

States with the Lowest and Highest Income Inequality

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Income inequality was already shaping up as a hot-button issue in the 2020 election. Now the coronavirus pandemic may bring an added twist to the debate.

The nature of that debate could be very different depending where you live, because income inequality varies greatly in different

states.

Meanwhile, technology is rapidly changing the impact that location has on wealth:

- Virtual offices - whose use has expanded greatly during the current health crisis - makes location less of a barrier to what job you can get
- Online shopping has leveled price differences for many goods
- Digital financial services like online banking give consumers everywhere access to the best deals on checking accounts, savings accounts and other products

MoneyRates.com took a look at income inequality by state, and also examined how the coronavirus might affect income inequality in each state.

MoneyRates.com also looked at current levels of income and income growth over time to examine the fundamental question: Is income inequality good or bad for the economy overall?

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The MoneyRates.com Income Inequality Ratio

To some extent, incomes are bound to be unequal. By definition, the wealthy make more money than the poor.

So how do you measure income inequality, and how much inequality is too much?

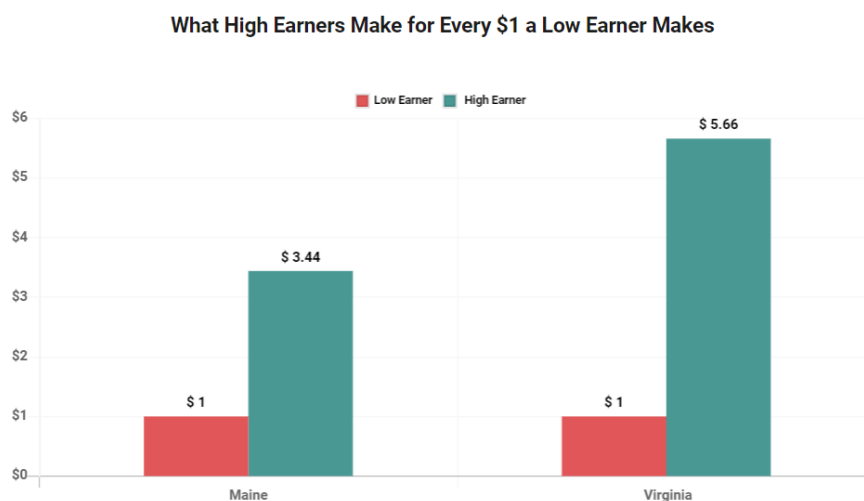
To begin considering these questions, MoneyRates.com calculated an Income Inequality Ratio. This measures the ratio between the income of the top 10% earners in each state to the income of the bottom 10%.

One way to think of it is, How much does a high earner make for every dollar a low earner makes?

Maine and Virginia, the states with the most equal and least equal incomes, are depicted using the perspective of the difference between what a high earner and a low earner makes on the chart below:

IN THIS ARTICLE

- [The MoneyRates.com Income Inequality Ratio](#)
- [The 10 Best States for Income Equality](#)
- [The 10 Worst States for Income Equality](#)
- [COVID-19 - The New Twist on Income Inequality](#)
- [Both Sides of the Income Inequality Argument](#)
- [Income Equality by State - Full Listing](#)



Based on this ratio, MoneyRates.com ranked states from most to least income equality.

The top and bottom ten states were then used to measure the relationship between income inequality and trends like how the coronavirus lockdowns are impacting employment, whether incomes generally are higher or lower in states with more income equality and whether equality leads to more dynamic income growth.

The 10 Best States for Income Equality

The following are the 10 states with the most equality between the incomes of high and low earners. The MoneyRates Income Inequality Ratio is shown for each state.

State	Equality Rank	Income Inequality Ratio
Maine	1	3.44
South Dakota	2	3.50
Vermont	3	3.51
North Dakota	4	3.69
Arkansas	5	3.84
West Virginia	6	3.90
Arizona	7	3.90
Nebraska	8	3.92
Montana	9	3.96
Mississippi	10	4.00

How does this work? Take Maine for example.

Maine has the most equality between the incomes of high earners and low earners out of all 50 states.

