

# Understanding the Working Lives of the Not-so-Rich and Famous

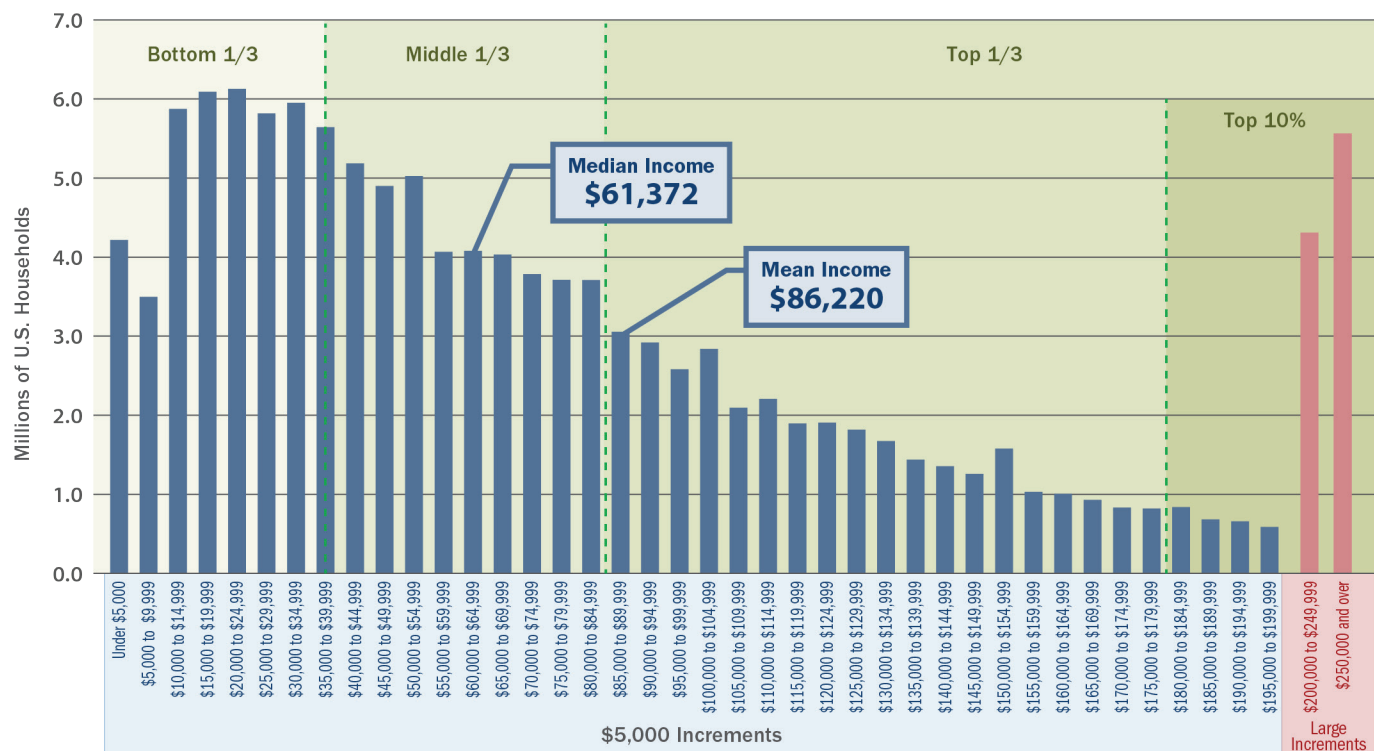
By Barbara Wagner, Chief Economist

Thanks to reality shows and celebrity gossip magazines, we often catch glimpses of the lifestyles of the rich and famous. The glamour of a movie star, the business dealings of billionaire investors, or the ingenuity of the entrepreneur spur our fascination and dreams of an extravagant lifestyle. But the lifestyles of the rest of us, particularly the working class, get less attention. This article investigates the work and spending patterns of different income groups for the U.S. and Montana.

