

Measuring and Responding to Middle-Class Challenges: The State Perspective

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Overview

- Background
 - State-level focus
 - Policy-relevant information on the middle class
 - A spending, or budget-based, perspective
- Policy Options
 - Clearing a path to the middle class
 - Policies to increase wage and reduce costs
 - Monitoring middle class outcomes



Middle Class in Colorado

- Project initiated by The Bell Policy Center
 - *Colorado's Middle Class Families: Characteristics & Cost Pressures*
(<http://www.bellpolicy.org/>)
- Surprised by the lack of state-level attention to the middle class
- Modeled, in part, on Vice President Biden's Middle Class Task Force report
- Research focused on families:
 - Composition and trends of the state's middle class
 - size, family composition, age, race & ethnicity, education, occupations, industries, urban/rural, migration
 - Ability to live a middle class lifestyle, a budget-based perspective
 - Indicators of the middle class experience



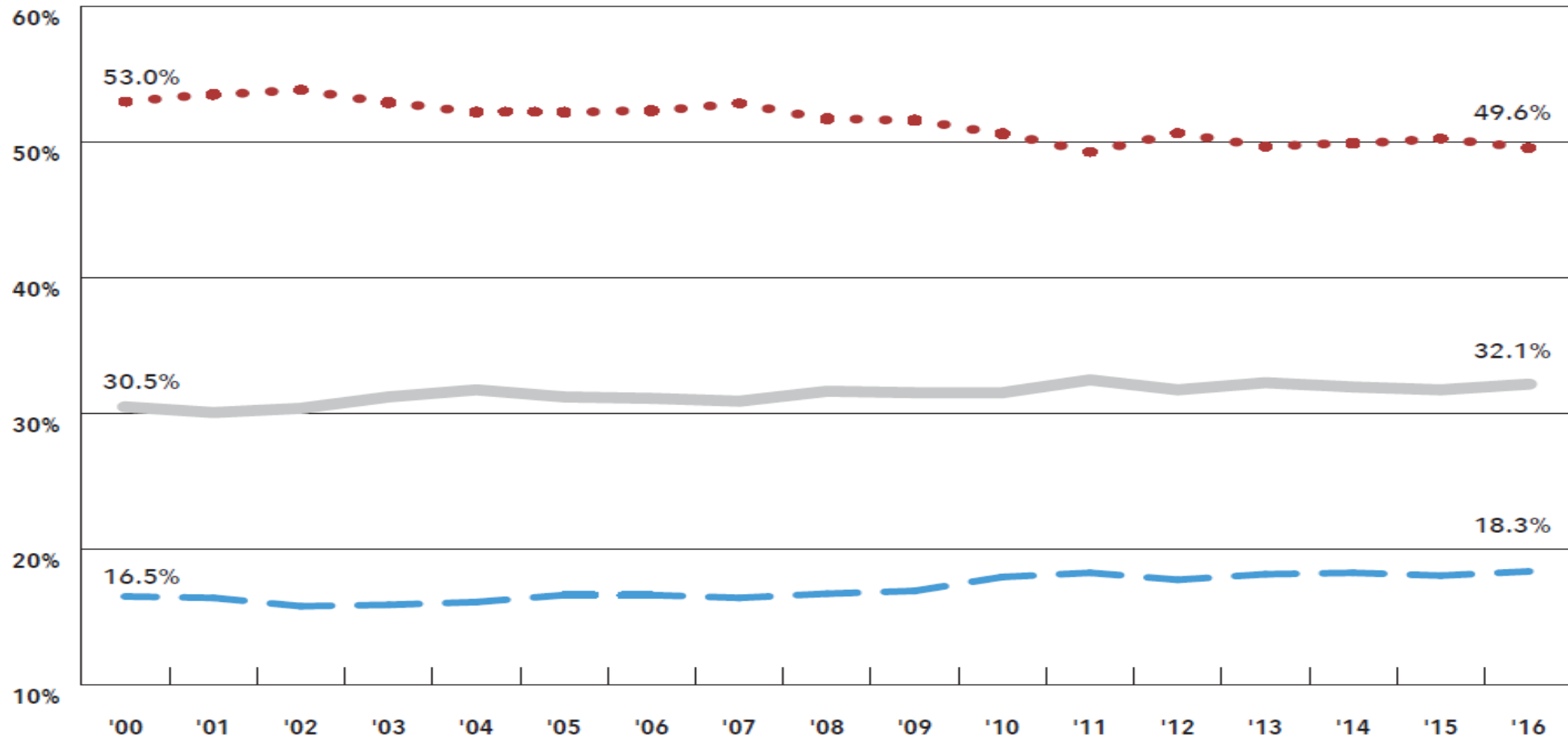
Middle Class in Colorado

- Middle class is shrinking marginally due to gains in both upper and lower income families
- More than three-quarters of middle-income families are without young children in the home
- State's middle-income families have aged dramatically since 2000
- Only White families show a consistent, increasing share from lower to upper income classes
 - Concentration of Hispanic families in the lower-income class is four times as large as in the upper-income group



Colorado's middle income class is shrinking while upper and lower income classes are increasing

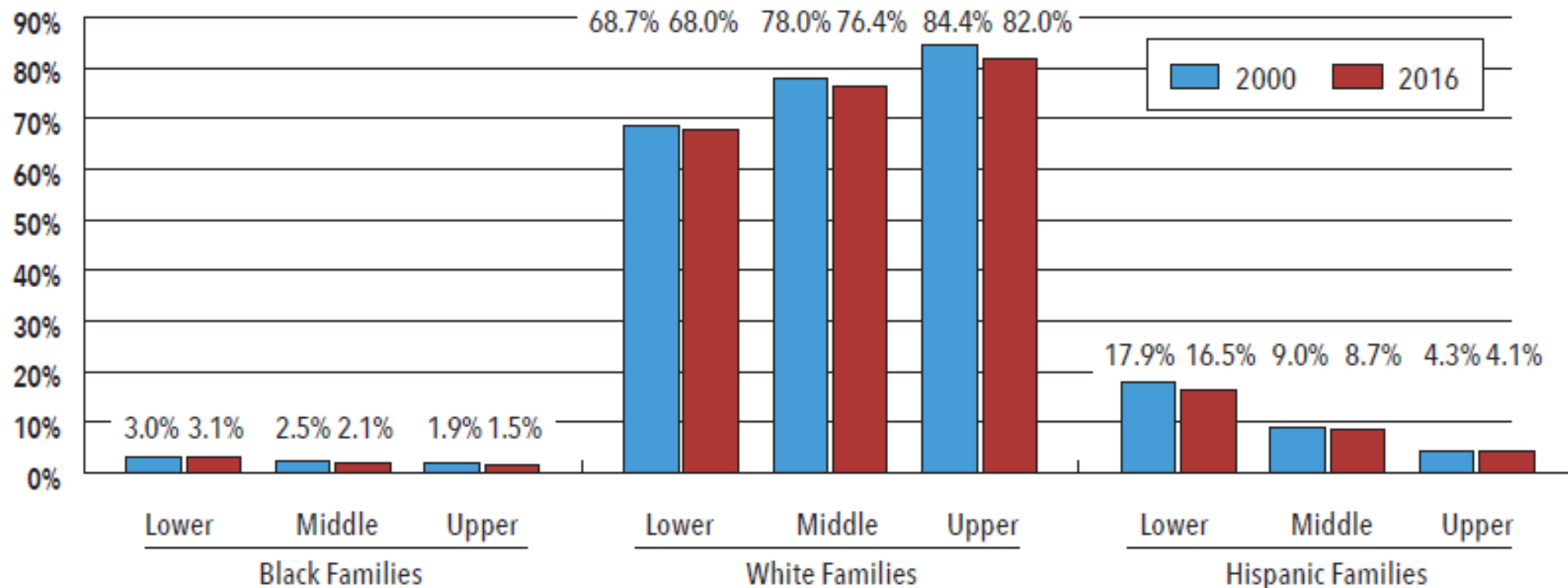
FIGURE 3: PERCENTAGE OF LOWER-, MIDDLE-, AND UPPER-INCOME FAMILIES IN COLORADO, 2000-2016



Race/Ethnicity of Colorado's Middle Class, 2000-2016

- Uniform percentage across income classes would represent no increased likelihood to be in a given class based on race.

