



## Measuring a “Living Wage”

By Sabine Schoenbach and Alexandra Sirota

North Carolina and national living wage models can help in establishing a way to measure what constitutes a living wage – what a worker must earn to afford basic needs without public or private assistance – for your community. What follows is an outline of a few of the most common measures used for local living wage laws or certification programs.

### 1 LIVING WAGES BASED ON FAIR MARKET RENT (FMR)

- **What is it and who produces it?** Fair Market Rent (FMR) estimates are produced by the U.S. Department of Housing and Urban Development (HUD) and primarily used to determine payment standards for housing assistance. Living wages based on FMR reflect the idea that those who work fulltime, year-round should be able to afford basic housing (at least a one-bedroom apartment) as well as other needed expenses.
- **How is it calculated and updated?** HUD produces an annual summary of FMRs, which are estimates of rent costs plus the costs of tenant-paid utilities.<sup>1</sup> FMR’s are available by county and unit bedrooms. For example, for Buncombe County, the FY 2014 Fair Market Rent Summary looks like this:

Buncombe Co.	Efficiency	1 bedroom	2 bedrooms	3 bedrooms	4 bedrooms
FY 2014 FMR's	\$428	\$606	\$719	\$922	\$1,197

Source: HUD FY 2014 Fair Market Rent Documentation System

The calculation assumes that the fair market rent for one-bedroom housing does not exceed 30 percent of a worker’s monthly income and determines the hourly wage rate that would be required to keep housing costs at 30 percent of a monthly income.

- **What does it tell us and what does it miss?** FMR data is readily available and regularly updated. It also varies by locality and thereby picks up geographic differences in housing costs. Because the formula is tied only to housing, however, it is not a comprehensive needs assessment and does not account for such variations as family structure.

### 2 LIVING WAGES BASED ON THE FEDERAL POVERTY LEVEL (FPL)

- **What is it and who produces it?** Poverty thresholds are updated annually by the Census Bureau and are used primarily for statistical purposes to measure the official poverty level of a population. Poverty guidelines are a simplified version of the threshold measure, issued by the Department of Health and Human Services, used to determine eligibility for certain federal assistance programs such as SNAP and Head Start. Poverty

thresholds are the most commonly used measure for calculating living wages, however, Durham City and County use poverty guidelines for their calculations.

- **How is it calculated and updated?** Poverty thresholds are based on the minimum cost of food for a family, multiplied by three to account for all other expenses. The Census Bureau updates the data each year to account for inflation and other factors. Income used to calculate the thresholds excludes non-cash benefits such as food and housing subsidies.<sup>ii</sup>

**What does it tell us and what does it miss?** The federal poverty threshold is useful as a statistical yardstick that is updated annually. However, the food plan it is based on does not correspond to current consumption levels and does not accurately measure the cost of additional basic expenses. In addition, the federal standard does not vary by children's age (thereby not accounting for the high cost of childcare) or by geography (thus ignoring regional differences in the cost of living).

### 3 LIVING WAGES BASED ON THE FEDERAL MINIMUM WAGE

**What is it and who produces it?** The federal minimum wage, which North Carolina adheres to, is \$7.25 for most workers. It is established by Congress.

**How is it calculated and updated?** The minimum wage is not tied to a needs assessment and is updated at the will of Congress.

- **What does it tell us and what does it miss?** Using the minimum wage as a basis for living wage calculations means starting with an extremely low benchmark. Over the last four decades the federal government has allowed the value of the minimum wage to fall by almost 30 percent, meaning many full-time, year-round workers who earn minimum wage are below the federal poverty standard. Without a needs assessment and without a breakdown by geography and family type, the minimum wage is largely ineffective in measuring the actual income needed for basic needs.

#### Additional considerations when identifying a living wage measure

**Family size and composition:** Family size and the age of children in the household can be important, in part, due to the high cost of child care for working parents. In North Carolina, for example, single mothers pay an average of 39 percent of their income for an infant in center care. While an ordinance would not be able to change based on family composition, it is important that policymakers consider that a living wage based on the costs for one adult and one child will not address all the needs of a household with one adult and two children.

**Employer-provided health insurance/pensions:** Some living wage certifications and ordinances take into account discounts for health insurance/pensions provided by employers. Additional workplace benefits like paid sick days can also serve to boost the measure of the quality of a job.

**Inflation:** Many living wage ordinances have fought to tie the living wage amount to inflation, so that the dollar figure doesn't erode with the rising costs of goods and services in the marketplace.

## 4 MARKET-BASED APPROACHES

A number of efforts have evolved out of the acknowledgement that establishing a wage standard based on a single good in a family budget—whether it be housing or food—is insufficient to capture the complex and growing needs of families. Market-based measures are often used as benchmarks for policymakers and the public to assess the ability of a family to make ends meet in a specific job or industry. To date, they have been rarely used as the standard in a local or state level ordinance.

