BIENNIAL UPDATE 2024

ALICE RESEARCH METHODOLOGY

Overview & Rationale

January 2024

UNITED FOR ALICE®

ALICE RESEARCH AND METHODOLOGY

United for ALICE conducts timely, high-quality research to better understand the nature and scope of financial hardship in the U.S. — from a national perspective down to the local level. To develop the ALICE Methodology, ALICE researchers collaborate with a Methodology Advisory Committee composed of experts from across the country, drawn from the Research Advisory Committees for each ALICE partner state. This process takes place every two years. This collaborative model ensures that all ALICE products and tools are based on publicly available data that is transparent, replicable, current, and sensitive to local context.

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METHODOLOGY OVERVIEW & RATIONALE

FOR USE WITH 2024 AND 2025 ALICE REPORTS (2022 AND 2023 DATA YEARS)

Introduction

ALICE is an acronym for **A**sset **L**imited, **I**ncome **C**onstrained, **E**mployed. ALICE households earn above the Federal Poverty Level (FPL) but are unable to afford the basics of housing, child care, food, transportation, health care, and technology in the communities where they live.

Each ALICE Report uses standardized measurements to quantify the cost of a basic household budget in each county in each state, and to show how many households are unable to afford that budget.

This Methodology Overview describes the rationale for developing ALICE, an alternative to the FPL; the guiding parameters for ALICE measures; the seven current ALICE measures; and the methodology and data sources used for each measure.

To learn more about United for ALICE, go to UnitedForALICE.org/Overview

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BACKGROUND: SHORTCOMINGS OF OFFICIAL ECONOMIC INDICATORS

An accurate and comprehensive measure of financial hardship forms the basis for identifying problems, planning policy solutions, creating eligibility guidelines, and allocating resources. However, the existing official economic indicators can mask the extent of hardship that ALICE households face.

The Federal Poverty Level

Since the War on Poverty began in 1964, the Federal Poverty Level (FPL) has provided the standard for determining the number and proportion of people living in poverty in the U.S. Despite the FPL's benefit of providing a nationally recognized income threshold for determining who is poor, its shortcomings are well documented. The FPL:

1. Is not based on the cost of contemporary household necessities
2. Does not account for cost-of-living differences between states (except for Alaska and Hawai'i) and differences within states
3. Is adjusted by the Consumer Price Index (CPI), which underestimates the cost increase of goods for the lowest-income Americans

As a result, the poverty measure today is no longer an adequate measure of financial hardship in the U.S. The net effect is an undercount of households living in economic hardship. The official poverty level is so understated that many government and nonprofit agencies use multiples of the FPL to determine eligibility for assistance programs. For example, Pennsylvania's Low Income Home Energy Assistance Program uses 150% of the FPL and Tennessee's Women, Infants, and Children Program uses 185%. Even the Children's Health Insurance Program uses multiples of the FPL to determine eligibility across the country.

In addition, the term "poverty" itself, which the FPL seeks to measure, is vague and lacks any assessment of the depth, duration, or consequences of financial hardship. In addition, the term has negative connotations and is often and inaccurately associated with a lack of employment.

In light of the FPL's limitations, a plethora of alternatives have been developed, demonstrating the need for better measures of economic insecurity:

The Supplemental Poverty Measure (SPM) is based on the costs of food, clothing, shelter, and utilities (but not health care and child care), as well as the value of noncash benefit government programs designed to assist low-income families and individuals. Starting in 2011, the U.S. Census Bureau began publishing the SPM to supplement the FPL and more fully describe economic need. In 2021, for the third time, the national SPM rate was lower than the FPL, 7.8% versus 11.6%. Though the rate does not differ greatly from the FPL in nine states, the SPM is lower than the FPL in 38 states and higher in 3 states.

Area Median Income (AMI), also referred to as Family Median Income, reports relative income within a geographic area. The Department of Housing and Urban Development (HUD) typically uses percentages of AMI to determine eligibility for housing assistance: Low-income households earn less than 80% of the AMI, very low-income households earn less than 50%, and extremely low-income households earn less than 30%. AMI is the basis for other measures such as the National Poverty Plan Standards (NPPS). Because AMI is based on comparative income, it does not necessarily reflect whether individuals or families can afford housing. To try and better align eligibility, HUD has adjusted the limits in metro areas.

Cost of Living Budgets estimate the cost of basic household needs, generally calculated at the state or county level. These budgets are produced by several universities and think-tanks; they include the Massachusetts Institute of Technology's Living Wage Calculator, the Economic Policy Institute's Family Budget Calculator, the University of Washington's Self-Sufficiency Standard, and several state-level budgets, including The Cost of Living in Iowa. Each has its own definition and purpose, such as defining the cost of economic stability, good health, or a living wage. Some are academic pursuits while others are linked to a public policy agenda.

The ALICE Household Survival Budget is the lowest-cost budget and fills the gap left by the other measures by comprehensively measuring the actual cost of the basic household goods that families need to live and work in the current economy. Budgets are calculated for each county in the U.S. (see page 4 for more details).

Inflation

Official measures of inflation make it difficult to assess the increase in expenses that ALICE families face over time. The most common measure of inflation, the Bureau of Labor Statistics' Consumer Price Index (CPI), calculates the change in the price consumers pay for a specified large collection of goods and services across urban areas in the U.S. While this measure provides valuable information on year-to-year inflation and spending habits, two fundamental shortcomings make it less relevant for ALICE households:

- Because the CPI covers a wide range of goods and services that all Americans buy regularly, it masks changes in the cost of household essentials — those things that matter most to ALICE — including housing, child care, food, transportation, health care, and technology; and
- the CPI only tracks the prices paid by urban consumers, while ALICE households live in urban, suburban, and rural areas.

The ALICE measures outlined in this Methodology Overview address these shortcomings, to identify and assess financial hardship in the U.S. more accurately.

PARAMETERS

All ALICE measures are transparent, replicable, current, sensitive to local context, and developed based on the following parameters:

1. **Financial status is based on household income**. Because people live in a variety of economic units (alone, in families, with roommates, etc.), all ALICE measures are based on household income. Consistent with the U.S. Census Bureau's American Community Survey — our primary source of data — ALICE households do not include those living in group quarters, such as college dorms, nursing homes, homeless shelters, or prisons.
2. **Basic needs are clearly and transparently defined**. The ALICE measures provide a conservative estimate for the costs of household essentials: housing, child care, food, transportation, health care, and technology, plus miscellaneous expenses and taxes.
3. **Measures include all households unable to afford the basic cost of living**. To provide a full understanding of a community, the ALICE analysis includes all households below the ALICE Threshold. Most ALICE households have at least one member who is working, yet because employment is fluid, other households include those who have worked or are looking for work. Where possible, it is also important to understand the households' demographic characteristics and geographic distribution, as well as the demographic characteristics and access to resources of the individuals within those households.
4. **Differences in experience between households above and below the ALICE Threshold** (those able and unable to afford the basic cost of living) **are important**. Because national averages often conceal the challenges and difficulties that low-income households face, the ALICE measures can be helpful in uncovering differences.
5. **Provide data that is as local as possible**. Counties serve as the base geographic unit of analysis because they are the smallest jurisdiction for which there is reliable data across the country. Where possible, ALICE indicators are also presented at the U.S. Census Bureau's municipal, county subdivision, and ZIP code levels. Providing local-level data, whenever possible, helps address significant intra-county variation.
6. **Sources are official and publicly available**. All ALICE data comes from official or other publicly available sources, including the U.S. Census Bureau, HUD, the U.S. Department of Agriculture (USDA), and the Bureau of Labor Statistics (BLS). Specifically, using readily available data from the American Community Survey's tabulated data as the basis for estimates ensures that calculations are transparent and easily verifiable, as well as replicable.

7. **Data is regularly updated and available for all U.S. counties to ensure consistency and comparability**. ALICE measures are standardized using county-level data that is publicly available and regularly collected and updated to allow for transparency and accurate change-over-time comparison.
8. **Contextual conditions are important to highlight**. Because economic hardship does not occur in a vacuum, the ALICE measures provide the means to understand the conditions that struggling households face such as fewer job opportunities and the shortage of affordable housing in close proximity to work, resulting in longer commute times, as well as the consequences of those struggles for the wider community, such as more difficulty attracting and retaining workers and families and helping communities to thrive.
9. **Language will be neutral and clear**. Because the term "poverty" carries negative connotations, a more specifically descriptive acronym is offered. The term "ALICE" describes a household that is Asset Limited, Income Constrained, Employed, and "households below the ALICE Threshold" indicates both ALICE households and those living in poverty (employed and unemployed), drawing a more inclusive and accurate picture of the number of households in hardship.

