

# An Overview of the New Supplemental Poverty Measure

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# The Patronus and Poverty Measurement



# What is Poverty?



# Adam Smith and Poverty

*“The Greeks and Romans lived, I suppose, very comfortably, though they had no linen. But in the present times, through the greater part of Europe, a creditable day-laborer would be ashamed to appear in public **without a linen shirt, the want of which would be supposed to denote that disgraceful degree of poverty...**”*

*- Adam Smith*

# National Academy of Science Panel on Poverty and Family Assistance

*“We define poverty as **economic deprivation**. A way of expressing this concept is that it pertains to people’s lack of economic resources (e.g., money or near money income) for consumption of economic goods and services (e.g., food, housing, clothing, transportation). Thus, a poverty standard is based on a level of family resources (or, alternatively, of families’ actual consumption) **deemed necessary to obtain a minimally adequate standard of living, defined appropriately for the United States today.**”*

## Poverty Measurement:

### The who, what, where, when, why and how?

- **What:** Which resource measure is used?  
Money income, disposable income
- **Who:** Whose resource is measured?  
Unit of analysis; equivalence scale
- **When:** What time period is used?  
And how to update over time
- **Where:** Do the measures differ by location?
- **Why:** What is the purpose of the measures?  
Well-being, effects of government policy
- **How:** Which summary measure?  
And What is the threshold?

# Official Poverty Measure (1969)

- $\text{INCOME} < \text{THRESHOLD} \Rightarrow \text{In Poverty}$
- Thresholds developed in 1960s by Molly Orshansky – three times the cost of the Thrifty Food Plan
  - Updated each year by changes in CPI-U
  - \$22,000 for a family of four, 2009
  - Vary by number of people in family, number of children, and age of head (1 and 2 persons)
- Resource measure – cash income before taxes and transfers

# Criticisms of the Official Poverty Measure

## Official Measure Does NOT:

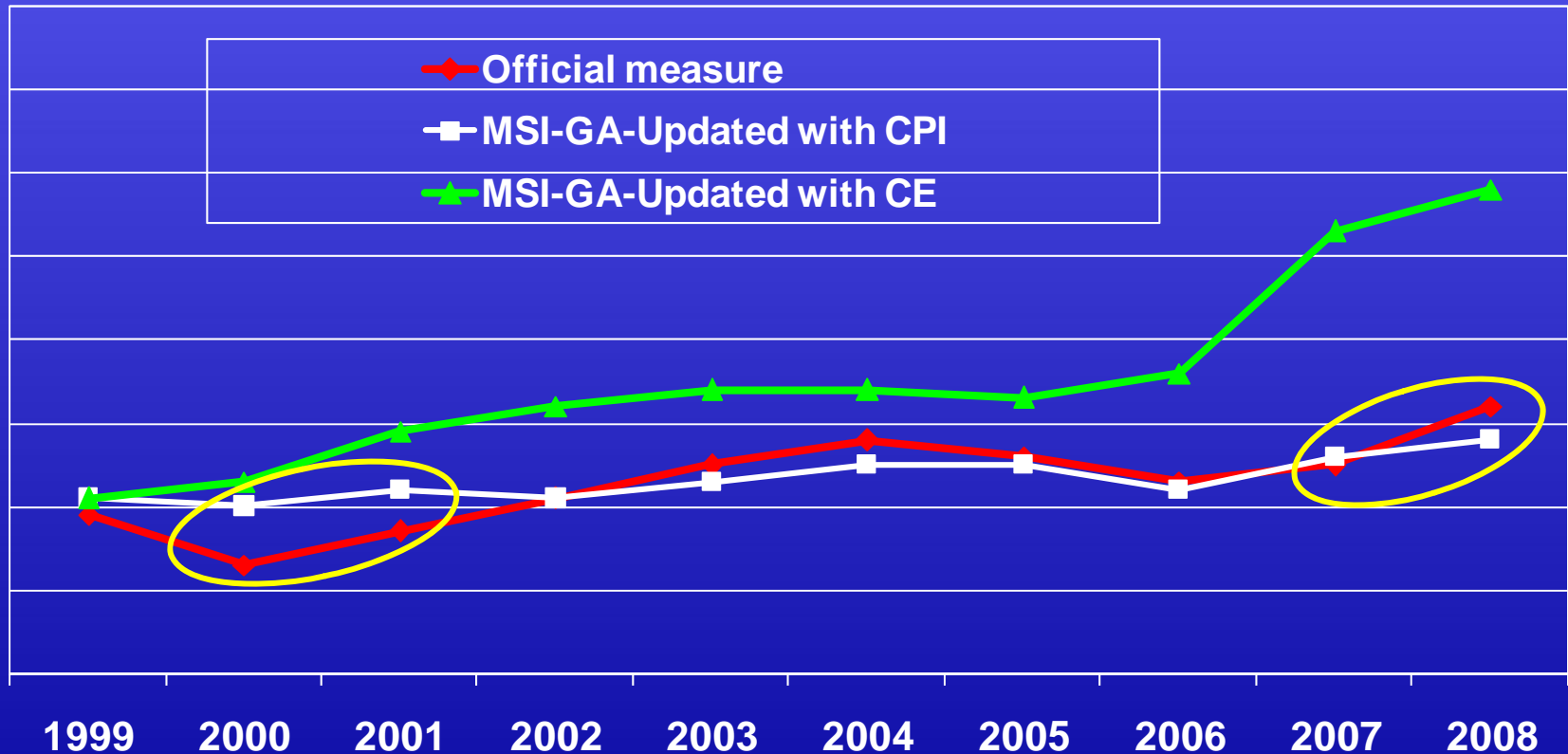
- Distinguish between needs of workers and nonworkers (child care, transportation)
- Recognize variations in medical care costs
- Reflect geographic price variations
- Make regular family size adjustments
- Reflect increases in standard of living
- Reflect government policy initiatives
  - In-kind benefits
  - Tax credits
  - Tax policy



