DECEMBER 2016

State of Working Vermont 2016

PUBLIC ASSETS INSTITUTE

Contents

Pundits and historians will wrestle with the meaning of the 2016 elections for years. But from Bernie Sanders supporters on the left to Donald Trump backers on the right, voters sent one common message: They are frustrated with an economy that has left them behind and elected officials who seem indifferent to their plight. People feel anxious and insecure: With few opportunities to get ahead, ordinary middle-class goals such as sending a kid to college or retiring seem permanently out of reach. What resonated with voters were the candidates' vows to take action on behalf of the millions who felt ignored.

Here in Vermont people face many of the same problems they did last year, the year before, and the decade before that. A few encouraging things happened in 2015: Incomes rose across all levels, and Vermont's poverty rate dropped. But these signs come from just one year of U.S. Census data; it's too soon to know if they represent the beginning of a trend.

Even if 2015 was the start of better times, there's a lot of ground to make up. Vermont's middle class shrank nearly 12 percent between 1980 and 2015, and income inequality grew. Before the recession many low- and moderate-income Vermonters were falling behind, and since 2009, when the recession officially hit bottom, the recovery has been slow and uneven.

Montpelier has an opportunity to set a better course for the state

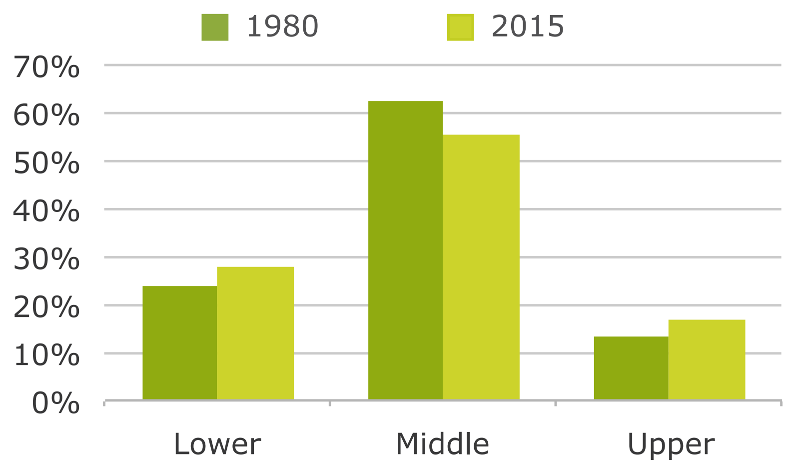
Nor were the improvements Vermonters saw in 2015 enough to overcome the problems many face: jobs that don't pay enough to support a family; a shortage of high-quality, affordable child care; limited access to higher education; shockingly high rates of poverty for single parents, especially single mothers.

With all new political leadership this year, Montpelier has an opportunity to set a better course for the state. In the last section of this report, we recommend immediate, concrete actions that policymakers can take and the potential positive impacts on Vermonters. It is time to make the investments that will put Vermont on the road to prosperity for all.

1. More rich, more poor, and fewer in the middle

Vermont's middle class has shrunk

Share of adults in lower-, middle-, and upper-income groups,[1] 1980 and 2015



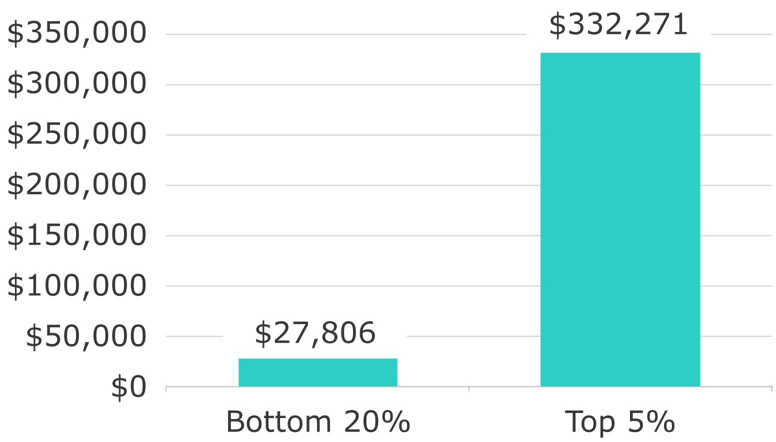
Data source: IPUMS-USA, University of Minnesota, www.ipums.org, 1980 5% sample, 2013-2015 1-year samples

For many Vermonters, a middle-class life—earning enough to cover costs, save a little, and invest in the next generation—is getting harder to achieve. Income inequality—the gap between the rich and everyone else—has been growing in Vermont since the late 1970s, as it has done across the country. As a greater share of income went to those at the top, Vermont's middle class shrank. In 1980 more than six in 10 adult Vermonters were middle class. By 2015 that share had declined more than 12 percent, to a little over half. During the same period, the share of lower-income Vermonters increased; so did the upper-income group, though to a smaller degree.[1]

1 Pew Research defines middle-class households as those with incomes, adjusted for household size, from 66.7 percent to 200 percent of median household income. Lower-income households have incomes less than 66.7 percent of median; and upper-income households, more than 200 percent of median. For this analysis, Public Assets applied the Pew methodology to U.S. Census microdata for Vermont.

Richest Vermonters' incomes were 12 times those of the poorest

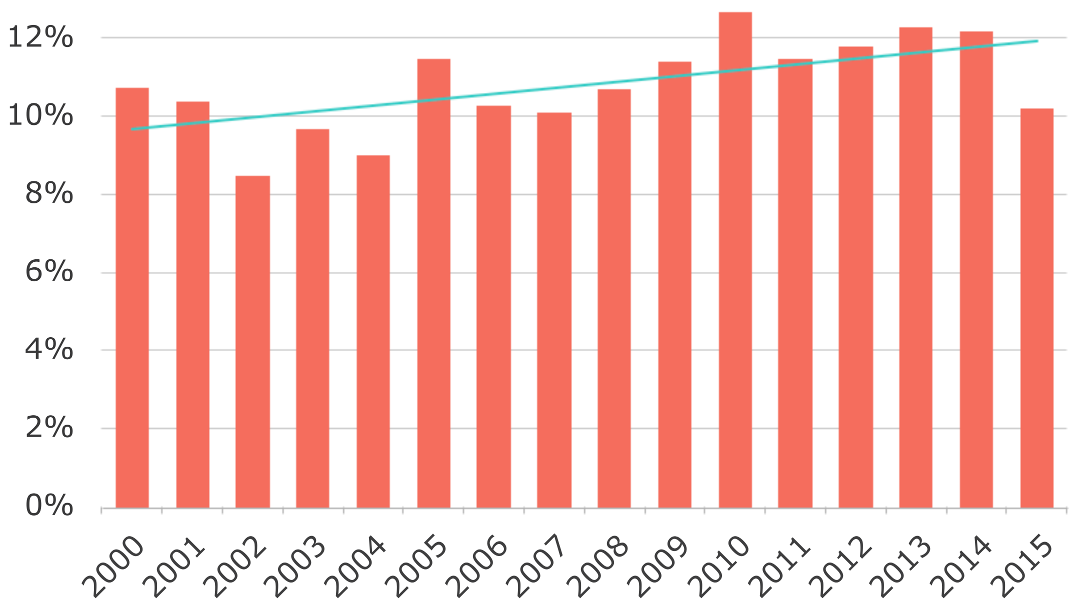
Average income for a family of four in the bottom 20 percent and top 5 percent of families, 2015



Data source: Center on Budget and Policy Priorities analysis of U.S. Census, American Community Survey, 2015 1-year estimates

According to a new report from the Center on Budget and Policy Priorities, in 2015 the average income for a Vermont family of four in the top 5 percent was nearly 12 times the income of a comparable family in the bottom 20 percent. Growing income inequality in Vermont helps explain how Vermont can experience overall economic growth and not see gains for low- and middle-income households.

