public health insurance programs, single parents must earn well above the median wage in Iowa, and married couples with children must earn more than \$13 per hour, well above the current minimum wage and above recent wage proposals at the state and local level.

With 1 in 5 working Iowa households unable to meet basic needs, it is clear that work alone is not enough for many Iowans to make ends meet. 62.8 percent of single-parent households, 24.3 percent of women-headed households, and 40.1 percent of households of color are unable to meet basic needs. These disparities are shaped by historical policy decisions and could be remedied through policy today by increasing wages, improving worker protections, fighting discrimination, investing in education and ensuring fair housing. Further, as our previous analysis has shown and the next update of this analysis will illustrate, public support programs are important to augment the resources of those working families who struggle. These programs vary in their effectiveness; many have been held down by policy makers in Iowa.

To assure effective public policies that properly target the challenges that the economy presents to low- and moderate-income working families, Iowa policy makers and elected leaders who represent our state in the nation's capital must acquaint themselves with those challenges. That understanding starts with the analysis provided in this report.

Appendix A: Methodology for Constructing Basic Needs Budgets

Food

The U.S. Department of Agriculture (USDA) provides monthly estimates of the average cost of four different food plans: Thrifty, Low-Cost, Moderate-cost and Liberal. Because studies have shown it is almost impossible for low-income families to follow the Thrifty Food Plan, we have chosen to use the Low-Cost monthly estimates in calculating a budget that reflects basic family needs.¹⁰

USDA bases its budget assessments upon specific family types with children of specified ages, so we have followed USDA guidelines in adjusting for age and family size differentials.. Although restaurant meals have become increasingly common in family budgets and diets, we do not include this additional cost, as it would violate our no-frills criteria. In choosing the Low-Cost Food Plan over the Thrifty one, we exercised some consideration of the modern family lifestyle and the occasional consumption of prepared foods.

We used the June 2018 estimate, following the USDA practice by which the June costs of each year are used to represent the annual average.¹¹

Housing and Utilities

The U.S. Department of Housing and Urban Development (HUD) Fair Market Rent (FMR) survey is the most widely accepted standard for the cost of basic needs housing.¹² According to HUD guidelines, the FMR is the amount needed to rent privately owned, decent, safe, and sanitary rental housing of a modest (non-luxury) nature with suitable amenities. FMRs are figured at the 40th percentile of rent. That is, 40 percent of units rent for less than this amount, 60 percent for more. This cost includes utilities paid by the tenant, including electricity, natural gas, home heating oil, water and sewer, and trash removal, but it does not include telephone service, which we calculated from the Consumer Expenditure Survey and include in a separate budget line item, Clothing and Household Expenses.

Budget estimates are adjusted for differences in family size. We assume an efficiency for a single person, a one-bedroom apartment for married couples without children, two bedrooms for a family with one or two children, and three bedrooms for a family with three children.

The survey provides fair market rents for each county. We used the data for 2018. The statewide average is an average of the rents across 99 counties, with each county weighted by 2017 population.

Health Care

Health care costs in the basic family budgets include both health insurance premiums and out-of-pocket expenses: co-pays, co-insurance, deductibles, and non-covered costs. We do not construct a budget for a family that is uninsured; health insurance is considered a basic need that should be part of every budget. Furthermore, families should have ACA-compliant insurance: Medicaid, a policy purchased on the exchange, and employer sponsored insurance all would generally be ACA compliant.

Our break-even budgets generally apply to those who are under age 65 and between 150 and 300 percent of poverty. If we consider only non-elderly Iowans in that income range, 56 percent are covered by a policy through an employer, and 25 percent by public health insurance (Medicaid or

hawk-i primarily). About 10 percent purchase insurance on the individual market, which would include the 53,000 Iowans who purchased insurance on the exchange for 2018. About 9 percent are uninsured.

Health costs in our basic needs budgets represent a weighted average of costs under two scenarios: (1) The family is covered by health insurance from an employer, and so pays the employee share of premiums plus out-of-pocket expenses, or (2) the family purchases a bronze plan on the ACA exchange and pays a share of premiums (depending on the premium assistance they would receive) plus out-of-pocket expenses. The two scenarios are weighted according to the shares of lower-income insured Iowans who receive health insurance from an employer (61.5 percent) and those who must rely on a public health insurance program (38.5 percent).

