

Measuring Poverty in the United States

June 9, 2014

Kathleen Short, Ph.D.

Social, Economic, and Housing Statistics Division

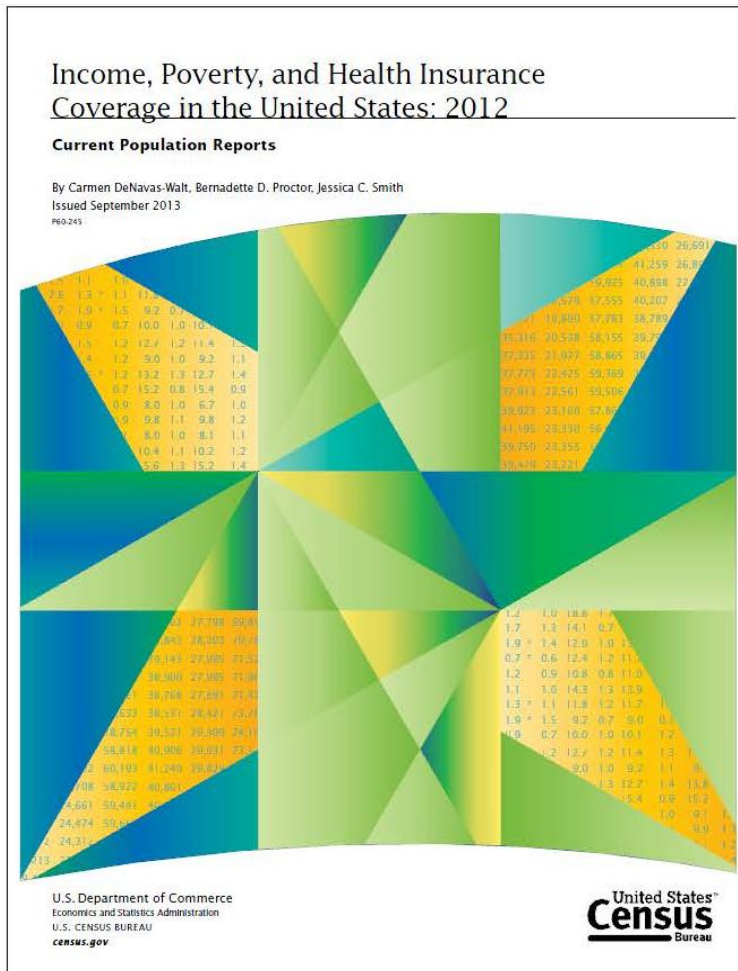
U.S. Census Bureau

Disclaimer

The views expressed in this research, including those related to statistical, methodological, technical, or operational issues, are solely those of the authors and do not necessarily reflect the official positions or policies of the Census Bureau, or the views of other staff members. The author accepts responsibility for all errors. This presentation is released to inform interested parties of ongoing research and to encourage discussion of work in progress. The presentation reports the results of research and analysis undertaken by Census Bureau staff. It has undergone more limited review than official publications.

Official Poverty Statistics

Current Population Survey CPS ASEC



- The 2012 official poverty rate for the nation was 15.0 percent
- There were 46.5 million people in poverty.

The Official Measure



The United States has an **official** measure of poverty. The current official poverty measure was developed in the early 1960s when President Lyndon Johnson declared war on poverty. This measure does not reflect the key government policies enacted since that time to help low-income individuals meet their needs.

Poverty Rate: 1959 to 2012



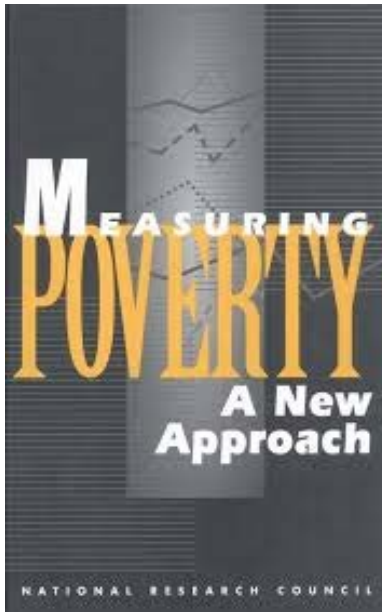
Note: The data points are placed at the midpoints of the respective years.

