

MONEY MATTERS...\$...\$...\$

FOR KIDS, FOR COMMUNITIES, FOR KENTUCKY

*A Fiscal Policy Research Brief
By Kentucky Youth Advocates*

*No. 6
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Left Behind In Kentucky

An Examination of a Living Wage for Louisville & Lexington, Kentucky

Simply working full-time year-round, even in a booming economy, is not enough to lift everyone out of poverty... The benefit to the lowest paid workers from being fully engaged in the workforce, as measured by the poverty rate, is not improving. This time trend provides an important economic backdrop to the recent movement of people off government welfare rolls and into the workforce, as well as cautionary context for these otherwise prosperous times.¹

Many Kentucky families do not earn liveable wages; let alone wages equaling the federal poverty line

Along with the rest of the country, Kentucky has been experiencing a period of unprecedented growth and prosperity. Unemployment rates have dropped, and job growth has outpaced job losses. Despite this rapid economic growth, poverty among full-time workers still exists, and the gap between the wealthiest and poorest workers continues to grow.

Many individuals have moved off the government's welfare rolls into the workforce. Welfare reform success stories mask the challenges that now face the working poor – those who, despite working hard, remain unable to meet the basic needs of their families.² A University of Louisville study of Kentucky shows that at least two-thirds of workers leaving welfare make less than \$8 an hour.³ Changes in our welfare system now compel individuals to join the workforce, yet the vast majority of jobs available to unskilled workers either pay a substandard wage, lack necessary benefits such as health insurance, or, in many cases, both.⁴ Although many Kentuckians have prospered, many others are being left behind. Many Kentucky families do not earn liveable wages; let alone wages equaling the federal poverty line.

This report examines the income needed for a working family to secure its basic needs in urban Kentucky, specifically Louisville and Lexington. It offers three budget scenarios detailing how much money a family of three—a single mother with two young children—would need to meet their basic needs in the state's two largest cities.⁵ The report also explores how Kentucky fares in providing living wages to its residents and discusses why living wages are important. The report concludes with recommendations on ways Kentucky can assist its working poor citizens to ensure that no one is left behind.

The Measuring Stick: Poverty

A common measure used to determine the economic well being of families is the federal poverty line. Often used to determine the prevalence of poverty and eligibility for public assistance programs, the federal poverty level remains at the core of numerous public policy decisions. However, its thresholds were derived in the early 1960s, and no revisions have been made to reflect current economic and social realities or the fact that medical, utility, housing, and transportation costs have risen much faster than food costs.

The federal poverty formula is based on the assumption that families spend one-third of their income on food, with the poverty limit set at three times the cost of a minimum food budget based on U.S. Department of Agriculture (USDA) food requirements. The

formula also is adjusted for family size by a standard amount per person.⁶ The poverty guidelines are issued annually by the Department of Health and Human Services and adjusted for inflation based on the Consumer Price Index.⁷ Federal poverty levels at 100 percent, 150 percent, 185 percent, and 200 percent by annual and hourly dollar figures are shown in figure 1. The federal poverty level in 2000 for a family of three is an annual income of \$14,150.

The use of the federal poverty level as an accurate measure of poverty draws some criticism. Because it does not include non-cash income such as food stamps, Medicaid, or housing subsidies, some claim that the guideline overstates the incidence of poverty. Others point to costs, such as sales and income taxes and child care, that might not be included, and variations in costs of health care, transportation, and housing that may contribute to a considerable underestimation of family needs.

Therefore, a more accurate measure of economic well being is needed to assess how families are really doing in Lexington and Louisville, Kentucky. Throughout the country many cities are recognizing that low wages preclude families from meeting their basic needs. Findings uniformly reveal that families require substantially more income than estimated under federal poverty guidelines and that the income needed to meet family needs is considerably higher than current minimum wage incomes. Consequently, various localities have endorsed “living wages” to help their residents move toward economic self-sufficiency. Living wage ordinances, enacted in more than 40 communities, are local laws that set a pay floor above the federal minimum wage for a specific set of workers, usually government employees and/or workers hired by businesses that receive a government contract or subsidy.⁸

Inadequate Minimum Wage

Most people may assume that minimum wage earners are young teens beginning their first summer job for extra spending money. However, most United States minimum wage earners are over age 20, and nearly half (47%) are over age 25.⁹ For those struggling to raise a family, the minimum wage fails to provide the basics needed to achieve self-sufficiency. The current federal and state minimum wage is \$5.15 an hour. At this level, a full-time, minimum wage worker (40 hours a week) earns only \$206 a week or \$10,712 a year. In 1970, a full-time, minimum wage worker earned \$1.45 an hour or \$3,016 a year. In 1970, minimum wage jobs paid 97 percent of the federal poverty level. Today, minimum wage jobs pay only 75 percent of the federal poverty level.

A full-time, minimum wage worker (40 hours a week) earns only \$206 a week or \$10,712 a year..

Living Wage Defined

The idea behind a “living wage” is that people who work should be able to live decently and raise their families. This calculation of a living wage takes into account the area-specific cost of living as well as the basic expenses involved in supporting a family.

A Family’s Basic Needs

Basic household needs depend on a variety of factors. Primary factors include: geographic location, family size, age of children, and working status of adults. In addition, what society deems “basic” varies with time, values, and societal changes.

Family Composition

The family unit presented here is a three-person family consisting of a female age 28¹⁰, one preschool age girl of 4, and one school age boy of 5.¹¹ Besides a single parent’s wages, other sources of income may include child support, government subsidies, and in-kind income. Although we firmly support the use of subsidies for families without the resources to meet their basic needs, the budgets presented here have attempted to stand alone as simple statements of what our hypothetical family would need to meet its consumption needs. The family scenarios in figures 2-7 include the federal earned income tax credit and child care credits, and four of the six scenarios rely on the state child health insurance program KCHIP.

Location

Budget requirements vary from one location to another throughout the United States. Moreover, rural and urban budget needs also vary. For example, many urban locations have adequate if not extensive transportation systems, therefore eliminating the need for a family owned vehicle. However, most rural locations lack public transportation, making a family owned vehicle a necessity.