Families with Employer Sponsored Insurance (ESI)

The employee share of premiums for ESI was based on data from the 2017 Medical Expenditure Panel Survey (MEPS).¹³ The published survey results include data for Iowa showing the average employee contribution for single employee coverage, for employee-plus-one coverage (employee and spouse or child), and for family coverage, as well as the total premium for such coverage. We also relied on the Kaiser Family Foundation data on employee contributions for the Midwest region for 2018, using the increase from 2017 to 2018 to inflate the MEPS 2017 Iowa data.¹⁴ A further adjustment was made to bring rates up to 2019 based on the national average increase in employer sponsored health insurance premiums between 2018 and 2019.¹⁵

The total out-of-pocket cost for the family with ESI includes the portion of health costs not covered by the typical employer health plan, which we assume has an actuarial value of about 85 percent.¹⁶ That means that 15 percent of health costs are the employee's responsibility (co-pays, deductibles, and co-insurance).

For the family with ESI, that is the end of the story, as far as health costs are concerned. They are not eligible for Medicaid or hawk-i. We also assume that the employer policy meets the standards of the Affordable Care Act (ACA) so that the family is not eligible for premium subsidies or cost-sharing under that act for insurance purchased on the market.

Families with Public Health Insurance

The cost of living model includes eligibility standards and benefit formulas for all of the health care assistance programs: Medicaid for adults (including the premium assistance available under Iowa's Wellness Plan for those with incomes between 100 percent and 138 percent of poverty), Medicaid for children, the hawk-i program (Iowa's version of the State Child Health Insurance Program), and the Affordable Care Act's premium subsidies (available by claiming the Premium Tax Credit on the federal income tax return). We do not, however, include cost-sharing, available only to those who purchase a silver plan or higher.¹⁷

For those eligible for Medicaid or hawk-i, we assume that nearly all of their health costs are covered by those insurance programs – that is, that Medicaid has an actuarial value of 97 percent, hawk-i 100 percent.

For adults ineligible for Medicaid or children ineligible for Medicaid or hawk-i, we assume they purchase insurance on the Iowa exchange. We obtained the premiums for the least-expensive bronze plan for coverage beginning January 1, 2019, according to the Kaiser Family Foundation's "Health Insurance Marketplace Calculator." The bronze plan is the lowest level plan that qualifies for premium subsidies under the Affordable Care Act. We obtained rates for all of the family types

in our study, for each of the seven insurance rating areas in Iowa. Insurance costs by county were then assigned based on the rating area the county fell into. We assumed adults with children were 25 to 40 years of age (depending on the ages of the children) and non-smokers; for single persons, the rates for males and females were averaged; for single parent families, the parent was female.

Estimates of the out-of-pocket costs were based on actuarial assumptions. A bronze plan is designed to cover, actuarially on average, 60 percent of health care costs. The remaining 40 percent are paid by the patient through co-pays, co-insurance, deductibles, and non-covered services. We also know that ACA requires insurance companies to pay out in benefits at least 80 percent of the premiums they receive. We assume that insurance companies will hit this target. Therefore, if plan benefits are 80 percent of premiums, and plan benefits are also 60 percent of total health costs, then total health costs are 1.33 times premiums (again, actuarially on average).¹⁸ We then use this estimate of total health costs based on the bronze plan premium paid for that family type in each county, to estimate total out-of-pocket costs, which is simply the net premium paid (after the Premium Tax Credit) plus the 40 percent of total health costs not covered.

Transportation

As public transportation is available only in Iowa's metropolitan areas, and even there is used by a minority of commuters, our transportation figures are derived from the basic costs of owning and operating a car. We assumed two cars for a household with two adults who work, one car otherwise.