Source: U.S. Census Bureau, Current Population Survey, 1960 to 2013 Annual Social and Economic Supplements.

Supplemental Poverty Measure (SPM)

Observations from the Interagency Technical Working Group (ITWG) - March 2, 2010

- Will not replace the official poverty measure
- Will not be used for resource allocation or program eligibility
- Census Bureau and BLS responsible for improving and updating the measure
- Continued research and improvement
- Based on National Academy of Sciences expert panel recommendations in *Measuring Poverty: A New Approach* (Citro and Michael, 1995)



National Academy of Sciences Panel on Poverty and Family Assistance

May 1995 report, *Measuring Poverty: A New Approach*

The official measure does not account for

- Provision of noncash benefits
- Necessary expenses (taxes, health care, work)
- Changes in family or household structure
- Geographic price differences among regions

Recommended Changes to Improve the
Measure of Poverty in the U.S.

The Research SUPPLEMENTAL POVERTY MEASURE: 2010

Consumer Income

INTRODUCTION

The current official poverty measure was developed in the early 1960s, and only a few minor changes have been implemented since it was first adopted in 1969 (Orshansky, 1963, 1965a, 1965b; Fisher, 1992). This measure consists of a set of thresholds for families of different sizes and compositions that are compared to before-tax cash income to determine a family's poverty status. At the time they were developed, the official poverty thresholds represented the cost of a minimum diet multiplied by three (to allow for expenditures on other goods and services).

Concerns about the adequacy of the official measure have increased during the past decade (Ruggles, 1990), culminating in a congressional appropriation in 1990 for an independent scientific study of the concepts, measurement methods, and information needs for a poverty measure. In response, the National Academy of Sciences (NAS) established the Panel on Poverty and Family Assistance, which released its report titled *Measuring Poverty: A New Approach* in the spring of 1995, (Citro and Michael, 1995). Based on its assessment of the weaknesses of the current poverty measure, this NAS panel of experts recommended having a measure that better reflects contemporary social and economic realities and government policy. In their report, the NAS panel identified several major weaknesses of the current poverty measure.

- The current income measure does not reflect the effects of key government

policies that alter the disposable income available to families; hence, their poverty status includes payroll taxes, which disposable income, and in-benefit programs such as the Stamp Program/Supplemental Assistance Program (SAP) free up resources to spend on items.

- The current poverty threshold adjust for rising levels and of living that have occurred since 1965. The official threshold approximately equal to half income in 1963-64. By 1995, half median income had increased more than 120 percent of the threshold.

- The current measure does not take into account variation in expenses necessary to hold a job income—expenses that reduce net income. These expenses transportation costs for getting to work and the increasing cost of care for working families from increased labor force participation of mothers.

- The current measure does not take into account variation in needs across population groups differing on differences in health and insurance coverage and account for rising health care as a share of family budgets.

- The current poverty threshold family size adjustments do not

The Research SUPPLEMENTAL POVERTY MEASURE: 2011

Current Population Reports

By Kathleen Short
P60-244
November 2012

INTRODUCTION

Last year the U.S. Census Bureau, with support from the Bureau of Labor Statistics (BLS), released the first report describing research on the Supplemental Poverty Measure (SPM).¹ The SPM extends the information provided by the official poverty measure by including many of the government programs designed to assist low-income families and individuals that are not included in the current official poverty measure. The current official poverty measure was developed in the early 1960s, and only a few minor changes have been implemented since it was first adopted in 1969 (Orshansky, 1963, 1965a, 1965b; Fisher, 1992). The official measure consists of a set of thresholds for families of different sizes and compositions that are compared to before-tax cash income to determine a family's poverty status. At the time they were developed, the official poverty thresholds represented the cost of a minimum diet multiplied by three (to allow for expenditures on other goods and services).

¹ Short (2011), www.census.gov/hhes/povmeas/methodology/supplemental/research/short_researchSPM2010.pdf. Also see, Short (2012) www.census.gov/hhes/povmeas/methodology/supplemental/research/short_researchSPM2011.pdf, accessed September 2012.