FIGURE 6: COMPOSITION OF LOWER-, MIDDLE-, AND UPPER-INCOME CLASSES BY SELF-IDENTIFIED RACE, 2000 AND 2016



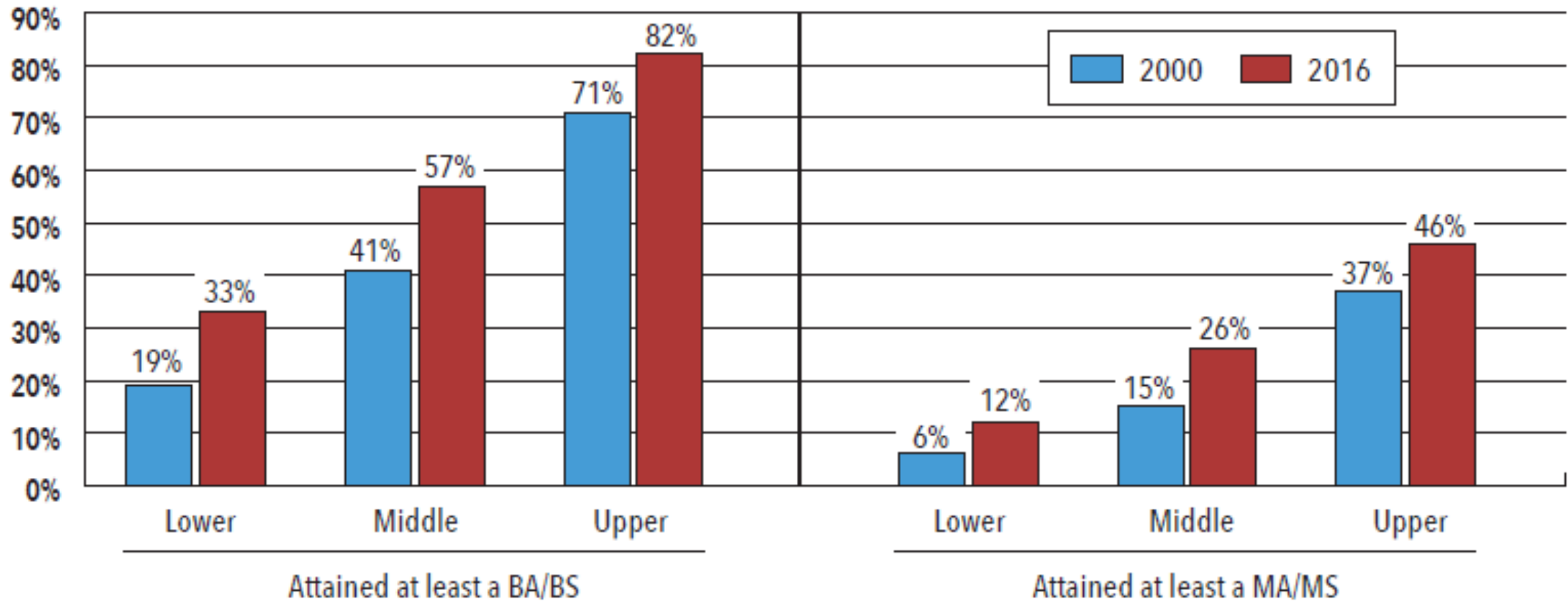
Middle Class in Colorado

- 57% of middle-income families have at least one adult family head with a bachelor's degree or higher, up from 41 percent in 2000
- Based on primary earner, the middle class is supported primarily by Management/Professional and Sales and Office occupations
- Middle class jobs are increasingly concentrated in the health care, education, and professional, scientific, and technical industries
 - A quarter of working heads employed in health care or education in 2016
- Dual income representation in the middle class is over 80%



Educational Attainment

FIGURE 7: PERCENTAGE OF COLORADO FAMILIES WITH AT LEAST ONE FAMILY HEAD WITH A COLLEGE DEGREE OR HIGHER



Occupations of Colorado's Middle Class, 2000-2016

- The middle class is supported primarily by Management/Professional and Sales and Office occupations

TABLE 3: LEADING OCCUPATION COMBINATIONS OF TWO-ADULT, MIDDLE-INCOME FAMILIES IN COLORADO, 2000 AND 2016

Adult 1	Adult 2	Percent of Middle-Income Families, 2016	Percent of Middle-Income Families, 2000
Professional/Management	Professional/Management	27.1%	19.1%
Professional/Management	Sales/Office	17.2%	17.5%
Professional/Management	Not in the labor force	9.8%	5.4%
Professional/Management	Service Worker	7.3%	5.7%
Sales/Office	Sales/Office	5.0%	7.7%
Production/Transportation	Professional/Management	5.0%	4.8%
Professional/Management	Construction/Extraction	2.7%	0.7%



Colorado occupations rated by likelihood of entering the middle class and moving upward

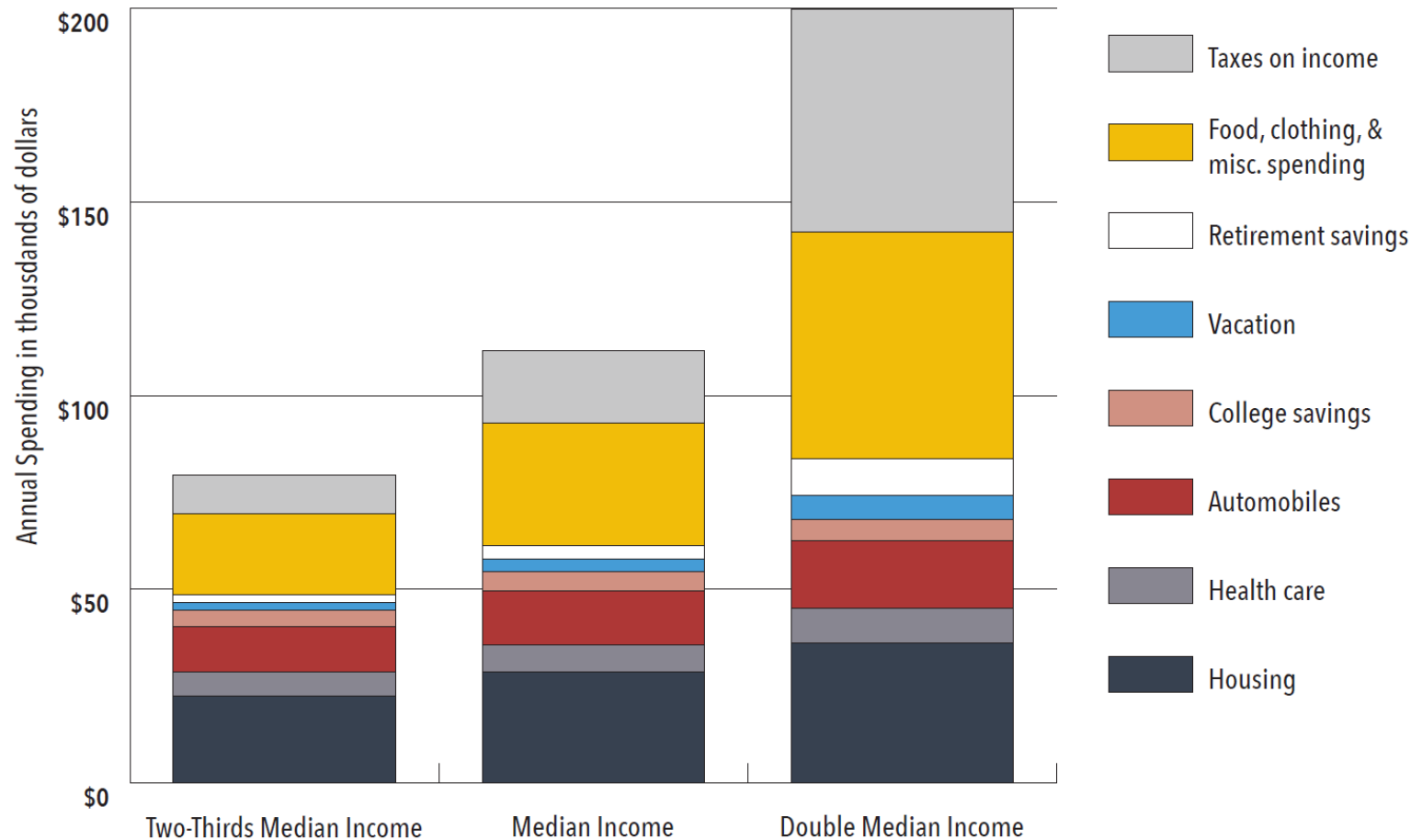
- Used BLS wage and ACS survey data
- 2000
 - **59%** workers in jobs with low probability
- 2016
 - **64%**
- Pairing occupations increases odds substantially in two-adult families

