



STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE

To: Basic Needs Budget Technical Advisory Committee
From: JFO Staff
Date: October 12, 2023
RE: Review of Basic Needs Budget Components Not Requiring Committee Review

Act 54 of 2023, an act relating to the Vermont basic needs budget, established a technical advisory committee to update the methodology used to calculate the basic needs budget pursuant to 2 V.S.A. § 526. The Joint Fiscal Office (JFO) has determined that the methodology for calculating some components of the basic needs budget neither needs updating nor formal review by the Committee. It is the opinion of JFO that the calculations for personal expenses, rental insurance, term life insurance, savings, and taxes are methodologically sound in their current form.

In lieu of formal testimony, JFO prepared this memo to provide the Committee with a summary and explanation of these components. This memo is intended to provide background for discussion, if needed.

Personal Expenses

In the 1999 report, personal expenses were factored into the budget at \$2.00 per person per day. They are indexed to the year that the basic needs budget reflects using changes in CPI-U. In the most recent budget, the amount was \$3.51 per adult per day and \$1.75 per child per day. This component is derived from the Consumer Expenditure Survey and represents estimated spending on every day personal expenditures. The inflation adjustments ensure that the amount calculated for this spending reflects current day prices. JFO recommends the continued use of this methodology to calculate personal expenses.

Rental Insurance

The insurance rate applied in the basic needs budget is based on the lowest cost from the range provided on the Vermont Department of Financial Regulation (DFR) website and is adjusted for inflation.¹ The estimate does not distinguish between urban and rural rentals as the cost is not appreciatively different.

This information is updated regularly and reflects current market conditions. This data has been identified as reliable and representative of costs faced by Vermonters. JFO does not recommend changing the methodology used to calculate this component.

¹ <https://dfr.vermont.gov/consumers/explore-insurance/home>

Term Life Insurance

Insurers recommend that a family carry life insurance equivalent to 10 to 12 times its annual earnings. To be conservative, JFO uses 10 times annual income to calculate the amount of coverage needed. For premium pricing, the “rule of thumb” is \$0.60 per \$1,000 of coverage plus an annual \$75 policy fee. JFO adjusts these values for inflation to determine the annual costs for a family. These assumptions were developed with assistance from life insurance providers and reflect a typical age and health profile for customers. JFO recommends the continued use of these benchmarks for calculating this component.

Savings

All family configurations savings amounts are five percent of before-tax expenses. The savings component is intended to reflect any sort of family savings priorities, including retirement above social security benefits, college, and emergency accounts. The five percent assumption is relatively conservative but is consistent across all previous reports. JFO does not believe there is a compelling reason to change the assumption for savings.

Taxes

The tax estimates are based on current law tax to accurately reflect the taxes that a family would pay in any given year. Federal tax liability is calculated using the standard deduction based on the filing status of a household. The federal liability is net of any earned income tax credit (EITC), child tax credit, and child and dependent care tax credit.² These calculations do not assume other forms of tax savings such as medical or dependent care savings accounts.

State tax liability is the net of the State standard deduction and personal exemption amounts, the State earned income credit, State child tax credit (CTC), the State child and dependent care credit (CDCC), and the Vermont Renter Credit Program. For the basic needs budget, only household configurations with children qualify for the CTC or the CDCC. None of the family configurations qualify for the Vermont Renter Credit Program.

JFO currently assumes that two-adult households are married and therefore would file as Married Filing Jointly. If the committee decides to make any changes to the assumed household configuration this would trigger a change in the assumed filing status, but other tax related assumptions would remain unchanged.

JFO believes that this methodology, as it reflects tax liability based on current law, does not require any changes.

² None of the family configurations used in the Basic Needs Budget Report would be eligible for the EITC because their earnings are above the income limits.