Our estimates began with data from the 2017 National Household Transportation Survey (NHTS), the latest version of this survey available. The basic data is the national average annual vehicle miles traveled (VMT) per driver for full-time workers. These figures are reported separately by household "lifecycle." Our 10 household types were matched with seven of these lifecycle categories: (1) one adult with no children, (2) two adults, both working, with no children, (3) two adults, one working, with the youngest child under 6, (4) two adults, both working, with the youngest child under 6, (5) two adults, both working, youngest child age 6 to 15, (6) one adult, youngest child under 6, and (7) one adult, youngest child age 6 to 15. Those figures per driver were then doubled for households with two adults, and multiplied by 85 percent to remove travel for social and recreational purposes, based on national NHTS data on travel by trip purpose.

The final adjustment was for region and urban-rural status. These adjustments were based on NHTS survey data indicating that those living in a metropolitan area of under 1 million population in the midwest drove 7 percent more miles than the national average, while those living outside a metropolitan area in the midwest drove 18 percent more miles. The first estimate was used for those living in one of Iowa's counties designated as part of a metropolitan statistical area, the second for all other counties.

Finally, annual total vehicle miles traveled for each household was multiplied by the IRS business travel allowance for 2018 (54.5 cents per mile). The travel allowance accounts for the total cost of owning and operating a car. If monthly transportation costs seem high, keep in mind that they include, in effect, car payments, license, insurance, gas, maintenance and repairs.

Child Care

The Iowa Child Care Resource and Referral (CCRR) system consists of five regional offices that maintain extensive, county-by-county data on child care providers drawn from a survey of all child care centers and all in-home child care facilities in the state. Home care by relatives is not

included. Each report must specify the rates charged, whether full- or part-time, and the number as well as the ages of all clients served. From these reports, the regional CCRR office then compiles a series of average weekly child care rates for each county in its region. The CCRR data provides separate rates by the child's age.¹⁹

We defined a one-child family as including a toddler of two years. The two-child families had either a 4-year-old and a 6-11 year old, or two 6-11 year olds. In all two-parent families with only one full-time worker, we assumed that the non-working parent provides all child care services .

The data source consisted of the CCRR county reports as of July 2018. We used the average tuition charged by registered in-home facilities, as it was cheaper than the tuition charged by licensed child care centers. In most counties, this results in conservative estimates of the costs facing most families, since the majority of child slots are found in child care centers. Children age 6 to 11 were assumed to require full time child care during the summer months and to be enrolled in a before-after school program during the school year. We converted the weekly rates to monthly by multiplying by 52 and dividing by 12.

Clothing and Household Expenses

This category includes telephone, clothing, home furnishings & appliances, housekeeping supplies, personal care products and services, and "other household expenses," which includes repairs and other services. Data are from the Consumer Expenditure Survey (CEX) for 2016-17, tables showing expenses by income class and household size for the U.S. We then adjusted for the Midwest region (because overall spending on these categories was lower in the Midwest than the nation) and for age of the household head (because spending for households in the 25 to 44 age group was slightly higher than the percent for households of all ages). The 2016-17 figures were inflated to 2018 using the increase in the CPI in these five expenditure categories, which was a negative 0.8 percent.

We estimated, for each household type, the amount spent on these categories by the average household of that size with income between \$15,000 and \$50,000. The income level required to achieve the basic family budgets ends up being around twice the poverty level or more for most families, so we based our estimates on spending patterns typical of households between 1.5 and 2.5 times the poverty level to ensure that no unnecessary expenditures are included. For personal care products and services, and for other household expenses, we included only 50 percent of the amount reported on the CEX to make sure that we were including only necessities. Entertainment, alcohol and tobacco, education, reading materials and personal insurance were all left out completely.

Taxes and Tax Credits

There are two kinds of taxes: those imposed on things that we buy or own – property and sales taxes — and those that depend on our income — federal payroll taxes (Social Security and Medicare) and federal and state income taxes. Property and sales taxes in this report are treated as part of the basic family budget because the amount of housing required determines the value on which property taxes must be paid, and the amount one needs to spend on taxable items determines the sales tax one will pay. Property taxes are paid out of rental income and therefore are included in the cost of housing in our family budgets; similarly, expenditures for goods and services include any sales tax on those items. The basic family budget thus reflects total needs and is the same for a family of a given composition in a given part of the state regardless of that family's income.