Likelihood of moving up income classes		
Low → High		
Likelihood of entering the middle class Low ↓ High	<ul style="list-style-type: none"> • Building and Grounds Cleaning and Maintenance Occupations • Food Preparation and Serving Related Occupations • Healthcare Support Occupations • Laborers and Freight, Stock, and Material Movers • Personal Care and Service Occupations • Cashiers 	<ul style="list-style-type: none"> • Construction and Extraction Occupations, Including Construction Laborers • Installation, Maintenance, and Repair Occupations • Office and Administrative Support Occupations • Protective Service Occupations • Arts, Design, Entertainment, Sports, and Media Occupations • Retail Sales Workers and Supervisors • Production Occupations • Transportation and Material Moving Occupations
	<ul style="list-style-type: none"> • Plumbers, Pipefitters, and Steamfitters • Carpenters 	<ul style="list-style-type: none"> • Healthcare Practitioners and Technical Occupations, Excluding Registered Nurses • Education, Training, and Library Occupations • Sales and Related Occupations, Excluding Cashiers, Retail Sales Workers, and Supervisors of Retail Sales Workers
		<ul style="list-style-type: none"> • Architecture and Engineering Occupations • Business and Financial Operations Occupations • Computer and Mathematical Occupations • Management Occupations • Registered Nurses
		<ul style="list-style-type: none"> • Legal Occupations



Aspirational Colorado “Middle Class” Budgets: 2-adult, 2-child families (homeowners, school-aged children)

FIGURE 9: EXAMPLE MIDDLE CLASS BUDGET FOR TWO-ADULT, TWO-CHILD FAMILIES IN COLORADO, 2016
(HOMEOWNERS WITH CHILDREN IN SCHOOL)



Double Median
Income: \$206,400
Spending: \$203,688
Surplus: \$2,712

Median
Income: \$103,200
Spending: \$115,450
Deficit: \$12,250

Two-Thirds Median
Income: \$68,800
Spending: \$82,929
Deficit: \$14,129



Measuring Middle Class by Aspirations

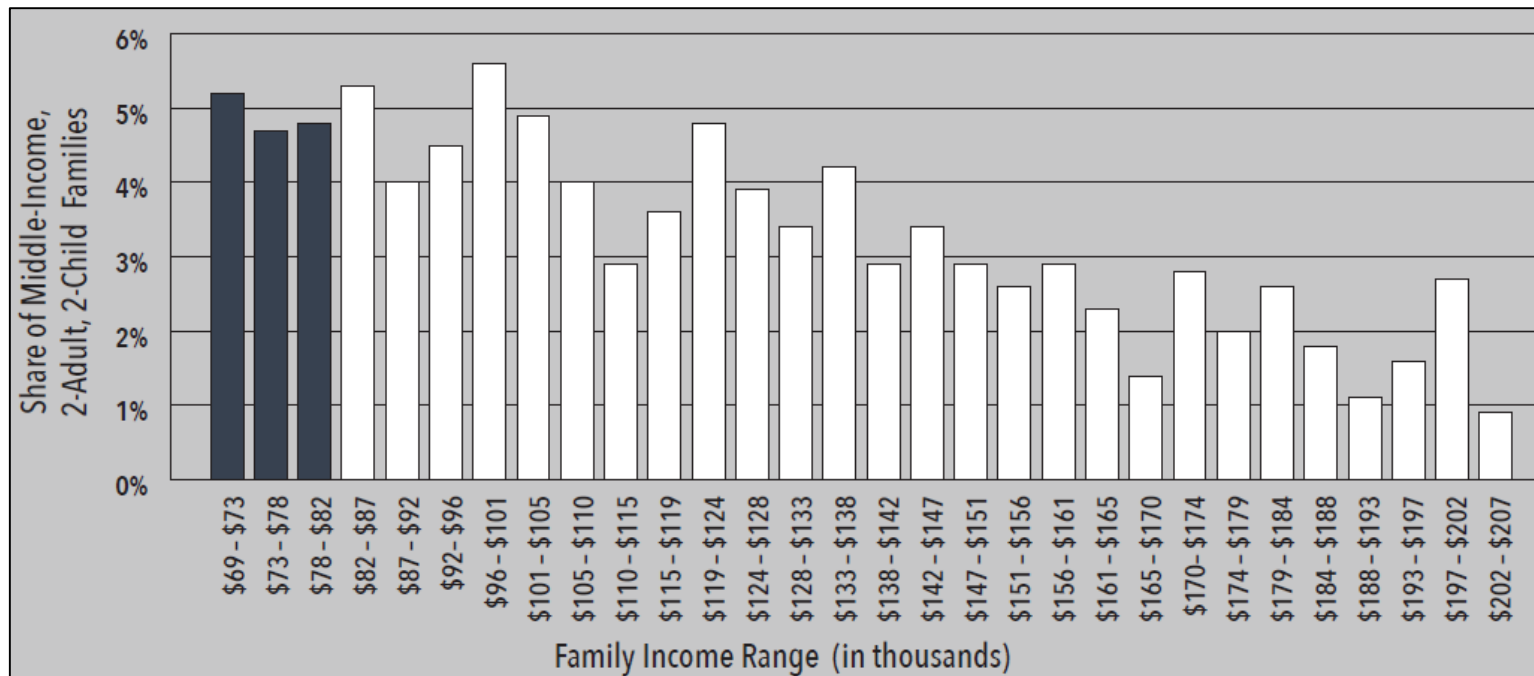
- Our income-based definition finds nearly half of all Colorado families in the middle class
- From an aspirational perspective, substantially fewer families have incomes to support a middle class lifestyle in Colorado
- Exercise is akin to a “self-sufficiency standard” for middle class aspirations

	Middle-Income Family Type		
	Two-Adult, Two-Child	Two-Adult, One-Child	One-Adult, Two-Child
Income-Based Definition	57.1%	57.4%	51.0%
Expense-Based Definition	48.7%	49.4%	37.9%
Difference (in percentage points)	8.4	8.0	13.1



Measuring Colorado's Middle Class by Aspirations

- An illustration in 2016 of Colorado two-adult, two-child families
 - Shares of middle class families in Colorado with certain income ranges
- Colorado's middle class would shrink further if defined as the ability to achieve a lifestyle traditionally associated with the middle class.



Overview of Policy Discussion

- The income and cost analysis provides a clear picture of what it takes to be in the middle class and which families are most likely to get there
- Based on this analysis we identified state actions to help more people get into and stay in the middle class
- We grouped the policies into three broad categories:
 - Clearing a path into the middle class
 - Increasing wages and decreasing living costs
 - Monitoring outcomes so we know where we stand



Clearing a path into the middle class

Who is making it into the middle class?

