

Measurement Challenges in Income Poverty: Estimating the Value of Social Transfers for the Supplemental Poverty Measure

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Official poverty measure for the United States

- Developed in the 1960's – only small technical changes in the past 50 years.
- Poverty thresholds
 - vary by family size and number of children
 - based on the cost of food times three
- Resource measure
 - pre-tax cash income
- Unit of analysis
 - family defined as those related by blood, marriage or adoption
- Data
 - Current Population Survey Annual Social and Economic Supplement (CPS ASEC) – 100,000 households

Criticisms of the Official Poverty Measure

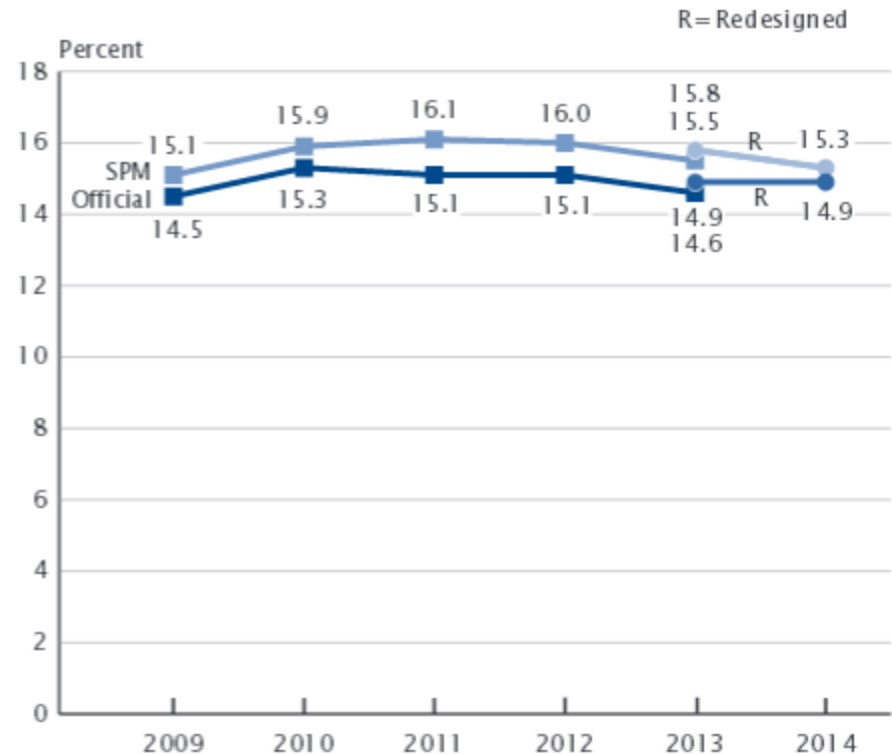
- The official measure does not account for:
 - Provision of in-kind benefits
 - Necessary expenses (taxes, health care, work)
 - Changes in family or household structure
 - Higher standards and levels of living since 1955
 - Geographic differences

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)

Figure 4.
Poverty Rates Using the Official Measure and the SPM: 2009 to 2014

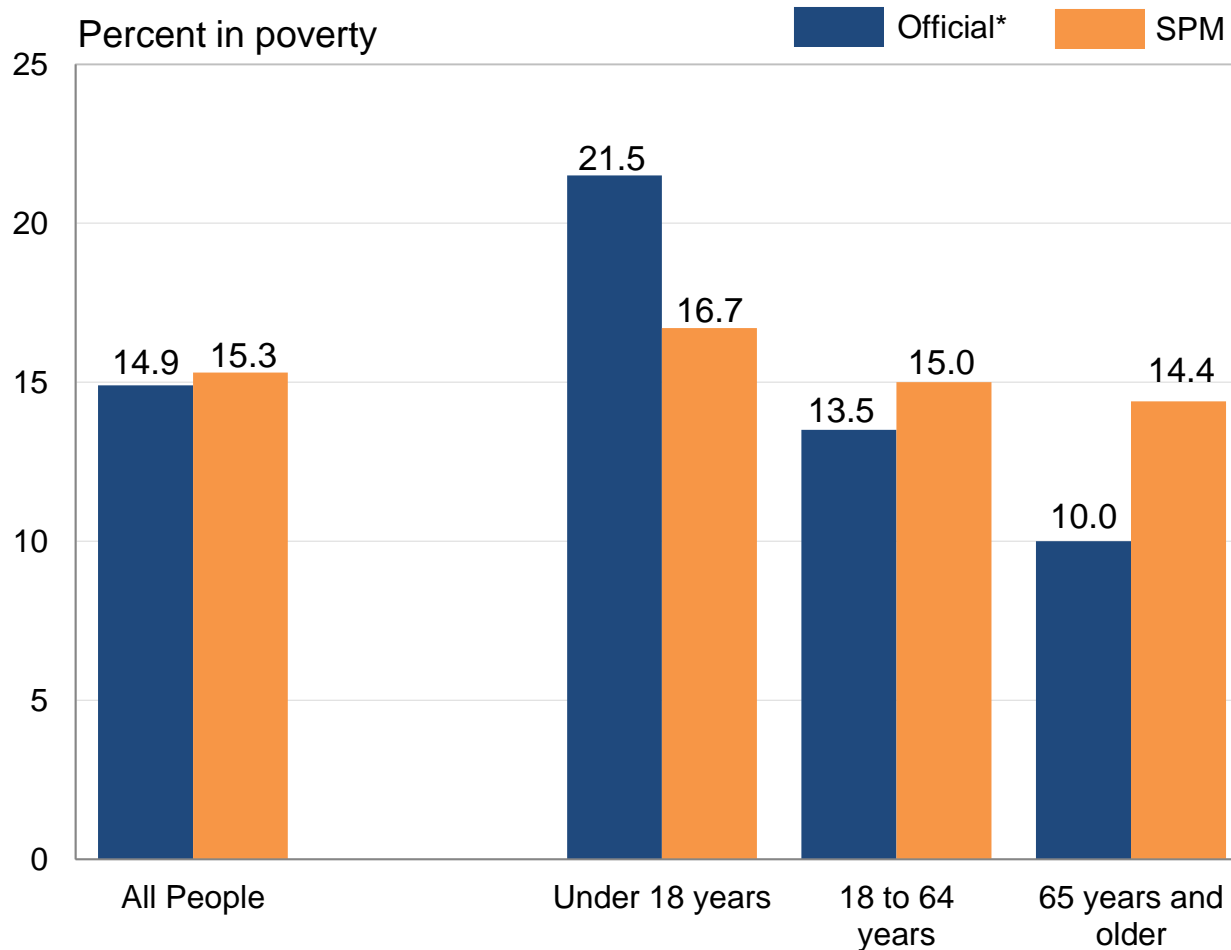


Source: U.S. Census Bureau, Current Population Survey, 2010-2015 Annual Social and Economic Supplements.

Poverty Measure Concepts: Official and Supplemental

	Official Poverty Measure	Supplemental Poverty Measure
Measurement Units	Families or unrelated individuals	Families, including any coresident unrelated children who are cared for by the family (such as foster children) and any cohabiters and their relatives, or unrelated, noncohabiting individuals
Poverty Threshold	Three times the cost of a minimum food diet in 1963	The mean of expenditures on food, clothing, shelter, and utilities (FCSU) over all two-child consumer units in the 30th to 36th percentile range multiplied by 1.2
Threshold Adjustments	Vary by family size, composition, and age of householder	Geographic adjustments for differences in housing costs by tenure and a three-parameter equivalence scale for family size and composition
Updating Thresholds	Consumer Price Index: all items	5-year moving average of expenditures on FCSU
Resource Measure	Gross before-tax cash income	Sum of cash income, plus noncash benefits that families can use to meet their FCSU needs, minus taxes (or plus tax credits), minus work expenses, out-of-pocket medical expenses and child support paid to another household

Comparison of SPM and Official Poverty Estimates: 2014



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.

