Better Texas Family Budgets: Methodology

How much income is enough for a working family to first cover the bare necessities? Frankly, the answer is complex. It depends on who is in the family (e.g., one or two adults, number of children), where you live, and what kind of job-based benefits you have. And are family's working to just survive, or is the goal to move forward, build stability, and reach the American Dream?

These questions have profound implications for social policy. The Center for Public Policy Priorities' *Better Texas Family Budgets* project (*Family Budgets*)[1] seeks to provide an answer. The *Family Budgets* are not intended to be a financial planning tool for individual families. Rather, they are designed to be used as a tool for public education, community planning, and advocacy. The *Family Budgets* can be used for education by raising public awareness of the hardships faced by families with limited income, in turn building public support and political will for policies that will increase economic security for all Texans. They can also serve as a realistic benchmark for program planning and evaluation at the local and state level. They also provide hard data to support advocacy for policy and budgetary changes needed to increase family economic security.

The *Better Texas Family Budgets*: A Market-Basket Approach

Using data from the U.S. Census Bureau and other government sources, we created family budgets that measure the cost of meeting basic needs, including housing and utilities, food, medical care, child care, transportation, and other necessities (such as clothing and telephone service) across 27 metropolitan areas for eight different family types. The *Family Budgets* adopt a methodology similar to the "self-sufficiency standard" and "basic family budget" approaches used by a growing number of researchers.[2] These approaches provide an alternative to the official poverty threshold, which many experts now believe substantially understates the level of income necessary to pay the real market costs of the basic budget items that all families need.[3]

Because the *Better Texas Family Budgets* estimate family budgets conservatively, we have excluded from our basic expenses many items that families with moderate and high incomes take for granted, such as dining out, entertainment, vacations, credit card debt, and savings (see more regarding our addition of savings to the 2011 family budgets revision below). So although it accounts for the essential budget items that families cannot safely do without, the *Family Budgets* represent a standard of living that many Texans would find uncomfortably austere. We include expenditures for reading as a component of the miscellaneous necessities budget because it supports the acquisition of information vital to an effective workforce and civic participation.

Because our basic family budgets only meet immediate needs and do not allow for families to plan for the future and move from surviving to thriving, we added three savings categories in this revision (i.e., emergency, college, and retirement) that the user can opt to include when building an estimated family budget. In addition, to provide

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context to the family budget data, we have also added a comparison of the estimated wage necessary to cover a family's expenses to the wage data for that metro area's job market.

Metropolitan Areas

The 27 metropolitan areas selected for the *Better Texas Family Budgets* are the 25 Metropolitan Statistical Areas (MSA) and two Metropolitan Divisions (MD) defined for Texas by the U.S. Office of Management and Budget.[4] This report refers both to MSAs and MDs as metropolitan areas.

In 2005, the U.S. Office of Management and Budget reorganized the nation's MSAs, resulting in Dallas, Fort Worth, and Arlington being combined into one large MSA. Due largely to its size, the Dallas-Fort Worth-Arlington MSA also is broken into two Metropolitan Divisions: Dallas-Plano-Irving and Fort Worth-Arlington. We have included budgets for the larger MSA as well as the "smaller" Metropolitan Divisions within this MSA due to distinct economic and cultural differences between the two areas. The metro areas included in the *Better Texas Family Budgets* are as follows:

Texas Metro Areas
Abilene
Amarillo
Austin-Round Rock-San Marcos
Beaumont-Port Arthur
Brownsville-Harlingen
Bryan-College Station
Corpus Christi
Dallas-Fort Worth-Arlington
Dallas-Plano-Irving MD
Fort Worth-Arlington MD
El Paso
Houston-Baytown-Sugar Land
Killeen-Temple-Fort Hood
Laredo
Longview
Lubbock
McAllen-Edinburg-Pharr
Midland
Odessa
San Angelo
San Antonio-New Braunfels
Sherman-Denison
Texarkana
Tyler
Victoria
Waco
Wichita Falls

We do not include rural areas at this time due to the limitations of some of our data sources, but hope to add them in our next revision.

Family Types

The Better Texas Family Budgets present basic budget estimates for eight family types. Our criteria for selecting family types were selected to provide a snapshot of expenses for a region for families headed by working-age adults. In common use, the term "family" often refers specifically to households with children. We acknowledge, however, that a sizeable number of Texas households consist of one or two adults without children. Therefore, the Family Budgets include the following household types:

- One adult/No children
- Two adults/No children
- One parent/One child
- One parent/Two children
- One parent/Three children
- Two parents/One child
- Two parents/Two children
- Two parents/Three children

There are an infinite range of expenses that a family could face depending on the ages and composition of their children (e.g., child care). In order to enhance the consistency and clarity of our estimates, we made the following assumptions regarding the child composition when calculating budgets for each of our family types:

- 1-child families: preschooler
- 2-child families: 1 preschooler + 1 school-age child
- 3-child families: 1 infant + 1 preschooler + 1 school-age child

Basic Expenses: A Realistic, Yet Conservative, Estimate of Minimum Necessary Income

The intention of the base expenses is to estimate the minimum possible budget for a family that maintains a safe and decent standard of living. To achieve this goal, we used the most current and reliable data available that still proves a conservative estimate of a family's basic expenses. For example, we estimated the housing budget using the U.S. Department of Housing and Urban Development's "Fair Market Rents," the amount allowed for public housing subsidies in local rental markets. We estimated the food budget using the U.S. Department of Agriculture's "Low-Cost Food Plan", the USDA's second lowest estimate of food expenditures. Each plan meets minimum dietary standards recommended but achieves lower costs by including cheaper foods such as bananas versus higher cost berries to get recommended levels of nutrients.[5]

The *Family Budgets* also are notable for what they do not include: birthday and holiday presents, entertainment, cable television, furniture, appliances, consumer debt payments, child school activity fees and uniforms or school photos. We took this approach because we wanted to focus on the most basic economic realities that families confront, not on whether these costs were inflated or whether families use their resources wisely.

To be included in the *Better Texas Family Budgets*, the data first had to be both valid and reliable. To meet these standards, we primarily relied on public data, generally gathered

and analyzed by federal and state agencies, as the basis for our budget estimates. Much of this data was collected over time from large samples using rigorous measurement, data collection, and analysis procedures.