- Two working adults
- At least one with a professional occupation generally requiring some postsecondary education.
- Working in an industry that pays decent wages

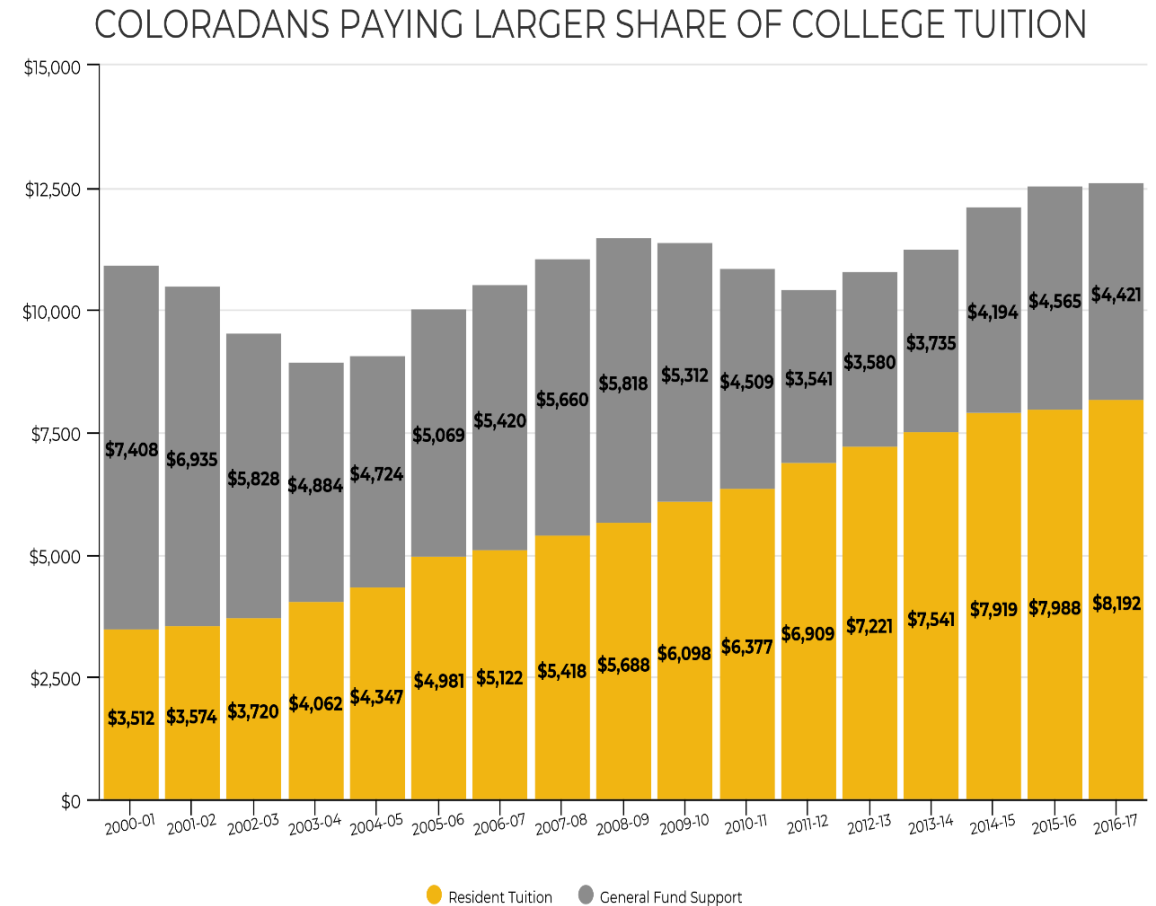
What is needed?

- Accessible and affordable postsecondary education
- Enough child care slots that are affordable for families
- Economic growth with good jobs in industries that pay decent wages
- Workforce development policies that help people qualify for occupations likely to propel them into the middle class



Making postsecondary education accessible and affordable

- Share of tuition costs at public colleges and universities paid by Colorado families doubled over the past 18 years.
- SHEEO reports for the first time, public colleges in over half the states received a majority of their revenues from tuition than state funding.
- Public investments are being cut at a time when more students need help resulting in increased student debt, which is up 426% in Colorado since 2003.
- **Increase public support for postsecondary education and focus on ways of helping students pay off debt.**



Ensuring child care is accessible and affordable

- Child care costs are growing faster than families' incomes, particularly for infant and toddler care.
- Broad based preschool programs can expand accessibility and share costs across society.
- Expanding funding, raising eligibility levels, and increasing reimbursement rates for the child care assistance program could encourage the creation of more child care slots.
- **Increase the income limit for the Child Care Tax Credit so more middle class families receive it.**



In 2015, the average cost for a Colorado 4-year-old to attend preschool was

\$11,089



For a family making the state median income of \$60,629, that's **18%** of their annual income.



For a family of four earning \$45,510 (185% of FPL), the cost of sending one kid to preschool jumps up to

24%



Source: Center for American Progress Child Care Desert Report, Bell analysis



Increasing wages and reducing costs

Who is making it into the middle class?

- Whether you make it into the middle class depends on how much you earn.
- Even with strong economic growth and unemployment under 3 percent, Coloradans' wages are barely keeping pace with inflation.
- Whether Coloradans can afford the “aspirational” items associated with the middle class depends on the cost of overall living standards.

What is needed?

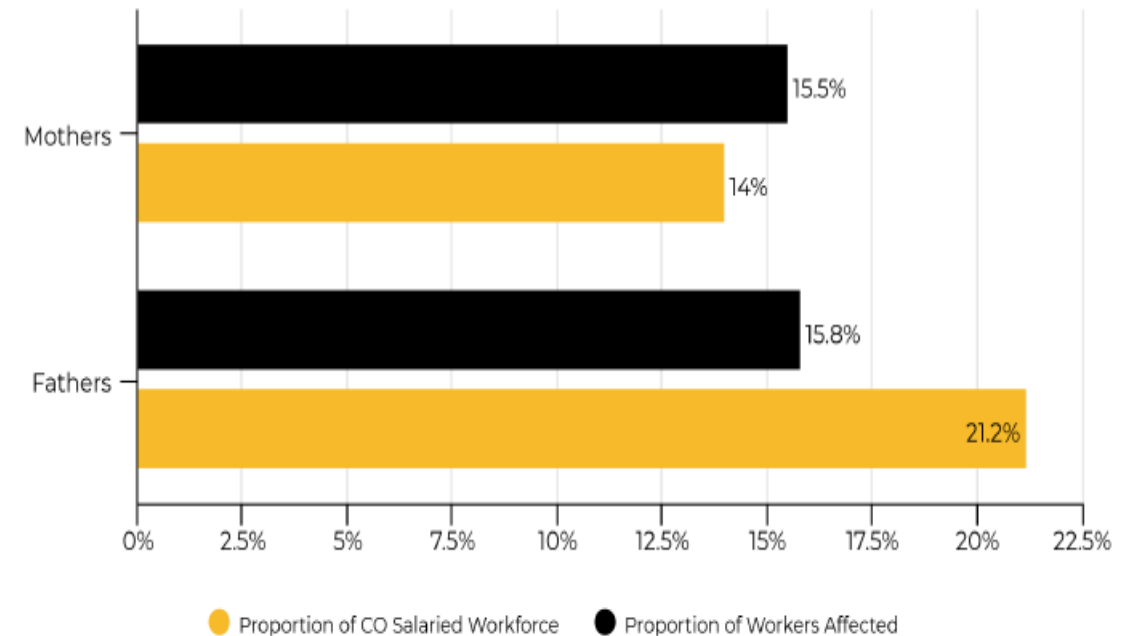
- Wage growth that exceeds inflation
- Ensuring families can afford the costs of health care, housing and other basic living expenses.
- Public investments in services and infrastructure that ensure more families have access to the factors that propel them into the middle class.