THE ALICE MEASURES

United for ALICE uses the following measures to quantify the basic cost of living, identify and assess financial hardship, identify gaps in assistance and community resources, and track change over time:

The ALICE Household Survival Budget is the bare-minimum estimated cost of household basics needed to live and work in the current economy. These basic budget items include housing, child care, food, transportation, health care, and technology, plus taxes and a contingency fund (miscellaneous) equal to 10% of the household budget. The budget is calculated separately for each county and for different household types and is updated as costs and household needs change over time.

The ALICE Senior Survival Budget adjusts the Household Survival Budget to reflect reduced spending on food, as seniors typically spend less on food than younger and family households; reduced spending on transportation, as seniors travel fewer miles for work and family responsibilities; and, because seniors have greater health needs, increased spending on health care, even when enrolled in Medicare. Finally, for comparison to a budget that provides stability to a household over time, United For ALICE also reports **the ALICE Household Stability Budget,** which provides an estimate of slightly higher standards than the Household Survival Budget, including a 10% savings category.

The ALICE Threshold of Financial Survival represents the minimum income level necessary to afford household essentials as reported in the Household Survival Budget.

Households earning **below the ALICE Threshold** include both those in poverty (with income below the FPL) and those that are ALICE (earning above the FPL but below the Household Survival Budget for their county).

The ALICE Essentials Index is a state and national measure that tracks the increase in costs of specific necessities and that can be seen as a companion to or subset of the Bureau of Labor Statistics' CPI, which covers all goods and services people buy regularly. The basic goods included in the Essentials Index are found in the Household Survival Budget and are standardized to provide a way to track them for all households, as opposed to a budget focused on a particular household composition. The ALICE Essentials Index is calculated for both urban and rural areas.

The ALICE Income Assessment is a tool that measures: 1) how much income households in a state need to reach the ALICE Threshold; 2) how much they actually earn; 3) how much public and nonprofit assistance is provided to help households below the ALICE Threshold meet their basic needs; and 4) the Unfilled Gap — the amount still needed for these households to reach the ALICE Threshold despite both income and assistance.

The Economic Benefits of Equity quantifies the benefits of raising the income of all households in a state to the ALICE Threshold. The analysis includes additional earnings; additional taxes paid on higher incomes and reduced usage of tax credits for low-income earners; savings on government programs that alleviate poverty; and the multiplier effect of each category on the state GDP.

METHODOLOGY: ALICE HOUSEHOLD SURVIVAL, SENIOR, AND STABILITY BUDGETS

ALICE, an acronym for **A**sset **L**imited, **I**ncome **C**onstrained, **E**mployed, represents the growing number of individuals and families who are working but are unable to afford the household basics of housing, child care, food, transportation, health care, and technology. The Household Survival Budget is one of a suite of measures from United For ALICE to quantify the basic cost of living, assess financial hardship, identify gaps in assistance and community resources, and track change over time.

The ALICE Household Survival Budget

The Household Survival Budget is comprised of conservative estimates of the cost of household essentials — housing, child care, food, transportation, health care, and technology, plus taxes and a 10% contingency (miscellaneous expenses) — in each county in the U.S. The budget is the bare-minimum cost to live and work in the current economy. It is not sustainable over time; therefore, it is not meant to be a recommended budget. There are many short- and long-term consequences of living on a budget at or below this level, as highlighted in *The Consequences of Insufficient Household Income* on the United For ALICE website.

Survival Budget for Households Headed by Someone Under 65 Years Old

The Household Survival Budget is calculated for different household combinations of adults, infants, preschoolers, and school-age children (5–17). The data definitions and sources follow, along with notes about the practical applications of these sources.

- **Housing:** The housing budget is composed of rent and utilities.
    - **Rent:** Rent is based on HUD's Fair Market Rent (HUD FMR — generally the 40th percentile of gross rents, but in some locations, HUD reports the 50th percentile) for an efficiency apartment for a single person; a one-bedroom apartment for a head of household with a child or a household with two adults; a two-bedroom apartment for a family of three or four people; and an additional bedroom for each additional two people. Since FMRs are not published for apartments with over four bedrooms, the HUD adjustment factor rule from the Federal Register is used to create FMRs for larger units.

      Gross rent, as per HUD's FMR, includes the sum of the rent paid to the owner plus any utility costs incurred by the tenant. To reveal the rent portion, we subtract the cost of utilities as estimated by the Bureau of Labor Statistics' Consumer Expenditure Survey (CEX), described further below.

      Since HUD uses the average FMR for all counties within a metropolitan area, the Household Survival Budget adjusts the rent in these areas using the standard deviation from the lowest of the American Community Survey's Median Gross Rent 5-year estimates. Specifically, counties at or below the median value within the metropolitan area are assigned the FMR as their housing cost, and counties for which the American Community Survey housing cost is higher will be adjusted upward based on the deviation from the metropolitan median.

      ***Practical Application*:** Housing at the 40th percentile rent is often not available. From the data on housing burden, it is clear that housing units are not always allocated by income, making it even harder for ALICE and poverty-level households to find housing at or below HUD's FMR. Alternative measures or data sources, such as rent reasonableness, may be more accurate in some contexts, but are not possible to calculate for all counties in the U.S. and are therefore not included in the ALICE measures.

- **Utilities:** The annual cost of utilities is based on the CEX's estimate of natural gas, electricity, fuel oil and other fuels, and water and other public services. The cost is adjusted by the number of people in the household.

  ***Practical Application*:** The cost of utilities is often higher for low-income households, many of which do not have resources to maintain or update furnaces, air conditioners, water heaters, etc. Inefficient heating and cooling units use larger — and costlier — amounts of energy. Research shows that 34% of households faced energy insecurity in 2020, and across all metro areas, low-income, Black, Hispanic, Native American, and older-adult households had disproportionally higher energy burdens than the average household.

Housing Data Sources

U.S. Department of Housing and Urban Development (HUD). (2022). *Fair Market Rents*. Retrieved from https://www.huduser.gov/portal/datasets/fmr.html#year2022

American Community Survey. (2022). *5-year estimates* [Table B25064: Median gross rent (dollars)]. U.S. Census Bureau. Retrieved from https://data.census.gov/cedsci/

Utilities, fuels, and public services: Bureau of Labor Statistics. (2022). Consumer Expenditure Surveys*: Size of consumer unit by income before taxes [Table 3404; Table 3424; Table 3434; Table 3444; Table 3454].* Retrieved from https://www.bls.gov/cex/tables/cross-tab/mean.htm#cu-sizebyinc

- **Child Care:** The child care budget is for registered Family Child Care Homes for infants (age 0–2 years), preschool-age (age 3–4), and school-age children (age 5–17), using data provided by each state's governmental department in charge of child care regulations. States are required to survey market rate costs every three years; some states conduct their surveys more frequently, and many schedules were disrupted by the pandemic. Data collection methods vary by state. When available, the market rate costs presented are the 75th percentile; otherwise, the percentile is noted. Increasingly, states are turning to a new, alternative method of estimating child care costs that considers the costs of operating child care programs. States can seek pre-approval through the Administration for Children & Families and design a cost-based method based on the Administration's methodology. Each state's child care data source is noted in their state-specific ALICE Report.

  Children under 5 years old are assumed to need full-time, year-round care (5 days per week for 50 weeks per year). School-age children are assumed to need part-time care throughout the year. Because costs for school-age care are the least systematically reported, costs are estimated at 3/8 the cost of full-time care for a 4-year-old.

  County-level data for family child care homes is used whenever available. Regional or state averages for family homes are used when county-level data is not available. If the county child care center-cost average is lower than the regional or state average for family homes, center-based costs are used. Decisions regarding costs and sources are made in consultation with members of each state's Research Advisory Committee and/or state child care agencies.

  Practical Application: While Family Child Care Homes are the least expensive registered child care option, availability is limited in many communities, which means that households below the ALICE Threshold often pay more, travel farther, or sacrifice quality and safety. In addition, it is often a challenge to find care for school age children during the summer, and there are health and safety concerns if they are on their own.