## Household Income in Montana and the U.S.

What is the dividing line between rich and famous versus the rest of us? Wages and income are distributed among more people at low income than at high income, as illustrated in **Figure 1**. All countries and states follow a similar distribution of wages and income, with more people at the bottom than the top, although the degree of income equality or inequality differs among geographies. Each bar in **Figure 1** represents a grouping of \$5,000 of household income, except for the two bars at the far right side of the chart. These two bars group the high-income earners into two categories to improve the visibility of the chart. The median income in the U.S. in 2017 was \$61,372, with half of households below that point. The top 10% of households, or the rich and famous, earn roughly \$180,000 per year or more, while the bottom 10% earn less than \$10,000.

**FIGURE 1:**  
**2017 U.S. Household Income Distribution**



Source: U.S. Census Bureau, Current Population Survey, 2018 Annual Social and Economic Supplement.

**Figure 2** illustrates the distribution of Montana's household income compared to the U.S. The distribution of households looks a bit different than **Figure 1** because of different income groupings. The first five categories group households in \$15,000 intervals, with later categories including a larger range to improve readability.

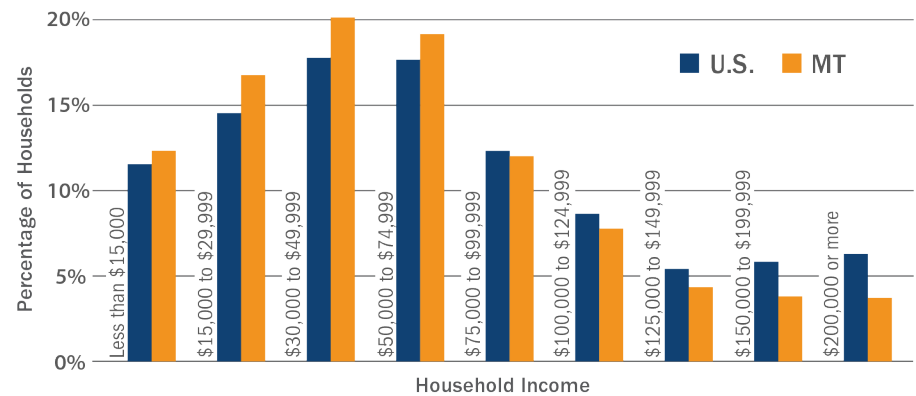
Montana's median household income was the tenth fastest growing among all states from 2012 to 2017<sup>1</sup>, hitting the top spot for growth between 2015 and 2016. However, household income in Montana remains lower than the national average, with a median of \$53,387 in 2017. In comparison to the U.S., Montana has more households in the income groups less than \$75,000, and fewer high income households. Roughly 30% of Montana households earn less than \$30,000 per year, which is about 122,000 households. Approximately 80% of Montana households earn less than \$100,000, while around 82,400 Montana households earn more. Households earning more than \$100,000 are among the top 20% of earners for the state and the top 30% for the nation.

## Distribution of Wage Income

A large reason for Montana's lower and narrower income distribution is that the state's wage distribution is also lower and more egalitarian than the U.S. wage structure. **Figure 3** illustrates the Montana and U.S. hourly wages at different percentiles in 2017. (Percentiles mean the percent of workers below that point. For example, 10% of payrolls jobs pay wages at or below the 10th percentile, and 25% of jobs pay at or below the 25th percentile.) Examples of jobs that pay wages at the 10th percentile include ambulance drivers, fast food workers, and entry wages for child care workers.

<sup>1</sup> American Community Survey 1-year estimates, U.S. Census Bureau.

**FIGURE 2:**  
**2017 Household Income Distribution, U.S. vs. MT**



Source: U.S. Census Bureau, 2017 5-year estimates.

Although Montana's wages are, on average, lower than the U.S., wages among low-wage jobs in Montana are fairly close to low-wage jobs nationally. Montana's wage at the 10th percentile is about 97% of the national wage rate, and the 25th percentile is at 95% of the U.S. rate. However, Montana falls behind among high wage jobs, with wages at the 90th percentile at only 78% of the U.S. rate. The wage structure for payroll jobs in Montana is more compressed, with those at the 90th percentile making about 3.9 times the hourly rate of those at the 10th percentile. In the U.S., those at the highest wage rates in the 90th percentile earn 4.8 times the hourly wage of someone in the 10th percentile. Examples of jobs in the 90th percentile include lawyers, power plant operators, pharmacists, and doctors.

