

PAYCHECK TO PAYCHECK

More than Housing by Lisa Sturtevant

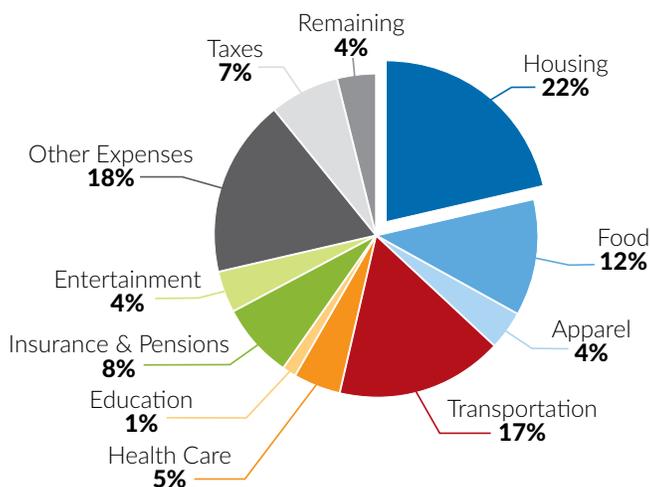
RESEARCH NOTE October 2015

The National Housing Conference's Paycheck to Paycheck report and online database describe the challenges many workers face in finding affordable housing in metropolitan areas across the country.¹ Many low- and moderate-income workers cannot afford to rent or buy the typical home in the area in which they work. As a result, they often spend more than 30 percent of their income on housing. But it's not just housing that forces workers to stretch their paychecks. The costs of other household necessities—including transportation, child care, health care, and education—have been rising faster than the wages of many workers. The burden of unaffordable housing is intensified by the stresses of budgeting for other necessities.

A Household's Single Largest Expense is Housing

According to data from the Consumer Expenditure Survey (CES), in 2014 the average U.S. household spent 22 percent of its gross income (i.e. before tax income) on housing.² Housing expenditures include rent or mortgage costs, property taxes, insurance, maintenance, and repairs and utilities. Transportation accounted for the second largest household expense, at an average of 17 percent in 2014. Spending on food accounted for 12 percent of the average household income.

FIGURE 1
Distribution of Household Expenses, 2014.



Lower-income households and renters spend a much greater share of their incomes on housing than do other households. On average, households in the bottom two income quintiles spend 50 percent of their before-tax incomes on housing. By contrast, households in the top income quintile spend an average of only 14 percent of their incomes on housing. Housing costs amount to an average of 31 percent of renters' incomes but only 19 percent of the incomes of homeowners.

Lower-income households and renters spend a greater share of their household incomes on other necessities, as well. As a result, many low- and moderate-income working households find that their paychecks are not sufficient to cover all of their expenses. And even when they can meet their families' basic needs, many find themselves with little or nothing left over to pay for emergencies, to save for their children's college educations, or to put money away for a down payment for a house.

In this report, lower-income households

are defined as households with incomes in the bottom two income quintiles. Quintiles divide households into five equal groups based on the distribution of household income. The Bureau of Labor Statistics presents expenditure data for households by these income quintiles. Lower-income households, therefore, have incomes less than 60 percent of all U.S. households, or less than about \$42,000 a year in 2014. This group includes many of the workers highlighted in *Paycheck to Paycheck*.

The Cost of Housing and Other Necessities Have Risen Faster than Incomes for Many Households

Between 2000 and 2014, the average before-tax income for all U.S. households increased by 50 percent, which was matched by the increase in overall housing costs over that time period. The costs of health care, education, and insurance and pension contributions have all increased faster than household incomes. Health care and education expenses have grown dramatically, increasing by 108 and 96 percent, respectively, between 2000 and 2014. Among major household expenses, transportation, food, and apparel costs have increased at a slower rate than household incomes (or declined) since 2000.

