"Challenging People to Shape a Better Future Now"

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The Math: What is a Living Wage?

Bennett College

Julianne Malveaux

Last week, workers at fast food restaurants demonstrated outside their places of work, highlighting the low wages they receive and demanding more. They say twice as much, or $15 an hour, will provide them with a living wage. In Washington, D.C., the City Council has sent legislation to Mayor Vincent Gray requiring "big box" stores such as Wal-Mart and Best Buy to pay $12.50, which is more than the D.C. minimum wage of $8.25 an hour. In response, Wal-Mart says it may not build all of the six stores it had slated for D.C. Responses depend on whom you talk to, with some of the unemployed saying that an $8.25 job is better than no job, and others saying that $8.25 is not a living wage.

Let's do the math.

Someone who earns $8.25 an hour (which is a dollar more an hour than the federal minimum wage) earns $17,160 per year if they work full time (40 hours) all year (52 weeks). Although taxes for the low income are low, they are still deducted, especially the Social Security tax (about 7 percent). Too many minimum workers don't work full-time, full-year. Many have their hours cut so that companies can avoid paying benefits. This means full time, full year work is the best-case scenario. For many, it can be much worse.

The poverty line for one adult and two children is $19,530, which puts the $8.25 worker below the poverty line. The parent who earns this scant wage struggles to make ends meet, and often cannot. Too often, this parent has to choose between transportation and shoes for their children, between children's books and food. A two-parent family has a higher poverty threshold of $23,550, about 20 percent more than the minimum wage worker earns.

> Many quibble over the minimum wage, but the more relevant issue is the living wage

Federal and state supplements often make the difference between swimming and sinking. Many families who live below the poverty line use supplemental nutrition programs (formerly called food stamps) to enhance their food budget. Congress is in the process of cutting SNAP so low that 5 million of the roughly 47 million people on the program will be cut. Some receive medical assistance through Medicaid. Some cities subsidize summer programs or other efforts, offering day care possibilities for those who struggle to afford it. According to the Economic Policy Institute, the average cost of childcare in the District of Columbia is $1,300 a month, or $13,600 a year. Poverty line $23,550, childcare costs $13,600 per year. Go figure.

In other parts of the country, full-time, full year workers earn less than D.C. workers. Those who earn the federal minimum wage of $7.25 an hour earn $15,160 per year, less than the poverty line for one parent and one child. Those who earn $12.50 per hour, the proposed wage for D.C. big box stores, will earn $26,000 a year. The $15 an hour that some fast food workers suggest would push their wages to $31,200 a year.

Some feel these low wages are acceptable, especially some Tea Party members of Congress, yet they earn at least $174,000 per year. Actually, if fast food workers were as productive as this Congress (which has produced little of nothing so far this year), they wouldn't earn a penny. Yet those who are well paid and well supported show little empathy for those whose lives and work are daily struggles.

The issue of unemployment must be taken into account when we look at the matter of poverty lines and minimum wages. With an overall unemployment rate of 7.4 percent and a Black unemployment rate of 12,6 percent as of July, too many households with two adults have only one earner in the household. Another concern is that the federal poverty line is published as a national rate, yet it's much cheaper to live, for example, in rural Mississippi than it does in New York City. In many instances, the poverty line does not reflect differences in housing costs, health care costs, or even transportation costs.

The Economic Policy Institute (epi.org) has developed budgets for "adequate" living in certain cities. (Full disclosure – I sit on the organization's board). This tool shows the wide variety of realistic and adequate living costs, which range from more than $90,000 in New York City, to around $40,000 in parts of Mississippi.

Many quibble over the minimum wage, but the more relevant issue is the living wage. Millions are pushed below the poverty line because too many employers do not take the cost of living into consideration when the set wage levels. Paying workers less than they are worth drains our economy because these workers will not be spenders or "economic expanders."

Overdraft Fees Cost U.S. Over $36 Million

Responsible Lending

Charlene Crowell

In recent years, many banks and credit unions have encouraged new checking account customers to accept two items: a debit card that replaces cash transactions and a 'protection' known as overdraft coverage. Overdraft programs automatically pay for transactions not covered by available funds; the bank then repays itself the overdraft amount along with fees – often hefty ones — from the customer's next deposit.

However what many unsuspecting consumers soon discover is that this so-called protection from banks comes at an extremely high cost. In only one year, 2011, financial institutions charged consumers $16.7 billion in overdraft fees, affecting over 36 million Americans' checking accounts.

High-Cost Overdraft Practices, the latest installment in the Center for Responsible Lending's research series, The State of Lending, found that debit cards trigger the most disproportionate fees. On debit card purchases, the median overdraft charge is $35 for a $20 overdraft. Further, debit card and ATM transactions account for at least 35 percent of all overdraft fees charged.

The high share of fees generated by debit cards is ironic, since banks and credit unions can simply decline these transactions at no cost to the consumer – and some institutions do. For banks that continue this pernicious practice, the consequences for their customers can be severe.

The report states, "Abusive overdraft programs drive consumers out of the banking system; indeed they are the leading reason consumers lose their checking accounts."

> 'Abusive overdraft programs drive consumers out of the banking system'

Today, three-fourths of the nation's largest banks and large numbers of smaller banks and credit unions charge fees on debit card purchases, ATM withdrawals, or both. Moreover, these overdrafts and associated fees are assessed without regard to a consumer's ability to repay them.

In response to widespread criticism surrounding overdraft programs, the Federal Reserve Board made a 2010 regulation that required institutions to obtain a customer's 'opt-in' for overdraft coverage on debit card purchases and ATM withdrawals before fees would apply. Additionally and in the same year, the Federal Deposit Insurance Corporation's guidance advised that more than six overdraft fees within a 12-month period was excessive for any account holder.

However, CRL and others have found that many financial institutions aggressively market their overdraft programs, pushing customers most likely to generate the most fees to "opt-in" for coverage. Customers with small and no cushions in their accounts may initially view overdraft coverage as a way to save money. But as overdraft fees are assessed per transaction, the costs can quickly become burdensome, leaving fewer available dollars for the next month.

"Over time, the repeated fees strip away consumers' cash assets, leaving them financially worse off than when they first over-drafted and unable to meet obligations they otherwise could have met even with no overdraft coverage at all," says CRL.

Some major banks have heeded consumer concerns and improved their overdraft practices. For example, Bank of America, the nation's largest debit card issuer, stopped charging overdraft fees on debit card purchases. HSBC also stopped charging overdraft fees on debit card purchases as well as at ATMs. Citibank has never charged overdraft fees on debit card or ATM transactions, and JP Morgan Chase does not charge them on ATM transactions.

Recent related findings by the Consumer Financial Protection Bureau show that the Fed's opt-in rule has not eliminated the substantial harm inflicted by overdraft fees triggered by debit cards. CFPB determined that involuntary account closures were more than twice as likely for customers that opted in to overdraft than those who did not.

"Banks and credit unions have long defended overdraft fees by saying they protect customers from bounced checks, which typically trigger insufficient funds fees and potentially merchant fees," states the CRL report. "But the same justification could not be made for debit card purchases, since there is no NSF or merchant fees charge for debit card transactions that are declined at check-out when the customer's account is short."

CRL offers a set of policy remedies to halt overdraft's harmful features. Highlights include banning overdraft fees on debit cards, ATM transactions and on pre-paid cards. CRL also advocates banning banks from manipulating the order of consumers' checking transactions to increase fees.