Wage growth over the last ten years is also illustrated in **Figure 3**. Montana's wages have increased faster than the U.S. overall, and at every percentile except among the highest paid jobs. Consistent with a labor shortage (which typically creates the fastest wage growth among low-wage jobs), entry-level jobs had faster wage growth over the last ten years than higher wage jobs. However, wages for the 25th percentile and 50th percentile categories have grown very slowly compared to high wage jobs, particularly for the nation, contributing to the wider income inequality and increasing concerns about the benefits of economic growth to the low and middle class. Montana's wage growth has been more balanced among percentiles, but also illustrates slow wage growth for low-to-middle

**FIGURE 3:**  
**2017 Montana and U.S. Wage Distribution**

	2017 Wage		Montana as a Percent of U.S.	Real Growth Over 10 Years	
	Montana	U.S.		Montana	U.S.
10th Percentile	\$9.26	\$9.60	96.5%	6.2%	5.7%
25th Percentile	\$11.32	\$11.91	95.0%	3.0%	0.6%
Median	\$16.27	\$18.12	89.8%	3.1%	2.0%
75th Percentile	\$24.87	\$29.38	84.6%	5.8%	4.6%
90th Percentile	\$35.91	\$46.23	77.7%	4.7%	7.6%

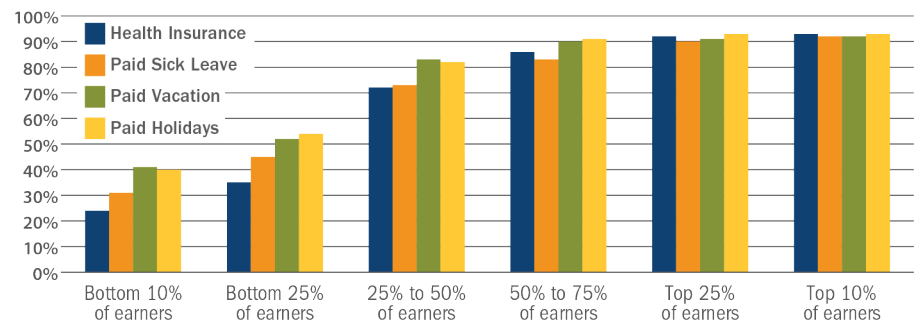
Source: Occupational Employment Statistics, Bureau of Labor Statistics

wage jobs. Childcare workers, nursing assistants, general construction workers, and cooks are examples of low-to-middle wage jobs.

## Quality of Work among Wage Earners

**Figure 3** also illustrates another important fact about individuals at various income levels. At least a quarter of jobs in both the U.S. and in Montana paid less than \$12 an hour in 2017, with the 25th percentile wage in Montana at \$11.32 per hour. There are large numbers of people working at wage rates that keep them just slightly above the poverty threshold. Low-wage jobs are also less likely to offer paid leave, health care, or other benefits. Only 45% of private sector workers in the lowest wage quartile have access to paid sick leave compared to 71% of all workers. Forty percent of private sector workers at the bottom decile had access to paid holidays, compared to over 90% for workers in the highest wage quartile. **Figure 4** illustrates access to employee benefits for U.S. private sector employees grouped by their average wage. Workers earning wages in the highest quarter of wage earners held jobs that also provided the most leave

**FIGURE 4:**  
**Percent of U.S. Private Workers with Access to Select Benefits**



Source: National Compensation Survey March 2018, Bureau of Labor Statistics

and health benefits. Those at the bottom end of the wage distribution must find health insurance from other sources, since their employer is unlikely to provide this benefit.

