Introduction

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

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

While public work supports are often necessary and critical for certain families to meet the costs of such high-priced necessities as child care, health care, and housing, economic self-sufficiency cannot necessarily be achieved with wages alone or even wages combined with benefits. True self-sufficiency involves more than a job with a certain wage and benefits at one point in time. Central to efforts to attain self-sufficiency is access to education, training, and jobs that provide real potential for skill development and career advancement over the long-term.

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

Federal Poverty Level (FPL) and The Self-Sufficiency Standard

The Federal Poverty Line or FPL (also referred to as the federal poverty measure or federal poverty guidelines) was developed over four decades ago and is based on the cost of a single item—food. Because current expenditure patterns at that time indicated that families spent an average of one-third of their income on food, the U.S. Department of Agriculture (USDA) “thrifty food budget” was simply multiplied by three to determine the poverty level. Since then, it has only been updated for inflation. The FPL only varies by family size (regardless of composition) and does not vary by location or age of children. For instance, the 2006 FPL for a family of three (either two adults with one child, or one adult with two children) is $16,600 across the U.S.

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

1. The Standard independently calculates the cost of each basic need (not just food) and does not assume that any one cost will account for a fixed percentage of the budget.

2. The Standard assumes that all adults—married or single—work full-time and includes all major costs (child care, taxes, and so forth) associated with employment.

3. The Standard varies costs by family size, as does the FPL, but the Standard also varies costs by family composition and the ages of children.

4. Whenever possible and appropriate, the Standard varies costs geographically (by state, region, county, and in some cases, by city or locality).

5. The Standard includes federal, state, and local taxes (e.g., income, payroll, and sales taxes) and tax credits.

The data used in the Self-Sufficiency Standard are collected or calculated using standardized or equivalent methodology nationwide; obtained from scholarly or credible sources such as the U.S. Census Bureau; updated annually (or as updates are available); and as geographically- and age-specific as possible and appropriate. The Standard allows each cost to increase at its own rate, by family type, geographic location, and over time. As improved or standardized data sources become available, the methodology used by the Standard is refined accordingly.
The Standard is calculated for each of Virginia’s 70 family types (ranging from one adult, to one adult with one infant, and so forth, up to two-adult families with three teenagers) in each of Virginia’s 135 cities/counties.

Monthly Costs

Housing

For housing costs, the Standard uses the most recent Fiscal Year Fair Market Rents (FMRs), calculated annually by the U.S. Department of Housing and Urban Development (HUD) for each state’s metropolitan and non-metropolitan areas. Annual FMRs are based on data from the 2000 decennial census, the biannual American Housing Survey, and random digit dialing telephone surveys. FMRs, which include utilities (except telephone and cable), are intended to reflect the cost of housing that meets minimum standards of decency.

The FMRs are calculated for metropolitan areas (known as Metropolitan Statistical Areas or MSAs) and non-metropolitan counties. MSAs that have a population core of at least 2.5 million may be divided into HUD Metro FMR Areas (HMFAs).

When an MSA includes multiple counties, towns, and/or cities, the Standard uses National Low Income Housing Coalition (NLIHC) county- (or town, city)-level median gross rents to create ratios to vary the FMRs within a single MSA/HMFA. Of the 16 MSAs in Virginia, 11 consist of more than one county and/or city. Since HUD calculates only one set of FMRs for each of these 11 areas, the Standard used the NLIHC median gross rent for each county/city to vary the individual county/city FMRs within the MSA. The Standard used Virginia’s 55 non-metropolitan FMR areas (counties) without adjustments.

In general, FMRs are set at the 40th percentile, meaning 40% of the housing in a given area is less expensive than the FMR. All of Virginia’s FMRs are set at the 40th percentile, except for the Richmond, VA HMFA, the Virginia Beach-Norfolk-Newport News, VA-NC MSA, and the Washington-Arlington-Alexandria, DC-VA-MD HMFA, which are set at the 50th percentile.

The Standard assumes that parents and children do not share the same bedroom and no more than two children share a bedroom.

Sources: Housing


Child Care

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

The Family Support Act, in effect from 1988 until welfare reform in 1996, required states to provide child care assistance at market-rate for low-income families in employment and/or education and training. States were also required to conduct child care cost surveys biannually to determine the market-rate (defined as the 75th percentile) by setting, age, and geographical location or set a statewide rate. Many states, including Virginia, have continued to conduct or commission the surveys as well as reimburse child care at this level.
Data for the 2006 Self-Sufficiency Standard for Virginia is from the most recent child care rate survey completed in 2004 (rates effective through 2005).

