



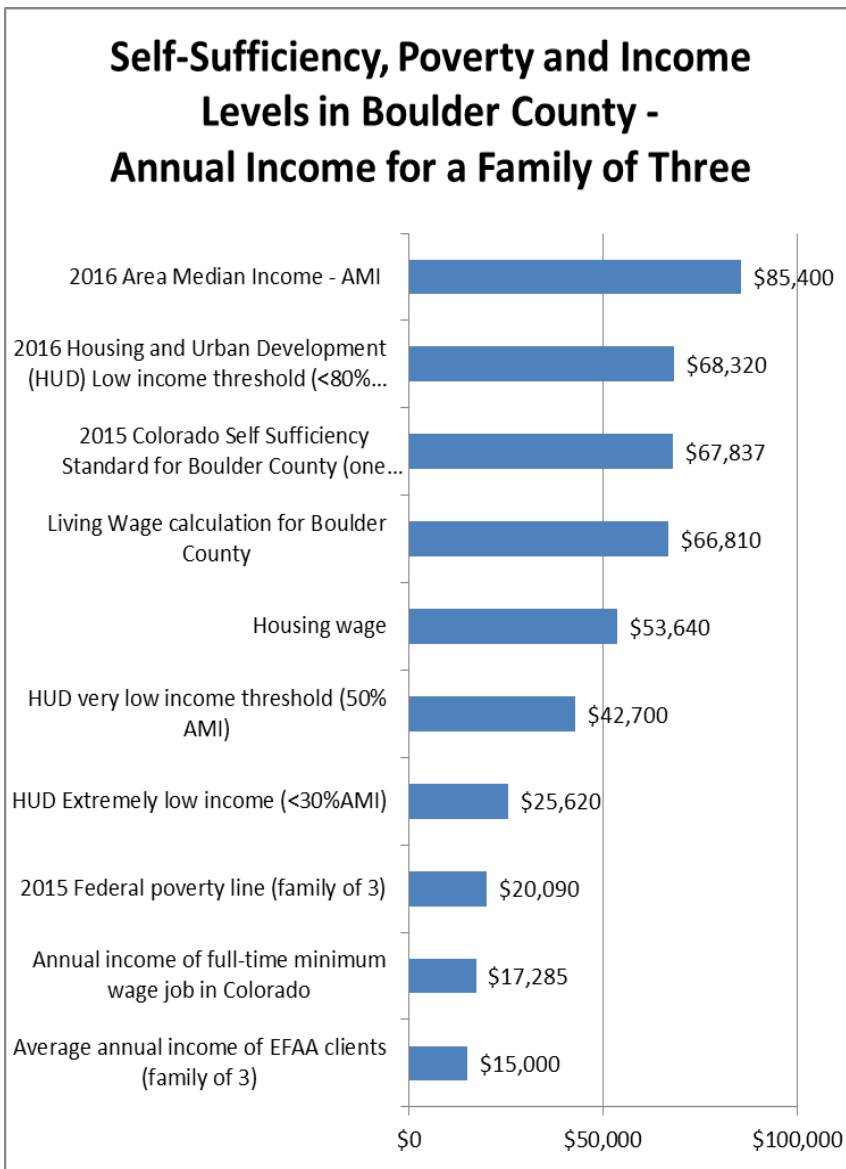
**Emergency
Family
Assistance
Association**

Position Paper on Income and Wages

Approved August 4, 2016

1. The Context on Income and Wages

Lack of sufficient income and household savings are the main reasons people seek help from EFAA to meet their basic needs, either chronically or in response to a shock like loss of a job or a serious illness. The basic function of a safety net is to avoid destitution for people facing difficult economic circumstances.



