

The Rationale for the Current Poverty Threshold

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Measuring Poverty in the 21st Century Conference
Stanford Center on Poverty & Inequality
March 11, 2016



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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

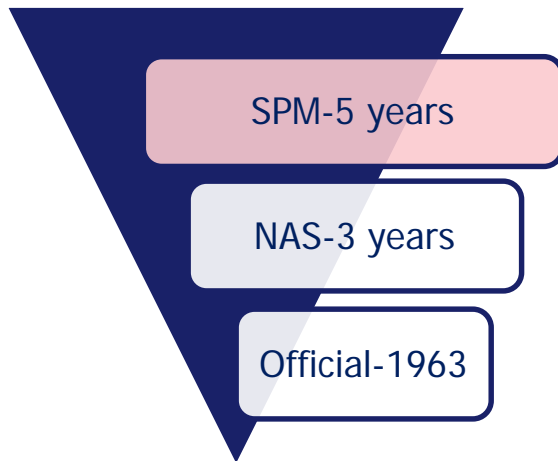
ITWG: BLS and Census

- 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

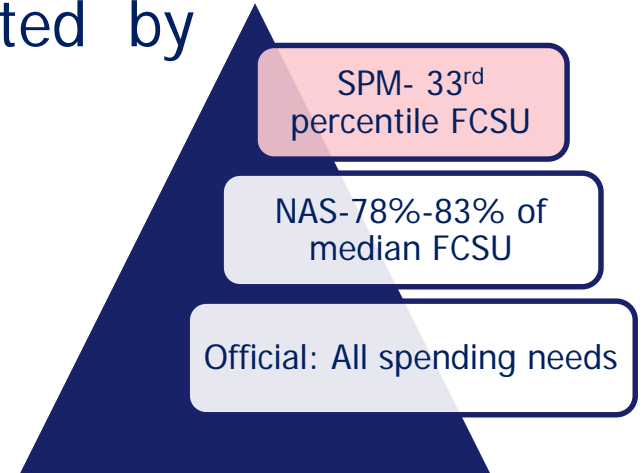
- Adjustments done at Census Bureau
 - ▶ Economic unit size (equivalence scale)
 - ▶ Differences in cost of living across geographic areas
 - ▶ **Justification:** Census Bureau expert on poverty resources and ACS for geographic adjustment

Based on Whom?