Concerns about the adequacy of the official measure have increased during the past decades (Ruggles, 1990), culminating in a Congressional appropriation in 1990 for an independent scientific study of the concepts, measurement methods, and information needed for a poverty measure. In response, the National Academy of Sciences (NAS) established the Panel on Poverty and Family Assistance, which released its report, titled *Measuring Poverty: A New Approach*, in the spring of 1995 (Citro and Michael, 1995). Based on its assessment of the weaknesses of the current poverty measure, this NAS panel of experts recommended having a measure that better reflects contemporary social and economic realities and government policy. In their report, the NAS panel identified several major weaknesses of the current poverty measure.

- The current income measure does not reflect the effects of key government policies that alter the resources available to families and, hence, their poverty status. Examples include payroll taxes, which reduce disposable income, and in-kind public benefit programs, such as the Supplemental

Nutrition Assist (SNAP), that free up resources to spend on non

- The current measure takes into account necessary to earn income, reduce disposable income, and costs for getting to work and the increasing cost of care for working families from increased labor force participation of mothers.

- The current measure takes into account variation in expenses necessary to hold a job income—expenses that reduce net income. These expenses transportation costs for getting to work and the increasing cost of care for working families from increased labor force participation of mothers.

- The current measure does not take into account variation in needs across population groups differing on differences in health and insurance coverage and account for rising health care as a share of family budgets.

The Research SUPPLEMENTAL POVERTY MEASURE: 2012

Current Population Reports

By Kathleen Short
Issued November 2013
P60-247

INTRODUCTION

This is the third report describing research on the Supplemental Poverty Measure (SPM) released by the U.S. Census Bureau, with support from the Bureau of Labor Statistics (BLS).¹ The SPM extends the official poverty measure by taking account of many of the government programs designed to assist low-income families and individuals that are not included in the current official poverty measure. The current official poverty measure was developed in the early 1960s, and only a few minor changes have been implemented since it was first adopted in 1969 (Orshansky, 1963, 1965a, 1965b; Fisher, 1992). The official measure consists of a set of thresholds for families of different sizes and compositions that are compared with before-tax cash income to determine a family's poverty status. At the time they were developed, the official poverty thresholds represented the cost of

a minimum diet multiplied by three (to allow for expenditures on other goods and services).

Concerns about the adequacy of the official measure have increased during the past decades (Ruggles, 1990), culminating in a Congressional appropriation in 1990 for an independent scientific study of the concepts, measurement methods, and information needed for a poverty measure. In response, the National Academy of Sciences (NAS) established the Panel on Poverty and Family Assistance, which released its report *Measuring Poverty: A New Approach* in the spring of 1995 (Citro and Michael, 1995). In March of 2010, the Interagency Technical Working Group on Developing a Supplemental Poverty Measure (ITWG) listed suggestions for research on the SPM. The ITWG was charged with developing a set of initial starting points to permit the Census Bureau, in cooperation with the BLS, to produce a report on the SPM that would be released along with the official measure each year. Their suggestions included:

- The SPM thresholds should represent a dollar amount spent on a basic set of goods that

includes food, clothing, shelter, and utilities (FCSU) and a small additional amount to allow for other needs (e.g., household supplies, personal care, non-work-related transportation). This threshold should be calculated with five years of expenditure data for families with exactly two children using Consumer Expenditure Survey data, and it should be adjusted (using a specified equivalence scale) to reflect the needs of different family types and geographic differences in housing costs. Adjustments to thresholds should be made over time to reflect real change in expenditures on this basic bundle of goods at the 33rd percentile of the expenditure distribution.

- SPM family resources should be defined as the value of cash income from all sources, plus the value of noncash benefits that are available to buy the basic bundle of goods (FCSU) minus necessary expenses for critical goods and services not included in the thresholds. Noncash benefits include nutrition assistance, subsidized housing, and home

United States
Census
Bureau

U.S. Department
of Commerce
Economics and Statistics
Administration
U.S. CENSUS BUREAU

U.S. Department of Commerce
Economics and Statistics Administration
U.S. CENSUS BUREAU
census.gov

U.S. Department of Commerce
Economics and Statistics Administration
U.S. CENSUS BUREAU
census.gov

United States
Census
Bureau

United States
Census
Bureau

U.S. Department of Commerce
Economics and Statistics Administration
U.S. CENSUS BUREAU

For both measures, individuals are considered poor if the resources they share with others in the household are not enough to meet basic needs.



But the two measures are very different.



Official Measure



Supplemental Measure

Who shares resources?

The two measures make different assumptions about who shares resources. The SPM assumes that more people in a household share resources with one another.