60,000 Vermonters remained poor despite a poverty rate drop in 2015 Annual poverty rate, with trendline, 2000-2015



Data source: U.S. Census, American Community Survey, 2000-2015 1-year estimates

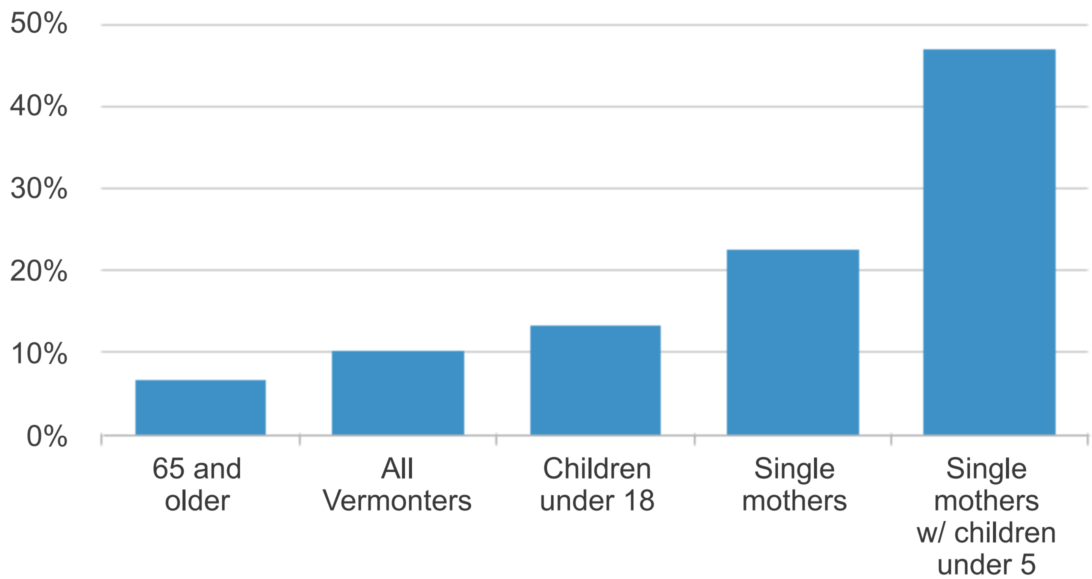
Poverty fell in Vermont—and across the country—in 2015. In Vermont, the decrease meant 12,000 fewer people were living in poverty, including more than 3,000 children. Still, the long-term trend has been a steady rise in poverty: In 2015 more than 60,000 Vermonters, including 15,000 children, lived at or below the poverty level.

2015 Poverty threshold by family size	
One person	$12,082
Two people	$15,391
Three people	$18,871
Four people	$24,257
Five people	$28,741

Data source: U.S. Census

Single mothers and their children were worst off

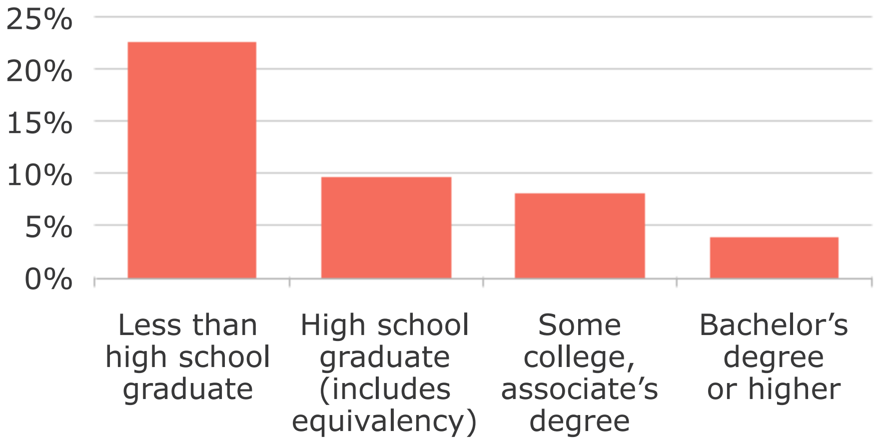
Vermont poverty rates for selected categories, 2015



Data source: U.S. Census, American Community Survey, 2015 1-year estimates

Single-earner families have a harder time making ends meet, and those with young children face additional child care challenges. Nearly half of single mothers with children under 5 lived in poverty in 2015. That's almost five times the rate for the overall population. Among children in poverty, 55.6 percent—almost 8,000 kids—lived with single mothers.

Risk of poverty was greatest for high school dropouts Poverty rate by educational attainment, 2015



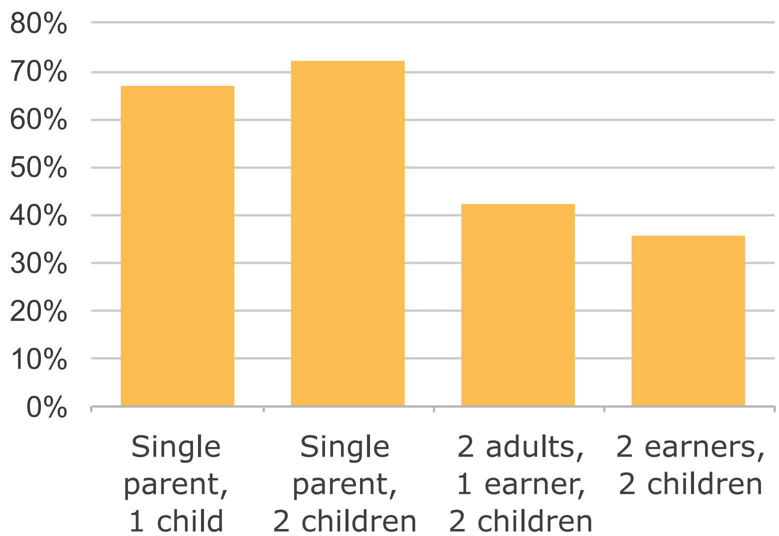
Data source: U.S. Census, American Community Survey, 2015 1-year estimates

Poverty is both a cause and an effect of low educational achievement. In 2015 Vermonters with bachelor's degrees had a poverty rate of just 3.8 percent. Meanwhile, nearly one in four people who did not finish high school were living at or below the poverty level—more than twice the overall rate. Education Matters, a recent report from Voices for Vermont's Children, documents the reverse impacts as well: Children who begin life in poverty have less success at school.

