The Rationale for the Current Poverty Threshold

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Disclaimer: Any views expressed are mine and not those of the BLS.
Outline

- Interagency Technical Working Group (ITWG) for Supplemental Poverty Measure (SPM) Thresholds

- Components and justification

- Examined
  - For Whom
  - Housing
  - Updating
  - In-kind benefits
  - Point in the distribution *(address in health care session)*

- Remaining issues
Where we are … Where to next?

- Current SPM thresholds based on spending
  - Expand to include in-kind
  - Expand to include health care as need (later session)
- Value of housing need for owners: spending vs. consumption
  - Consistent with including in-kind for FSU (recommended by NAS as option)
- Estimation sample
- Equivalence scales
- Updating
ITWG: Establishing a Threshold

- Following the recommendations of the NAS panel, based on expenditures for set of commodities all must purchase: food, shelter, clothing and utilities (FSCU)

- Among population not poor, but below the median

- A key criterion: thresholds and resources be conceptually consistent with each other
ITWG: Components and Justification (1)

- Expansion of “family” unit or SPM unit
  - All related individuals who live at same address, any co-resident unrelated children who cared by the family (e.g., foster children) and any co-habitors and their children
  - Justification: Composition of families in U.S. continues to change

- Estimation sample (as opposed to reference unit) includes all SPM units with exactly 2 children
  - Justification: Growing number of children live in units with different numbers of adults
  - Justification: Units with 2 children: largest percentage of units with children
ITWG: Components and Justification (2)

■ Adjust thresholds for housing status, distinguishing renters, owners with mortgages, and owners without mortgages
  ▶ **Justification:** Significant number of low-income families own homes without a mortgages and therefore have quite low shelter expense requirements; not taking into account could overstate their poverty status

■ Include reduction in mortgage principal as expenditure
  ▶ **Justification:** Must be paid to keep one’s housing

■ Use most recent 5 years of data on equivalized expenditures for the reference unit sample.
  ▶ **Justification:** Larger sample expected to increase stability of thresholds and ensure they move more slowly than NAS from year-to-year (updating to reflect real growth in consumption)
ITWG: Components and Justification (3)

- Multiply FCSU among reference sample by 1.2 (NAS refers to this as “plus a little bit more” (personal care, reading, etc.))
  - **Justification:** NAS Panel tested different bundles and multiplier

- From distribution of equivalized FCSU expenditures within reference sample, select dollar amount at 33rd percentile of the distribution.
  - **Justification:** Assumption 33rd percentile equivalent to 78%-83% of median

- Include in calculation of FCSU value of any in-kind benefits that counted on resource side for FCSU.
  - **Justification:** Necessary for consistency with resources

- Adjust for geographic price differences across area
  - **Justification:** Costs for housing (shelter+utilities) differ across area
ITWG: BLS and Census

- **Basic thresholds produced at Bureau of Labor Statistics**
  - **Justification:** BLS experts in expenditures and behavior of consumer units
  - BLS contributed to research on and production of NAS thresholds – expect to continue to serve in role

- **Adjustments done at Census Bureau**
  - Economic unit size (equivalence scale)
  - Differences in cost of living across geographic areas
  - **Justification:** Census Bureau expert on poverty resources and ACS for geographic adjustment
Based on Whom?

Standards of living
- SPM-5 years
- NAS-3 years
- Official-1963

Represented by
- SPM- 33rd percentile FCSU
- NAS-78%-83% of median FCSU
- Official: All spending needs

Estimation sample
- NAS- families with 2 adults and 2 children
- SPM-CUs with 2 children
- Official: families with 3 or more people
For Whom? Pooled Data for 2010

Source: Garner (Brookings, 2012)
Shelter Needs by CE Lower Before-Tax Money Income: 2010

Share of CUs by Housing Tenure for All and SPM Unit 2A+2C: 2010

5 Years of Data and Updating SPM Thresholds: Moving from 2014 to 2015

2010Q2-2011Q1  2011Q2-2012Q1  2012Q2-2013Q1  2013Q2-2014Q1  2014Q2-2015Q1  2015Q2-20161Q1

Pooled CE data converted to 2014 threshold year $${}$
Pooled CE data converted to 2015 threshold year $${}$
Updating SPM Thresholds for 2A+2C