We then compare the cost of living with after-tax income. We work backwards to determine the before-tax wage and salary income required to leave a family with net income after taxes just sufficient to cover the basic family budget. The taxes included are the employee portion of payroll taxes and federal and state income taxes, including local school district surtaxes (based on weighted average rates for the school districts in each county or region). Taxes were calculated based on 2018 tax law — that is, the rules for 2018 income tax returns filed in 2019.

We assume that the family receives only wage and salary income; this is a reasonable assumption for families in the income ranges we are considering, where non-work income (rent, interest, dividends, capital gains) accounts for a very small share of total income. We also assume that the families take the standard deduction; in the income range we are considering, the vast majority of families would use the standard deduction under the new federal tax code. All married couples file jointly for federal income tax purposes, and jointly (one wage-earner) or separately on a combined return (two wage earners) for Iowa purposes. Single parents file as head of household on federal returns. Where there are two earners, we assume identical earnings.

The tax calculation also includes several very important tax credits. For Federal taxes, these are (1) the child and dependent care credit, for a portion of day care costs (non-refundable), (2) the child tax credit (non-refundable), (3) the Earned Income Tax Credit, or EITC (refundable), (4) the additional child tax credit (refundable) and (5) the Premium Tax Credit (refundable). For state taxes, the credits are the child and dependent care credit and the state EITC, both refundable. The state return includes the personal exemption credits, the deduction for federal taxes, and the deduction for health insurance premiums. The tax calculations were made by creating a spreadsheet version of federal and state tax returns, with accompanying schedules.

Appendix B: Estimating Proportions of Iowa Working Households Unable to Meet Basic Needs

The estimates presented here are based on data for Iowa from the most recent five years of the American Community Survey (ACS): 2014-2018 released by the U.S. Bureau of Census.²⁰ We excluded households where either the head or spouse was age 65 or older, and where there was not at least one adult working at least 30 hours per week. We also eliminated certain types of households because there is no way to know whether or how income and expenses are shared within the household: those that included adult relatives of the head or spouse (adult children, siblings, aunts and uncles, parents), households that included a subfamily or more than one family, and single individuals (such as college students) sharing a residence or living in group quarters. We include families with up to six children.

For each family in the ACS sample we calculate a self-sufficiency budget depending on the ages of adults (which affects health insurance), the ages of any children (which determines the need for child care), total family size (which determines, along with ages of family members, the basic food budget, rent, and miscellaneous household expenses), the number of working adults (which affects transportation costs), and whether or not family members were covered by health insurance from an employer.

The basic family budgets are constructed both for families with health insurance from an employer and those without. Those in the ACS sample with health insurance from an employer for all or most family members were assigned the break-even budget that includes the average employee contribution to employer health insurance plans in Iowa, plus the estimated out-of-pocket expense for those with such insurance. Those without employer-sponsored insurance were assumed to have public health insurance for family members who qualified (Medicaid or hawk-i) and ACA-subsidized insurance purchased on the Iowa exchange for those who did not. Their break-even budgets included their share of premiums and out-of-pocket costs.

We pool five years of data to get a larger sample in order to increase the reliability of estimates. In the tables at right, 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.

Table B1. Estimated Proportion of Iowa Working Households with Incomes Below the Self-Sufficiency Level

	Proportion Below	Margin of Error*
Statewide		
All Households	19.9%	0.7%
Single persons	26.8%	1.5%
Married couples without children	8.7%	0.8%
Married couples with children under 18	13.6%	0.9%
Single parents	62.8%	2.9%
By Region		
Des Moines	27.5%	3.2%
Ames/DSM Suburbs	14.6%	1.5%
East Central Metro	16.7%	1.8%
East Central Rural	21.5%	2.7%
Northeast	21.2%	1.5%
North Central	22.6%	3.1%
Northwest	21.9%	1.9%
Southwest	24.1%	2.0%
Southeast	22.9%	2.5%

* 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 19.2% and 20.6% (19.9% plus or minus 0.7%)