2. The essentials are eating up paychecks

Single-parent families struggled most to meet basic needs

Percentage of families with householder in the labor force whose total family income is below basic needs budget amount, by family type, 2015



Data sources: Vermont Legislative Joint Fiscal Office; IPUMS-USA, University of Minnesota, www.ipums.org, 2013-2015 1-year samples

Nearly three-quarters of single parents with two children have incomes that fall below the basic needs amount, and almost 70 percent of single parents with one child cannot afford such essentials as food, housing, and transportation.[2] Even among families with two working adults, more than a third did not earn enough to pay for basic needs.

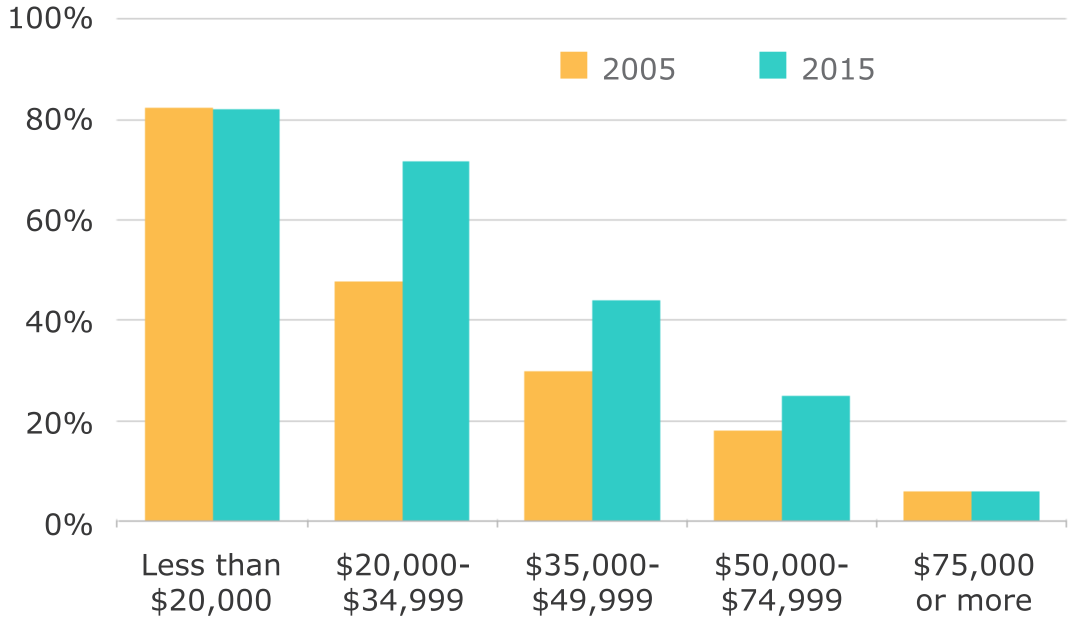
Basic needs budget*	
Single parent, 1 child	$54,471
Single parent, 2 children	$66,394
2 adults, 1 earner, 2 children	$64,548
2 earners, 2 children	$87,379

* Calculation for rural families receiving health care coverage through Vermont Health Connect
Data source: Joint Fiscal Office

2 Family types for this analysis were drawn from the 2015 Basic Needs Budgets and the Livable Wage report published by the Vermont Legislative Joint Fiscal Office. The analysis was limited to family types with children and at least one wage-earning parent—approximately 36,000 Vermont families.

Housing costs strained more family budgets

Share of households spending more than 30 percent of income on housing, by income level, 2005 and 2015

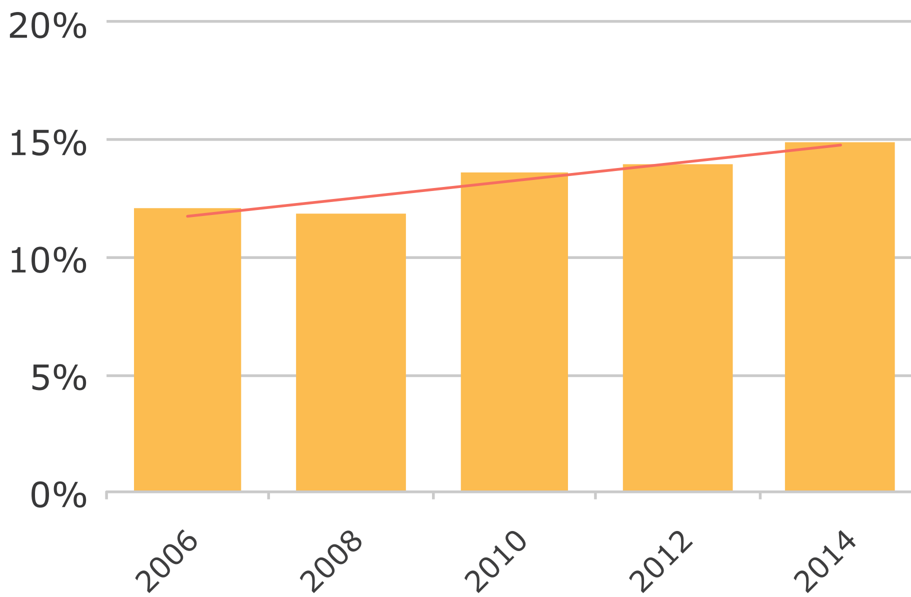


Data source: U.S. Census, American Community Survey, 2005 and 2015 1-year estimates

Affordable housing is a growing challenge for many Vermont families. The U.S. Department of Housing and Urban Development defines housing as affordable if it costs 30 percent or less of a household's income. Since 2005 housing has become unaffordable for a larger share of Vermont households with incomes under $75,000 a year. The problem was particularly acute for low-income households: Four out of five households making less than $20,000 per year spent more than 30 percent of their earnings on housing, leaving less than enough for other necessities.

The average annual cost of child care for a pre-school-age child in a licensed center is $10,000

