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# METHODOLOGY APPENDIX

## The Self-Sufficiency Standard for Wyoming 2007

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PREPARED FOR  
THE STATE OF WYOMING, OFFICE OF THE GOVERNOR



## STATE OF WYOMING

In July 2004, Governor Dave and First Lady Nancy Freudenthal introduced the creation of Wyoming's Self-Sufficiency Standard. A Self-Sufficiency Advisory Committee was formed to oversee the compilation of the report and develop implementation strategies for Wyoming's Standard. The Committee is comprised of representatives from the Equality State Policy Center; Laramie County Community College Transitional Services; Our Families, Our Future; The Wyoming Business Council; The Wyoming Children's Action Alliance; the Wyoming Departments of Administration and Information, Corrections, Employment, Family Services, Health, and Workforce Services; the Wyoming Student Loan Corporation; and the Wyoming Women's Foundation. The advisory committee for the Wyoming Standard has recommended using this information in raising awareness about the costs to families and communities when wages are insufficient; developing Wyoming's high-wage jobs sector; encouraging public supports such as food stamps to be used as a step toward self-sufficiency; and providing access to job training and education programs for higher-paying jobs.

This report was prepared with financial assistance from the Wyoming Departments of: Corrections; Employment; Family Services; and Workforce Services; the Wyoming Business Council; and the Wyoming Governor's Office. For more information on the Wyoming Standard, please contact:

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## CENTER FOR WOMEN'S WELFARE

The Center for Women's Welfare at the University of Washington is devoted to furthering the goal of economic justice for women and their families. Under the direction of Dr. Diana Pearce, the Center researches questions involving poverty measures, public policy, and programs that address income adequacy. The Center partners with a range of non-profit, women's, children's, and community-based groups to evaluate public policy, to devise tools for analyzing wage adequacy, and to help create programs to strengthen public investment in low-income women, children, and families. For more information contact:

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The 2007 Wyoming Self-Sufficiency Standard has been prepared through the cooperative efforts of Liesl Eckert, Sarah Fickeisen, Karen Granberg, Katherine Hirst, Lisa Manzer, Kate Morgan, and Maureen Newby at the University of Washington, Center for Women's Welfare; Jeff White, at the Wyoming Department of Workforce Services; and Katie Hogarty and Rob Black at the State of Wyoming, Office of the Governor.

*The conclusions and opinions contained within this document do not necessarily reflect the opinions of those who sponsored this report. Data published in this report is the author's responsibility.*

# Methodology Appendix: Assumptions and Sources

## I. INTRODUCTION

The Self-Sufficiency Standard measures how much income is needed for a family of a certain composition in a given place to adequately meet their basic needs—without public or private assistance.

The Self-Sufficiency Standard calculates a family-sustaining wage that does not require choosing between basic necessities such as child care, nutritional food, adequate housing, or health care. On the other hand, the Standard is a measurement of essentials excluding longer-term needs such as retirement savings or college tuition, purchases of major items such as a car, emergency expenses, or extras such as gifts, video rentals, or soccer fees.

Economic self-sufficiency cannot necessarily be achieved by wages alone. Public work supports (e.g., Medicaid) are often necessary, even critical, for some families to meet the costs of high-price necessities such as child care, health care, and housing. Moreover, long-lasting self-sufficiency involves more than a job with a certain wage and benefits at one point in time. Central to attaining true self-sufficiency is access to education, training, and jobs that provide real potential for skill development and career advancement over the long-term.

Being “self-sufficient,” however, does not imply that any family at any income should be completely self-reliant and independent of one another or the community-at-large. Indeed, it is through interdependence among families and community institutions (such as schools or religious institutions), as well as informal networks of friends, extended family, and neighbors that many families are able to meet both their non-economic and economic needs.

## II. FEDERAL POVERTY LEVEL AND THE SELF-SUFFICIENCY STANDARD

The Federal Poverty Level, or FPL, was developed over four decades ago and is based on the cost of a single

item—food. According to the then-current expenditure patterns, families spent an average of one-third of their income on food. Thus, the basic U.S. Department of Agriculture “thrifty food budget” was multiplied by three to determine the Federal Poverty Level. Although the FPL does vary by family size and is updated annually for inflation, it does not account for the age of children or the geographic location of the family. For instance, the annual 2007 FPL for a family of three (either two adults with one child, or one adult with two children) is \$17,170 across the continental U.S.