Modernize and update the salary threshold for overtime pay

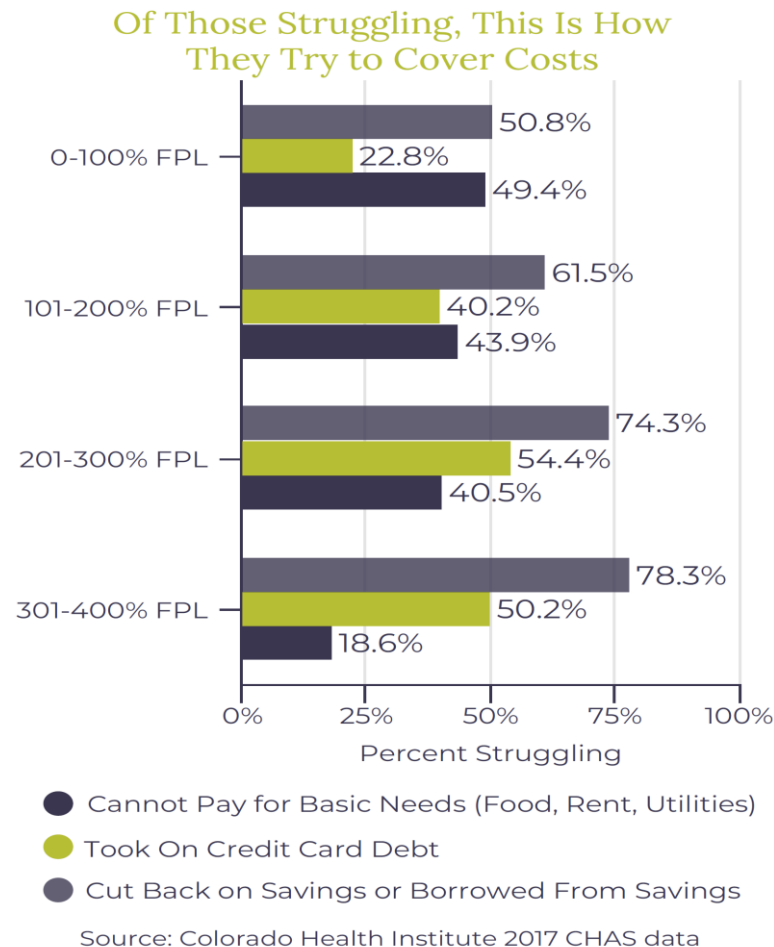
- Increasing the salary threshold will make more salaried workers automatically eligible for overtime pay.
- The Obama administration proposed raising it to \$47,476 per year in 2016. A federal district court blocked its implementation and the Trump Administration pulled it back.
- If 1975 standard is updated for inflation, over 327,000 Colorado salaried workers automatically qualify for OT pay.
- **We will set our own state salary threshold to better reflect the increase in wages over time.**

PROPORTION OF SALARIED WORKERS
IMPACTED BY THRESHOLD CHANGE,
BY PARENT STATUS



Help middle class families afford health care costs

- Colorado has areas with much higher health care costs than others particularly our mountain/resort communities and rural areas.
- Many middle-class families in these communities are not eligible for subsidies on our health insurance exchange.
- **Expand subsidies on our exchange for more middle class families.**
- **Enact recommendations from Health Care Cost Commission to reduce costs of health care.**



Where to go from here

A clearer picture of the middle class:

- The cost and income analysis gave us our first comprehensive definition of the middle-class and what it takes to get into it.
- It shows which and how many Coloradans are in the middle class and identifies key factors that propelled them ahead.
- Policy makers and the public need to know if progress is being made and the barriers to moving ahead.


What's next?

- Dashboard of indicators that are updated regularly and widely available.
- Further test the interrelationships between public investments and an expanding middle class
- Public awareness and support for actions to expand access to the middle class.



Create a dashboard to monitor progress

- The State of Colorado uses performance dashboards for priorities like transportation, workforce development, and economic development
- **A 'Colorado Middle Class Dashboard' can show trends and help identify opportunities and problems**
 - Research-based indicators of middle class health can elevate awareness of contributors to a strong middle class
- Items that could be tracked include:
 - % of families with at least one college degree or higher
 - Number and share of workers and jobs in occupations/industries likely to be middle class
 - Wage data for occupations unlikely to lead to middle class
 - Child care availability and costs
 - Cost of higher education for identified occupations
 - Overall number and share of families in the middle class

 **ECONOMIC & INFRASTRUCTURE DEVELOPMENT**
Make Colorado the best place to start and grow a business

Goal: Increase access to reliable, cost-effective broadband internet

- ↓ Rural households with access to basic broadband
- » Statewide households with access to basic broadband
- » Schools with access to basic broadband

Goal: Cut the burden of government regulations

- » Early stakeholder engagement on rules
- » Compliance burden reduced

Goal: Increase travel time reliability in two corridors: I-25 and I-70

- ⚙ Average travel time for northbound I-25
- » Average travel time for southbound I-25
- » Average travel time for eastbound I-70
- » Average travel time for westbound I-70



Supporting Materials



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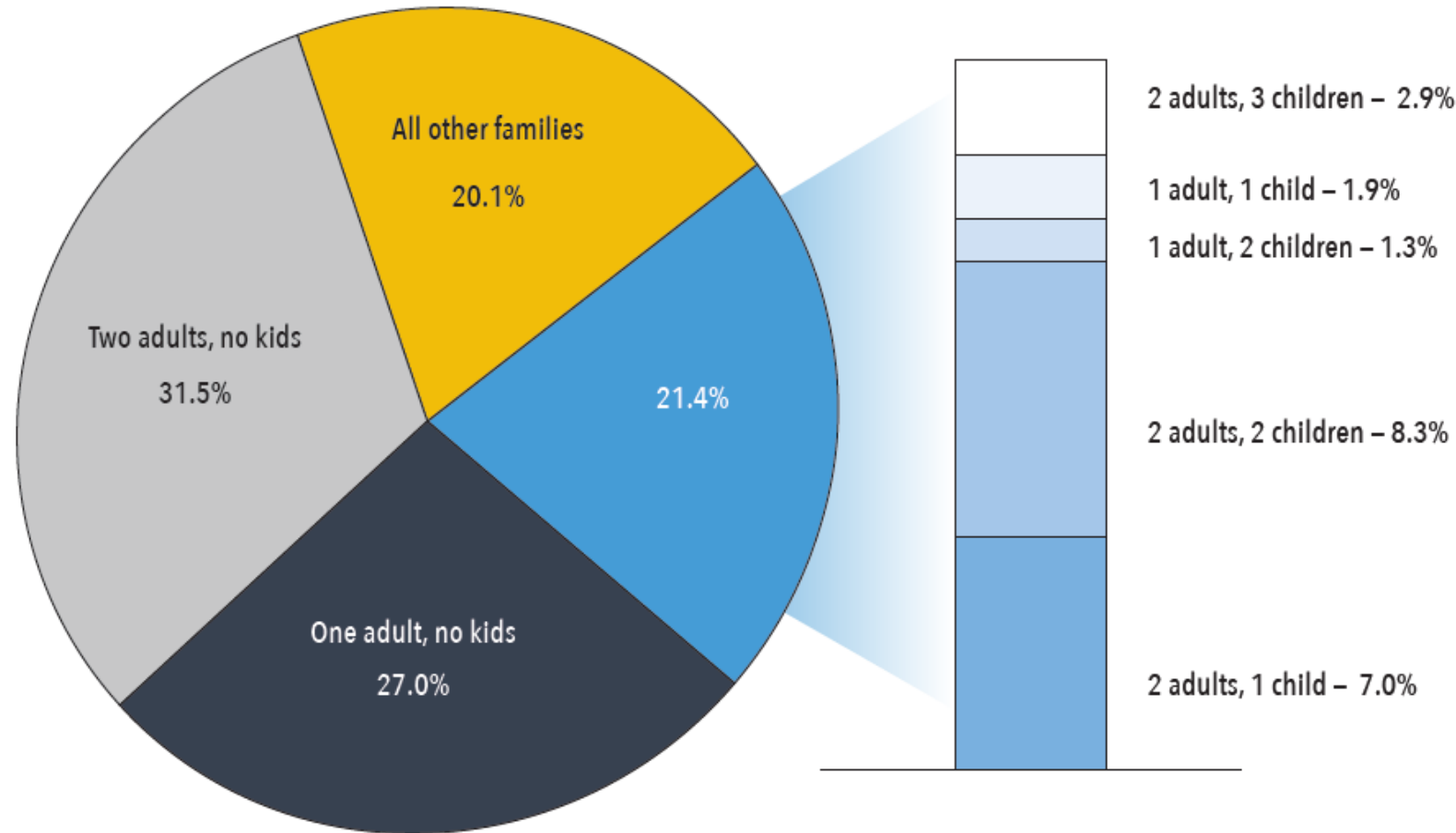
A Health Equity Foundation