In Maine, an annual income of \$82,110 would make you one of the top 10% earners in the state. If you made just \$23,870 per year, you'd be in the bottom 10%.

The top annual income of \$82,110 is 3.44 times the lowest annual income of \$23,870. That makes Maine's income inequality ratio the lowest in the nation. The lower the inequality ratio, the less income inequality a state has.

The 10 Worst States for Income Equality

The opposite side of the coin is the group of states with the most unequal incomes. These are ranked from highest to lowest inequality ratio. The state with the highest Income Inequality Ratio is the worst state for income inequality:

State	Equality Rank	Income Inequality Ratio
Massachusetts	41	4.79
Delaware	42	4.90
California	43	4.92
Illinois	44	4.93
Texas	45	4.94
New York	46	4.99
Georgia	47	5.08
Maryland	48	5.14
New Jersey	49	5.48
Virginia	50	5.66

A top 10% earner in Virginia makes \$113,230 a year; a bottom 10% earner makes \$20,010. The ratio between the two is 5.66. That is the highest in the nation, making Virginia the worst state in terms of income inequality.

COVID-19 - The New Twist on Income Inequality

The COVID-19 pandemic has changed about every aspect of life, and that will probably include income inequality.

Unemployment has jumped dramatically since health concerns started causing widespread lockdowns in March. However, it jumped much more in some states than others.

This is largely due to the nature of each state's job market. The more information-based a state's economy is, the more people have been able to continue working remotely during the crisis.

The more a state's economy depends on personal services, tourism or jobs like meat processing that require close personal contact, the more the shutdown has led to job losses.

In this crisis, the gap between the "haves" and "have nots" is being redefined. Today, it is largely a question of those who have the ability to continue working during the lockdown and those who do not.

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Both Sides of the Income Inequality Argument

The list of states with the widest income inequality shows several relatively rich states. This raises a basic question: Is income inequality necessarily bad for a state's overall economy?

MoneyRates.com looked at this question from a few perspectives. The following are some observations of the relationship between income inequality and other economic data:

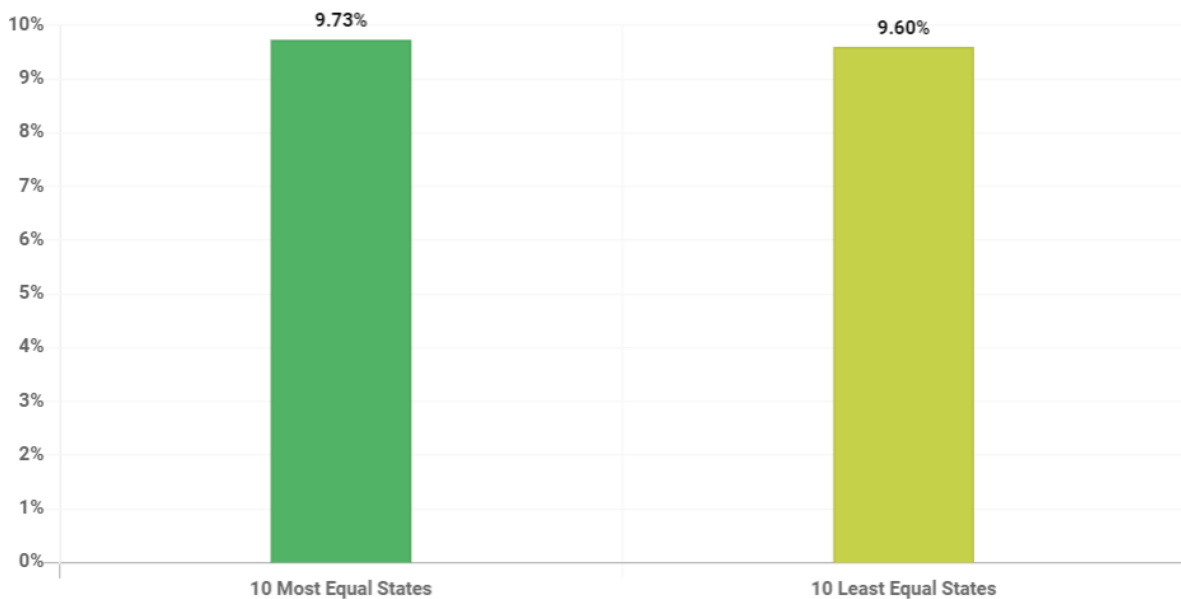
The coronavirus economy

Every state saw unemployment rise since the pandemic started to restrict activity, but some states were affected much more than others.

