Building Family Economic Success

THE HIGH COST OF BEING POOR

The families who earn least in our country often pay the most for basic goods and services. Groceries, utilities, auto loans and insurance, banking services, consumer credit, mortgages and home insurance can all cost hundreds or thousands of dollars more for low-income families in disconnected rural and urban communities than for middle-class families in the suburbs. Since 2003, the Annie E. Casey Foundation has been raising awareness of this disturbing trend and supporting efforts to drive down the prices paid by struggling families.

The Importance of Reducing High Costs for Low-Income Families

The U.S. media has focused extensive attention in recent years on the employment difficulties facing less-skilled workers and their families, including the recession of 2001-2002, the "jobless recovery" that followed, and stagnating wages for nonsupervisory workers. Yet low earnings are just part of the economic squeeze facing many economically fragile families—high costs are the other half of the equation.

The high costs found in low-income areas are a result of multiple factors. Many inner city areas lack access to large retail stores, due in part to a dearth of available market information about the buying power present in urban neighborhoods. Financial deregulation and aggressive marketing by credit card companies and "fringe finance" outlets have dramatically increased the amount rural and urban low-income families spend on interest and fees for consumer credit and home loans. Predatory lending and other market abuses by lenders and retailers also have contributed.

As a result, high costs have become a problem both for individual low-income families trying to stabilize their finances and build assets, and for communities striving to create attractive, supportive environments for residents. The collective income drain can reinforce a spiral of disinvestment and decay that pulls down entire communities. Reducing the high cost of being poor can provide families with more money to pay for day-to-day expenses, or enable them to begin saving for retirement, education, or homeownership.

Some important facts about the costs faced by low-income families:

- Families in low-income rural communities who lack access to supermarket chains pay 17.5 percent more—and inner city families pay 22 percent more—than the USDA recommended budget for basic food items.
- The annual cost to insure a car in Philadelphia neighborhoods with a median income less than $30,000 is $400 more than the cost to insure the exact same car and driver in nearby neighborhoods with a median income above $70,000.
- A homebuyer paying a subprime mortgage at 13 percent interest on a loan of $107,500 will owe $514 a month more than the homebuyer with a prime mortgage at seven percent. Over the life of a 30-year mortgage, the subprime borrower will pay $184,000 more in interest.
- In 2000-2001, low-income families spent almost 20 percent of their annual income on energy bills. For all other consumers, the proportion was about four percent.

Strategies for Family Economic Success

The Annie E. Casey Foundation believes that the children in greatest trouble in America today are those whose parents lack the earnings, assets, services or social support systems required to consistently meet their families' needs. Most of these children are growing up in impoverished communities that are disconnected from the economic mainstream. The Foundation is working to help these isolated families secure adequate incomes, accumulate savings and live in stable, economically viable neighborhoods through a combination of workforce development, family economic supports and community investment strategies—an approach known as building *family economic success,* or FES. This fact sheet is one in a series outlining the key strategies of the Foundation's FES grantmaking agenda.

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Resources

ACORN Housing
(www.acornhousing.org)

Brookings Institution
(www.brookings.edu)

Commonwealth of Pennsylvania, Department of Banking
(www.banking.state.pa.us)

Demos
(www.demos-usa.org)

"The High Cost of Being Poor: What It Takes for Low-Income Families to Get By and Get Ahead in Rural America"
(www.aecf.org/publications)

National Economic Development and Law Center
(www.nedlc.org)

"The Price is Wrong: Getting the Market Right for Working Families in Philadelphia," The Brookings Institution, 2005.
(www.brookings.edu/metro)

FES and the High Cost of Being Poor

Each year, as part of the Kids Count Data Book, the Annie E. Casey Foundation publishes an essay analyzing one key challenge facing America's low-income families and children. In 2003, the Kids Count essay highlighted the high costs of being poor – bringing the problem to the attention of policymakers, advocates and journalists across the country.

Since then, actions have been taken to reduce high costs for families through the following investment strategies:

- Supporting commissions in nine local sites that will engage community leaders in reducing the high cost of being poor.
- Researching and documenting high costs in major metropolitan areas and investment by both public and private sector leaders in lowering these costs.
- Promoting effective policies at the local, state and federal levels to lower the costs of consumer and mortgage lending, and supporting community-based coalitions to advocate for and monitor the enforcement of anti-predatory lending laws and regulations.
- Disseminating market information about the buying power of low-income communities to spur increased private sector investment.

Challenges and Opportunities

- In a time of tight federal and state budgets, getting the market price right for residents in disadvantaged neighborhoods can be a low-cost approach for helping families.
- The long distances and low population density make affordable goods and services difficult to provide in some rural areas.
- Lowering the high costs faced by low-income families requires a complex mix of changes in government policies and private sector behaviors. Given that the savings to families for any single change are small, it may be difficult to build constituencies around this issue.
- The risks associated with providing goods and services in lower income neighborhoods partially explain the higher costs of providing these services. Finding ways to minimize these risks and educating the private sector about risk management could help to mitigate these costs.

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