Child Care Data Sources

State governmental department in charge of child care regulation, such as:

Ohio Department of Job and Family Services. (2022, November). 2022 Ohio child care market rate survey analysis. Retrieved from https://jfs.ohio.gov/static/cdc/docs/MarketRateSurvey2022.pdf

Oregon Department of Human Services. (2023, March). 2022 Oregon child care market price study. Retrieved from https://health.oregonstate.edu/sites/health.oregonstate.edu/files/early-learners/pdf/research/2022_oregon_market_price_study_-_main_report.pdf

Tennessee Department of Human Services. (2022, August). Determining child care market rates in the State of Tennessee. Retrieved from https://www.tn.gov/content/dam/tn/human-services/documents/2021-2022%20Market%20Rate%20Survey.pdf

- **Food:** The food budget is based on the Thrifty Level (the lowest of four levels) of the USDA Food Plans. Historically, the Thrifty Food Plan was required to be updated annually on a cost neutral basis. Following the 2018 Farm Bill, updates to the Thrifty Food Plan, starting in 2021, must be based instead on data and evidence on the cost at which resource-constrained households can purchase a healthy, practical diet. As a result, the costs for the Thrifty Food Plan increased substantially in 2021; care should be taken in comparing the food cost in the Household Survival Budget over time.

  The household food budget uses the following age groupings provided by the USDA: adult (calculated as the average of the male and female cost), 20–50 years old; infant, 2-3 years old; preschooler, 4-5 years old; and school-aged child, 9-11 years old. Data is drawn from June, the basis for the following October's SNAP benefit adjustment. The USDA publishes a U.S. average for the cost of food with the exception of specific costs for Alaska and Hawai'i. For the Household Survival Budget, the food cost for Alaska and Hawai'i is calculated as a multiplier by using the percent difference between reported costs for a Thrifty Food Plan for a reference family of four (two adults, 20–50 years old and two children, 6–8 and 9–11 years old) in Alaska and Hawai'i and the U.S. average to adjust final costs for the two states separately.

  Food budget numbers are adjusted to the county level using Feeding America's Cost-of-Food Index, with a lag of one year, starting in 2009. This indicator is generated by Feeding America using data from Nielsen PLC on Universal Product Code (UPC) barcodes of Thrifty Level Food Plan items in grocery stores throughout the country, and it includes state and county sales tax on food where applicable. The calculations for Alaska and Hawai'i are adjusted using county-level Feeding America's Cost-of-Food Index within each respective state. Prior to 2009, prices are adjusted at the regional level using an adjustment factor from the USDA.

  Practical Application: The Thrifty Food Plan was designed to meet the nutritional requirements of a healthy diet; however, it includes foods that need substantial home preparation time, plus skill in both buying and preparing food to avoid waste. This means that food costs are routinely underestimated: Even ALICE households trying to keep food costs at a minimum may not be able to feed their families on a Thrifty Food Plan Budget.

  Options for food for families with pregnant individuals, mothers of young children, or children: The amount of WIC and free school meals can be added to cover the cost to supplement the diets of mothers and children with specific nutrients from specific foods each month as prescribed by legislation.

  - WIC amounts are based on reimbursement rates set in 2007 legislation and then adjusted for inflation as prescribed by subsequent legislation.
  - Since school meal prices are set by local school districts, the Survival Budget uses the standardized reimbursement rates as published annually in the Federal Register, accessed through USDA.

Food Data Sources

Food Costs: U.S. Department of Agriculture (USDA). (2022). Official USDA thrifty food plan: U.S. average, June 2022. Retrieved from https://fns-prod.azureedge.us/sites/default/files/media/file/CostofFoodJun2022Thrifty.pdf

Alaska and Hawai'i Food Costs multiplier: U.S. Department of Agriculture (USDA). (2022). *Official USDA Alaska and Hawaii Thrifty Food Plans*. Retrieved from https://fns-prod.azureedge.us/sites/default/files/media/file/AKHI_June%202022.pdf

County Variation After 2009: Feeding America. (2023). Map the Meal Gap 2023: An Analysis of County and Congressional District Food Insecurity and County Food Cost in the United States in 2021. Retrieved from https://map.feedingamerica.org/

Regional Variation Before 2009: Economic Research Service (n.d.). *Regional variation nearly double inflation rate for food prices.* Retrieved from https://www.ers.usda.gov/webdocs/publications/44331/10609_page19.pdf?v=41055

- **Transportation:** The transportation budget is calculated using average annual expenditures for transportation by car and by public transportation. Because public transportation is generally less expensive than owning a car, the Household Survival Budget uses the cost of public transportation when available, defined as 8% or more of the metropolitan statistical area and county population using public transportation to commute to work (in counties where the working population is over 25,000), as reported by the American Community Survey. This suggests there is sufficient infrastructure to make transit a viable means to commute to work. Public transportation includes bus, trolley, subway, elevated train, railroad, and ferryboat.

  The budget includes the average annual expenditures for public transportation from the CEX reported by metropolitan statistical areas and U.S. regions that are then matched to counties. Costs are adjusted for household size. The drastic reduction in ridership on public transportation during the COVID pandemic reduced CEX expenditure amounts, though on-site ALICE workers still had to commute. In 2022, weekly ridership of public transportation still had not returned to pre-pandemic levels. Therefore, to best reflect the actual cost of public transportation, the budget uses the average annual expenditures for public transportation in 2019.

  For transportation by car, the budget is tailored to household size and composition. State-level annual costs for minimum-liability car insurance from the insurance aggregator The Zebra are used, which, due to differing minimum requirements and insurance marketplaces, show the largest variation of all car-related costs (ranging from $255 in South Dakota to $1,191 in Michigan in 2021). For many low-income households, car insurance rates are higher for those with a low credit score.

  Car maintenance expenses include gas, oil, and other vehicle maintenance expenses, but not major repairs, as reported by AAA. The costs also include depreciation (assuming ALICE has a 10-year-old car) but not capital costs such as lease payments or car loan payments.

  The calculation is the sum of household members' average daily miles of travel, from the Federal Highway Administration, per person by age, times the cost per mile by car type times 300 days (50 work weeks, 6 days per week), plus license and fees by type of car, plus depreciation, plus minimum liability insurance by state.

  [(Average daily miles * fuel and maintenance cost per mile) * 300] + insurance + license and fees + depreciation]

  The budget assumes one car per family, though the size of the car increases from a small sedan to a medium sedan when more than two people live in the household. When estimating miles driven, adults are assumed to be between 36 and 65 years old and children are assumed to be under 16. The budget assumes each additional adult is an additional driver. The budget also assumes that each driver has a clean driving record.

  Practical Application: Since ALICE families often drive older cars, the cost of vehicle maintenance is likely higher than the budget allots. Consumer Reports 2020 Auto Survey found that maintenance costs for a 10-year-old car

were almost double the costs for a 5-year-old car. And for many households, there are additional costs for young drivers or those with a recent accident.

For public transportation, even within metro areas, coverage varies. In some cities, public transportation is efficient in and out of suburbs but not across town. In others, there are large areas with no coverage. In most places, however, public transportation often does not go the full distance that most workers need, leaving gaps getting to and from work. Transportation costs are also likely underestimated for rural areas. With almost no public transportation, rural residents rely more on cars, and with greater distances to travel, they drive more than urban residents (as much as 33% more). As a result, their gas and maintenance costs are higher as well.

Transportation Data Sources

Transportation by Car: AAA. (2022). *Your driving costs.* Retrieved from https://newsroom.aaa.com/wp-content/uploads/2022/08/2022-YDC-Costs-Break-Out-by-Category.pdf

Federal Highway Administration. (2017). *2017 National Household Travel Survey*. U.S. Department of Transportation. Retrieved from https://nhts.ornl.gov/assets/2017_nhts_summary_travel_trends.pdf

Car Insurance: The Zebra. (2022). *Average premiums by coverage 2022* [Unpublished raw data].

Public Transportation: Bureau of Labor Statistics. (2022). Consumer Expenditure Surveys *[2021–22 MSA tables]*. Retrieved from https://www.bls.gov/cex/tables.htm#geo

American Community Survey. (2022). *5-year estimates* [Table B08301: Means of transportation to work]. U.S. Census Bureau. Retrieved from https://data.census.gov/cedsci/

- **Health Care:** The health care budget is the hardest to estimate because needs vary greatly based on a person's health status, age, and resources. The Household Survival Budget focuses on average health care spending but recognizes that this greatly underestimates the needs of many households. The health care estimate is made up of two separate components: 1) health insurance premiums, and 2) out-of-pocket costs, including copayments and medical services, prescription drugs, and medical supplies not covered by health insurance. According to the Centers for Disease Control and Prevention, low-income households are more likely to include someone in fair or poor health. Out-of-pocket costs for households with someone in fair or poor health are higher than for those in excellent or very good health. To account for this, the Household Survival Budget includes a poor-health multiplier based on Census estimates of out-of-pocket costs for the most common ALICE income brackets ($35,000 to $59,999); which equates to a 19% increase in out-of-pocket costs.
    - **Health insurance premiums:** In 2022, Employer-sponsored health insurance was still the most common form of coverage (57% of the population under 65 years old is covered under employer plans, compared to 24% through Medicaid and other government programs and 7% through non-group plans such as the Affordable Care Act (ACA) Marketplace, leaving 10% uninsured). Employee contributions to employer-sponsored health care plans are reported at the state level by the Agency for Healthcare Research and Quality (AHRQ) from their annual Medical Expenditure Panel Survey (MEPS).
    - **Out-of-pocket costs:** The biggest variation in health care spending is by age; therefore, to estimate the out-of-pocket costs for each household, the Household Survival Budget uses average out-of-pocket costs for families headed by someone 35–54 years old, by income, as reported by the CEX. The cost estimate is based on an annual household income of $40,000–$69,999.