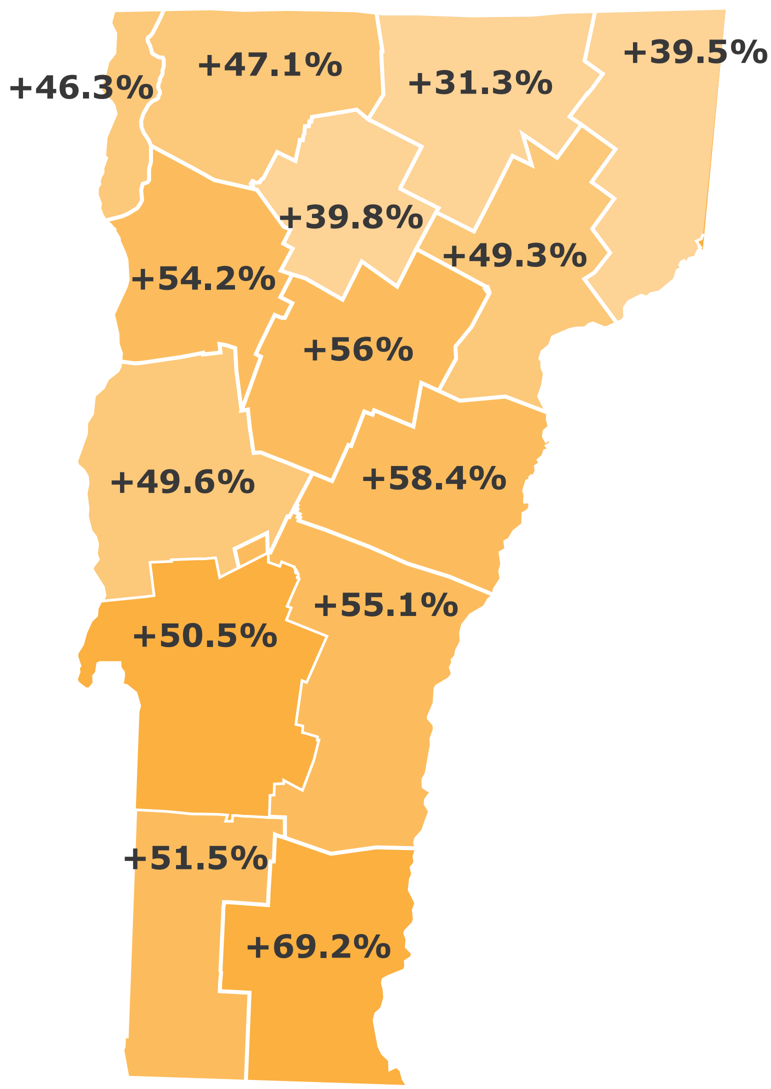
Families spent more of their incomes on child care Share of median family income for full-time child care for one pre-school-age child in a licensed center, with trendline, 2006-2014



Data sources: Vermont Department for Children and Families; U.S. Census, American Community Survey, 2006, 2008, 2010, 2012, 2014 1-year estimates

Child care increasingly burdens family budgets. Costs rose for all ages in all settings between 2006 and 2014. For one pre-school-age child in a licensed center, the cost of full-time care grew by 20 percent. Over the same period median family income shrank by 1.7 percent. The result is that child care has been consuming a larger share of family budgets.

In every county more people needed food stamps in 2015 than in 2007 Percentage change in number of 3SquaresVT recipients, by county, 2007-2015



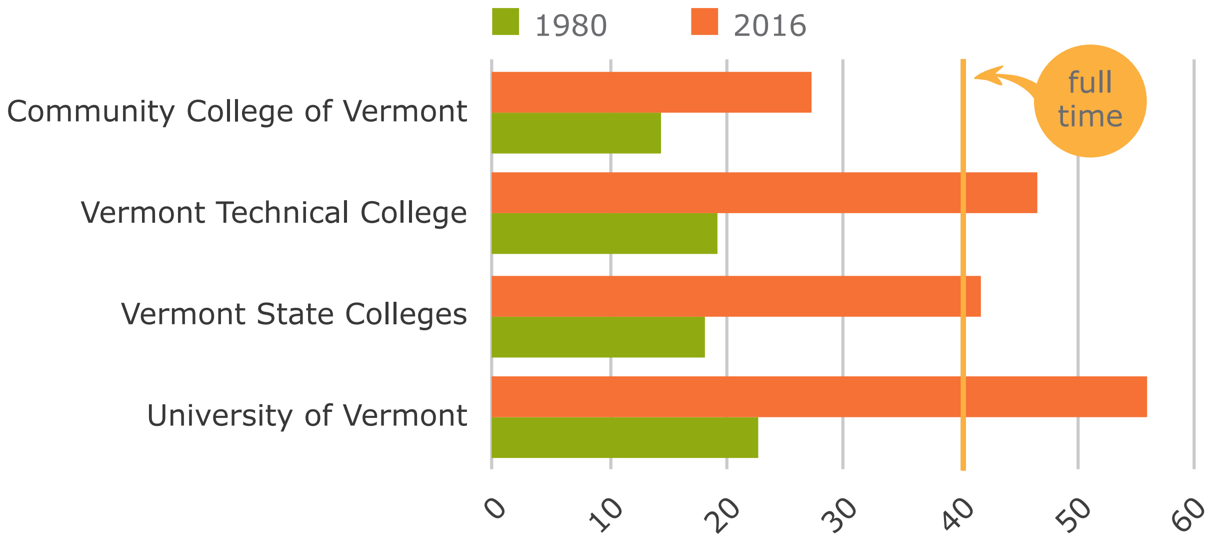
Data source: Vermont Department for Children and Families

In 2015 3SquaresVT, commonly known as food stamps, helped an average of 83,000 Vermonters, a third of them children, to purchase food each month.[3] Participation rose sharply around the start of the 2007 recession, due in part to increased efforts to reach eligible families; it peaked in 2013 at more than 100,000 Vermonters each month. Demand has dropped in recent years, but across the state participation was still about 50 percent higher in 2015 than it was before the recession.

3 Steven Carlson, Dottie Rosenbaum, Brynne Keith-Jennings, and Catlin Nchako, "SNAP Works for America's Children," Center on Budget and Policy Priorities, Sept. 2016

A part-time minimum wage job used to pay for college

Number of work hours per week at minimum wage required to pay annual tuition, fees, and room and board at Vermont institutions, 1980 and 2016



Data source: Vermont Department of Labor, Vermont Student Assistance Corporation

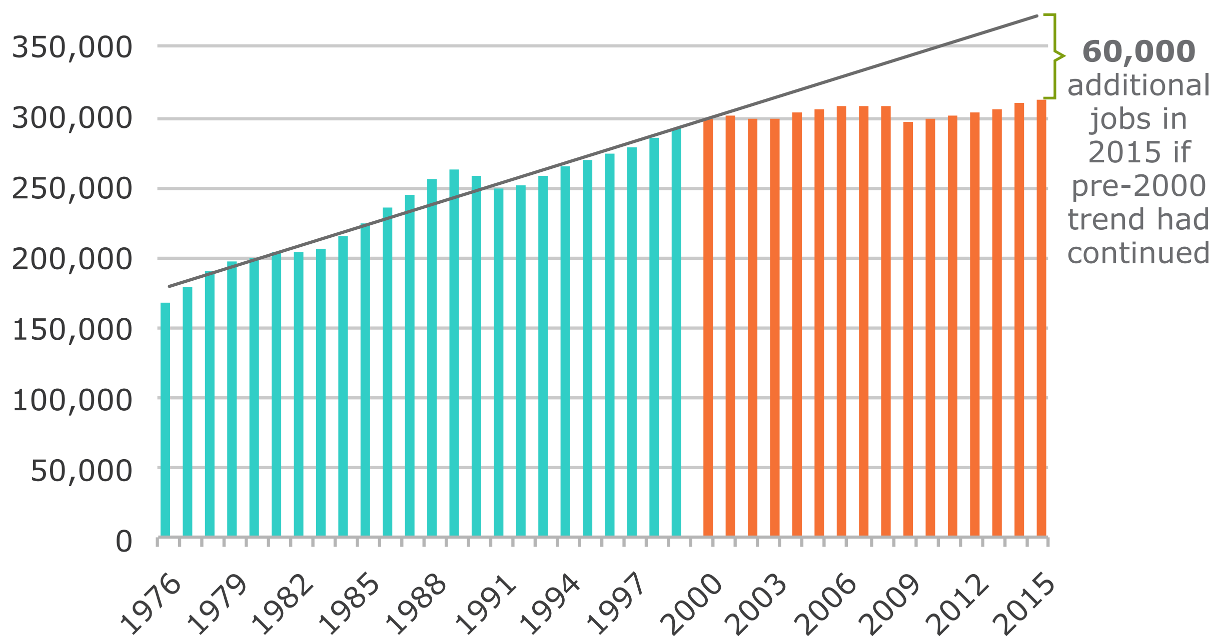
Although increasingly a job prerequisite, a college degree is growing too costly for many. In 1980 a person working part time for minimum wage could pay for community college; a half-time job could pay for an education at any state school. By 2016 that same individual would have to work twice as many hours to pay for community college. The cost of attending the University of Vermont grew nearly eightfold from 1980 to 2016—much faster than inflation or the minimum wage. Over that period the wage tripled, from $3.10 per hour in 1980 to $9.60 in 2016.