Owners with mortgages
Renters
Owners without Mortgages

Updated each Year

2005 Base

2009 Base

Using 3 years of data… less stable

Updated with All Items CPI_U
ITWG stated …

“so far as possible with available data, the calculation of FCSU should include any in-kind benefits that are counted on the resource side for food, shelter, clothing and utilities. This is necessary for consistency of the threshold and resource definitions.” (March 2010)

\[ FCSU = \text{sum (food, clothing, shelter, utilities)} \text{ at micro-level} \]

<table>
<thead>
<tr>
<th>SPM Threshold = FCSU + little bit more</th>
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<tbody>
<tr>
<td>Supplemental Nutrition Assistance Program (SNAP)</td>
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<tr>
<td>Housing Subsidies</td>
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<tr>
<td>Supplemental Nutrition Program for Women, Infants, and Children (WIC)</td>
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<tr>
<td>National School Lunch Program (NSLP)</td>
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<tr>
<td>Low-Income Home Energy Assistance (LIHEAP)</td>
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**Underlying Assumption**

- **Resources to meet “needs”**
  - **Thresholds represent “needs”**
  
  
  
  
  "Needs" defined as:
  - Food
  - Clothing
  - Shelter
  - Utilities
  - + “a little bit more” for personal care, non-work related transportation, etc.

- For resources: cash + value of in-kind benefits for what in thresholds
- For thresholds: spending + value of in-kind benefits

- Therefore: Thresholds are not arbitrary but have specific meaning
Problem: Thresholds and Resources Inconsistently Defined

Thresholds

Resources: Official

Expenditures for FCSU (including SNAP)

Cash income
Problem: Thresholds and Resources Consistently Defined

Thresholds

Expenditures for FCSU (including SNAP)

Resources

With SNAP In-Kind Benefits

Cash income
Problem: Thresholds and Resources Inconsistently Defined

Thresholds

Expenditures for FCSU (including SNAP)

Resources

Housing & Energy Subsidies

Other Food Subsidies

With SNAP In-Kind Benefits

Cash income
Other Food Subsidies

Housing & Energy Subsidies

Thresholds

Resources

Expenditures for FCSU (including SNAP)

With SNAP
In-Kind Benefits

Cash income
Challenge: Data in the U.S. Consumer Expenditure Interview Survey

- Limited data on Rental Assistance Programs
  - Indicator variables for rented living quarters
    - Is this house a public housing project, that is, it is owned by a local housing authority or other local public agency? (CE variable: pub_hous)
    - Are your housing costs lower because the Federal, State, or local government is paying part of the cost? (CE variable: govtcost)
  - Total rent payments for each of last 3 months (do not include direct payments by local, state, or federal agencies)
  - Expenditures for utilities

- No data on programs but data on potential participants
  - National School Lunch Program (NSLP)
  - Supplemental Nutrition Program for Women, Infants, and Children (WIC)
  - Low income Home Energy Assistance (LIHEAP)
SPM Thresholds for 2 Adults with 2 Children with and without Imputed In-Kind Benefits (based on eligibility and reported housing assistance participation): 2012

- **Owners with Mortgages**
  - Without imputed in-kind: $25,784
  - With imputed in-kind: $25,105
  - Source: Garner, Short, and Gudrais, JSM Proceedings 2015

- **Renters**
  - Without imputed in-kind: $26,812
  - With imputed in-kind: $26,276

- **Owners without Mortgages**
  - Without imputed in-kind: $21,400
  - With imputed in-kind: $21,892

Note: based “33rd” percentile
Poverty Rates by Age Group Using SPM Thresholds with and without Imputed In-Kind Benefits: 2012

Where we are …

Where to next?

- Current SPM thresholds based on spending
  - Expand to include in-kind
  - Expand to include health care as need (*later session*)

- Value of housing need for owners: spending vs. consumption
  - Will be more consistent with including in-kind for FCSU (*recommended by NAS as option*)

- Estimation sample

- Equivalence scales

- Updating
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http://stats.bls.gov/pir/spmhome.htm
SPM Thresholds 2A+2C: FCSU with Housing Adjustment

- SPM thresholds, with multiplier, by housing tenure \( h \)

\[
(1.2 \times FCSU_{"33 \, per."}) - (S + U)_{FCSU \"33 \, per."} + (S + U)_{FCSU \"33 \, per." \, for \, housing \, h}
\]

- Housing tenure \( h \)
  - Owners with mortgages
  - Renters
  - Owners without mortgages

- Other adjustments
  - Equivalence scales applied for other SPM units
  - Geographic applied: \((SU)\) share of thresholds only