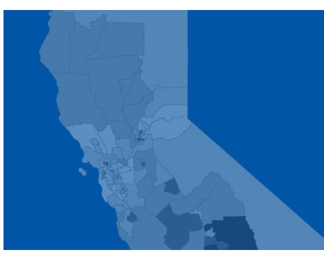

Struggling to Stay Afloat: The Real Cost Measure in California 2019

Betsy Baum Block, Henry Gascon and Peter Manzo

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United Way

United Ways of California

The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough to those who have little.

FRANKLIN DELANO ROOSEVELT
Second Inaugural Address
January 20, 1937

EXECUTIVE SUMMARY

United Way believes that everyone deserves an opportunity to achieve the building blocks of a good life: a quality education, income that can support a family through retirement, and good health.

The Real Cost Measure shows there are more Californians living in poverty than most people think. Poverty is grossly undercounted across the nation, but especially so in California, since most Californians live in high cost areas. Overall, we find **more than one in three households in California, over 3.8 million, struggle to meet basic needs.**

But if this is all we needed to know, however, there would be no need for this report.

The Real Cost Measure goes beyond this headline to uncover the real number of households in each of our communities that struggle to meet basic needs. This public data release applies the Real Cost Measure to estimate the income required to meet a bare bones household budget for a given household type for every county in California, and then analyzes Census data to determine how many households in each county and neighborhood have income below that level. This basic needs budget approach intuitively conveys a better sense of hardship for families by recognizing local costs and invoking the trade-offs families must make between competing needs – if families do not have enough income, do they sacrifice on food, child care, rent or something else?

The Real Cost Measure also provides insights about families in specific situations—how many adults in the household, their educational attainment, gender and ethnicity of householders, the presence of children—to enable communities to develop approaches targeted to their different challenges. These struggling families reflect the diversity of California; they come from every household composition, represent every racial and ethnic group.

Some families may be drowning, some treading water, others swimming and still others climbing into their boat and setting a course, and different strategies and resources are relevant and available to them at different stages.

We hope the portrait of need inherent in the Real Cost Measure helps leaders from all sectors identify the level of need in their communities more clearly and;

- Set a bar for the level of effective buying power we want to help families reach and the least decent standard of living we, as a society, allow
- Enable communities to engage in a rich and accessible conversation about the needs of struggling families, and the trade-offs they make
- Promote a better understanding of how families in different situations have different needs, even if they have similar total income and;
- Identify possible advocacy levers for helping families in different situations

A Better Measure of Financial Hardship

The federal government's official poverty measure vastly understates poverty. Established during President Lyndon Johnson's "War on Poverty," the Federal Poverty Level (FPL) has two primary flaws: (1) its formula is primarily based on the cost of food, and in the decades since it was created, the costs of housing, transportation, child care, health care, and other family necessities have risen far more rapidly than food costs and (2); it neglects regional variations in cost of living, and most Californians live in high-cost areas.

As a result, the true extent of families contending with deprivation is hidden. Many of these hidden poor find they earn too much to qualify for most public services, yet still struggle to meet their most basic needs, especially as the costs of housing, health care, and other necessities continue to rise faster than wages.

This public data release applies the Real Cost Measure, a basic needs budget approach, to better understand the challenges families face. The Real Cost Measure has two primary components:

- Household budgets: estimates of the costs of meeting basic needs for different households in a given area, based on data that account for variation in local costs of living and;
- Neighborhood-level demographics: an estimate based on Census data of how many households have income below those local budgets

Such a basic needs budget approach is intuitive and easy for most people to understand as it is grounded in a household budget composed of costs all families must address such as food, housing, transportation, child care, out-of-pocket health expenses, and taxes. This approach takes into account different costs of living in different communities, and also conveys a better sense of the hardship for families because it invokes the notion of trade-offs between competing needs—if you have an inadequate level of income, do you sacrifice on food, gas, or child care?