# Supplemental Poverty Measure

- President's 2011 Budget provides funding to develop a new Supplemental Poverty Measure
- Observations from the Interagency Technical Working Group - March 2, 2010
- Based on NAS recommendations with some important differences
- Will not replace the official poverty measure
- Will not be used for resource allocation or program eligibility
- Census Bureau and BLS will produce initial measure using recommendations from Interagency Technical working group, and improve the measure over time

# Trends of poverty: Threshold Updated with expenditures (CE) vs inflation (CPI)



# Comparing the Official measure and Supplemental Poverty Measure

## How: Threshold Concept

### Official Measure

- Cost of minimum food diet for a two adult/two child family in 1963 times three to cover all other expenses

### Supplemental Measure

- Expenditures over the most recent 5 years on food, clothing, and shelter (including utilities and all mortgage expenses) (FCSU) from the Consumer Expenditure Survey (at BLS)
  - 33<sup>rd</sup> percentile of distribution of all consumer units with exactly 2 children (adjusted, when needed, to be equivalent to 2 adult/2 child family unit)
  - plus 20 percent to cover all other expenses.

# Threshold Adjustments: Who: family type

## Official

- Separately developed thresholds by family type; lower thresholds for elderly singles and couples

## Supplemental

- Reference family threshold adjusted by use of a three parameter equivalence scale, which assumes children need less than adults and economies of scale for larger families

