

ALICE

ASSET LIMITED, INCOME CONSTRAINED, EMPLOYED



INDIANA

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Fall 2014

STUDY OF FINANCIAL HARDSHIP

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Indiana Association of
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LETTER TO THE COMMUNITY



Dear Hoosiers,

Communities all across Indiana are concerned with families, jobs, and economic stability. We know that good work at good wages can improve circumstances and make households stable. But we are also concerned about the state of financial hardship in Indiana. Who are the families in financial hardship and what are the conditions that define their struggle?

ALICE represents the men and women of all ages and races who get up each day to go to work, but who aren't sure if they'll be able to make ends meet. The Indiana Association of United Ways has partnered with five other states to bring data-driven research about **ALICE**, shorthand for **A**sset **L**imited, **I**ncome **C**onstrained, **E**mployed, to communities. These families are defined with low income, little or no savings, and steady jobs. The 61 members of the state association are mobilizing resources and investing in services to support families, but those families' struggles are often hidden.

ALICE is our child care worker, our retail clerk, the CNA that cares for our grandparents, the delivery driver. When we know who ALICE is we can think more clearly about the kind of help and support that will make a difference in his or her life. ALICE may live in Richmond, South Bend, or Boonville and they are people who work hard every week and can fall behind every month.

ALICE is the family in Elkhart whose car breaks down, which takes the grocery money, which sends the family to the food pantry. ALICE is the family in Terre Haute whose entire economic life comes undone when the breadwinner breaks a leg and loses three week's wages. ALICE is the family in Marion whose 11-year-old watches the 5-year-old because they can't afford afterschool programs despite both parents working full time.

In Indiana we care about these ALICES. We take pride in Hoosier communities and brag about how our faith and values drive us to take care of our neighbors. We honor those who work long and hard every day, maybe with two jobs. Parents who make sacrifices for their children are the norm. ALICE families meet all of those conditions, yet need help. We know families that live close, but we don't realize how vulnerable they are and the value of our contributions. When people are working at regular jobs we don't always think about the consequences of low pay.

The forces of community are hard at work. Economic Development is striving to create more good paying jobs to get and keep more of our citizens employed. Community Development addresses housing and transportation and safe neighborhoods. Health is basic to a stable life. United Way brings focus to all of the wrap-around support needed to keep families stable, learning, and achieving. We at United Way have been talking about achieving the common good through education, financial stability and health. Tutors, Bank On, and obesity programs make life and families stronger.

This report will help you know more about those families who need our help. Look at the data for a living wage, housing and food costs, keeping healthy, and transportation costs. ALICE families are working and earning, but we need to understand their vulnerability and the need for help and support. They are hard-working members of our community who attend our festivals and cheer for the high school team, and give to their church.

We hope you'll understand how you can help and how you can engage in community outcomes for positive change as you come to see ALICE. Please join us in raising awareness about ALICE and stimulating dialogue in your community about how, together, we can provide ALICE an opportunity to succeed in Indiana communities.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Kathryn Ertel'. The signature is fluid and cursive.

Kathryn Ertel, Executive Director, Jennings County Economic Development Commission; Chair, Board of Directors, Indiana Association of United Ways

THE ALICE PROJECT

ALICE

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Though we have chosen a woman's name, this population is comprised of households with men and women alike, and includes children and seniors.

United Way is committed to ensuring that our communities are viable places to live and work. To do that, we promote current research, community dialogue, and data-driven policy solutions. These elements form the basis of one of United Way's broadest and fastest-growing initiatives – the *ALICE Project*.

ALICE was coined by United Way in 2009 after a pilot research project looked at the low-income population in affluent Morris County, one of the five founding communities which merged in 2011 to become United Way of Northern New Jersey. The original study focused primarily on data from 2007, largely before the effects of the economic downturn, known as the Great Recession, were widespread.

The value of this research was immediately evident: ALICE became a part of the common vernacular in Morris County, helping define a need and a focus for United Way's work. ALICE also began to appear in many grant applications, in the media, and in public forums discussing need in this "wealthy" community.

It quickly became clear that ALICE extended far beyond the borders of Morris County. In 2011 United Way commissioned a second ALICE study looking at all counties in New Jersey. That Report relied primarily on data collected in 2007 and 2010, measuring the impact of the Great Recession and offering a broader illustration of the challenges ALICE households face.