Table B2. Estimated Proportion of Iowa Working Households with Incomes Below the Self-Sufficiency Level, by Race and Ethnicity

	Proportion Below	Margin of Error*
Statewide		
All Households	19.9%	0.7%
White alone Non Hispanic	17.7%	0.6%
Black alone Non Hispanic	49.8%	6.8%
Other Nonwhite Non Hispanic	28.4%	5.0%
Hispanic	43.0%	5.2%

* 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 19.2% and 20.6% (19.9% plus or minus 0.7%)

Notes

¹ The only exceptions are the married couple families with only one worker, who would be eligible for Medicaid for the adults.

² Data from the American Community Survey for 2017, U.S. Census, American FactFinder.

<http://factfinder2.census.gov/faces/nav/jsf/pages/index.xhtml>

³ This is the ratio of the women's to men's median annual earnings for full time workers as of 2017. <https://www.aauw.org/research/the-simple-truth-about-the-gender-pay-gap/>

⁴ U.S. Bureau of Labor Statistics, "Employment Characteristics Of Families— 2018," April 18, 2019.

<https://www.bls.gov/news.release/famee.nr0.htm>

⁵ Sylvia A. Allegretto, Basic family budgets: Working families' incomes often fail to meet living expenses around the US, *Economic Policy Institute* (August 30, 2005).

⁶ John Iceland, "Poverty in America: A Handbook." August 2013. University of California Press, Third Edition.

⁷ We were 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. Unfortunately, they do not always align with metropolitan areas, and a given PUMA can include urban counties and rural counties.

John Iceland, "Poverty in America: A Handbook." August 2013. University of California Press, Third Edition.

⁸ Colin Gordon, Amy Hanauer and Laura Dresser, "Race in the Heartland: Equity, Opportunity, and Public Policy in the Midwest." Forthcoming.

⁹ Ibid.

¹⁰ See, for example, Wilde, P. E. and Llobrera, J. (2009), "Using the thrifty food plan to assess the cost of a nutritious diet." *Journal of Consumer Affairs*, 43(2), 274-304. <http://onlinelibrary.wiley.com/doi/10.1111/j.1745-6606.2009.01140.x/full>; davis, g. c. and you, w. (2010). "the thrifty food plan is not thrifty when labor cost is considered." *the journal of nutrition*, 140(4), 854-857.

<http://jn.nutrition.org/content/140/4/854.full.pdf>

¹¹ <http://www.cnpp.usda.gov/usdafoodcost-home.htm>, "<http://www.cnpp.usda.gov/usdafoodcost-home.htm>

¹² https://www.huduser.gov/portal/datasets/fmr.html#2018_data

¹³ U.S. Dept. of Health and Human Services, Agency for Healthcare Research and Quality: Medical Expenditure Panel Survey, Insurance/Employer Component, available at. <http://meps.ahrq.gov/mepsweb/index.jsp>

¹⁴ Kaiser Family Foundation. Average Monthly and Annual Worker Premium Contributions Paid by Covered Workers for Single and Family Coverage, by Plan Type and Region, 2018. <https://www.kff.org/report-section/2018-employer-health-benefits-survey-section-6-worker-and-employer-contributions-for-premiums/attachment/table-6-17/>

¹⁵ This was based on a report from the Society of Human Resource Managers. <https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/employers-hold-down-health-plan-costs-for-2019.aspx>

¹⁶ Final Report: Analysis of Actuarial Values and Plan Funding Using Plans from the National Compensation Survey. Compiled for Office of Policy and Research (OPR), Employee Benefits Security Administration (EBSA), Department of Labor (DOL) by Actuarial Research Corporation (ARC). May 12, 2017.

¹⁷ We assume that families in the Iowa Wellness Plan participate in the Health Behaviors Program and therefore avoid paying the monthly contribution.

¹⁸ If Benefits equal .6 times total health costs (THC), and benefits also equal .8 times premiums, then .7 times THC = .8 times premiums, and THC = (.8/.6) times premiums, or 1.333 times premiums.

¹⁹ <https://iowaccrr.org/data/>

²⁰ 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