Practical Application: Health care is the budget item with the largest variation by household. Older adults (55 and over) and people reporting fair or poor health status incur a disproportionate percentage of total health care spending. In 2019, the 5% of people who spent the most on health care spent on average $61,000 annually. Conversely, the population with the lowest average health care spending spent $374 per year. According to a 2020 Rand Study, higher income households spend more on health care annually including higher taxes and employer

contributions, yet lower income households experience the greatest financial burden. Households in lower income brackets (bottom fifth) pay on average 34% of their income toward health care, compared to 16% of income among the highest income households.

Since 2010, there are fewer adults who are uninsured as a result of the ACA, yet more people with employer sponsored health insurance plans are underinsured (lacking adequate health insurance coverage), resulting in greater difficulty finding and paying for care than those with more comprehensive coverage. Employees at private-sector businesses with more than 50% low-wage workers pay more for their health insurance than those at firms with less than 50% low-wage workers. This suggests that low-wage workers in the private sector pay a larger share of health insurance costs than higher-wage workers.

Options for Health Insurance Premiums: Not all families obtain health insurance through their employer. Many lower paid, part-time and/or freelance or "gig economy" jobs do not offer health insurance at all. Households might instead purchase health insurance on the private market or obtain it through Medicaid.

- *Private health insurance:* The monthly cost of private health insurance is estimated using state-level Health Insurance Marketplace data provided by the Kaiser Family Foundation (KFF). KFF provides the average premium for the second-lowest-cost Silver Plan (benchmark plan) purchased for a 40-year-old on each state's health insurance exchange. Premiums for other ages can be determined using either the age curve set by federal law, or state-specific age curves that describe price discrimination by age permitted by the state using data from the Centers for Medicare & Medicaid Services (CMS). Also included are tax credits, which reduce the cost of purchasing health insurance on the exchange for eligible Americans with income between 100% and 400% of the FPL. See the Federal Reserve Bank of Atlanta's Policy Rules Database to determine the subsidized cost of private health insurance after the tax-credit is taken into account.

- *Medicaid/CHIP:* Monthly premiums for Medicaid or CHIP enrollees are typically $0. However, some states do have premiums, and these can vary by income level and household composition. The annual cost of Medicaid/CHIP can be added to the budget by using the Federal Reserve Bank of Atlanta's Policy Rules Database, which outlines Medicaid premiums by state, family composition, and income level using data from the Kaiser Family Foundation (KFF).

Health Care Data Sources

Health Insurance Premiums: Agency for Healthcare Research and Quality. (2022). Medical Expenditure Panel Survey (MEPS) Insurance Component (IC) *[Premiums/Contributions/Enrollments tables]*. U.S. Department of Health and Human Services. Retrieved from https://datatools.ahrq.gov/meps-ic?type=tab&tab=mepsich3ps

Note: 2007 data not available; average of 2006 and 2008 used instead

Out-of-Pocket Costs: Bureau of Labor Statistics. (2022). Consumer Expenditure Surveys*: Age of reference person by income before taxes [Table 3224; Table 3234].* Retrieved from https://www.bls.gov/cex/tables.htm#crosstab

- **Technology:** This budget item includes a cell phone plan for each adult in the household, plus home broadband internet access. Smartphones have become an essential part of life for people of all ages and incomes, with 85% of Americans owning a smartphone in 2021. This data does not vary greatly between urban and rural areas or across income brackets, and the only significant variation by age is for those 65 or older (who have lower rates of use).

  The rise of discount wireless companies offers less expensive options for ALICE families. With increased competition among carriers, consumers are now able to find low-cost unlimited talk and text smartphone plans.

The cost for a smartphone plan is based on the cheapest available plan as reported by Consumer Reports but does not include the added expense of the phone itself.

With COVID-19 lockdowns starting in the first quarter of 2020, broadband internet usage increased 47%. New and essential uses of the internet became widespread, including working from home, online applications for public assistance or other supports, remote learning, telemedicine, digital banking, and online social connection when in-person contact was not possible. Analysis of the U.S. Census Bureau's Household Pulse Survey in the United For ALICE 2021 Report, *The Pandemic Divide*, showed that households below the ALICE Threshold were more likely than those above to face technology barriers in securing employment and online learning.

In 2021, 77% of Americans reported having home broadband, and even at the lowest income level (those with income less than $30,000), 57% reported having broadband at home. The greater need for internet, along with falling prices of home broadband, has made this option more essential and accessible to ALICE families. Therefore, starting in 2022, the Household Survival Budget technology costs include home broadband based on USTelecom's analysis of the most popular broadband services.

Practical Application: The price of low-cost cell phone plans has come down, according to Consumer Reports. But even these costs are challenging for many households. While there are government subsidies for basic plans for low-income residents, the functionality is limited and the income eligibility criteria is significantly less than the ALICE Threshold, so these subsidies are generally not available to ALICE households.

A common alternative for many low-income households is to use their smartphone for connection to the internet. In fact, one in four lower income families (27%) depended on their smartphones for internet access in 2021. Another alternative for ALICE is to access free Wi-Fi services available in the community. Yet as became apparent during the pandemic, free Wi-Fi services are not always easily available and don't offer reliable speed; and places where free Wi-Fi is available, such as public libraries, are not always open.

Technology Data Source

Smartphone Plan Cost: Frank, M. (2022, February 19). *Best cell phone plan deals for you and your family. Consumer Reports (2022 prices).* Retrieved from https://www.consumerreports.org/cell-phone-service-providers/best-cell-phone-plan-deals-for-you-and-your-family/

Home Broadband Cost: USTelecom. (2022). *2022 broadband pricing index*. Retrieved from https://ustelecom.org/wp-content/uploads/2022/06/USTelecom-Broadband-Pricing-Report2022.pdf

- **Miscellaneous:** The Miscellaneous category includes 10% of the budget total (excluding taxes) as a provision for unforeseen cost increases in these budget items.

  Practical Application: This category provides some recognition of the conservative nature of the budget. Including a miscellaneous expense category has been standard practice in estimating basic household expenses. It is important to note that this category is used to cover cost overruns on basic budget items, with few or no funds ever left over for dinner at a restaurant, tickets to the movies, or travel, let alone a financial indulgence such as holiday gifts or a new television — expenses that many financially secure households take for granted. It also does not allow for any savings, leaving a family vulnerable to any unexpected expense, such as a costly car repair, natural disaster, or health issue.

- **Taxes:** Taxes include federal and state income taxes as well as federal and state tax credits, and payroll taxes. Federal and state tax credits include the Child Tax Credit (CTC) and the Child and Dependent Care Tax Credit (CDCTC) as defined in the Internal Revenue Service *1040: Individual Income Tax, Forms and Instructions*. The Earned Income Tax Credit (EITC) is not relevant for ALICE households (see practical application below). Income

taxes are calculated using the Federal Reserve Bank of Atlanta's Policy Rules Database and assume an income equal to the Household Survival Budget total.

Payroll taxes — also known as Federal Insurance Contributions Act (FICA) taxes — cover the employee's contribution required to fund Social Security and Medicare.

State sales taxes are included in the calculations of expenditures on food, and real estate taxes are included in the cost of rental housing.

Practical Application: Taxes are a legal requirement of earning income in the U.S., even for low-income households. The Earned Income Tax Credit (EITC), a benefit for working individuals with low to moderate incomes, is not included in the tax calculation because the eligibility cut-off is well below the Household Survival Budget and the credit is not available to most households without children. However, the EITC helps a large number of families living near or below the FPL: In 2022, 31 million workers and families received $2,043 on average.

While the federal income tax system is progressive, in every state in the U.S., at least some low- or middle-income groups pay a higher share of their income in state and local taxes than wealthy families, especially in states where there is a sales tax.

