

To Make Matters Worse: Why it Costs More to be Poor

The simple definition of poor means not having enough money to cover the cost of living. But the reality is not that simple. The cost of living day to day is actually higher for the poor – a reality that makes matters worse.

As more people transition from welfare to work, a job is a first step toward independence, but it's still a long walk to the goal. A low income restricts access and limits choices so that families end up paying more for basic living expenses than families with more income.

Why does it cost more to be poor? Consider the following:

- ✓ **Transportation.** To get to work, a low-income person often must obtain a personal car, especially in rural areas that lack public transportation. Without a solid credit history, a low-wage earner may be forced to finance a car with a “sub-prime” lender, which charges a much higher rate – sometimes double or triple the prime rate. That can cost thousands of dollars extra in finance charges. Low-wage earners also are typically limited to cheaper and less efficient cars, which cost more to operate in fuel and repairs. In many low-income metropolitan neighborhoods, automobile insurance is more expensive – as much as \$1,000 more a year.
- ✓ **Household goods.** Low-income areas are often economically isolated. There is less business development, therefore less retail competition. The only choices in shopping for groceries, clothing, medicine, furniture and other household necessities may be smaller stores that lack the economy of scale to offer discount prices. Some cash-strapped consumers resort to rent-to-own businesses to buy furniture, appliances and electronics for lower monthly payments, but in the long run they pay as much as two to three times more than cash buyers do.
- ✓ **Housing.** Affordable rental housing is in short supply, which often means low-income families pay considerably more than the recommended 30 percent of income on housing. Those who want to buy a home often wind up, because of a poor credit history or a lack of lending agencies in the area, with a mortgage from a “sub-prime” lender that charges twice the rate of a prime loan. The higher interest can add as much as \$500 to the monthly mortgage payment. In rural

areas, the poor often opt for manufactured housing because it's initially less expensive. However, a mobile home costs more to finance because it's personal property, and, unlike a house, it depreciates in value. Furthermore, the cost of homeowner's insurance in lower-income neighborhoods can be as much as \$300 more than higher-income neighborhoods.

✓ **Health care.** Only 26 percent of people earning \$25,000 a year or less have health insurance paid by employers, compared with 83 percent of people earning \$75,000 or more, according to the U.S. Census Bureau. For low-income families, that means more out-of-pocket expenses for health care. Many are forced to choose between filling a prescription or a sack of groceries. Delayed medical care typically results in worsened health conditions, which are even more expensive to treat.

✓ **Child care.** The working poor are often single parents who must arrange for care of their children. Nationally, the cost averages \$4,000-\$6,000 per year, which is difficult to absorb into a modest budget. As a disproportionate bite of a low income, it can squeeze out other necessities.

✓ **Financial services.** Poor neighborhoods and rural areas often lack mainstream financial institutions. As a result, the areas are targets for predatory financial industries, such as check-cashing outlets and payday lenders, which charge high fees for the convenience of quick cash and credit. Low-wage workers may spend 2-3 percent of their pay just to obtain cash and can pay up to 470 percent annual percentage rates if they fail to repay loans due on the borrower's payday.

The higher fees, finance charges and other costs add up to hundreds or thousands of dollars spent by low-income families every year. Unfortunately, low-income families often lack the skills and resources to be savvy consumers. They are less likely to have access to the Internet, newspapers and other resources to comparison shop and learn good money management in order to get the most for their dollar.

At the end of the day, it costs more to be poor.

Sources:

"Strengthening Rural Families: The High Cost of Being Poor," The Annie E. Casey Foundation

"From Poverty, Opportunity," The Brookings Institution