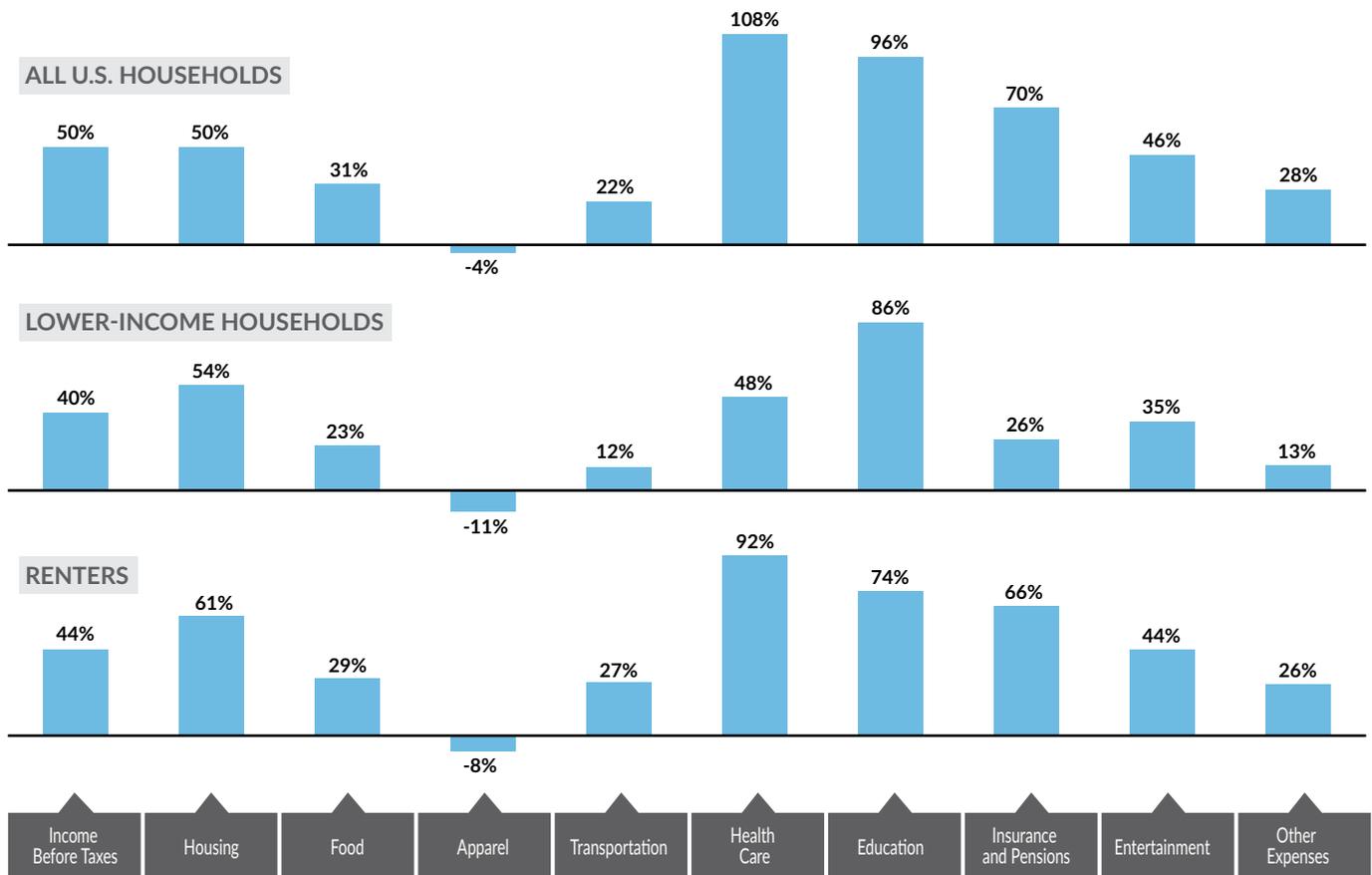
The incomes of lower-income households and renters have not increased as fast as those of other households. For example, since 2000, the average before-tax income for households in the bottom two income quintiles increased by 40 percent while incomes grew by 57 percent for households in the highest income quintile. Average housing costs for lower-income households increased much faster than incomes, growing by

54 percent between 2000 and 2014. The average before-tax incomes of renters increased by 44 percent while average housing costs grew by 61 percent.

While there was a tremendous amount of volatility in housing costs in the middle of the last decade during the economic recession and housing market downturn, lower-income households have continued to experience dramatic increases in housing cost burden since the end of the recession. Average housing costs for lower-income households increased by seven percent between 2009 and 2014, while incomes rose by less than one percent.

While lower-income households have struggled with rising housing costs, the costs of other necessities also have taken up a greater and greater share of their incomes. The average cost of education for lower-income households increased by 86 percent between 2000 and 2014 while health care costs increased by 48 percent.

FIGURE 2
Change in Incomes and Household Expenses – All Households, Lower-Income Households, and Renters.



Many Workers Must Stretch Their Paychecks to Meet Basic Needs

As increases in the costs of housing and other necessities have outpaced increases in incomes, low- and moderate-income working households are increasingly challenged to make ends meet. Many households find their paychecks are not sufficient to cover all of their expenses. Having access to affordable housing is an important determinant of whether a family can pay all of its bills each month.

Using income and housing cost data from *Paycheck to Paycheck* and other expenditure data compiled by the Economic Policy Institute from the Consumer Expenditure Survey and other sources (see Methodology below), the monthly budgets of four

families working in key occupations are described below. Housing is a major expense for all of these families, but child care and health care can rival the costs of housing for families with children.

Affordable housing is important because it can free up financial resources for other household expenses. But stable and affordable housing also supports individual and family wellbeing, which can help keep family health care costs under control, support educational achievement for children, and reduce household stresses.³

MONTHLY INCOME	\$2,703
Rent	1,050
Food	399
Child Care	565
Transportation	480
Health Care	359
Other Necessities	712
Taxes	523
Monthly Expenditures	4,088
INCOME REMAINING	-1,385



Daria is an **e-Commerce Customer Service Representative** in the fast-growing city of Austin, Texas. She is a single mom to four-year-old son Aiden. She earns \$32,441 per year—or \$2,703 per month—which is the average salary for an e-Commerce Customer Service Representative in the Austin metro area. Rent is her biggest monthly expenditure, accounting for nearly 40 percent of her monthly income. Child care accounts for another 21 percent of her income.