Tax Data Sources

Federal Income Taxes: Internal Revenue Service. (2022, January 20). *1040 and 1040-SR: Instructions*. Retrieved from https://www.irs.gov/pub/irs-pdf/i1040gi.pdf

State Income Taxes: Vermeer, T., & Loughead, K. (2022, February 15). *State individual income tax rates and brackets for 2022*. Tax Foundation. Retrieved from https://taxfoundation.org/publications/state-individual-income-tax-rates-and-brackets/

Federal Insurance Contributions Act (FICA) taxes: Internal Revenue Service. (2020, January 3). Topic no. 751 Social Security and Medicare withholding rates. Retrieved from https://www.irs.gov/taxtopics/tc751

The ALICE Senior Survival Budget

As people age, their household needs change. Therefore, the Household Survival Budget includes a budget for those 65 years and older. The Senior Survival Budget reflects the fact that seniors typically spend less on food, travel fewer miles on a regular basis, and incur higher health costs than younger people, though these health expenses are often offset through Medicare. Social Security provides a valuable safety net ensuring that most seniors stay out of poverty, but it is not enough to afford even the Senior Survival Budget costs.

- **Housing, Technology, and Taxes:** Housing, technology, and tax budget calculations are the same as in the under-65 Household Survival Budget.

- **Food and Transportation:** The food and transportation budget items use the same sources as the under-65 Household Survival Budget but reflect more specific costs by age (65+).

- **Health Care:** The health care costs reflect two important differences for older Americans: the universal provision of Medicare and increasing health care needs. The Senior Survival Budget uses the cost for Medicare Part A and B: It assumes that when seniors turn 65, they are enrolled in Medicare Part A, which has no premium, and elect to purchase Part B. While Part B is not required, most seniors enroll because the cost for the premium is significantly less than the out-of-pocket costs for those with only Part A. The Senior Survival Budget includes average out-of-pocket costs, such as copayments, coinsurance, deductibles, and prescriptions for seniors with Medicare Part B.

Because 85% of older adults have at least one chronic disease and over 60% have at least two, the Senior Survival Budget assumes that each senior has one chronic condition. The costs for seniors with two or more conditions are significantly higher than the costs included in this budget, and because poor health is significantly correlated with low income, this is likely the case for a disproportionate number of ALICE households. The Senior Survival Budget uses the average cost of the top five chronic diseases: hypertension, arthritis, heart disease, cancer, and diabetes. The budget assumes the out-of-pocket portion of chronic disease cost is the same as the average percentage of all health care costs paid out-of-pocket as reported annually in the Medicare Current Beneficiary Survey; in 2020, it was 17.3%. Cost for chronic disease is reported at the county level, allowing for important local cost variation. Data on the cost for chronic disease comes from the U.S. Centers for Medicare & Medicaid Services (CMS). Prior to 2022, data came from CMS' Chronic Conditions Data Warehouse, which was available from 2008 to 2018. Data prior to 2008 was deflated using the non-seasonally adjusted CPI-All Urban Consumers for all items.

Seniors may face additional costs depending on their disability status. One-third of seniors have a disability related to hearing, vision, cognitive ability, ambulation, self-care, or independent living. These add to basic needs, ranging from assistive devices and special transport to personal assistance and housing adaptation. For context, households with an adult member with a disability, on average, need 28% more income to maintain the same standard of living as a household without an adult member with a disability.

Practical Applications: Out-of-pocket costs for prescription drugs are included in the budget because 89% of people 65 and older take one or more medications daily. Yet seniors often skimp on or forgo prescriptions altogether; 21% of seniors do not take their prescriptions due to cost.

Health Care Data Sources (Senior Survival Budget)

Medicare Premiums: Medicare.gov. (n.d.). Costs: Part B (Medical insurance) costs. U.S. Centers for Medicare & Medicaid Services. Retrieved from https://www.medicare.gov/your-medicare-costs/part-b-costs

Average Out-of-Pocket Costs: Centers for Medicare & Medicaid Services. (2023, March 6). CMS program statistics – Medicare part A & part B – All types of services [*MDCR Summary AB 2*]. Retrieved from https://data.cms.gov/summary-statistics-on-use-and-payments/medicare-service-type-reports/cms-program-statistics-medicare-part-a-part-b-all-types-of-service
Note: Data is only available up to 2021, therefore there is a lag of one year; for example, 2022 ALICE data uses the 2021 data

Additional Chronic Disease Costs: Centers for Medicare & Medicaid Services. (2023, October 25). Mapping Medicare disparities by population: Average principal cost. Retrieved from https://data.cms.gov/tools/mapping-medicare-disparities-by-population

Chronic disease average percent out-of-pocket costs at 17.3% from Centers for Medicare & Medicaid Services. (2020). *2020 Medicare Current Beneficiary Survey annual chartbook and slides* [Table 4.1.a - Total Health Care Service Expenditures Among All Medicare Beneficiaries by Source of Payment, 2020]. Retrieved from https://www.cms.gov/research-statistics-data-and-systems/research/mcbs/data-tables/2020-medicare-current-beneficiary-survey-annual-chartbook-and-slides

Survival vs. Stability: Comparison of Household Budgets

The objective of the ALICE Household Survival Budget is to calculate the bare-minimum amount needed to live and work in the current economy, while the ALICE Household Stability Budget aims to show what is needed to support and sustain a secure and economically viable household. Figure 1 compares the components of the Survival and Stability Budgets, as detailed in the previous sections (bolded text highlights differences between the two budgets).

Figure 1.

Summary of Sources Used in ALICE Household Budgets

Budget Category	Household Survival Budget	Household Stability Budget
Housing — Rent/Mortgage	**HUD's FMR** (40th percentile) for an **efficiency, one-bedroom, or two-bedroom apartment** (based on family size), adjusted in metropolitan areas using the American Community Survey (minus utilities)	HUD's **median rent** for single adults and single parents, and a **moderate house with a mortgage for a two-parent family**, as reported by the American Community Survey (minus utilities)
Housing — Utilities	The annual cost of utilities, which include natural gas, electricity, fuel oil and other fuels, and water and other public services from the Consumer Expenditure Surveys	The annual cost of utilities, which include natural gas, electricity, fuel oil and other fuels, and water and other public services from the Consumer Expenditure Surveys
Child Care	**Registered Family Child Care Homes** for an infant and a preschooler (using state-specific sources)	**Licensed and accredited child care center** for an infant and a preschooler (using state-specific sources)
Food	**USDA's Thrifty Food Plan** by age with county variation from Feeding America	**USDA's Moderate Food Plan** by age **plus average cost of food away from home** as reported by the CEX
Transportation	Operating costs for a **small or medium sedan** (based on average daily miles by age, cost per mile, license, fees, and insurance costs from Federal Highway Administration, AAA, and The Zebra), or **public transportation where viable** as reported by the CEX	Operating costs for a **small or medium SUV** (based on average daily miles by age, cost per mile, license, fees, and insurance costs from Federal Highway Administration, AAA, and The Zebra), or **public transportation where viable** as reported by the CEX **and a small or medium sedan for two days a week**
Health Care	**Health insurance premiums based on employer-sponsored health insurance** as reported by MEPS **plus out-of-pocket costs for $40K–$69K households** by age, CEX **weighted with poor health multiplier**. For senior budget, cost of Medicare Part A and B, out-of-pocket costs, plus out-of-pocket average spending for the top five chronic diseases as reported by CMS	**Health insurance premiums based on employer-sponsored health insurance** as reported by MEPS **plus out-of-pocket costs for $70K+ households** by age from the CEX
Technology	Consumer Report's smartphone plan for unlimited data for each adult in a household and basic home broadband service reported by USTelecom	Consumer Report's smartphone plan for unlimited data for each adult in a household and basic home broadband service reported by USTelecom
Taxes	Federal and state taxes and tax credits computed by the Atlanta Federal Reserve's Policy Rules Database	Federal and state taxes and tax credits computed by the Atlanta Federal Reserve's Policy Rules Database
Savings	**None**	To ensure stability over time, **monthly savings set at 10% of budget**
Miscellaneous	Cost overruns, estimated at 10% of budget excluding taxes	Cost overruns, estimated at 10% of budget excluding taxes

The ALICE Household Stability Budget

The Household Stability Budget is a less austere standard of living compared to the Household Survival Budget and is designed to be sustainable over time. It is comprised of the actual cost of household essentials for financial stability, which includes a 10% savings allocation and a 10% contingency allocation, as well as relevant taxes. The data builds on the sources from the Household Survival Budget; differences are outlined below.

- **Housing:** The housing budget is composed of rent or mortgage and utilities.

  Rent/mortgage: Rent or mortgage for a single adult is based on HUD's median rent for a one-bedroom apartment (rather than the efficiency apartment used in the Survival Budget) at the FMR of 50th percentile. For one adult with one child, the budget is based on a two-bedroom apartment at the median rent (instead of a one-bedroom). Housing for a family of four is based on the American Community Survey's median monthly owner costs for those with a mortgage (instead of rent for a two-bedroom or larger apartment used in the Survival Budget). Real estate taxes are included here for households with a mortgage. Adjustments are made for variation within a metropolitan area through the American Community Survey's 5-year estimates of Median Gross Rent, as discussed in the Household Survival Budget.