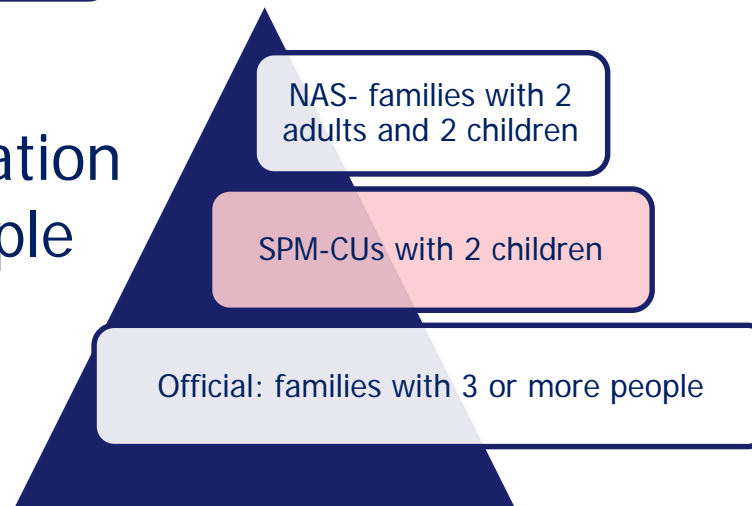
Standards of living



Represented by

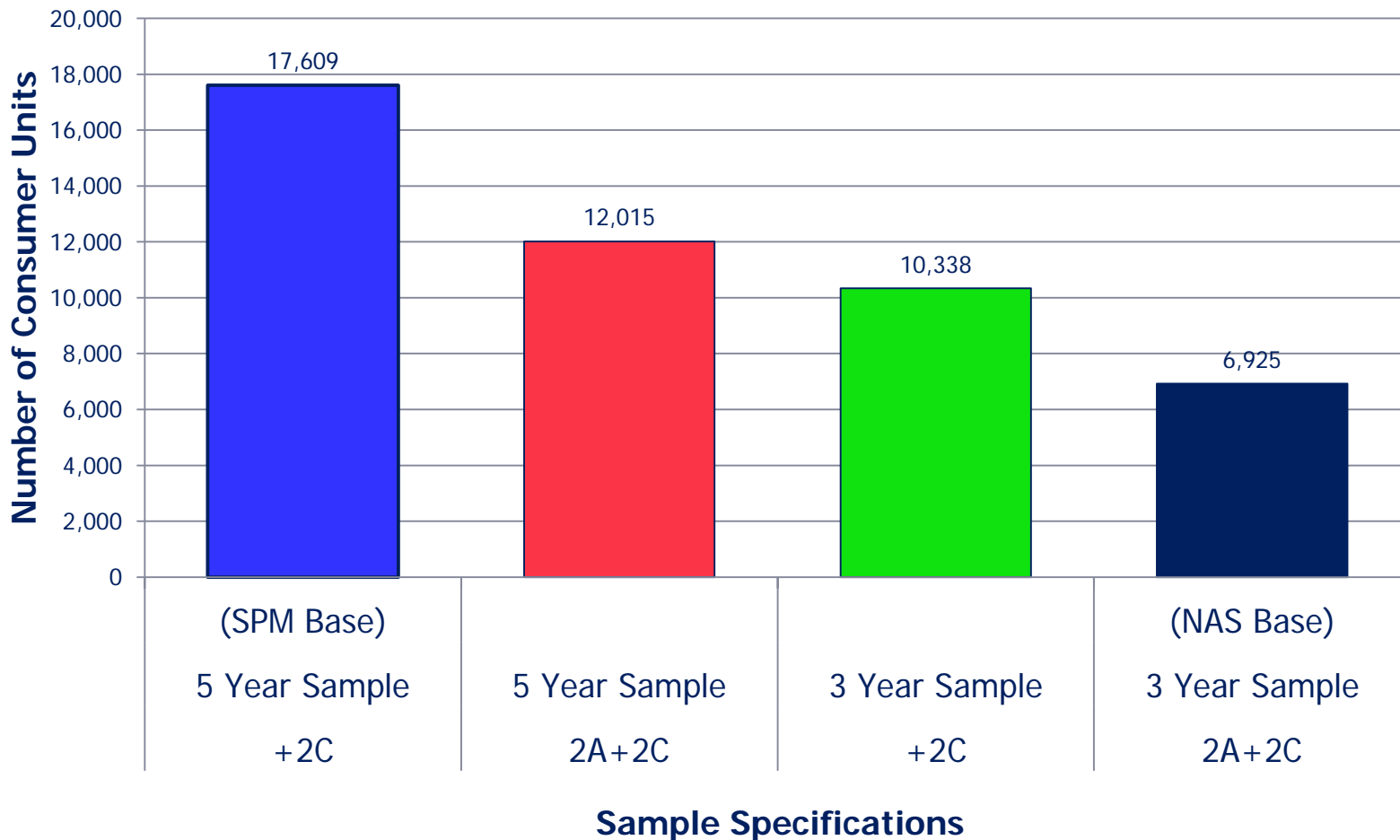


Estimation sample

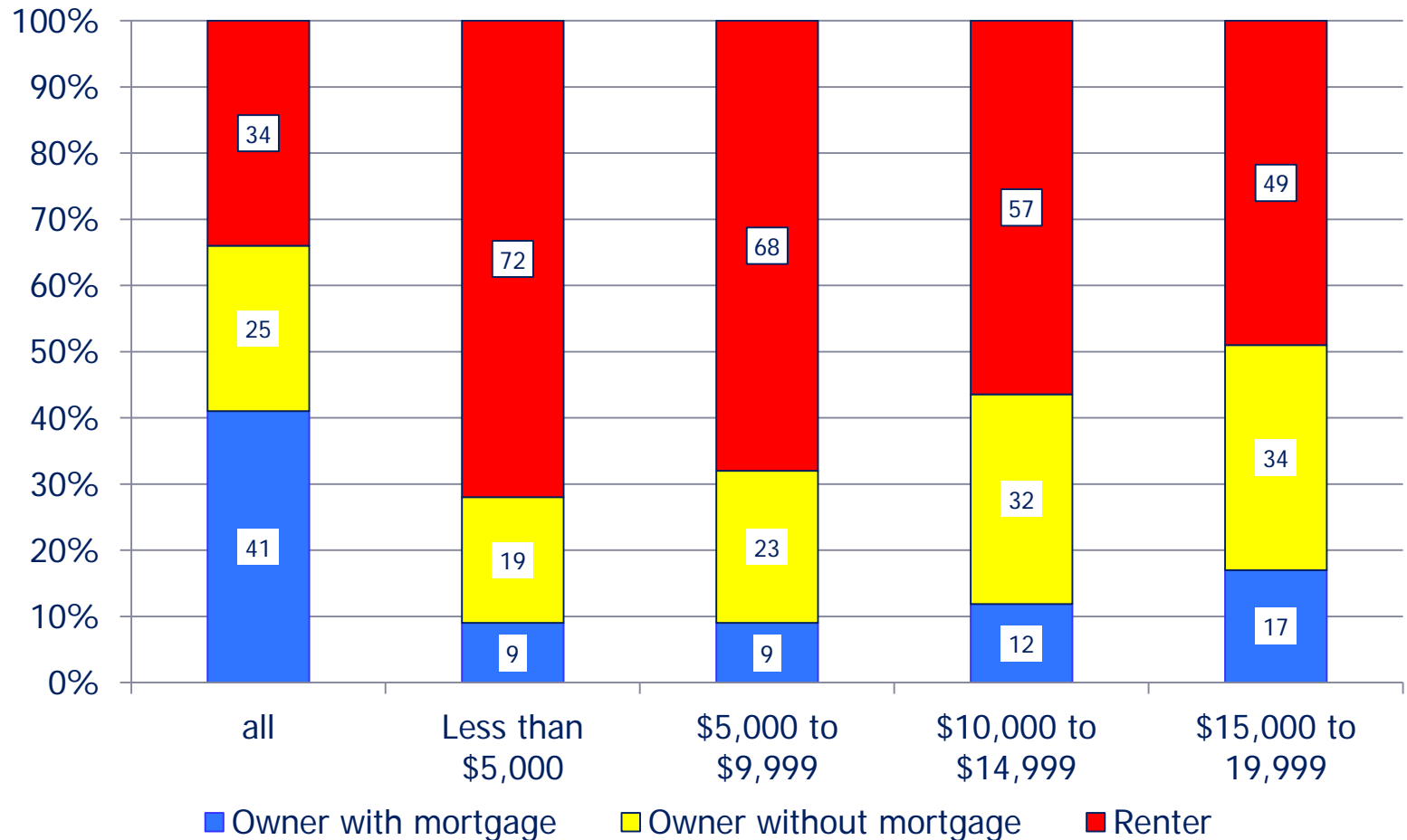


For Whom?

