



The Bottom Line: Making Ends Meet in Rural Kentucky



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What would it take for an employed mother with two children to meet her monthly bills in rural Kentucky without relying on government assistance?

Welfare reform has mandated the dual challenges of moving recipients off public assistance into employment and limiting access to public assistance for a lifetime total of only 60 months. However, these changes in the social safety net assume not only that enough jobs will be available, but that they will pay sufficiently to end any further need for assistance.

So there are two questions to be answered: What is the amount of monthly income necessary to support a family without having to fall back onto public assistance? And, is Kentucky's economy producing the kinds of full-time employment opportunities which will eliminate the need for assistance?

Calculating a Rural Cost of Living Budget

Since the beginning of this century there have been efforts to determine the minimum costs of meeting a family's monthly needs. Typically, these efforts were based on actual household spending (frequently urban households) as reported in surveys or diaries.

Today, the discussion of a living wage arises in part from the inability of the current minimum wage to provide an income adequate for a family to live above the poverty line. These debates are about whether businesses applying for government grants or subsidies should be paying a wage sufficient to keep their workers above the poverty line, eliminating the need for their employees to seek further government assistance.

A living wage is that amount of earnings necessary for a family to meet their minimum monthly costs. Typically included in this are the costs for housing and utilities, food, child care, transportation, and basic household and personal care items. Not typically included are costs for things such as entertainment, birthday or other gifts, toys, tobacco products, or alcohol.

Existing models figure these costs in order to calculate what a family must earn to meet a minimum monthly budget. Typically, advocacy groups calculate these for urban areas, especially those with upcoming or pending living wage legislation. However, because costs are not the same in rural and urban areas, the results are not generalizable across the geographic spectrum.

Differences in the local cost of living vary not only by region, but also by rural and urban residence. In urban areas, public transportation is available not only for getting to and from work, but also for doing grocery shopping, visiting a doctor, or many other purposes. But in rural areas, public transportation is rare. The only way for an individual to get around in most rural communities is by personal transportation, whether owning one's own vehicle or sharing a ride with someone who does.

Further evidence of this disparity can be found in the 1994-1995 Consumer Expenditure

Survey. Food represents twelve percent of urban but 13.3 percent of rural household expenditures. Utilities are 5.8 percent of urban but 7.2 percent of rural household costs, and gasoline is 2.6 percent of urban but 3.9 percent of rural monthly household expenditures.

What, then, would it take for an employed mother with two children to meet her monthly bills in rural Kentucky without relying on government assistance?

The majority of the information on costs associated with essential living items was collected from local sources in seven rural Kentucky counties. In a few instances when local data were not available, reasonable estimates were derived from the 1994-1995 Consumer Expenditure Survey for the Southern region, minimum-wage income group. The seven counties reflect the diversity of rural places in Kentucky. Three of the counties are in eastern Kentucky, two are in the central region, and one is in the far western part of the state. Of the seven, four are in the Appalachian region and two are adjacent to metropolitan areas.

**The Estimated Monthly Cost of Living
for a Family of Three in Rural Kentucky**

| Item | Monthly Cost |
|--|--------------------|
| *Housing | \$358.29 |
| *Utilities (water, electric, and overage) | \$124.28 |
| *Phone | \$20.71 |
| Food | \$363.64 |
| *Child Care 4 year old | \$225.71 |
| *Child Care 6 year old | \$110.00 |
| Household, Personal care items, and Clothing | \$196.83 |
| Car Care | \$50.25 |
| *Gasoline | \$65.00 |
| *Car Insurance | \$68.61 |
| Health Care | \$59.08 |
| Total per Month | \$1,642.40 |
| Total per Year | \$19,708.80 |

* Based on local information

The estimated cost of living for an employed single mother with two children in rural Kentucky is **\$394 a week, \$1,642 a month, or \$19,709 a year**. To meet her monthly cost of living, a single mother must earn a take-home wage of **\$9.85** an hour before taxes.