The Report's findings were stark: ***fully 30 percent of New Jersey households earned too little to provide basic necessities, and more than half the state's jobs paid less than \$20 an hour.***

With the forecast for low-wage jobs to continue to dominate the job market, the reality is that ALICE will continue to play an integral role in our communities for the foreseeable future. That is why ALICE has become a central part of all aspects of United Way's work.

Now the *ALICE Project* has expanded to five additional states, with ALICE Reports being released in California, Connecticut, Florida, Indiana, Michigan and New Jersey. The baseline information established in New Jersey's 2012 study allows these new Reports to compare our progress as the country's economic conditions continue to change and, in some cases, improve.

We challenge stakeholders in every state to consider the ALICE Reports and their measures as an opportunity for a new dialogue around how to make our communities viable places to live and work. As more and more states embrace ALICE, our hope is that this Report and its companions can serve as a model for the nation.

ALICE RESEARCH

About Rutgers University-Newark's School of Public Affairs and Administration (SPAA)

In developing the *ALICE Project*, United Way has partnered with Rutgers University-Newark's School of Public Affairs and Administration (SPAA), an educational leader in government and non-profit management and governance. Ranked 10th nationally in public management and administration, SPAA promotes an ethics-based performance approach to effective, equitable, and accountable policy implementation through its innovative and comprehensive undergraduate, professional and graduate degrees and certificate programs. The school's faculty generates knowledge and best practices in public service and administration, and collaborates with public and nonprofit sector organizations and professionals throughout the U.S. and the world. Guided by the principles of knowledge, competence, diversity, and service – with an emphasis on public service values and competencies for effective performance – SPAA promotes accountability, transparency, and performance in the public and nonprofit sectors.

The ALICE Research Team

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Special Thanks to our Advisor on Indiana Tax Issues

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EXECUTIVE SUMMARY

Across Indiana, 37 percent of households struggle to afford the basic necessities of housing, child care, food, health care, and transportation.

Indiana, one of the many states in the region of the Midwest often termed the ‘Rust Belt’, has faced difficult economic times during the Great Recession. Yet the Indiana poverty rate of 14 percent obscures the true magnitude of financial instability in the state. The official U.S. poverty rate, which was developed in 1965, has not been updated since 1974, and is not adjusted to reflect cost of living differences across the U.S. A lack of accurate measurements and even language to frame a discussion has made it difficult for states – including Indiana – to identify the full extent of the economic challenges that so many of their residents face.

This Report presents four new instruments that measure the size and condition of households struggling financially, and it introduces the term **ALICE** – **A**sset **L**imited, **I**ncome **C**onstrained, **E**mployed. The Report includes findings on households that earn below the ALICE Threshold, a level based on the actual cost of basic household necessities in each county in Indiana. It outlines the role of ALICE households in the state economy, the public resources spent on households in crisis, and the implications of struggling households for the wider community.

Using the realistic measures of the financial survival threshold for each county in Indiana, the Report reveals a far larger problem than previously identified. Indiana has 352,042 households with income below the Federal Poverty Level (FPL) but also has 570,300 ALICE households, which have income above the FPL but below the ALICE Threshold. These numbers are staggering: **in total, 922,342 households in Indiana – fully 37 percent and more than double the number previously thought – are struggling to support themselves.**

“ALICE households are working households and pay taxes; they hold jobs and provide services that are vital to the Indiana economy.”

ALICE households are working households and pay taxes; they hold jobs and provide services that are vital to the Indiana economy in a variety of positions such as retail salespeople, laborers and movers, team assemblers, and nursing assistants. The core issue is that these jobs do not pay enough to afford the basics of housing, child care, food, health care, and transportation. Moreover, the growth of low-skilled jobs is projected to outpace that of medium- and high-skilled jobs into the next decade. At the same time, the cost of basic household necessities continues to rise.

There are serious consequences for both ALICE households and their communities when these households cannot afford the basic necessities. ALICE households are forced to make difficult choices such as skipping preventative health care, healthy food, or car insurance. These “savings” threaten their health, safety, and future – and they reduce Indiana’s economic productivity and raise insurance premiums and taxes for everyone. The costs are high for both ALICE families and the wider community.

MAJOR FINDINGS

Who is ALICE?

Thirty-seven percent of households in Indiana struggle to afford basic household necessities. Based on the most recent data from 2012, 352,042 households live in poverty and another 570,300 are ALICE households. Between the two categories, 922,342 households in Indiana have income below the ALICE Threshold.