Pooled Data for 2010



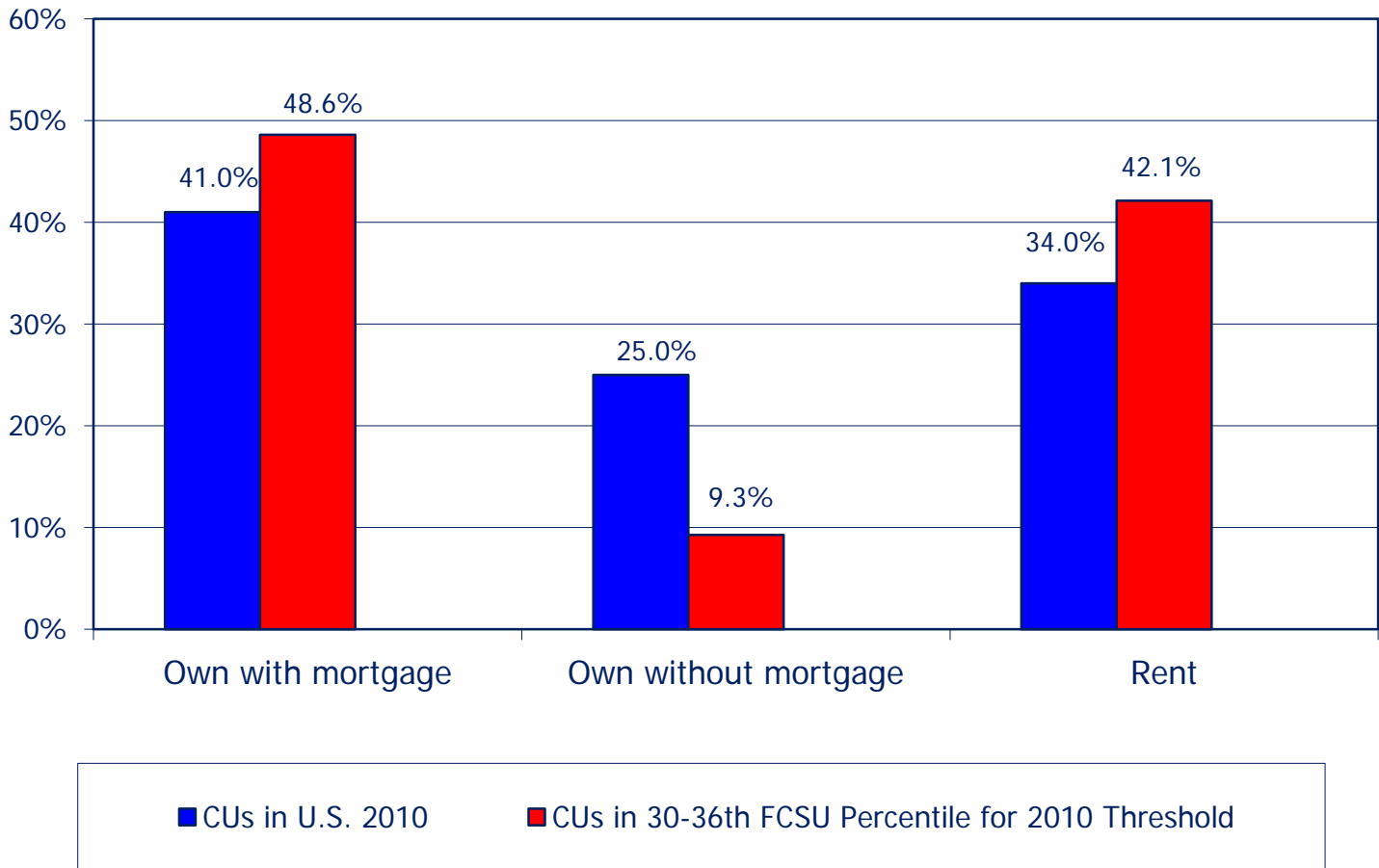
Shelter Needs by CE Lower Before-Tax Money Income: 2010



