Housing and Poverty Thresholds: Different Potions for Different Notions

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Problems with Spending

• A single spending-based threshold
  – Owners with mortgages spending behavior to extrapolate to all through the use of equivalence scales
  – Different spending needs based on housing status
    • E.g., own a home outright or have low mortgages have more money to spend on other basic needs (such as food and clothing) than either renters or people with large mortgages
    – Same true for renters with subsidies and those living in public housing and rent-controlled units

• How to account for different spending needs of owners and renters in a poverty measure?
Drivers of Recent Research

• Measuring American Poverty Act of 2009 (MAP)
  – Signed and introduced to the House of Representatives June 17 by Congressman McDermott, amendment to Social Security Act
  – 120% of 33rd percentile of annual FCSU consumption expenditures
  – Calculation of the threshold “shall be made separately” for
    • Families who own their primary residence and do not have a mortgage secured by the residence
    • All other families such that they can “purchase similar quality shelter”

• Supplemental Poverty Measure 2010 (SPM)
  – Released to public from Commerce and OMB, March 2, 1020
  – “Observations from Interagency Technical Working Group on Developing a Supplemental Poverty Measure”
  – 120% of 33rd percentile of annual FCSU expenditures
  – Accounting for housing status
    • Owners without mortgages
    • Owners with mortgages
    • Renters
Focus on Shelter

• Significant number of low-income families
  – Own a home without a mortgage
  – Have quite low shelter expense requirements
  ➢ Not taking this into account may overstate their poverty rates

• Increasing importance of shelter in poverty threshold
  – Shelter expenditures: 31 % in 1996
  – 35 % in 2008 (shelter + utilities ~ 50%)
Previous Threshold Specifications

(NAS) BLS Threshold = \( \frac{(1.15 \times 0.78 \times \text{Median}) + (1.25 \times 0.83 \times \text{Median})}{2} \)  

1. Update by changes in median FCSU each year
2. Assumption: percentages of the median are held constant at the values that were used by the Panel for the 1992 thresholds

SPM and MAP Threshold = 1.20 \times 33^{rd} \text{percentile}  

1. Update by changes in 33^{rd} percentile of FCSU expenditures each year
2. Assumption: 33^{rd} percentile changes each year
FCSU Spending

• **CE-Defined**
  – Food (includes Food Stamps value)
  – Clothing
  – Utilities (includes telephone)
  – For renters, shelter expenditures
  – For homeowners, non-vacation shelter expenditures that include
    • Mortgage interest payments
    • Prepayment penalties
    • Property taxes
    • Maintenance, repairs, insurance and other related expenditures

• **Out-of-pocket**
  – CE-defined + mortgage principal repayments
Thresholds Using 33rd Percentile Updated by Change in Median or 33rd Percentile

Sample: Reference Families Only

Updated by Median

Updated by 33rd Percentile

Reference Family Thresholds in December 2006
Shelter in SPM Thresholds

- Three FCSU thresholds
  - Owners with mortgages
  - Owners without mortgages
  - Renters

- Apply “adjustment factors” to the shelter component of FCSU to reflect relative expenditures of housing groups

- To start:
  - Estimate shelter expenses for each of these three groups in a range around the 33rd percentile of FCSU for the estimation sample, S1, S2, S3
  - Create three thresholds by replacing the “S” component at the 33rd percentile with S1, S2, and S3
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