Expanded Poverty Measurement at the State and Local Level

Testimony before the California State Senate Human Services Committee and California State Assembly Committee on Human Services

Sacramento, California

March 12, 2013

Laura Wheaton

The Urban Institute

The official poverty measure is a widely recognized statistic that provides insight into whether families have enough income to meet a minimum standard of living. However, the official measure has major shortcomings. It does not reflect noncash benefits, such as Supplemental Nutrition Assistance Program (SNAP, or food stamp) benefits, housing subsidies, or refundable tax credits such as the earned income tax credit that now constitute the majority of assistance provided to low-income families with children. Nor does it capture nondiscretionary expenses faced by families, including taxes, child care and other work-related expenses, and medical out-of-pocket expenses. The official measure reflects 1960s living standards adjusted only for inflation, ignores sharing of resources among cohabiting partners, and does not capture geographic differences in the cost of living.

In 1995, the National Academy of Sciences (NAS) released recommendations for a new poverty measure designed to overcome these shortcomings, prompting an extensive research effort by the Census Bureau, Bureau of Labor Statistics, and outside researchers. In 2010, an Interagency Technical Working Group further refined the NAS recommendations and called for development of a Supplemental Poverty Measure (SPM). The SPM is intended as an additional measure, not a replacement of the official poverty measure. The Census Bureau has generated national-level SPM estimates for 2009 through 2011 and state-level estimates for the combined three-year period.

Although highly informative nationally, the Census Bureau's NAS and SPM estimates have been of limited use at the state and local levels because of sample size limitations in the underlying data. The American Community Survey (ACS), which was fully implemented beginning in 2005, provides the sample size necessary for state and local area analysis and prompted several government agencies and research institutions to develop state and local NAS and SPM-type estimates using the ACS.

State and local expanded poverty estimates (based on the NAS or SPM) have been developed by several government agencies and research institutions including these four:

- The New York City Center for Economic Opportunity (CEO)
- The New York State Office of Temporary and Disability Assistance (OTDA)
- The Institute for Research on Poverty (IRP), University of Wisconsin–Madison

- The Urban Institute, for state poverty commissions in Minnesota and Connecticut, community-based advocacy organizations in Illinois and Wisconsin, and under foundation funding for Georgia, Illinois, and Massachusetts

In addition, the Stanford Center on Poverty and Inequality and the Public Policy Institute of California are developing an expanded poverty measure for California.

Expanded poverty measures have been used at the state and local levels to provide new insights into poverty among population subgroups and regions of the state; estimate the extent to which government benefits, taxes, and work-related and medical expenses affect poverty; and estimate the effect of potential changes in government programs. Following are just a few examples pulled from the large body of work produced for these states and localities.

Expanded poverty measures offer new insight into poverty among subgroups

In New York City, the expanded poverty measure drew attention to high poverty among the Asian elderly, many of whom had followed their adult children to the United States and had not acquired the 40 quarters of qualifying work required for Social Security eligibility.[1] The Asian poverty rate was also driven up by the tendency of upwardly mobile Asians to move to the suburbs, and by lower use of housing subsidies relative to other population subgroups. These findings prompted consideration of possible ways to alleviate poverty among the Asian elderly, such as identifying and providing work supports to those nearing retirement age in order to help them achieve the 40 quarters of work required for Social Security eligibility.

Expanded poverty measures provide greater understanding of regional variation in poverty levels

In New York State, child poverty rates in most counties are lower under the expanded poverty measure than under the official measure, due to the inclusion of noncash benefits and refundable tax credits in the expanded measure. However, poverty rates in the higher-cost suburban areas of New York City are higher under the expanded measure, reflecting the higher cost of housing and transportation in these areas.

Expanded poverty measures can be used to show how government benefits, taxes, and work-related and medical expenses affect poverty

The antipoverty effect of a government benefit can be estimated by calculating the number of families who would be in poverty in the absence of the benefit and comparing that to the number of poor families once the benefit is counted. Similar calculations can show the poverty effects of taxes, child care and other work-related expenses, and out-of-pocket medical expenses. For example, IRP estimates that Wisconsin's Food Share program reduced child poverty by 2.4 percentage points in 2009, whereas child poverty rates are 3.5 percentage points higher when taking child care and other work expenses into account.