2. Working Definitions

of Income, Minimum Wage, Living Wage, Self-Sufficiency and Poverty

There are several economic measures of well-being used in policy discussions about income and wages:

- One set of measures assesses a household's income in relation to others in the same geographical area. **Area median income (AMI)** is used by the Federal Housing and Urban Development Department (HUD) to classify low (50-80% AMI), very low (31-50% AMI) and extremely low (<30% AMI) income levels. The current Boulder County AMI is \$85,400 for a family of three, compared to a national AMI of \$54,100 (FY 2015). A family considered to have extremely low income at less than 30% of AMI would be earning no more than \$25,620. AMIs are used to calculate rent ceilings for several federal housing subsidy programs.

- The Colorado Center on Law and Policy publishes a **Self-Sufficiency Standard (SSS)**. The Self-Sufficiency Standard is a measure of income required to

meet the costs of basic needs for working families, including housing, child care, food, health care, transportation, and miscellaneous items, as well as the cost of taxes and the impact of tax credits. This measure describes how much income families of various sizes and compositions need to make ends meet without public or private assistance in each county in Colorado. The self-sufficiency standard for Boulder County in 2015 was calculated at \$28,209 for a single adult and \$67,837 for a family of three (one adult, one pre-schooler and one school age child). This translates into an hourly wage for a full-time job for one adult household of \$13.07 and \$32.13 for a single parent household of three. As a reference, in FY16 EFAA families averaged 2.7 members (1.5 adults and 1.2 children) with families in the housing program averaging 3.7 members.

- **“Living wage”** is a term often used to denote a wage that is high enough to maintain a “normal” standard of living. Massachusetts Institute of Technology developed a Living Wage calculator which includes housing, food, child care, health care, transportation and other necessities which can be calculated based on where you live. The current estimate of a living wage for a family of three in Boulder County is \$29.98/hour. This is close to the Self-Sufficiency Standard wage of \$32.13/hour, with the small difference due to the methodology of calculating the cost of living.
- **“Housing wage”** is often used as a measure of housing affordability. As of 2015, the average apartment rental cost in Boulder County was \$1,341 per month. According to the National Low-Income Housing Coalition, in order to afford this monthly rent, you need to make at least \$25.79 per hour, or \$53,640 per year. This calculation assumes you will spend no more than 30 percent of your income on rent (the generally accepted standard of affordability). If you earn the Colorado minimum wage, you would have to work 129 hours per week to have an income high enough to afford this rent. The situation is more dramatic in the City of Boulder where as of June 2016 the average apartment rent was \$1,759 (one bedroom apartments in Boulder rent for \$1,452 a month on average and two bedroom apartment rents average \$1,803).
- The **Federal poverty threshold** is an absolute measure of income. The same thresholds are used throughout the continental United States (do not vary geographically except for Alaska and Hawaii) but vary by family size and age structure. Started in the 1960s, the poverty threshold is based on the cost of the USDA’s economic family food budget, then uses the assumption that 30 percent of the household income should be spent on food. The Federal poverty level for three-person families - \$20,090 annually- is set at a level well below what is minimally needed to meet a family’s basic needs.¹ As housing and other costs have increased, the food cost-based poverty line has become less relevant as an accurate measure of well-being. Federal poverty levels are used to determine eligibility for certain programs and benefits, including savings on Marketplace health insurance, and Medicaid and CHIP coverage. In 2014, the most recent year for which figures were available, an estimated 13.3 percent of residents and 16.2 percent of Boulder County’s children were in poverty, up from 9.3 percent in 1990. So, over time, as the local economy has grown and area median income along with it, the number of people (including children) in poverty has increased.
- The Federal **minimum wage** was first introduced in 1938 as part of the Fair Labor Standards Act (FLSA) to provide overall labor protections (child labor, minimum wage, length of the work week, etc.). The Federal minimum wage does not rise with inflation, rather it can only be changed through congressional action. As a result, the minimum wage of \$1.60 an hour in 1968 would be \$10.90 today if it had been adjusted for inflation instead of the current \$7.25 set in 2009. As a result, minimum wage in 1968 as a percentage of the poverty level was 99% but currently averages

