

# Cost of Living Data: A Guide to Sources

With average costs for transferring an executive running around \$30,000, reliable information on cost-of-living differences becomes more important. A review of some major sources—as well as some often overlooked ones—discusses strengths, weaknesses, and methodological differences.

*"How much will it cost me? Can I afford to buy a home in a new city? What kind of life style will be possible?"*

When an employee is offered a promotion or a new job requiring a transfer to another city, these are usually the first questions asked. Even when offered large increases in salary, many potential transferees hesitate to relocate given the high cost of acquiring a new home at current interest rate levels. To encourage valued employees to accept a transfer or to attract a prime candidate for a new job in a more expensive city, many companies routinely offer relocation assistance which may include paying the interest-rate difference between the employee's old and new mortgages, covering closing costs, and guaranteeing sale price. According to the Washington-based Employee Relocation Council, whose mem-

bers include corporations with such relocation incentives, the average cost of transferring an executive within the U.S. currently runs around \$30,000.<sup>1</sup> Faced with the present costs of relocation, any employee or company should have the most reliable and trustworthy information available for making decisions about whether to accept or reject a transfer.

Although several sources of data enable regional cost-of-living comparisons, none will provide instant answers for all the questions related to a specific relocation situation, and all have weaknesses that create problems for anyone attempting to use the data. This article will point out some often overlooked sources of information and will discuss differences in the types of data and collection methodologies.

<sup>1</sup>Kenneth M. Pierce, "Housing the Company Way," *Time* October 12, 1981, page 85.



**Map 1: Cost of Living Relative to Atlanta**  
 Based on BLS "higher" budget for a four-person family  
 (percent deviation from Atlanta Budget)



**U.S. Urban Average: +10%**

Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of Atlanta calculations.

**BLS Urban Family Budgets**

The Urban Family Budgets estimates, issued once a year by the Bureau of Labor Statistics (BLS), are widely used, high quality data for comparing cost of living differences between major urban areas.<sup>2</sup> The budgets specify the costs for maintaining three standards of living—lower, intermediate, and higher—for a hypothetical family of four living in any of 25 different metropolitan areas.<sup>3</sup> According to the most recent

BLS survey in autumn, 1980, the average annual cost of the "lower" family budget was \$14,044, the "intermediate" budget was \$23,134, and the "higher" budget was \$34,409 per year. The budgets are updated each autumn by applying price changes for each metropolitan area as reported in the Consumer Price Index.

Although an executive considering a transfer might find this information useful, the fact that the budgets are produced for only 25 cities obviously limits their value. Furthermore, the intermediate and higher budgets assume that homeowner costs include payments for a house purchased six years ago.<sup>4</sup> BLS clearly states that

<sup>2</sup>The Consumer Price Index often is used for geographical cost-of-living comparisons but was never designed for that purpose. See James T. Fergus, "Cost of Living Comparisons: Oasis or Mirage?" *Federal Reserve Bank of Atlanta Economic Review*, July/August 1977, pages 92-100.

<sup>3</sup>The Bureau of Labor Statistics defines the hypothetical family as: "a 38-year-old husband employed full time, a non-working wife, a boy of 13, and a girl of 8". See U.S. Bureau of Labor Statistics, "Autumn 1980 Urban Family Budgets and Comparative Indexes for Selected Urban Areas", April 22, 1981.

<sup>4</sup>According to BLS, housing costs at the lower budget level provide only for rental housing.



"the geographic indexes do not measure cost differences associated with moving from one area to another or the living costs of newly arrived residents in a given community."<sup>5</sup> Therefore, a transferee who plans to purchase a home in a new community at current market rates will need to look elsewhere for comparative costs of housing.<sup>6</sup>

Other problems with the budgets' methodology and applicability have been well-documented in this **Review** and elsewhere.<sup>7</sup> The BLS recognizes these problems and currently is studying a completely new approach to constructing the budgets.<sup>8</sup>

Atlanta is the only southeastern city now included in BLS Budgets estimates, but the inclusion of Atlanta does enable cost-of-living comparisons for Atlanta with other cities outside the Southeast. Map 1 demonstrates that in Autumn 1980 Atlanta had one of the lowest living cost levels of all the U. S. urban areas for which BLS data are available.

### ACCRA Cost of Living Indicators

The American Chamber of Commerce Researchers Association (ACCRA) produces quarterly **Inter-City Cost of Living Indicators** for a wide sample of cities of various sizes. City chambers of commerce participate in the ACCRA survey on a voluntary basis, gathering their local data through telephone, letter, or in-person pricing surveys. Regional coordinators review the data for consistency and to ascertain whether substantial deviations from quarter to quarter are justified before they forward the data for final processing at the national level.