  Utilities: The annual cost of utilities is based on the CEX's estimate of natural gas, electricity, fuel oil and other fuels, and water and other public services. The cost is adjusted by the number of people in the household.

- **Child Care:** The child care budget is based on the cost of a fully licensed and accredited child care center using the same source as the Household Survival Budget — the cost reported by each state's governmental department in charge of child care regulations. These costs are typically more than 25% higher than the cost of registered home-based child care used in the Survival Budget.

- **Food:** The food budget is based on the USDA's Moderate Level Food Plan for cost of food at home (the second of four levels), adjusted for county variation using the Feeding America Cost-of-Food Index, plus the average cost of food away from home as reported by the CEX by metropolitan statistical areas and national regions.

Food Data Sources (Stability Budget)

Food Costs: U.S. Department of Agriculture (USDA). (2022). Official USDA food plans: Cost of food at home at three levels, U.S. average, June 2022. Retrieved from https://fns-prod.azureedge.us/sites/default/files/media/file/CostofFoodJun2022LowModLib.pdf

Alaska and Hawai'i Food Costs multiplier: U.S. Department of Agriculture (USDA). (2022). *Official USDA Alaska and Hawaii Thrifty Food Plans*. Retrieved from https://fns-prod.azureedge.us/sites/default/files/media/file/AKHI_June%202022.pdf

Food Away From Home: Bureau of Labor Statistics. (2022). Consumer Expenditure Surveys *[2021–22 MSA tables]*. Retrieved from https://www.bls.gov/cex/tables.htm#geo

County Variation After 2009: Feeding America. (2023). Map the Meal Gap 2023: An Analysis of County and Congressional District Food Insecurity and County Food Cost in the United States in 2021. Retrieved from https://map.feedingamerica.org/

Regional Variation Before 2009: Economic Research Service (n.d.). *Regional variation nearly double inflation rate for food prices.* Retrieved from https://www.ers.usda.gov/webdocs/publications/44331/10609_page19.pdf?v=41055

- **Transportation:** The sources used for transportation in the Stability Budget are the same as those used in the Survival Budget (i.e., CEX for public transportation and the Federal Highway Administration and AAA for car-related expenses); however, the budget allocations differ slightly**.** Where public transportation is deemed a viable option (see Survival Budget for definition), transportation expenses include public transportation plus gas and running costs for one small sedan (including 50/100/50 liability + comp-collision insurance with a $500

deductible, more coverage than in the Survival Budget), and the size of the car increases from a small sedan to a medium sedan when more than two people live in the household.

Because these households have both access to public transportation and a car, it is assumed that they have increased expenses compared to households that only rely on public transportation (as reflected in the Survival Budget), but also drive fewer miles than households that only have a car and no access to public transportation. The calculation is the sum of household members' average daily miles of travel per person by age, times the cost per mile by car type times 104 days (52 weeks, 2 days/week), plus license and fees by type of car, plus depreciation (assuming a 10-year-old car), plus 50/100/50 liability + comp-collision with $500 deductible insurance by state.

[(Average daily miles * fuel and maintenance cost per mile) * 104] + insurance + license and fees+ depreciation

Where there is no viable public transportation, the formula is:

[(Average daily miles * fuel and maintenance cost per mile) * 300] + insurance + license and fees + depreciation + vehicle outlay

And car allocations by household composition are as follows:

- One- and two-person households: small SUV
- Three or more person households: medium SUV

Transportation Data Sources (Stability Budget)

Transportation by Car: AAA. (2022). *Your driving costs.* Retrieved from https://newsroom.aaa.com/wp-content/uploads/2022/08/2022-YDC-Costs-Break-Out-by-Category.pdf

Federal Highway Administration. (2017). *2017 National Household Travel Survey*. U.S. Department of Transportation. Retrieved from https://nhts.ornl.gov/assets/2017_nhts_summary_travel_trends.pdf

Car Insurance: The Zebra. (2022). *Average premiums by coverage 2022* [Unpublished raw data].

Public Transportation and Vehicle Outlay: Bureau of Labor Statistics. (2022). Consumer Expenditure Surveys *[2021–22 MSA tables]*. Retrieved from https://www.bls.gov/cex/tables.htm#geo

American Community Survey. (2022). *5-year estimates* [Table B08301: Means of transportation to work]. U.S. Census Bureau. Retrieved from https://data.census.gov/cedsci/

- **Health Care:** Health care costs are similar to those in the Survival Budget and are derived from the same sources but are adjusted for higher income. Health insurance premiums are based on employer-sponsored health insurance at private-sector establishments as reported by the AHRQ in the MEPS. For out-of-pocket health care spending, the Stability Budget uses spending for households headed by someone 45–54 years old with annual income above $70,000, as reported by the CEX (compared to $40,000–$69,999 used in the Survival Budget).

  Income is closely related to health, and in general, people with higher incomes are healthier and use fewer health services. Therefore, the Stability Budget assumes all family members are in good health. To reflect this, the 19% multiplier for health care out-of-pocket spending included in the Survival Budget is not included in the Stability Budget. In some cases, this can result in lower health care costs for the Stability Budget compared to the Survival Budget.

- **Technology:** Most jobs now require access to the internet and a smartphone. These are necessary to receive work schedules, changes in start time or location, access to work support services, and customer follow-up. The Stability Budget includes the cost of a smartphone plan for each adult in the household and basic home broadband.

Technology Data Sources (Stability Budget)

Smartphone Plan Cost: Frank, M. (2022, February 19). Best cell phone plan deals for you and your family. Consumer Reports (2022 prices). Retrieved from https://www.consumerreports.org/cell-phone-service-providers/best-cell-phone-plan-deals-for-you-and-your-family/

Home Broadband Cost: USTelecom. (2022). *2022 broadband pricing index*. Retrieved from https://ustelecom.org/wp-content/uploads/2022/06/USTelecom-Broadband-Pricing-Report2022.pdf

- **Miscellaneous and Savings:** As in the Household Survival Budget, there is a miscellaneous category as a provision for unforeseen cost increases in these budget items. In addition, there is a savings category. They are each 10% of the budget total (not including taxes).

- **Taxes:** Taxes are calculated in the same manner as in the Household Survival Budget. Because the size of credits and exemptions does not increase with income while tax rates do, the tax line item is much larger in the Stability Budget than in the Survival Budget. Real estate taxes are added to the cost of homeownership for the family budget and included in the cost of rental housing for all others.

METHODOLOGY: THE ALICE THRESHOLD

Along with clarifying the basic cost of living, the ALICE measures also provide a better understanding of the number and proportion of households unable to afford that cost of living, as well as their demographic features and geographic distribution. **The ALICE Threshold** represents the minimum income level necessary to afford the Household Survival Budget for each county in the U.S. and is used to determine a household's ALICE status. As shown below, the method for applying the Threshold differs for tabulated and untabulated (raw) data sets of household income. When exact household income data is available, such as in the American Community Survey PUMS dataset, household income can be compared directly to the Household Survival Budget for their household size and composition. When household income data is provided in brackets, the ALICE Threshold is distributed across the bracket and adjusted for household size and composition for each county.

Threshold for Tabulated Data

The most extensive survey of household income is the American Community Survey. The tabulated results provide the most precise measures of household income by age, race/ethnicity, household composition, and geography.

To account for differences in the cost of basic needs by age (the U.S average size for households headed by someone under 65 is three, and for a senior household, two), **there are two ALICE Thresholds**.

- **Threshold for Under 65:** The average household size for households headed by someone under 65 is calculated by dividing the number of households in each county by the population under 65 in that county. Results are compared to American Community Survey average family sizes to ensure reliability. Where there is a wide discrepancy (defined as the American Community Survey's average household size +1 person), family size is used.

The cost per person is calculated from the Household Survival Budget closest to the household size, as shown below. Then the per-person cost is multiplied by the average household size for the county.

HH = 2 or less: Household Survival Budget for one adult * average HH size under 65

If the result is greater than the cost of the Household Survival Budget for two adults, then the cost of the Household Survival Budget for two adults is used

HH = between 2 and 2.5: Household Survival Budget for two adults / 2 * average HH size under 65

HH = between 2.5 and 3.5: Household Survival Budget for two adults and one school-age child / 3 * average HH size under 65

HH = 3.5 or more: Household Survival Budget for two adults, one child in child care (preschool), and one school-age child / 4 * average HH size under 65

- **Threshold for 65 and Over:** The average household size for households headed by someone 65 and older is calculated as the number of households headed by someone 65 and older in the county divided by the total population 65 and older in the county.