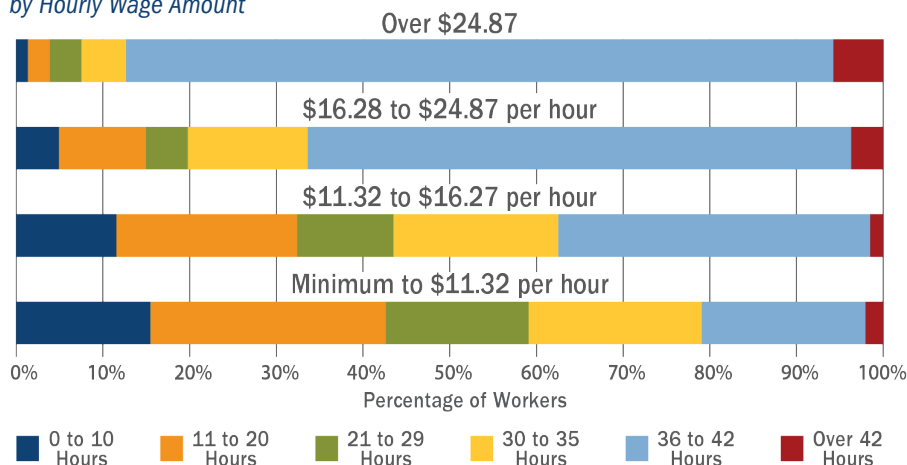
Another consideration of low-wage jobs is that they are often temporary, seasonal, or part-time, making it difficult to earn wages for 40 hours each week. The average work week offered by Montana private sector employers is 33 hours per week. (The average Montanan works roughly 38 hours per week, meaning that many Montanans have multiple jobs or have self-employment hours in addition to their payroll job.) At the 25th percentile wage rate of \$11.32 per hour, working 33 hours per

week in the typical Montana private sector job would result in wage earnings of less than \$20,000 per year, assuming that the worker received paid sick and holiday leave. Jobs with median wages around \$11.32 per hour include farmworkers, home health aides, retail salesworkers, and personal care aids.

High-wage jobs are more likely to be full-time in Montana, as shown in **Figure 5**, while low-wage workers are more often in jobs that offer less than 40 hours per week. For workers in the highest quartile with wages exceeding \$24.87, 87% of jobs are over 36 hours per week. Examples of jobs in this high wage category include many doctors, specialized heavy equipment mechanics, veterinarians, and registered nurses. Yet for workers that earn hourly wages in the lowest quartile (minimum wage to \$11.32 per hour), such as childcare workers, maids, and fast food workers, only about 1/5th of jobs are full-time of 36 hours or more. Roughly 60% of jobs held by low-wage workers offer less than 30 hours per week. Low-wage workers often need to put together multiple jobs to increase their immediate earnings level, which can be difficult if their primary job uses an irregular or rotating shift, particularly if the worker has transportation concerns or experiences difficulties scheduling childcare.

**FIGURE 5:**  
**Hours Worked Per Week by Montana Workers**

by Hourly Wage Amount



Source: Current Population Survey, 2017 & 2018 data compiled by MTDLI using DataFerret.

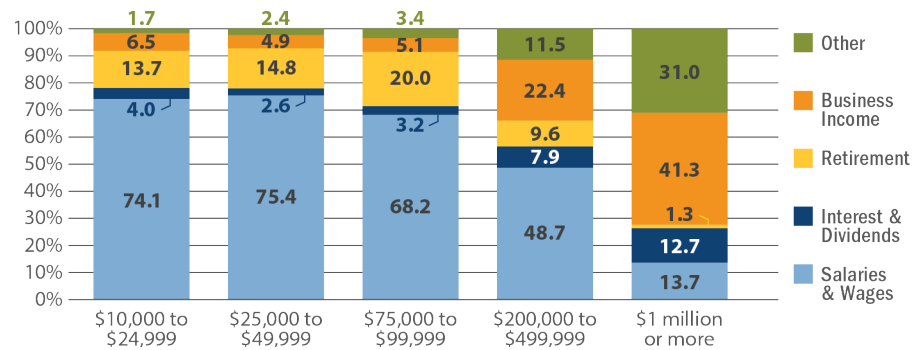
## Sources of Income by Income Level

High-wage jobs provide greater pay and benefits, and more consistent scheduling than low-wage jobs. However, there is yet another level of complexity that distinguishes the income earned by the top earners. High-income households tend to earn income from sources other than salaries and wages, such as passive or investment income, rental property income, and business ownership.

Earning from these sources are rare for low-income households. Diversifying income sources allows high-income earners to earn income outside their work hours, removing the time constraints on earnings.