The state with the worst jump in the unemployment rate since widespread lockdowns began is Vermont. That state was third best for income equality.

Overall, the ten states with the most equal incomes have seen unemployment rates rise by an average of 9.73% since the end of February. This is a little worse than the 9.60% increase in unemployment for the ten states with the worst income inequality.

Change in Unemployment Rate Since February, 2020



A factor that might be influencing each state's job losses in the current crisis is the number of low-paid workers. A new Fed study estimated job losses nationally among households making less than \$40,000 a year to be nearly 40%.

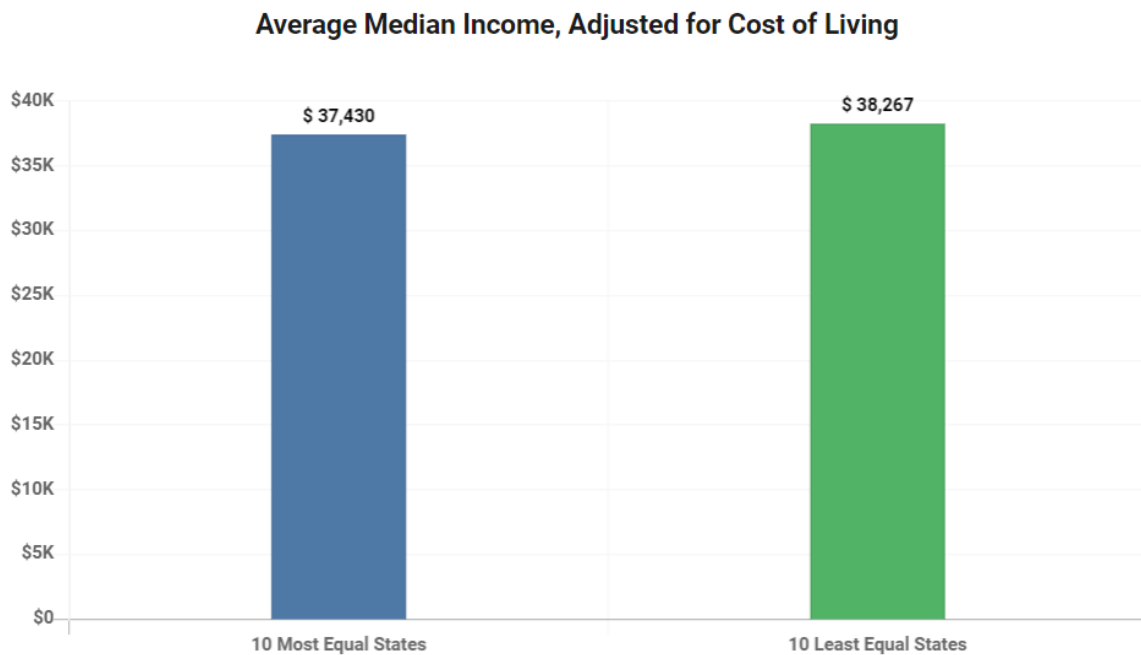
This points to another key issue when considering income inequality. Regardless of how equal incomes are, what most impacts lifestyles is how high those incomes are for people near the top of the wage scale, near the bottom, and in the middle.

Income levels

For this study, MoneyRates compared income levels adjusted for cost of living in states with the least and greatest degrees of income inequality, adjusted for each state's cost of living.

In the ten states with the most equal incomes, the average median income (adjusted for cost of living) is \$37,430.

In the ten states with the least equal incomes, that figure is higher at \$38,267.