Family Budgets for Lexington and Louisville

Figures 2-7 provide the budget scenarios of the income required to meet the basic needs of a three-person family in Louisville and Lexington. The hourly dollar figures needed to earn a living wage are also noted for each budget.

What Constitutes Basic Needs?

Basic Need Categories

The necessary components of the basic family budget include: food; housing; utilities; health care; transportation; child care; housekeeping items and personal care; clothing; and taxes.

• Food

Under the low cost food plan, our family's monthly food budget is \$368.56 for both Louisville and Lexington. Many family budgets developed today use USDA food plans as the basis for estimating food costs. These plans are based on a 1977-78 nationwide Food Consumption Survey, updated annually based on the Consumer Price Index for certain foods. The plans are based on the estimated food costs for individuals in a four-person family, then scaled for people living in families of different sizes. They vary based on individual consumption patterns, and all assume that meals are prepared at home.¹²

This study reflects an allotment of food based on the USDA Low-Cost Food Plan.¹³ This plan represents what a family needs to spend to achieve a nutritionally adequate, low cost diet across an extended period of time.

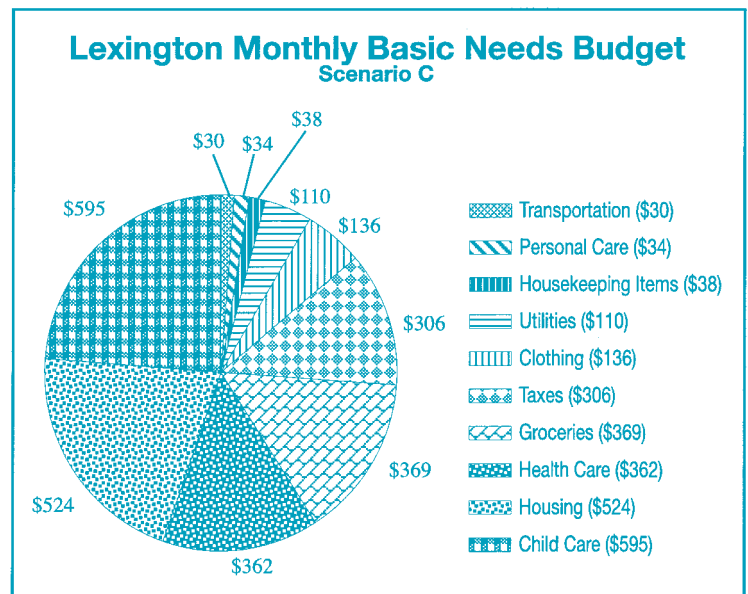
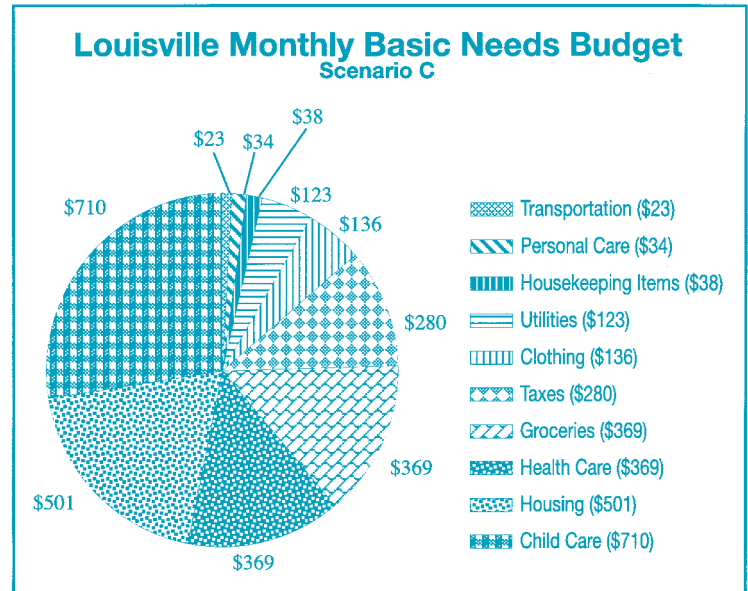
Adequate nutrition is necessary not only for survival but also for quality of life. Neither adults nor children should be expected to go hungry. Meeting the nutritional needs of children is especially important, since nutrition will affect their physical health for the rest of their lives. Nutrition also plays an essential role in brain development, building learning capabilities.¹⁴ In addition, poor nutrition can have substantial, negative consequences on a child's ability to succeed.

• Housing

Our budgets reflect rent of \$501 and \$524 for a two-bedroom apartment in Louisville and Lexington, respectively, based on the U.S. Department of Housing and Urban Development's fair market rent survey for those cities.¹⁵ Decent, safe housing is a key component of a family's basic needs, and four major determinants of the cost of housing are adequacy of supply, quality, size, and location.¹⁶

• Utilities

Our budgets reflect average monthly utility costs of \$123 and \$110 for a two-bedroom apartment in Louisville and Lexington, respectively. Utilities are budgeted separately and are determined by the type, size, and location of housing. The Housing Authority of Louisville and the Lexington-Fayette Urban County Housing Authority provided the monthly dollar allowances for a two-bedroom apartment in their locales. The totals include electric heating, cooking, water, sewer, range/microwave, and a refrigerator. The Louisville budget also includes trash collection. Both cities' budget scenarios exclude air conditioning.¹⁷



***Numbers are rounded to the nearest dollar. Budget based upon Scenario C, Mother pays health insurance for self and children.

• **Transportation**

Our family budget scenarios allot \$23 and \$30 for the cost of a monthly public transportation pass in Louisville and Lexington, respectively. Transportation systems in both cities are adequate and offer monthly, unlimited passes with children under the age of 5 riding free with an adult.¹⁸

Budgets must include transportation costs required for a family member to travel to work. Many low-income workers face significant transportation barriers when seeking employment.¹⁹ Most transportation discussions center on whether a family budget should include the costs associated with car maintenance, costs associated with using public transportation, or both. Public transportation is not available in all localities. Nationally, only 40 percent of rural areas have public transportation systems.²⁰ Public transportation systems in urban areas may also be inadequate for dependable travel to and from work.