The survey covers a large sampling of cities—237 communities participated in the Third Quarter 1981 survey—and the information reported is updated every quarter. The **Inter-City Cost of Living Indicators** report shows price levels in the form of index numbers for an all-items index and for the various major components of the index: grocery items, housing, utilities, transportation, health care, and miscellaneous goods and services.

Potentially, the survey's most useful component for the transferee is the index of housing costs.

The housing component carries the greatest weight of all components of the all-items index. Unlike the BLS Urban Family Budgets, the ACCRA survey measures the cost of home ownership at current market rates.<sup>9</sup> ACCRA also measures apartment rental costs and converts the home price and rental data with appropriate weights into an index number for each participating city and into a U. S. average.

Anyone using these figures, however, should heed ACCRA's warning that "to avoid misrepresentation...users should be aware of the limitations of the Index and should understand the kinds of information it does provide."<sup>10</sup> Differences of less than three index numbers between cities should not be considered significant.

The manner in which the ACCRA survey is conducted introduces a number of potential problems or sources of statistical error. The burden of reporting complete, accurate, and timely data rests with local volunteers. The user of ACCRA data also should consider the possibility of bias in the chamber of commerce data since these organizations have a vested interest in attracting jobs and businesses to their communities.

Each ACCRA component consists of a very small market basket—only 44 goods and services are priced each quarter for the entire Index. Incorrect pricing of only a few items could bias the entire Index.

The ACCRA survey does not include taxes, except for those incorporated in the product's price, as in the case of tobacco, gasoline, and liquor. Taxes can vary significantly from one city and state to another, and ACCRA has found no reliable way of calculating tax estimates.

Despite its flaws, the ACCRA **Inter-City Cost of Living Indicators** provides a source of current living cost data for a large sample of cities. Most people who need cost-of-living comparisons for making relocation decisions should find the ACCRA data readily available at local chamber of commerce offices.

<sup>5</sup>U. S. Bureau of Labor Statistics, "Autumn 1980 Urban Family Budgets..." page 7.

<sup>6</sup>For example, the Federal Home Loan Bank Board each month releases information on the average terms of conventional home mortgages for selected metropolitan areas.

<sup>7</sup>See Fergus, "Cost of Living Comparisons."

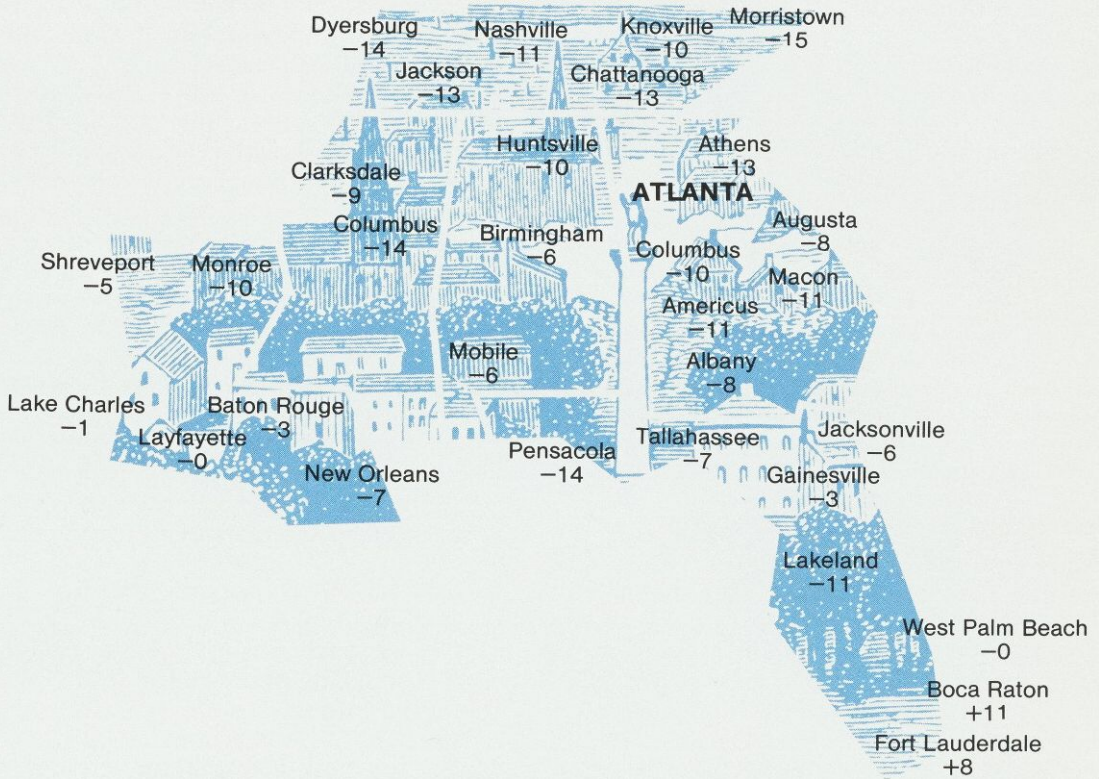
<sup>8</sup>Harold W. Watts, "Special Panel Suggests Changes in BLS Family Budget Program," **Monthly Labor Review**, December 1980, pp. 3-10.

