

METHODOLOGY FOR THE MASSACHUSETTS ECONOMIC INDEPENDENCE INDEX 2010

RENT and UTILITIES

The Massachusetts Economic Independence Index (Mass. Index) rent expenses are adjusted 2009 U.S. Department of Housing and Urban Development (HUD) Fair Market Rents. Fair Market Rents (FMRs) are the 40th percentile of each Massachusetts town or city’s rents distribution.¹ Fair Market Rents (FMRs) are comprised of rent and utilities, which are displayed separately. FMRs are based on home size, defined by number of bedrooms. Home size is based on family size, and the Mass. Index includes rent values for 1, 2, 3 and 4-bedroom apartments. The Mass. Index assumes that an adult has his/her own bedroom, 2 adults share a bedroom, and no more than 2 children share a bedroom.

Table 1: Massachusetts Statewide Rent and Utilities Expenses for Selected Massachusetts Families, 2009

	Adult	Adult Preschooler Schoolage	2 Adults Preschooler Schoolage
Rent	795	954	954
Utilities	193	232	232
Total	988	1186	1186

FOOD

MEII food expenses are U.S. Department of Agriculture Low-Cost Food Plan expenses by family type. Food costs are adjusted to reflect local differences in costs, as much as 15%, using the ACCRA Cost of Living index.

The U.S. Department of Agriculture (USDA) Center for Nutrition Policy and Promotion (CNPP) produces four official Food Plans – Thrifty, Low-Cost, Moderate-Cost, and Liberal – which reflect current dietary recommendations, food consumption patterns and food prices. Costs included in the Thrifty Food Plan reflect a short-term, minimal standard of nutrition and are used by the Supplemental Nutrition Assistance Program (formerly Food Stamps) to calculate assistance levels. The Low-Cost Food Plan is slightly less austere than the Thrifty Food Plan, but still presents a no-frills diet consisting entirely of food prepared and eaten at home.

Table 2: Massachusetts Statewide Food Expenses for Selected Massachusetts Families, 2009

	Adult	Adult Preschooler Schoolage	2 Adults Preschooler Schoolage
	\$245	\$528	\$707

TRANSPORTATION

Mass. Index private transportation expense includes the fuel, maintenance, insurance and license and registration fees associated with ownership and operation of a fully depreciated small sedan. Private vehicles are required by commuting workers in most of Massachusetts. Families with two working adults require two cars.

Table 3: Massachusetts Statewide Private Transportation Expense for Selected Massachusetts Families, 2009

	Adult	Adult Preschooler Schoolage	2 Adults Preschooler Schoolage
Transportation Expense	431	457	886

Fuel, maintenance and depreciation expenses are based on the number of Mass. Index miles driven by Massachusetts residents. Miles driven by one- and two-parent families include trips to and from: work, child care, gasoline stations, medical appointments and shopping destinations (one trip per week).

Automobile insurance quotes are obtained at the zip code level through the Massachusetts Division of Insurance's Insurance Premium Comparison Tool. Automobiles carry a "standard" insurance policy consisting of: bodily injury (\$100,000/\$300,000); personal injury protection; uninsured motorist (\$100,000/\$300,000); property damage (\$100,000); and collision and comprehensive (\$500 deductible). Per-gallon fuel cost is the average cost of regular unleaded gasoline expenses in Massachusetts as of September, 2009.

Workers utilize public transportation where public transit is available and utilization rates are 7% or greater.ⁱⁱ In Massachusetts, the 7% public transportation utilization threshold is exceeded only in the Boston metro area, and private transportation is utilized elsewhere in the state. The Mass. Index assumes exclusive public transportation use inside Boston, where the expense of public transportation is the cost of a monthly LinkPass, which allows unlimited travel by Massachusetts Bay Transportation Authority subway and local bus. Families with two working adults living in Boston require two LinkPasses. Children 11 years old and younger ride free on Transportation Authority buses and trains.