¹ The official poverty definition uses money income before taxes and does not include capital gains or noncash benefits (such as public housing, Medicaid, and food stamps).

only about 60% of the poverty threshold across household sizes and so is insufficient to lift a family out of poverty. Since the 2009 federal minimum wage increase, 23 states have raised their minimums above the federal level. Colorado minimum wage is \$8.31 per hour effective January 1, 2016. This is equivalent to \$17,285 per year at full-time, which is less than the poverty threshold for everyone except a single person household. Below the state level, several US cities have set minimum wages as high as \$15 an hour, including Seattle, San Francisco, and Los Angeles. Most increases will be phased in between now and 2020. In Colorado, state law prohibits municipalities from establishing minimum-wage laws higher than the state minimum wage.

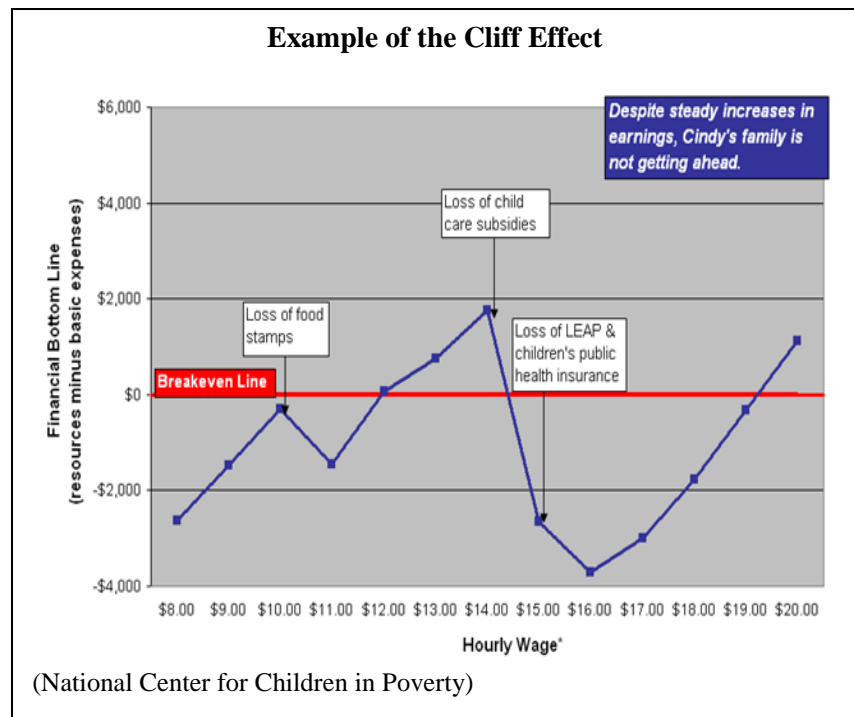
- The average annual income for an **EFAA client household** is about \$15,000 for a family of three and about \$13,000 average for all EFAA clients. This puts an EFAA family of three at about 65 percent of the Federal poverty line and 19 percent of Boulder’s Self-Sufficiency Standard. It is also lower than a full-time minimum wage pay of about \$17,000 reflecting part-time work or reduced hours, which is a reality of single parent households with limited access to child care.

3. What do we know about our clients’ needs, wants and preferences relative to income?

As mentioned, almost all of EFAA’s clients come to EFAA because of economic difficulties and the potential consequences on their lives. The most basic need of EFAA’s clients is for more dependable, higher income levels. As one person commented in our recent client survey “my income is so low; EFAA saves me from starving every week”. In EFAA’s housing programs, which provide more significant and sustained support, each family’s status is measured through the Self-Sufficiency Matrix (SSM). The SSM identifies where a family is on a 5 point continuum from in crisis to vulnerable, stable, safe, to thriving. Progress is tracked as the client progresses from levels below the prevention line (defined as in-crisis or vulnerable) to levels above the prevention line (defined as either stable, safe or thriving). About half of those EFAA families that were identified as ‘critical or vulnerable’ in terms of income were able to transition to above the ‘prevention’ line, denoting greater stability of income even if not full attainment of self-sufficiency.

In general, people living in such circumstances face an increased risk of adverse life outcomes, including worse health status, more limited education, less accumulation of assets, less skill development leading to more difficulties in the labor market, among others. Adverse effects are most pronounced on the children in these families. Children from poorer backgrounds lag at all stages of education and have worse health outcomes. The effects of childhood poverty often extend over a generation.

Because of their overall low income levels, many of our clients face the added challenge of the ‘cliff effect’. Low-income



households often combine income earned from employment with economic assistance from government and non-profit programs. Most low-income families qualify for government benefits (e.g., earned income

tax credits, Medicaid, child care assistance) that help cover the cost of basic necessities. But as earnings increase, families begin to lose these benefits. This creates the paradox that people can earn more income and see their financial positions worsen (in the example in the chart this occurs between \$10-12/hour and between \$14-19/hour).

It is worth noting that a significant portion of EFAA clients are on fixed income typically through Social Security retirement or disability benefits. Beginning in 1975, Social Security started automatic annual cost-of-living allowances. The average monthly Social Security retirement benefit for January 2016 is \$1,341, or \$16,092 annually. However, since Social Security benefits are based on the earnings on which you pay Social Security payroll taxes, most EFAA clients reliant on SS income would receive less than the average. For example, EFAA single-person households, typically seniors or disabled, have an average monthly income of \$919, or \$11,037 annually. Nonetheless, despite the limited financial benefit, without Social Security benefits, more than 40 percent of Americans aged 65 and older would have incomes below the poverty line. With Social Security benefits, less than 10 percent do.

Not only is the level of income low, it is typically quite **volatile**. Many workers have jobs that with hours that fluctuate across seasonal changes, or are vulnerable to downsizing. Recent research on the hidden financial lives of America's poor and middle class found a great deal of income and expense volatility even among solidly middle-class households (see graphic). This research makes it evident that the tradeoffs families face in dealing with short-run needs undermine progress on long-run goals, like building assets and investing in their children's future. With little ability to save and invest a portion of their income, low income households find themselves in long-term poverty traps, unable to weather short-term shocks like a period of unemployment, an unexpected expense, or an illness and incapable of longer-term investments in their children's education or their own retirement needs. In fact, almost half of Americans said they did not have enough money to cover a \$400 emergency expense.

THE FACES OF VOLATILITY

IN 2002-03, HOUSEHOLD HEADS:



Based on Survey on Income and Program Participation (SIPP) data of U.S. household heads aged 18-59. Income volatility is measured as the coefficient of variation (multiplied by 100) of monthly household income over a 1-year period. Differences are statistically significant at the .001 level or higher, according to Wilcoxon rank-sum two-sample tests of unweighted medians. Tests of differences in means are also statistically significant. Use of SIPP population weights has a negligible effect on the calculation of means and medians.
Banks, Neil, and Laura Lette. Appendix (available from the authors) to "Monthly Household Income Volatility in the U.S., 1991-92 vs. 2002-03." Economics Bulletin 29, no. 3 (2008): 2100-12.



EFAA's clients therefore have income concerns that range from chronic low levels due to minimum and low-income wages and fixed incomes as well as fluctuating income crises as a result of volatility and little ability to save.

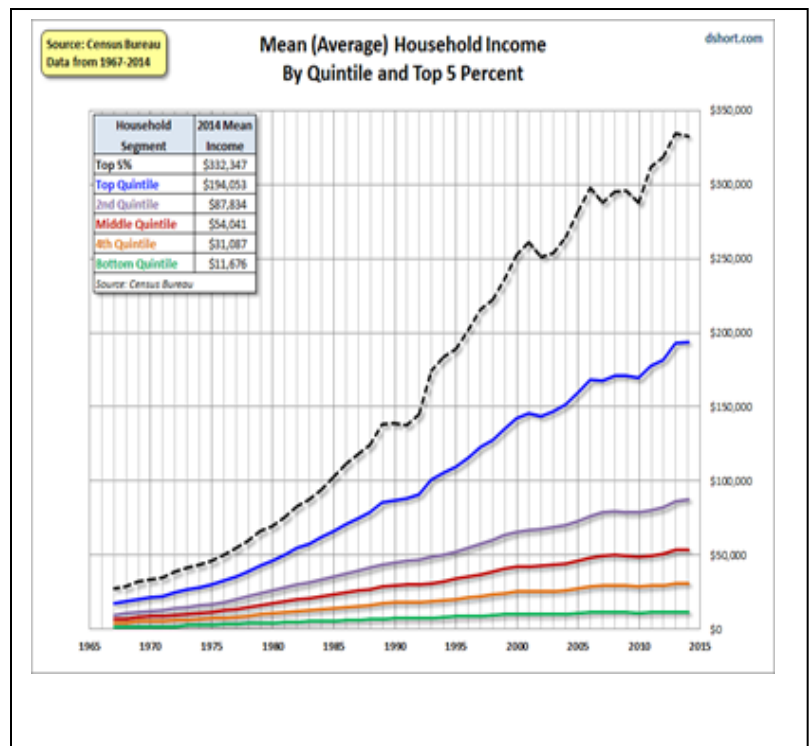
4. The current reality and evolving dynamics of our environment relative to income and wages

The current reality facing our clients is challenging. Although the Boulder County unemployment rate is down to 2.9 percent from a high of 8 percent at the peak of the recession in 2010, which can be considered ‘full’ employment, lower-income wages remain stagnant and insufficient to meet self-sufficiency standards for the county. However, many of the jobs that do exist in Boulder County are jobs that require a higher level of education.

Workers in the Boulder Metropolitan Statistical Area had an average (mean) hourly wage of \$27.17 in May 2014. The median hourly wage in food preparation, buildings and ground and agriculture are all below the self-sufficiency wage even for an individual. Seventy-five percent of all jobs are in categories with median wages insufficient to provide for self-sufficiency for a family of three. The prognosis for future wages is worrisome. The largest areas of predicted future job growth over the next ten years in Boulder County are in food preparation and service and retail sales, both categories with relatively low wages. Income and wages will remain an issue in the struggle towards self-sufficiency for the foreseeable future in our community. This is particularly true when the skyrocketed costs of housing and child care are factored in on the expense side.

Nationally, attention to income inequality is increasing due to several factors. First, the recession hurt people differently. Between 2009 and 2014, wage loss across all jobs averaged 4 percent. For those in the lowest one-fifth of earners, those losses averaged 6 percent. And low-income wages have not rebounded. However, increased income inequality is a long-term trend in the US as seen in the chart to the right. Stagnant wages at the bottom and a hollowing out of the middle class are increasingly topics of national, state and local concern.

These issues will no doubt be heightened in this electoral year. However, the issue of income and wages is a structural issue on our economy, both locally and nationally, and so will remain a relevant strategic education topic at EFAA for the foreseeable future.



While this position paper is not the format to go into detailed examinations of all the potential policies and intervention to increase income and reduce poverty in our community, in general there are two main avenues – one an individual betterment of income and the other an improvement in the returns to labor in the market (incomes in general rise). A person’s economic position is a function of a number of factors, with the most important drivers of low-income being limited education and training, disability, discrimination (gender and racial), lack of experience or other barriers to high-quality jobs (e.g. criminal record, need to care for young children, etc.). Where you live also plays an important role. However, even if an individual is able to graduate from a low-income job, it is likely that someone else will fill that position (and so need EFAA services). Individual solutions are not a fix for a systemic problem. Policies like minimum wage seek to set a wage floor for everyone. Therefore, it is relevant that EFAA talk about

individual self-sufficiency and the general status of income and wages in our community as they are deeply linked.