<sup>9</sup>The specifications describe a house with 1800 square feet: 3 bedrooms, 2 baths, living-dining area, kitchen with built-in cabinetry, finished family room, one average fireplace, utility room, and attached 2-car garage. The house is sited on a 10,000 square foot lot with 70-foot frontage. Other detailed specifications outline the type of construction required, with some leeway allowed for regional practices and local codes.

<sup>10</sup>American Chamber of Commerce Researchers Association, "Inter-City Cost of Living Index Instruction Manual for Participating Cities (Revised January 1979)," p. 35.



**Map 2: Intercity Cost of Living Comparisons between Atlanta and Other Southeastern Cities, Third Quarter 1981**  
(percent deviation from Atlanta budget)



Source: American Chamber of Commerce Researchers Association, Federal Reserve Bank of Atlanta calculations.

Given the limited coverage of BLS data, it is natural to want to use ACCRA data for living cost comparisons within the Southeast. As a further check on the reliability of the ACCRA data in relation to the higher-quality BLS data, we compared the two measures in the 13 cities measured by both indexes. The comparison shows that, although actual price levels of specific cities vary widely between the two sets of data, intercity differences in living costs correlate highly.<sup>11</sup> Map 2 displays ACCRA data for the southeastern

states and gives a rough indication of living cost levels for southeastern cities compared to Atlanta. Atlanta's living cost is relatively high within the region according to this measure, although cities in south Florida show an even higher cost of living.

### Relocation Consulting Companies

To those who seek further information beyond that available from BLS or ACCRA and for those who are willing to pay, another option is to utilize the services of a company specializing in employee relocation or compensation consulting. These firms provide a variety of services to their clients,

<sup>11</sup>A simple correlation of data available for the same 13 cities from BLS and ACCRA indexes shows a 0.73 correlation coefficient, or a highly significant degree of correlation with less than 1% chance of occurring from a random sample.



**Table 1**  
Annual Expenditures for a Family of Four  
Earning \$40,000

<u>City</u>	<u>Housing</u>	<u>Taxation</u>	<u>Trans.</u>	<u>Total</u>
Atlanta, GA	\$18,840	\$7,437	\$5,079	\$31,356
Birmingham, AL	16,472	8,303	4,678	29,453
Boston, MA	24,987	6,242	5,682	36,911
Cincinnati, OH	21,026	7,215	5,073	33,314
New Orleans, LA	18,514	6,998	5,300	30,812
San Francisco, CA (E. Bay)	35,264	3,414	6,453	44,131
Washington, DC (VA.)	24,598	5,768	6,155	36,521
Standard City, USA	19,498	7,046	5,012	31,556

**LEGEND:**

Costs are based on a family of 4 persons with an annual income of \$40,000. All living communities used in gathering data, represent communities where families at this income tend to reside.

The home has 7 rooms, 4 bedrooms, 2.5 baths, and 2,300 square feet of living area. The mortgage costs are premised on a 20% downpayment, 28 year amortization at interest rates in effect on August 17, 1981.

The transportation costs are based on a 1980 Chevrolet Impala driven 14,000 miles annually, and a 1977 Chevrolet Nova driven 6,000 miles per year.

Source: Runzheimer and Company, Inc., Rochester, Wisconsin

such as conducting special living cost surveys, preparing detailed reports, or providing subscriptions to indepth cost-of-living studies. Two of these options are described here, and several others undoubtedly exist.<sup>12</sup>

**Runzheimer and Company** specializes in employee relocations consulting, providing companies customized reports on the expected cost-of-living variations between specified cities for a given level of income. If a company plans to transfer an employee, Runzheimer can calculate how far that employee's salary will go toward maintaining a given standard of living in various cities by estimating expenditures for three major living cost components—housing, transportation, and taxation. Runzheimer asserts that the cost differential for food, clothing, health care, and other expenses varies only a little between different cities and levels of income.