The cost of attending UVM grew nearly eightfold from 1980 to 2016

3. Opportunity has stalled for many Vermonters

Job growth flattened in the 2000s

Total nonfarm payroll jobs in thousands, annual average, with trendline, 1976-1999, 2000-2015



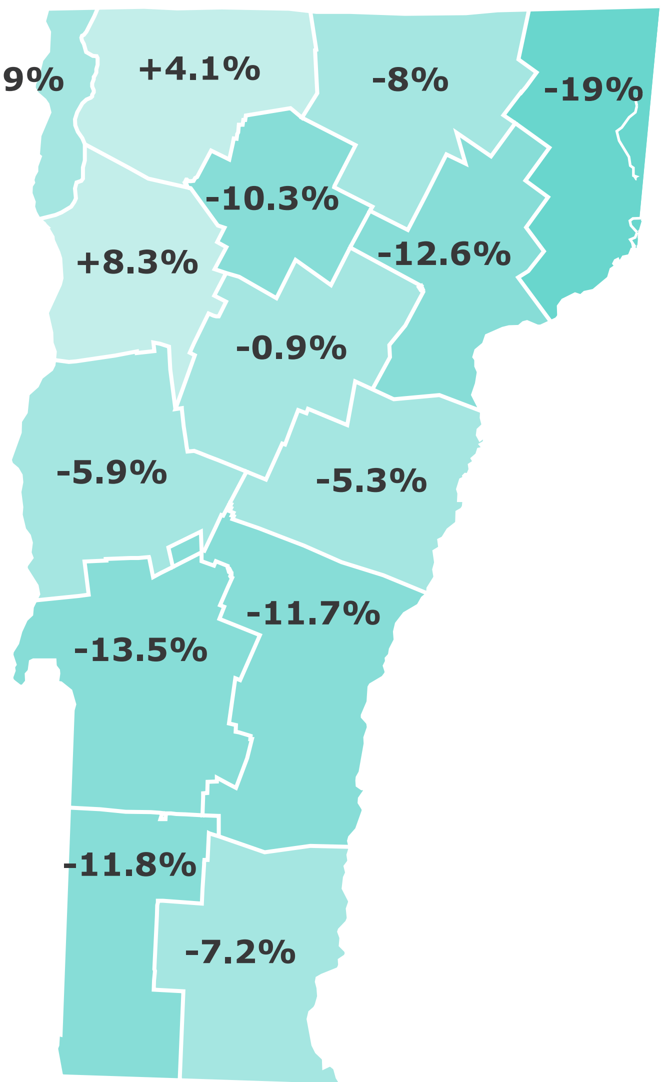
Data source: U.S. Bureau of Labor Statistics

The economic expansion following the Great Recession has been called a jobless recovery: Even as the economy bounced back, employers were slow to add new jobs. The total number of nonfarm jobs grew by fewer than 14,000 from 2000 to 2015, an average of about 900 jobs per year. In prior decades, Vermont added jobs more quickly—an average of 5,400 jobs per year from 1976 to 1999. Slow growth in the job supply keeps wages low and limits workers' ability to switch jobs and learn new skills.

In most Vermont counties, the number of people working in 2015, either for themselves or on someone else's payroll, remained below pre-recession levels. Only in Chittenden County, which provides more than a quarter of Vermont's employment, and Franklin County, just north of it, were more people working in 2015 than at the high point prior to the recession.

Most counties were still below peak pre-recession employment

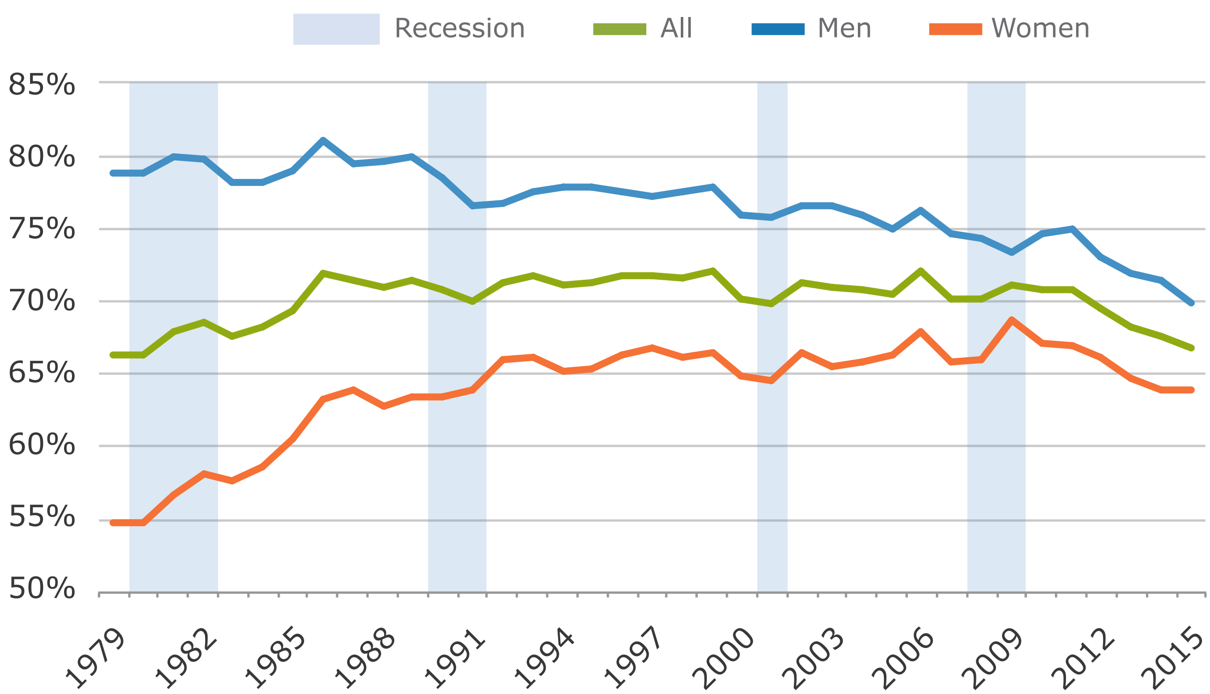
Percentage change in annual county employment from pre-recession peak* to 2015



Data source: Vermont Department of Labor

* Pre-recession peak year was 2006 for all counties except Windham, where it was 2005.