Adding OASDI and Medicare taxes, which are deducted regardless of income level, the necessary minimum monthly income would be **\$1,768.04 or \$21,216.52 per year**. This would require an hourly wage of **\$10.61** per hour for 2,000 hours of work a year in order to both meet a minimum monthly budget and pay these taxes.

Opportunities in Kentucky's Rural Economy

Over the last year, Kentucky's economic news has been mixed. Unemployment is at its lowest and job growth at its highest in several decades, yet the income gap between the poorest and wealthiest of Kentucky families is wider than ever before (5th in the nation). The child poverty rate continues to be among the highest in the nation, yet the number of persons receiving public assistance is declining.

A recent report notes that while Kentucky has not experienced the dramatic decline in manufacturing employment that has occurred elsewhere, manufacturing jobs pay less in Kentucky than elsewhere. Moreover, while there has been an increase in higher-paying professional and technical jobs, these require at least a college degree, something that the majority of Kentucky's labor force does not have, especially those currently receiving public assistance.

What does all this mean? There are more jobs for those seeking employment, but the income to be earned from these jobs does little to close the gap between the poorest and the wealthiest Kentuckians.

Recent data reveal that rural recipients of the Kentucky Temporary Assistance Program (K-TAP) differ from their urban counterparts.

In terms of education, 42.5 percent of metro adult K-TAP recipients have a high school diploma, GED or college level of education, compared to 52.5 percent of rural adults. The largest difference lies in the proportion of adult recipients who completed high school or GED but did not go on to college (12.8% rural, 7.7% urban).

The differences in employment history are particularly striking. 27.4 percent of rural recipients were neither employed nor had a work history, compared to 9.9 percent of urban recipients.

Given this, what are the prospects of low-income Kentuckians enrolled in K-TAP achieving the stated goal of the program -- economic self-sufficiency?

The 1996 Kentucky Deskbook of Economic Indicators reports the average weekly wage in all industries covered by unemployment insurance as \$432.45 a week, or \$10.81 an hour for a 40-hour work week. But in 79 Kentucky counties, mostly rural, the average weekly wage for all industries is less than \$394 dollars, our benchmark for meeting monthly costs.

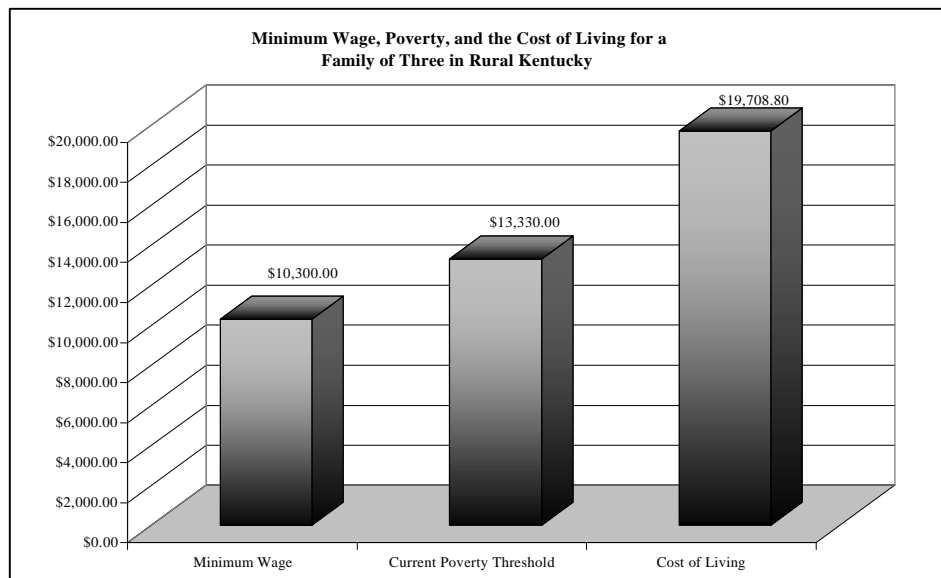
Relying on average wages masks the earnings differences for men and women, by educational level, and by employment sector. The 1990 Census reports the average hourly wage of all Kentucky women employed full-time was \$8.25 an hour compared to \$12.80 for men. For an employed single mother, this \$8.25 an hour is \$1.60 an hour

less than required to meet her monthly costs without assistance. But this is an average, and women workers in Kentucky still must have at least some college to earn this or more.