The official measure of poverty assumes that all individuals residing together who are related by birth, marriage, or adoption share income.



The SPM starts with the family and then adds some unrelated people such as foster children and unmarried partners.



How do we measure needs?

The **poverty threshold**, or **poverty line**, is the minimum level of resources that are adequate to meet basic needs.

The official measure uses three times the cost of a minimum **food** diet in 1963 in today's prices.



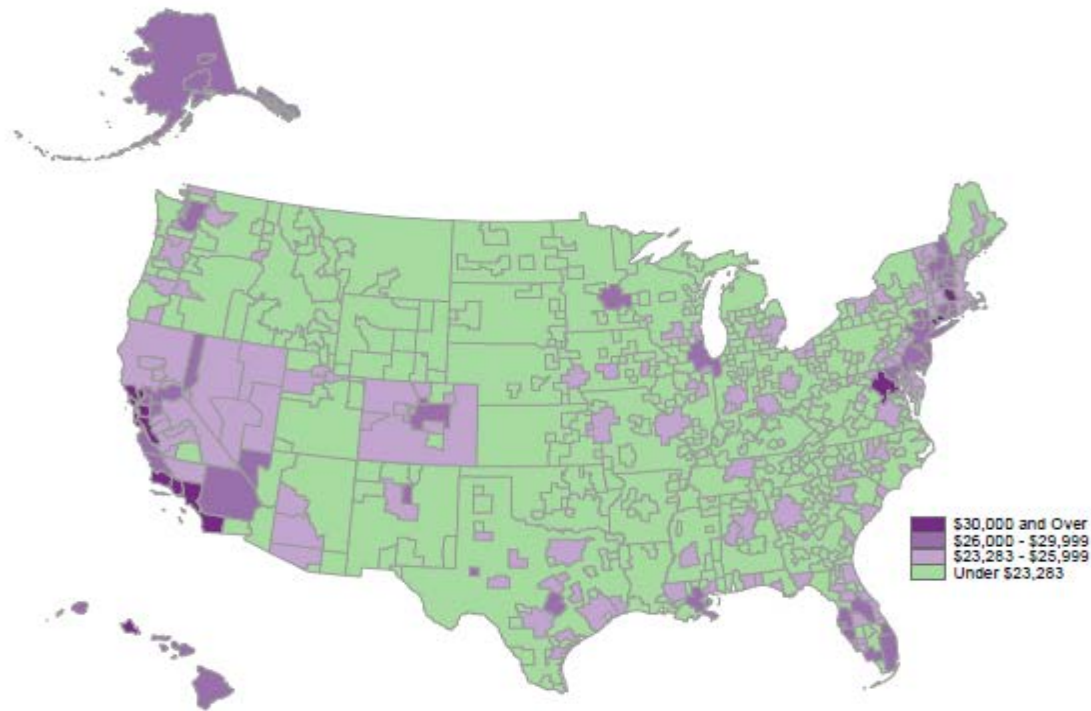
The SPM uses information about what people spend today for basic needs— **food**, **clothing**, **shelter**, and **utilities**.



Are needs the same in New York and Mississippi?