SUBTRACTING EXPENSES

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



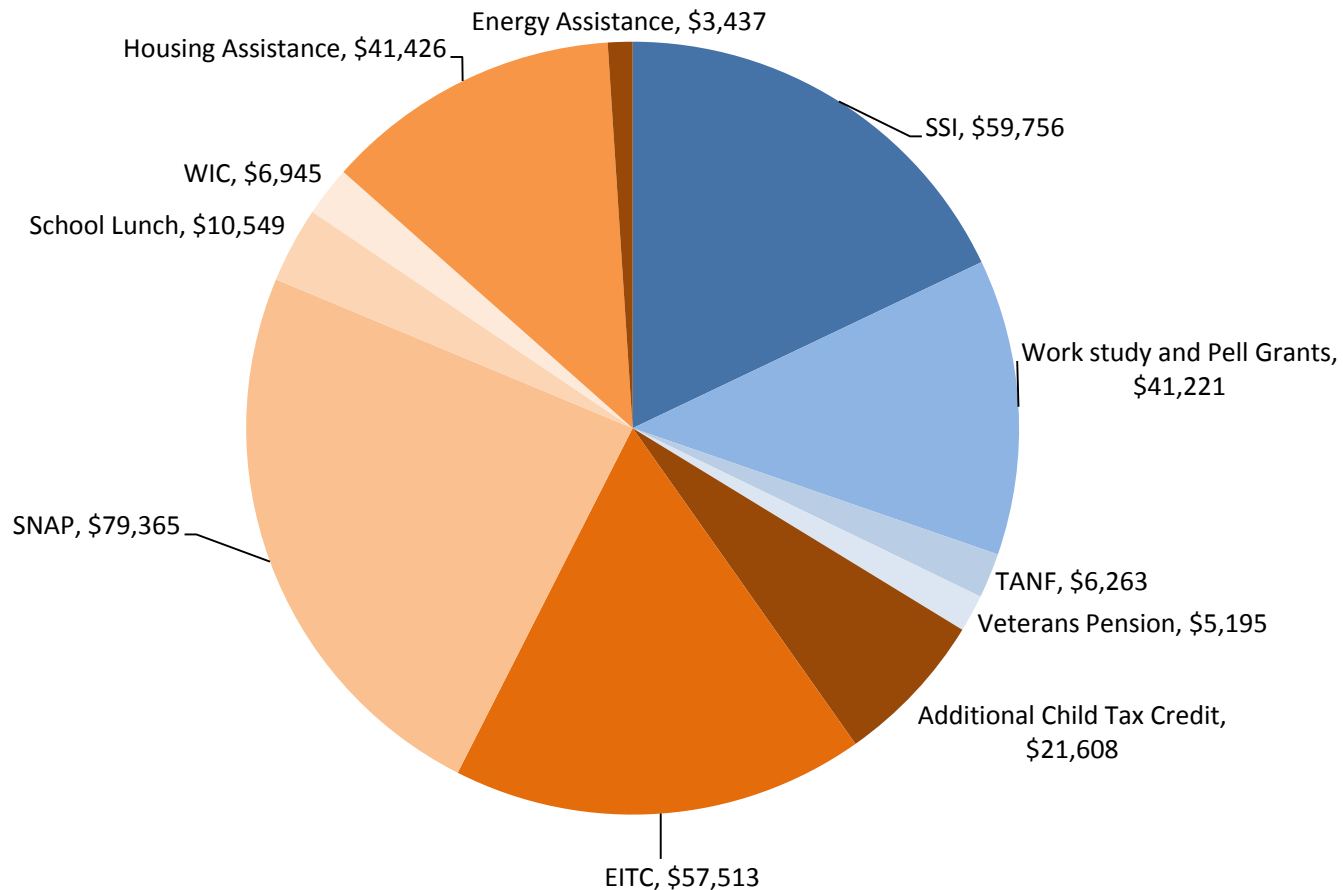
Should social transfers/noncash benefits be included in resources?

Internationally there are conflicting opinions:

- Canberra Group – excluded social transfers from the preferred resource measure “due to practical measurement issues”
- Expert Group on Poverty Statistics (Rio Group) encouraged the inclusion of non-cash transfers and imputation of non-market-valued items

The ITWG suggested noncash benefits used to reduce spending on food, shelter, clothing and utilities be included in resources but urged research to ensure that thresholds were consistent with the resource definition.

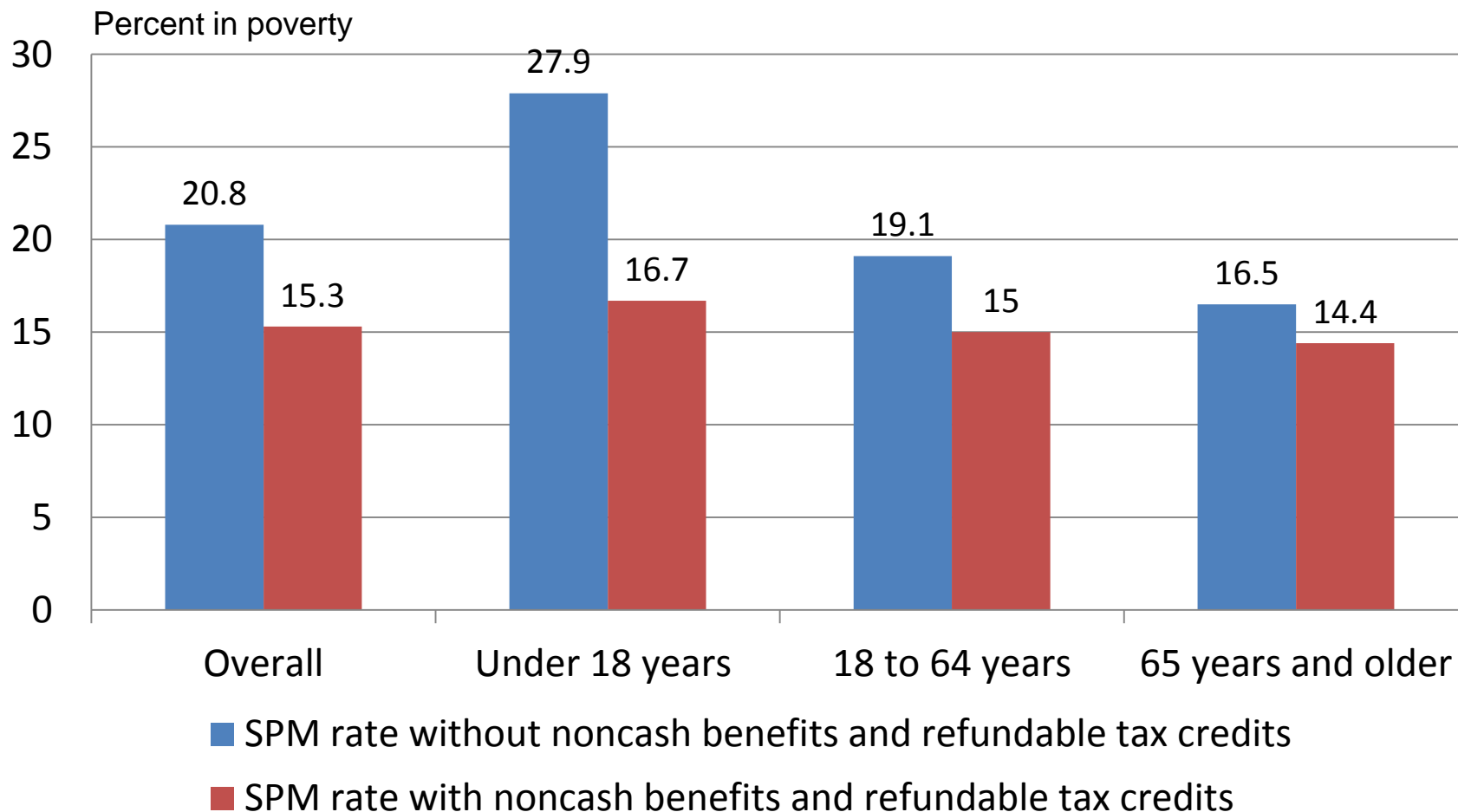
For the United States, there are important reasons to include noncash benefits in the resource measure.