• **Health Care**

Health care is central to a family's ongoing sustainability and productivity, yet many families live with inadequate health insurance. Health insurance provides access to preventive health care and keeps families from being burdened by an unexpected, major health-related expense. Furthermore, health insurance is as important for adults as it is for children. Adults who cannot prevent or treat their own health problems will not be able to support their families through work.

Most family budgets include separate calculations for out-of-pocket health costs and health insurance premiums. Also, while some families' employers provide health insurance many others do not. This report builds three scenarios for both Louisville and Lexington based on a commonly used, local health insurance provider: Anthem, an independent licensee of the Blue Cross/ Blue Shield Association.

- Scenarios "A" reflect the family's costs when the mother's health insurance is provided by her employer and the children receive health coverage under the Kentucky Children's Health Insurance Program (KCHIP). KCHIP, available to children in families with incomes below 200 percent of the federal poverty line, requires no premiums or treatment co-payments.
- Scenarios "B" reflect the family's costs when the mother pays the Anthem insurance premium for herself while the children are covered by KCHIP.
- Scenarios "C" reflect the family's costs when coverage under the Option 2000 Advantage PPO Low Option Plan B is purchased by the mother for the entire family.²¹ These costs consume \$369.26 and \$362.11 of the families' monthly budget for Louisville and Lexington, respectively. Dental services and vision services, both important preventive services, are excluded from the plan.²²

• **Child Care**

Our budget includes full-day care for the 4 year old five days a week and after-school care for the 5 year old five days a week. The family's budget reflects the mother working a 40-hour work week, Monday through Friday.²³ Budgeted child-care expenses are \$710.36 and \$594 per month, based on the average costs for licensed centers in Louisville and Lexington, respectively.²⁴

With a single parent working, child care is a necessary part of the family budget. The main issues concerning child care are affordability, availability, and quality. The costs associated with child care vary depending on the quality of care provided, the number and age of children, and the location. Younger children are more costly than older children because they require more hours of care and lower staff-caregiver ratios. High quality child care is known to improve IQ scores and reduce behavioral problems.²⁵ Also, poor quality care is associated with lower academic performance, lower cognitive development, and more behavioral problems in pre-school through the second grade.²⁶ Because the availability of child care is related to income, lower-income neighborhoods are likely to have fewer child-care choices.

• **Housekeeping Items & Personal Care**

Although not considered a major item, most budgets include an allotment for personal care items, especially when the adult is working. The Consumer Expenditure Survey is widely used to calculate miscellaneous expenses.²⁷ Specifically, our budgets allot \$38.17 a month for family housekeeping items such as detergent, paper products, etc. and \$34.00 a month for family personal care items such as soap, toothpaste, shampoo, etc.²⁸

• **Clothing**

Like housekeeping and personal care items, clothing represents a necessity in a family's budget. The Consumer Expenditure Survey outlines the average annual expense incurred by southern metropolitan households. Based on the survey, we budgeted \$136.42 a month for family clothing.²⁹

• Taxes

A large share of a family's burden is from federal and state income taxes and federal payroll taxes. Other taxes, such as property and sales taxes, are included in the data sources for budget items. Property taxes are included in the price of rent as reported in the Fair Market Rents survey, and sales taxes are reported as part of an item in the Consumer Expenditure Survey. Various tax assumptions and parameters concerning our budget scenarios for both Louisville and Lexington are detailed in Figure 8. Interestingly, in all six scenarios, our family owes at least twice as much Kentucky tax as it does federal tax.

Our Family Cannot Afford...

- Telephone service
- Saving for a child's college education
- Eating out at restaurants
- Going on a vacation
- Taking time off for holidays
- Paying for doctor co-payments or medical emergencies
- Saving for retirement

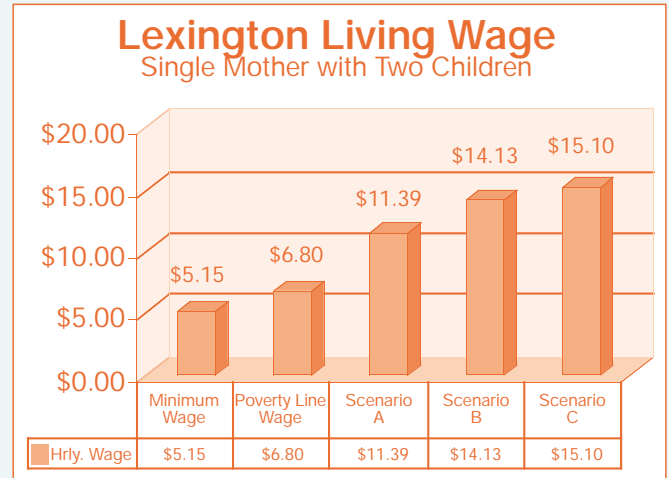
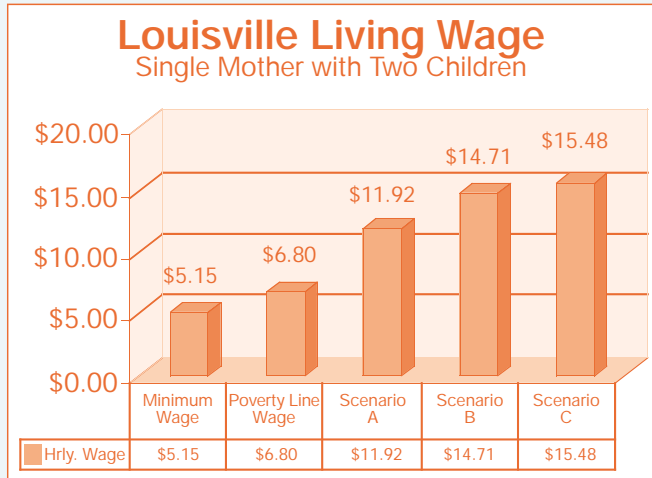
How is Kentucky faring in paying a living wage?