The “tier two” (licensed facilities) family care rates were used to create an age-weighted average for an “infant” (defined as 0 to 3 years old by the Standard and 0 to 16 months by Virginia). Virginia’s tier two center care rates were used to calculate an age-weighted average of the cost of child care for preschoolers (defined as 3 to 5 years of age by the Standard, but 2 to 5 years by Virginia). For schoolage children, the tier two center care rates from the “before and after school” category were used.

**Sources: Child Care**

- Mike Theis, Research Analyst. Virginia Department of Social Services, Division of Strategy Management, Office of Research.

**Sources: Food**

- ACCRA. Cost of Living Index. 2004, First, Second and Third Quarter average. Available at http://www.accra.org/

**Public and Private Transportation**

If there is an “adequate” public transportation system in a given area, it is assumed that workers use public transportation to get to and from work. Public transportation use is assumed for an entire statistical area when more than 7% of the population in that area uses public transportation. Private transportation (a car) is assumed where public transportation use is less than 7%. There are six areas in Virginia where use of public transportation is assumed: Alexandria city, Arlington County, Fairfax County, Falls Church city, Fairfax city, and Richmond city. The cost of public transportation in these areas, except Richmond, includes daily roundtrip bus and train fares, plus a discounted return trip bus transfer. For Richmond, the cost was calculated for two daily Express trips.

Private transportation costs are based on the costs of owning and operating an average car. For the remaining 129 counties/independent cities in Virginia, the Standard assumes that adults use private transportation to go to and from work. One car is being a very conservative estimate of food costs (for instance, the Low-Cost Food Plan does not allow for any take-out, fast-food, or restaurant meals).

The Standard varies food costs by the number and ages of children and the number and gender of adults. The Standard assumes that a single-person household is one adult male, the single-parent household is one adult female, and a two-parent household includes one adult male and one adult female.

Geographic differences in Virginia’s grocery costs were varied by using ACCRA’s Cost of Living Index. Food costs across Virginia range from 16% lower to 8% higher than the national average.

**Food**

Food costs for the Standard are based on USDA Low-Cost Food Plan. Although it is 25% higher than the Thrifty Food Plan, the Low-Cost Food Plan is based on more realistic assumptions about food preparation time and consumption patterns, while still
assumed for the single-parent family and two cars are assumed for a family with two adults. It is understood that the car(s) will be used to commute to and from work five days per week, plus one trip per week for shopping and errands. In addition, one parent in each household with young children is assumed to have a slightly longer weekday trip to allow for “linking” trips to a day care site. For per-mile costs, driving cost data from the American Automobile Association is used. The commuting distance is computed from the National Household Travel Survey 2001.

The auto insurance premium is the average premium cost for a given state from a survey conducted by the National Association of Insurance Commissioners (NAIC). To create within state variation (regional or county) in auto insurance premiums, ratios are created using sample premiums from the automobile insurance companies with the largest market shares in the state.

The fixed costs of car ownership such as fire, theft, property damage and liability insurance, license, registration, taxes, repairs, monthly payments, and financial charges are included. The monthly variable costs (e.g., gas, oil, tires, and maintenance) are also included, but the initial cost of purchasing a car is not. To estimate private transportation fixed costs, the Standard uses Consumer Expenditure Survey amounts for families with incomes between the 20th and 40th percentile by region.

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

Sources: Public and Private Transportation


Health Care

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

Health care premiums are obtained from The Henry J. Kaiser Foundation State Health Facts Online, Employment-Based Health Premium for a single adult and for a family. The Kaiser Foundation bases the cost of health insurance premiums on the average premium paid by a state’s residents, according to the national Medical Expenditure Panel Survey (MEPS) and adjusted for inflation using the Medical Care Services Consumer Price Index. Average premiums from Virginia insurance companies with the largest market share were used to vary premium costs by major metropolitan area within the state. The areas used for determining health insurance premiums were the same areas that were used to determine auto insurance rates.
Health costs also include regional out-of-pocket costs calculated for adults, infants, preschoolers, schoolage children, and teenagers. Data for out-of-pocket health care costs (by age) are also obtained from the MEPS, adjusted by region using the MEPS Household Component Analytical Tool, and adjusted for inflation using the Medical Care Consumer Price Index.