# Who: Economic Unit of Analysis

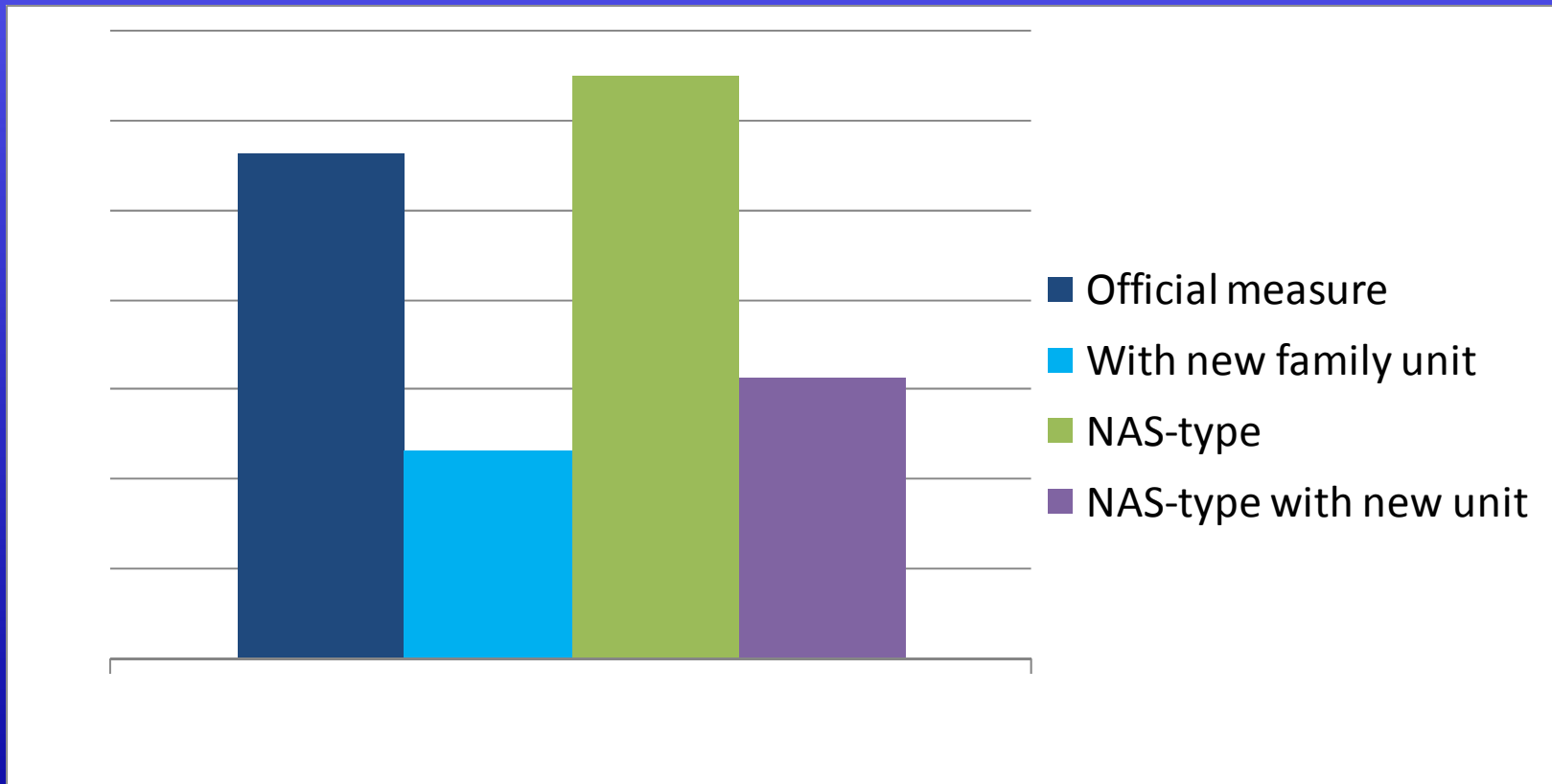
## Official

- Families and unrelated individuals

## Supplemental

- All related individuals who live at the same address, any co-resident unrelated children who are cared for by the family (such as foster children), and any co-habitators and their children

# NAS-type Poverty rates for people in households with cohabiting couples



# Threshold Adjustments: More Who: by shelter type

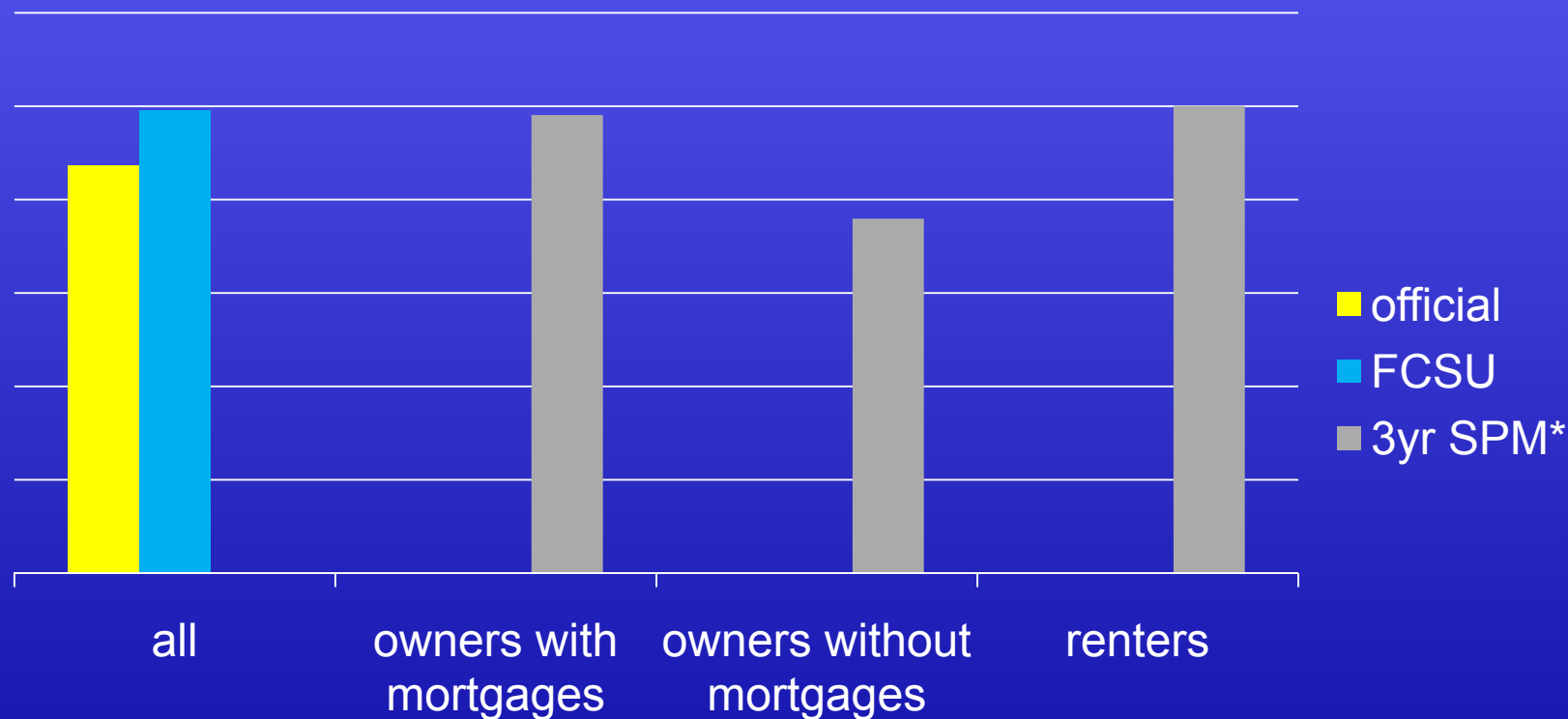
## Official

- No adjustments

## Supplemental

- Apply “adjustment factors” to the shelter component of the FCSU threshold to reflect relative expenditures of housing groups.
- Create three FCSU thresholds for renters, owners with a mortgage, and owners without a mortgage