Low wages present a serious problem throughout Kentucky. Fully 31.4 percent of Kentucky workers earn wages so low that working full time, year round would not enable them to lift a family of four out of poverty.³⁰ During the 1997 tax year, 62 percent of Kentucky tax filers earned \$30,000 or less, and one quarter earned \$10,000 or less.³¹ Approximately 63,000 Kentuckians are living on minimum wages. According to the Kentucky Long Term Policy Research Center, 500,000 Kentuckians lack health insurance, and the majority of these individuals are employed. The Center on Budget and Policy Priorities and the Economic Policy Institute found that the gap between the richest and the poorest families in Kentucky is one of the ten largest in the nation. While the average income of the wealthiest 20 percent of Kentuckians is \$125,797 a year, the poorest 20 percent of Kentuckians earn an average of only \$11,365 a year.³²

In 1997, the largest employment sector in Jefferson (Louisville) and Fayette (Lexington) counties was the service sector, representing 28.5 and 28.6 percent of earnings in those communities, respectively. Statewide in 1997, services represented the largest employment sector, with 22.6 percent of earnings. The fastest-growing job categories in the state include cashiers, salespersons, janitors, maids, and housekeepers, and three quarters of these positions pay less than a living wage. Meanwhile, state tax incentives are being given to many companies that do not pay living wages. The Democracy Resource Center's research shows that the state Cabinet for Economic Development awarded tax breaks to 24 companies over a recent two-year period even though the average wage of all the jobs to be created by these companies was less than \$7.50 an hour. One company's average wage was \$5.75 an hour.³³

While many in Kentucky are benefiting in this time of economic prosperity, many working families are being left behind. In Kentucky, 26 percent of children are living in poverty, ranking 44th in the nation.³⁴ Specifically, 20 percent of children in Fayette County and 24 percent of children in Jefferson County live in poverty.³⁵ Living wages would lift many of these children out of poverty.

Kentucky families with children experienced rising poverty rates in the 1990s despite the state's thriving economy and low unemployment rates. In 1989, the poverty rate for Kentucky children ages 0-17 was 25 percent. That rate rose to 26 percent in 1995. For young children (ages 0-4) during the same period, the poverty rate increased from 29 to 32 percent. The reasons behind the increased poverty among our youngest children include the prevalence of single parenthood, parents with low educational attainment, decreased job availability, inadequate child support collection, and jobs that pay low wages and offer few benefits.³⁶ Stephan Wilson, Director of the Research Center for Families and Children, University of Kentucky, states, "Families need more than adults with jobs—they need liveable wages, benefits, and hope of advancement. Moving more Kentucky families to the payrolls of low-wage, dead-end jobs cannot end poverty."³⁷



Scenarios:

- A: Employer Provided Health Insurance for Mother; KCHIP for Children
- B: Mother Pays Health Insurance for Self; KCHIP for Children
- C: Mother Pays Health Insurance for Self and Children

Why is a living wage important?

Living wages play an essential role in a consumer economy, and there are various reasons why living wages are not only important but also necessary. Ensuring that all Kentucky employees earn a living wage is not just a kind gesture. It is imperative to Kentucky's economic future. If people are not earning enough to support themselves and their families, they are forced to go without basic necessities or to depend on public assistance. In addition, if workers are not earning enough money to live on, they are not earning enough money to play an essential role in the economy. Employees earning a liveable wage are better able to contribute to the tax base thereby making the tax burden lighter for everyone and providing revenues for basic public services.

Living wages are good for businesses and the economy. Living wages result in lower job turnover rates, reducing costs for recruiting, hiring, and training, and improving the quality and continuity of job performance. They assure social and economic benefits for communities and a supportive environment for employers who try to maintain fair wages. Living wages help stabilize local economies and increase sales tax revenues by increasing consumer spending.

Living wages provide adequate compensation for conscientious workers and increase incentives among low-wage workers to gain the experience and skills demanded in the job market. Living wages bring dignity to families by ensuring that people can lift themselves and their families out of poverty by working. They help small businesses by increasing consumers' purchasing power and increasing fair competition by making it more difficult for poverty-wage employers to undermine companies who pay decent wages. Living wages have been proven to reduce public assistance by fostering family-supporting jobs, and by keeping more local tax dollars in local communities.

Conclusion

Living wages vary from place to place.

A single "living wage" does not exist. A basic needs approach recognizes that families' budgetary needs differ considerably. According to Kentucky Youth Advocates estimates, a living wage ranges from \$11.39 to \$15.48 in hourly wages for a single Louisville or Lexington parent in a family of three. The differences reflect variations in the costs of such necessities as housing, transportation, and child care as well as the need for health insurance. The substantial difference among the scenarios is the cost of health care.

The only budget item altered among the three scenarios was health care. Between the scenario "A" and "C", there is a \$3.56 and \$3.71 an hour difference in Louisville and Lexington respectively needed in order for the family to purchase its own health insurance and meet its basic needs. The gap between the minimum wage and the dollar figure needed to purchase the family's health insurance and meet its basic needs is \$10.33 in Louisville and \$9.95 in Lexington. Neither minimum wage nor wages equaling the poverty level are adequate to meet the basic needs of a family of three in either city.

Families approaching a living wage face increasing marginal tax rates.

In recent times, the federal government has expanded policy instruments, such as the Earned Income Tax Credit, that reduce the financial burden on lower income families. Lawmakers' efforts have been successful; however, the sliding scale upon which these programs are based penalizes families as their earned income approaches the "living wage" level. Tax credits begin to drop far before our hypothetical family reaches its basic needs income. Still, the federal Earned Income Tax Credit allows our family to keep more of its income, and in both scenarios "A" our family receives a refundable tax credit.

Social infrastructure programs are important to all families below the living wage level.

Many social infrastructure programs have been expanded in recent years to address the concerns of the working poor. Yet, limited resources have forced these programs to focus upon high priority populations. While it is very important that the most in need are helped, policymakers must recognize the importance of these programs to all families living below a living wage level. By helping families meet their basic needs, programs such as subsidized child care and children's health care allow families to focus their own limited resources on asset-building opportunities that allow them to sustain a living wage income.

Obviously, there are a variety of factors that must be considered when defining a "living wage". This report shows that in order for a Louisville or Lexington family of three not to be left behind, it must make approximately 200 percent of the current poverty line. At present, minimum wage only provides enough income for a family to support itself at 75 percent of the poverty level.

Implications

Implement a Kentucky Earned Income Tax Credit.