We also chose data sources that would permit us to make specific estimates for each of the individual family types. Where available, we selected sources that provide data at the most specific geographic level possible, particularly for the housing, child care, and medical budget items which show the greatest amount of regional variation.

Finally, we presented only the very basic expenses households face so that the *Family Budgets* would represent the income floor necessary to meet these needs. To satisfy this standard we generally used data sources that produce the most conservative estimates for each item.

What it Costs: 2011 Dollars

The *Better Texas Family Budgets* were created to represent expenses for a family in 2011. We chose 2011 because, for many of our data sources, this was the most recent data available at the time of data collection. Further, at the time of the release of the budgets, the Census Bureau's 2011 poverty and population data was the most current data available to help provide context to the budgets (e.g., how many families made enough to meet our budgets, comparing to how many families lived in poverty).

However, because of the long time lag that can occur before data is publicly available, the most recent data available was not always for 2011. When necessary, we used the Consumer Price Index[6] for all urban consumers (CPI-U) to adjust the data from earlier years to 2011 dollars. The CPI provides a general estimate for cost escalation as well as several different indices to measure escalation in several specific cost areas. We used the CPI that best fit our cost category. We used the 2011 annual averages and compared them to the relevant CPI Index annual averages for the year the data were collected. This allowed us to approximate annual change while making the data as current as possible. Following the Bureau of Labor Statistics' guide for using the CPI for estimating price escalation,[7] we adjusted the remaining data as follows:

Better Texas Family Budgets Cost Category	Original Data Year	CPI Measure	Index for March of the Base Year to 2011
Medical Out-of-Pocket	2009	Medical Care	0.94
Transportation	2009	Transportation Services	0.94
Other Necessities	2009-2010	General CPI-U	0.97

To calculate the final inflation adjustments, we divided the original cost estimate for each data point by the relevant CPI index. Because the "Other Necessities" data were from a two-year sample, we calculated the CPI index from 2010 rather than 2009 to obtain the more conservative inflation estimate.

Housing

For many working families, housing represents one of the largest expenditures of family income. To estimate housing costs, we used Fair Market Rent (FMR) rates for 2011, published by the federal Department of Housing and Urban Development (HUD). Housing costs typically display marked regional variation, and the FMR rates allowed us to incorporate figures specific to each metro area. Although some low-income families own their homes, these families more commonly live in rental housing, making the use of rental data appropriate. In the Housing Choice Voucher program, the FMR for an area is the "amount that would be needed to pay the gross rent (shelter rent plus utilities) of privately owned, decent, and safe rental housing of a modest (non-luxury) nature with suitable amenities."[8]

Although the FMR figures offer a reasonable method for estimating affordable housing costs, they do not address the problem of limited supply of low-cost housing in many parts of the state. While many low-income families in Texas may be able to afford the lowest cost housing options, finding available units at this cost may be an insurmountable challenge in many areas.

Used to establish the amount for the Housing Choice Voucher program[9], FMR rates provide a conservative estimate of housing costs. Generally, they represent the 40th percentile of the distribution of monthly rent and utility costs (excluding telephone) for standard quality housing in each metro area and for rural counties in each state. In other words, 40 percent of rental housing in a given market costs less than the FMR rates, while 60 percent costs more. In some markets with unusually high housing costs, the FMR rates are set at the 50th percentile. For 2011, HUD established 50th percentile FMR rates for the Houston-Baytown-Sugar Land HUD Metro FMR Area.

HUD provides FMR figures for housing that ranges in size up to four-bedroom units; we used FMR amounts for one-, two-, and three-bedroom units. The housing units were assigned to the family types as follows:

Family Type	HUD Housing Unit Sizes
One Adult/No Children	One Bedroom
Two Adults/No Children	One Bedroom
One Parent/One Child	Two Bedrooms
One Parent/Two Children	Two Bedrooms
One Parent/Three Children	Three Bedrooms
Two Parents/One Child	Two Bedrooms
Two Parents/Two Children	Two Bedrooms
Two Parents/Three Children	Three Bedrooms

Food

Underlying the family budget item for food was an assumption that families' expenditures for food should not only prevent hunger, but also supply adults and children with a nutritionally adequate diet.

We calculated expenses for food using figures from the June 2011 Low-Cost Food Plan[10], published by the U.S. Department of Agriculture (USDA), Center for Nutrition Policy and Promotion. Each month, USDA estimates the cost of food for children, adults, and families based on food consumption patterns at four expenditure levels, but do not provide regionally specific figures for expenditures on food.

The Low-Cost Food Plan provides the USDA's second lowest estimate of food expenditures and is more realistic than the thrifty food plan because it includes the cost of prepared foods to be used within recipes and requires fewer preparations from scratch. It also more adequately accounts for food waste including 10% for such instances compared to the 5% of the Thrifty Food Plan. Researchers have found this plan is generally in line with what low- and moderate-income families report that they need to spend on food, as opposed to the lower amount of the Thrifty Food Plan. None of the plans however include spending for fast food or restaurant meals, even though adults working full-time are likely to pay for at least some meals away from home. It also does not accommodate money spent to purchase school lunches.[11]

To calculate the food budget for each of the family types, we first extracted the estimates of food costs for individual children and adults from the USDA's Low-Cost Food Plan as follows.

Age of Family Member	Food Cost Age-group
Infants	one-year-olds
Preschoolers	three-to-five-year-olds
School-age children	food costs for six-to-eight-year-olds
Single adult households	average of food costs for females and males 20 to 50 years old
Two adults, no children	sum of the estimates for 20 to 50 year-old females and 20 to 50 year-old males
Adults in single-parent families	food costs for females 20 to 50 years-old (because women head most single-parent families)
Adults in two-parent families	sum of the estimates for 20 to 50 year-old females and 20 to 50 year-old males

To obtain a total food budget for each family type, we summed the amounts assigned to the individual children and adults it contained. Since USDA provides food costs for individuals assuming that they live in four-person families, it recommends an adjustment for other family sizes: adding 20 percent for one-person households, 10 percent to food costs in two-person families, and 5 percent to costs for three-person families, and subtracting 5 percent for five-person households.[12] Our food estimates incorporate these family size adjustments.