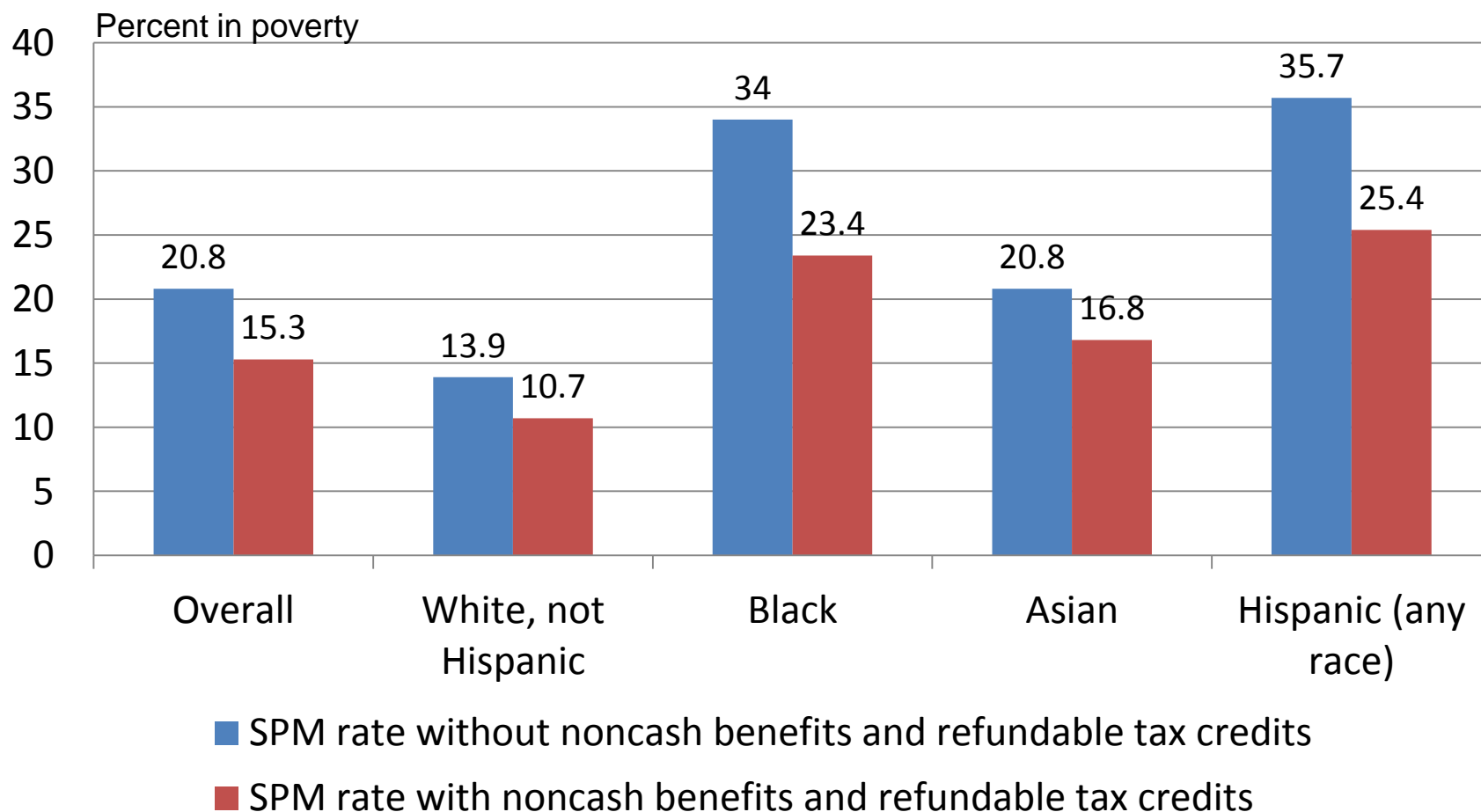
Data on Noncash Benefits: CPS ASEC

NONCASH Benefit	CPS ASEC	
	Participation	Amount
SNAP – Supplemental Nutrition Assistance Program	YES	YES
WIC - Women, Infants and Children Nutrition Program	YES	NO
Regular School Lunch	YES	NO
Free or Reduced Price School Lunch	YES	NO
Housing Assistance	YES	NO
LIHEAP – Low Income Home Energy Assistance Program	YES	YES
Refundable tax credits	NO	NO

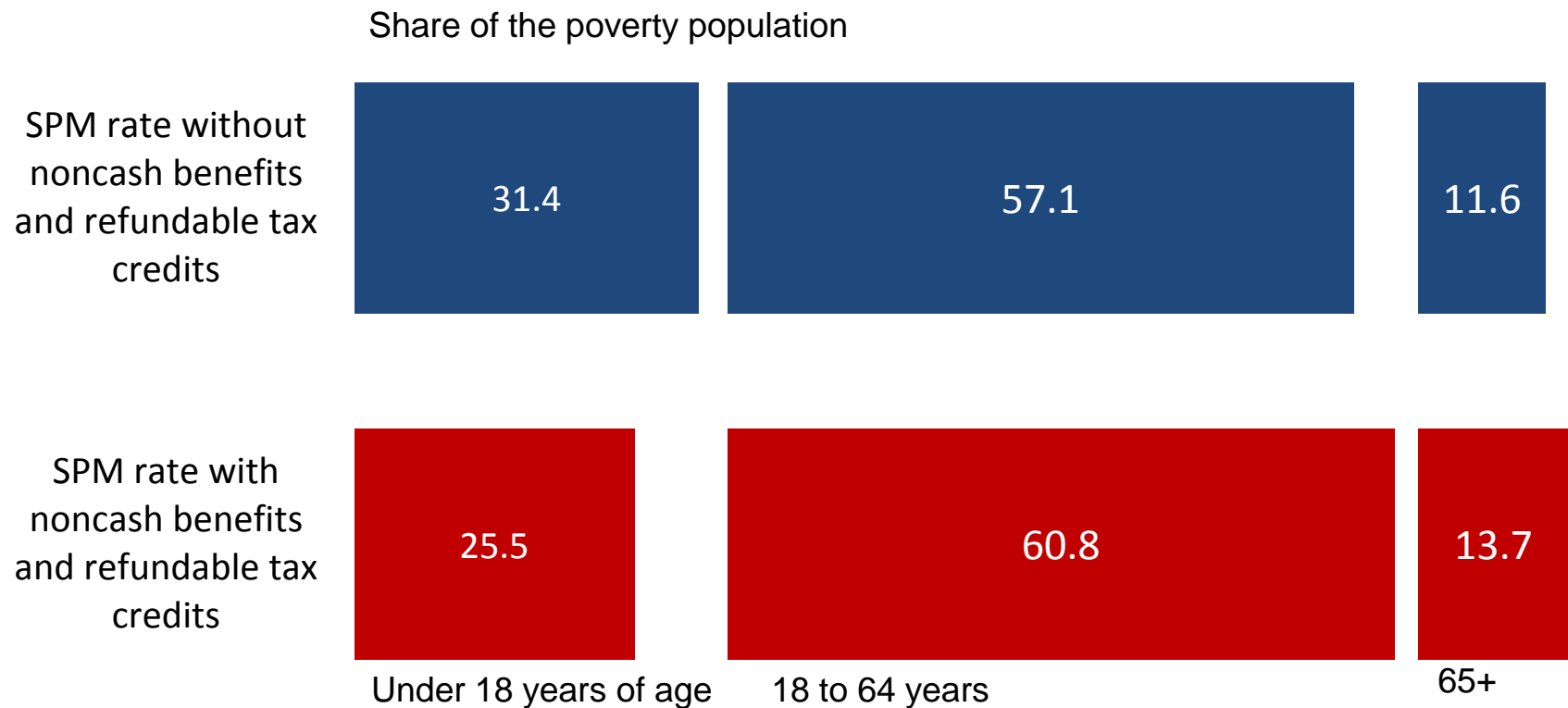
Cumulative Impact of Noncash Benefits and Refundable Tax Credits: by Age



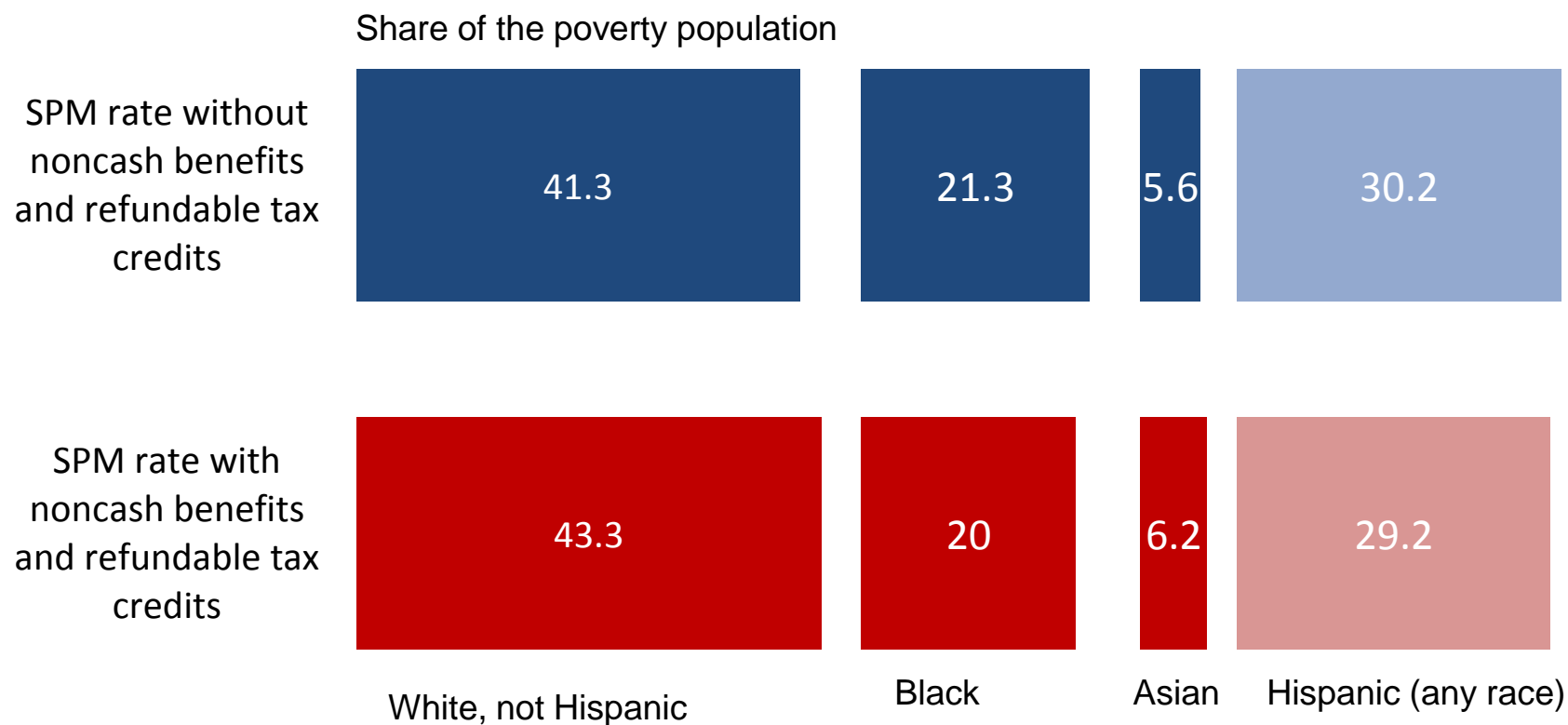
Cumulative Impact of Noncash Benefits and Refundable Tax Credits: by Race/Ethnicity