Kentucky places one of the highest tax burdens in the country on its poorest citizens. There are 80,000 families, including 138,000 children, living in poverty in Kentucky despite the presence of a working parent. Yet, Kentucky's poor families start paying taxes at an annual income level of only \$5,000, less than half the poverty level for a family of three. A Kentucky State Earned Income Tax Credit (EITC) would reduce the tax burden on the working poor, even providing a refund amount for working Kentuckians with the lowest incomes. A Kentucky EITC would provide a tax credit for the working poor and near poor, resulting in a reduction of tax liability and a refund of up to \$572, depending on family size and income. Approximately 309,000 working Kentucky tax filers would qualify for the credit, benefiting families with incomes up to \$30,580. An EITC complements welfare reform by rewarding the efforts of those Kentuckians transitioning from welfare to work. Also, implementing an EITC in Kentucky is achievable in a short time frame, requires virtually no administrative cost, and does not require the creation of additional bureaucratic infrastructure.

Provide Increased Health Insurance Access

The high cost of health insurance will inevitably continue to be a barrier for low-wage workers and their families. While Kentucky has made strides toward providing health insurance for low-income children, health insurance for low-income adults continues to warrant attention. The state and employers must recognize the impact of low wages on a family's ability to provide its own health insurance. Moreover, the state should encourage businesses to provide health insurance and living wages.

Set Wage Standards for Business Incentives, Public Workers, and Contractors

Each time state and local governments award contracts for goods and services or provide business incentives, their actions affect the economy. It is not unrealistic for Kentuckians to expect living wages from government-subsidized jobs. Nor is it unrealistic for Kentucky to set living wage standards for public employees and for the state's private contractors. Although most living wage efforts focus on the local level, leadership at the state level requiring living wage standards for businesses receiving tax incentives, grants and loans would further ensure working Kentuckians were not being left behind.

A Kentucky State Earned Income Tax Credit (EITC) would reduce the tax burden on the working poor, even providing a refund amount for working Kentuckians with the lowest incomes.

Revise Federal Measurement of Poverty

The federal poverty level is not an accurate representation of what is needed for a family to meet its basic needs. Many state and federal public assistance programs rely on the poverty level for assistance eligibility. Public assistance programs, which base eligibility on the federal poverty line, should be revised to reflect the cost of living in Kentucky.

Increase Kentucky Child Care Credits

Child care accounts for 20 percent or more of most family budgets for many low-income families, and it is a critical issue for most low-income working poor families. Currently, Kentucky child care credits represent 20 percent of the federal Child Care Credit. In all family budget scenarios, child care represented a large portion of the overall budget. Affordable, quality child care is a necessity to a single, working parent. Tax policies which support middle to low income working parents such as an expanded and refundable child care tax credit create new opportunities for working families. Kentucky should increase the state Child Care Credit to assist working poor parents.

Raise the State Minimum Wage

The current federal and state minimum wage set at \$5.15 an hour is inadequate to meet families' basic needs and should be raised substantially. The minimum wage budget for our hypothetical family, when compared to a living wage budget, reflected a \$9,505 deficit! Many states, such as Connecticut, Massachusetts, Rhode Island, and Vermont, have raised their state minimum wage higher than the federal amount. Researchers have determined that recent federal minimum wage increases caused no loss of jobs, even among the most vulnerable workers, and contributed to the first decrease in the gap between middle- and low-income workers in almost twenty years.³⁸

Working people should be able to meet their basic necessities without turning to public assistance. Typical minimum wage earners and previous welfare recipients are struggling for economic strength. They demand and merit Kentucky's attention during economic prosperity as well as during economic downturn. No Kentuckian should live in poverty, and every working Kentuckian deserves to make living wages. A true test of a nation is not only how it handles economic downturns or a deep depression but also how it handles its riches and economic good fortune. Franklin Delano Roosevelt stated:

It is not in despair that I paint you that picture. I paint it for you in hope—because the Nation, seeing and understanding the injustice in it, proposes to paint it out. . . . The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little.³⁹

Kentucky—and the nation as a whole—has the opportunity to be a good steward of our economic good fortunes. We must seize that opportunity and ensure that no Kentuckian is left behind.

Tax policies which support middle to low income working parents such as an expanded and refundable child care tax credit create new opportunities for working families.