The Real Cost Measure is applied through different lenses. At the geographic level, we conduct an "apples to apples" comparison among regions, counties, and neighborhood clusters through public use microdata areas (PUMAs). PUMAs are contiguous neighborhood clusters consisting of at least 100,000 residents, and are calculated every decennial Census. We also view the Real Cost Measure through ethnicity, gender, nativity, occupational type, marital status, educational attainment, employment status, housing type, and more. (we applied the Real Cost Measure to nearly 1,200 households to each of California's 58 counties, up to 21 adults in a household). For more information including interactive maps, an interactive dashboard on household budgets, county profiles, and a downloadable public data set, please visit **www.unitedwaysca.org/realcost.**

Key Findings

Among the key findings of this public data release include:

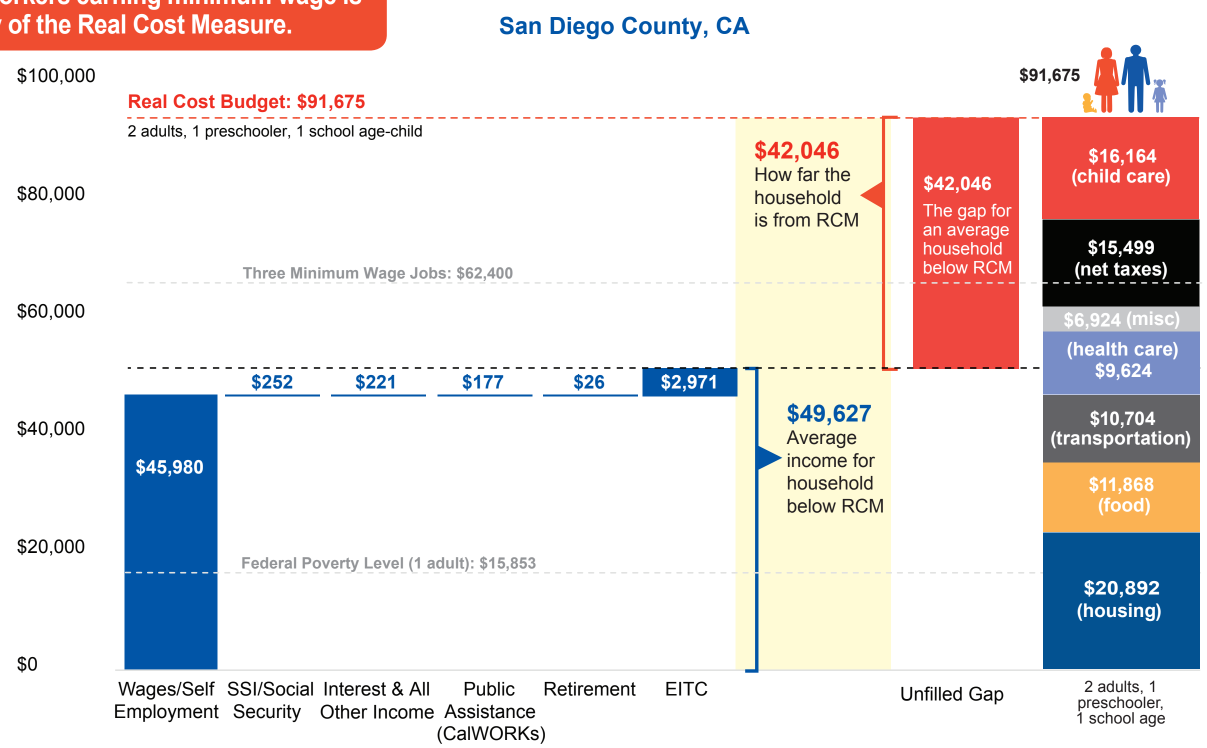
More than One in Three Households in California Struggle to Meet Basic Needs

More than one in three households—over 3.8 million families (37%)—do not earn sufficient income to meet their basic costs of living. This is roughly three times the proportion officially considered poor in California, according to the Federal Poverty Level.

