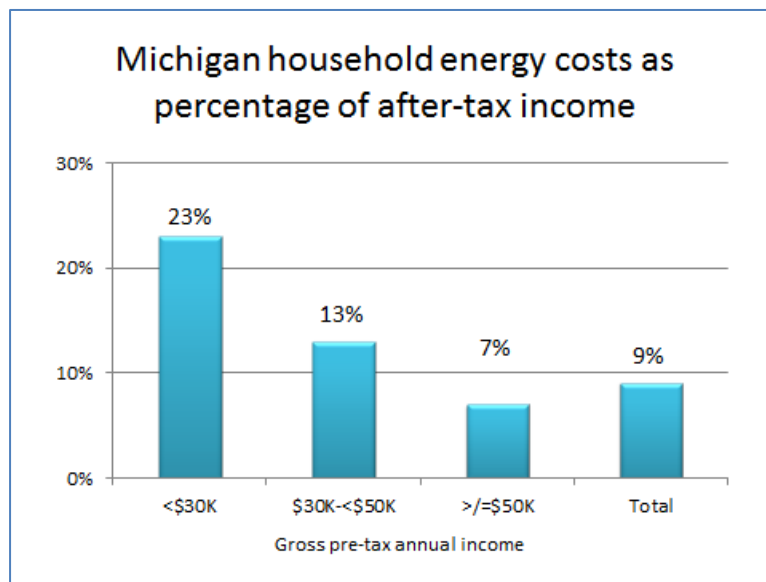


## Energy Cost Impacts on Michigan Families, 2015

High household energy costs and below-average family incomes are straining the budgets of Michigan's lower- and middle-income families. Michigan's 1.9 million households with pre-tax annual incomes below \$50,000, representing 50% of Michigan's families, spend an estimated average of 17% of their after-tax income on residential and transportation energy. Energy costs for 1.2 million Michigan households earning less than \$30,000 before taxes represent 23% of their after-tax family incomes, before accounting for any energy assistance programs. Minorities and senior citizens are among the most vulnerable to energy price increases due to their relatively low household incomes.



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# Energy Cost Impacts on Michigan Families, 2015

This paper estimates the impact of energy costs on Michigan households in 2015 using energy consumption survey data and energy price data from the U.S. Department of Energy's Energy Information Administration (DOE/EIA).<sup>1</sup> Energy costs are summarized by household income group using the most recent state population and income data from the Bureau of the Census, tax data from the Congressional Budget Office, and Michigan income tax rates.<sup>2</sup>

Key findings include:

- Some 50% of Michigan's families have pre-tax annual incomes of \$50,000 or less, with an average after-tax income among these households of \$23,470. In other words, one-half of Michigan's families have average take-home incomes of less than \$2,000 per month.
- The median pre-tax household income of Michigan families in 2014 was \$49,847, 7% below the national median household income. Median income is the midpoint of family incomes: one-half of families have incomes below the median, while the other one-half of families have incomes above it.
- The Census Bureau reports that 11% of all families in Michigan live below the federal poverty level, while 19% of all households with children less than 18 years old live in poverty.
- New U.S. EPA regulations will cause Michigan electricity prices to rise substantially. National Economic Research Associates projects that electricity prices for Michigan consumers could be 13% higher, on average, each year under EPA's Power Plan rule than they would be without the rule. NERA also projects that peak year Michigan electricity price increases (the largest increase in any single year) could be as much as 16% due to the Power Plan.
- Energy costs are consuming the after-tax household incomes of Michigan's low- and middle-income families at levels comparable to other necessities such as housing, food, and health care. The 1.2 million Michigan households earning less than \$30,000, representing 30% of all households, devote an estimated average of 23% of their after-tax incomes to energy.
- The median pre-tax income of Michigan's Black households is \$29,697, 45% below the national median income. Michigan households aged 65 or more, 25% of all households, have a median income 28% below the U.S. median. These relatively low median incomes indicate that Michigan's minority and senior households are among those most vulnerable to energy price increases such as rising household utility bills.