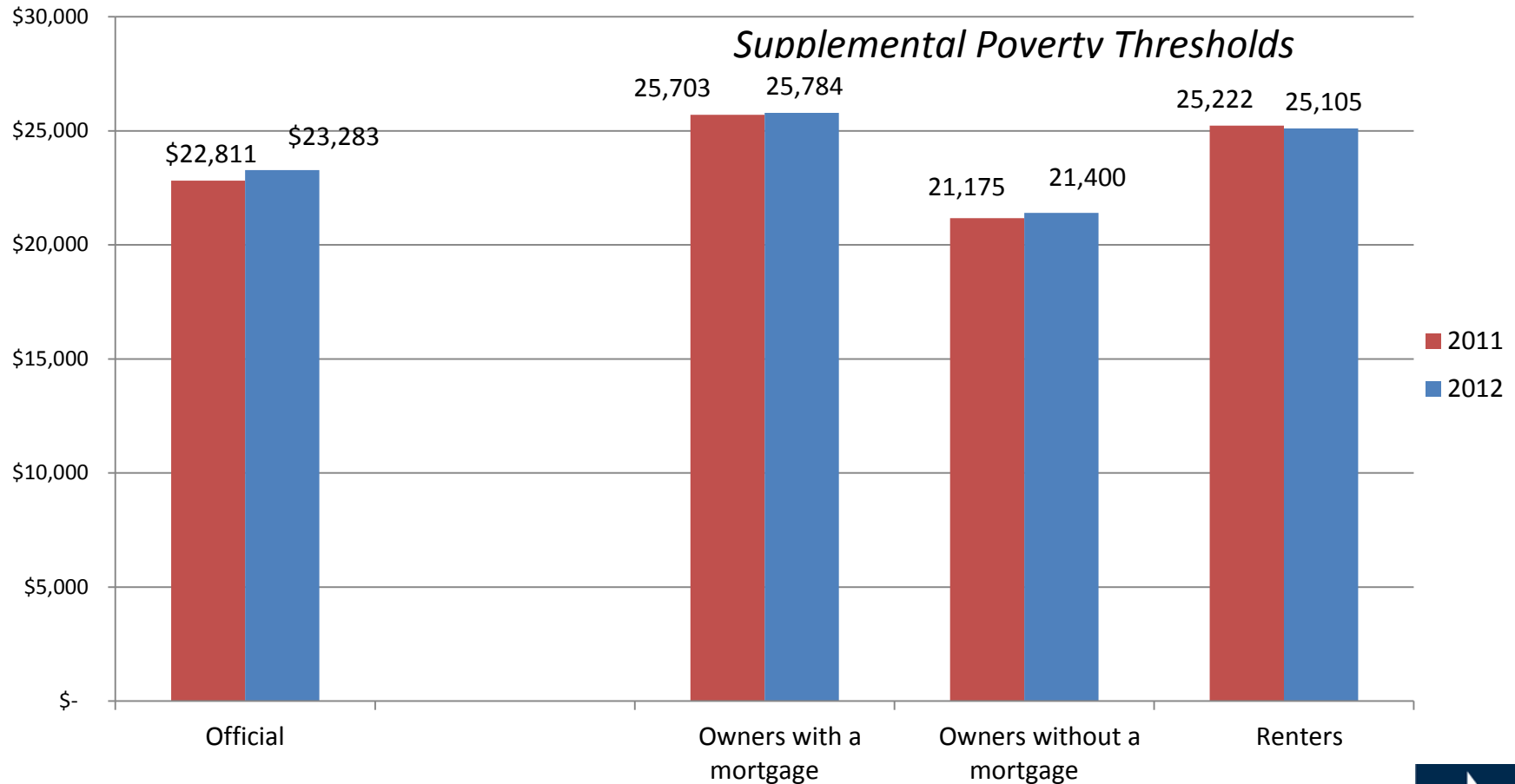
Poverty thresholds for both measures are adjusted to reflect the needs of families of different types and sizes. Only the SPM thresholds take account of geographic differences in housing costs.

SPM Thresholds for Two Adult and Two Child Families: 2012



Source: American Community Survey data on rents.

Official and SPM Thresholds for 2 Adults and 2 Children Economic Units: 2011 and 2012



What resources do people have to meet their needs?

What we count as available resources differs between the two poverty measures.

The official measure uses cash income, such as wages and salaries, Social Security benefits, interest, dividends, pension or other retirement income.



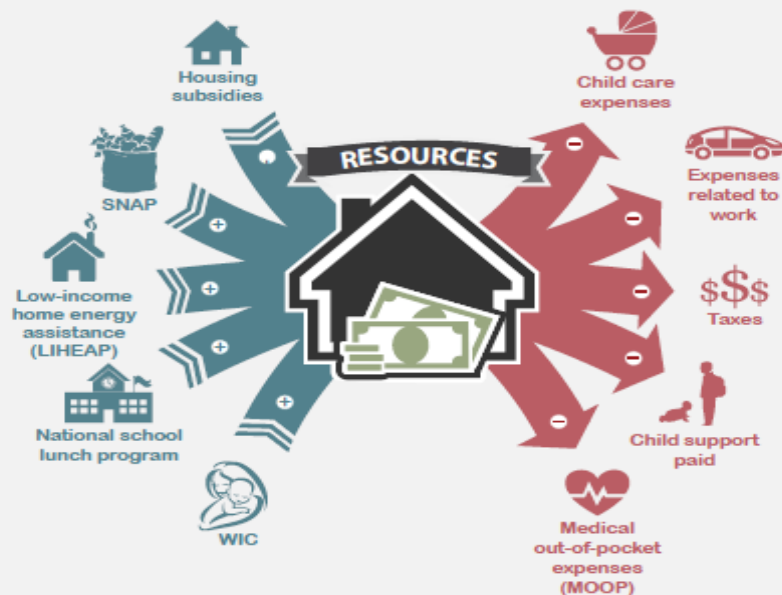
The SPM starts with cash income, then...