**Figure 6** illustrates the sources of taxable income for Montanans at select income levels reported on federal income tax returns. Those at wage levels below \$100,000 get the majority of their income from salaries and wages. For those between \$200,000 and \$500,000 in annual income, less than half of their income comes in the form of wages,

**FIGURE 6:**  
**Montana Taxable Income Sources by Select Categories**



Source: 2016 Statistics of Income, Internal Revenue Service. Taxable income only.

with business income growing to over 20%. Those with annual income of over a million may be earning significant wage income, but it comprises only 14% of their taxable income, while their accumulated wealth acquired in earlier years is put to work earning business income, interest and dividends, or income from other sources.

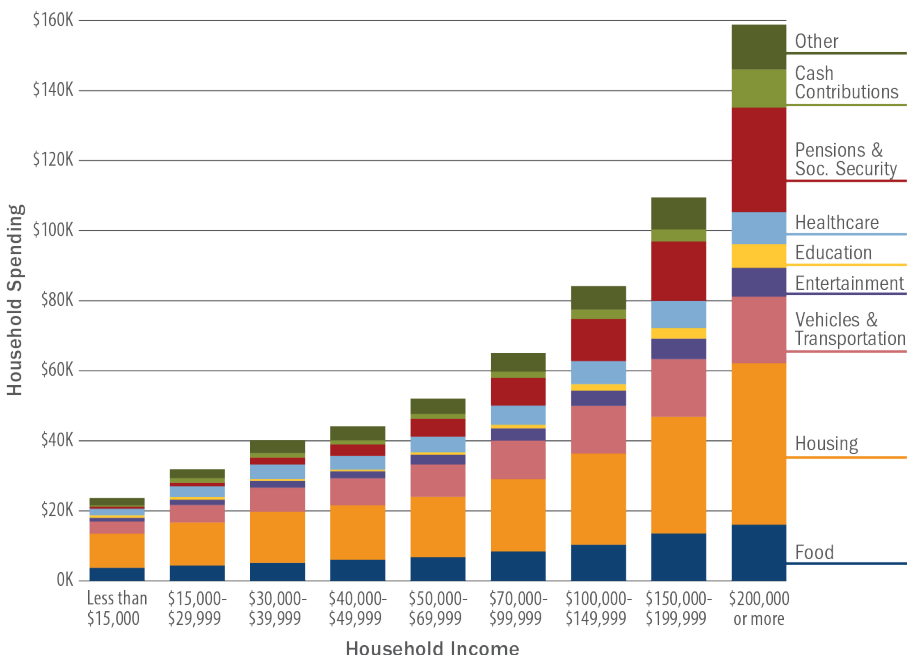
The slow wage growth among low-to-middle wage jobs (as shown in **Figure 3**) gains in relevance when viewed with the information in **Figure 6**. If wages for

low-to-middle wage jobs do not offer sufficient ability to save, workers will have difficulty making the additional investments needed to move into the higher income categories.

## Spending of Income

The Consumer Expenditure Survey provides information on the spending of U.S. consumers by income level. There are two ways data is gathered on consumer expenditures – a quarterly survey asking consumers about big-ticket items, plus a diary survey where consumers note every item purchased for a week.

**FIGURE 7:**  
**U.S. Consumer Spending by Income Group**



Source: 2016 Consumer Expenditure survey, Bureau of Labor Statistics.

**Figure 7** illustrates the consumer spending by the income of the consumer. The average total spending at the highest income grouping of \$200,000 or more is about \$159,000, compared to average incomes before taxes of \$345,000. The remainder of their income (about \$186,000) is saved or invested, allowing them to increase income in future years. In contrast, households at the lower end of the income distribution often have spending that exceeds income levels. For example, a typical household making around \$35,000 would have spending of about \$40,150, although the spending amount does include about \$2,000 put towards social security or pensions.



To give a typical monthly budget of a household with incomes of \$40,000 to \$49,999, the household would have an average of 2.5 people with 0.6 children under 18. That would translate to a parent working full-time as a credit counselor, with the other parent as a caregiver and working seasonally outside the home. This household would spend about \$500 per month on food, with roughly \$200 of that spent on food outside the home. They would spend about \$1,300 per month on housing, utilities, and other shelter costs, with the majority of that spending going to the mortgage if they were among the 56% of households in this income group that are homeowners. This typical household would spend about \$360 on gas per month, \$250 on vehicle payments or repairs, and about \$327 per month on healthcare costs. They would tuck away \$265 per month for their retirement, and make donations or other cash contributions of about \$100 monthly, leaving less than \$40 per month for saving.