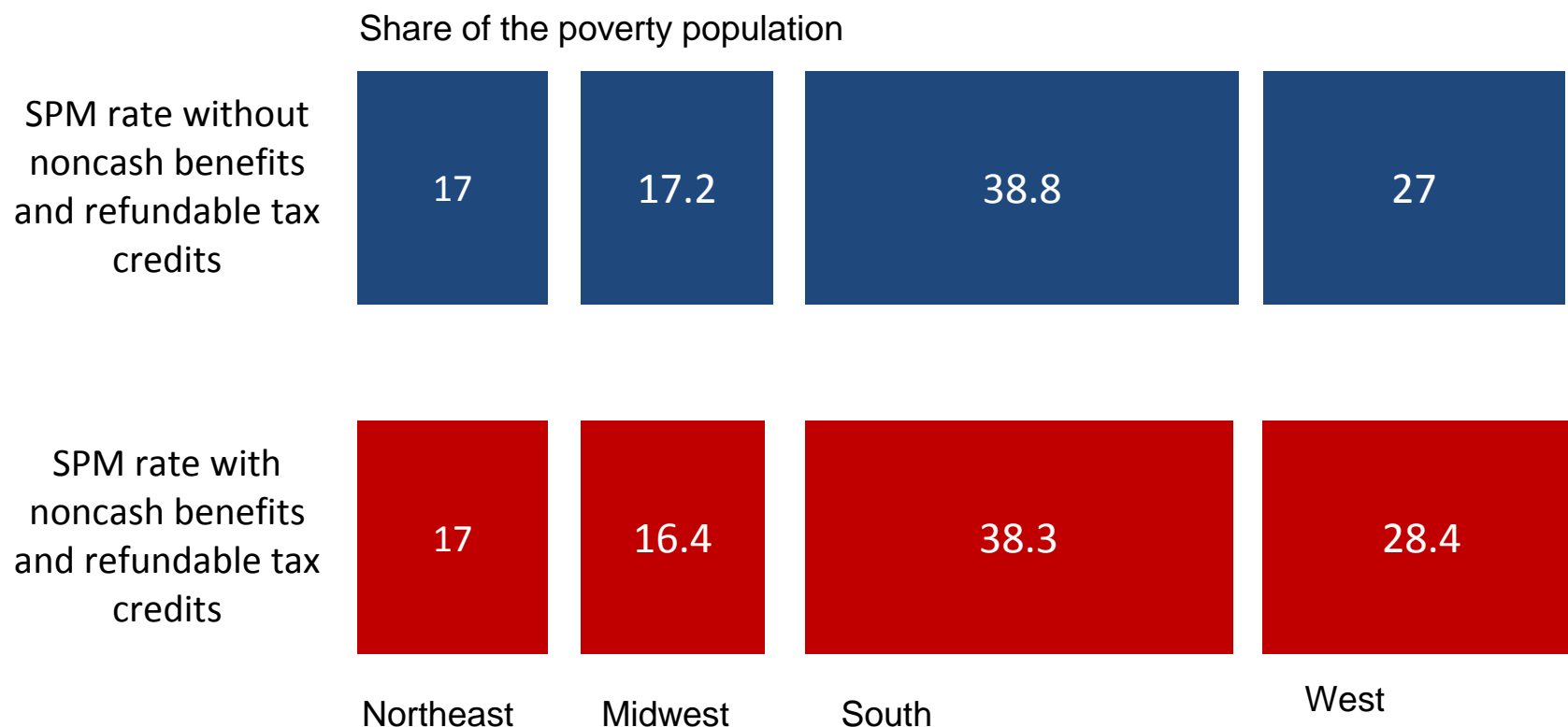
Noncash benefits and refundable tax credits lower poverty rates. In order to assess the relative importance for different groups, it is interesting to examine the composition of the poverty population.



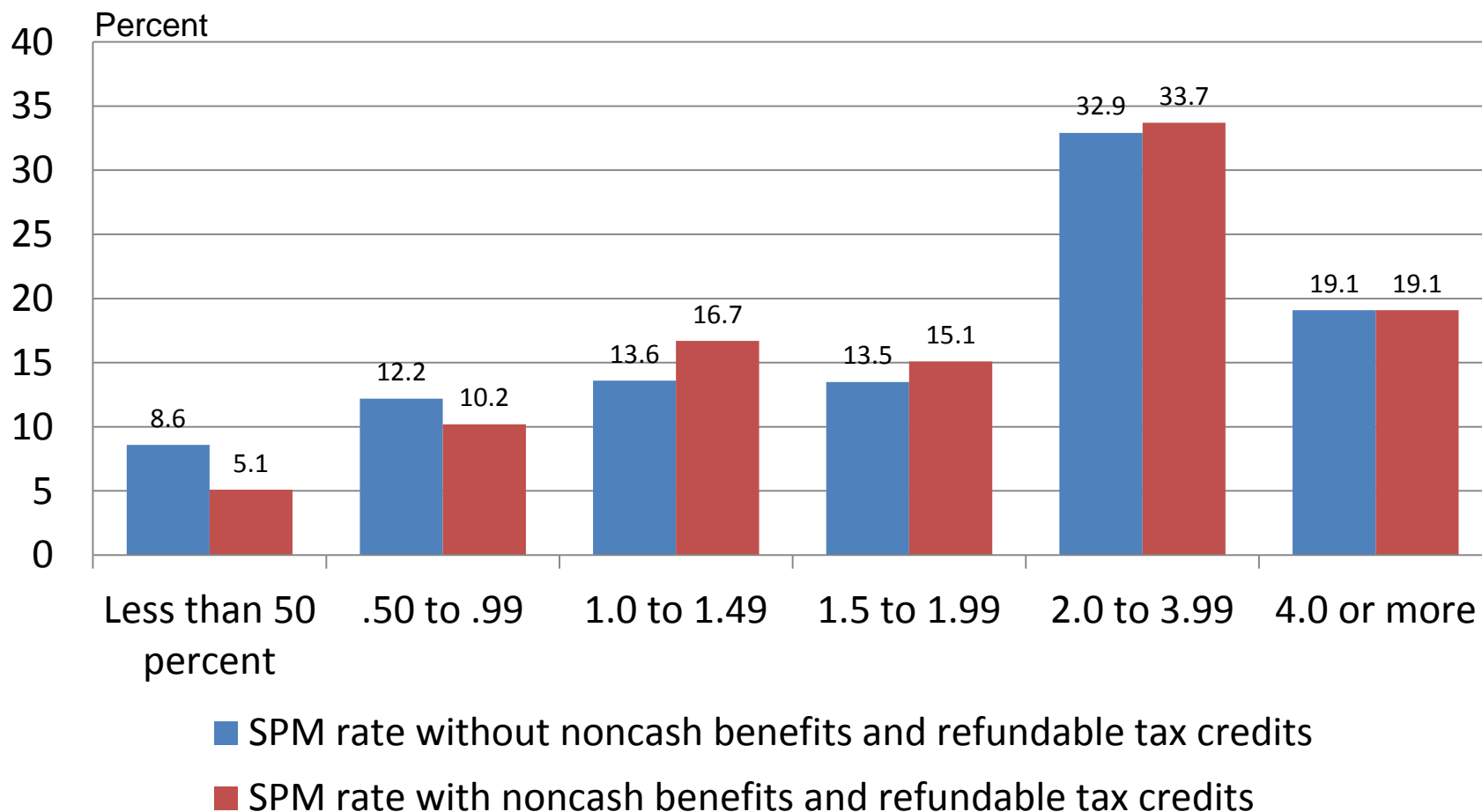
Looking at race and Hispanic origin, the changes in shares are not as striking.