Vermont's workforce participation has declined since the recession; men's since the '80s Vermonters in the labor force as a percentage of working-age population, all workers and by gender, 1979-2015

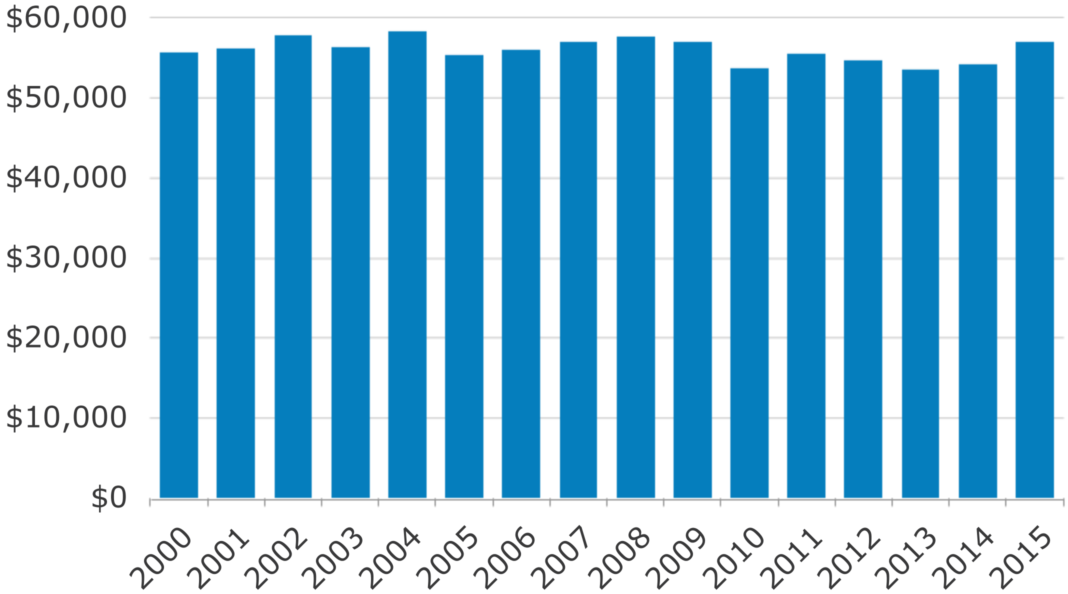


Data source: Economic Policy Institute analysis of Current Population Survey data

Vermont's labor force continued to grow into the mid-2000s, even though the share of working-age men participating in the workforce had been declining for 20 years. Women accounted for some of the continued growth, as increasing numbers sought jobs outside the home. But in 2009 Vermont's total labor force—which includes people working or actively looking for work—started shrinking. From 2009 to 2015 the participation rate of working-age men continued to decline. So did the share of working-age women, to 63.9 percent from 68.8 percent.

Vermont incomes have stagnated since 2000

Median household income, adjusted for inflation, 2000-2015

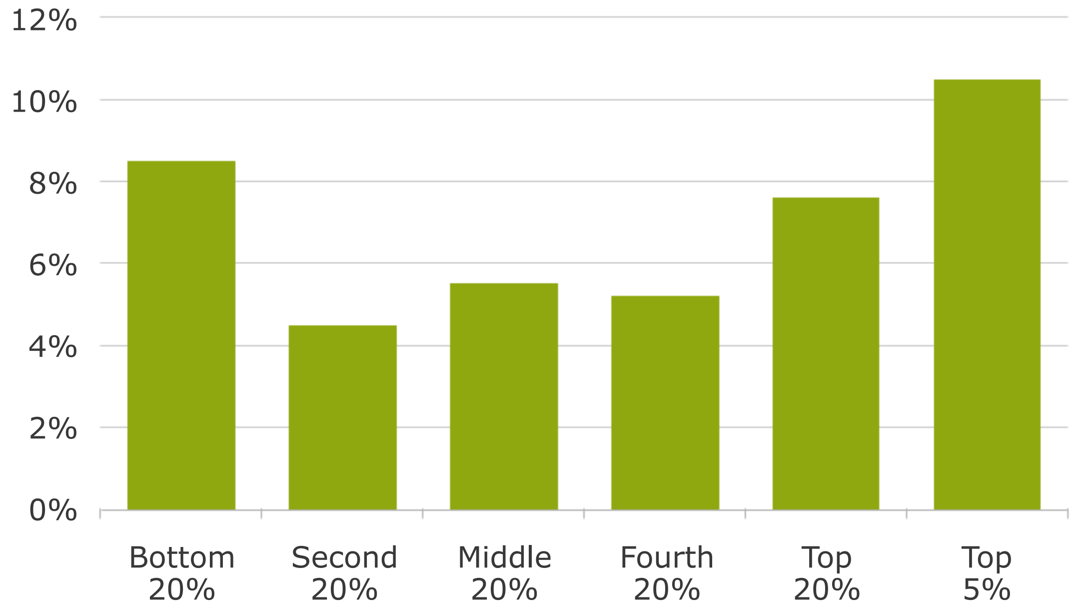


Data source: U.S. Census, American Community Survey, 2000-2015 1-year estimates

It's not hard to see why low- and middle-income Vermonters might doubt there's a light at the end of the tunnel. Even with an increase over the last two years, median household income has remained essentially flat since at least 2000. Two broad measures of the state's economy—gross state product and total personal income—grew from 2000 to 2015. But that growth has not increased the income of a typical Vermont household.

Incomes rose across all levels last year

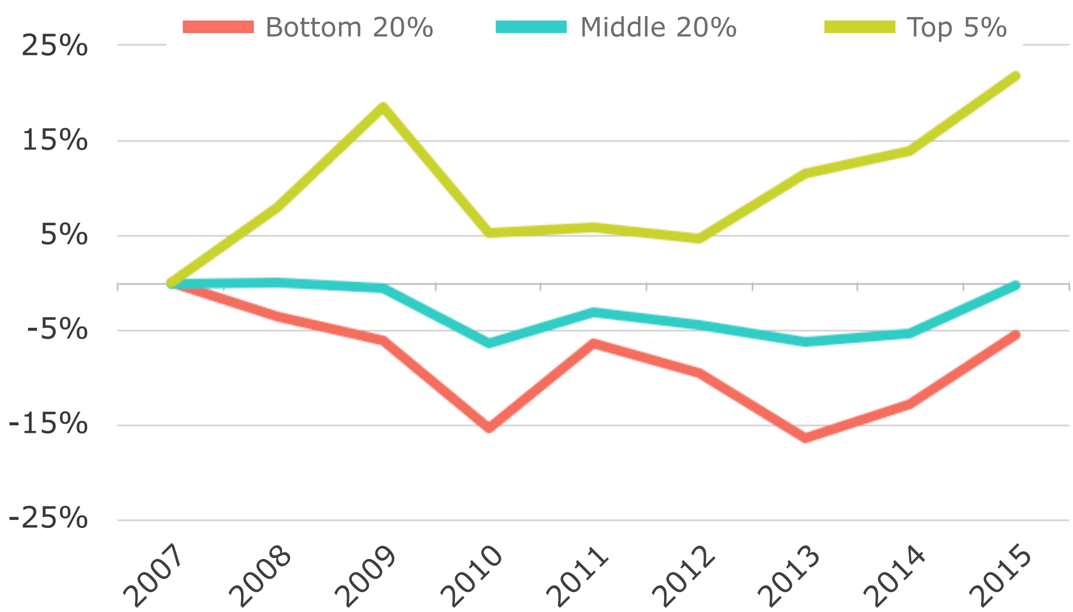
Percentage change in average income, by household income quintile, 2014-2015