The cost per person is calculated from the Senior Survival Budget closest to the household size.

Senior Survival Budget Adult * average HH size 65+

If the result is greater than the cost of the Senior Survival Budget for two adults, then the cost of the Household Survival Budget for two seniors is used.

Applying the Threshold to Determine ALICE Status: The American Community Survey estimates for household income are aggregated into the following categories: less than $10,000, $15,000, $20,000, $25,000, $30,000, $35,000, $40,000, $45,000, $50,000, $60,000, $75,000, $100,000, $125,000, $150,000, $200,000, and more than $200,000. With 2021 data and earlier, the ALICE Threshold was rounded to the closest income bracket. Starting with 2022 data, the number of households within each income bracket will be divided in proportion to where the Threshold falls within the Census income bracket. For example, if within the income bracket $30,000–$34,999 there are 100 households and the ALICE Threshold is $32,500, only 50 of those households would be determined to be below the ALICE Threshold. This minimizes fluctuation when budgets move from one income bracket to the next.

Number of Households in Poverty: Households in Poverty are reported by the Census Bureau, which uses the Poverty Thresholds. (Note: In the ALICE Reports, we often reference the U.S. Department of Health and Human Services' Poverty Guidelines when referencing the FPL because these simplified values are used for program administration and are most familiar/relevant for our many partners.)

Number of ALICE Households: The number of ALICE households is derived by subtracting the number of households in poverty from the total number below the ALICE Threshold. Poverty numbers are provided by the American Community Survey for most demographic groups. Because the American Community Survey does not provide poverty estimates by race/ethnicity, the income breakpoint of $15,000 per year is used as a proxy for this category.

Threshold for Untabulated Data

For the analysis of surveys where the raw data is available, there is a second method for determining the ALICE Threshold. This is used for our analysis of the Census' PUMS surveys used in the ALICE in Focus series, the Economic Viability Dashboard; as well as other surveys reported in ALICE reports including the U.S. Census Bureau's COVID-19 Household Pulse Survey, the University of Southern California Center for Economic and Social Research's Understanding Coronavirus in America tracking survey, and the Federal Reserve's Survey of Household Economics and Decisionmaking (SHED).

To determine a respondent's ALICE status, three variables are necessary: household income, county of residence, and household composition. Income is then compared to the Household Survival Budget for that household combination in that county. A new variable is added to the respondent's record: Above or Below the ALICE Threshold.

Because many surveys rely on ZIP code rather than county as geographic identifier, we use a ZIP code-to-county matchup. When a ZIP code is in more than one county, it is affiliated to the county with the largest overlap. For surveys that report respondents at the state level, such as SHED and Household Pulse Surveys, the Household Survival Budget is calculated at the state level using a weighted average by county population.

All other parameters that define ALICE are maintained — for example, including all households. Those who are working or have a health issue or a family member with a disability are always included.

Practical Applications: This approach enables access to datasets far beyond the American Community Survey. Care is taken to understand the quality of the data and the sample size per breakout group — age, geography, race/ethnicity, etc. Our data notes qualify whether the survey is a representative sample (and at what level of geography) or if it is a convenience survey, and if so, what bias it might represent.

METHODOLOGY: THE ALICE ESSENTIALS INDEX

The ALICE Essentials Index provides a national standardized measure of the average change over time in the costs of household essentials — a much narrower definition than the more commonly used rate of inflation based on the BLS' CPI. The ALICE Essentials Index includes only essential household items (those found in the Household Survival Budget — housing, child care, food, transportation, health care, and technology), calculated for both urban and rural areas. In contrast, the most commonly used national inflation rate is based on the CPI, which covers all the goods and services that the general population buys regularly (food and beverages, housing, apparel, transportation, medical care, recreation, education, and communication services). Both indices include taxes where included in the price of the item, such as real estate tax included in rent, but not income or work taxes. With such a broad basket of items, the CPI obscures the change in cost of the bare essentials that ALICE buys. The ALICE Essentials Index can be used as a companion to the CPI to highlight how changes in the economy affect low-income families differently than they affect the general population.

The Index tracks the core costs of the three most common household compositions as reported in the Household Survival Budget:

- **Two adults:** One-bedroom apartment, food, transportation, health care, and two smartphone plans and home broadband
- **Family of four with two children in child care:** Two-bedroom apartment, one infant and one 4-year-old in registered Family Child Care Homes, food, transportation, health care, and two smartphone plans and home broadband
- **Single senior:** Efficiency apartment, food, transportation, health care, and one smartphone plan and home broadband

The ALICE Essentials Index tracks prices in urban and rural counties, compared to the CPI, which just tracks prices for all urban consumers in Metropolitan Statistical Areas. Counties are separated by U.S. Census designation for urban and rural, and each county is weighted according to its total household population.

Starting in 2023, the ALICE Essentials Index is calculated for each state and at the national level on an annual basis. Because current inflation is a critical measure of the economy, the ALICE Essentials Index includes a projection to the current year, using data that is available and estimating for other data (we use CPI as the floor for an increase). The projections are revised each year with final data when sources are confirmed.

For additional details and sources, see UnitedForALICE.org/Essentials-Index

METHODOLOGY: THE ALICE INCOME ASSESSMENT

The ALICE Income Assessment looks at the impact of public and nonprofit resources on the needs of households below the ALICE Threshold. This tool measures the "Unfilled Gap" between the total amount that households below the ALICE Threshold receive in income and assistance and the total amount these households still need to reach the ALICE Threshold. It is the basis for several ALICE tools including the Economic Benefits of Equity analysis (see below). The basic methodology will also prove useful as a guide to analyze the impact of the American Rescue Plan Act of 2021 and other large federal spending initiatives on households below the ALICE Threshold.

ALICE Household Income: The total income households below the ALICE Threshold currently receive includes wages, dividends, cash government assistance, Social Security, and in-kind public assistance. These totals are reported in the tabulated American Community Survey estimates by income bracket. The Income Assessment uses the aggregate amount, calculated using the midpoint of each income bracket multiplied by the number of households in each bracket below the Threshold.

The aggregate income that all households would need to reach the ALICE Threshold is calculated by multiplying the number of households with income below the ALICE Threshold in each county by the Threshold value, and then adding the county totals to reach the state total.

Public and Nonprofit Resources: Public assistance used in this analysis includes only programs for low-income households that directly help them meet the basic Household Survival Budget, such as TANF and Medicaid. It does not include programs that assist low-income households in broader ways (such as to attend college) or that assist communities (such as community policing). The analysis is only of funds spent, not an evaluation of the programs or their efficacy in meeting household needs. The ALICE Income Assessment includes the following categories:

Federal Assistance (excluding Health Care):

- **Social Services:** Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), and Social Services Block Grant (SSBG)
- **Child Care and Education:** Only programs that help children meet their basic needs or that are necessary to enable their parents to work are included (Head Start, Title I educational services, and the Child Care and Development Fund Block Grant). Though post-secondary education is vital to future economic success, it is not a component of the basic Household Survival Budget, so programs such as Pell grants are not included.
- **Food:** Supplemental Nutrition Assistance Program (SNAP), School Lunch Program, School Breakfast Program, Child and Adult Care Food Program (CACFP), and Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
- **Housing:** HUD Housing Choice Vouchers, Low Income Home Energy Assistance Program (LIHEAP), Public Housing Operating Funds, and Community Development Block Grant (CDBG)
- **Taxes:** Earned Income Tax Credit

Health Care Assistance:

- **Medicaid:** Provides money to states, which states must match, to offer health insurance for low-income residents as well as some families and children, pregnant women, seniors, and people with disabilities. Also known as the Medical Assistance Program.
- **Children's Health Insurance Program (CHIP):** Provides funds to states to enable them to maintain and expand child health assistance to uninsured, low-income children and, at a state's discretion, to low-income pregnant women and documented immigrants.
- **Community Health Benefits:** Spending by hospitals on low-income patients that includes charity care and means-tested expenses, including Unreimbursed Medicaid minus direct offsetting revenue as reported on Form 990 by a 501(c)(3) organization.

State and Local Government Assistance: This includes funds from state and local government (not pass-throughs from the federal government) in the areas of health, social services, cash assistance, and workforce development.

Nonprofit Assistance: This includes spending by nonprofit organizations identified as Human Services organizations. Human Services nonprofit programs are those under section 501(c)(3) reported on Form 990EZ and 990 minus program service revenue, dues, and government grants as reported to the Internal Revenue Service. Because of a lag in data from the Urban Institute's National Center for Charitable Statistics (NCCS), 2012 state-level expenditures are adjusted upward using national estimates of growth in nonprofit spending.