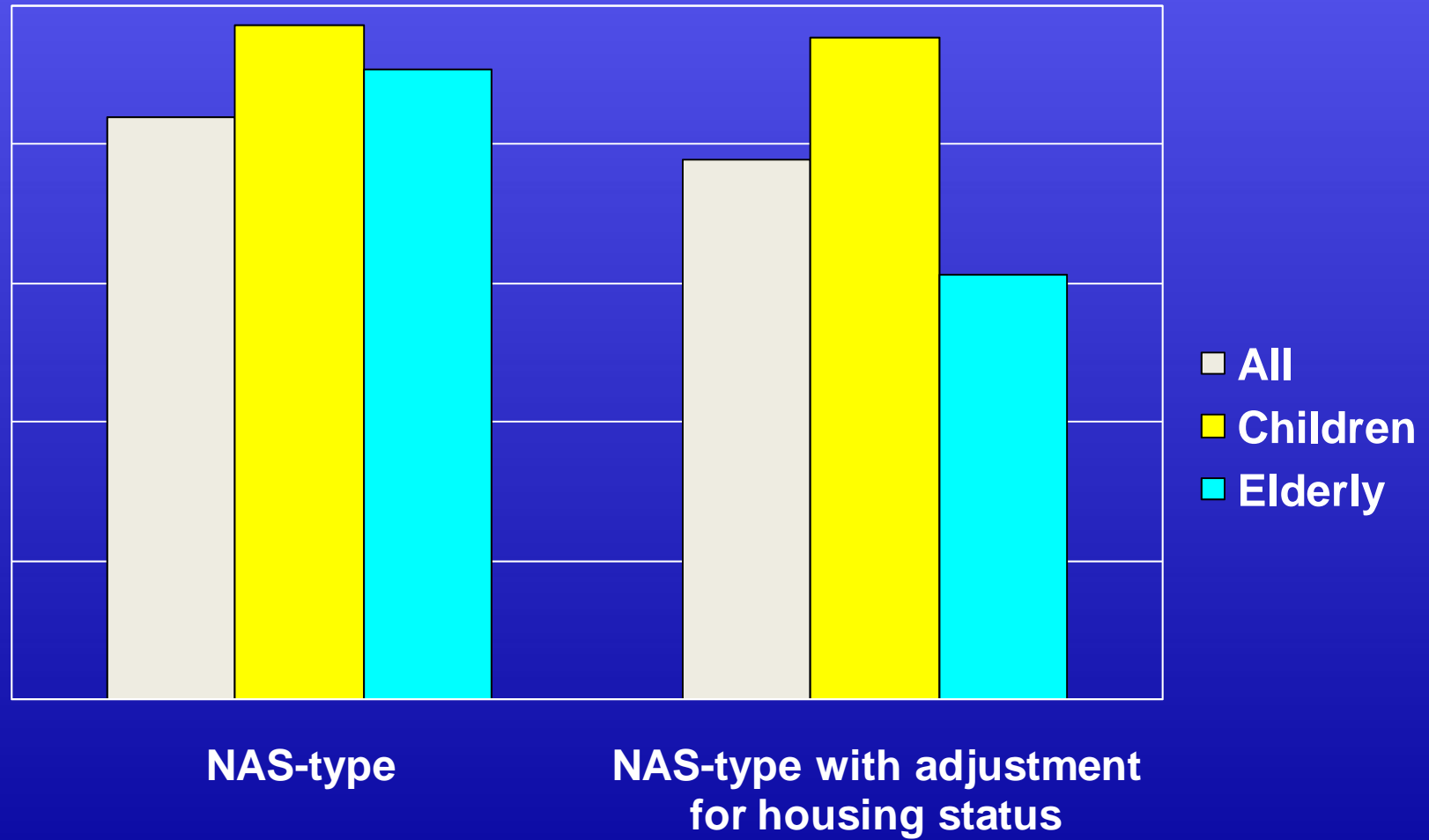
# Official, FCSU and Preliminary Supplemental Measure: 2008 Thresholds for CUs of 2 Adults and 2 Children



\*3yr SPM based on 3 years of quarterly CE Interview data, consumer units with 2 children, 3-parameter equivalence scale, annual CPI price adjustment, 33<sup>rd</sup> percentile based on 30-36 FCSU expenditure range. Produced and presented by Thesia I. Garner for the Midwestern Economics Association Conference, March 2010.