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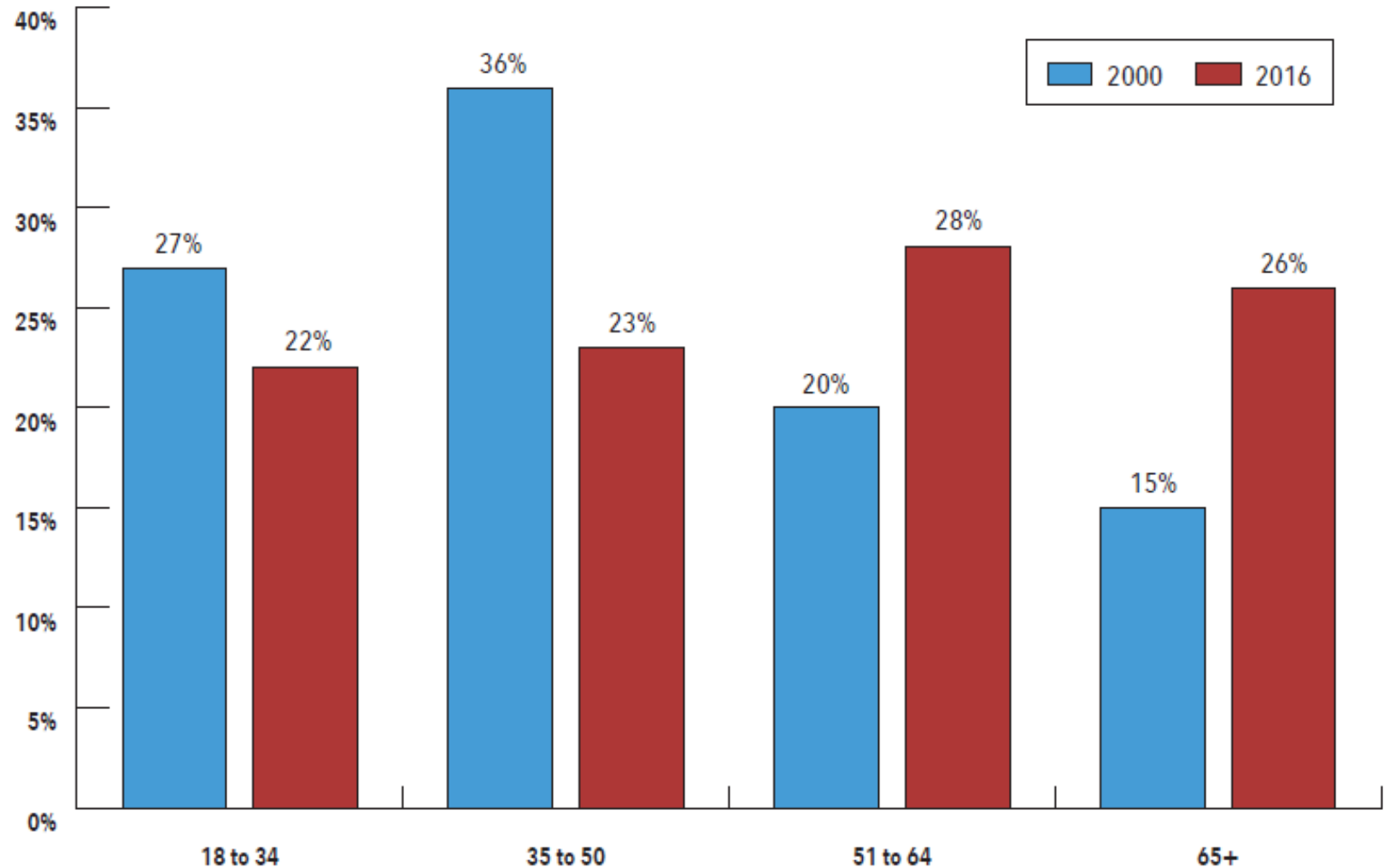
Families without young kids made up the majority of the middle income in 2016.

FIGURE 4: COMPOSITION OF COLORADO'S MIDDLE-INCOME FAMILIES BY TYPE, 2016



Age of Colorado's Middle Class, 2000-2016

FIGURE 5: AGE COMPOSITION OF COLORADO'S MIDDLE-INCOME FAMILIES, 2000 AND 2016



- The middle class has aged dramatically since 2000.
- Those ages 35 to 50 in the middle class fell 13 percentage points, while those 64 and older increased by 11 percentage points.

Working Family Heads by Industry

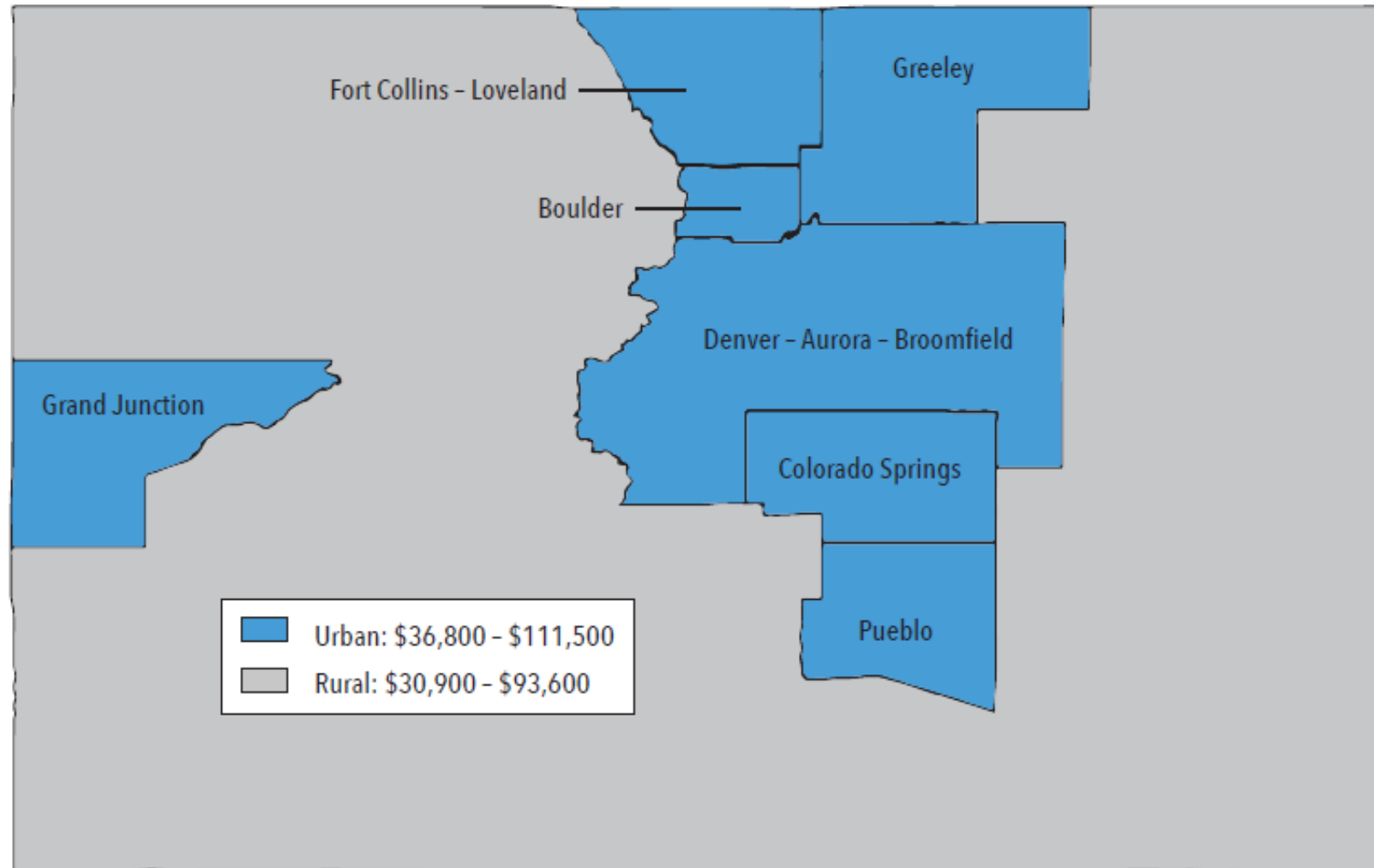
TABLE 6: PERCENTAGE OF WORKING FAMILY HEADS BY INCOME CLASS AND INDUSTRY, 2016

