

Vermont Legislative Joint Fiscal Office

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To: The Joint Fiscal Committee

From: Sara Teachout, Nolan Langweil

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Subject: Basic Needs Budgets and Livable Wage Methodology Recommendations

2 V.S.A. § 505(d) The joint fiscal committee may adopt modifications to the methodology used to determine the basic needs budget calculations under subsection (c) of this section to account for public policy changes, data availability, or any other factors that have had an impact on any aspects of the methodology. Changes or revisions in methodology adopted by the committee shall be effective no later than November in the year preceding the release of the report.

Over the past biennium a number of potential improvements to the Basic Needs Budget methodology have been discussed. There are a range of reasons why a change may be considered from technical issues surrounding data access or suitability while others are clear policy choices. Of the issues discussed, these are the ones that may have the most consensus surrounding the need for a change to the methodology. The first is an attempt to utilize the form of the data used for the clothing and household expense category which matches the Basic Needs Budget calculation while the second is a more substantive policy decision about the measure and allowance for telecommunications expenses. Lastly, the federal payroll tax was temporarily reduced, this is a proposal to calculate it at the higher level that it is projected to return to in the upcoming tax year.

1. Clothing and Household Expenses

The current calculation utilizes the Consumer Expenditure Survey Tables by income level and includes the housekeeping supplies and household furnishings and equipment expenses reported by family income level, less the subtotals for major household appliances (such as stoves) and miscellaneous household equipment, because the families are renters.

The proposed change is to match the expenses by the type of family (single person, adults with and without children and married or single parents) rather than by income level (Table 5: Composition of Consumer Unit rather than Table 4 and Table 2301 combined) While neither of these is a perfect match, it prevents some of the circular nature of the calculation and while it produces the same figure for both the single parent with one child and with two, it bases expense on family configuration rather than income alone.

2009 Clothing & Household Expense Options (monthly expense)

Family	2009 (Income) Table 4 & 2301	2009 Table 5	PROPOSAL 2011 Table 5
Single	173	203	169
1 + 1	177	263	231
1 + 2	184	263	231
2 + 0	190	356	273
2 + 2	202	470	352

Note: Many consumer expenditures are lower in 2011 than they were in 2009 – first data columns are 2009 data comparison, the last is the 2011 data for the proposal.

2. Telecommunications

The current Telecommunications category is a combined item. It includes three parts of the calculation: personal expenses per person per day (arbitrarily chosen \$2.00 in 1999 indexed by the CPI), monthly standard use measured service (SUMS) charge for a residential landline telephone, plus a per month amount for long distance (\$10 in 1999 also indexed).

The proposal is to separate personal expenses from telecommunications and include this amount only for adults in the household. New personal expense line \$2.75 per adult in household per day (1999 \$2.00 per person per day indexed by the CPI to 2012).

For the separate Telecommunications calculation, the BNB would utilize the Consumer Expenditure Survey Table 1500: Composition of Consumer Unit (same as clothing proposal above) and include expenses for a) telephone services - this item includes residential phone, cell, phone cards and VoIP services, and b) computer information services, but not c) cable and satellite television services.

2011 Personal Expenses & Telecommunications Comparison (monthly expense)

Family	Current BNB Methodology	Personal Expenses	Telephone Services	Computer Info Services	PROPOSAL 2011 Total
Single	121	83	78	21	182
1 + 1	201	83	97	23	203
1 + 2	283	83	97	23	203
2 + 0	201	166	107	35	308
2 + 2	365	166	136	29	331

The results of the changes proposed above are not evenly distributed increases or decreases because they are based more on the type of the family unit rather than the income levels.

3. Tax Calculations

The federal payroll tax was reduced from 6.2% to 4.2% effective in 2011 and 2012. It is anticipated that Congress will allow the tax cut to expire in 2013. The upcoming BNB is based

on 2012 tax year laws, but the report is released in 2013. The proposal is to calculate the payroll tax amount at the full 6.2% level.

4. Health Care

The health care category is comprised of both estimated costs for health insurance premiums and out-of-pocket costs. We try to use data that best reflects the experience of Vermonters and attempt to use state-specific data when available. As such, we are proposing to change the data source used to estimate out-of-pocket costs.

The current methodology uses data collected as part of the federal Medical Expenditure Panel Survey (MEPS), which are compiled and maintained by the Agency for Healthcare Research and Quality (AHRQ), which is part of the U.S. Department of Health & Human Services. These data are national and does not include state-specific out-of-pocket spending.

We now have access to the Vermont Healthcare Claims Uniform Reporting and Evaluation System (VHCURES), which are Vermont specific-data collected for the Vermont Department of Financial Regulation. We are proposing to replace the current out-of-pocket spending data from the national MEPS data with the VHCURES data to better reflect the actual out-of-pocket costs by Vermonters with health insurance. At this time, we are not proposing any changes in the methodology for health insurance premiums and will continue to use MEPS data.

If these changes are adopted, they will be included in the 2013 Basic Needs Budget report released in January.