# NAS-type Poverty without and with different thresholds for Homeowners and Renters



# Threshold Adjustments:

## Where: By geographic area

### Official

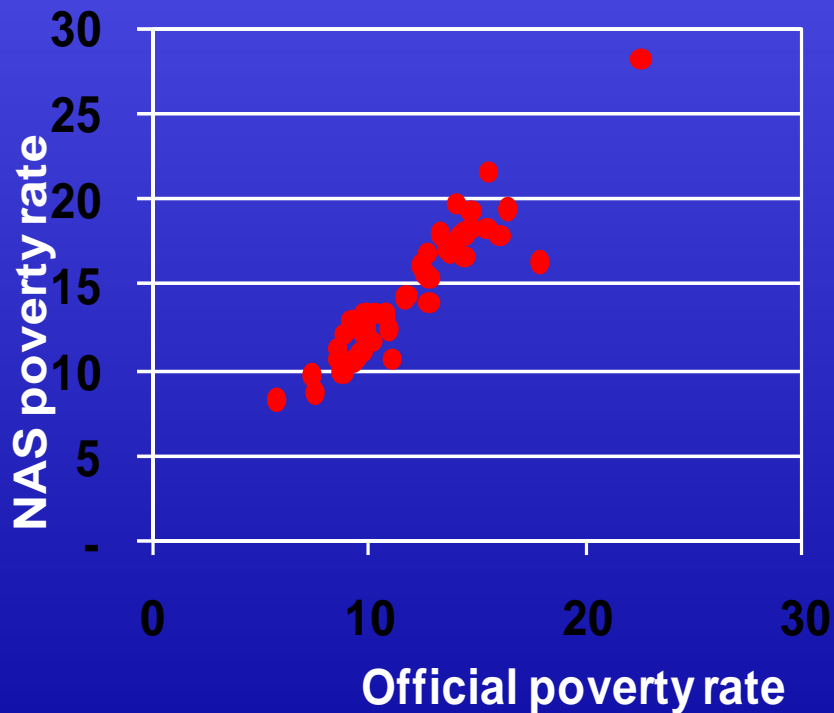
- No adjustments

### Supplemental

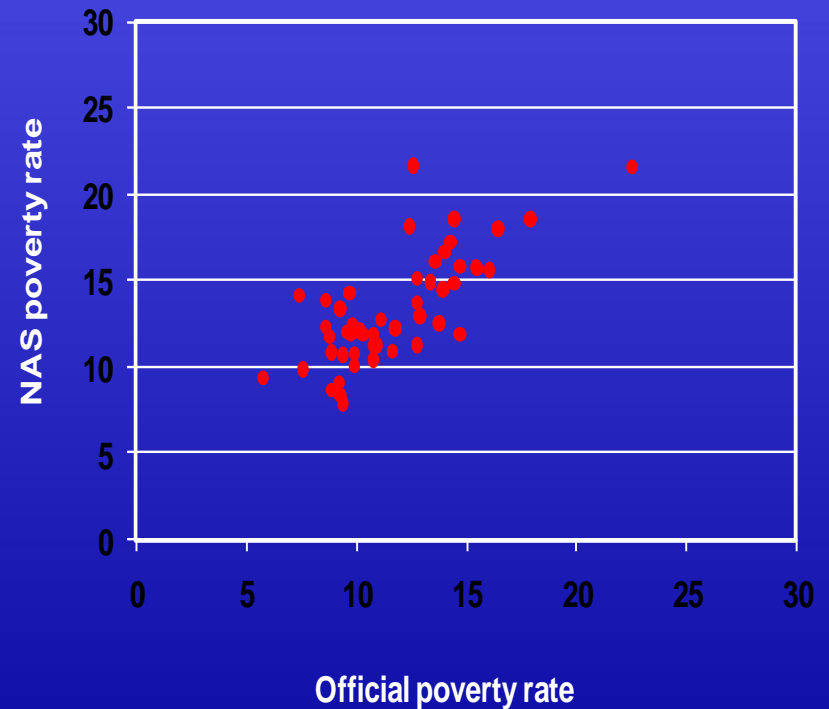
- Adjust for housing cost differences using five years of American Community Survey (ACS) data on rental costs
- Make adjustments by each MSA and non-MSAs in each state
- Continue to research inter-area price indices