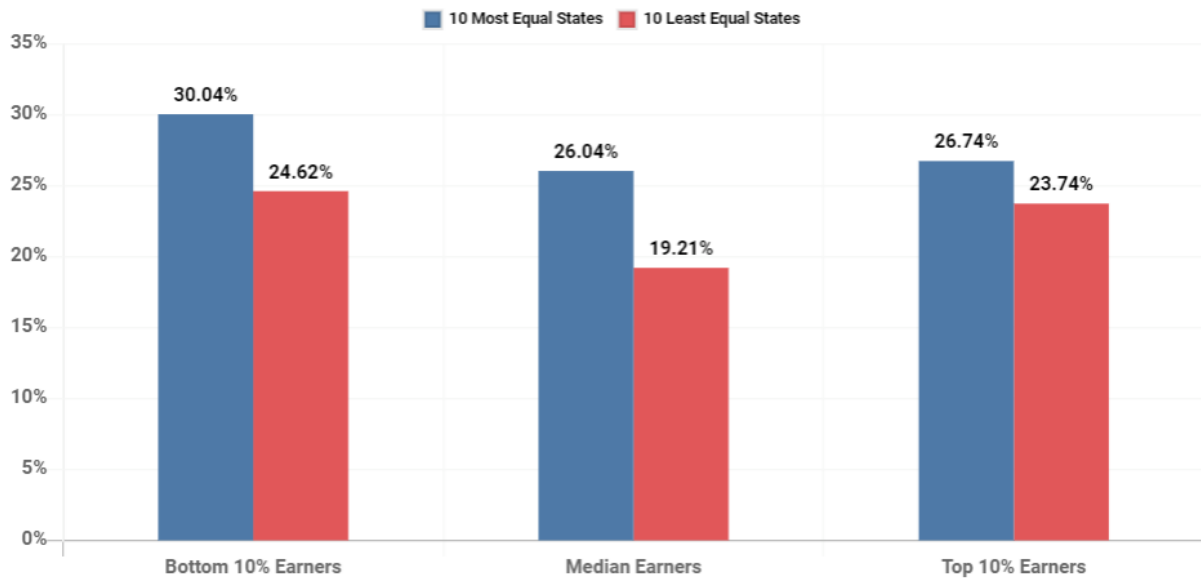


This raises an important issue. Is income inequality really such a bad thing if it means most people are making more money than they would in a more equal environment?

Income growth

While greater income inequality seems to go along with higher incomes overall, that may not remain the case if recent trends continue. States with more equal incomes have experienced faster income growth over the past ten years - for low, median and high wage earners alike.

10-Year Income Growth



Faster income growth could be the rising tide that floats everybody's boat - as long as that growth remains somewhat evenly distributed.

Again, technology today has leveled the playing field in many respects. It has made location less of a factor in what jobs you can get, what prices you pay for certain goods, and even what kind of a deal you get on savings account rates and checking account fees.

Once the COVID-19 crisis is over, the increased use of technology forced by that crisis may help with the subsequent recovery. It may even lead to more equal and higher incomes in the long run - at least for those workers prepared to adjust to a changing economy.

Income Equality by State - Full Listing

Equality Rank	State	Income Inequality Ratio
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9	Montana	3.96
10	Mississippi	4.00
11	Wyoming	4.00
12	Oregon	4.01
13	Iowa	4.02
14	Kentucky	4.03
15	Hawaii	4.11
16	Indiana	4.12
17	Idaho	4.14
18	Wisconsin	4.16
19	Minnesota	4.25
20	Tennessee	4.25
21	Alaska	4.26
22	South Carolina	4.28

Equality Rank	State	Income Inequality Ratio
23	Kansas	4.32
24	Rhode Island	4.34
25	Washington	4.35
26	Oklahoma	4.36
27	Florida	4.36
28	Michigan	4.37
29	Missouri	4.38
30	Nevada	4.41
31	Louisiana	4.43
32	Ohio	4.47
33	Alabama	4.47
34	Utah	4.50
35	Colorado	4.53
36	New Mexico	4.61
37	New Hampshire	4.61
38	Pennsylvania	4.73
39	North Carolina	4.74
40	Connecticut	4.77

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