Table 1 shows the total of housing, transportation, and taxation costs as of August 17, 1981, for

seven cities and a "Standard City, USA" for a family of four with an annual income of \$40,000. The difference between a \$40,000 income and the total expense of the three components is the amount the family will have left to spend on food, clothing, health care, and other discretionary items in those cities. Individual experience will vary from these average figures, according to differences in family size, home-buying preferences, and other variables.

Through a network of primary information sources, Runzheimer constantly updates a database on housing, transportation, and taxation costs so that the firm can provide a report on current living costs for almost any community in the United States. In addition, Runzheimer does primary research as needed in order to calculate estimated state, local, and federal income taxes for any income level and any location in the U.S.

Runzheimer's strength clearly is its ability to generate up-to-date living cost data for almost any specific relocation situation, enabling companies to make better decisions and to reimburse transferred employees fairly. Although the data

<sup>12</sup>Although we contacted several such companies, only two responded with significant information about their methodologies and data.



**Table 2**  
Cost of Living Compared to Atlanta

BEFORE-TAX INCOME IN ATLANTA:	\$35,000		\$70,000	
	Before tax Income	Percent Difference	Before tax Income	Percent Difference
Boston	\$41,960	+ 20	\$81,300	+ 16
Chicago	39,050	+ 12	78,870	+ 7
Cleveland	37,420	+ 7	71,060	+ 2
Denver	33,960	+ 3	66,580	- 5
Detroit	37,710	+ 8	71,830	+ 3
Houston	36,090	+ 3	69,280	- 1
Los Angeles	41,100	+ 17	83,220	+ 19
Miami	35,320	+ 1	68,240	- 3
Minneapolis	38,890	+ 14	75,020	+ 7
New Orleans	35,040	0	66,650	- 5
New York	44,310	+ 27	87,870	+ 26
Philadelphia	37,290	+ 7	71,390	+ 2
Phoenix	33,190	- 5	63,030	- 10
Pittsburgh	36,460	+ 4	69,690	0
St. Louis	33,900	- 3	62,710	- 10
San Francisco	41,700	+ 19	84,480	+ 21
Seattle	34,500	- 1	64,590	- 8
Stamford	40,100	+ 15	77,750	+ 11
Washington, D.C.	40,190	+ 15	79,790	+ 14

Source: Associates for International Research, Inc., Cambridge, Massachusetts, October 1980.

provided do not include expenses for food, clothing, health care, and discretionary spending. Runzheimer's cost-of-living information is probably sufficient for a company or potential transferee to make an informed decision.

A specialist in domestic and international compensation consulting, **Associates for International Research Inc. (AIRINC)**, provides a variety of data and counseling services to its corporate clients. One such service geared toward assisting with executive transfer decisions is the annual subscription publication entitled **Executive Living Costs**. Based on data collected about executive living patterns, the survey is designed to provide cost-of-living comparisons and a measure of price increases from year to year for approximately 20 metropolitan areas.

Each year AIRINC staff conduct price surveys for over 300 goods and services weighted to represent typical purchases of executive families at two income levels, \$35,000 and \$70,000. These surveys are conducted at shopping areas most frequently used in suburbs where these families typically live. The data are tabulated and

converted into indexes that reflect the cost-of-living differences between each city.

AIRINC gives special emphasis to the effect of taxes on living costs, and the **Executive Living Costs** report provides detailed comparative information on how taxes will affect the income of a transferee in various locations. Table 2 displays the adjustments needed to maintain a given level of income for a transferee from Atlanta to other selected U. S. cities in 1980. AIRINC reports that Atlanta's living costs in 1980 were 4-7 percent below the U. S. average, with property values and taxes, utilities, and transportation accounting for part of Atlanta's lower expenditures. As with the Runzheimer data, the user should be aware that individual family experiences will vary from these average figures.

### Conclusion

Current, reliable sources of regional cost-of-living comparisons are essential to any company or executive in trying to reach a "go" or "no go" decision to relocate. This article has pointed out



several reliable sources of living cost data and assessed some of their advantages and pitfalls. While all the sources mentioned here strive to report differences in living cost levels between

cities, each has a different approach and methodology. The potential user should consider the advantages and limitations of each source before arriving at a decision to relocate.

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