CHILD CARE

Mass. Index child care expenses are local age-specific costs taken from the Massachusetts 2008 Child Care Market Rate Survey.

The Massachusetts 2008 Child Care Market Rate Survey presents separate daily child care center and family child care (licensed care provided in a private home) costs for infants, toddlers, preschoolers

and school-age children. "Infant" values are combined, weighted cost for infants and toddlers; the infant category therefore includes all children 0-33 months old. The Mass. Index uses local median family child care rates for infants. Median child care center rates are used for all other age categories. Care for school-age children includes before- and after-school care.

Table 4: Massachusetts Statewide Childcare Expense for Selected Massachusetts Families, 2009

	Adult	Adult Preschooler Schoolage	Adult Infant Preschooler Schoolage
Child Care Expense	\$0	\$1868	\$2922

MISCELLANEOUS

Mass. Index miscellaneous expenses are equal to 23% of a family's housing, utilities and food expenses. Mass. Index miscellaneous expenses are a conservative definition of necessary spending on personal care and household items. Miscellaneous items include clothing, housekeeping supplies, personal care products and telephone charges.

The miscellaneous expenses calculation is based on the U.S. Bureau of Labor Statistics' Consumer Expenditure Survey, which records American consumers' annual spending. The proportion used, 23%, is based on the average expenditures of renters, as all Mass. Index families are renters.

Table 5: Massachusetts Statewide Miscellaneous Expenses for Selected Massachusetts Families, 2009

	Adult	Adult Preschooler Schoolage	2 Adults Preschooler Schoolage
Miscellaneous Expense	\$338	\$474	\$526

HEALTH CARE

Mass. Index health care expense consists of the insurance premium and out-of-pocket costs of Massachusetts residents with either employer-sponsored insurance (ESHI) or non-employer-sponsored insurance (NESH) purchased on the individual market. Massachusetts ESHI premium data include costs of single, single-plus-one and family premiums. NESH premium data is collected from the Commonwealth Health Insurance Connector Authority's Health Connector for each zip code in the state and adjusted to create county and City of Boston values. Out-of-pocket expenses are average monthly expenses by Mass. Index age category for families in the Northeast region of the United States.

Table 6: Monthly Massachusetts Statewide Health Care Expenses for Selected Massachusetts Families, by Insurance Type, 2009

	Adult	Adult Preschooler Schoolage	2 Adults Preschooler Schoolage
ESHI	\$173	\$421	\$500
NESHI	\$437	\$1193	\$1273

* ESHI = Employer-sponsored health insurance
 NESHI = Non-employer-sponsored health insurance

Employer-Sponsored Health Insurance (ESHI)

According to the Massachusetts Division of Health Care Finance and Policy, more than 97% of Massachusetts residents were covered by health insurance in 2008. Nearly 97% of Massachusetts’ full-time employees worked at firms that offered health insurance, and 70.8% of those full-time employees participated in the insurance plans their employers offered.ⁱⁱⁱ Among non-elderly adults with insurance, 80.6% were covered by employer-sponsored health insurance, 9.7% were covered by MassHealth (Medicaid), Commonwealth Care (state-subsidized insurance), or Commonwealth Choice plans, and 3.8% were covered by non-employer-sponsored health insurance purchased independently on the individual market.^{iv}

In 2008, Massachusetts employers paid on average 77% of total insurance premiums for single employees and 76% of total insurance premiums for families.^v Nationwide, employers paid on average 80% of total insurance premiums for single employees and 72% of total insurance premiums for families.^{vi} *Massachusetts residents paid more than residents of any other state for family insurance premiums,^{vii} typically 14-15% of median household income.^{viii}*

Non-Employer-Sponsored Health Insurance (NESHI)

Twenty-five percent of Massachusetts private-sector workers (including part-time employees) lack access to employer-sponsored insurance, and the Mass. Index presents health care expenses faced by workers and families who lack employer-sponsored health insurance.