Child Care

Over recent decades, the increased participation of women in the paid labor force and the growing number of single-parent families have made full- or part-time child care

essential. Few low-income working families can rely on informal networks for consistent and suitable child care services. Reliable, safe, and developmentally appropriate child care is expensive, representing for many working families the first or second most costly item in their budget.

The burden of paying for child care is especially pronounced for families with more than one child and for those with younger children. Limited availability of acceptable child care options imposes an additional strain on working families, particularly those who work outside standard business hours and encounter an even more restricted supply of child care services on evenings and weekends.[13]

To estimate child care costs, we relied on 2011 local market rate data for home and center-based care for infants, preschoolers, and school-age children collected for the Texas Workforce Commission by The University of Texas at Austin's School of Social Work and Ray Marshall Center. The 2011 Texas Child Care Market Rate Survey (TCCMRS)[14] reports on the cost of licensed child care centers, licensed child care homes, and registered child care homes for the state's 28 local workforce development boards.[15] From this report, we used the median daily rate of full- and part-time care for infants and toddlers (up to 17 months), preschoolers (three to five years) and school-age children (six years and older) from the TCCMRS.

We performed a series of calculations on this source data to generate child care expenses for children in each age group in each metro area. First, we assumed that families will do all they can to support themselves, requiring all adults to work. This assumption is supported by Census Bureau data indicating that 57 percent of Texas married-couple families with children have one parent that works full-time and a second parent that works at least part time.[16]

Child care expenses for a family could range widely depending on the ages and composition of their children. In order to enhance the consistency and clarity of our estimates, we made the following assumptions regarding the child composition when calculating budgets for each of our family types:

- 1-child families: preschooler
- 2-child families: 1 preschooler + 1 school-age child
- 3-child families: 1 infant + 1 preschooler + 1 school-age child

We also assumed that parents' work schedules would equate to 250 work days per year, allowing for weekends and two weeks of vacation or other leave time during which the children would not need outside care. We assumed that infants and preschoolers would each need full-time care for all 250 days the parents work. We estimated that school-age children would need part-time care for the average 180 days in the school year,[17] and 70 days of full-time care during the summer. Total days of child care were multiplied by the appropriate daily rate (e.g., annual cost for school-age children = (70 days x full-time rate) + (180 days x part-time rate). These annual costs were then divided by 12 to calculate the average monthly expense.[18]

Most metro areas are contained within one local workforce development area. When they were not,[19] we calculated a weighted median cost based on the 0-12 population[20] in each

of the representative counties. We calculated weights by using the percentage of the 0-12 population that the workforce area represented of the total 0-12 population for all counties in the metro area combined. We took that percentage and multiplied it by the cost for each child type within the workforce area and summed across all workforce areas in that metro area.

Once the cost for each child type was calculated, we derived a total child care estimate by summing the cost for the children within each family type. Because many child care providers give a small discount for multiple children from the same family, we then subtracted 10 percent from the cost of the second child's care for two- and three-children families.[21]

Health Insurance Premiums and Out-of-Pocket Medical Expenses

Health insurance is a critical component in ensuring positive outcomes for both children and adults. For this reason, the *Better Texas Family Budgets* incorporate two budget items to cover families' reasonable medical costs: direct costs to the family for health insurance coverage and out-of-pocket medical expenses.

Medical expenses are particularly difficult to measure accurately. Access to employer-sponsored health insurance is inconsistent, with workers in lower-paid jobs disproportionately unlikely to have this coverage.[22] Out-of-pocket medical expenses vary significantly when, for example, families experiencing acute or chronic conditions may pay much higher out-of-pocket costs than families with few health problems.

Health Insurance Premiums. We believe that having health insurance coverage is necessary to insure a safe and decent standard of living, but recognize that the costs differ dramatically depending upon employer-sponsored coverage options. In 2011, 53 percent of Texans under 65 years of age had health insurance through their own or a family member's job, down from 61 percent in 2000.[23] This means that 47 percent of nonelderly Texans pay for private health insurance, rely on public health coverage, or are uninsured. To estimate these differences, the *Better Texas Family Budgets* includes estimates for families with and without employer-sponsored health insurance coverage.

We used the Texas Employees Retirement System's (ERS) 2011 health insurance plan for state government employees to model premium costs for families both with and without access to employer-sponsored health insurance. This approach yields a conservative estimate of families' health insurance premium costs, because it represents premium costs for a large-group plan rather than the more expensive insurance typically available to individuals and smaller employers. Our approach also satisfies another two of our methodological criteria. ERS plan data permits regional precision in estimating costs because the premiums differ across the state, and the data are subject to predictable updates because the state annually revises the plan to reflect rate and coverage changes.

ERS offers three health insurance plans for full-time state employees with prices that vary across different regions of the state. The HealthSelect Plan is available to all state employees, regardless of location. The remaining two plans (Community First Health Plans and the Scott & White Health Plan) are offered in some areas, but not all. Because the service areas do not exactly correspond to the 27 metro areas used in this report, we

identified plans that served every county within each metro area. Twenty-one metro areas are served by only one insurance plan while in the rest, employees can choose one or more optional plans. For metro areas where several plans were available, we selected the lowest-priced option as our estimate of premium costs.

In the budget scenario for families without employer-sponsored health insurance, we estimated health insurance costs based upon the full premium costs—the portion normally paid by the state, and the worker's share—for ERS coverage for the given family type (i.e., employee only, employee plus spouse, employee plus children, or employee plus spouse and children). In the budget scenario for families with employer-sponsored health insurance, we used the ERS plan's cost to the employee for coverage (using the same family compositions as described above). We recognize that this is a conservative estimate of the family's out-of-pocket cost of coverage as the state pays 100 percent of the employee's health insurance premium and 50 percent of the premium for the employee's dependents. This is in keeping, however, with our effort to use conservative measures of basic expenses.

Out-of-Pocket Medical Expenses. We estimated out-of-pocket medical expenses using data from the 2009 Medical Expenditure Survey (MEPS), a large-scale survey of families and individuals, their medical providers (doctors, hospitals, pharmacies, etc.), and employers across the U.S. MEPS collects data on the specific health services that Americans use, how frequently they use them, the cost of the services, and how they paid for them. We used the Household Component of the MEPS, which provides data from individual households and their members.[24] We used the "Total Amount Paid by Self/Family" item as our measure for out-of-pocket medical costs. This item does not include expenses for monthly insurance premiums.