In San Diego County, for example, a household consisting of two adults, one preschooler, and one school-aged child would have to earn $91,675 in income to meet basic needs such as the costs of housing, food, health care, child care, and transportation. A family configuration of this type ***below the Real Cost Measure****,* however, a struggling family might earn $49,627 in income when factoring wages, and other types of income support such as the Earned Income Tax Credit (EITC), CalWorks (California's Temporary Assistance for Needy Families Program), retirement, and Supplemental Security Income. This means that this family would have to earn an additional $42,046 in income to reach the Real Cost Measure, our basic needs budget.

INCOME GAP AFTER WAGES AND PUBLIC ASSISTANCE

Even with tax credits and other assistance, a household with two full-time workers earning minimum wage is far shy of the Real Cost Measure.



Note: some of the line items from this household budget may not perfectly add up due to rounding estimates.

The Real Cost Measure Varies Significantly throughout California

Families with inadequate incomes are found throughout California, but are the most concentrated in the northern coastal region, the Central Valley, and in southern metropolitan areas.

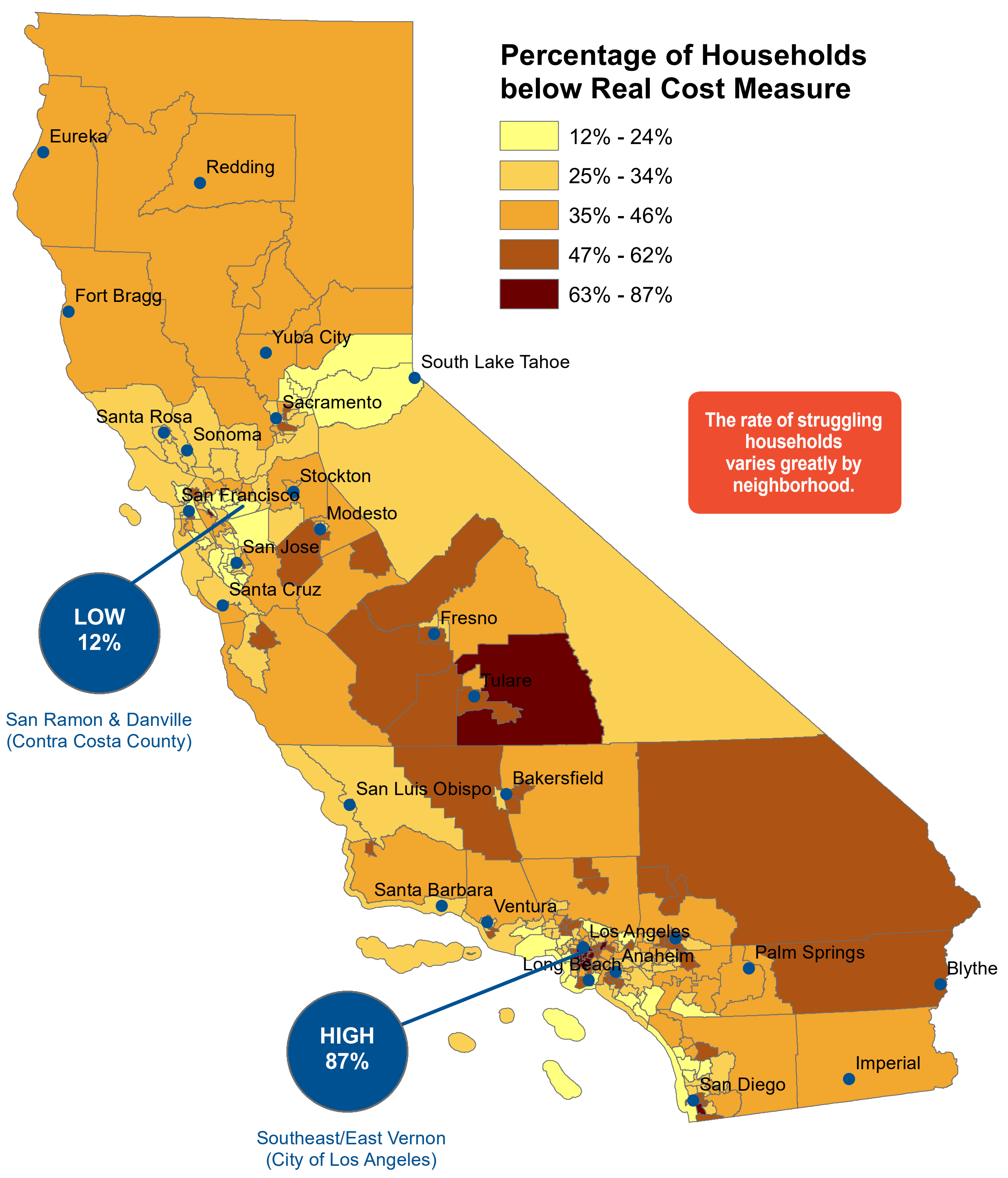
The costs for the same family composition in different geographic regions of California also vary widely. In expensive regions such as the San Francisco Bay Area and the Southern California coastal region, a family's household budget can be up to 40% more (depending on family type) than in less expensive counties such as Kern, Tulare, and Kings.

