



To Make Matters Worse: Why it Costs More to be Poor

The simple definition of poor means not having enough money to cover the cost of living. But the reality is not that simple. The cost of living day to day is actually higher for the poor – a reality that makes matters worse.

As more people transition from welfare to work, a job is a first step toward independence, but it's still a long walk to the goal. A low income restricts access and limits choices so that families end up paying more for basic living expenses than families with more income.

Why does it cost more to be poor? Consider the following:

✓ **Transportation.** To get to work, a low-income person often must obtain a personal car, especially in rural areas that lack public transportation. Without a solid credit history, a low-wage earner may be forced to finance a car with a "sub-prime" lender, which charges a much higher rate – sometimes double or triple the prime rate. That can cost thousands of dollars extra in finance charges. Low-wage earners also are typically limited to cheaper and less efficient cars, which cost more to operate in fuel and repairs. In many low-income metropolitan neighborhoods, automobile insurance is more expensive – as much as \$1,000 more a year.

✓ **Household goods.** Low-income areas are often economically isolated. There is less business development, therefore less retail competition. The only choices in shopping for groceries, clothing, medicine, furniture and other household necessities may be smaller stores that lack the economy of scale to offer discount prices. Some cash-strapped consumers resort to rent-to-own businesses to buy furniture, appliances and electronics for lower monthly payments, but in the long run they pay as much as two to three times more than cash buyers do.

✓ **Housing.** Affordable rental housing is in short supply, which often means low-income families pay considerably more than the recommended 30 percent of income on housing. Those who want to buy a home often wind up, because of a poor credit history or a lack of lending agencies in the area, with a mortgage from a "sub-prime" lender that charges twice the rate of a prime loan. The higher interest can add as much as \$500 to the monthly mortgage payment. In rural

areas, the poor often opt for manufactured housing because it's initially less expensive. However, a mobile home costs more to finance because it's personal property, and, unlike a house, it depreciates in value. Furthermore, the cost of homeowner's insurance in lower-income neighborhoods can be as much as \$300 more than higher-income neighborhoods.

✓ **Health care.** Only 30.8 percent of people earning \$25,000 a year or less have health insurance paid by employers, compared with 79.7 percent of people earning \$75,000 or more, according to the U.S. Census Bureau (2016). For low-income families, that means more out-of-pocket expenses for health care. Many are forced to choose between filling a prescription or a sack of groceries. Delayed medical care typically results in worsened health conditions, which are even more expensive to treat.

✓ **Child care.** The working poor are often single parents who must arrange for care of their children. Nationally, the cost averages \$9,589 per year per child, which is difficult to absorb into a modest budget (New America Care Report, 2015). As a disproportionate bite of a low income, it can squeeze out other necessities.

✓ **Financial services.** Poor neighborhoods and rural areas often lack mainstream financial institutions. As a result, the areas are targets for predatory financial industries, such as check-cashing outlets and payday lenders, which charge high fees for the convenience of quick cash and credit. Low-wage workers may spend 2-3 percent of their pay just to obtain cash and can pay up to 521 percent annual percentage rates if they fail to repay loans due on the borrower's payday (Pew Trusts, 2012).

The higher fees, finance charges and other costs add up to hundreds or thousands of dollars spent by low-income families every year. Unfortunately, low-income families often lack the skills and resources to be savvy consumers. They are less likely to have access to the Internet, newspapers and other resources to comparison shop and learn good money management in order to get the most for their dollar.

At the end of the day, it costs more to be poor.

Sources:

"Strengthening Rural Families: The High Cost of Being Poor," The Annie E. Casey Foundation

"From Poverty, Opportunity," The Brookings Institution

"The Care Report," New America

"Payday Lending in America," Pew Charitable Trusts



Some Facts About Poverty in the United States

- The official poverty rate in 2015 was 13.5 percent.
- There were 43.1 million people in poverty (13.5 percent) in 2015. The numbers show a decline in both the percentage and number of Americans living in poverty from 2014.
- There were 29.9 million families in poverty in 2015 down from 32.6 families in 2014. The poverty rate for families declined from 12.7 percent in 2014 to 11.6 percent in 2015. The poverty rate and the number living in poverty both declined for married-couple families (5.4 percent and 3.2 million in 2015, down from 6.2 percent and 3.7 million in 2014. The poverty rate and number in poverty declined from 2014 to 2015 for female-householder-with-no-husband-present families (28.2 percent and 4.4 million) and for male-householder-with-no-wife-present families (14.9 percent and 939,000).
- As defined by the U.S. Census Bureau the poverty threshold for a family of four in 2015 was \$24,257; for a family of three, \$18,871; for a family of two, \$15,391; and for unrelated individuals, \$12,082.
- The poverty rate in 2015 for children under 18 (19.7 percent) remained higher than that of 18-to-64 year olds (12.4 percent) and that of people 65 and older (8.8 percent). For all three groups, the rate declined.
- In 2015 the number in poverty decreased from 2014 for people under 18 and people 18 to 64 years old (14.5 million and 24.4 million, respectively).
- The number in poverty declined for seniors 65 and older – 4.2 million in 2015 down from 4.6 million in 2014.
- The number of people with health insurance coverage increased by 6.7 million to 289.9 million between 2014 and 2015, and the number without such coverage declined by 4 million to 28.9 million (from 10.4 percent in 2014 to 9.1 percent in 2015)
- Between 2014 and 2015, people covered by employment-based health insurance (177.5 million) increased from 55.4 percent to 55.7 percent.
- The number of people covered by government health programs increased between 2014 and 2015 from 115.5 million to 118.4 million; the percentage of people covered by government health insurance was 37.1 percent. There was a slight increase in the number and percentage of people covered by Medicaid (62.4 million and 19.6 percent, respectively) from 2014 and 2015.
- The proportion and number of uninsured children decreased between 2014 and 2015, from 6.0 percent to 5.2 percent.



- Real median earnings of males age 15 and older who worked full-time, year-round increased 1.5 percent between 2014 and 2015, to \$51,212. Women with similar work experience saw their earnings increase by 2.7 percent, to \$40,742. (This is the first significant annual increase in median earnings for men or women since 2009.)
- In 2015, the poverty rate in the Northeast (12.4 percent) was not statistically different from 2014. The Midwest, South, and West declined to 11.7 percent, 15.3 percent and 13.3 percent respectively.
- Real median income of households rose in the Northeast (4.9 percent), West (6.4 percent), South (2.9 percent), and the Midwest (5.1 percent) between 2014 and 2015.
- The Northeast had the highest household income of all four regions (\$62,182) in 2015 followed by the West (\$61,442) and the Midwest (\$57,082). Households in the South had the lowest median income (\$51,174).

Sources: "Income and Poverty in the United States: 2015," U.S. Census Bureau
 "Health Insurance Coverage in the United States: 2015," U.S. Census Bureau

The families in the Community Action Poverty Simulation are real families with real problems. They are facing ...long-term unemployment ... low wage jobs ... limited job skills ... non energy efficient housing ... high utility bills ... housing that needs repairs ... unreliable transportation ...health problems without insurance ... deserted by a spouse ... drug problems ... limited or no assets ... no telephone ... lack of quality child care ... unaffordable medication ... incarcerated children/parents.

The Community Action Network wants people to gain a better understanding of what it is like to live without enough money to meet their basic needs. We want community leaders and the general public to be inspired to find solutions to poverty issues. We want all Americans to be engaged in ending poverty.

Together, Missouri CAN thrive.

Contact Missouri Community Action Network (Missouri CAN) at 573-634-2969 or at MissouriCAN.org for additional information.

Source: U.S. Census Bureau