ADDING BENEFITS

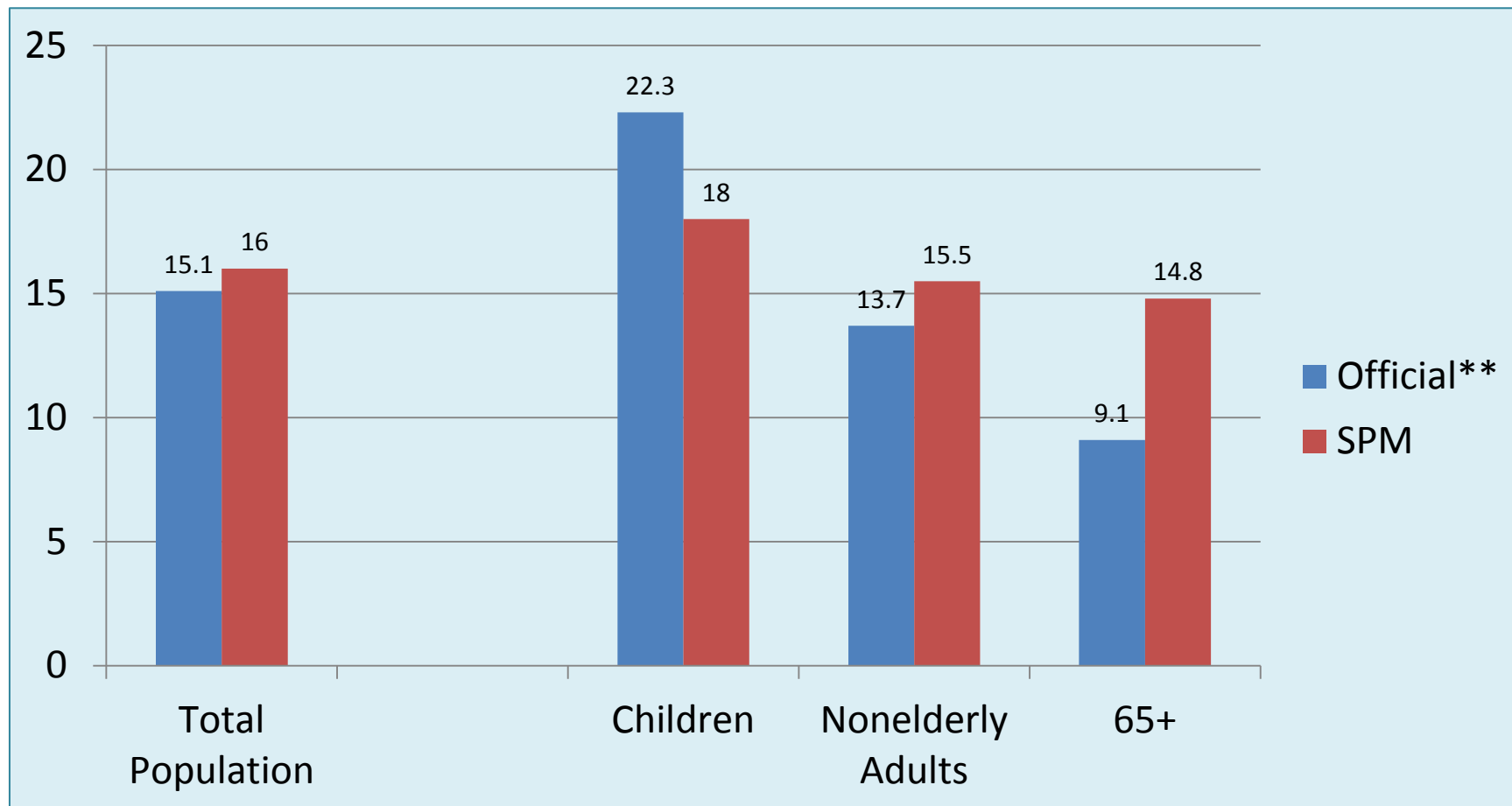
The SPM adds benefits from the government that are not cash but help families meet their basic needs.