California has 265 neighborhood clusters according to the 2010 decennial Census, easily the largest in the nation. If California were its own sovereign state, it would currently rank as the fifth largest economy in the world in terms of Gross Domestic Product. This great wealth, however, masks great inequalities within the state. To illustrate these extremes, 87% of households in the southeast/East Vernon community of Los Angeles struggle to meet basic needs compared to 12% of families in the neighborhood cluster of San Ramon and Danville in Contra Costa County.

These disparities often exist within counties as well. In Santa Clara County, home to Silicon Valley, 58% of households in the neighborhood cluster of East Central/East Valley in San Jose fall below the Real Cost Measure compared to 13% in Cupertino, Saratoga and Los Gatos. In Orange County, 62% of households in Santa Ana City (East) fall below the Real Cost Measure compared to 14% in Rancho Santa Margarita City (East) & Ladera Ranch.

Nevertheless, incomes in the higher-cost regions are also higher, relatively and absolutely, so that the proportions of households below the Real Cost Measure are generally lower in high-cost than low-cost regions.

For interactive maps at the county and neighborhood level, visit **www.unitedwaysca.org/realcost.**



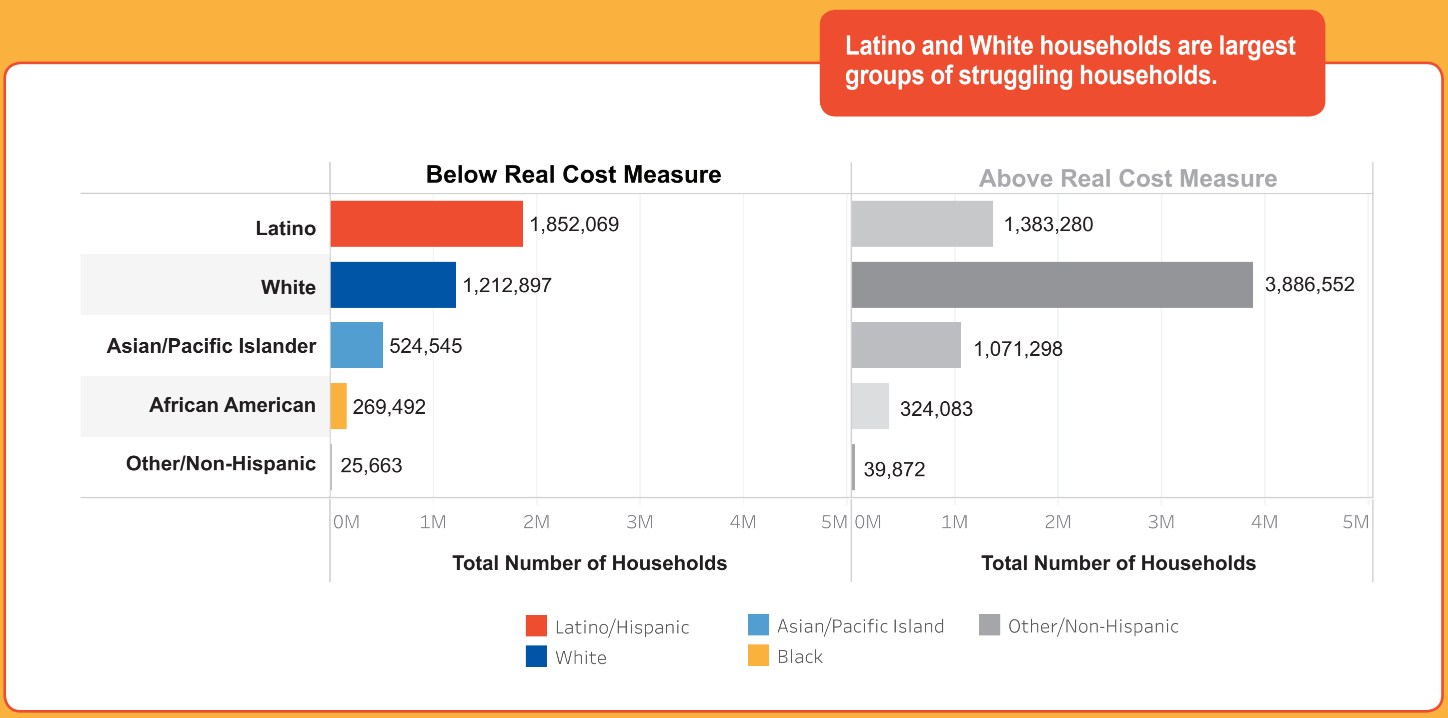
The rate of struggling households varies greatly by neighborhood.