MEPS provides data at the regional level and by age group. We selected MEPS data specific to the Southern region and by age group. We divided the MEPS annual data by 12 to convert it to an average monthly amount. Once the individual categories' averages were calculated, we summed across the different family compositions to estimate each family type's out-of-pocket medical expenses. The data used for each family type are as follows:

Family Type	MEPS Age-Group Categories
One Adult/No Children	One adult age 20-50
Two Adults/No Children	Two adults age 20-50
One Parent/One Child	One adult age 20-50 + one child age 3-5
One Parent/Two Children	One adult age 20-50 + one child age 3-5 + one child age 6-8
One Parent/Three Children	One adult age 20-50 + one child age 0-1 + one child age 3-5 + one child age 6-8
Two Parents/One Child	Two adults age 20-50 + one child age 3-5
Two Parents/Two Children	Two adults age 20-50 + one child age 3-5 + one child age 6-8
Two Parents/Three Children	Two adults age 20-50 + one child age 0-1 + one child age 3-5 + one child age 6-8

Transportation

Transportation represents a significant expense for working families. Adults and children need dependable and reasonably convenient transportation to work and school. Families need transportation for essential personal and family business such as shopping, errands, medical appointments, and children's activities.

In some parts of the country, relatively abundant and accessible public transit can reduce the amount that families need to spend on transportation. In Texas, though, meager public transit resources, sprawling urban areas, and vast rural distances make auto travel a virtual necessity. Like other parts of the country, some regions in Texas also experience what researchers term a "spatial mismatch" when workers live long distances from their jobs and a private vehicle is their only realistic travel alternative.[25] For these reasons, we estimated the cost of travel by private vehicle as the budget item for transportation.

We approximated transportation expenses by multiplying the Internal Revenue Service's 2011 per-mile deduction rate ($0.51), which accommodates vehicle purchase, repairs and maintenance, gasoline, oil, insurance, and registration fees, by the number of miles families drive for work and other essential travel.

The 2009 National Household Travel Survey (NHTS) from the U.S. Department of Transportation's Bureau of Transportation Statistics served as source data for measuring families' automobile travel. The NHTS provides data on the number of drivers and number of miles driven annually at national and state levels and by size of metropolitan area, ranging from populations of less than 250,000 to 3 million or more. Because our budget estimates include only essential needs, we used mileage figures for work-related and non-social travel only. Using the NHTS data, we created transportation calculation tables using the average monthly privately-operated vehicle miles per driver for work-related and non-social trips. We calculated the average number of work-related and non-social vehicle miles driven per person by dividing the number of vehicle miles traveled by the number of drivers in Texas in different MSA sizes.

Once calculations were completed, we mapped the NHTS data onto each of Texas' metro areas using their population size categories according to the U.S. Census Bureau's 2010 Decennial Census. We then applied the final transportation cost estimates to each family type based on whether they had one or two adults in the family. For family types with one adult, we totaled the average monthly miles for work-related and non-social trips and multiplied this sum by the 2011 IRS mileage reimbursement rate. In family types with two adults, we assumed that the second adult would repeat the work-related travel but not the social travel, and then multiplied this sum by the 2011 IRS mileage reimbursement rate. These monthly transportation expenses were calculated within each metro area range of the NHTS.

Other Necessities

Major budget items, such as housing and child care, account for the bulk of families' essential spending. Considered item by item, other necessities such as telephone service, clothing, housekeeping supplies, and personal care products appear to make a smaller demand on families' financial resources. Together, though, these items represent a nontrivial necessary expense.

We measured the cost of other necessities using two-year data from the U.S. Bureau of Labor Statistics' 2009-2010 Consumer Expenditure (CE) Survey. To begin, we extracted CE data on annual household spending for local telephone service; housekeeping supplies; personal care products and services; apparel for men, women, infants, boys, and girls; footwear; and reading. We include expenditures for reading as a component of the miscellaneous necessities budget because it supports the acquisition of information vital to effective workforce and civic participation.

For the apparel costs in single adult households, we averaged the "Men, 16 and over" and "Women, 16 and over" categories and then added the "Footwear" category to determine total spent on apparel for the year. For the two adult, no children household, we summed the "Men, 16 and over" and "Women, 16 and over" categories and then added the "Footwear" category to determine total spent on apparel for the year. Since women head most single-parent families, we used the "Women, 16 and over" apparel expenditures for family types with one adult. Estimates of spending on school-age children's apparel are the average of boys' and girls' apparel costs.

The CE provides annual expenditure data by household size within income groupings that range from less than $5,000 to more than $70,000 in annual income. To approximate families' income, we totaled housing, food, child care, medical insurance, medical out-of-pocket, and transportation costs for each family type. We then selected expenditures from the CE based on the family type and approximated income. We then divided the annual total by 12 to estimate the monthly expense. The use of pooled two-year CE data helped to correct for the reduction in sample size resulting from the selection of expenditure data from these household sizes and income groups.

Taxes and Tax Credits

The *Better Texas Family Budgets* aim to assess, as accurately and comprehensively as possible, the income families need to cover their expenses. For this reason, we have factored in the federal taxes that working families pay as a non-discretionary expense that reduces resources available to meet other essential needs. The *Family Budgets* include only *federal* payroll and personal income taxes as expense items.[26] Families who pay federal income taxes may also qualify for the Child Tax Credit and the Child and Dependent Care Credit. Some lower-income working families may also benefit from the refundable Earned Income Tax Credit (EITC), which they can receive even if they pay no income taxes at all.

Because the tax code is complex, the *Better Texas Family Budgets* make a number of simplifying assumptions that may differ from the circumstances of any specific family. It assumes all income is from wages. For married filers, it assumes that income is split evenly between two earners. It assumes that income does not vary over the course of the year. It also assumes that taxpayers claim the standard deduction.

We did not separately estimate property taxes or sales taxes. The Fair Market Rent rates used to measure housing costs incorporate local property taxes. The Consumer Expenditure Survey includes state and local sales taxes within its data on household expenditures for miscellaneous necessary items.