Data source: U.S. Census, American Community Survey, 2015 1-year estimates

In 2015 average incomes across all income levels rose from the previous year. While that's an encouraging sign, one year of solid growth for those at the bottom will not close the huge income gap between the rich and the poor. To keep things in perspective, even after a rise of more than 8 percent in 2015, the average income for a household in the bottom 20 percent came to only $14,203—still below the poverty threshold for a family of two. Meanwhile, the average income for the top 5 percent of households showed the strongest growth: a little more than 10 percent from 2014 to 2015.

Many Vermonters are just approaching 2007 incomes Percent change in average household income since 2007, by quintile, 2007-2015



Data source: U.S. Census, American Community Survey, 2007-2015 1-year estimates

The growth in income in 2015 got many Vermonters closer to where they were before the recession, but not ahead. The average income for the bottom 20 percent, which grew more than 8 percent in 2015, was still less than it was in 2007. Those at the top continued to gain ground. Average income for the top 5 percent of households was more than 20 percent greater in 2015 than it was before the recession.

4. Actions for shared prosperity

Policy decisions at both the federal and state levels have contributed to decades of unacceptably high poverty rates and growing income inequality. At the same time, increasing costs and stagnant wages have left more and more Vermonters struggling to get by.

Recent economic growth has not reached everyone—and without fundamental changes to the system, continued growth will not improve things for those left behind. There are policy decisions Vermont political leaders can make now to begin to reverse these trends, moving Vermont toward becoming a state that works for everyone.

In September 2016 Public Assets published A Framework for Progress, which proposed concrete recommendations that would help thousands of Vermonters get their heads above water now and improve their prospects for the future. The report identified three fundamental initiatives:

1. Ensure that work pays and all Vermont families can meet their basic needs.

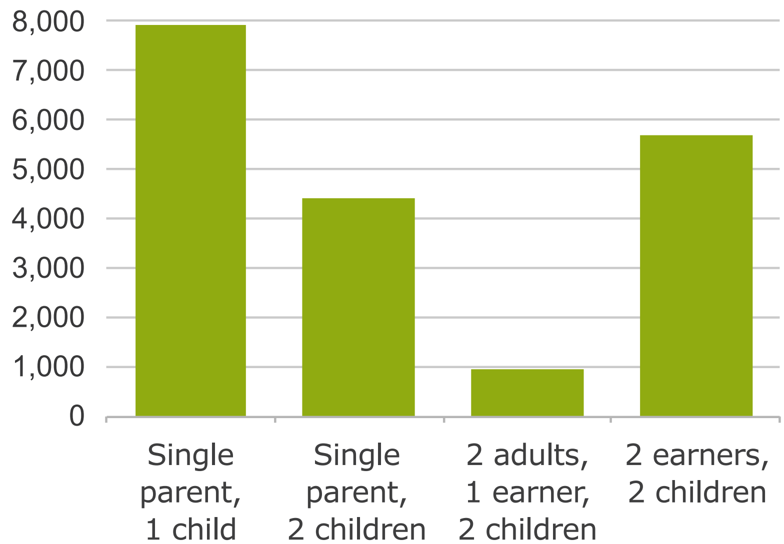
2. Make smart, evidence-based investments in programs and infrastructure.

3. Restore public confidence in state government by improving and promoting good governance, including efficacy, fairness, and transparency.

The recommendations in this report derive from the first two initiatives, which directly address the need to improve the economic lives of Vermonters, both those who are working and those who are not, and their children.

Vermont could boost at least 20,000 working families to a livable income

Number of families with householder in the labor force whose total family income is below livable income, by family type, 2015

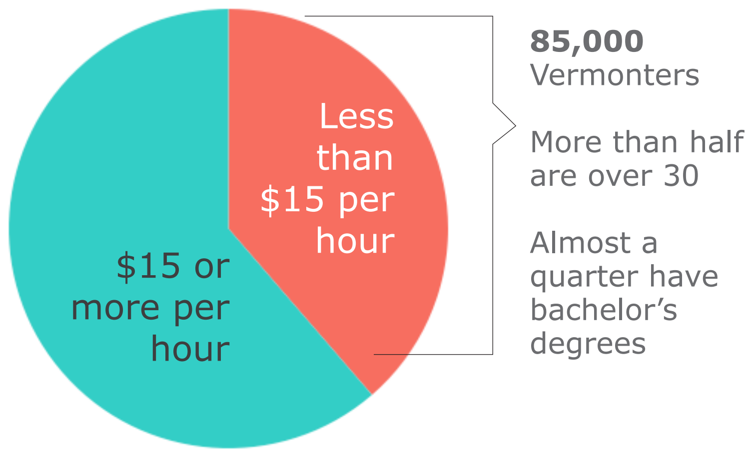


Data sources: Vermont Legislative Joint Fiscal Office; IPUMS-USA, University of Minnesota, www.ipums.org, 2013-2015 1-year samples

Ensuring working people a livable income—enough to cover basic needs such as food, housing, transportation, and child care—is the responsibility of both employers and the state. Employers should pay fairly, but they cannot be expected to set wages based on family size. The state, through the EITC, adjusts incomes to family size to bring the lowest-wage working families closer to a livable income. By raising Vermont's minimum wage and modifying the state's Earned Income Tax Credit (EITC), policymakers could move thousands of Vermonters toward a livable income, which is determined every two years by the Legislature's Joint Fiscal Office.

A $15-an-hour minimum wage would give a raise to over 85,000 workers

Share of labor force by wage level, 2014



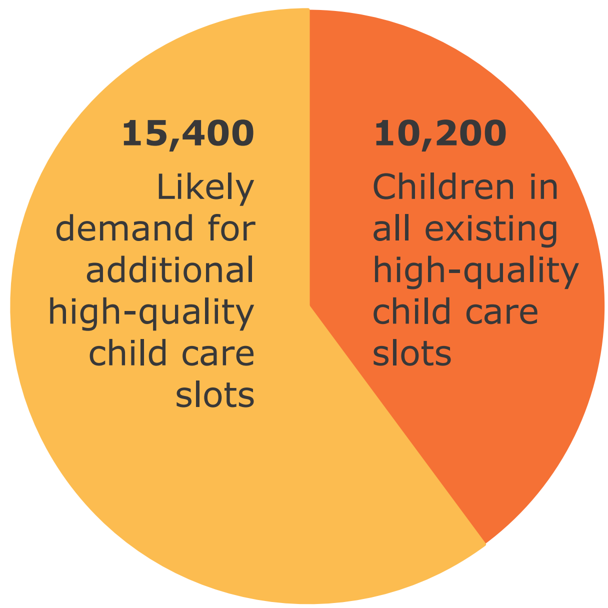
Data sources: IPUMS-USA, University of Minnesota, www.ipums.org, 2014 1-year sample; Federal Reserve Bank of Boston

Raising the minimum wage would move many Vermonters toward a livable income. According to a [study](#) for the Federal Reserve Bank of Boston, a $15-an-hour wage would increase paychecks for more than 85,000 Vermont workers. This also would help the state's economy, including local businesses, because more people would be able to afford their goods and services.

But workers in low-wage jobs also need the Earned Income Tax Credit (EITC), which supplements earnings based on annual income and family size. The EITC is a proven-effective tool for reducing poverty, particularly among children. It encourages work and improves the health of low-income women and children. For almost 30 years Vermont has recognized the value of the EITC, which nearly 45,000 households claimed last year.

An improved child care system would help thousands of Vermont families

Vermont children under 6 with all parents working, 2014; child care capacity, 2016

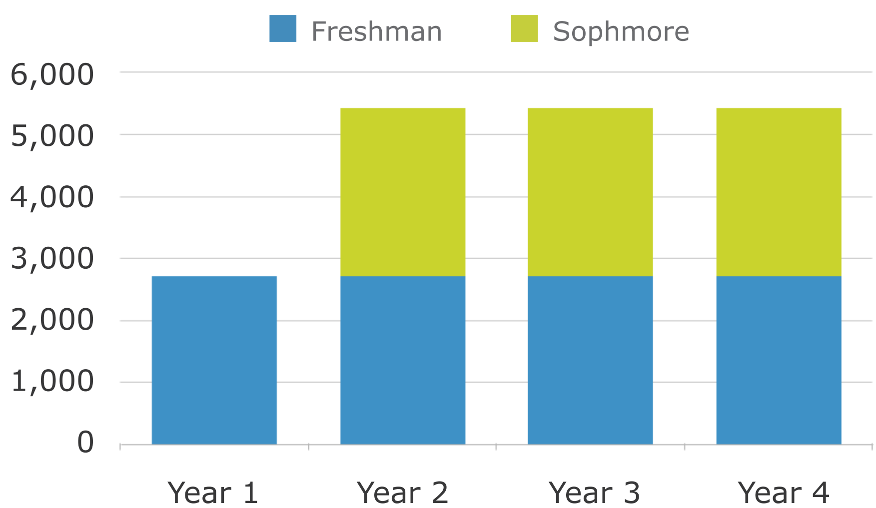


Data source: Let's Grow Kids; Vermont Department for Children and Families, Child Development Division

Thousands of children and families would benefit if the state provided access to affordable high-quality child care where it's needed. Currently, the demand exceeds the supply of high-quality providers in the state—that is, licensed providers or regulated care homes with a 4- or 5-star rating under the state's STep Ahead Recognition System (STARS). About 25,000 Vermont children under 6, or 70 percent, live in households where all of the parents work, according to U.S. Census estimates. Experts consider them "children likely to need child care," and they serve as an indicator of the demand for child care. But in addition to increasing the supply of high-quality child care, Vermont needs to improve the distribution. According a recent report by Let's Grow Kids, some Vermont counties have enough high-quality child care for only about 10 percent of 2-year-olds likely to need care.

While Vermont provides income-based financial assistance to help families cover the cost of care, that aid falls short of federal recommendations. Greater investment also could ensure that qualified child care workers earn a livable wage and a professional degree or certification is rewarded with professional compensation.

Free tuition could open college doors to thousands Projected enrollment of Vermont high school graduates in 2-year free tuition program



Data source: Vermont State Colleges

Vermont college graduates are saddled with more debt

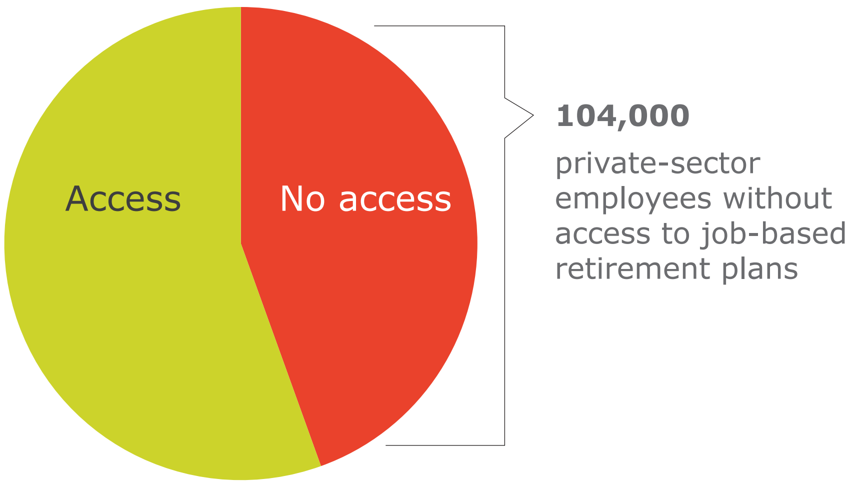
2004 average: $20,706

2014 average: $29,060

As many as 5,000 young Vermonters could avoid college debt if the state expanded its idea of public education. Policymakers recently recognized the importance of education for 3- and 4-year-old children; the 2016-17 school year marked the beginning of universal pre-kindergarten classes. Now it's time to extend public education at the other end, by including at least two years at a Vermont public college or university as part of the public education system. A preliminary analysis by Vermont State Colleges estimated that each year 2,500 to 3,000 high school graduates would take advantage of a program that offered free tuition.

Over 100,000 Vermonters could enjoy a more secure retirement

Access to employer-sponsored retirement plans, private-sector employees, 2013



Data source: AARP

A state-administered retirement program could increase financial security for as many as 104,000 Vermonters. According to a recent AARP report, 45 percent of private-sector employees in Vermont did not have access to employer-sponsored retirement plans in 2013. People often don't enroll in plans on their own, and with real wages stagnant, many workers struggle to save. Larger publicly managed retirement systems typically get a better return on investment than individual account holders. A state-sponsored retirement plan, through which the state managed voluntary retirement investments, could benefit many workers who may have only Social Security to support them in old age. A program that allowed automatic deductions, and possibly voluntary employer contributions, would help Vermonters save and maximize the value of their savings.

State of Working
Vermont
2016

State of Working Vermont 2016 was created in conjunction with the Economic Policy Institute in Washington D.C. and was funded in part by the Annie E. Casey Foundation. We thank them for their support but acknowledge that the findings presented in this report are those of the Public Assets Institute and do not necessarily reflect the opinions of either partner.

PUBLIC ASSETS
INSTITUTE

PO Box 942
Montpelier, VT 05842
802-223-6677

www.publicassets.org