---

[1] Personal communication with Mark Levitan, Director of Poverty Research, NYC Center for Economic Opportunity, March 4, 2013.

The expanded poverty measure is also useful in assessing the role of the safety net in recessions. IRP finds that although Wisconsin's official poverty rate increased 4 percentage points between 2008 and 2009, there was no significant change in the expanded poverty measure. Expanded tax credits and food assistance benefits offset the drop in families' cash income between 2008 and 2009.

Expanded poverty measures can be used to estimate the effects of potential changes to government programs

Expanded poverty measures provide a useful tool for estimating the antipoverty effect of potential changes to government programs. An Urban Institute analysis of a package of proposals developed by Community Advocates Public Policy Institute estimates that the combination of a Senior and Disability Tax Credit, Transitional Jobs Program, increased minimum wage, and expanded refundable tax credits would cut Wisconsin's poverty rate by two thirds.

Conclusion

In order to understand poverty, it is important to have a measure that takes into account the broad range of government benefits provided to low-income families, not simply the benefits provided as cash assistance. It is also important for the measure to take into account taxes, child care and other work-related expenses necessary to hold a job, and medical out-of-pocket expenses. Expanded poverty measures meet these requirements and provide an important new approach to poverty analysis, offering new insights regarding poverty among population subgroups and areas; allowing estimates of the effect of government programs, taxes, and necessary expenses on poverty; and enabling analysis of the potential antipoverty effects of a wide variety of benefit and tax programs.

References

Citro, Constance F., and Robert T. Michael, eds. 1995. *Measuring Poverty: A New Approach.* Washington, DC: National Academies Press.

Commission to End Poverty in Minnesota by 2020. 2009. "Legislative Commission Report." http://www.commissions.leg.state.mn.us/lcep/LCEP_Final_Report_SinglePgs.pdf.

De Masi Mary E., George Falco, Jihyun Shin, Min Chen, and Cate Teuten Bohn. 2011. "A Look at Child Poverty in New York State." Albany: Council on Children and Families and New York State Office of Temporary and Disability Assistance. http://ccf.ny.gov/KidsCount/kcResources/ChildPoverty.pdf.

Giannarelli, Linda, and Sheila Zedlewski. 2009. "Economic Modeling of Child Poverty and Prevention Council Initiatives Final Report." Washington, DC: The Urban Institute. http://www.urban.org/publications/412027.html.

Giannarelli, Linda, Kye Lippold, and Michael Martinez-Schiferl. 2012. "Reducing Poverty in Wisconsin: Analysis of the Community Advocates Public Policy Institute Policy Package." Washington, DC: The Urban Institute. http://www.urban.org/publications/412604.html.

Marks, Joanna Y., Julia B. Isaacs, Timothy M. Smeeding, and Katherine A. Thornton. 2011. "Wisconsin Poverty Report: Were Antipoverty Policies Effective in 2009?" Madison: University of Wisconsin–Madison Institute for Research on Poverty. http://www.irp.wisc.edu/research/WisconsinPoverty/pdfs/WIPovAntipovertyPolicies_May2011.pdf.

NYC Center for Economic Opportunity. 2012. "The CEO Poverty Measure 2005–2010." http://www.nyc.gov/html/ceo/downloads/pdf/CEO_Poverty_Measure_April_16.pdf.

Short, Kathleen. 2012. "The Research Supplemental Poverty Measure: 2011." Current Population Report P60-244. Washington, DC: U.S. Census Bureau. https://www.census.gov/hhes/povmeas/methodology/supplemental/research/Short_ResearchSPM2011.pdf.

Wheaton, Laura, Linda Giannarelli, Michael Martinez-Schiferl, and Sheila R. Zedlewski. "How Do States' Safety Net Policies Affect Poverty?" Washington, DC: The Urban Institute. http://www.urban.org/publications/412398.html.

Zedlewski, Sheila, Linda Giannarelli, Laura Wheaton, and Joyce Morton. 2010. "Measuring Poverty at the State Level." Low-Income Working Families Paper 17. Washington, DC: The Urban Institute. http://www.urban.org/publications/412063.html.