Low Incomes are a Challenge for Families of All Racial Groups

Families falling below the Real Cost Measure reflect California's diversity. While poverty is often portrayed in our media and culture as primarily a problem for minorities, the reality is that families of all ethnicities struggle. Most struggling households are Latino (more than 1.8 million) or white (more than 1.2 million), with over 524,000 Asian American households and over 269,000 African American households below the Real Cost Measure.

Nevertheless, households led by people of color disproportionately are more likely to fall below the Real Cost Measure. While Latino households represent approximately 31% of households in California, 57% of Latino households have incomes below the Real Cost Measure, the highest among all ethnic groups. Nearly 1 in 2 African American households fall below the Real Cost Measure (45%), followed by Asian Americans (33%), and white households at (24%).

LATINOS HOUSEHOLDS STRUGGLE AT THE HIGHEST RATES

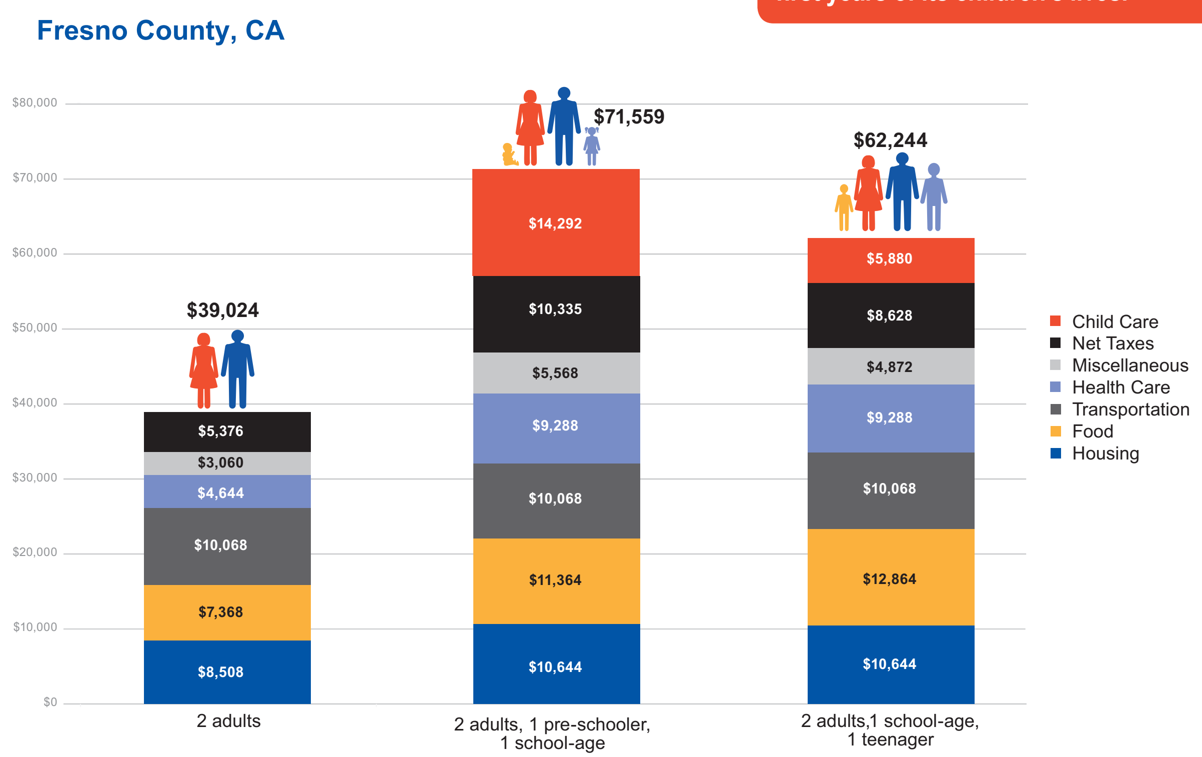


Household Budgets Change as Families Grow

The presence of children and their ages can also have a significant impact on household budgets regardless of where you live in California. In the figure below, we illustrate the development of a two-adult household in Fresno County as they have children, and as they age over time. On average, this two-adult household has to earn at least $39,000 annually to reach the Real Cost Measure. With the addition of an infant and school-aged child, the cost of child care and increased costs of other basic needs means that this family's household budget can potentially increase an additional 83%, or nearly $72,000 to reach the Real Cost Measure. As these children age further, the costs of child care decreases but this family would still have to earn over $62,000 to make ends meet. Hence, while the cost of housing is certainly a barrier for many families to stay afloat, the costs of child care and additional health care during a child's formative years can create a financial strain for many families.

HOUSEHOLD BUDGETS CHANGE AS FAMILIES GROW

The budget for a family changes over time—and the toughest time is the first years of its children's lives.



Over Half of All California Households with Young Children Live Below Real Cost Measure