# Impact of Geographic differences in thresholds NAS-type poverty for states with and without Geographic adjustment

## Without adjustment

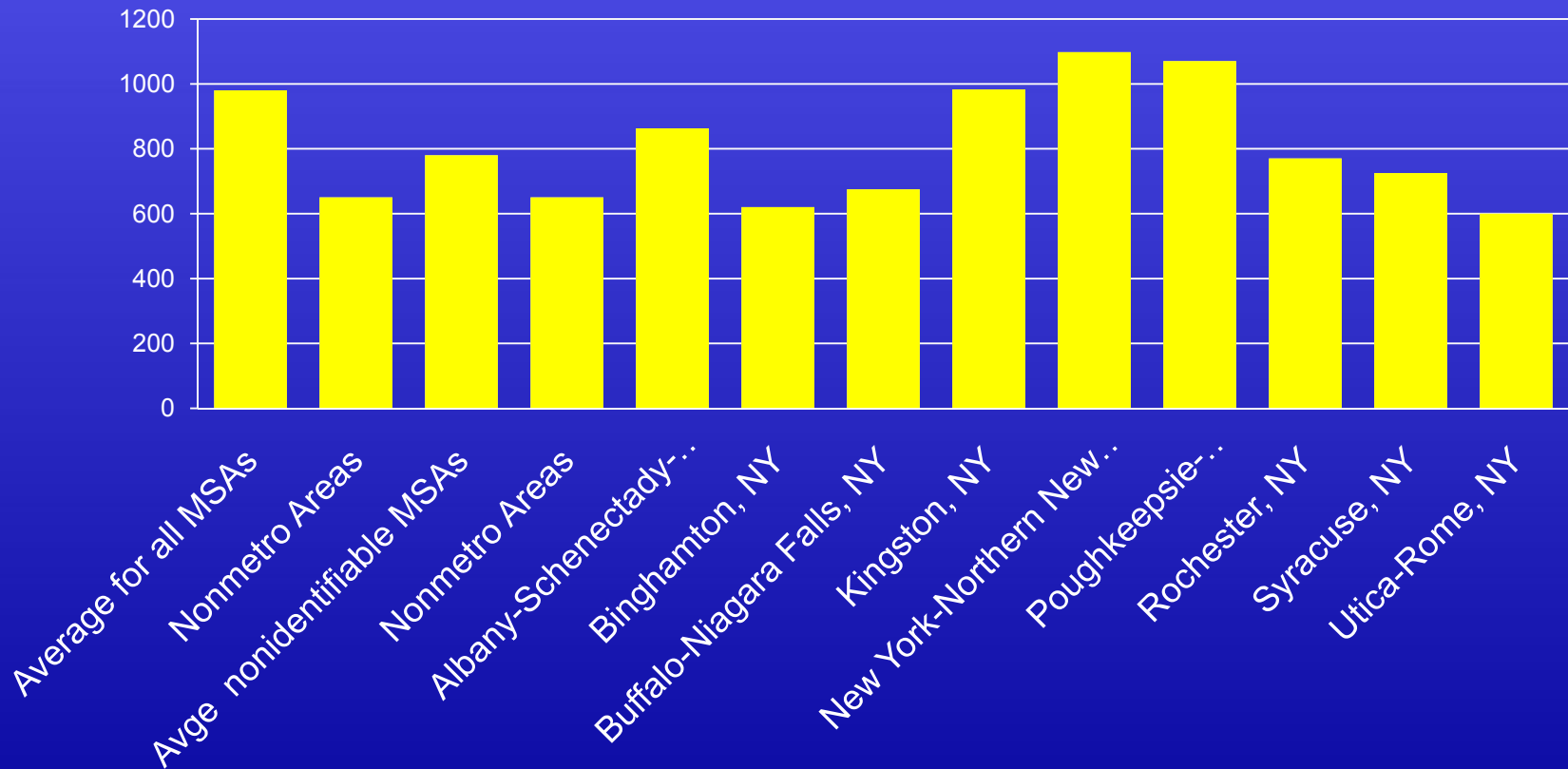


## With adjustment\*



\* Uses ACS Median Gross Rents to adjust

# MSA-specific adjustments: Median Gross Rents for Two Bedroom Units by MSA: 2008 ACS for NY



# When: Updating method

## Official

- Update 1963 level each year for price changes with the CPI-U

## Supplemental

- Recalculate thresholds each year using expenditures (CE survey at BLS) over latest 5 years
- Regularly recalculate adjustment factors used to adjust thresholds by housing status and for interarea price variation