The "Unfilled Gap": The gap is the remainder after current need and assistance are subtracted from total need:

Total aggregate household income to ALICE Threshold
– Current aggregate household income
– Public assistance Unfilled Gap

= Unfilled Gap

Income Assessment Data Sources

Community Health Benefits: McKeever, B. S. (2018, December 13). *The nonprofit sector in brief 2018*. Urban Institute, National Center for Charitable Statistics. Retrieved from https://nccs.urban.org/publication/nonprofit-sector-brief-2018#finances

Earned income Tax Credit: Internal Revenue Service. (2019, October 2). *Statistics for 2018 tax returns with EITC*. Retrieved from https://www.eitc.irs.gov/eitc-central/statistics-for-tax-returns-with-eitc/statistics-for-tax-returns-with-the-earned-income#Previous%20Tax%20Years

Federal Spending Data: U.S. Office of Management and Budget. (2017). Aid to State & Local Governments. In *Analytical perspectives: Budget of the U.S. Government: Fiscal year 2018 (pp. 171-184).* Retrieved from https://www.gpo.gov/fdsys/pkg/BUDGET-2018-PER/pdf/BUDGET-2018-PER.pdf

Nonprofit Assistance: McKeever, B. S. (2018, December 13). *The nonprofit sector in brief 2018*. Urban Institute, National Center for Charitable Statistics. Retrieved from https://nccs.urban.org/publication/nonprofit-sector-brief-2018#finances

State and Local Government Spending Data: National Association of State Budget Officers. (2019). *State expenditure report: Fiscal years 2017-2019*. Retrieved from http://www.nasbo.org/mainsite/reports-data/state-expenditure-report

Supplemental Nutrition Assistance Program (SNAP) Data: U.S. Department of Agriculture (USDA). (n.d.). SNAP data tables [*State level participation and benefits*]. Retrieved from http://www.fns.usda.gov/pd/supplemental-nutrition-assistance-program-snap

Supplemental Security Income: American Community Survey. (2018). *1-year and 5-year estimates* [Table B19066: Aggregate Supplemental Security Income (SSI) in the past 12 months (in 2017 inflation-adjusted dollars) for households]. U.S. Census Bureau. Retrieved from https://data.census.gov/cedsci/

METHODOLOGY: ECONOMIC BENEFITS OF EQUITY

To better understand the extent to which financial hardship is a drain on a state's economy, the Economic Benefits of Equity builds on the work of Ani Turner and others to quantify the benefits of raising the income of all households to the ALICE Threshold. This analysis includes additional earnings; additional taxes paid on higher incomes, and reduced usage of tax credits such as EITC for low-income earners; savings on government programs that alleviate poverty, such as SNAP and TANF; and the multiplier effect of each category on the state economy. Lifting family income would be an enormous undertaking; this exercise shows the statewide benefits, in order to make a compelling case for moving both policy and investment toward that goal.

- **Additional Earnings:** Using the methodology from the Income Assessment, the current and additional aggregate income estimates are calculated from the American Community Survey tables on household income and the ALICE

Threshold for each county in the state. The aggregate additional income has added impact because additional wages earned by low-wage workers are put back into the economy.

Increased consumer spending is estimated using the macroeconomic multiplier calculated by Moody's Analytics Chief Economist Mark Zandi and methods used by the Economic Policy Institute. Zandi estimated that every additional dollar in compensation for low-wage workers produces a $1.20 increase in economic activity.

- **Additional Tax Revenue:** In parallel to the methodology for additional income, tax revenue is calculated by multiplying the median value of each income bracket below the ALICE Threshold by their associated tax rate, then multiplying by the number of households in that tax bracket in each county. To determine the aggregate amount, do the same for all income brackets. For the statewide number, add the county totals to reach the state total.

  Additional tax revenue gives state and local governments the opportunity to make investments that matter most to the well-being of residents and businesses — from tax cuts for small businesses to improvements in infrastructure, health care, and education — and that can yield a high return on investment. The Congressional Budget Office reports that the impact of tax cuts is greater when targeted at lower- and middle-income people and achieved without borrowing, and it can be a multiplier as high as 1.5. To be conservative, this analysis uses Zandi's estimate for the multiplier for increased infrastructure spending of 1.44.

- **Redirected Community Spending and Indirect Benefits:** The current and additional aggregate assistance estimates are the same government programs and spending by hospitals on low-income patients. The Economic Benefits of Equity analysis reports only the indirect benefits of increasing financial stability for households below the ALICE Threshold and does not include the direct impact of redeploying private and nonprofit spending currently used to alleviate poverty.

  Increased financial stability is also associated with indirect benefits such as improved health (and reduced health care expenditures), reduced crime and homelessness, and greater community engagement. The National Academies of Sciences, Engineering, and Medicine analyzes the cost of childhood poverty and estimates that reversing it would add 5.4% to each state Gross Domestic Product (GDP). To be conservative, this analysis uses Holzer's estimate that childhood poverty costs 2.5% of GDP in related health and criminal justice expenses.

Economic Benefits of Equity Data Sources

Internal Revenue Service. (n.d.). 1040 and 1040-SR: Instructions. Retrieved from https://www.irs.gov/pub/irs-pdf/i1040gi.pdf

Internal Revenue Service. (n.d.). *Statistics for 2018 tax returns with EITC*. Retrieved from https://www.eitc.irs.gov/eitc-central/statistics-for-tax-returns-with-eitc/statistics-for-tax-returns-with-the-earned-income#Previous%20Tax%20Years

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McKeever, B. S. (2018, December 13). *The nonprofit sector in brief 2018.* Urban Institute, National Center for Charitable Statistics. Retrieved from https://nccs.urban.org/publication/nonprofit-sector-brief-2018#finances

National Association of State Budget Officers. (2019). *State expenditure report: Fiscal years 2017–2019*. Retrieved from http://www.nasbo.org/mainsite/reports-data/state-expenditure-report

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Scarboro, M. (2018, March). *State individual income tax rates and brackets for 2018*. Tax Foundation. Retrieved from https://files.taxfoundation.org/20180315173118/Tax-Foundation-FF576-1.pdf

U.S. Department of Agriculture (USDA). (n.d.). SNAP data tables [*State level participation and benefits*]. Retrieved from http://www.fns.usda.gov/pd/supplemental-nutrition-assistance-program-snap

Walczak, J. (2019, July). *Local income taxes in 2019*. Tax Foundation. Retrieved from https://files.taxfoundation.org/20190730170302/Local-Income-Taxes-in-20191.pdf

ADDITIONAL CONSIDERATIONS

Below are additional factors that should be considered when using ALICE measures and tools:

- The American Community Survey — which is a primary source used in the calculation of the ALICE measures — relies on self-reported income, and therefore may be reported incorrectly for a variety of reasons. Respondents may also only report income from what they consider their primary occupation and not include other forms of income from more informal sources such as gig economy work.

- The ALICE measures provide a point-in-time estimate of expenses and financial need. They do not reflect the fact that for many households, income fluctuates throughout the year, and households may draw on savings or other assets when income is not sufficient to meet basic needs. These measures also do not distinguish between permanent and transitory income; students, for example, may have low transitory incomes while they are in school, but may have higher incomes after securing permanent employment.

- To ensure accuracy and confidentiality in ALICE maps, tables, and figures, county-level breakout groups (e.g., by age, race/ethnicity, and family status) with fewer than 100 households are not presented. At the sub-county level, geographies (e.g., ZIP code, place, and legislative district) with fewer than 100 households are not displayed.

- All racial categories used in the ALICE data except "Two or More Races" are for one race alone. Race and ethnicity are overlapping categories; the Asian, Black, American Indian/Alaska Native, Native Hawaiian/ Pacific Islander, and Two or More Races groups may include Hispanic households. The White group includes only White, non-Hispanic households. The Hispanic group may include households of any race. Because household poverty data is not available for the American Community Survey's race/ethnicity categories, annual income below $15,000 is used as a proxy.

- The COVID-19 pandemic disrupted data collection of the 2020 American Community Survey to the extent that the Census reported it did not meet their quality standards. As a result, 2020 American Community Survey data is not included in ALICE datasets.

- The numbers and demographics of households experiencing financial hardship differ depending on which population is included in the analysis. ALICE analyses include all households unless otherwise noted. Other measures, such as the Self-Sufficiency Standard and the Real Cost Measure, do not include adults with disabilities or senior household members who no longer work. As such, their analyses report fewer households that are struggling and exclude groups that are disproportionately living in financial hardship. For example, 52% of non-senior disabled adults and 53% of senior disabled adults were below the ALICE Threshold in 2021.

FOR MORE INFORMATION

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