- 1 Dr. Linda Barrington, "Does a Rising Tide Lift All Boats?", The Conference Board, 29 June 2000.
- 2 Poverty Despite Work in Kentucky, Center on Budget and Policy Priorities & Kentucky Youth Advocates, Christina Smith FitzPatrick, April 1999
- 3 "From Welfare to Work: Second Year Panel Study of Families and Children," June 2000, p.6.4.
- 4 Greg Schrock, "Estimating a Basic Needs Budget for Indiana Families", Indiana Economic Development Council, Inc. September 1998.
- 5 Note: The population of Louisville in 1998 was estimated at 269,555 persons; the population in Lexington, Kentucky in 1998 was estimated at 225,336 persons. These numbers were derived from the Kentucky State Data Center at www.cbpa.Louisville.edu/ksdc/kpr/popest/sc98alph.text.
- 6 Gordon Fisher, "The Development of the Orshansky Poverty Thresholds and their Subsequent History as the Official U.S. Poverty Measure." 1992, Draft.
- 7 Citro & Michael, eds, "Measuring Poverty: A New Approach, Washington, D.C.; National Academy Press, 1995.
- 8 Jared Bernstein, et al. "How Much is Enough? Basic Family Budgets for Working Families", Economic Policy Institute, 2000.
- 9 Strengthening Families- A Children's Action Alliance Research Bulletin on Arizona's Fiscal Policies- April 2000.
- 10 Note: The family's size, genders, and ages were selected in an effort to provide a standardized look into a family's basic needs budget without overwhelming the reader with an extensive number of scenarios. The decision for a three-person family, a single mom with two children, reflects a single wage earner family. Many budgets reviewed included a married couple with one wage earner and one adult staying in the home. Our study reflects the more realistic need for a family to budget the cost of day care. The genders and ages of the family members had to be determined in order to receive a hypothetical quote from Anthem Health Insurance.
- 11 Note: The 1990 Census reports that single females head 9% of Jefferson County families and 8% of Fayette County families with children. Also, a single parent heads 18% of Jefferson County families and 15% of Fayette County families with children.
- 12 U.S. Department of Agriculture, 1982 USDA Family Food Plans, 1983: Low-cost, Moderate-Cost and Liberal. Washington, D.C. USDA.; U.S. Department of Agriculture. Official USDA Food Plans. Washington, D.C. USDA.
- 13 Jared Bernstein, et al. "How Much is Enough? Basic Family Budgets for Working Families", Economic Policy Institute, 2000.
- 14 Ralph Bangs, et. al. 1997. "Basic Living Cost and Living Wage Estimates for Pittsburgh and Allegheny County", Pittsburgh, PA.: University Center for Social and Urban Research, University of Pittsburgh.
- 15 Alecia Nash, Housing Authority of Louisville, 1 June 2000.; Peggy Burch, Lexington-Fayette Urban County Housing Authority, 24 May 2000 and Jared Bernstein, et al. "How Much is Enough? Basic Family Budgets for Working Families", Economic Policy Institute, 2000.
- 16 Citro & Michael, eds, "Measuring Poverty: A New Approach, Washington, D.C.; National Academy Press, 1995.
- 17 Paula Kirk, Housing Authority of Louisville, 1 June 2000.; Peggy Burch, Lexington-Fayette Urban County Housing Authority, 5 June 2000.
- 18 The Transit Authority of the Lexington-Fayette Urban County Government. 22 May 2000; Transit Authority of the River City (TARC), Louisville. 22 May 2000.
- 19 Annalyn Lacombe, "Welfare Reform and Access to Jobs in Boston", Washington, D.C.; U.S. Department of Transportation., 1998.
- 20 Sarah Dewees, "The Drive to Work: Transportation Issues and Welfare Reform in Rural Areas", Jackson, Mississippi, Southern Rural Development Center, 1998.
- 21 Note: The Low Option Plan B provides for in network member to pay an annual deductible of \$750 single/ \$1,500 family. For in-hospital services, 20% of the eligible expense is not subject to the deductible. Office visits require a \$15 co-payment per visit, which is not subject to the deductible.
- 22 Note: The maximum out-of-pocket covered expenses are \$2,500 single/ \$5,000 family. The Anthem Option 2000 Advantage PPO Low Option Plan B provides the following in-hospital services: provider services, authorized inpatient care in semi-private room, miscellaneous hospital services, intensive/cardiac/neonatal care, ancillary services, surgical services, and preadmission testing; transplants- limited to kidney, cornea, bone marrow, heart, liver, lung, hear/lung and pancreas; and maternity care (including dependents). The plan also provides for office visits (including Well Child, Well Adult, immunizations, office diagnostic testing, allergy testing and other office visits). Well Child Office visits care covered up to \$200 for ages 0-3 and \$100 for ages 4-18 per calendar year with no coverage above that limit. Well Adult and Early Detection Care is provided up to \$300 per calendar year with no coverage above that limit. Outpatient services include diagnostic tests, allergy injections, and ambulatory/hospital outpatient surgery. Emergency services include hospital emergency room and ground ambulances. Some substance abuse and mental health services are provided. Other services provided include prescription drugs, physical occupational therapy, rehabilitation- 26 weeks per calendar year, speech therapy- 26 weeks per calendar year, and home health care- 40 visits per calendar year. Tammy Adams, Powell-Walton-Milward, Inc, Lexington, Kentucky, 2 June 2000.
- 23 Note: Child care for the 4 year old is based on a daily full time rate in a licensed center five days a week. Care for the 5 year old is based on a part time rate in a licensed center five days a week. All budget scenarios reflect the appropriate city's average market rate for licensed day care.
- 24 Carolyn Covington, Child Care Council of Kentucky, Inc. Lexington, Kentucky. 25 May 2000.; Carrie Baxter, Community Coordinated Child Care, Inc. Louisville, Kentucky. 30 May 2000.
- 25 Deborah A. Phillips and Anne Bridgman, eds. "How Does Child Care Affect Children's Well-Being?" In *New Findings on Children, Families, and Economic Self-Sufficiency: Summary of a Research Briefing*. Washington, D.C.: National Academy Press, 1995.
- 26 Ellen S. Peisner-Feinberg, et al. *The Children of the Cost, Quality and Outcomes Study Go to School*. Executive Summary (www.fpg.unc.edu/~NCEDL/PAGES/cques.htm), 1999.
- 27 Note: The Consumer Expenditure Survey utilized represents selected southern metropolitan statistical areas for 1997-1998. The Survey is conducted for the Federal Bureau of Labor Statistics by the United States Census Bureau.
- 28 Average annual expenditures and characteristics, Consumer Expenditure Survey, 1997-1998.
- 29 Ibid.
- 30 Douglas Hall, *The State of Working Kentucky, 2000*, (Frankfort: Kentucky Youth Advocates, 2000), 9.
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Figure 1:

Federal Poverty Levels- 2000								
Family Size	100%		150%		185%		200%	
	Annual	Hourly	Annual	Hourly	Annual	Hourly	Annual	Hourly
1	\$ 8,350	\$ 4.01	\$12,525	\$ 6.02	\$15,448	\$ 7.43	\$16,700	\$ 8.03
2	\$11,250	\$ 5.40	\$16,875	\$ 8.11	\$20,813	\$10.01	\$22,500	\$10.82
3	\$14,150	\$ 6.80	\$21,225	\$10.20	\$26,178	\$12.59	\$28,300	\$13.61
4	\$17,050	\$ 8.20	\$25,575	\$12.30	\$31,543	\$15.16	\$34,100	\$16.39

Figure 2
Louisville Scenario A

Employer Provided Health Insurance for Mother; KCHIP for Children

Expense	Cost
Rental Housing	\$ 501.00
Utilities	\$ 123.00
Groceries	\$ 368.56
Public Transportation	\$ 23.00
4 Year Old Child Care	\$ 370.49
5 Year Old Child Care	\$ 339.87
Health Care Costs	
Housekeeping Items	\$ 38.17
Clothing	\$ 136.42
Personal Care	\$ 34.00
Total Monthly Expenses	\$1,934.51
Hourly Wage Required	\$ 11.92
After taxes owed & credits received	