In general, the “essential” spending categories of food, housing, and transportation comprise a significant portion of spending among all income categories, with housing comprising a significant portion of spending among all income groups. The amount of spending on these “essential” categories increases at each income level. Higher income households tend to be slightly bigger (0.9 children under 18 in households over \$200,000 compared to 0.5 or less for households under \$40,000), which explains part of the spending. However, high income households generally buy more of everything even after adjusting for household size. For example, households with incomes of less than \$50,000 spend less than \$2,500 per person per year on food, while the food spending for households above \$150,000 is \$4,300

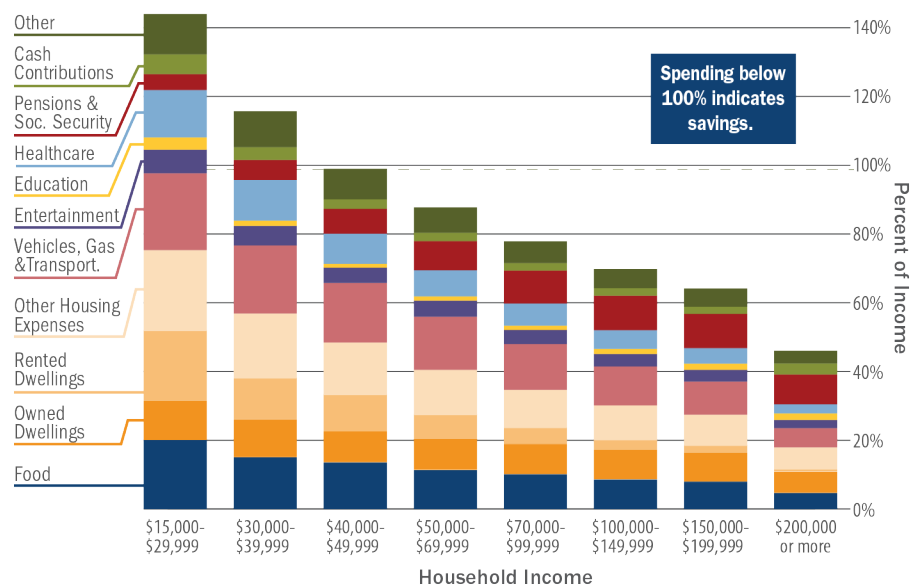
per person. High income households are also more likely to consume food outside the home, such as eating at restaurants. Households with incomes of \$150,000 or more spent over half of their food budget on food away from home, compared to about 35% of the food budget of households with incomes below \$40,000.

The amount spent on food, housing, and transportation increases at each income group, but not when considered as a percentage of income, as illustrated in **Figure 8**. Spending totals exceeding 100% indicate that households in that income group are (on average) spending more than they earn, either adding to their debt or spending income saved in past years. The bottom four categories with household incomes less than \$50,000 have very little to no income left over after expenditures. The bottom four categories with household incomes less than \$50,000 have (on average) little to no income left over after expenditures. For example, Montana workers working full-time as licensed practical nurses, chefs, game wardens, executive secretaries, or computer

support specialists would likely earn less than \$50,000 per year. Among households with these workers as the only breadwinners, spending on food and housing comprises 50% or more of their expenditures, leaving very little left for savings, investments, or the accumulation of assets needed to generate other sources of income.

**Figure 8** breaks out spending for housing into three categories – owned dwellings, rented dwellings, and other housing expenses. High-income households are more likely to own a home (over 80% of households over \$100,000 owning a home compared to 62% overall, and only 36% of households with less than \$15,000). Therefore, low-income households are much more likely than high-income households to spend money on rented dwellings. Other housing expenses is a broad category that includes vacation homes, hotels, utilities, the cost of live-in care services (such as nannies, nursing, or housekeeping), and maintenance costs.<sup>2</sup>

**FIGURE 8:**  
**Spending by Category as a Percent of Income**



Source: 2016 Consumer Expenditure survey, Bureau of Labor Statistics.