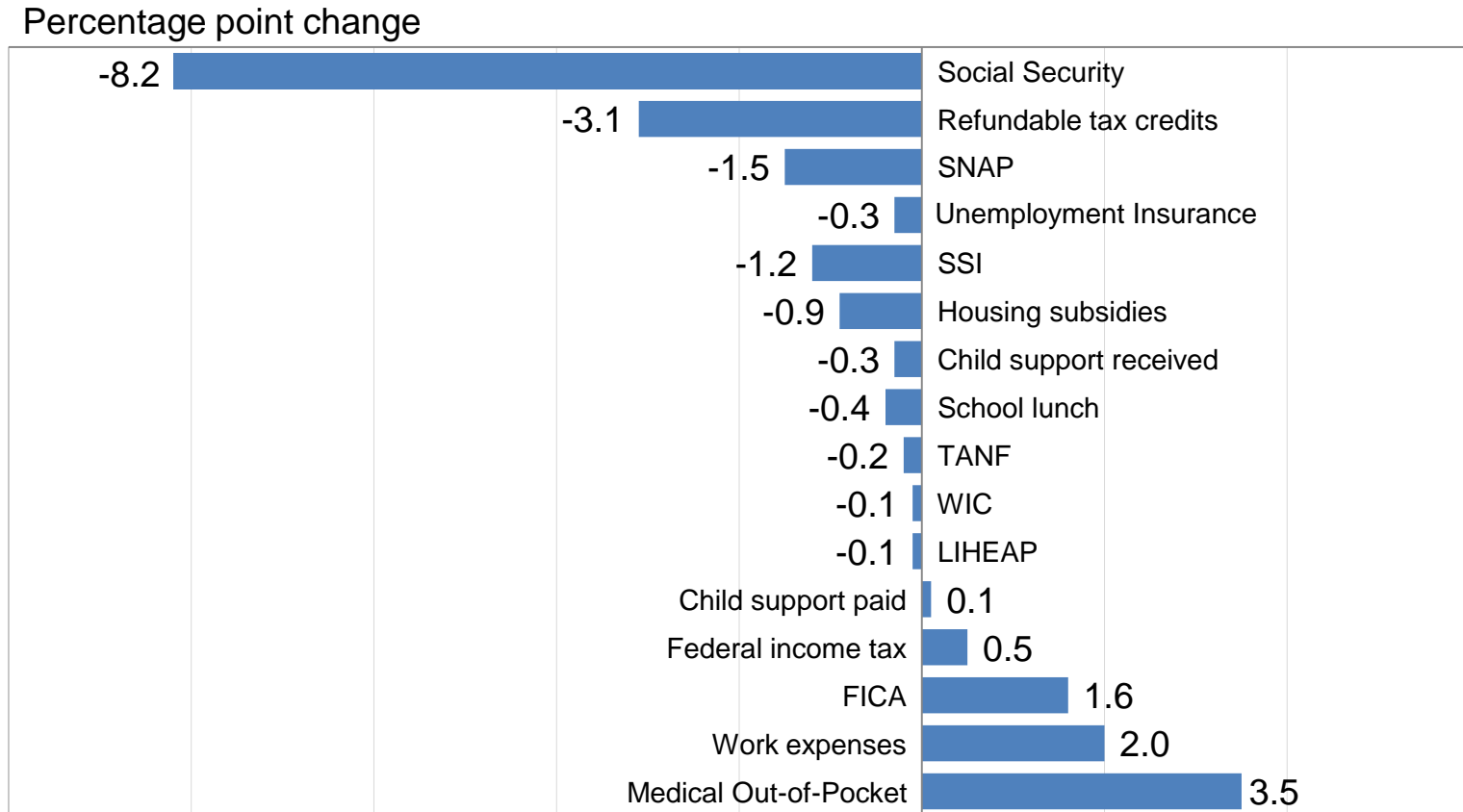
Likewise, the regional distribution of the poverty population is not changed much by the inclusion of noncash benefits.



Cumulative Impact of Noncash Benefits and Refundable Tax Credits on Resource to Poverty Ratios

