A CLOSER LOOK

AT THE LIVES OF MEDIAN- AND LOWER-INCOME FAMILIES USING THE TRUE LIVING COST (TLC) INDEX

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The Problem

The Consumer Price Index (CPI) misses the mark when it’s used to measure cost of living for working families. CPI examines a set of goods that are purchased by urban families, taking into account how important they are to the consumer. But the CPI includes luxury goods that are not applicable to median- and lower-income (LMI) households. For example, in the CPI bundle, the price change for second (or more) homes has a larger impact on the metric than the price change for bread, pork, eggs, milk, chicken and potatoes...combined.¹

RELATIVE IMPORTANCE IN THE CPI BUNDLE

Moreover, the CPI does not account for Americans living in non-metropolitan areas or people living on farms, which is about 25 million Americans. In the map of the continental U.S. to the right, the blue areas are metropolitan. For those living in the white space, the CPI doesn’t even attempt to calculate the cost of living.

¹ https://www.bls.gov/cpi/tables/relative-importance/home.htm
Mathematically, the CPI doesn’t add up for LMI households, with housing being a prime example. The CPI for housing since 2001 has gone up 54%, but upon examination of the 40th percentile rent (a similar cost to what LMI families pay for housing) and tracking it over time, this cost has grown nearly three times faster at 149%.

Another example is medical care. Since 2001, the average cost of medical care for workers fortunate enough to be on employer-provided healthcare has gone up 157%, but the CPI for medical care only shows an increase of about 90%.
The Solution

The True Living Cost (TLC) Index is a cost-of-living metric that provides a more accurate picture of the economic reality for median- and lower-income families. The TLC assesses a set of minimal adequate needs that a household requires to function: housing, medical care, transportation, food, childcare, technology, and miscellaneous (e.g. clothing and personal care items) that then take into account household size (the eight household sizes range from one to two adults and zero to three children) and census region (Northeast, Midwest, South, and West). The TLC tracks change in price for this minimal bundle over time. LISEP found that the CPI drastically understates changes in living costs for LMI families – the TLC rose nearly 1.4 times faster than the CPI since 2001, 63.5% compared to the CPI's 46.2%.

Many more Americans can’t meet minimal needs than those who are officially below the poverty rate, as shown in the graph below for 2019:

“Many more Americans can’t meet minimal needs than those who are officially below the poverty rate.”
In addition, wages are not keeping up with expenses. The meager gains shown when wages are adjusted with the CPI completely disappear when adjusted with the TLC.

Americans in every single household type are worse off than they were in 2001.
The Implications

More than 15 federal assistance programs are indexed to the CPI in part or full. These include programs like the Child Tax Credit, Supplemental Nutrition Assistance Program (SNAP) benefits, Social Security, veterans disability, and both public and private retirement programs. In addition, many employment contracts base annual cost-of-living increases on the CPI.

Moreover, this is a crisis of the American family due to the rising costs of having children. The next two graphs show the budget breakdown of a median-earning single parent in 2001 versus 2019. The largest difference is that in 2019, this single parent needed to take out debt. And this is the median earner, meaning half of the population falls below his or her earnings.
This is a crisis of the American family due to the rising costs of having children.

Figure 13b: Single Parent With One Child Budget to Meet Minimal Adequate Needs on a Median-Earner’s Income 2019

- Income $47,684.00
- Total Expenses $53,689.93
- Taxes $5,115.94
- Housing $13,554.48
- Food $4,736.05
- Transportation $7,224.91
- Medical Care $6,512.67
- Childcare $9,516.77
- Personal care and household $4,820.78
- Technology $2,208.33
- Necessary Debt $6,005.93