Industry (NAICS)	Lower Income	Middle Income	Upper Income
Health care (62)	12.0%	13.4%	13.6%
Education (61)	8.5%	11.5%	8.2%
Information, finance, and real estate (51-53)	6.1%	10.4%	15.7%
Professional, scientific, and technical (54-55)	5.6%	10.3%	19.9%
Retail trade (44-45)	12.8%	8.4%	5.0%
Construction (23)	9.9%	7.6%	4.7%
Public administration (92)	3.8%	7.0%	6.5%
Manufacturing (31-33)	5.6%	6.7%	8.4%
Other (81)	7.1%	4.8%	2.9%
Transportation and warehouse (48-49)	4.3%	4.2%	2.7%
Accommodation and food service (72)	9.5%	3.8%	1.4%
Administrative support (56)	6.1%	3.5%	2.7%
Wholesale (42)	2.3%	2.7%	2.6%
Arts, entertainment, and recreation (71)	2.7%	2.3%	1.4%
Mining, oil, gas, and utilities (21-22)	0.9%	2.1%	3.3%
Agriculture (11)	2.9%	1.5%	1.1%



Rural vs Urban

FIGURE 8: FAMILY INCOME NEEDED TO BE MIDDLE INCOME IN URBAN AND RURAL AREAS, 2016



Migration

TABLE 8: FAMILY MIGRATION PATTERNS BY INCOME CLASS IN COLORADO

Family Income Class	Net In-Migration Ratio		Percent of Net In-Migration	
	2000	2016	2000	2016
Lower Income	1.9	1.6	45%	49%
Middle Income	1.5	1.3	44%	33%
Upper Income	1.3	1.2	11%	18%



First Child

TABLE 13: AVERAGE AGE OF PARENTS WHEN HAVING THEIR FIRST CHILD

	Colorado		Rest of the US	
	2000	2016	2000	2016
Lower Income	24.9	26.7	24.7	26.7
Middle Income	27.4	29.9	26.9	29.1
Upper Income	30.3	32.8	30.1	32.1



Dual Income

TABLE 14: DUAL-INCOME REPRESENTATION AMONG COLORADO'S MIDDLE CLASS

	2000	2016
Share with only one full-time worker	1.2%	1.1%
Share with one full-time and one part-time worker	17.9%	18.1%
Share with two full-time workers	80.9%	80.8%



Middle Class Aspirational Budget:

What we Include

- For our three different family types, we cost out the aspirational budgets for homeowners and renters with either school-aged children or one child still in daycare/preschool. Costs include:
 - Housing (Homeownership or Renter)
 - Health Care
 - Automobiles
 - College savings and Daycare/Preschool
 - Retirement savings
 - Food, clothing, and miscellaneous spending (“non-aspirational”)
 - Vacation
 - Taxes on income (“non-aspirational”)



Aspirational Colorado “Middle Class” Budgets

- For each budget item, we estimate the costs based on survey data or secondary sources for each family type and income level
- This is an example of homeownership costs estimated using the 2016 American Community Survey for housing costs and home values:

Housing - Homeowner	Two-parent, two-child families by middle income level			Two-parent, one-child families by middle income level			One-parent, two-child families by middle income level		
Income level	\$68,800	\$103,200	\$206,400	\$61,333	\$92,000	\$184,000	\$28,467	\$42,700	\$85,400
Median home value	\$295,000	\$380,000	\$480,000	\$250,000	\$350,000	\$440,000	\$175,000	\$275,000	\$400,000
Annual spending including:	\$19,600	\$25,000	\$31,300	\$17,200	\$22,800	\$28,400	\$14,900	\$19,800	\$26,300
Mortgage payments (1st & 2nd)	Included in above annual spending								
Property tax									
Homeowners insurance									
Utilities (electricity, gas, water, fuel)									
Homeowners Association (HOA) fees									
Maintenance (1 percent of home value)	\$2,950	\$3,800	\$4,800	\$2,500	\$3,500	\$4,400	\$1,750	\$2,750	\$4,000
Total annual cost	\$22,550	\$28,800	\$36,100	\$19,700	\$26,300	\$32,800	\$16,650	\$22,550	\$30,300



Colorado “Middle Class” Budgets: Surplus and Deficit as a Share of Income

- The double-median income, two-adult families, on average, have incomes that can support their middle class budgets
- Despite budget items being adjusted to income levels, the remaining family incomes are insufficient

TABLE 9: COMPARING HYPOTHETICAL MIDDLE CLASS BUDGETS TO ACTUAL MIDDLE INCOMES OF COLORADO FAMILIES, 2016

	Two-adult, two-child families by middle-income level			Two-adult, one-child families by middle-income level			One-adult, two-child families by middle-income level		
	Two-Thirds Median	Median	Double Median	Two-Thirds Median	Median	Double Median	Two-Thirds Median	Median	Double Median
	\$68,800	\$103,200	\$206,400	\$61,333	\$92,000	\$184,000	\$28,467	\$42,700	\$85,400
Homeowner, School-Age Children	-21%	-12%	1%	-20%	-12%	0%	-30%	-31%	-17%
Renter, School-Age Children	-18%	-8%	4%	-19%	-10%	2%	-28%	-27%	-13%
Homeowner, One Child Preschool Age	-29%	-19%	-2%	-28%	-19%	-4%	-52%	-45%	-26%
Renter, One Child Preschool Age	-26%	-15%	1%	-27%	-16%	-1%	-50%	-42%	-22%
Average Surplus/ Deficit as Share of Income	-23%	-14%	1%	-24%	-14%	-1%	-40%	-36%	-19%



Lessons from Colorado “Middle Class” Budgets

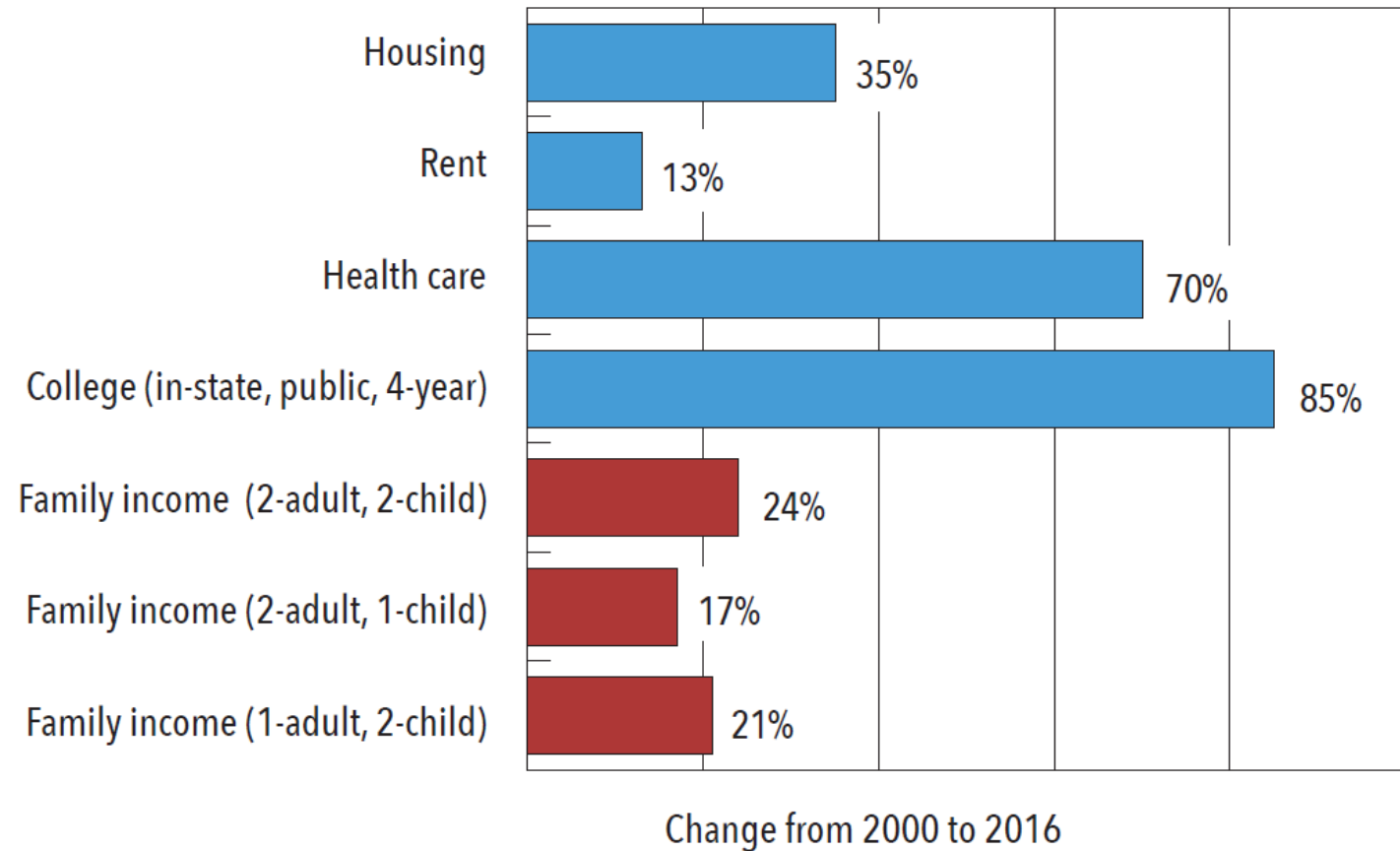
- Children in daycare worsen the imbalance between incomes and spending
- Renting relieves some pressure on budgets, although we do not consider long-term wealth-building
- For most family types, “non-aspirational” spending is largest category alongside housing
- Taxes become a major category for double-median income families
- Deficits are proportionally most serious for 1-adult, 2-child families