Underinsurance can be as great a threat to a family’s security as a lack of insurance. In 2007, 17.1% of insured Americans and 5.6% of Massachusetts residents were underinsured.^{ix} Research suggests that “catastrophic” health insurance – less expensive plans defined by high deductibles, higher out-of-pocket expenses (OOP) and a need for Health Savings Accounts (HSA) – can shift costs from premiums to out-of-pocket expenses, contribute to medical debt, reduce access to care and prevent some from seeking care. As a result, Mass. Index NESHI premiums are not catastrophic insurance plans which contribute to underinsurance. Instead Mass. Index NESHI premiums are those of the least expensive individual plans which approximate typical ESHI plans (defined by plan coverage, deductible and copayments/coinsurance).

Those families not covered by ESHI purchase NESHI from private health insurance plans listed in the Commonwealth Connector Health Connector database. All insurance plans included in the Health Connector database have received the Commonwealth Choice “Seal of Approval,” and meet Commonwealth Choice standards of quality, benefits and value. All insurance plans provide at least

“minimum creditable coverage” required by law, and are “guaranteed issue” plans; premiums are not influenced by gender or medical condition. Premium estimates are for 42-year-old policy holders.

Mass. Index expenses do not include the direct effects of public subsidies on average insurance premiums or out-of-pocket costs; as a result, Mass. Index calculations do not include the expenses of Medicare participants or the 14.3% of non-elderly Massachusetts residents enrolled in the Commonwealth Care Health Insurance Program (Commonwealth Care), MassHealth (Medicaid) or other public health insurance. The Mass. Index includes insurance premiums and OOP costs for Massachusetts residents in good health. Total health care costs are dependent on health status, with those in excellent health incurring approximately half the average annual OOP costs of those in good health, and those in poor health incurring more than three times the average annual OOP costs of those in good health.

Average Annual Out-of-Pocket Health Care Costs for Massachusetts Workers Participating in Private Health Insurance Plans, by Adult Health Status, 2009			
	Adult	Adult Preschooler Schoolage	2 Adults Preschooler Schoolage
Excellent	\$504	\$1,191	\$1,695
Good	\$960	\$1,648	\$2,608
Poor	\$2,650	\$3,337	\$5,987

Source: US Department of Health and Human Services. Medical Expenditure Panel Survey (MEPS). Values inflated to 2009 using the Consumer Price Index.

Employer-sponsored health insurance premiums and out-of-pocket expenses data are obtained from the U.S. Department of Health and Human Services’ Medical Expenditure Panel Survey (MEPS). Non-employer-sponsored health insurance premiums are obtained from the Commonwealth Health Insurance Connector Authority’s Health Connector.

TAXES and TAX CREDITS

Mass. Index taxes expense consists of federal payroll taxes, federal and state income taxes and state sales taxes. Mass. Index taxes are gross, pre-credit taxes. Tax credits, refundable and non-refundable, are presented separately, and include the federal earned income tax credit (EITC or EIC), federal child tax credit (CTC) and additional child tax credit (ACTC), federal child and dependent care credit (CDCC), Massachusetts limited income credit, and the Massachusetts state EITC. While refundable credits – those such as the EITC which are paid even if credits exceed owed taxes – are normally received as lump sums in the spring, the Mass. Index expresses credits as monthly amounts.

Table 7: Massachusetts Statewide Tax Expense and Tax Credits for Selected Massachusetts Families, 2009

	Adult	Adult Preschooler Schoolage	2 Adults Preschooler Schoolage
Taxes	\$584	\$1551	\$1641
EITC	\$0	\$0	\$0
CTC	\$0	\$167	\$167

CDCC	\$0	\$100	\$100
Net Tax	\$584	\$1347	\$1319

All Mass. Index families earn income and pay taxes, and all family income is earned income. Tax filers do not itemize deductions. As renters, families are eligible for the Massachusetts state income rental deduction. While many Mass. Index families earn incomes subject to the 25% federal tax bracket, due to deductions and credits, Mass. Index families' average effective tax rates are 14.3% for federal taxes and 3.9% for state taxes.^x