Households headed by single mothers are almost twice as likely to have inadequate income as married couples with children.

- 60% of households with children under six years of age fall below the Real Cost Measure, and that rate jumps to 82% for single mothers with children under six.
- 74% of households maintained by single mothers have incomes below the Real Cost Measure. In contrast, just 32% of married couples are below the Real Cost Measure.
- Even when employed, single mothers and their children struggle; 71% of households headed by employed single mothers—and 63% where the single mother works full-time—live below the Real Cost Measure.

The Rate of Struggling Households Drops Steeply as Education Rises, but the Benefits of Education Lag for Women and Householders of Color.

Householders with less education are much more likely to have incomes below the Real Cost Measure.

- Nearly three-fourths (74%) of householders with less than a high school education have incomes below the Real Cost Measure.
- The rate of struggling households drops quickly as education increases, falling to 18% for those with a college degree or more.
- At every level of education, female householders earn less than male householders.
- The impact of education attainment and a household's ability to stay afloat also varies throughout the state. 65% of households led by a person with no more than a high school diploma struggles in Tulare county compared to 26% in Placer county

High Housing Costs Are a Major Burden for Struggling Households

Housing costs occupy a disproportionate share of most family budgets in California, but that is particularly true for struggling families.

- Struggling households in California use over half of their income on housing, more than twice as high a share as households living above the Real Cost Measure.
- 69% of those above FPL but below Real Cost Measure, and 92% of those below both Real Cost Measure and FPL are housing—burdened (spending more than 30% of income on housing), compared to only 22% above Real Cost Measure.
- Households living below the below the Federal Poverty Level housing report spending a staggering 76% of their income on housing. While census methodology is imperfect for capturing the actual percentage of income spent on housing, this perception is telling.