## Michigan Household Incomes

U.S. Census Bureau data on Michigan household incomes in 2014 (the most recent available) provide the basis for estimating the effects of energy prices on consumer budgets. The table below shows estimated 2014 after-tax incomes for Michigan families in different income brackets. The Congressional Budget Office has calculated effective total federal tax rates, including individual income taxes and payments for Social Security and other social welfare programs. State income taxes are estimated from current Michigan income tax rates.

Michigan households by pre-tax and after-tax income, 2014

| Pre-tax annual income:  | <\$30K   | \$30-<br><\$50K | <\$50K   | ≥\$50K    | Total/avg. |
|-------------------------|----------|-----------------|----------|-----------|------------|
| Households (Mil.)       | 1.154    | 0.768           | 1.922    | 1.912     | 3.835      |
| Pct of total households | 30.1%    | 20.0%           | 50.1%    | 49.9%     | 100.0%     |
| Avg pre-tax income      | \$16,322 | \$39,742        | \$25,680 | \$108,111 | \$66,794   |
| Effec. fed tax rate %   | 3.5%     | 10.6%           | 6.3%     | 19.5%     | 12.9%      |
| Est. state tax rate%    | 1.5%     | 3.5%            | 2.3%     | 4.0%      | 3.1%       |
| Est. after-tax income   | \$15,514 | \$34,138        | \$23,470 | \$82,705  | \$56,084   |

Some 50% of Michigan families had estimated pre-tax incomes below \$50,000 in 2014. After federal and state taxes, these families had average annual incomes of \$23,470, equivalent to an average monthly take-home income of less than \$2,000. In 2014, the median pre-tax household income of Michigan families was \$49,847, 7% below the national median household income of \$53,657.<sup>3</sup>

The U.S. Census Bureau reports that the real pre-tax incomes of American households have declined across all five income quintiles since 2001, measured in constant 2014 dollars. As shown in the table below, the largest percentage losses of income are in the two lowest income quintiles.

Households in the lowest quintile lost 14% of their real income between 2001 and 2014. The largest losses of purchasing power – nearly \$3,000 – occurred in the second and third income quintiles, representing lower- and middle-income working families. These declining real incomes increase the vulnerability of low- and middle-income households to energy price increases such as rising utility bills.

Average real U.S. household incomes by income quintile, 2001-2014  
(In constant 2014\$)

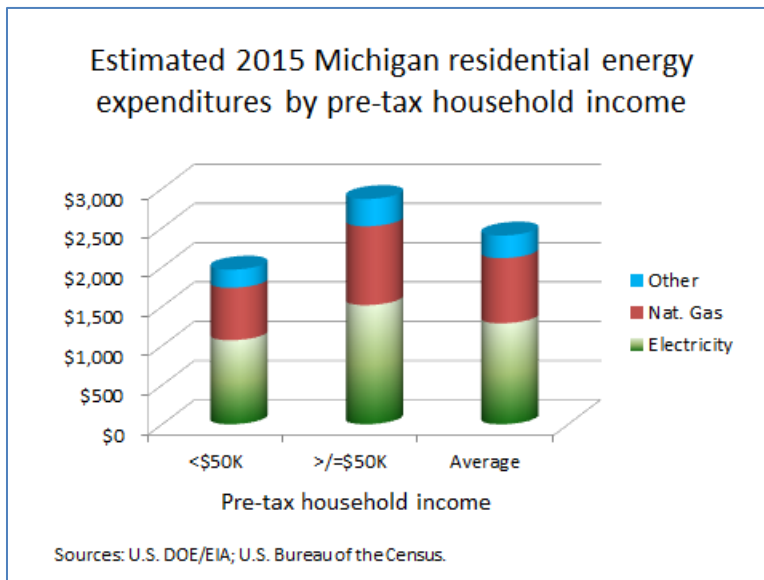
|         | 1Q        | 2Q        | 3Q        | 4Q       | 5Q        |
|---------|-----------|-----------|-----------|----------|-----------|
| 2001    | \$13,553  | \$34,055  | \$57,002  | \$88,597 | \$195,188 |
| 2014    | \$11,676  | \$31,087  | \$54,041  | \$87,834 | \$194,053 |
| Pct Chg | -14%      | -9%       | -6%       | -1%      | -1%       |
| \$ Chg  | (\$1,877) | (\$2,968) | (\$2,961) | (\$763)  | (\$1,135) |

Source: <https://www.census.gov/hhes/www/income/data/historical/household/>

## Residential and Transportation Energy Expenses

Michigan households spent an estimated average of \$2,247 for residential energy in 2015. As shown in Chart 1 below, electricity is the largest residential energy expense, accounting for 53% of total Michigan residential energy expenditures for home heating, cooling and appliances. In addition to natural gas, some Michigan homes also use propane and other heating sources such as wood.