Changes in Colorado's Middle Class Prices and Incomes, 2000-2016 (real 2017\$)

FIGURE 12: REAL COST AND INCOME CHANGES FOR COLORADO FAMILIES, 2000-2016

- Primary budget item costs have generally exceeded income growth by substantial amounts over the period
- Others, like cars, have become cheaper



Options to Balance “Middle Class” Budgets

- Work/earn more (hours, jobs, both adults)
- Spend less
 - Lessen current consumption (housing, vacations, entertainment, etc.)
 - Prioritize current consumption over savings (retirement, college)
- Borrow (home equity, auto, credit card, student loans)
- Help from family/friends (financial or in-kind support)
- Tap existing wealth/savings
- Public investment (childcare, higher ed., health care, etc.)



Colorado's "Middle Class" Pressures: Housing

TABLE 16: MEDIAN HOME VALUE TO HOUSEHOLD INCOME RATIO BY STATE, 2016

Rank	State	Median Home Value (2016)	Household Median Income (2016)	Median Home Value to Income Ratio (2016)
1	Hawaii	\$592,000	\$74,511	7.95
2	District of Columbia	\$576,100	\$75,506	7.63
3	California	\$477,500	\$67,739	7.05
4	Oregon	\$287,100	\$57,532	4.99
5	Massachusetts	\$366,900	\$75,297	4.87
6	New York	\$302,400	\$62,909	4.81
7	Colorado	\$314,200	\$65,685	4.78
8	Washington	\$306,400	\$67,106	4.57
9	Montana	\$217,200	\$50,027	4.34
10	Nevada	\$239,500	\$55,180	4.34

Source: 2016 ACS 1-year estimates.

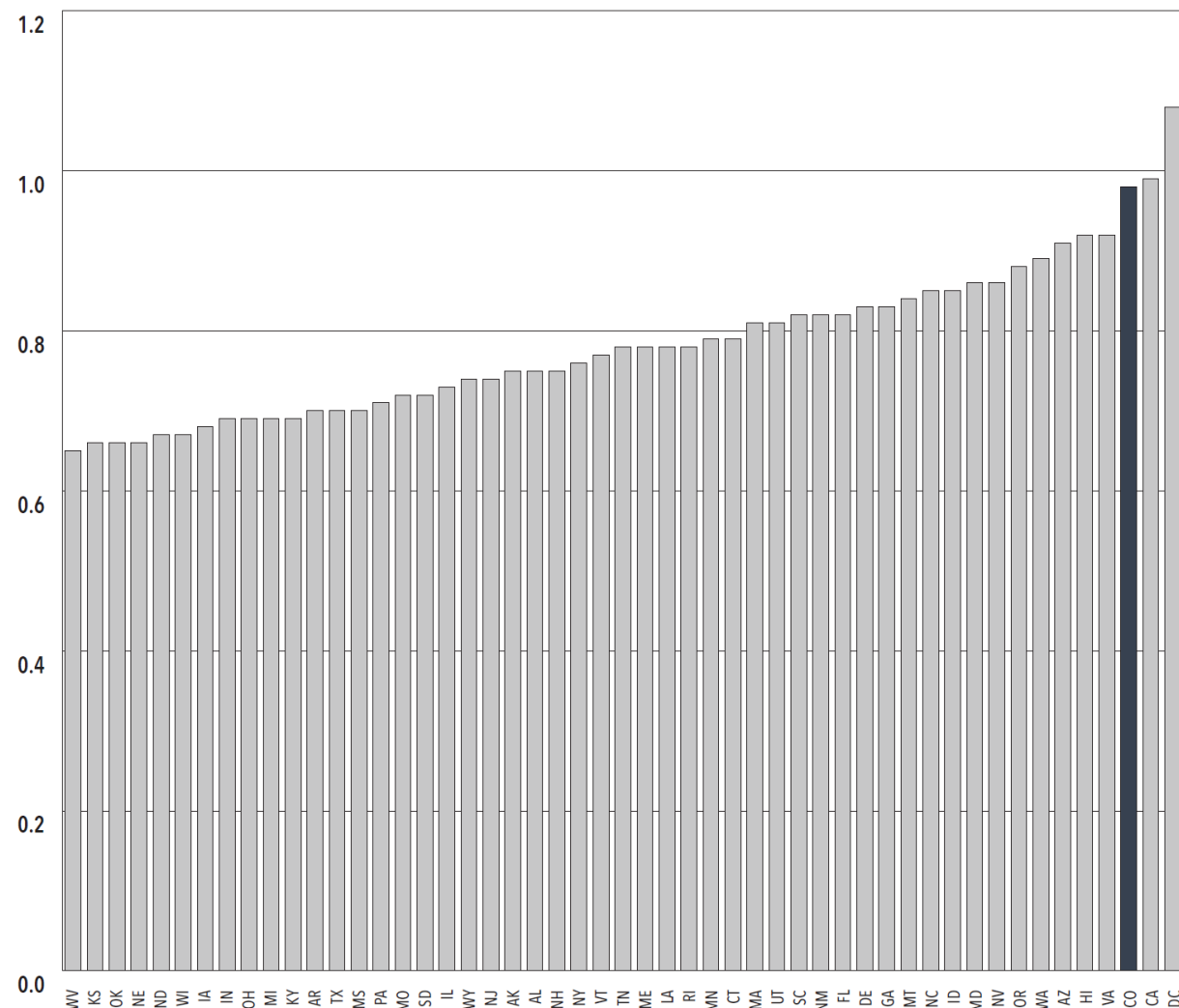


Debt

- Student loan debt per capita has grown most dramatically, rising 349% since 2000
- Auto loan and mortgages grew by 51% and 24%, respectively

	2000	2016	Real Change
Mortgage	\$38,723	\$47,982	24%
Credit Card	\$4,192	\$3,446	-18%
Other	\$3,297	\$3,599	9%
Auto Loan	\$3,041	\$4,578	51%
Student Loan	\$1,279	\$5,740	349%
Total	\$50,532	\$65,345	29%

FIGURE 17: TOTAL CONSUMER DEBT PER CAPITA TO MEDIAN HOUSEHOLD INCOME BY STATE, 2016



Source: State Level Household Debt Statistics 1999-2016, Federal Reserve Bank of New York, May 2017; American Community Survey 2016 (1-year estimates).