Foreign-Born Householders Have More Trouble Staying Afloat

Nearly one-third (30%) of California households led by a person born in the United States earn income below the Real Cost Measure. By contrast, 39% of households led by a person born outside the U.S. are below the Real Cost Measure, and that number rises to 62% when the householder is not a citizen.

Strategies to Improve Economic Mobility

The purpose of the Real Cost Measure is to support efforts to help struggling families move up. Households living below the Real Cost Measure are overwhelmingly working families. They're doing their part, but as our data also make clear, hard work alone is not enough to get ahead. Given that, it would be both hard-hearted and unscientific to expect these families to overcome the odds through heroic effort alone. We all stand to benefit if more struggling families and individuals move up so everyone can meet a decent standard of living, and there are things we could do that would help. Below we offer a few suggestions for community, business, civic, nonprofit and philanthropic leaders to consider, presented in order from more technical challenges ("we know what to do, we just need more will to do it") to adaptive challenges ("we need to discover what needs to be done and how to do it"):

- **Preserve and expand subsidized health coverage:** Health coverage can help households avoid or sharply reduce costs resulting from serious illness or injury, a leading cause of bankruptcy and financial instability. Over the past four years, California has enrolled over 5 million individuals in health coverage, including over 3.7 million in Medi-Cal. All low-income children residing in California are eligible now for Medi-Cal regardless of citizenship status. Preserving these gains and expanding eligibility to cover all low-income adults are vital priorities.
- **Provide childcare and preschool for struggling families:** Younger children bring both the cost of childcare and limitations on the ability of householders to take on more work hours or advance their education and training. Dual-generation strategies, such as pairing child care and early childhood enrichment with educational opportunities for parents (especially single mothers) can enable parents boost their education, work more hours or find a better job.
- **Maximize current income supports such as the earned income tax credit (EITC):** Each year, Californians leave an estimated $5 billion in federal tax credits and food assistance unclaimed. Making it easier for families to access all benefits for which they qualify would have enormous returns to households and local economies, such as by automatically sending EITC refunds to filers who have income reported on W-2 forms, and breaking down silos across different programs.
- **Help adults level up their education:** The share of households below the Real Cost Measure drops significantly among householders who have some college or a college degree. From the glass half-full perspective, 36% of struggling householders have some college credits already, and the 24% of struggling households with high school diplomas conceivably could seek college degrees,

with reasonable assistance. Many of the 29% of struggling households without a high school diploma also could move toward some higher education, with perhaps more assistance.

- **Smooth the decline of income supports:** Work supports such as child care assistance, CalFresh, or Medi-Cal can help households below the Real Cost Measure cover basic needs, yet these benefits drop away well before households get close to meeting the Real Cost Measure. Adjusting income eligibility limits and raising the amount of assets that are disregarded would help. Another approach may be putting funds into escrow savings accounts; as household income increases and the dollar amount of benefits is reduced, the "savings" in reduced benefit awards could be deposited in savings accounts for households to help them transition off public assistance.
- **Help families build assets and protect them from payday loans and other predatory financial services:** Struggling households often experience income spikes and dips throughout the year, compelling them to make difficult choices, such as cutting back on utilities, asking landlords and banks to extend due dates, borrowing from family and friends, neglecting health needs, and more. These households need alternatives to the high costs of check cashing and payday lending, perhaps through workplace-based low-dollar loan programs like Salary Finance, or pathways to build credit through their payment history on things like utilities, rent, cable, online services and more, along the lines of alternatives such as the Payment Reporting Builds Credit (PBRC) free alternative credit score.
- **Integrate and naturalize immigrants:** Households led by naturalized immigrants struggle at a much lower rate than those led by non-naturalized immigrants, and also, as our analysis shows, households that lack a fluent English speaker over the age of 14 also struggle at a higher rate. Making it safer and easier to pursue citizenship and improve English language fluency may improve prospects for a sizable share of struggling immigrant households.
- **Increase housing stock and prioritize support for renters:** Where struggling families live affects virtually every aspect of their lives, so improvements here can have impact well beyond just reducing financial stress. Unfortunately, a severe shortage of affordable housing is a brute fact in most California communities. As important as production of new units is, it should be clear that we cannot build our way out of the affordability problem. Since struggling households are overwhelmingly renters, expanding and increasing uptake of California's renters' tax credit and making that credit refundable, and pursuing a refundable federal credit could improve prospects for struggling households at scale.
- **Make work pay:** The overwhelming majority of struggling households—9 out of 10—are already working. This suggests the key challenge is not finding a job, but rather finding a job that adequately pays. California's phased increase in the minimum wage will certainly help increase earnings for many workers, but while it will help many households move above the federal poverty level, they likely will continue to earn well below the Real Cost Measure. Providing opportunities for all struggling workers to move up the pay scale, beyond minimum wage, will be