Chart 1



Large electricity price increases are expected under EPA's Power Plan for reducing CO2 emissions from existing power plants. A recent analysis by NERA<sup>4</sup> projects that electricity prices for Michigan consumers could be 13% higher, on average, each year under the Power Plan than they would be without the Power Plan. NERA projects peak year Michigan electricity price increases (the largest increase in any single year) during the period 2022-33 could be as much as 16%. In addition, both NERA and EPA<sup>5</sup>

estimate that consumers nationwide could be required to spend more than \$300 billion to reduce electricity use over the first 12 years of the program.

## Energy Expense Estimates

Estimated household energy expenses for Michigan are based upon DOE/EIA residential electric and natural gas sales data for Michigan through September 2015.<sup>6</sup> Total household energy costs are distributed by income category using DOE/EIA residential energy survey data.

Gasoline prices have declined substantially in the past two years, but the outlook for future gas pump prices is uncertain due to reductions in domestic drilling investments and tensions in the Middle East. EIA's November 2015 Short-Term Energy Outlook estimates national average gasoline prices of \$2.50 per gallon in 2015.

DOE/EIA's 2001 Survey of Household Vehicles Energy Use (2005) provides data on regional gasoline use by household income category. These regional gasoline consumption data are updated using EIA's 2015 national average retail gasoline price estimate of \$2.50 per gallon. Household gasoline consumption is reduced by 15% from 2001 levels, reflecting trends in per capita retail gasoline sales.<sup>7</sup>

The table below summarizes estimated Michigan household energy expenses in 2015 by income group, with the percentage of after-tax income represented by energy costs:

Estimated Michigan household energy costs by income category, 2015

| Pre-Tax Annual Income:       | <\$30K  | \$30-<br><\$50K | <\$50K  | ≥\$50K  | Average |
|------------------------------|---------|-----------------|---------|---------|---------|
| Residential energy \$        | \$1,868 | \$2,117         | \$1,967 | \$2,868 | \$2,402 |
| Electric \$                  | \$1,002 | \$1,172         | \$1,070 | \$1,516 | \$1,285 |
| Natural Gas \$               | \$643   | \$702           | \$667   | \$1,004 | \$830   |
| Other* \$                    | \$222   | \$243           | \$231   | \$347   | \$287   |
| Gasoline \$                  | \$1,624 | \$2,451         | \$1,955 | \$3,321 | \$2,635 |
| Total energy \$              | \$3,492 | \$4,568         | \$3,922 | \$6,189 | \$5,037 |
| Energy % of after-tax income | 23%     | 13%             | 17%     | 7%      | 9%      |

\*Other includes LPG and wood.

The share of household income spent for energy falls disproportionately on lower- and middle-income families earning less than \$50,000 per year before taxes. The 50% of Michigan households earning less than \$50,000 before taxes spent an estimated 17% of their after-tax income on energy in 2015. While many lower-income consumers

qualify for energy assistance, budgetary support for these government programs has been reduced in recent years.<sup>8</sup>

Michigan families spent an estimated average of \$5,037 on residential and transportation energy in 2015, or 9% of the after-tax family budget. The 1.2 million Michigan households earning less than \$30,000 before taxes, representing 30% of households, allocated 23% of their after-tax incomes to energy, more than twice the statewide average. The large share of after-tax income devoted to energy poses difficult budget choices among food, health care and other basic necessities.

## Disproportionate Impacts on Minorities and Senior Citizens

The impacts of high energy costs are falling disproportionately on Michigan’s minorities and elderly residents. Social Security recipients represent 34% of the state’s households. Unlike young working families with the potential to increase incomes by taking on part-time work or increasing overtime, many fixed income seniors are limited to cost-of-living increases that may not keep pace with energy prices.