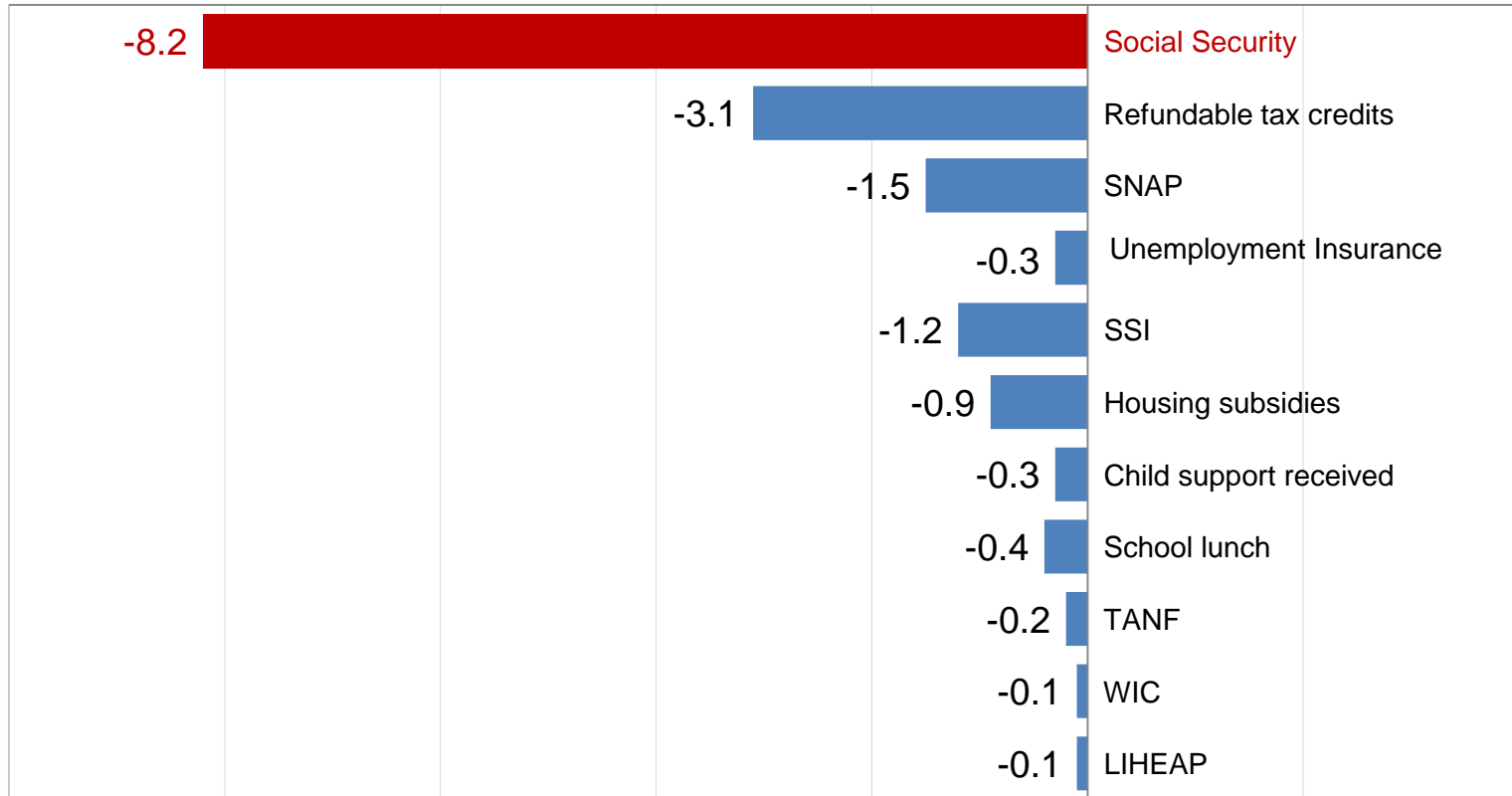


Difference in SPM Rate After Including Each Element: 2014

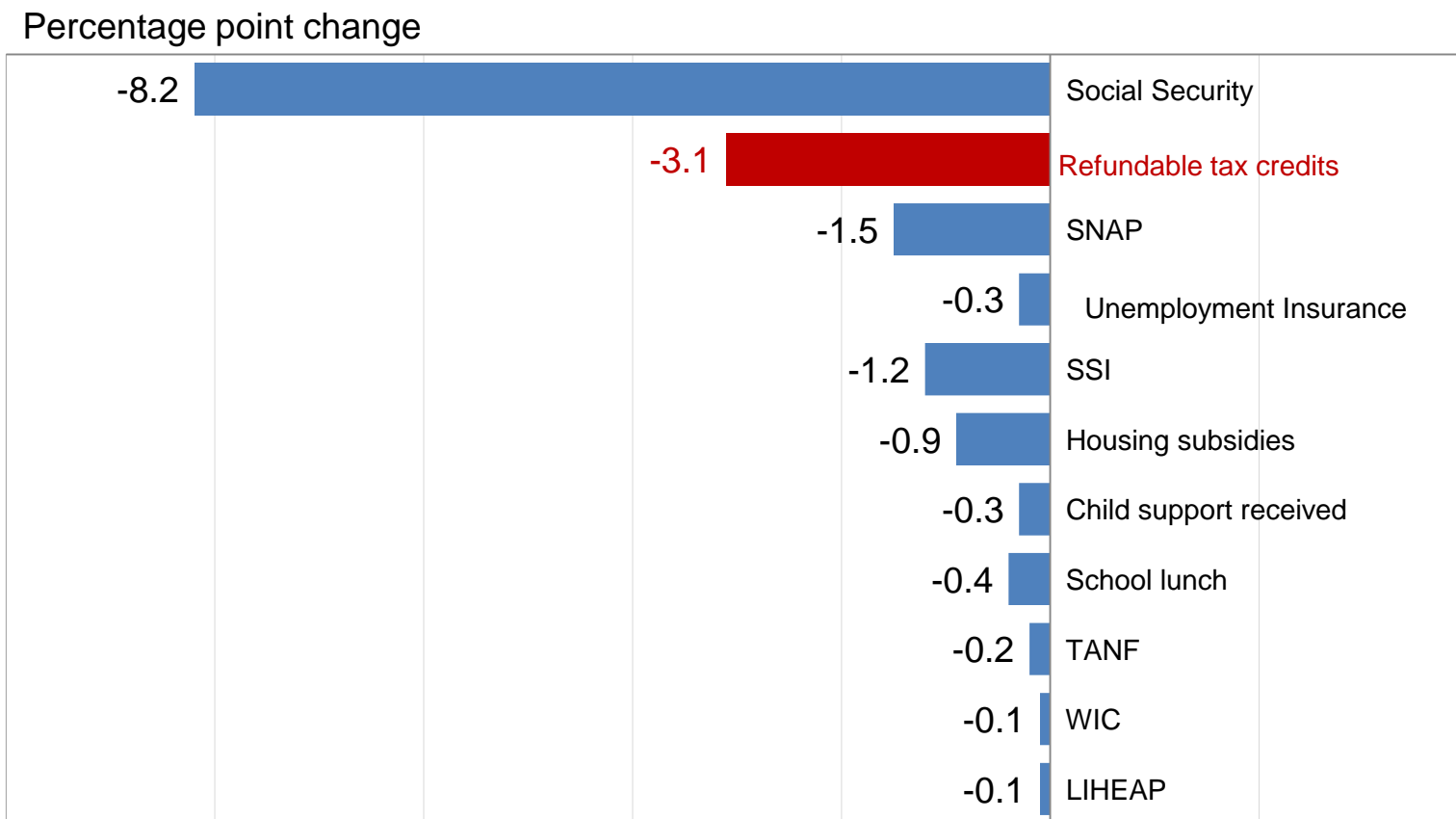


Difference in SPM Rate After Including Each Element: 2014

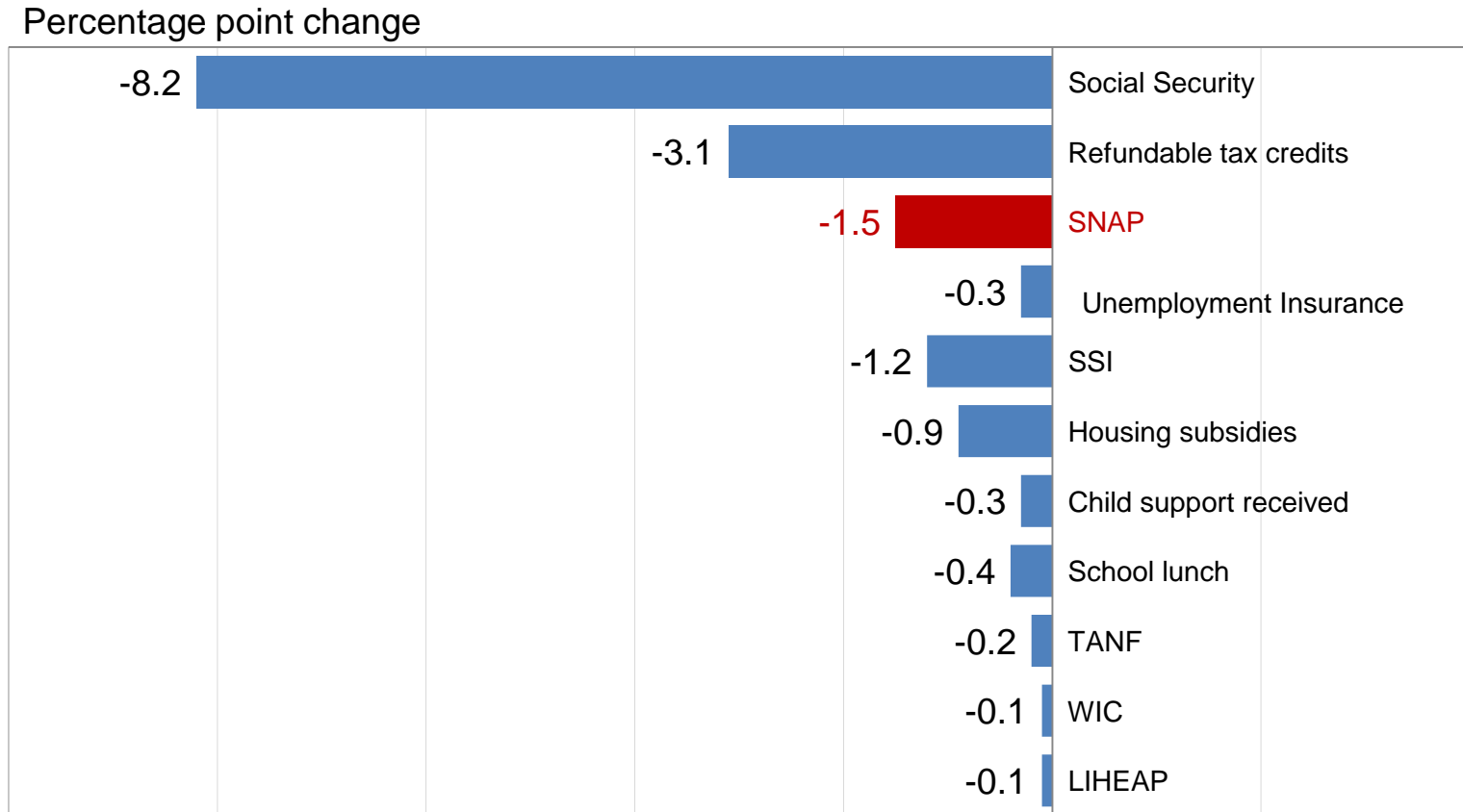
Percentage point change



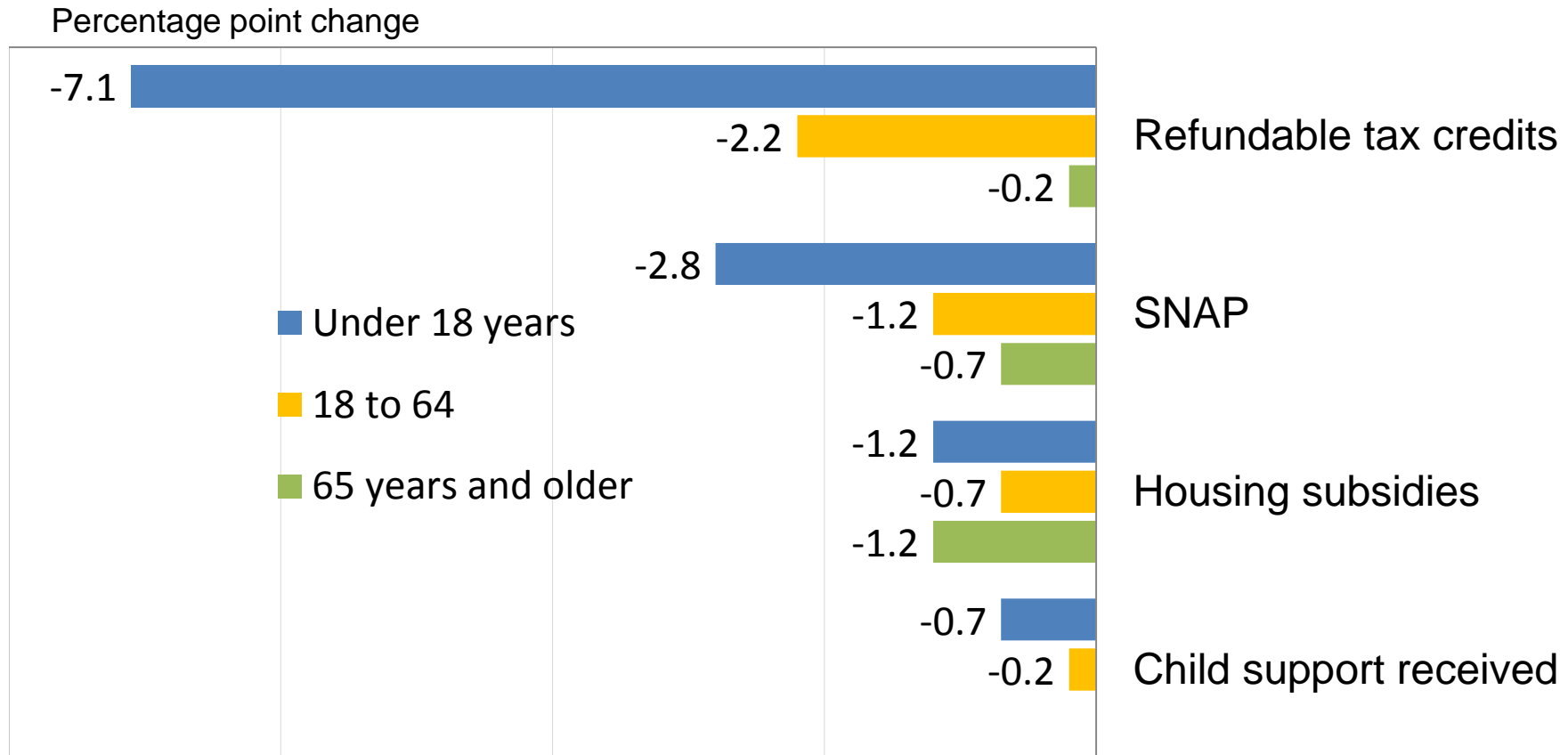
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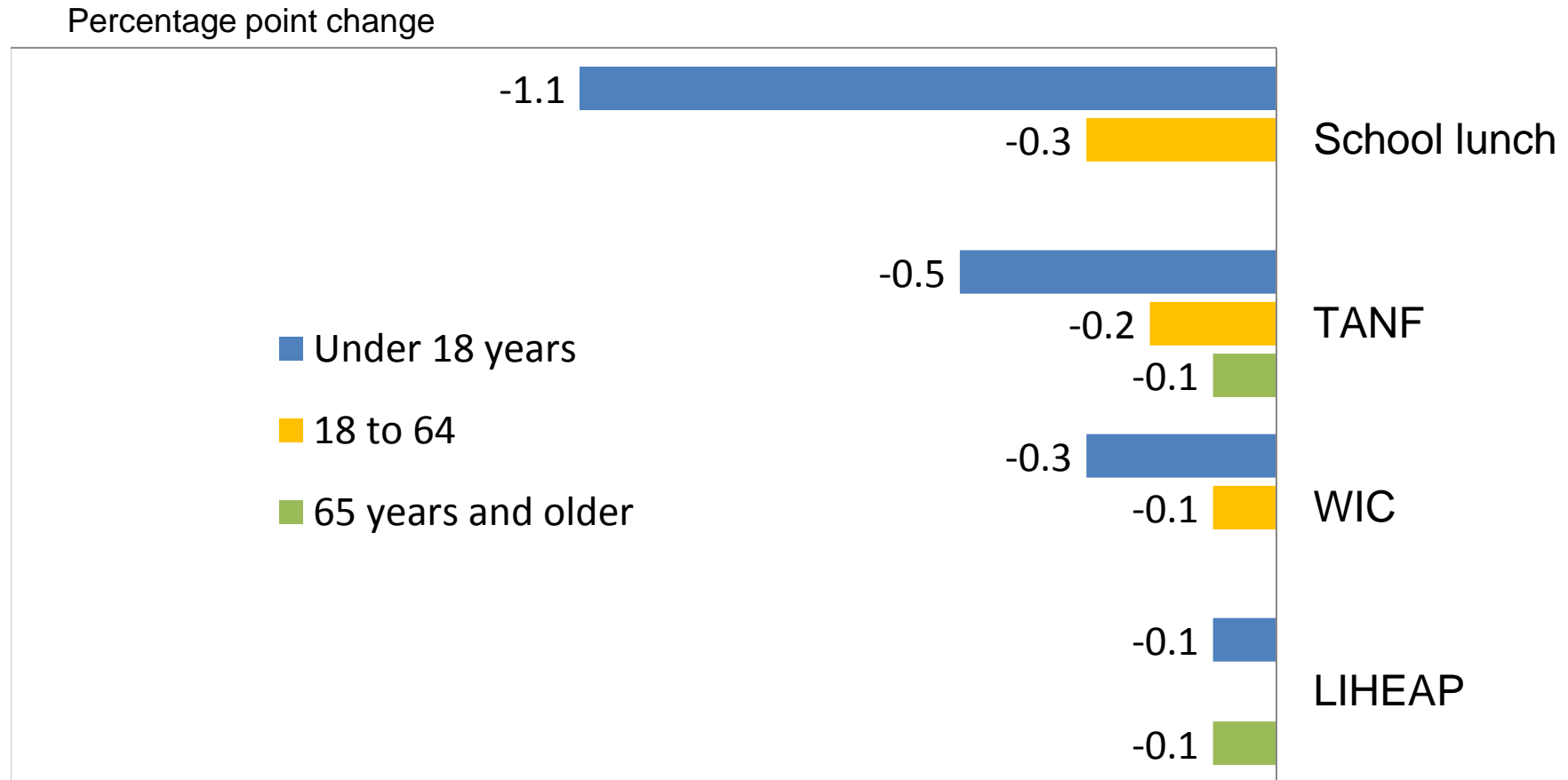
Difference in SPM Rate After Including Each Element: 2014



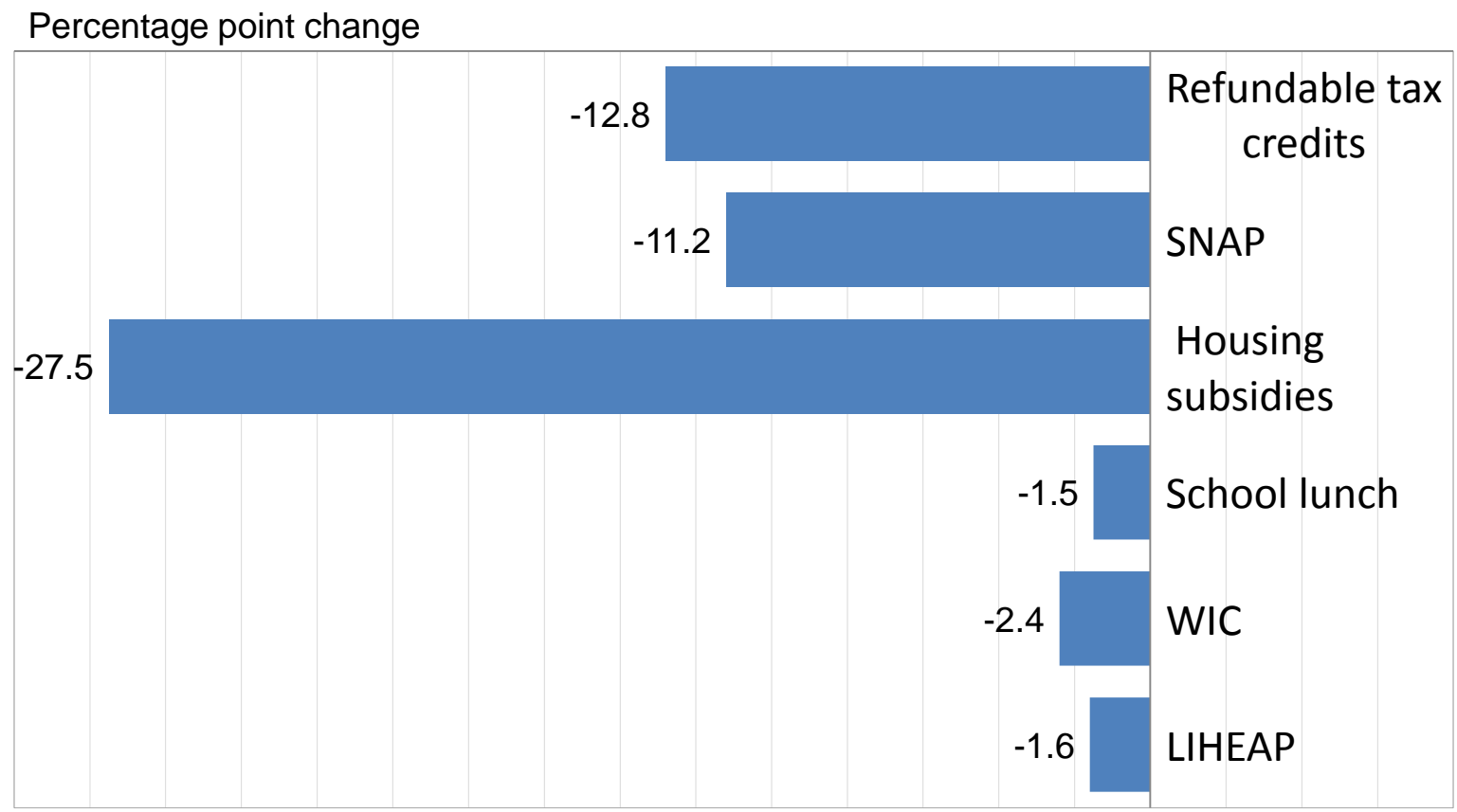
Difference in SPM Rate After Including Each Element: 2014 – By Age