### North Carolina's Living Income Standard

The Living Income Standard (LIS) is produced by the NC Budget and Tax Center specifically for North Carolina and its 100 counties. The LIS is a conservative measure of basic needs, including food, housing, health care, childcare, transportation, and taxes – using the lowest cost estimates for each budget item.<sup>iii</sup> Raw data for the LIS come from a variety of federal and state sources. It also generally excludes the value of work supports, such as food stamps or Section 8 housing subsidies, to show how much a family would need to earn to meet its basic needs without assistance.<sup>iv</sup> The LIS finds that a North Carolina family of two adults and two children must earn \$48,814 annually to afford the actual costs of seven essential expenses. The LIS for one adult, one child is \$.

### More Market Based Approaches

The Economic Policy Institute has created a Family Budget Calculator, most recently updated for 2013, that estimates community-specific costs of housing, food, childcare, transportation, health care and taxes. It is available for 600 U.S. communities, including 23 regions in North Carolina, and for six family types.<sup>v</sup>

The Self-Sufficiency Standard, developed by the Center for Women's Welfare at the University of Washington, is based on the cost of housing, child care, food, health care, transportation, taxes and miscellaneous costs. It is geography-specific, but is created for only a limited number of states, not including North Carolina.<sup>vi</sup>

## APPENDIX: Existing North Carolina Living Wage Laws

Local government authority to require private employers to pay a living wage is prohibited, but seven localities have enacted living wage policies that apply to their own employees. These local living wage policies can provide a powerful example and spark the private sector's voluntary participation in living wage programs.

	Start Date	2013-2014 Living Wage	Methodologies
<b>Orange County</b>	1998	\$10.97	Federal poverty level for a family of four adjusted for the Orange County region based on the American Chamber of Commerce Research Association's cost of living index.
<b>Town of Carrboro</b>	2001	\$12.36	Federal poverty level for a family of four adjusted for the Raleigh-Durham region based on the American Chamber of Commerce Research Association's cost of living index.
<b>Town of Chapel Hill</b>	2010	\$12.17	Not less than 7.5 percent above the federal poverty guidelines for a family of four.
<b>Durham County</b>	2004	\$12.17	Not less than 7.5 percent above the federal poverty guidelines for a family of four.
<b>City of Durham</b>	1998	\$12.17	Not less than 7.5 percent above the federal poverty guidelines for a family of four. (revised from 5 to 7.5 percent in 2009 to match Durham County's methodology)
<b>Buncombe County</b>	2013	\$11.85; \$10.35 with employer-provided health insurance	Living wage is tied to the local cost of housing according to US Department of Housing and Urban Development's Fair Market Rents.
<b>City of Asheville</b>	2007	\$11.85; \$10.35 with employer-provided health insurance	Living wage is tied to the local cost of housing according to US Department of Housing and Urban Development's Fair Market Rents.

**Sources:** **Orange County:** Orange County's Code of Ordinances, Sec 28-72, 2013 calculation received via email from Orange County Human Resources; **Town of Carrboro:** Carrboro Town Code, Section 4-20, 2013 calculation received via email from Carrboro's Human Resources; **Town of Chapel Hill; 2010-01-25/R-3;** **Durham County:** Note that the County of Durham revised its living wage policy pursuant to the NCGA's prohibition of minimum wage requirements on competitively bid contracts, see [dconc.gov](http://dconc.gov); **City of Durham:** Chapter 27 of the Code of the City of Durham, see <http://durhamnc.gov/ich/as/fin/Pages/Liveable-Wage-Rate-History.aspx> for the 2013 amount; **Buncombe County and Asheville:** See Just Economics at <http://justeconomicswnc.org/>.

<sup>i</sup> FMR's calculations are based on the 5-year American Community Survey estimates and the relevant change in CPI. FY 2014 FMR areas are based on the Office of Management and Budget (OMB) area definitions and the HUD defined Metropolitan areas (HMFA's) Since FMRs are primarily used to determine payment standards for housing assistance, the calculations for each fiscal year must be available for use by October 1. For more on the FMR standard and the calculation process see: <http://www.huduser.org/portal/datasets/fmr.html>.

<sup>ii</sup> See <https://www.census.gov/hhes/www/poverty/data/threshld/>. The Census Bureau provides its preliminary poverty threshold numbers each January, and the final numbers are released in September for the prior year (for example, 2013 poverty data will be released in September 2014).

<sup>iii</sup> See Sirota, Alexandra Forter, Tazra Mitchell, and Cedric Johnson, June 2014. "Living Income Standard 2014: Boom in Low-Wage Work Means Many North Carolinians Don't Make an Adequate Income," NC Budget and Tax Center.

<sup>iv</sup> Exceptions include an allowance for public health insurance, non-group health insurance subsidies, and certain tax credits. These exceptions are made because health insurance coverage can greatly reduce a family's income needs while the tax credits offset the effects of regressive tax policies.

<sup>v</sup> See Economic Policy Institute's Family Budget Calculator at <http://www.epi.org/publication/ib368-basic-family-budgets/>

<sup>vi</sup> See the Center for Women's Welfare self-sufficiency standard at <http://www.selfsufficiencystandard.org/>