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.
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.
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


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: 2011

Current Population Reports

By Kathleen Short
PGO-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). The SPM extends the information provided by the official poverty measure by including many of the program benefits such as the Supplemental Nutrition Assistance Program (SNAP), the Earned Income Tax Credit (EITC), and the Children’s Health Insurance Program (CHIP) to name a few. These benefits are not included in the current official poverty measure. The SPM official poverty measure was developed in the early 1960s, and only a few minor changes have been implemented since it was first adopted in 1965 (Orshansky, 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. The methodology is based on an assessment of the weaknesses of the current official poverty measure, this new panel of experts recommended having a measure that better reflects contemporary social and economic realities and government policy. In their report, the panel identified several major weaknesses of the current official poverty measure:

- The current income measure does not reflect the effects of tax and government transfers.
- The current income measure does not account for changes in the cost of living.
- The current income measure does not account for the size and composition of the family.
- The current income measure does not account for the cost of housing.
- The current income measure does not account for the cost of medical care.
- The current income measure does not account for the cost of education.

Concerns about the adequacy of the official measure have increased during the past decade (Ruggles, 1990), culminating in a congressional appropriation in 1999 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 (Cort, and Michael, 1995). Based on its assessment of the weaknesses of the current official poverty measure, this new panel of experts recommended having a measure that better reflects contemporary social and economic realities and government policy. In their report, the panel identified several major weaknesses of the current official poverty measure:

- The current income measure does not reflect the effects of tax and government transfers.
- The current income measure does not account for changes in the cost of living.
- The current income measure does not account for the size and composition of the family.
- The current income measure does not account for the cost of housing.
- The current income measure does not account for the cost of medical care.
- The current income measure does not account for the cost of education.

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 SPM official poverty measure was developed in the early 1960s, and only a few minor changes have been implemented since it was first adopted in 1965 (Orshansky, 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 food budget, their poverty status was determined by income available to families, and their poverty status was determined by income available to families. The SPM measures the income of families, and their poverty status is determined by income available to families. The SPM measures the income of families, and their poverty status is determined by income available to families.
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

Supplemental Poverty Thresholds

- Owners with a mortgage: $25,703 (2011) vs. $25,784 (2012)
- Owners without a mortgage: $21,175 (2011) vs. $21,400 (2012)
- Renters: $25,222 (2011) vs. $25,105 (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.

- Housing subsidies
- SNAP
- Low-income home energy assistance (LIHEAP)
- National school lunch program
- WIC

**SUBTRACTING EXPENSES**

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

- Child care expenses
- Expenses related to work
- Taxes
- Child support paid
- Medical out-of-pocket expenses (MOOP)
Official vs. SPM Poverty Rates: 2012

<table>
<thead>
<tr>
<th>Category</th>
<th>Total Population</th>
<th>Children</th>
<th>Nonelderly Adults</th>
<th>65+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Official**</td>
<td>15.1</td>
<td>22.3</td>
<td>13.7</td>
<td>9.1</td>
</tr>
<tr>
<td>SPM</td>
<td>16</td>
<td>18</td>
<td>15.5</td>
<td>14.8</td>
</tr>
</tbody>
</table>

United States Census Bureau

Economics and Statistics Administration

U.S. CENSUS BUREAU

13
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.
Figure 4.
Difference in Poverty Rates by State Using the Official Measure and the SPM: 3-Year Average, 2010–2012

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

- People kept out of poverty by ...
  - Social Security
  - Refundable tax credits
  - Supplemental Nutrition Assistance Program
  - Supplemental Security Income
  - Housing subsidies
  - Unemployment compensation
  - Child support received
  - School lunch
  - Public assistance
  - Women, Infants, and Children
  - Workers compensation
  - Low Income Home Energy Assistance Program

- People falling into poverty due to ...
  - Medical out of pocket
  - Work expenses
  - Federal Insurance Contributions Act
  - Federal income tax
  - Child support paid

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:

• Urban Institute: Minnesota
  – http://www.urban.org/publications/412063.html

• University of Virginia
  – http://www.coopercenter.org/demographics/VPM

• California Poverty Measure
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