Source: <https://www.bls.gov/cex/2010/Standard/income.pdf>

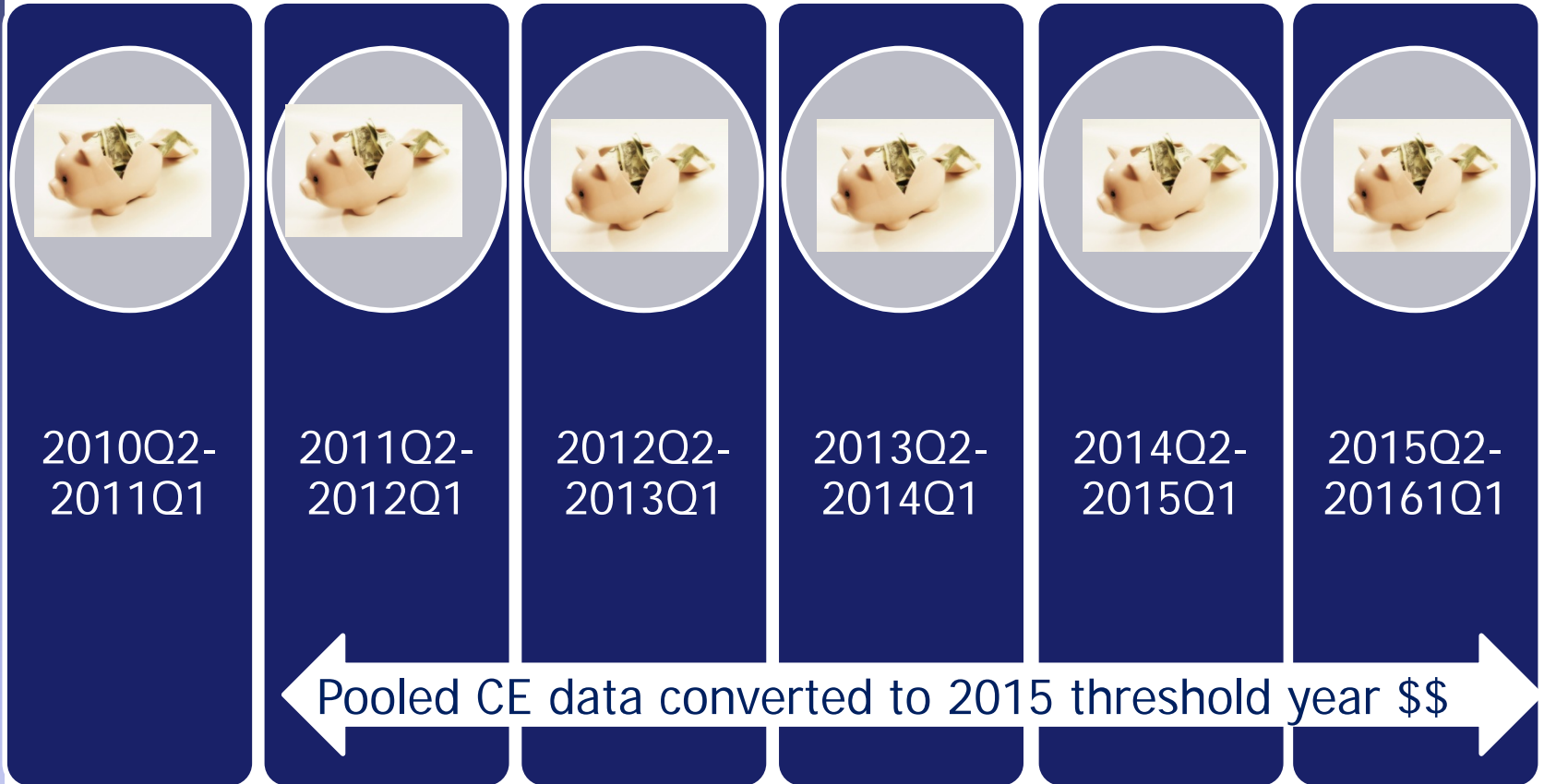


Share of CUs by Housing Tenure for All and SPM Unit 2A+2C: 2010



Source: Garner and Gudrais, Brookings presentation, November 7, 2011 for pooled 5 year estimation sample (estimation sample all Cus with 2 children converted to 2 adults with 2 children, and <https://www.bls.gov/cex/2010/Standard/income.pdf> 12

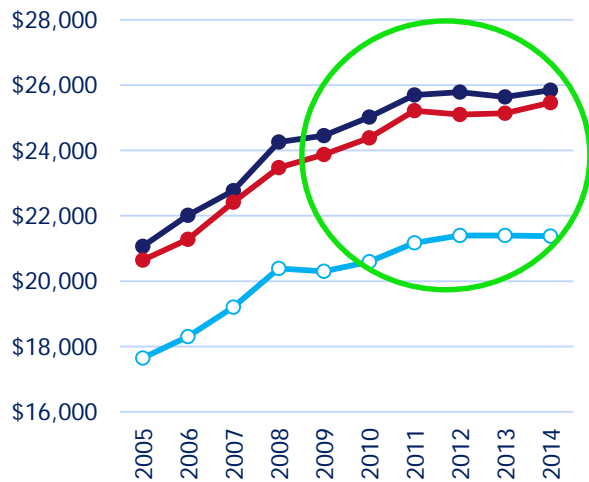
5 Years of Data and Updating SPM Thresholds: Moving from 2014 to 2015



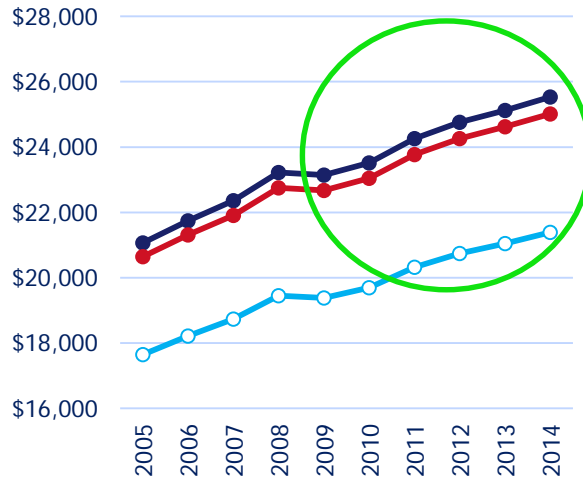
Updating SPM Thresholds for 2A+2C

Owners with mortgages
 Renters
 Owners without Mortgages

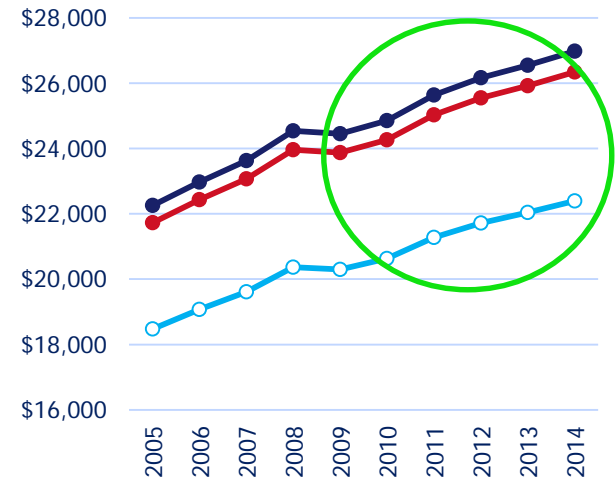
Updated each Year



2005 Base



2009 Base



Using 3 years of data...
 less stable

Updated with All Items CPI_U



Subsidies in Thresholds

➤ **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 = sum (food, clothing, shelter, utilities) at micro-level

SPM Threshold = FCSU + little bit more

Supplemental Nutrition Assistance Program (SNAP)

Housing Subsidies

Supplemental Nutrition Program for Women, Infants, and Children (WIC)

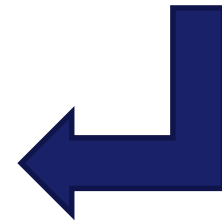
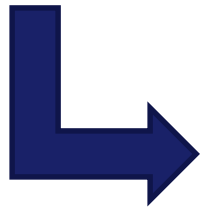
National School Lunch Program (NSLP)

Low-Income Home Energy Assistance (LIHEAP)

Underlying Assumption

■ Resources to meet
“needs”

■ Thresholds
represent “needs”




- 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)

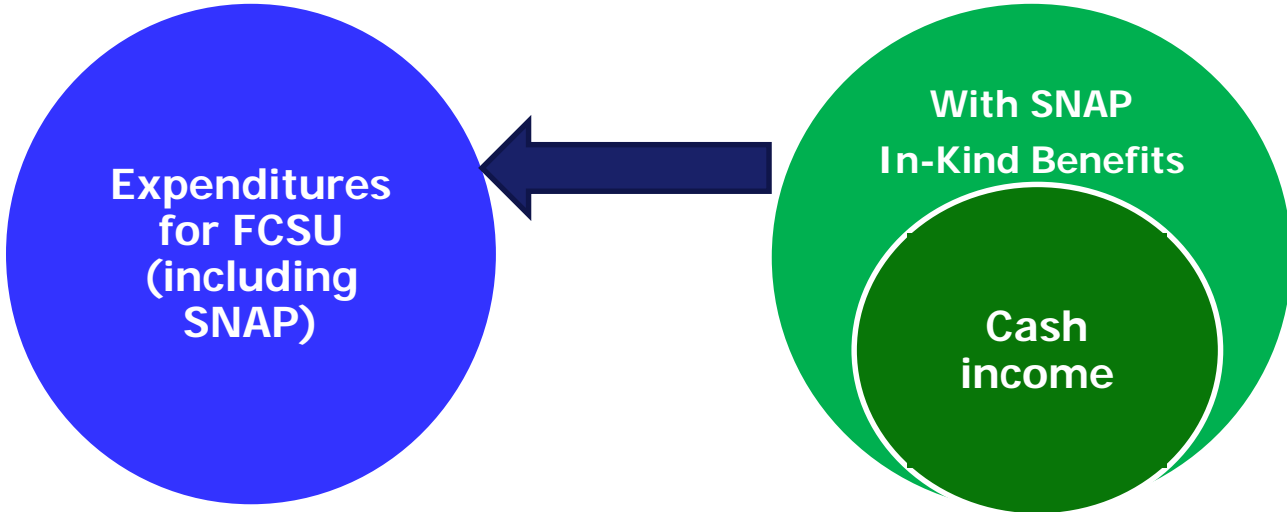


Cash
income

Problem: Thresholds and Resources Consistently Defined

Thresholds

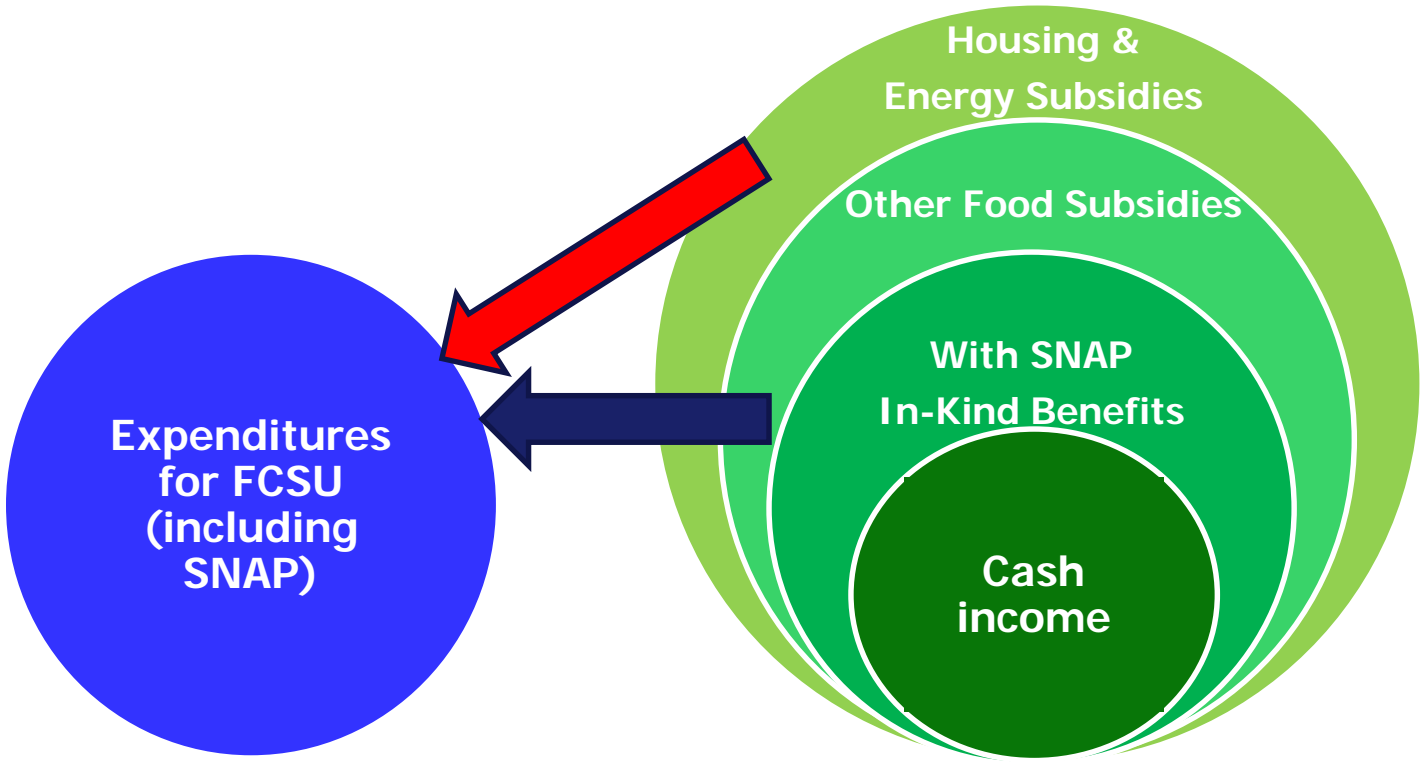
Resources



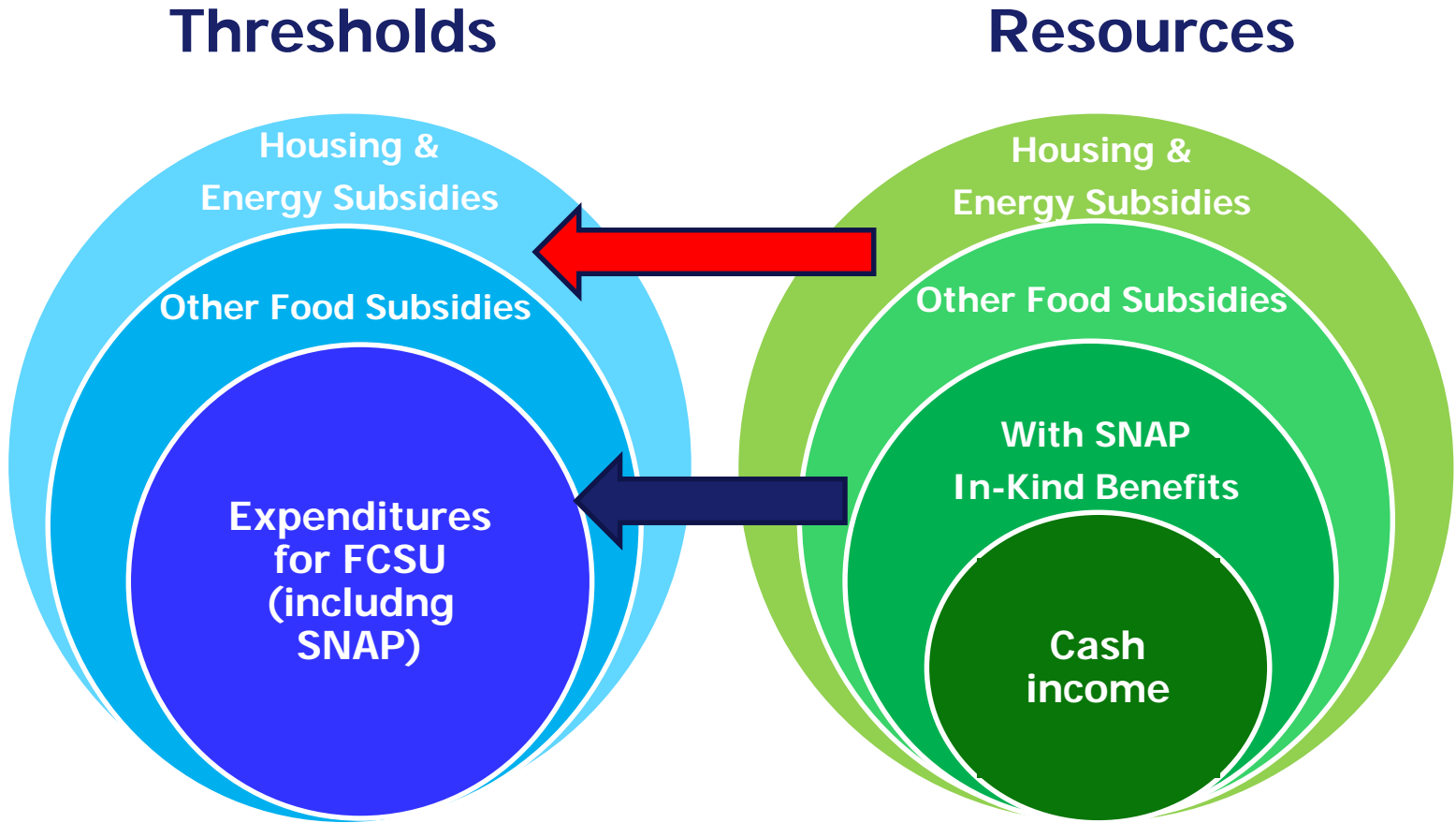
Problem: Thresholds and Resources Inconsistently Defined

Thresholds

Resources



Problem: Thresholds and Resources Consistently Defined



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

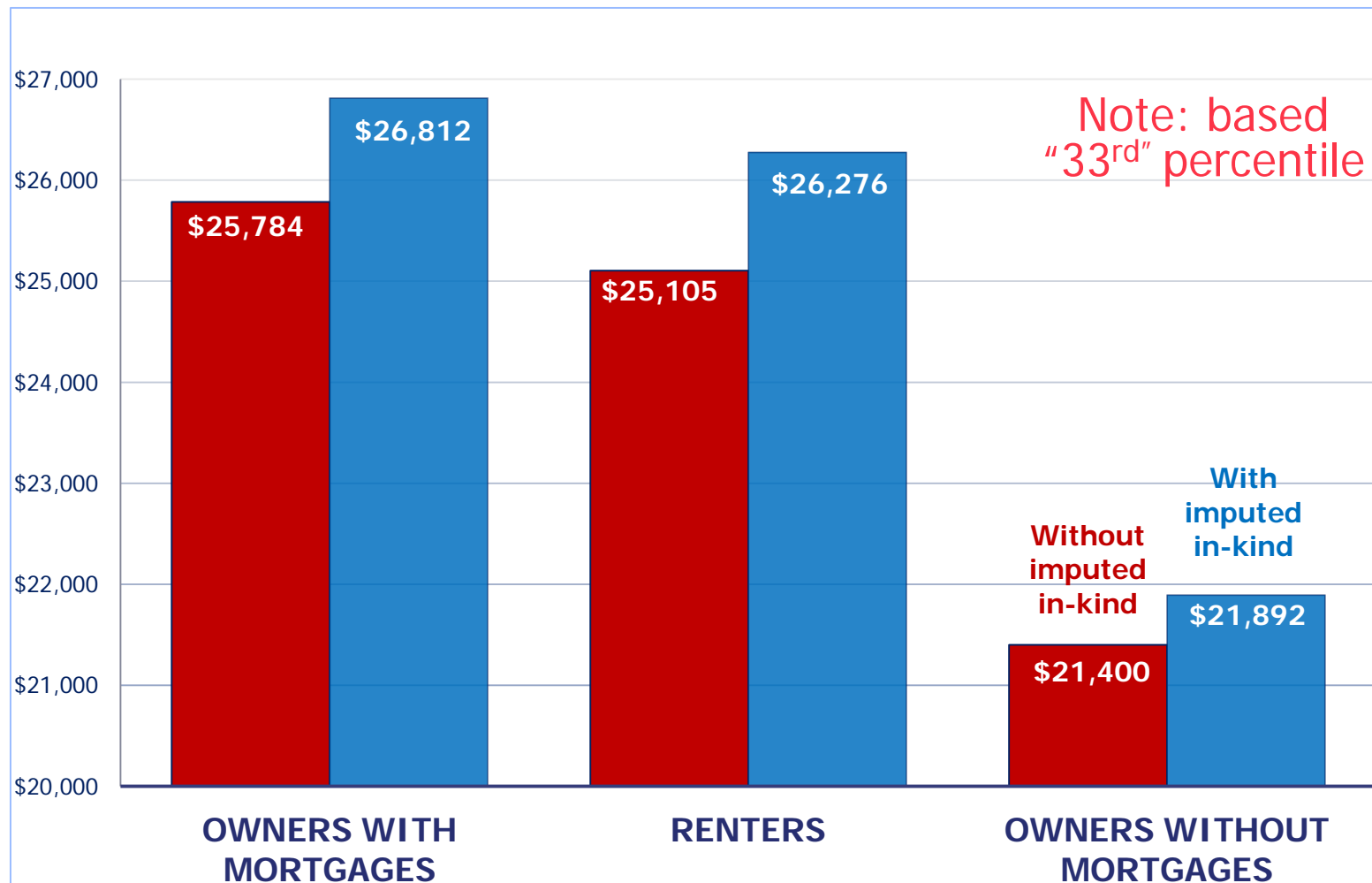
■ Limited data on Rental Assistance Programs