Tax Credits

- The federal and Massachusetts Earned Income Tax Credits are refundable tax credits available to low- and moderate-income workers. Because the tax is refundable, tax filers needn't owe taxes to receive the EIC. For the 2008 tax year, the maximum credit is \$4,824, and refunds are based on family size, filing status and household income.
- The Child and Dependent Care Credit is a non-refundable federal income tax credit which allows families to deduct a percentage of child or dependent care costs from the federal income taxes they would otherwise have to pay. The credit can equal as much as 35% of care expenses, depending on household income. For the 2008 tax year, the maximum claimable expenses are \$3,000 for one child and \$6,000 for two children.
- The Child Tax Credit is a non-refundable federal tax reduction for those with dependent children. The credit is equal to \$1,000 per child. If the amount of the Child Tax Credit is greater than the amount of income tax owed, families may be able to claim the refundable Additional Child Tax Credit.

The American Reinvestment and Recovery Act (ARRA) created tax credit changes that will benefit many MA families. Changes relevant to the Mass. Index apply to tax returns filed in 2010 and are therefore not included in Mass. Index tax calculations, which are based on the most recent tax rules available as of the date of the Mass. Index report, those for the 2008 tax year. Some ARRA-related tax provisions will expire after just one year, and their future effect on Massachusetts families' intermediate- or long-term tax burdens is difficult to predict. ARRA-related tax credit changes include:

- Making Work Pay tax credit – The Making Work Pay tax credit reduces federal income tax withheld from worker paychecks. For the typical taxpayer the tax credit is a maximum of \$400 for working individuals and \$800 for working married couples.
- Earned Income Tax Credit – The ARRA increases the maximum earned income tax credit (EITC) for families with three or more children to \$5,657. The ARRA also allows the credit to married couples with higher incomes by increasing the phase-out range.
- Additional Child Tax Credit – The ARRA reduces the minimum earned income amount used to calculate the additional child tax credit to \$3,000. The change will increase the number of families receiving refundable tax credits and the amounts of credits.
- Also under ARRA, the first \$2,400 of 2009 unemployment benefits, which are normally taxed, will be tax free.

ⁱ According to HUD, the 40th percentile allows a decent standard as accessible to those with limited income, including participants in federal rental subsidy programs.

ⁱⁱ Porter, C. & Deakin, E. (1995). *Socioeconomic and journey-to-work data: A compendium for the 35 largest U.S. metropolitan areas*. Berkeley, CA: Institute of Urban and Regional Development, University of California.

ⁱⁱⁱ DHHS, MEPS. "State of Massachusetts, private-sector data by firm size, 2008". In 2008, 87.6% of Massachusetts' *part-time* employees worked at firms that offered health insurance. Only 29% of part-time employees were eligible to participate in employer plans, and only 13% of part-time employees were enrolled in employer-sponsored insurance.

^{iv} Sharon K. Long and Karen Stockley, "Health Insurance Coverage and Access to Care in Massachusetts: Detailed Tabulations Based on the 2008 Massachusetts Health Insurance Survey Urban Institute", March 2009.

^v Ibid.

^{vi} DHHS. MEPS. "Statistical Brief #251: Employer-Sponsored Single, Employee-Plus-One, and Family Health Insurance Coverage: Selection and Cost, 2008". July 2009.

^{vii} 2008 Medical Expenditure Panel Survey—Insurance Component.

^{viii} Ibid.

^{ix} Ibid. Massachusetts' underinsured in fall 2007 were somewhat more likely to be younger, low-income, in poor health, Hispanic, and residents of areas outside of the greater Boston area.

^x The Massachusetts tax code is unique in that residents age 18 and over with incomes above 150% of the federal poverty level are required by law to have health insurance. Those lacking insurance for four consecutive months during 2008 were subject to monthly penalty amounts between \$17.50 and \$76.00.^x As Mass. Index families are enrolled in a health insurance plan for the entire year, they are not subject to tax penalties.