**Sources: Health Care**


- Top Health Insurance Carriers in Virginia supplied by the State of Virginia Bureau of Insurance via e-mail (bureauofinsurance@sec.virginia.gov).

- Health insurance quotes were retrieved from https://seca.anthem.com/ratequote/app and https://www.carefirst.com/eSales/index.jsp

**Sources: Miscellaneous**


**Taxes and Tax Credits**

**Taxes**

Since a given family’s Self-Sufficiency Wage depends partly on their taxes and tax credits, the Self-Sufficiency Standard calculates federal and state income taxes and tax credits using an iterative process. Starting with a family’s total monthly expenses for basic needs, total income to cover those needs plus the net cost of taxes and tax credits is estimated. Then, taxes and tax credits on that total are calculated, then the income estimated, and if needed, the tax formulas are adjusted so that total income covers expenses plus the net effect of taxes and tax credits.

For example, a family may require $30,000 annually to cover all expenses before taxes. If the net effect of taxes and tax credits is to increase a family’s Self Sufficiency Wage by $2,500, then the taxes and tax...
credits are recalculated using this new wage of $32,500. These calculations are repeated until the family’s income is exactly enough to cover all pre-tax expenses and the taxes and tax credits incurred at that income level.

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

State sales taxes are calculated only on “miscellaneous” items, as one does not ordinarily pay tax on rent, child care, and so forth. Indirect taxes (e.g., property taxes paid by the landlord on housing) are assumed to be included in the price of housing passed on by the landlord to the tenant. Virginia has a statewide sales tax of 5% and a 2.5% grocery tax. Taxes on gasoline and automobiles are included as a cost of owning and running a car.

Virginia state income taxes were calculated using the tax forms and instructions from the Virginia Department of Revenue Services. The state income tax calculation includes state specific deductions, exemptions, and tax credits. For the 2005 tax year, Virginia’s income tax graduates from 2% to 5.75%.

**Sources: Taxes**


**Tax Credits**

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

Although by law an eligible family can receive part of the federal EITC on a monthly basis (Advance EITC), most workers prefer to receive it annually, as it is difficult to estimate the amount of EITC eligibility due to fluctuating hours and wages. In addition, some workers prefer to use EITC as “forced savings” to meet important family needs such as paying the security deposit for housing, buying a car, settling debts, paying tuition, or starting a savings account. Thus, nearly all families receive the federal EITC as a lump sum payment the following year when they file their tax returns, even though the Standard shows the EITC as income available *monthly*.

In 2004, Virginia became the 18th state to adopt a state EITC. The Virginia EITC is *not* a refundable EITC. The Virginia taxpayer can choose between the state EITC, which is 20% of the federal EITC, or the Credit for Low Income Individuals. However, in some Virginia localities the Self-Sufficiency Standard is above the income limit for the EITC, so families at that level of income would not receive the EITC.

Virginia residents may qualify to claim the Credit for Low Income Individuals if the total family adjusted gross income is below federal poverty guidelines. The maximum credit that can be claimed is $300 for each personal and dependent exemption claimed on the state return. Like the State EITC, this credit is *not* refundable.

In Virginia, a married couple filing a joint return can receive up to $259 against their joint income tax liability if each spouse received income during the taxable year. With this adjustment, two-income couples who file a joint return owe no more tax than the combined tax that would be due if separate returns were filed. Joint taxable income must be over $3,000 to benefit from this adjustment.

The federal Child Care Tax Credit (CCTC), also called the Child and Dependent Care Tax Credit, is a tax credit that allows working parents to deduct a percentage of their child care costs from the federal income taxes they owe. Like the EITC, the CCTC is deducted from the total amount of money a family needs to be self-sufficient. Unlike the EITC, the federal CCTC is *not* a refundable federal tax credit; that is, a family may only receive the CCTC as a credit against federal income taxes owed. Therefore, families
who owe very little or nothing in federal income taxes will receive little or no CCTC. In 2005, up to $3,000 was deductible for one qualifying child and up to $6,000 for two or more qualifying children.

The federal Child Tax Credit (CTC) is like the EITC in that it is a refundable tax credit. The CTC provides parents with a deduction of $1,000 for each child under 17 years old or 15% of earned income over $11,000, whichever is less. For the Standard, the CTC is shown as received monthly, except in the modeling tables (discussed in the document, *Modeling the Impact of Supports on Wages Required to Meet Basic Needs*).

**Sources: Tax Credits**