Figure 3
Louisville Scenario B

Mother Pays Health Insurance for Self; KCHIP for Children

Expense	Cost
Rental Housing	\$ 501.00
Utilities	\$ 123.00
Groceries	\$ 368.56
Public Transportation	\$ 23.00
4 Year Old Child Care	\$ 370.49
5 Year Old Child Care	\$ 339.87
Health Care Costs	\$ 272.60
Housekeeping Items	\$ 38.17
Clothing	\$ 136.42
Personal Care	\$ 34.00
Total Monthly Expenses	\$2,207.11
Hourly Wage Required	\$ 14.71
After taxes owed & credits received	

Figure 4
Louisville Scenario C

Mother Pays Health Insurance for Self and Children

Expense	Cost
Rental Housing	\$ 501.00
Utilities	\$ 123.00
Groceries	\$ 368.56
Public Transportation	\$ 23.00
4 Year Old Child Care	\$ 370.49
5 Year Old Child Care	\$ 339.87
Health Care Costs	\$ 369.26
Housekeeping Items	\$ 38.17
Clothing	\$ 136.42
Personal Care	\$ 34.00
Total Monthly Expenses	\$2,303.77
Hourly Wage Required	\$ 15.48
After taxes owed & credits received	

Figure 5
Lexington Scenario A

Employer Provided Health Insurance for Mother; KCHIP for Children

Expense	Cost
Rental Housing	\$ 524.00
Utilities	\$ 110.00
Groceries	\$ 368.56
Public Transportation	\$ 30.00
4 Year Old Child Care	\$ 339.00
5 Year Old Child Care	\$ 255.72
Health Care Costs	
Housekeeping Items	\$ 38.17
Clothing	\$ 136.42
Personal Care	\$ 34.00
Total Monthly Expenses	\$1,834.87
Hourly Wage Required	11.39
After taxes owed & credits received	

Figure 6
Lexington Scenario B

Mother Pays Health Insurance for Self; KCHIP for Children

Expense	Cost
Rental Housing	\$ 524.00
Utilities	\$ 110.00
Groceries	\$ 368.56
Public Transportation	\$ 30.00
4 Year Old Child Care	\$ 339.00
5 Year Old Child Care	\$ 255.72
Health Care Costs	\$ 267.31
Housekeeping Items	\$ 38.17
Clothing	\$ 136.42
Personal Care	\$ 34.00
Total Monthly Expenses	\$2,103.18
Hourly Wage Required	\$ 14.13
After taxes owed & credits received	

Figure 7
Lexington Scenario C

Mother Pays Health Insurance for Self and Children

Expense	Cost
Rental Housing	\$ 524.00
Utilities	\$ 110.00
Groceries	\$ 368.56
Public Transportation	\$ 30.00
4 Year Old Child Care	\$ 339.00
5 Year Old Child Care	\$ 255.72
Health Care Costs	\$ 362.11
Housekeeping Items	\$ 38.17
Clothing	\$ 136.42
Personal Care	\$ 34.00
Total Monthly Expenses	\$2,197.98
Hourly Wage Required	15.10
After taxes owed & credits received	

Figure 8

Tax Assumptions and Parameters	
Louisville Scenario A	
Medicare Tax (1.45% AGI)	359.60
Louisville Local Tax	545.60
Social Security Tax (6.2%)	1,537.60
AGI	24,800.00
Annual Child Care Cost (370.49 + 339.87)	8,524.32
Monthly Money Needed	1,934.51
Federal Child Care Credit	1,056.00
State Child Care Credit	211.20
Annual Spending Money Required	23,214.12
AGI	24,800.00
Medicare, Social Security, Local Tax	1,897.20
Federal Taxes Owed	-1,212.00
State Taxes	851.00
Remaining Income	23,263.80
Surplus/(Deficit)	49.68
Hourly Wage Needed	11.92

Tax Assumptions and Parameters	
Lexington Scenario A	
Medicare Tax (1.45% AGI)	343.65
Lexington Local Tax	533.25
Social Security Tax (6.2%)	1,469.40
AGI	23,700.00
Annual Child Care Cost (370.49 + 339.87)	7,136.64
Monthly Money Needed	1,834.87
Federal Child Care Credit	1,104.00
State Child Care Credit	220.80
Annual Spending Money Required	22,018.44
AGI	23,700.00
Medicare, Social Security, Local Tax	2,346.30
Federal Taxes Owed	-1,444.00
State Taxes	779.00
Remaining Income	22,018.70
Surplus/(Deficit)	.26
Hourly Wage Needed	11.39

Tax Assumptions and Parameters	
Louisville Scenario B	
Medicare Tax (1.45% AGI)	443.70
Louisville Local Tax	673.20
Social Security Tax (6.2%)	1,897.20
AGI	30,600.00
Annual Child Care Cost (370.49 + 339.87)	8,524.32
Monthly Money Needed	2,207.11
Federal Child Care Credit	960.00
State Child Care Credit	192.00
Annual Spending Money Required	26,485.32
AGI	30,600.00
Medicare, Social Security, Local Tax	2,340.90
Federal Taxes Owed	444.00
State Taxes	1,274.00
Remaining Income	26,541.10
Surplus/(Deficit)	55.78
Hourly Wage Needed	14.71

Tax Assumptions and Parameters	
Lexington Scenario B	
Medicare Tax (1.45% AGI)	426.30
Lexington Local Tax	661.50
Social Security Tax (6.2%)	1,822.80
AGI	29,400.00
Annual Child Care Cost (370.49 + 339.87)	7,136.64
Monthly Money Needed	2,103.18
Federal Child Care Credit	1,104.00
State Child Care Credit	220.80
Annual Spending Money Required	25,238.16
AGI	29,400.00
Medicare, Social Security, Local Tax	2,910.60
Federal Taxes Owed	21.00
State Taxes	1,202.00
Remaining Income	25,266.40
Surplus/(Deficit)	28.24
Hourly Wage Needed	14.13

Tax Assumptions and Parameters	
Louisville Scenario C	
Medicare Tax (1.45% AGI)	466.90
Louisville Local Tax	708.40
Social Security Tax (6.2%)	1,996.40
AGI	32,200.00
Annual Child Care Cost (370.49 + 339.87)	8,524.32
Monthly Money Needed	2,303.77
Federal Child Care Credit	960.00
State Child Care Credit	192.00
Annual Spending Money Required	27,645.24
AGI	32,200.00
Medicare, Social Security, Local Tax	2,463.30
Federal Taxes Owed	684.00
State Taxes	1,370.00
Remaining Income	27,682.70
Surplus/(Deficit)	37.46
Hourly Wage Needed	15.48

Tax Assumptions and Parameters	
Lexington Scenario C	
Medicare Tax (1.45% AGI)	455.30
Lexington Local Tax	706.50
Social Security Tax (6.2%)	1,946.80
AGI	31,400.00
Annual Child Care Cost (370.49 + 339.87)	7,136.64
Monthly Money Needed	2,197.98
Federal Child Care Credit	1,104.00
State Child Care Credit	220.80
Annual Spending Money Required	26,375.76
AGI	31,400.00
Medicare, Social Security, Local Tax	3,108.60
Federal Taxes Owed	564.00
State Taxes	1,322.00
Remaining Income	26,405.40
Surplus/(Deficit)	29.64
Hourly Wage Needed	15.10

Tax Assumptions and Parameters	
Louisville Minimum Wage	
Medicare Tax (1.45% AGI)	155.32
Louisville Local Tax	235.66
Social Security Tax (6.2%)	664.14
AGI	10,712.00
Annual Child Care Cost (370.49 + 339.87)	8,524.32
Monthly Money Needed	1,934.51
Federal Child Care Credit	1,392.00
State Child Care Credit	278.40
Annual Spending Money Required	23,214.12
AGI	10,712.00
Medicare, Social Security, Local Tax	819.47
Federal Taxes Owed	-3,816.00
State Taxes	0.00
Remaining Income	13,708.53
Surplus/(Deficit)	-9,505.59
Minimum Wage x 2080 (52 weeks x 40 hours)	10,712.00
Minimum Wage	5.15

Tax Assumptions and Parameters	
Lexington Minimum Wage	
Medicare Tax (1.45% AGI)	155.32
Lexington Local Tax	241.02
Social Security Tax (6.2%)	664.14
AGI	10,712.00
Annual Child Care Cost (370.49 + 339.87)	7,136.64
Monthly Money Needed	1,834.87
Federal Child Care Credit	1,392.00
State Child Care Credit	278.40
Annual Spending Money Required	22,018.44
AGI	10,712.00
Medicare, Social Security, Local Tax	1,060.49
Federal Taxes Owed	-3,816.00
State Taxes	0.00
Remaining Income	13,467.51
Surplus/(Deficit)	-8,550.93
Minimum Wage x 2080 (52 weeks x 40 hours)	10,712.00
Minimum Wage	5.15

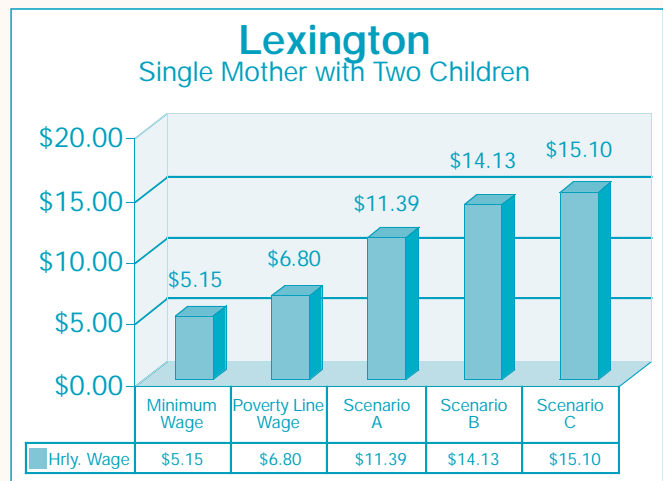
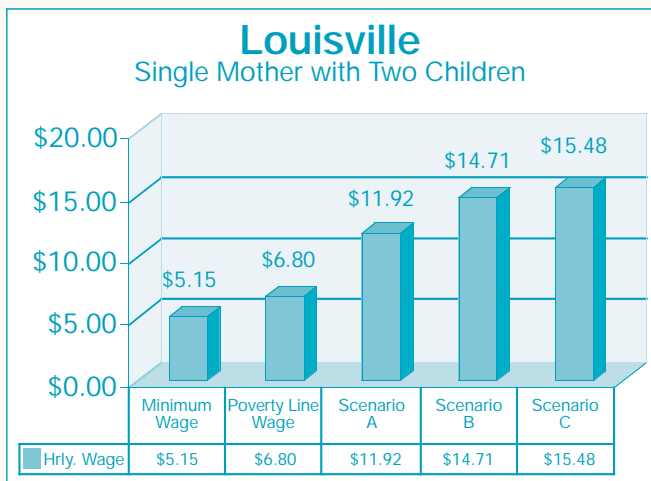
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This research brief is produced by Kentucky Youth Advocates, through the State Fiscal Analysis Initiative. Any questions or requests for further information concerning Money Matters should be directed to Abby Hughes, Policy Analyst – SFAI, at (502) 875-4865 or ahughes@kyyouth.org.

Executive Summary

Many Kentuckians are being left behind in these times of unprecedented economic growth and prosperity. Nearly one in three Kentucky workers earns wages so low that working full time, year round does not enable them to lift a family of four out of poverty. This report calculates a living wage for a hypothetical family of three in Louisville and Lexington, including the following necessities in the family’s budget: food, housing, utilities, health care, transportation, child care, housekeeping and personal care items, clothing, and taxes. The only variation among our findings relates to health care costs—whether the family receives coverage from the parent’s employer and the KCHIP program or has to pay for all or some of their coverage. A living wage for Louisville ranges from \$11.92 to \$15.48 per hour. In Lexington, the living wage varies from \$11.39 to \$15.10. Significantly, minimum wage falls far short of providing a living wage for families.

Living Wage



Scenarios:

- A: Employer Provided Health Insurance for Mother; KCHIP for Children
- B: Mother Pays Health Insurance for Self; KCHIP for Children
- C: Mother Pays Health Insurance for Self and Children