# The What: Family Resource Definition

## Official

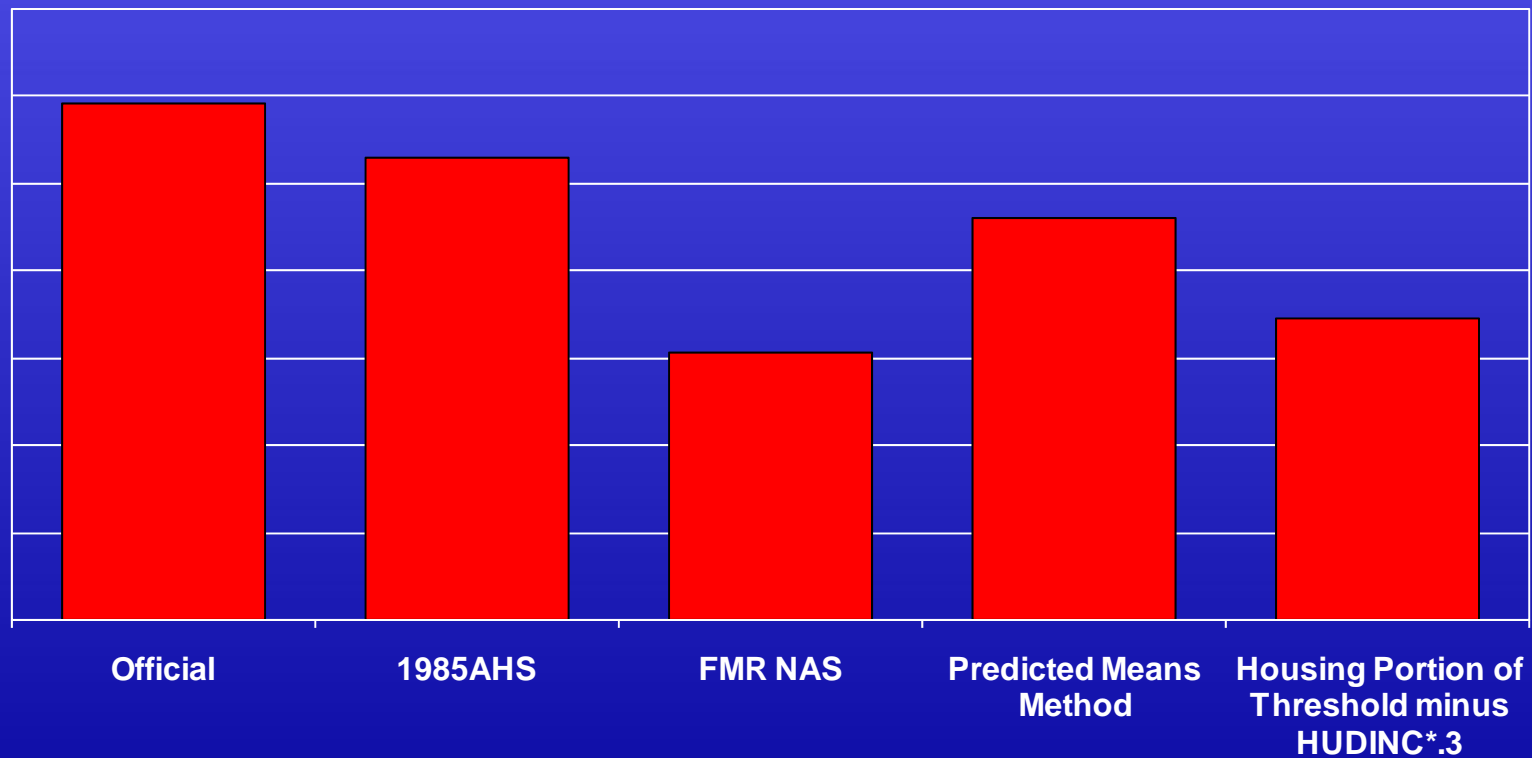
- Gross (before-tax) money income from all sources using Annual Social and Economic Supplement of the Current Population Survey (CPS)

## Supplemental

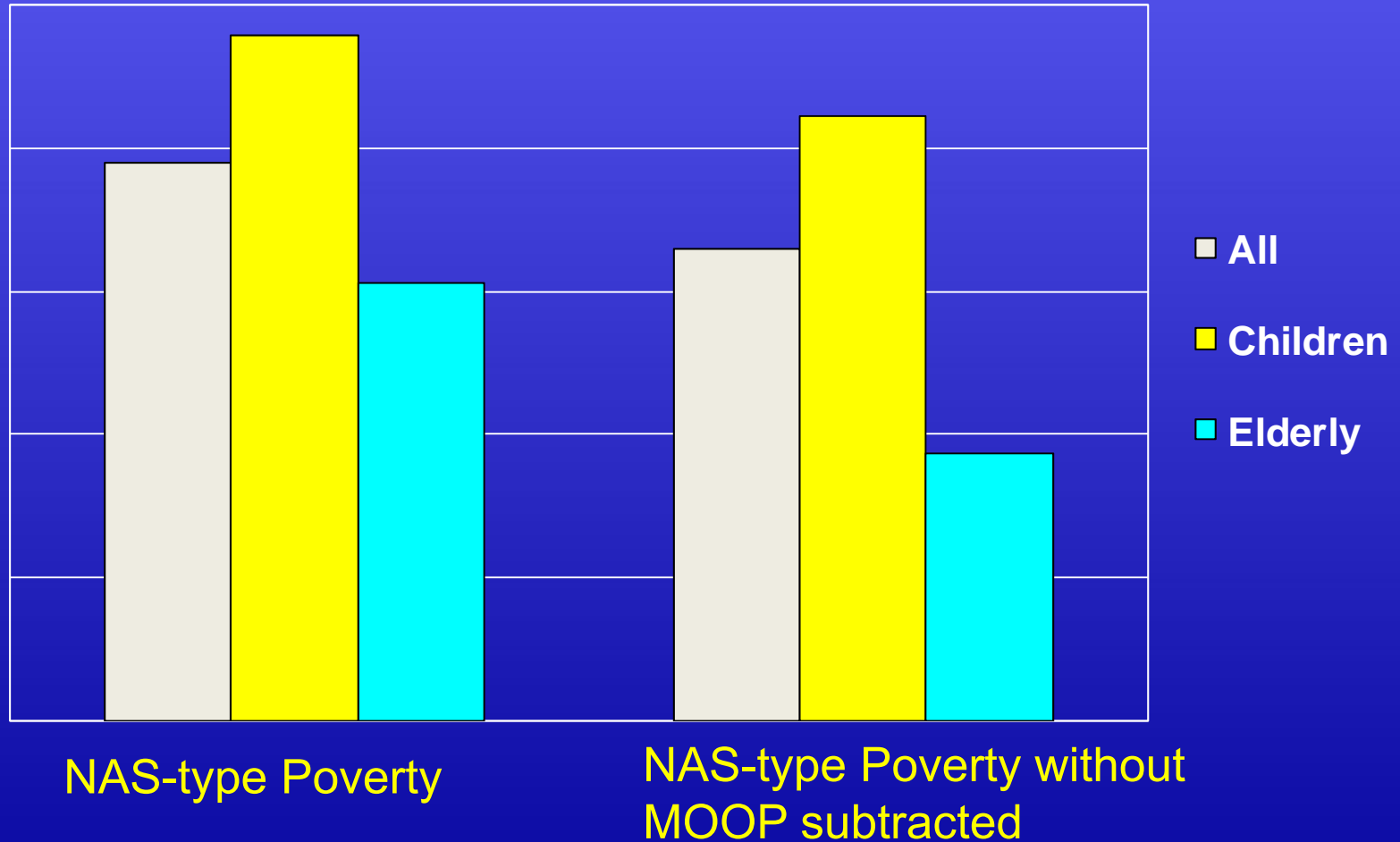
Gross money income (CPS):