ALICE households exist in all age groups. ALICE exists even in households headed by someone in the prime earning years of 25 to 64 years old. In fact, this age group represents the largest segment of ALICE households, underscoring the fact that many jobs in Indiana do not pay enough to allow families to afford the most basic household budget.

ALICE and poverty-level households are spread across all counties in Indiana. All counties in Indiana have more than 21 percent of households living below the ALICE Threshold. In addition, more than two-thirds of Indiana's municipalities have more than 20 percent of households living below the ALICE Threshold.

ALICE households represent a cross-section of Indiana's population. Contrary to some stereotypes, ALICE households have a wide range of demographic compositions. As in Indiana's overall population, more than 81 percent of the state's ALICE households are White (U.S. Census terminology). However, due to wage discrepancies that disproportionately affect certain groups, it is not surprising to find female-headed households, Blacks, Hispanics, people living with a disability, and unskilled recent immigrants over-represented in the population living below the ALICE Threshold.

What is the gap between ALICE's household income and the cost of basic expenses?

ALICE households are working or have worked. However, ALICE and poverty-level households earn only 36 percent of the income needed to reach the ALICE Threshold for basic economic survival.

Public and private assistance is not enough to lift ALICE households to economic stability. The income of ALICE and poverty-level households in Indiana is supplemented with \$13.9 billion in government, nonprofit, and health care resources. Despite this assistance, ALICE and poverty-level households remain 23 percent short of the income needed to reach the ALICE Threshold.

What causes the prevalence of ALICE households?

The cost of basic household expenses in Indiana is more than most jobs can support. Indiana's cost of living is beyond what most jobs in the state can provide to working households. The annual Household Survival Budget for the average Indiana family of four is \$46,495 and for a single adult is \$17,026. These numbers highlight how inadequate the U.S. poverty rate is as a measure of economic viability, at \$23,050 for a family and \$11,170 for a single adult. The annual Household Stability Budget – one that enables not just survival, but self-sufficiency in Indiana – is almost double the cost of the Household Survival Budget for a family of four (\$82,740), and \$22,836 for a single adult.

“Indiana's cost of living is beyond what most jobs in the state can provide to working households.”

“Housing affordability, job opportunities, and community support worsened in all counties in Indiana through the Great Recession.”

Indiana became less affordable from 2007 to 2012. Despite the Great Recession and the low rate of inflation, the cost of basic housing, child care, transportation, food, and health care in Indiana increased by 10 percent during this 5-year period.

Economic conditions worsened for ALICE households from 2007 to 2012. Housing affordability, job opportunities, and community support worsened in all counties in Indiana through the Great Recession as measured by the Economic Viability Dashboard, a new index that tracks these three economic measures. Two years after the end of the Great Recession, conditions have improved slightly but have not returned to 2007 levels. Finding both housing affordability and job opportunities in the same location remains a challenge for ALICE households.

Indiana’s housing stock does not match current needs. Across the state, there are not enough rental units, that are affordable: there are 60 percent more renters with income below the ALICE Threshold than there are rental units that they can afford. In addition, while there are housing units where ALICE households could afford the mortgage, these households often lack sufficient resources for a down payment or do not qualify for a mortgage.

What are the consequences of insufficient income for ALICE families and their communities?

To manage their day-to-day survival, ALICE households often utilize short-term strategies that are detrimental in the long run. When ALICE households do not have enough income, they have to make difficult choices to reduce their expenses. For example, if a family cannot afford child care in an accredited facility, they may substitute with an overworked neighbor or an inexperienced relative, jeopardizing their child’s safety and learning opportunities. Other short-term strategies such as skipping preventative health care, home and car maintenance, or a bill payment may have long-term consequences such as poor health, fines, and larger bills in the future.

The number of families with children is declining in Indiana. Higher income is especially important for families with children because of their greater budget costs. Without job opportunities in the state, some families have moved, and others have delayed having children altogether. From 2007 to 2012, the number of married-couple families with children in Indiana fell by 8 percent.

ALICE households pay more for goods and services. ALICE households face higher expenses from both basic cost of living increases and the use of alternative financial products to finance routine and extraordinary expenses. During the Great Recession, despite the low inflation and the decrease in cost of most goods and services, the cost of basic household necessities continued to rise. Without access to mainstream borrowing, many ALICE households in Indiana resort to using riskier, more expensive financial options, such as “Buy Here Pay Here” car loans.