The Self-Sufficiency Standard differs from the FPL in five important ways:

1. The Standard independently calculates the cost of each basic need (not just food) and does not assume that any single cost will account for a fixed percentage of the budget.
2. The Standard assumes that all adults—married or single—work full-time and includes all major costs (child care, taxes, and so forth) associated with employment.
3. The Standard varies costs not only by family size (as does the FPL), but also by family composition and the ages of children to create a total of 70 family types.
4. Whenever possible and appropriate, the Standard varies costs geographically (by state, region, county, and in some cases, by city or locality).
5. The Standard includes federal, state, and local taxes (e.g., income, payroll, and sales taxes) and tax credits. Federal tax credits include the Earned Income Tax Credit (EITC), Child Care Tax Credit (CCTC), and Child Tax Credit (CTC). When applicable, state tax credits can include a state EITC and/or other credits applicable to low-income families.

To the extent possible, the data used in the Self-Sufficiency Standard are:

- collected or calculated using standardized or equivalent methodology nationwide;
- obtained from scholarly or credible sources such as the U.S. Census Bureau;
- updated annually (or as updates are available); and, as mentioned,
- as geographically- and age-specific as possible and appropriate.

In addition, as improved or standardized data sources become available, the methodology used by the Standard is refined accordingly.

### III. MONTHLY COSTS

#### Housing

For housing costs, all Standards use the most recent Fiscal Year Fair Market Rents (FMRs), calculated annually by the U.S. Department of Housing and Urban Development (HUD) for each state's metropolitan and non-metropolitan areas. Annual FMRs are based on data from the 2000 decennial census, the biannual American Housing Survey, and random digit dialing telephone surveys. FMRs include utilities (except telephone and cable), and are intended to reflect the cost of housing that meets minimum standards of decency. In most cases, FMRs are set at the 40th percentile, which means that 40% of the housing in a given area is less expensive than the FMR, and 60% is more expensive.

For Wyoming, housing was calculated using the FY 2008 HUD Fair Market Rents. All of Wyoming's FMRs are set at the 40th percentile.

The Standard is calculated for 70 family types for each county in Wyoming and the Wind River Indian Reservation. In order to account for housing cost differences in the northern and southern regions of Lincoln County, the Standard splits Lincoln County into two areas, Lincoln County North and Lincoln County South. Since HUD calculates only one set of

FMRs for Lincoln County, the Standard uses average monthly rental rates published by the State of Wyoming Department of Administration and Information, Economic Analysis Division to calculate separate FMRs for Lincoln County North and Lincoln County South. For Wind River Indian Reservation, the Standard uses Fremont County FMR data. For the rest of Wyoming's counties the Standard uses FMR data without adjustments.

To determine the number of bedrooms required for a family, the Standard assumes that parents and children do not share the same bedroom and no more than two children share a bedroom. For example, a three person household with one adult and two children require two bedrooms while a four person household with one adult and three children requires three bedrooms.

The average cost of housing in Wyoming using 2008 FMRs is 19% higher than the average cost of housing in the Wyoming 2005 Self-Sufficiency Standard using 2005 FMRs.

#### Child Care

Since a basic assumption for calculation of the Standard is that it provides the costs of meeting needs without public or private subsidies, free or unpaid child care provided by relatives and friends or any other private subsidies are not considered when choosing appropriate child care settings.

The Family Support Act, in effect from 1988 until welfare reform in 1996, required states to provide child care assistance at market rate for low-income families who are employed or in education and training programs. States were also required to conduct cost surveys biannually to determine the market rate (defined as the 75th percentile) by setting, age, and geographical location or set a statewide rate. Many states, including Wyoming, have continued to conduct or commission the surveys as well as reimburse child care at this level. Data for the 2007 Self-Sufficiency Standard for Wyoming is from the Wyoming Department of Family Services Market Rate Survey (MRS) for fiscal year 2005-06.

Infant rates (defined by the Standard as 0 to 3 years of age) were calculated by averaging the MRS rates for licensed family care for infants (0 to 52 weeks) and toddlers (1 to 3 years). Wyoming’s licensed center care rates were used to calculate child care costs for preschoolers (defined as 3 to 5 years of age by the Standard and by the Wyoming MRS). To determine the cost for schoolage children (defined as 6 to 12 years of age by the Standard and by the Wyoming MRS), licensed center care rates were calculated as part-time.

The average costs of child care for the 2007 Wyoming Standard are 13% higher for infants, 18% higher for preschoolers, and 15% higher for schoolage children than the average cost of child care for the 2005 Wyoming report.

### Food Costs

Food costs for the Standard are based on the U.S. Department of Agriculture (USDA) Low-Cost Food Plan. Because it is based on more realistic assumptions about food preparation time and consumption patterns, it is about 25% higher than the Thrifty Food Plan. Nevertheless, the Low-Cost Food Plan is still a very conservative estimate of food costs, as it does not allow for any takeout, fast-food, or restaurant meals.

The Standard varies food costs by the number and ages of children and the number and gender of adults. The Standard assumes that a *single-person* household consists of one adult male, while the *single-parent* household has one adult female. A two-parent household is assumed to include one adult male and one adult female.

Geographic differences in Wyoming’s grocery costs were varied using ACCRA’s Cost of Living Index and Wyoming’s Cost of Living Index published by the State of Wyoming Department of Administration and Information, Economic Analysis Division. Overall, across Wyoming, food costs range from being equal to the national average up to 26% higher than the national average.

### Transportation

**Public:** If there is an “adequate” public transportation system in a given area, the Standard assumes workers use public transportation to get to and from work within the same county in which they live. Public transportation use is generally assumed for an entire county when more than 7% of the population in that area uses public transportation; private transportation (a car) is assumed where public transportation use is less than 7%. Public transportation is not assumed for any counties in Wyoming because there are no counties with more than 7% of the population using public transportation.

**Private:** Private transportation costs are based on the average costs of owning and operating a car. One car is assumed for the single-parent family and two cars are assumed for a family with two adults. It is understood that the car(s) will be used to commute to and from work five days per week, plus one trip per week for shopping and errands. In addition, one parent in each household with young children is assumed to have a slightly longer weekday trip to allow for “linking” trips to a day care site. For per-mile costs, driving cost data from the American Automobile Association is used. The commuting distance is computed from the most recent national data available, the National Household Travel Survey 2001.

The statewide average auto insurance premium for a given state is obtained from a survey conducted by the National Association of Insurance Commissioners (NAIC). To create within-state variation between counties in auto insurance premiums, sample premiums are obtained from automobile insurance companies with the largest market shares in the state. Ratios are created by comparing the sample premium for each county to the statewide average premium. For Wyoming, ratios were created for each county using quotes from three of the top five insurance carriers by market share: State Farm Insurance, Farmers Insurance, and Progressive Insurance.

The fixed costs of car ownership such as fire, theft, property damage and liability insurance, license, registration, taxes, repairs, monthly payments, and finance charges are included. The monthly variable costs (e.g., gas, oil, tires, and maintenance) are also included, but the initial cost of purchasing a car is not. To estimate private transportation fixed costs, the Standard uses regional fixed vehicle expense data from the Consumer Expenditure Survey for families with incomes in the second lowest quintile (or with incomes between the 20th and 40th percentile of annual income).

Auto insurance premiums and fixed auto costs are adjusted for inflation using the most recent and region-specific Consumer Price Index.

### Health Care

The Standard assumes that an integral part of a Self-Sufficiency Wage is employer-sponsored health insurance for workers and their families. Nationally, 70% of non-elderly individuals in households with at least one full-time worker have employer-sponsored health insurance coverage. In Wyoming, 68% of non-elderly individuals in households with at least one full-time worker have employer-sponsored health insurance coverage. Nationally, the employer pays 83% of the insurance premium for the employee and 75% of the insurance premium for the family. In Wyoming, the full-time worker's employer pays an average of 85% of the insurance premium for the employee and 81% of the insurance premium for the family.

Health care premiums are obtained from The Henry J. Kaiser Foundation State Health Facts Online, Employment-Based Health Premium for a single adult and for a family. The Kaiser Foundation calculates the average cost of health insurance premiums paid by a state's residents, based on the national Medical Expenditure Panel Survey (MEPS) and adjusted for inflation using the Medical Care Services Consumer Price Index. In order to calculate intrastate regional variation in health insurance premiums, sample quotes are used for a Fortis Insurance PPO plan for six counties in Wyoming. The rest of the counties in Wyoming

were grouped into six geographic regions (with each region containing one of the six counties with quotes). A ratio is created between each of the six regions and the statewide premium to reflect intrastate variation in premium costs.

Health costs also include out-of-pocket costs calculated for adults, infants, preschoolers, schoolage children, and teenagers. Data for out-of-pocket health care costs (by age) are also obtained from the MEPS, adjusted for geographical region (West) using the MEPS Household Component Analytical Tool, and adjusted for inflation using the Medical Care Consumer Price Index.

### Miscellaneous Costs

Miscellaneous items include all other essentials: clothing, shoes, paper products, diapers, nonprescription medicines, cleaning products, household items, personal hygiene items, and telephone. It does not allow for recreation, entertainment, savings, or debt repayment. Miscellaneous expenses are calculated by taking 10% of all other costs. This percentage is a conservative estimate in comparison to estimates in other basic needs budgets, which commonly use 15%.

## IV. TAXES AND TAX CREDITS

### Taxes

Taxes include federal and state income tax, payroll taxes, and state and municipal sales tax where applicable. Federal payroll taxes for Social Security and Medicare are calculated at 7.65% of each dollar earned. Although the federal income tax rate is higher than the payroll tax rate, federal exemptions and deductions are substantial. As a result, while payroll tax is paid on every dollar earned, most families will not owe federal income tax on the first \$10,000 to \$15,000 or more, thus lowering the effective federal tax rate to about 7% for some family types. Wyoming does not have a state income tax.

State sales taxes are calculated only on "miscellaneous" items, as one does not ordinarily pay tax on rent, child care, and so forth. Indirect taxes (e.g., property taxes paid by the landlord on housing) are assumed to

be included in the price of housing passed on by the landlord to the tenant. Additionally, taxes on gasoline and automobiles are included as a cost of owning and running a car. In Wyoming, the state sales tax rate is 4%. Some counties in Wyoming have local sales taxes in addition to the state sales tax. Throughout Wyoming, total sales tax varies from 4% to 6%.

### Tax Credits

The Earned Income Tax Credit (EITC), or as it is also called, the Earned Income Credit, is a federal tax refund intended to offset the loss of income from payroll taxes paid by low-income workers. The EITC is a “refundable” tax credit, meaning working adults may receive the tax credit whether or not they owe any federal taxes.

Although by law an eligible worker can receive part of the federal EITC on a monthly basis (Advance EITC), many workers prefer to receive it annually, as it is difficult to estimate the amount of EITC eligibility due to fluctuating hours and wages. In addition, some workers prefer to use EITC as “forced savings” to meet important family needs, such as paying the security deposit for housing, buying a car, settling debts, paying tuition, or starting a savings account. Thus, nearly all families receive the federal EITC as a lump sum payment the following year when they file their tax returns, even though the Standard shows the EITC as income available monthly. Wyoming does not have a state or local EITC.

The Child Care Tax Credit (CCTC), also called the Child and Dependent Care Tax Credit, is a federal tax credit that allows working parents to deduct a percentage of their child care costs from the federal income taxes they owe. Like the EITC, the CCTC is deducted from the total amount of money a family needs to be self-sufficient. Unlike the EITC, the federal CCTC is not a refundable federal tax credit; that is, a family may only receive the CCTC as a credit against federal income taxes owed. Therefore, families who owe very little or nothing in federal income taxes will receive little or no CCTC. In 2007 a portion of up to \$3,000 in child care costs could be received as a credit for one qualifying child and up to \$6,000 for two or more qualifying children. Wyoming does not have a state level Child and Dependent Care Tax Credit.

The Child Tax Credit (CTC) is like the EITC in that it is a refundable federal tax credit. In 2007, the CTC provides parents with a refundable credit of \$1,000 for each child under 17 years old, or 15% of earned income over \$11,750, whichever is less. For the Standard, the CTC is shown as received monthly. Wyoming does not have a state level Child Tax Credit.

## Data Sources

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<sup>2</sup> According to the Northern Arapaho Tribal Housing Authority, rental options are minimal on the Reservation. Therefore, housing costs for Fremont County were applied to the Wind River Indian Reservation. Personal communication, October 26, 2007.

<sup>3</sup> Almanac of Policy Issues. (2000). *Child care*. (Excerpted from the 2000 House Ways and Means Green Book.) Retrieved October 17, 2007 from [http://www.policyalmanac.org/social\\_welfare/archive/child\\_care.shtml](http://www.policyalmanac.org/social_welfare/archive/child_care.shtml)

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