Chicago Tribune

Inflation ratchets up, in plenty of key areas

Health care, housing, heating bills and college costs take their toll

By Gail MarksJarvis
Tribune staff reporter

November 13, 2005

Don't tell Cindee and Ben Castronovo that inflation is fairly tame.

"I can't think of anything that hasn't gone up," Cindee said. She's felt the impact of inflation in no uncertain terms several times in the last six months, as Ben has called and warned her not to use the debit card until they receive their next paychecks.

This is a relatively new experience for both of them. As middle managers in their late 40s, they are used to living comfortably in northwest Chicago on more than $100,000 a year. But rising prices are gnawing at their household budget, just as they are for most Americans.

When Cindee lugged a 20-pound bag of cat food out of a store recently, she felt the weight of inflation. "What's up with that?" she asked herself as she pondered how the price had jumped 40 percent on a $15 purchase.

When she helped her 22-year-old daughter select laundry detergent, she wondered when the price had shot up $2. And when she fills her gas tank, the fumes of inflation are pungent.

Then, there's the nagging price of car insurance: It has been surging even though their driving records haven't changed. To control the premiums, Ben switched to only liability insurance and raised the deductible to $1,000, but he is still paying as much as he used to, and getting less coverage.

Getting less for a higher price is what inflation is about. And the recently reported 1.2 percent monthly increase in inflation was simply a confirmation of what consumers like the Castronovos have been feeling for months: a creeping increase in prices that empties wallets quicker than a year ago while their take-home pay remains relatively unchanged.

"What matters to people is not just how fast prices are rising, but how fast relative to what they are earning," economist Jared Bernstein of the Economic Policy Institute think tank. "You go to the market and fill a basket up with food and realize your paycheck isn't going as far."

The pinch for consumers is worse than consumer price index numbers suggest, Bernstein says, because of the astronomical rise in prices on a few expenditures that people need to make--such as health care, housing and education.

Consider the Castronovos. The couple sat down recently to tally up accumulated debt on college loans for their children: Over the next 10 years they will be paying off over $110,000 for their daughter who recently graduated from the University of Wisconsin-Madison and a son who is in his second year at Chicago's Columbia College.

The Castronovos never thought paying for college would be easy, but they hadn't expected a more than 40 percent rise in tuition at a public university over four years, or that the cost of a four-year college education would total about $100,000 for each child.

Nor did they expect interest rates on the adjustable-rate student loans to rise as sharply as they have lately--helping to nudge $600 monthly payments to $800.

"It made me gulp," Cindee said.

During the last five years paying for a four-year education at a public university has climbed 44 percent, much more than the cost of inflation in the general economy, says economist Susan Baum, a College Board analyst. Even if you adjust the rise of college costs to reflect the overall inflation rate, the average cost of college has risen 28 percent.

When the Castronovos' daughter, Gina, started at the University of Wisconsin-Madison about five years ago, the tuition was $14,188. Four years later, the family had to pay $19,866, or about $23,000 including room, board and books. Cindee complained to the university about the sharp increase but to no avail: Colleges were facing cutbacks in state funding in the aftermath of the 2001 recession.

The legacy has been passed not only to the Castronovos, but also to Gina, who took out $17,500 in federal student loans.

College loans are becoming more of a burden for people in their 20s and 30s, taking up so much of their first-job paychecks that a study by public policy research group Demos has labeled them "Generation Broke."

Such college costs also take on significant meaning for people Cindee and Ben's age. At 47 and 49, the couple is well aware that they need to be saving in earnest for retirement. But paying off such loans is going to make it tougher to sock away what they will need.

Cindee figures she will make up for lost savings by working part time, if she can, after retirement age.

Meanwhile, she and Ben already have made changes to try to free up more money. A few years ago they stopped having a $60 housecleaner come to their home twice a month, and recently they have cut out a weekday newspaper subscription and Internet provider. If they go to a movie, they choose a matinee, and if they go out to dinner Cindee doesn't order a drink.

"A margarita really adds on to the bill," she said.

It's not just her imagination. Since December 1997, the cost of ordering a drink away from home has climbed substantially--34.5 percent for wine, 24.3 percent for beer and 30.1 percent for distilled spirits, according to the Bureau of Labor Statistics.