To estimate federal taxes for the *Better Texas Family Budgets*, we first totaled the cost of housing, food, child care, medical insurance, medical out-of-pocket, transportation, and other necessities and multiplied this sum by 12 to estimate the necessary annual net income for each family type in each metro area. This amount approximates the income families require to meet the cost of basic necessities. We then created a tax calculator using formulas from the 2011 tax code to determine payroll (i.e., Social Security and Medicare) and personal income taxes, as well as whether the families were eligible for the Child Tax Credit, the Child and Dependent Care Credit, or the EITC. For more information, see http://www.taxpolicycenter.org/press/quickfacts_CDCTC.cfm.

For single-adult households, we followed tax rules for "single" filing status. For single-parent families we used the "head of household" filing status. We used the "married filing jointly" filing status for families with two adults. We entered the standard deductions for each filing status into our tax calculations for corresponding family types. Exemptions matched the number of adults and children in each family type.

The *Family Budgets* were designed so that once the estimated adjusted gross income was adjusted for taxes paid and tax credits, we were left with an estimated net income. We then compared this number to the original necessary annual (i.e., net) income estimate. We continued to adjust the overall gross income until the difference between the necessary net income and the tax calculator net income calculation were within one dollar of each other. We conducted these tax calculations for each family type in each metro area for budgets both with and without employer-sponsored health insurance.

Savings Calculations

Over the last decade, our *Better Texas Family Budgets* project has sought to help answer the question of not only what it really takes to "get by", and has become highly influential in the advocacy and policy worlds. In the 2013 revision, *The Better Texas Family Budgets* broadens the scope of defining basic family economic security to include basic savings. Today, the *Family Budgets* project provides data on both the minimum amount that it takes for a family to make ends meet and also what it takes to "get ahead" in Texas.

Unfortunately, the Corporation for Enterprise Development (CFED) *2012 Assets & Opportunity Scorecard* ranked Texas 41st in the country overall for how their residents fare in terms of achieving financial security across 52 measures in five different issue areas.[27] In our online tool, we include the following savings options for the user to include in the basic budget: no savings, emergency savings, retirement savings, and/or college savings.

Emergency Savings. Many of Texas' residents have jobs, but they lack adequate savings or other assets to cover expenses for three months if they lose a steady income. Even in a strong economy, households at every level of the economic spectrum can be negatively impacted by unexpected changes in needs or resources. Such economic shocks can include loss or reduction of income through job loss, loss of income supports (e.g., child support), or an unexpected increase in expenses (e.g., health crisis).[28]

According to the 2012 CFED Assets and Opportunity Scorecard, 27.7 percent of Texas households are "asset poor," meaning they have little or no financial cushion to rely on if unemployment or another emergency leads to a loss of income. Excluding important assets such as a vehicle or home, the (liquid) asset poverty rate increases to 50.6 percent of Texas residents.

We included emergency savings in the 2013 revision because we believe that such savings are a critical component to insuring family economic security, particularly during a time of hardship for families or the economy at large.[29]

We calculated emergency expenses using the following assumptions:

- If the hypothetical family created in the *Family Budgets* has two adults, both would be in the workforce making an equal income. Their emergency savings, however, is only enough to cover expenses if one worker was unemployed at a time. Thus, you would only need to save enough to cover half of the necessary expenses.
- The unemployed worker would be eligible for and receive unemployment insurance, thus reducing the amount they would need to save to cover basic expenses. In Texas, the WEEKLY unemployment benefit amount is equal to 4% of the amount made by the worker during their highest-earning QUARTER. We assume the annual salary stays constant over the whole year, making the weekly benefit 1% (i.e., 4% of 25%) of your annual salary at the time you lose your job.[30] For our purposes, annual salary equals the *Family Budget's* estimated total necessary annual income for a one-adult household and half of the estimated total necessary annual income for a two-adult household.
- Even if the hypothetical family was selected to have employer-sponsored health insurance, their emergency savings would include enough to cover health insurance in case the person who lost their job was the adult with the job that provided health coverage for the family. That means that our calculations for emergency savings for all family types *regardless of whether the user chose for this family to have employer-sponsored health insurance or not* would be based on the health insurance premium cost estimated for those families without employer-sponsored health insurance.
- The average Texas employee tenure was estimated to be 4.5 years according to the 2010 CPS Job Tenure Supplement.[31] Thus, we assumed that our hypothetical families in our *Family Budgets* would have 4.5 years (or 54 months) to build up their emergency savings before a potential job loss.
- Although the average Unemployment Insurance receipt in 2011 was 14.5 weeks (approximately 3.5 months), we felt that, to stay frugal and to be consistent with the definition of asset poverty[32], we would calculate emergency savings to cover expenses for three months.
- Money would be saved monthly and would be put in an interest bearing account. We calculated the interest the savings would accumulate for each year saved (i.e., 4.5 years), assuming the interest would be equivalent to the average interest earned between 2009- 2011 a 4-week treasury bill.[33] We calculated the interest via the compound savings rate (see formula below).

- The household would cease to save during their time of unemployment, reducing their monthly expenses to just their basic expenses (i.e, expense categories listed above).
- The cost of basic expenses after 4.5 years of work would increase at the average rate of 2.42%, or the average annual increase in the Consumer Price Index for All Urban Consumers (CPI-U) from 2002-2011. Thus, basic expenses would be estimated to cost 2.42%*4.5 or 10.89% more than the cost of those expenses in the base year.

Formula for 1 ADULT EMERGENCY SAVINGS	Total need to cover expenses for estimated time of unemployment minus estimated UI total benefit
IN TEXT	((((TOTAL MONTHLY EXPENSES WITHOUT ESHI*12/52)*ADJMNT FOR INFLATION TO 4.5YRS FROM NOW)*AVG WKS UI)-(BASE NECESSARY ANNUAL INCOME*UI payment rate*AVG WKS UI))/COMPOUND SAVINGS RATE)/# MONTHS DURING AVG EMPLYM TENURE
WITH NUMBERS	((((FINANCIAL CATEGORY CODE 8*12/52)*1.1089)*12)-(FINANCIAL CATEGORY CODE 16*.01*12))/POWER(1+.08,4.5))/(4.5*12)
Formula for 2 ADULT EMERGENCY SAVINGS	Total need to cover expenses for estimated time of unemployment minus estimated UI total benefit
IN TEXT	((((TOTAL MONTHLY EXPENSES WITHOUT ESHI/2*12/52)*ADJMNT FOR INFLATION TO 4.5YRS FROM NOW)*AVG WKS UI)-(BASE NECESSARY ANNUAL INCOME/2*UI payment rate*AVG WKS UI))/COMPOUND SAVINGS RATE)/# MONTHS DURING AVG EMPLYM TENURE
WITH NUMBERS	((((FINANCIAL CATEGORY CODE 8/2*12/52)*1.1089)*12)-(FINANCIAL CATEGORY CODE 16/2*.01*12))/POWER(1+.08,4.5))/(4.5*12)