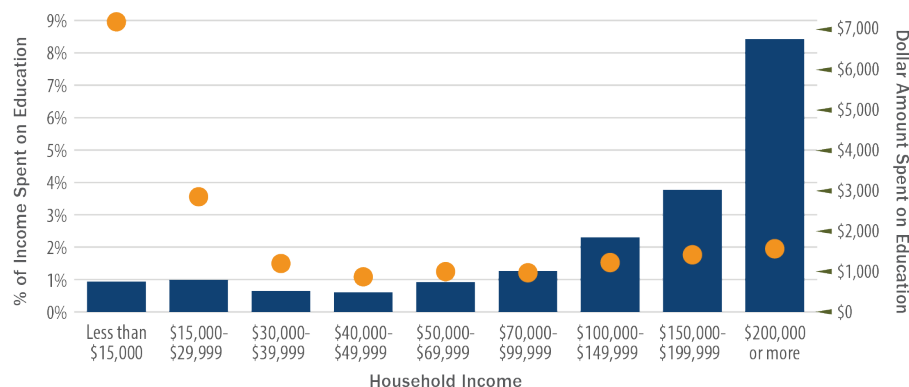
<sup>2</sup> For complete definitions, see the glossary of terms at <https://www.bls.gov/cex/csxgloss.htm>.

Cash contributions is another interesting category of spending, and includes contributions to charities, churches, child support, political donations, and cash transfers to individuals outside the household (such as a cash gift to a grandchild or a college student not living in the home). High-income households of over \$200,000 contributed over \$10,000 per year to this category, of which \$1,550 went to charitable donations, and \$1,700 went to religious organizations. As a percentage of income, low income households make more cash transfers – households of \$15,000 to \$30,000 spend nearly 6% of income in cash transfers compared to only 3.2% among households over \$200,000 and around 2.1% among households over \$100,000. The majority of cash contributions among low-income households are also directed towards churches and religious organizations.<sup>3</sup>

**Figure 8** also illustrates the amount of spending on pension and social security, which helps the household increase their asset base and obtain better credit ratings. High income households contribute higher levels to retirement savings both in dollar terms and as a percent of total spending. Retirement savings are typically not available for investments, so while low-income households benefit from retirement savings, these assets do not help them diversify income sources and achieve higher earnings during working years.

Spending on healthcare as a percentage of income is also shown in **Figure 8**, with lower income households spending a greater share of their income on healthcare than higher income households. High income households still spend more on healthcare (in dollar terms) than lower income groupings, but that spending comprises a lower percentage of income. Given that

**FIGURE 9:**  
**Spending on Education by Household Income**  
*in Dollar Terms and Percentage of Income before Taxes*



Source: 2016 Consumer Expenditure survey, Bureau of Labor Statistics.

employers are more likely to offer health insurance to higher wage employees, lower-wage households may need to spend this money on obtaining health insurance.

## Education as the Great Equalizer

Another important category of spending is education. Education can be the great equalizer, allowing individuals from poor households to move into better jobs, increasing incomes to allow for savings and the potential of obtaining income from other sources. Just like other categories of spending, high income households spend greater amounts of money on education. However, when considering education spending as a percentage of income, the pattern becomes more complicated. **Figure 9** illustrates the spending on education among households in both dollar terms and as a percentage of pre-tax income. The highest spending as a percentage of income is among low-income households of \$30,000 or less. These households likely include students attending college or graduate school, with low incomes and high education expenses. Among income levels of \$40,000 or more, spending

on education falls below 2% of pre-tax income, then increases slightly as income rises. The low level of spending on education among middle-income households raises further questions about opportunities for income mobility among middle-class Americans.

In this article, we have examined income, wages, and spending levels by household income levels in the U.S. and Montana. High-income household have the assets to diversify income sources. On the other hand, low-income households typically receive the majority of their incomes from wages, which limits earnings by the amount of hours that the worker is physically able to work, and able to find a job. With the lack of full-time jobs among low-wage workers, moving up to higher income brackets can be difficult, particularly when the majority of spending is directed towards food, housing, healthcare, and other items often considered to be necessities. The ability of low-income households to achieve upward mobility is limited by opportunity for full-time employment, slow wage growth, and the lack of wealth needed to diversify income sources.

<sup>3</sup> Foster, Ann & Hubener, Evan. Feb. 2019. "The Relationship between Cash Contributions, Pretax Income, and Age" *Beyond the Numbers*, Bureau of Labor Statistics. Vol 8, No3.