The table below summarizes Michigan’s 2014 median pre-tax incomes for elderly, Black, and Hispanic households, and compares these with the U.S. median household income of \$53,657.

U.S. and Michigan Median Pre-tax Household Incomes, 2014

|              | Median Household Income | MI Pct. Diff. vs. U.S. Median | Pct. of MI Households |
|--------------|-------------------------|-------------------------------|-----------------------|
| U.S.         | \$53,657                |                               |                       |
| Michigan     | \$49,847                | -7%                           |                       |
| MI: Black    | \$29,697                | -45%                          | 13%                   |
| MI: Hispanic | \$42,649                | -21%                          | 3%                    |
| MI: Age 65+  | \$38,373                | -28%                          | 25%                   |

Source: U.S. Bureau of the Census, American Community Survey 2014 (2015)

Michigan’s Black households have a median income of \$29,697, 45% below the national median income. Michigan households aged 65 or more, 25% of all households, have a pre-tax median income 28% below the U.S. median.

These relatively low median incomes indicate that Michigan’s minority and senior households are among those most vulnerable to energy price increases such as rising household utility bills.

## Conclusion

High consumer household energy prices - together with negative real income growth among lower- and middle-income households - underscore the need to maintain affordable energy prices, especially for low- and middle-income Michigan families. Maintaining the relative affordability of electricity and other energy prices is essential to the wellbeing of Michigan's lower-income citizens.

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Acknowledgment: This paper was prepared for ACCCE by Eugene M. Trisko, an energy economist and attorney in private practice. Mr. Trisko has served as an attorney in the Bureau of Consumer Protection at the Federal Trade Commission and as an expert economic witness before state public utility commissions. He represents labor and industry clients in environmental and energy matters. Mr. Trisko can be contacted at emtrisko@earthlink.net.

### End Notes

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<sup>1</sup> Data on residential energy consumption patterns by income category are from U.S. Department of Energy, Energy Information Administration, 2009 Survey of Residential Energy Consumption (RECS), updated for 2015 residential energy prices. Michigan residential energy costs are based on 2015 state data from U.S. DOE/EIA Electric Power Monthly (November 2015), Natural Gas Monthly (November 2015) and State Energy Data System data for biomass, LPG and miscellaneous fuels available at [www.eia.gov/state/seds](http://www.eia.gov/state/seds). 2015 gasoline price estimates are from DOE/EIA Short Term Energy Outlook (December 2015).

<sup>2</sup> Household incomes in Michigan by income category are derived from the distribution of household income in U.S. Census Bureau, American Fact Finder, Michigan Selected Economic Characteristics: 2014 (2015). Federal income tax rates are from Congressional Budget Office, "Effective Federal Tax Rates Under Current Law, 2001 to 2014," (August 2014). Effective federal tax rates for the income categories employed in this paper were interpolated from CBO's tax rates by income quintile and adjusted for changes in the American Taxpayer Relief Act of 2013. State tax data are estimated from state tax rates compiled by the Tax Foundation (2012).

<sup>3</sup> U.S. Census Bureau, American Fact Finder, Michigan Selected Economic Characteristics 2014 (2015).

<sup>4</sup> National Economic Research Associates, Energy and Consumer Impacts of EPA's Clean Power Plan (prepared for ACCCE, November 7, 2015). The average annual 2022-33 and peak year electricity price increases cited here are the average of four NERA mass-based scenarios.

<sup>5</sup> U.S. EPA, Regulatory Impact Analysis of the Clean Power Plan (August 2015).

<sup>6</sup> U.S. DOE/EIA, Electric Power Monthly and Natural Gas Monthly (November 2015).

<sup>7</sup> DOE/EIA data indicate that per capita retail gasoline consumption declined by 15% from 2001 to 2014.

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<sup>8</sup> Federal funding for the Low Income Home Energy Assistance Program (LIHEAP) has declined from \$4.5 billion in FY2011 to \$3.0 billion in FY2015. See, <http://www.liheapch.acf.hhs.gov/Funding/funding.htm>.