essential. Job training alone will not be enough; it must be complemented by efforts to better assess and match talent to workforce needs (as Opportunity at Work seeks to do, for example).

- **Adapt to changing nature of work:** Our social systems––access to health coverage, retirement benefits, unemployment benefits while out of work, and more – were all based around the assumption of a stable job working for a company, perhaps for an entire working life. Today, virtually no one reasonably expects to work for one company their entire life, as people often move jobs and many have extended periods where they are without a job. With over a third of the workforce in “contingent” work with uncertain schedules or juggling multiple jobs, we need to recognize this new reality and explore responses like ensuring portability of health and retirement benefits regardless of employer sponsorship, and tools like guaranteed or universal basic income to address uncertainty and volatility of income.

How is this public data release different from previous Real Cost Measure releases?

United Ways of California has released two previous reports on the Real Cost Measure: *Struggling to Get By: The Real Cost Measure in California 2015* and *Struggling to Stay Afloat: The Real Cost Measure in California 2018*.

Since then, we have made some refinenents that enable us to release Real Cost Measure data much more quickly and easily. We now use structured data queries to compile cost data and calculate household budgets, and we also have built our calculations, testing and verification and data visualizations into Tableau Prep. Together, these changes allow us to make the results and visualizations more interactive and dynamic, rather than producing 80-page reports.

With advice from our advisory committee, United Ways of California has also made two significant refinements to our methodology. These include:

- Adding detailed calculation of payroll taxes to income, sales and other taxes, rather than subsuming them under an overall tax cost assumption and;
- Differentiating food cost estimates for young children from those for older children

These modifications allow us to better reflect the income flow of working families and factor family consumption behavior. As a result of these methodological refinements, this 2019 public data release is not directly comparable to our two previous reports. For historical comparison, however, we have calculated one-year Real Cost Measure estimates for 2014, 2015, 2016 and 2017. For details on our Real Cost Measure methodology, visit **www.unitedwaysca.org/realcost.**

ACKNOWLEDGMENTS

Advisory Committee

United Ways of California is grateful to the following individuals who served on our Advisory Committee, or as technical advisors, during the development of the Real Cost Measure.

- **Alissa Anderson**, California Budget & Policy Center
- **Jaime Austin**, Tipping Point Community
- **Daniel Beeby**, Benefit Kitchen
- **Steven Bliss**, Public Policy Institute of California
- **Tucker Brofft**, Mills College Center for Transformative Action
- **Caroline Danielson**, Public Policy Institute of California
- **Ted Egan**, San Francisco Office of Economic Analysis
- **Chris Hoene**, California Budget & Policy Center
- **Sara Kimberlin**, California Budget & Policy Center
- **Marybeth Mattingly**, Stanford Center on Poverty and Inequality
- **Adam Parker**, Consultant
- **Nathan Ramsey**, U.S. Census Bureau
- **Steve Wallace**, Center for Health Equity, University of California, Los Angeles
- **Erol Yidrim**, C2ER

Anyone who has ever struggled with poverty knows how extremely expensive it is to be poor.

JAMES A. BALDWIN
"Fifth Avenue, Uptown: A Letter from Harlem"
July 1960

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