- PLUS value of near-money federal in-kind benefits for FCSU (e.g., SNAP, housing subsidies) and tax credits (EITC).
- MINUS income and payroll taxes and other nondiscretionary expenses
  - child care, work-related expenses;
  - child support payments;
  - out-of-pocket medical care expenses, including health insurance premiums

# Valuation of housing subsidy matters: Poverty Rates for Subsidized Renters Using Different Subsidy Methods



# NAS-type Poverty with and without MOOP





# To what extent do the new measure(s) overcome the shortcomings of the official method?

- Distinguish between needs of workers and nonworkers (child care) ✓
- Recognition of variations in medical care costs ✓
- Reflects geographic price variations ✓
- Regular family size adjustments ✓
- Reflect increases in standard of living ✓
- Reflect government policy initiatives
  - In-kind benefits ✓
  - tax credits ✓
  - tax policy ✓

## Next Steps....

- Create Interagency Steering Committee and Census/BLS Development and Implementation team
- Federal Register notice to solicit methodological comments
- December 2010 Documentation on methods used for Supplemental Poverty Measure
  - Assess responses to new questions in CPS
  - Improve tax model, in-kind benefits valuation
  - Specify geographic adjustment mechanism
  - BLS research housing adjustments, and including federal in-kind benefits in thresholds (e.g., housing subsidies, school meals)
- September 2011 – first release of Supplemental Poverty Measure on same day as official measure
- Keep official poverty estimates for allocations of federal funds, and poverty guidelines for program eligibility

# Issues

- Investigate the comparative advantages and disadvantages of trying to measure actual expenses versus assigning an average amount to all working adults
- Investigate the pros and cons of making an adjustment for the uninsured
- Evaluate new questions on CPS/ASEC
- Examine current models for imputed in-kind benefits
- Examine under-reporting of resources
- Examine interaction of housing adjustments in thresholds and medical expenditures

# More Information

- Census Poverty website
  - [www.census.gov/hhes/www/poverty/poverty.html](http://www.census.gov/hhes/www/poverty/poverty.html)
- Forthcoming BLS website
- Working Group document
- Alternative poverty estimates
- Additional Working papers
- Table Creator

# Table Creator I and Table Creator II

[http://www.census.gov/hhes/www/cpstc/apm/cpstc\\_altpov.html](http://www.census.gov/hhes/www/cpstc/apm/cpstc_altpov.html)

CPS Table Creator

U.S. Census Bureau

**Current Population Survey (CPS) Table Creator II** (with Customizable Income and Poverty Definitions)

For the Annual Social and Economic Supplement

[Detailed Examples](#) [Subsets](#) [Define Your Table](#) [Variables](#) [Statistics](#) [Related Sites](#)

## Overview

The CPS Table Creator II gives you the ability to create customized tables from the Current Population Survey's Annual Social and Economic Supplement.

- Complete the form (in seven sections) below and press the "Get Table" button at the bottom of the form to create your table.
- To create a table, you **must** make one or more selections in Section 4, Table Structure.
- For all other sections, you may use the default selections or enter alternate selections to customize the table to meet your needs.
- For **help in getting started**, see the [detailed examples](#) for completing the form to create a table. Also see [examples using the "Poverty Status - Alternative" variable](#).
- For additional help, also see the links throughout the form.
- We are interested in your [feedback](#) to help us improve the CPS Table Creator II to better meet your needs.

If you need access to other years of data, use the original version of the [CPS Table Creator](#). Note that the customizable income and poverty definitions not available in the original version of CPS Table Creator. CPS Table Creator II has undergone a review more limited in scope than the original Table Creator.

### 1. [Year\(s\) of Data:](#)

Latest Year - Number of Years - Average or Separate

### 2. [Universe:](#)

Count of: