

## Minnesota Cost of Living 2022 Data – Release Notes, February 2023

The Cost of Living estimates are designed to be a metric of basic needs – what it takes to make ends meet for an individual or family – in Minnesota. Each year the estimates are released for various family compositions and regions, using a variety of inputs from other agencies. The pandemic and current inflationary pressures have had impacts on the cost of living inputs and outputs and have required some adjustments to the methodology.

### Childcare

Families face many different circumstances that impact their childcare decisions. Many of these are beyond the scope of this tool. For example, some families make childcare decisions based on location, some are faced with long waitlists or limited availability and take what's available, while others are able to balance work schedules or family supports to avoid or reduce their need for paid childcare. Even those who use childcare services in the way the measure assumes have a choice of in-home and center-based care, which, on average, have significantly different price points. The result is that the price presented in the Cost of Living estimates does not reflect the experiences of all families. However, it is essential to include a childcare cost category for families with children and these estimates are useful for comparing childcare costs between regions.

The Cost of Living methodology assumes that children are in childcare for the number of hours all adults in the household are working, plus daily commute time. In the case of a two-worker household or a single-adult household, full-time childcare is used. In the case of a 1.5 worker household, half-time childcare is used. In previous years the Cost of Living methodology used the hourly rate reported by providers, both in-home and center-based, which was then aggregated to the county level. The problem with this methodology is that not all providers report an hourly rate, and in less-populous counties, very few do. The result is volatility in the childcare numbers in some smaller counties.

Having observed this variability for several years running, we have decided to aggregate childcare rates to the Economic Development Region (EDR) level instead of to the county level and make the commute time standard. EDRs are county-based regions that are intended to reflect commute sheds, which increases the sample for each average cost point while still approximately reflecting the area in which a family may search for childcare. This is a permanent method change that will be used in future calculations.

### Taxes

The Cost of Living methodology uses the TAXSIM tax simulator to approximate the tax burden based on the other costs estimated for each household type. Because taxes are filed after the year is complete, the reference year includes tax costs based on the prior year's tax law but the current year's income inputs. The 2022 cost of living estimates (released in February 2023), with a data reference point of July 1, 2022, use 2021 tax law.

In the effort to address the challenges of the pandemic, Congress passed significant federal tax changes for 2020 and 2021. In tax year 2021, the child tax credit was increased from \$2000 to \$3600 for children under five and \$3000 for older children. This was a temporary one-year change for 2021 only. The link below is provided for reference.

*Child Tax Credit:*

<https://www.irs.gov/credits-deductions/2021-child-tax-credit-and-advance-child-tax-credit-payments-topic-calculation-of-the-2021-child-tax-credit#collapseCollapsible1657829345514>

In order to provide cost of living estimates that organizations and individuals can use for longer-term planning purposes, the 2022 methodology removes the one-time increase in the 2021 child tax credit. In this release of the Cost of Living tool, the difference in the one-time child tax credit increase and the usual \$2000 credit (either \$1600 or \$1000 depending on age of children) was removed from the calculation. Even with this adjustment, the Cost of Living estimates show an average (across all household and family types) reduction in tax burden from prior years as a result of other changes in the 2021 tax law including changes to the Earned Income Tax Credit.