Based on a typical budget for a one-parent, one-child family in Austin, Daria's expenditures on basic household expenses would exceed her income each month by more than \$1,300. In order to meet her family's needs, she often cuts back on some essential things—including food or health care—or takes on credit card or other debt.

MONTHLY INCOME	\$6,805
Rent	1,156
Food	782
Child Care	1,259
Transportation	608
Health Care	758
Other Necessities	841
Taxes	717
Monthly Expenditures	6,121
INCOME REMAINING	684



Manuel and Alisa live in the Denver region, where rents have increased by nearly 20 percent over the last year. Manuel is a **Food Service Manager** and Alisa is a **Retail Cashier**. They have two young children, and child care is their single biggest monthly expense.

The couple earns \$6,805 per month, which amounts to about 80 percent of the area median family income in the Denver metro area. They can afford to pay their bills each month with an average of \$684 remaining at the end of the month. However, they are trying to set aside money for their retirement and for their children's college fund. As a result, they find it very difficult to save for a down payment for a home in Denver, where the median home price is \$300,000.

MONTHLY INCOME	\$3,617
Rent	1,196
Food	271
Transportation	450
Health Care	292
Student Loans	90
Other Necessities	634
Taxes	591
Monthly Expenditures	3,524
INCOME REMAINING	93



After earning his associate's degree, William got a job as a **Cardiac Technician** in a Boston hospital. He spends more than a third of his income to rent a one-bedroom apartment and 12 percent of his income on transportation. In addition, he is paying off his student loans.

William earns \$43,407 a year, which is the average salary for a Cardiac Technician in the Boston region. His monthly income is \$3,617 and after paying for all of his monthly expenses, he has \$93 left over. He tries to send a small amount of money each month to his mother, who lives on a fixed income. He has given up on the idea of buying a home, at least for the near term.

MONTHLY INCOME	\$3,594
Rent	816
Food	584
Child Care	815
Transportation	480
Health Care	594
Student Loan	242
Other Necessities	675
Taxes	634
Monthly Expenditures	4,840
INCOME REMAINING	-1,246



Jocelyn works as an **Administrative Assistant** in St. Louis. She recently completed a bachelor's degree and is hoping to move up within her company. For now, she earns \$3,594 per month, or \$43,125 annually, the average salary for an Administrative Assistant in the greater St. Louis area. She is divorced and has two children.

Housing and child care combine to account for 45 percent of her monthly income. Payment on her student loan accounts for another seven percent of her monthly income. To cut back on expenses, she considered giving up her car but cannot get to her job and to her children's day care on public transportation. In order to pay her bills each month, she has borrowed money from her parents and has taken on credit card debt. She is hoping to get a promotion and a raise now that she has her BA, but it may be a year or more before a position opens up.

Methodology

The data on monthly expenses come primarily from the Economic Policy Institute's (EPI) 2015 Family Budget Calculator, which summarizes average household expenses for different family types in different metropolitan areas across the country. The data were published in August 2015 and reflect 2014 expenses. Aside from the rent and student loan expenses (see below), all expense data were obtained from the EPI's Family Budget Calculator online tool.⁴

Data on rent are the fair market rent rates from the U.S. Department of Housing and Urban Development for the fiscal year 2015.

Data on monthly student loan payments were taken from a Brookings Institution report that analyzed data from the 2010 Survey of Consumer Finances.⁵ The 25th percentile monthly payment was used in the example where the worker had obtained an associate's degree, while the mean value was used in the example where the worker had attended a four-year college.

Support for this report was provided by the Chicago Dwellings Association.

PHOTOS FROM ISTOCK

Endnotes

1. Viveiros, Janet, Mindy Ault and Lisa Sturtevant. 2015. *Paycheck to Paycheck 2015: A Snapshot of Housing Affordability for Millennial Workers*. Washington, DC: National Housing Conference.
2. Consumer Expenditure Survey (CES) data are collected by the U.S. Census Bureau for the Bureau of Labor Statistics. The CES actually consists of two surveys—a quarterly Interview survey and a weekly Diary survey—that collect information on the income and expenditures of American households. Data are available online at <http://www.bls.gov/cex/>.
3. See Ault, Mindy, Janet Viveiros and Nabihah Maqbool. 2015. *The Impacts of Affordable Housing on Health*. Washington, DC: National Housing Conference and Brennan, Maya, Patrick Reed, and Lisa Sturtevant. 2014. *The Impacts of Affordable Housing on Education*. Washington, DC: National Housing Conference.
4. EPI's online Family Budget Calculator tool can be accessed at <http://www.epi.org/resources/budget/>.
5. Akers, Beth. 2014. *The Typical Household with Student Loan Debt*. Washington, DC: The Brookings Institution.