SUBTRACTING EXPENSES

The SPM subtracts necessary expenses like taxes, health care, commuting costs for all workers, and child care expenses while parents work.



Official vs. SPM Poverty Rates: 2012



Poverty Rates

- For most groups, SPM rates are higher than official poverty rates.
- The SPM shows lower poverty rates for
 - Children
 - Individuals included in new SPM resource units
 - Blacks
 - Individuals living outside metropolitan areas
 - Individuals living in the Midwest
 - Individuals covered by only public health insurance
 - Individuals with a disability
- Official and SPM poverty rates for people in female householder units, native born citizens, renters, and residents of the South were not statistically different



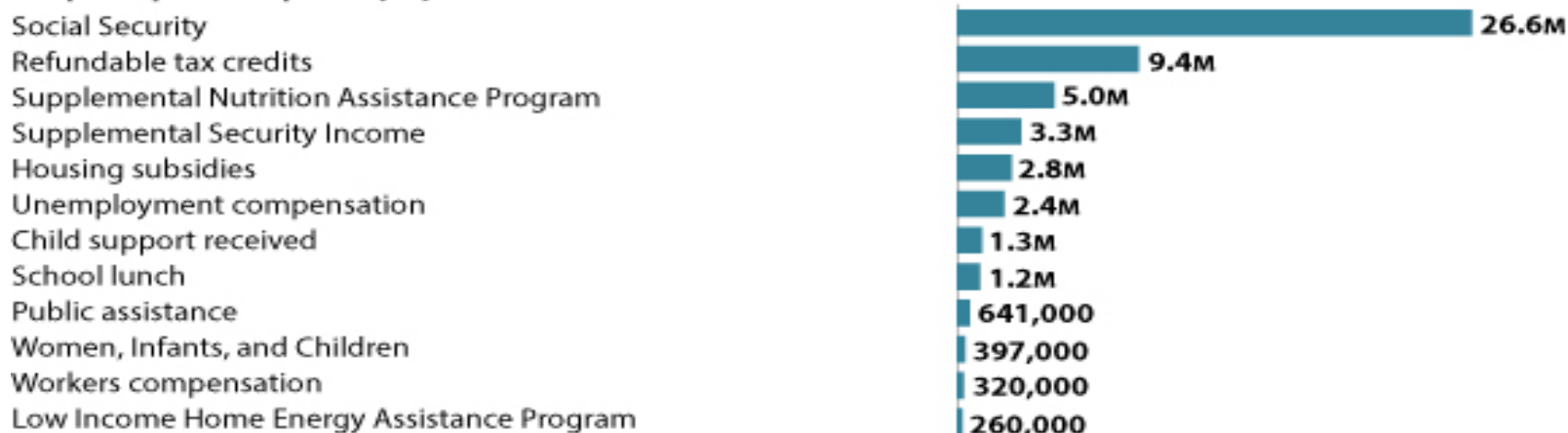
AK



Source: U.S. Census Bureau, Current Population Survey, 2011–2013 Annual Social and Economic Supplements.

Effect of Including Individual Elements on Number of SPM Poor: 2012

People kept out of poverty by ...



People falling into poverty due to ...



A person may receive more than one of the above benefits and may have more than one of the above expenses.

Local Area Research American Community Survey (ACS)

- Institute for Research on Poverty (Wisconsin):
 - <http://www.irp.wisc.edu/>
- New York Center for Economic Opportunity:
 - http://www.nyc.gov/html/ceo/html/poverty_research/poverty_research.shtml
- Urban Institute: Minnesota
 - <http://www.urban.org/publications/412063.html>
- University of Virginia
 - <http://www.coopercenter.org/demographics/VPM>
- California Poverty Measure
 - <http://news.stanford.edu/news/2013/october/poverty-index-california-100113.html>

Thanks!

Kathleen Short, Ph.D.
Social, Economic, and Housing Statistics Division
U.S. Census Bureau
Phone: 301-763-8921
Email: kathleen.s.short@census.gov