Health costs hurt

While the Castronovos sit down with their bills every month to figure out what else they can cut, they are starting to feel like they are fighting a losing battle. Necessities like health care keep rising as runaway medical costs cause employers to pass more of the burden to employees.

Ben Castronovo said he's paying an extra $100 a month in premiums for health insurance and has to pay more for prescriptions.

The Castronovos' experience is becoming the norm. According to the Kaiser Family Foundation, premiums rose 9.2 percent in 2005 on average. Since 2000, premiums are up 73 percent and the average worker is paying $2,713 a year for family coverage--or $1,094 more than in 2000.

Currently, workers are paying about 26 percent of the total premium, but a survey by Kaiser suggests the future may be harder on households: About 40 percent of large firms say they are "very likely" to ask employees to pay a greater share of premiums next year.

That's bad news for Karmel Kifarkis, a mortgage broker, who is being hit by three of the biggest categories of rising costs simultaneously--health insurance, housing, and high fuel costs.

She just incurred a $1,700 hospital bill for her daughter, even though she thought the $650 a month her husband, Joseph, was paying for health insurance would cover all medical expenses.

Housing, heating worries

In addition, housing costs are a heavy burden when mixed with the $700 she and her husband are still paying each month toward their college loans.

About four years ago Kifarkis, 36, watched prices soar and decided she could wait no longer for a first home. After six years of living with their three children in Karmel's parents' home, she and Joseph borrowed $25,000 from a family member and bought a $250,000 two-flat in Rogers Park.

The idea was to reduce their $2,800-a-month payments by having a renter. The plan worked, and Kifarkis is glad she went for it when she did because she could never afford the home at today's $540,000 value.

But now the prospect of rising heating bills this winter are terrifying to her. They are expected to double, turning her $600 bill to $1,200.

She doesn't know how to stretch the checkbook that far. Housing and utilities already are taking an unmanageable level of her household's $125,000 income. And she'd like to be able to get into a house with three or four bedrooms.

But like all Americans seeking new homes, housing price inflation is daunting. Nationally, home prices climbed 13.4 percent last quarter and 53.2 percent over the last five years, according to the Office of Federal Housing Enterprise Oversight. In the Chicago area, the five-year increase has been 47.2 percent, and 11.3 percent in the last quarter.

Kifarkis has all but given up on the idea of a larger house, especially since she won't even be able to afford this winter's heating bills without going into debt.

"I'd love to go to the renter's door, knock on it and say: `Can you help with this?' But I can't do that to a single mother with children," Kifarkis said.

So she probably will resort to using a credit card, even though she has vowed not to add anything new to an already daunting balance of $8,000.

Kifarkis' response to unexpected inflationary prices is not unusual. A nationwide survey of low- and middle-income people by Demos this year revealed that moderate-income Americans are not using credit cards to live beyond their means, says researcher Tamara Draut.

Instead, the study of about 1,500 households showed 7 of 10 families are using the cards as a "safety net" for basic living expenses, medical expenses or repairs on cars or homes.

About 46 percent of the households said they felt greatly burdened by their debt and were trying to pay it down, but without savings, surprise expenses caused them to pull out the cards anyway.

"I'm trying very, very hard not to use the credit card," Kifarkis said. "But life gets in the way. Children have birthdays or need shin guards and soccer shoes or dental work."

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Interest payments, energy eat more income

Wages: Although wages are rising about 2.5 percent annually on average, the real average weekly earnings--earnings adjusted to cover inflation--fell by 1.2 percent from August to September, according to the Bureau of Labor Statistics. Between September 2004 and this year, real average weekly earnings decreased 2.7 percent.

For households headed by adults under 65, the median income adjusted to cover inflation fell from $51,559 to $50,923 in 2004, says the Center on Budget and Policy Priorities think tank.

Prices: So far, inflation is showing up largely in energy and energy-dependent areas of the economy, such as transportation. While consumer prices have climbed about 4.7 percent for the past 12 months, compared with 2.5 percent in the previous year, this is not the 1970s and early '80s variety of inflation that strangles family budgets and throws countries into recession. During those periods virtually everything jumped in price and inflation peaked at 14 percent.

Economist John Lonski of Moody's Investors Service said that the sum of interest payments and energy costs consumers are paying is now at the highest level ever--24.6 percent of disposable income. That compares with 23.7 percent in 1980, a period of runaway inflation.

-- Gail MarksJarvis

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gmarksjarvis@tribune.com