- ▶ 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

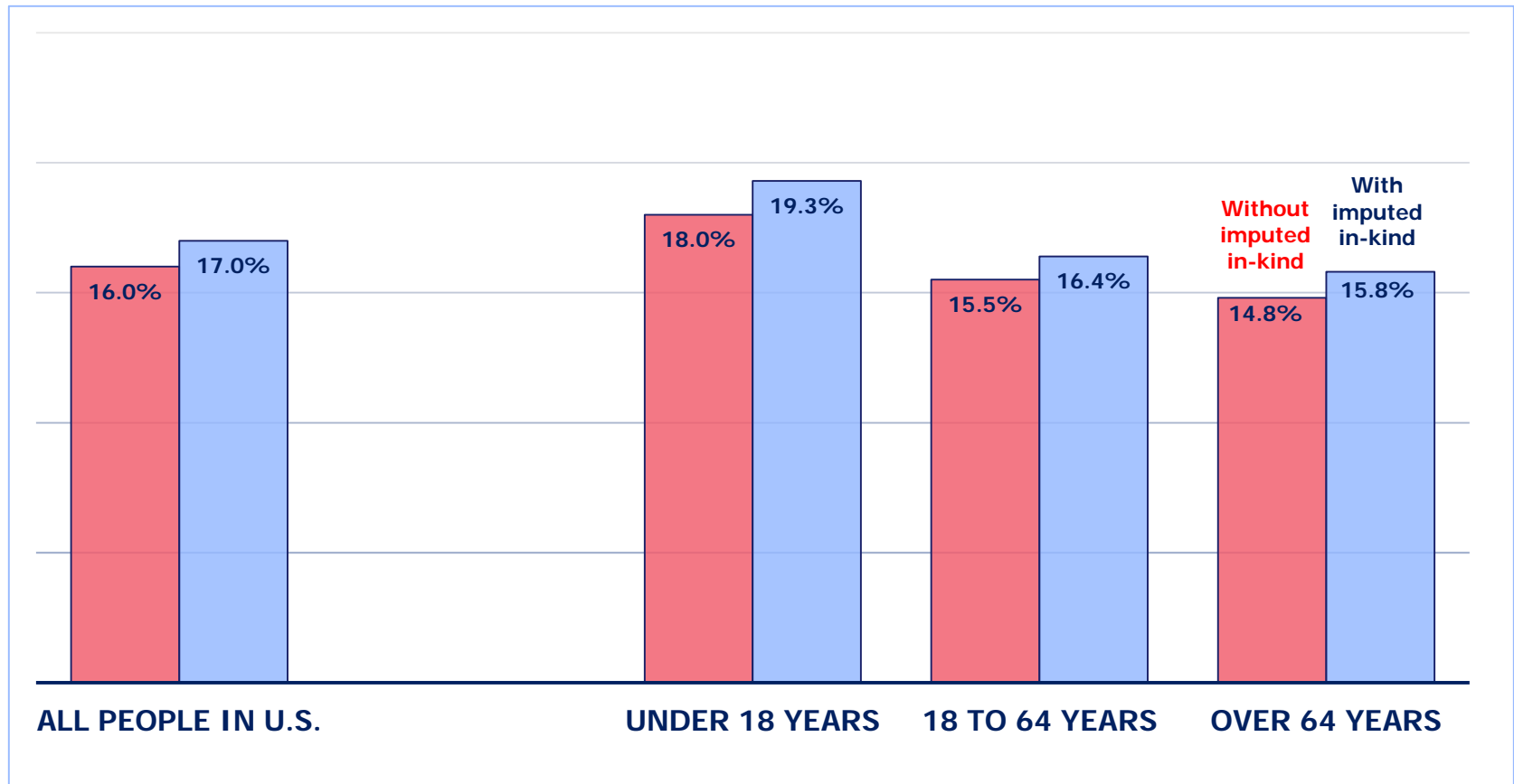
■ No data on programs but data on potential participants

- ▶ 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



Poverty Rates by Age Group Using SPM Thresholds with and without Imputed In-Kind Benefits: 2012



Source: Garner, Short, and Gudrais, JSM Proceedings 2015. Poverty rates based on SPM Units and Resources using Current Population Survey, 2013 Annual Social and Economic Supplement

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

Contact Information

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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

$$= (1.2 * FCSU_{\text{"33 per."}}) - (S + U)_{FCSU \text{ "33 per."}} + (S + U)_{FCSU \text{ "33 per." for housing } h}$$

- 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