Variables to calculate the monthly savings:

ADJMNT FOR INFLATION TO 4YRS FROM NOW	1.1089
AVG WKS UI	12
UI PAYMENT RATE	0.01
COMPOUND SAVINGS RATE[34]	POWER(1+ANNUAL SAVINGS ACCOUNT RATE,YRS EMPLYM TENURE)
2009-2011 Avg 4-wk TREASUREY BILL RATE	0.08
YRS EMPLYM TENURE	4.5
MONTHS DURING AVG EMPLYM TENURE	YRS EMPLYM TENURE*12

Once we determined the amount of money needed to build emergency savings, we also calculated the additional taxes, and thus the additional income that would be required, to completely cover the inclusion of emergency savings in the family's budget (see Taxes section above for details regarding calculation methodology).

Retirement Savings. Approximately 54 percent of Texans to not have access to an employer-sponsored retirement plan[35], and 64 percent do not have access to employer-sponsored pensions.[36] While clearly the majority of Texans does not have access to employer-based retirement savings, we included the option to add this type of savings to our hypothetical families' budgets because of the importance retirement savings plays for a family's long-term financial security. Further, we created the *Family Budgets* data so that it can speak to the components that define a "good job" in Texas. Therefore, we based our retirement savings estimate on Texas' mandatory retirement plan contributions for all state employees and elected officials.[37] In Texas, membership is typically a condition of state employment and mandatory for most employees. To calculate the amount of monthly retirement savings, we multiplied Texas' mandatory deduction rate of 6.5 percent by the base necessary annual income divided by 12 (i.e., the annual income with taxes that covers the basic expenses of housing, food, etc.—but excluding income that would be needed to cover any of the savings options—divided by 12 to determine the monthly contribution). We assumed the retirement contribution was made pre-tax, and thus would have no impact on the taxes calculated for the *Family Budgets.*

College Savings. A postsecondary degree generates upward mobility for economically disadvantaged students. A low-income child who earns a college degree is four times more likely to become a top-income earner in adulthood compared to a low-income child without a college degree.[38]

In growing numbers, Texas college students are attending community colleges as opposed to four-year universities. Nearly half (49 percent) of Texas college students attend community colleges, where the majority of enrollment growth has occurred since

2000.[39] For this reason, we estimate that if the user selects to include college savings in the hypothetical family's budget, the savings amount will be based upon the cost for Texas public two-year colleges.

To estimate the monthly amount needed to invest for college savings, we made the following assumptions:

- The family would be saving via the Texas Tuition Promise Fund (see below for more details) for all children selected by the user for 30 semester credit hours of tuition and required fees at the weighted average cost of all eligible Texas public two-year colleges or universities.
- The ages of the children in the hypothetical family are based on the age groups described above for child care expenses. In order to estimate the needed monthly saving amount, the Texas Tuition Promise Fund Tuition Planning Calculator[40] requires a birth date be included for each child. The hypothetical birthdates of the children are as follows:
    - 1-child families: preschooler (7/1/2009)
    - 2-child families: 1 preschooler (7/1/2009) + 1 school-age child (7/1/2005)
    - 3-child families: 1 infant (7/1/2012) + 1 preschooler (7/1/2009) + 1 school-age child (7/1/2005).
- Savings began during this budget planning period, and assumes no other college funds have been saved to date. In other words, a hypothetical family with three children would have approximately 18 years to pay for an infant's 30 credit hours, but only 11 years to pay for the school-age child, thus leading to a higher needed monthly contribution.

The Texas Tuition Promise Fund is designed to help families and individuals prepay for all or some future tuition and required fees at any two- or four-year Texas public college or university. Account holders purchase Tuition Units, which represent a fixed amount of undergraduate resident tuition and required fees charged by Texas public colleges and universities.

Using the Texas Tuition Promise Fund Tuition Planning Calculator, we estimated that our hypothetical families would need to save the following monthly amount:

	Monthly Savings Amount
1 child	$21.06
2 children	$46.84
3 children	$65.93

Because the Texas Tuition Promise Fund does not allow you to make pre-tax contributions from your paycheck, we also calculated the additional taxes, and thus the additional income that would be required, to completely cover the inclusion of college

savings in the family's budget (see Taxes section above for details regarding calculation methodology).

Wage Calculations

The *Better Texas Family Budgets* not only compile the cost of budget items described above but also translate those costs into the wages necessary to meet these household expenses. This wage calculation illustrates the amount of income necessary to pay for basic needs when households receive no subsidies or benefits (other than federal tax credits), such as housing assistance, the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps), subsidized child care, employer-provided health insurance, Medicaid, or CHIP.

This is an important exercise for two reasons. First, it is essential to recognize the full cost of providing basic family needs. Many families face these costs alone. Despite our conservative methodology, these budget figures and the income necessary to meet them may surprise some readers. Second, these calculations make it clear that many working families do not earn wages adequate to provide basic household necessities. In these cases, it will take a portfolio of wages, benefits and other resources and services to provide economic security for many low-income households. Without such support, too many Texas families often are forced into choices such as between paying health care bills or keeping food on the table.

The income calculations in the *Better Texas Family Budgets* present necessary annual and monthly gross income and a corresponding household hourly wage. We base these calculations on an assumption of full-time employment—40 hours per week for 50 weeks per year. The final wage numbers reflect the total amount that the family must bring home, whether from a single worker or from two workers combined. If one worker from a two-parent family has a job that pays a wage that is high enough, the family's expenses may be reduced by the cost of child care if the other parent is able to stay home with the children. We do not offer this option when building a *Better Texas Family Budget, however*, as 70 percent of Texas kids have all available parents in the workforce.[41]

This approach reflects our conservative methodology and the assumption that families will do all they can to earn the income necessary to meet their needs. In actuality, though, many low-wage jobs do not offer consistent or full-time work. Low-income families frequently find themselves patching together two or three part-time jobs to make ends meet, adding additional stress and difficult logistics to their lives.

The final wage calculation is a comparison of the annual income required for each family type to the 2011 Federal Poverty Guidelines for households of comparable size. To express this relationship, we present both the official Federal Poverty Guideline for that family size, and the Better Texas Family Budget necessary annual income as a percentage of this measure.

Better Texas Family Budgets Jobs Data

Data on the availability of jobs that pay enough to meet basic needs was obtained through the United States Bureau of Labor Statistics' Occupational Employment Statistics

data, which contains the United States Department of Labor's official estimates for employment and wages, by job, in each metropolitan area (available at http://www.bls.gov/oes/#data). Approximately 800 specific jobs are included in the survey, grouped into 22 higher-order categories (for example, the category "Personal Care and Service Occupations" includes the jobs "childcare workers" and "manicurists and pedicurists.") At the time of analysis, the most current data available were from May 2011.
The two principal OES data types used here were the median hourly wage and "jobs per 1000" (the number of, say, childcare workers per 1000 jobs in the metro area) which converted to a percentage (a rate of 35 jobs per 1000 was converted to a 3.5% share of the workforce). In the original OES data set, available for download, these columns are entitled "H_MEDIAN" and "JOBS_1000" respectively.

There were some areas of missing data, where estimates were made as follows:

***Jobs where the median hourly wage was too high*.** For a few very high-paying jobs (such as dentist and surgeon) the hourly median wage was replaced in the OES data with a notation stating that the job has an hourly median wage over $90. In such cases, $90.00 was used for the hourly median wage; since $90/hour obviously is enough to meet basic needs for any family type, it was not necessary to obtain actual estimates for jobs that pay above $90/hour (since all that matters is whether or not any given job meets basic needs, not the exact wage).

Jobs where no hourly median wage was available, but an annual median salary was available. This applied to some jobs not involving year-round work, like public school teacher. For these jobs, an estimated median hourly wage was obtained by dividing the median annual salary by 2000 hours (an estimate based on a full year of 40-hour work weeks minus ten days of uncompensated vacation/sick leave). This may not reflect the actual hourly pay of teachers, but it does allow their income to be directly compared to year-round jobs.

Jobs where neither an hourly median wage nor an annual median salary was available. In a small number of cases, neither of these numbers were available (this only applied to certain jobs in certain metro areas, not to any job across the board; also, no teaching job fell into this category). In these cases, the statewide hourly median wage for that job was used as an estimate for the hourly median wage within the metro area.

The only job for which neither a local hourly median wage, nor a local annual median salary, nor a statewide hourly median wage or annual salary was available was federal prison guard in Texarkana. For this job the federal civil service pay scale was used to obtain an hourly median wage.

Jobs where no data on the frequency of the job was available. Each metro area had a handful of jobs that fell into this category. For these jobs, the following procedure was used to obtain frequency estimates, with the procedure being repeated for each metro area:

1. The total "missing" percentage of jobs for each metro area was calculated. For example, in Abilene, the frequency numbers for all the jobs that have available frequency data add up to 85%, leaving 15% "missing."
2. This means that the jobs with missing frequency data, together, account for 15% of all jobs in Abilene.
3. The *statewide* frequency numbers for each of these missing jobs were added up.
    a. As a simplified example with made-up numbers, say there are three jobs in Abilene with no frequency data available – pharmacy technician, bus driver, and warehouse clerk. In Texas as a whole, warehouse clerks account for 5% of jobs, bus drivers for 3%, and pharmacy technicians for 2%, so these three jobs together account for 10% of jobs at the state level (but 15% of jobs in Abilene).
4. The percentage of the statewide total each of these missing jobs makes up is calculated.
    a. In the example above, warehouse clerks would be 50%, bus drivers 30%, and pharmacy technicians 20%.
5. Those percentages are then applied to the percentage of missing jobs in Abilene.
    a. In the example above, warehouse clerks would then account for 50% of 15%, or 7.5%, of jobs in Abilene; bus drivers would account for 4.5%, and pharmacy technicians would cover the remaining 3%.
6. To summarize, in each metro area, the total amount of missing frequency data is allocated to the specific jobs missing frequency data, in proportion to how common those jobs are at the state level.

Conclusion

The *Better Texas Family Budgets* is a tool that helps us gauge economic reality for low- and moderate-income working families. The *Family Budgets* provide a benchmark against which to examine wages, benefits and the network of services within each community. To the extent that working families are playing by the rules, working hard, and yet still not making it, we can use this data to help build a portfolio of resources that will fill in the gaps.

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Endnotes

[1] The *Better Texas Family Budgets* are the third revision of the center's family budgets work. Prior reports were titled *Family Economic Security Index* (2001) and *The Family Budget Estimator* (2007). Although revisions, the current and prior budgets cannot be compared as the methodology changed between each revision, including changes in the metropolitan statistical areas, a change in the sources for the food and child care estimates, and the addition of savings estimates.

[2] See the Economic Policy Institute's Basic Family Budget Calculator (http://www.epi.org/resources/budget/) and Wider Opportunity for Women's *Basic Economic Security Tables* (http://www.wowonline.org/usbest/).

[3] For more information, see the Census Bureau's report, The Research Supplemental Poverty Measure: 2010 at http://www.census.gov/prod/2011pubs/p60-241.pdf

[4] To learn more, visit the Office of Management and Budget's website at http://www.whitehouse.gov/sites/default/files/omb/assets/bulletins/b10-02.pdf

[5] Nord, M. & Hopwood, H. (2007). Higher cost of food in some areas may affect Food Stamp households' ability to make healthy food choices. Economic Information Bulletin, 29-3. Washington, DC: U.S. Department of Agriculture, Economic Research Service.

[6] The CPI measures the average change in the prices paid for goods and services.

[7] See http://www.bls.gov/cpi/cpi1998d.htm for general information on the CPI, and http://www.bls.gov/cpi/#tables for the conversion tables.

[8] http://www.huduser.org/portal/datasets/fmr/fmr2011f/FY2010F_FMR_Preamble.pdf

[9] U.S. Department of Housing & Urban Development Office of Policy Development & Research (July 2007). Fair Market Rents for the Section 8 Housing Assistance Payments Program: http://www.huduser.org/portal/datasets/fmr.html

[10] We used June data because USDA uses that month to represent the annual average.