The whole community suffers when ALICE has insufficient income. When ALICE children are not ready for school, they add a burden to the educational system. When ALICE households cannot afford preventative health care, they are more likely to place future burdens on the health care system, increasing insurance premiums for all. When ALICE workers cannot afford an emergency, let alone invest in their neighborhood, communities may experience instability, higher taxes, or a decline in economic growth.

What challenges do ALICE households face in the future?

In line with the national trend, low-income jobs dominate the economy in Indiana now and will continue to dominate in the future. As a result of changes in the job market over the last three decades, the Indiana economy is now more dependent on low-paying service jobs than on higher-skilled and higher-paying jobs. Sixty-nine percent of all jobs in Indiana pay less than \$20 per hour (\$40,000 per year if full-time), and more than half (51 percent) pay less than \$15 per hour (\$30,000 per year if full-time).

Occupations with projected job growth have low wages and require minimal education. The most projected new job openings are in service jobs with wages below \$20 per hour and requiring a high school education or less. These jobs – including construction trade workers, home health aides, food preparation workers, and motor vehicle operators – are projected to grow at triple the rate of medium- and high-skilled jobs over the next decade across Indiana.

More seniors will become ALICE households. With an aging population that is working in lower paid jobs or has used their savings and retirement to weather the economic downturn, more Hoosiers will fall below the ALICE Threshold as they age.

More ALICE households will become family caregivers. At least one-third of Indiana's ALICE households currently include caregivers – family members caring for ill or elderly relatives. That number will increase as the population ages, adding additional burdens to the budgets of ALICE households in both direct costs and lost wages, and reducing future employment opportunities.

“Sixty-nine percent of all jobs in Indiana pay less than \$20 per hour, and more than half (51 percent) pay less than \$15 per hour.”

What would improve the economic situation for ALICE households?

Public and private intervention can provide short-term financial stability.

Short-term intervention by family, employers, nonprofits, and government can mitigate crises for financially unstable households and possibly prevent an economic spiral downward. For example, providing a month's worth of food for a family may enable a father to repair his car's transmission and get to work. If a family's primary earner cannot get to work, he might lose wages or even his job. Without regular income, the family cannot afford rent or mortgage payments and risks becoming homeless.

Increasing the amount of housing that ALICE can afford without being housing burdened would provide stability for many Indiana families. The housing units that are affordable to ALICE households are often far from jobs or older and in disrepair. Structural changes that make quality affordable housing more available would ease the housing burden on many Indiana families.

An improvement in income opportunities would enable ALICE households to afford basic necessities, build savings, and become financially independent. Reducing the number of ALICE households requires a significant increase in the wages of current jobs or in the number of medium- and high-skilled jobs in both the public and private sectors in Indiana. Structural economic changes would significantly improve the prospects for ALICE and enable hardworking households to support themselves.

“Improving Indiana’s economy and meeting ALICE’s challenges are linked; improvement for one would directly benefit the other.”

Improving Indiana’s economy and meeting ALICE’s challenges are linked; improvement for one would directly benefit the other. The ALICE Threshold, the Household Survival Budget, the ALICE Income Assessment tool and the Economic Viability Dashboard presented in this Report provide the means for Indiana stakeholders – policy makers, community leaders, and business leaders – to better understand the magnitude and variety of households facing financial hardship. These measures and tools, and the enhanced understanding that they provide, can make more effective change possible.

GLOSSARY

ALICE is an acronym that stands for **A**sset **L**imited, **I**ncome **C**onstrained, **E**mployed, comprising households with income above the Federal Poverty Level but below the basic cost of living.

The **Household Survival Budget** calculates the actual costs of basic necessities (housing, child care, food, health care, and transportation) in Indiana, adjusted for different counties and household types.

The **ALICE Threshold** is the average level of income that a household needs to afford the basics defined by the Household Survival Budget for each county in Indiana. (Please note that unless otherwise noted in this Report, households earning less than the ALICE Threshold include both ALICE and poverty-level households.)

The **Household Stability Budget** is greater than the basic Household Survival Budget and reflects the cost for household necessities at a modest but sustainable level. It adds a savings category, and is adjusted for different counties and household types.

The **ALICE Income Assessment** is the calculation of all sources of income, resources and assistance for ALICE and poverty-level households. Even with assistance, the Assessment reveals a significant shortfall, or unfilled gap, between what these households bring in and what is needed for them to reach the ALICE Threshold.

Lastly, the **Economic Viability Dashboard** is comprised of three indices that evaluate the economic conditions that matter most to ALICE households – housing affordability, job opportunities, and community support. A Dashboard is provided for each county.