In 1990 for women 18-24 years of age average earnings were \$5.64 per hour. But those with a high school degree or a GED earned \$5.12 an hour. And those not completing high school earned an average of only \$4.53 an hour. In fact, based on the Census, even with a graduate or professional degree our hypothetical 22-year-old mother would not earn enough (\$7.58) to meet her minimum budget and pay taxes.

The 1995 Regional Economic Information Service shows the three largest types of employers in Kentucky are services (24.7%), retail trade (17.5%) and manufacturing (15.3%). Women are more likely than men to be employed in services and retail trade than in manufacturing. In 1994, the average weekly wage for service industries was \$385.62 and it was \$297.51 for those employed in retail/wholesale trade. Indeed, there were no counties in Kentucky in 1994 where persons employed in retail/wholesale trade earned weekly wages above the \$394 benchmark. In only 13 counties did employment in services pay wages above \$394 a week.

Manufacturing employment has seen increases during the 1990s. The average wage in Kentucky for manufacturing jobs in 1994 was



\$560 a week. Still, manufacturing employees in Kentucky averaged weekly earnings above the benchmark of \$394 in only 52 counties. In the remaining 68 counties, average weekly earnings were below this benchmark.

Recently, the minimum wage was increased to \$5.15 an hour. If a single mother worked 2,000 hours a year, the standard for full-time employment, at the current minimum wage, she would earn only \$10,300 a year before taxes. If this single mother had two dependent children, these wages would not bring her and her children above \$13,330 a year, the current poverty threshold for a family of three. This means that to meet the basic cost of living in rural Kentucky for a family of three, a single working mother would need to earn an additional \$4.70 an hour, or \$784 a month, or \$9,409 a year on top of the minimum wage. At the current minimum wage, this would require our single mother to work an additional 35 hours every week, just to meet the most basic monthly cost of living budget without further assistance.

Conclusions

How much does an employed single mother with two dependent children living in Kentucky's rural communities need to earn in order to meet her family's monthly needs? And, how likely is this mother to find employment that meets this monthly budget without also needing government assistance? This analysis demonstrates that even presuming employment opportunities in rural Kentucky, there is likely to be a significant gap between earnings and the actual cost of meeting a monthly household budget for the typical family

currently receiving public assistance (i.e., a single mother with two dependent children).

Kentucky's rural labor market is heavily weighted toward the services sector, which has a high proportion of minimum to low wage jobs. These are jobs unlikely to provide wages at the \$9.85 an hour before taxes necessary for a single mother with two dependent children to live without additional assistance. Yet the opportunity for welfare recipients to move into jobs with adequate pay is the key assumption upon which the success of welfare reform depends.

Kentucky adults currently receiving public assistance and required to move into the labor force as quickly as possible face a labor market where jobs, when they can be found, will likely be at or just above minimum wage. Yet since the majority of K-TAP cases are single parent families-typically single mothers-they will need to find employment that pays enough wages to meet their monthly costs of living.

This analysis indicates that with welfare reform, Kentucky's employed single mothers living in rural areas are facing even greater challenges in meeting their families' minimum needs. The analysis also highlights an unanswered question: If individuals are employed full time but still do not earn enough to meet their families' monthly costs of living, how do they close the gap between earnings and monthly costs, especially after exhausting their 60-month lifetime limit of assistance?

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