[11] Nord, M. & Hopwood, H. (2007). Higher cost of food in some areas may affect Food Stamp households' ability to make healthy food choices. Economic Information Bulletin, 29-3. Washington, DC: U.S. Department of Agriculture, Economic Research Service.

[12] Official USDA Food Plans: Cost of Food at Home at Four Levels, U.S. Average, June 2011 (see footnote 3). http://www.cnpp.usda.gov/Publications/FoodPlans/2011/CostofFoodJun2011.pdf

[13] http://www.utexas.edu/research/cshr/pubs/pdf/FINAL_Gap_Analysis_Nov_7_2012.pdf

[14] http://www.utexas.edu/research/cshr/rmc1/index.php/publications/all-publications/832-2011-texas-child-care-market-rate-survey.html?catid=9%3Aabout

[15] See http://www.twc.state.tx.us/dirs/wdbs/wdbmap.html for a map of the state's workforce board regions.

[16] U.S. Census Bureau's 2011 American Community Survey, 1-year estimates, Table B23010.

[17] The Texas Education Code requires each school district to provide at least 180 days of instruction for students each school year, according to Texas Education Code, §25.081.

[18] We recognize that child care expenses will change across the year as children age (i.e., move from an infant to a toddler room) or, for older children, when school is out for the summer. However, for clarity we chose to estimate child care expenses as consistent from month-to-month.

[19] This more complex calculation was necessary for the Austin-Round Rock MSA, Dallas-Fort Worth-Arlington MSA, Dallas-Plano-Irving MD, and Fort Worth-Arlington MD. Although the Houston-Baytown-Sugar Land MSA represents 2 WDAs (Gulf Coast & Deep East Texas), we only used the Gulf Coast WDA child care market rates to estimate the cost of child care for this MSA. This is because only one county in the Deep East Texas WDA, San Jacinto County, falls within the Houston MSA AND that this county's 0-12 population accounts for <1% of the total 0-12 population across the counties represented within the entire Houston MSA.

[20] Population data from 2010 Decennial Census, U.S. Census Bureau.

[21] To determine the appropriate amount to apply for the multiple-child discount, we randomly surveyed 51 child care providers across the metro areas regarding their discount policies for our 2007 version (see Family Budget Estimator). Twenty-five percent gave less than a 10 percent discount while 26 percent gave a 10 percent or greater discount.

[22] Based on Census Bureau's Current Population Survey, only 12% of people living below poverty, and only 31% of Texans living between 100-200% of poverty had employment-based insurance in 2011. By comparison, 72% of Texans living in households with incomes greater than 200% of poverty had employment-based insurance in 2011.

[23] U.S. Census Bureau, Current Population Survey Table HIB-6. http://www.census.gov/hhes/www/hlthins/data/historical/HIB_tables.html

[24] For more information on the MEPS, see: http://meps.ahrq.gov/mepsweb/

[25] Ihlanfeldt, K. (1994). Proceeding of the Regional Growth and Community Development Conference, November 1993. CityScape, U.S. Department of Housing and Urban Development. http://www.huduser.org/Periodicals/CITYSCPE/VOL1NUM1/ch11.pdf

[26] Texas is one of a few states with no state personal income tax. Therefore, our budgets do not include state income taxes as an expense (or credit) item.

[27] CFED (2012). *Assets and Opportunity Scorecard: Texas.* Retrieved 1-6-13 from http://scorecard.assetsandopportunity.org/2012/state/tx.

[28] Urban Institute (2012) *Can Savings Help Overcome Income Instability? http://www.urban.org/publications/412290.html*

[29] To learn more, see Urban Institute (2012) *Can Savings Help Overcome Income Instability? http://www.urban.org/publications/412290.html* and Baylor, D., & Rosen, L. (2012). *Dollar for Dollar: Incentives and Innovations to Boost Savings in Texas.* Center for Public Policy Priorities. *http://www.opportunitytexas.org/images/stories/dollar_for_dollar.pdf*

[30] Texas Labor Code, Title 4. Employment Services and Unemployment, Subtitle A. Texas Unemployment Compensation Act, Chapter 207. Benefits, Subchapter A. Payment of Benefits, Section 207.02.

http://www.statutes.legis.state.tx.us/Docs/LA/htm/LA.207.htm

[31] http://www.nber.org/data/current-population-survey-data.html

[32] Asset poverty is the inability for households without sufficient net worth to subsist at the poverty level for three months in the absence of income. See http://scorecard.assetsandopportunity.org/2012/measure/asset-poverty-rate?state=tx

[33] Average annual 4-week treasury bill rates (secondary market) from the Federal Reserve Bank historical data. http://www.federalreserve.gov/releases/h15/data.htm.

[34] Formula for compound interest rates: http://en.wikipedia.org/wiki/Compound_interest

[35] AARP Auto IRA State Fact Sheet: Texas. Retirement plan data from AARP's analysis of data from the 2006-2008 March Supplement of the Current Population Survey, U.S. Census Bureau.

[36] 2012 Working Poor Families Project, Population Reference Bureau analysis of March 2009-2011 CPS Supplement.

[37] Texas Comptroller of Public Accounts, Texas Payroll/Personnel Resource, Mandatory Retirement Plan Contributions https://fmx.cpa.state.tx.us/fm/pubs/paypol/mandatory_deductions/index.php?section=retirement&page=retirement

[38] Brookings Tabulations of PSID data, Isaacs, Sawhill & Haskings, February 2008, Children in the Bottom income Quartile. For more, see Helmcamp, L. (2012). *The Cost of College: How Texas Students and Families are Financing College Education.* Center for Public Policy Priorities. http://www.forabettertexas.org/images/EO_2012_05_RE_FinancialAid.pdf

[39] TG Research and Analytic Services, State of Student Aid and Higher Education in Texas (SOSA), November 2011, retrieved from www.tgslc.org/pdf/sosa.pdf.

[40] See the Texas Tuition Promise Fund Tuition Planning Calculator at http://www.archimedes.com/oppenheimer/promisefund.phtml

[41] Population Reference Bureau analysis of 2011 American Community Survey data, as reported in Kids Count Data Center, http://datacenter.kidscount.org/data/acrossstates/Rankings.aspx?ind=5060.