Difference in SPM Rate After Including Each Element: 2014 – By Age



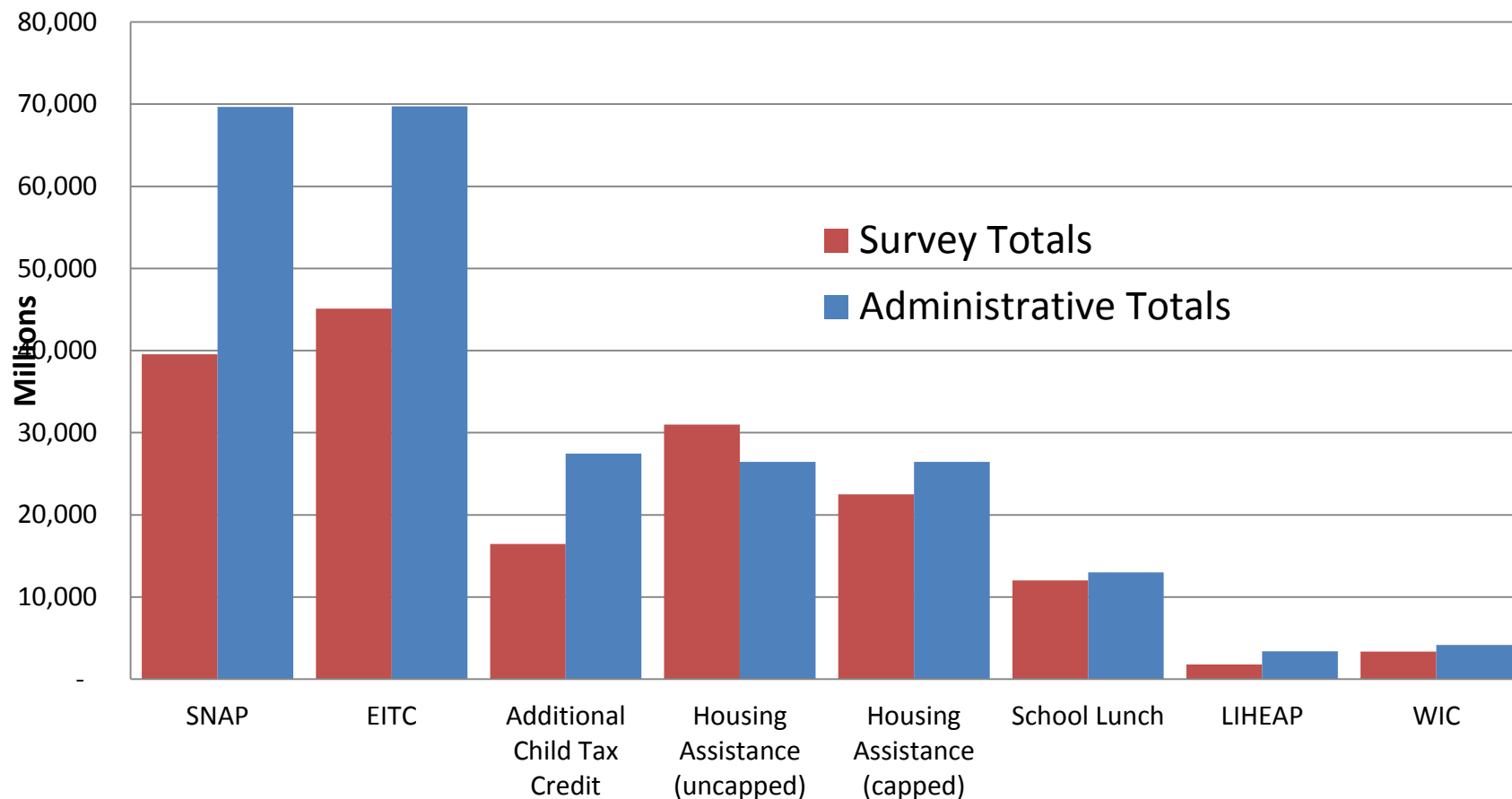
Difference in SPM Rate After Including Each Element for those Receiving the Benefit: 2014



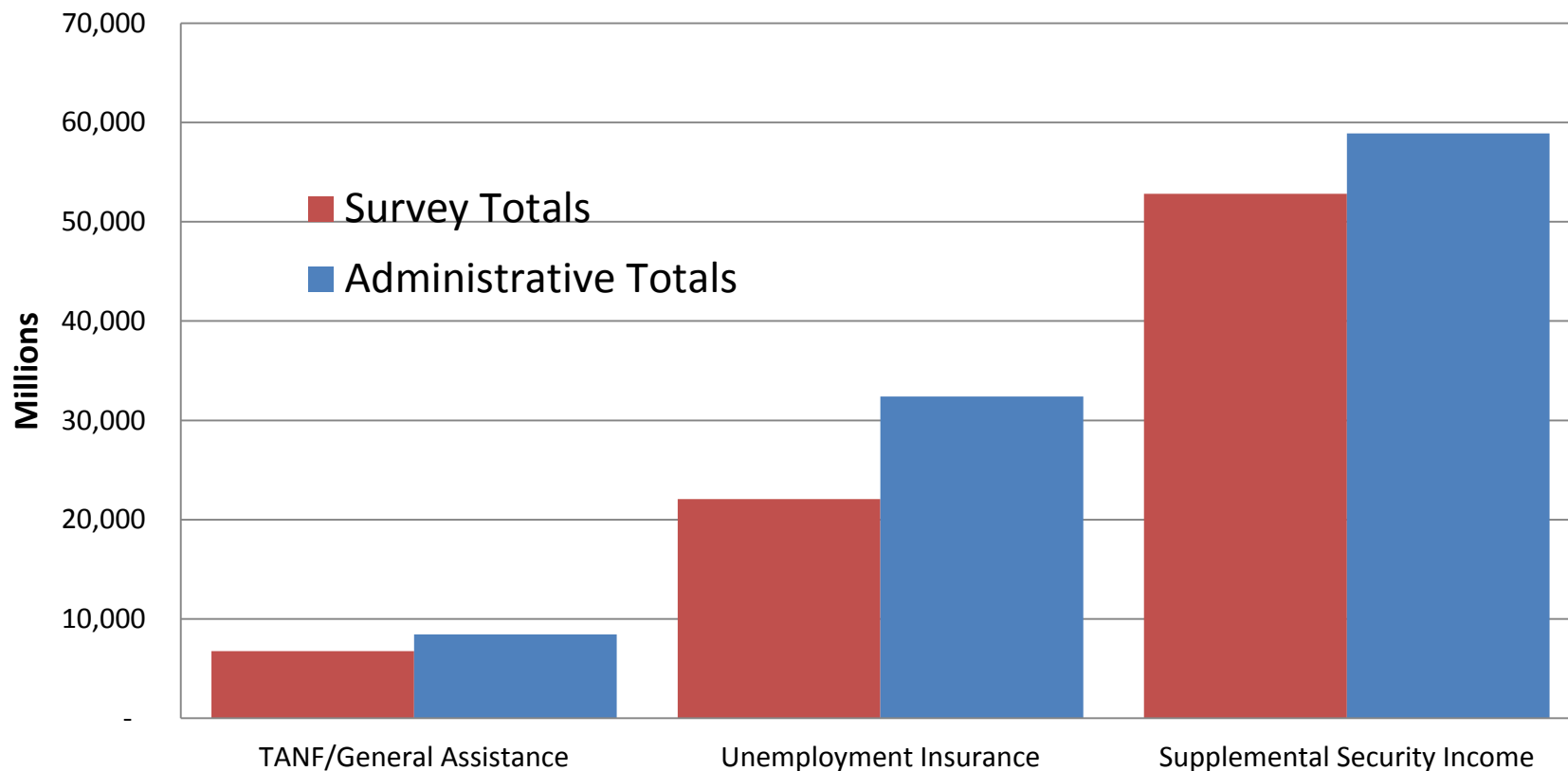
Further Research

- Improve methods and data used for assigning values to noncash benefits/tax model
- Underreporting
- Including noncash benefits for data from surveys that do not ask about receipt and/or amount

Underreporting is a concern for in-kind benefits and tax credits.



Underreporting is also a concern for cash income.



Data on Noncash Benefits: CPS vs. ACS

NONCASH Benefit	CPS ASEC		ACS	
	Participation	Amount	Participation	Amount
SNAP – Supplemental Nutrition Assistance Program	YES	YES	YES	NO
WIC - Women, Infants and Children Nutrition Program	YES	NO	NO	NO
Regular School Lunch	YES	NO	NO	NO
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Housing Assistance	YES	NO	NO	NO
LIHEAP – Low Income Home Energy Assistance Program	YES	YES	NO	NO

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