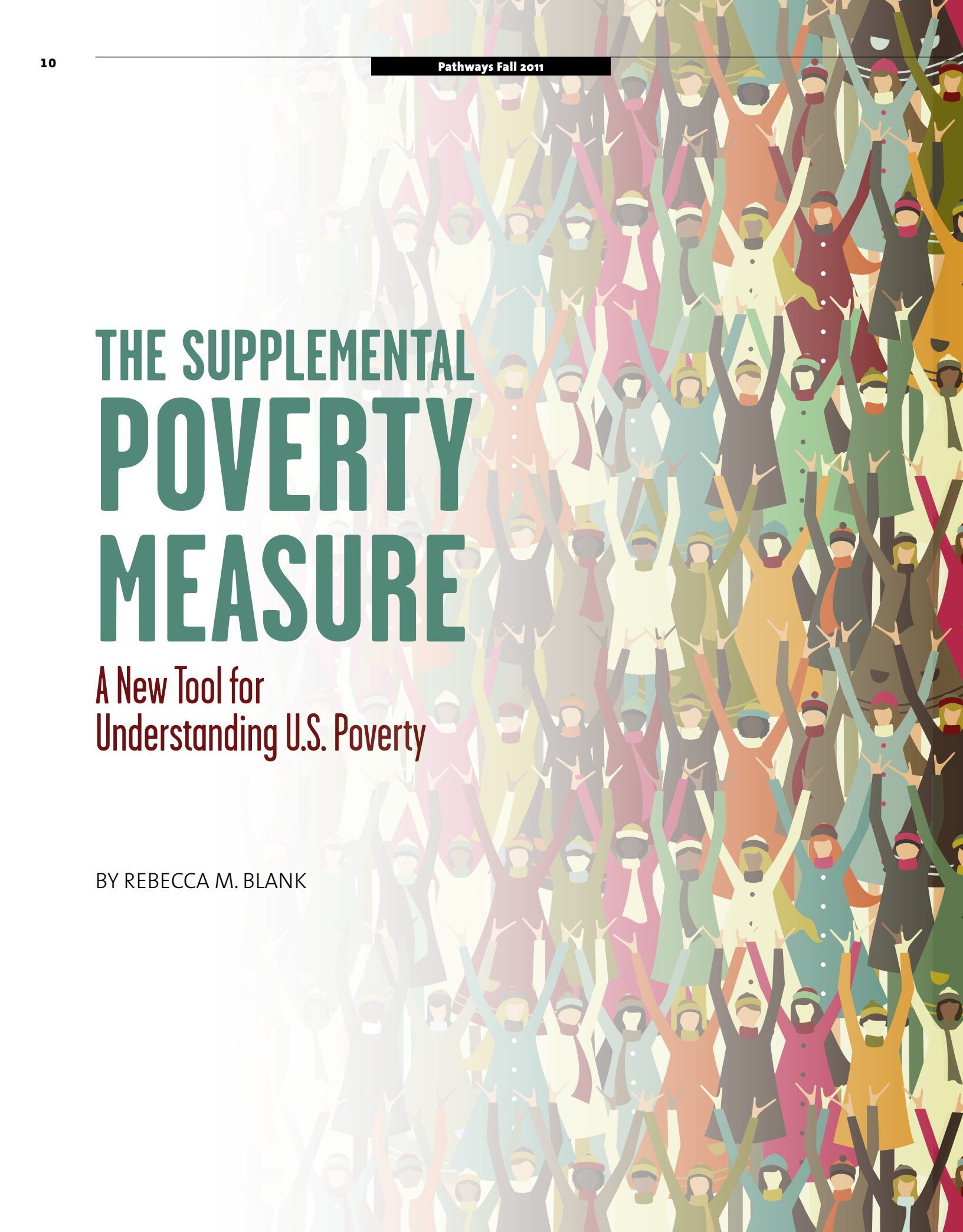
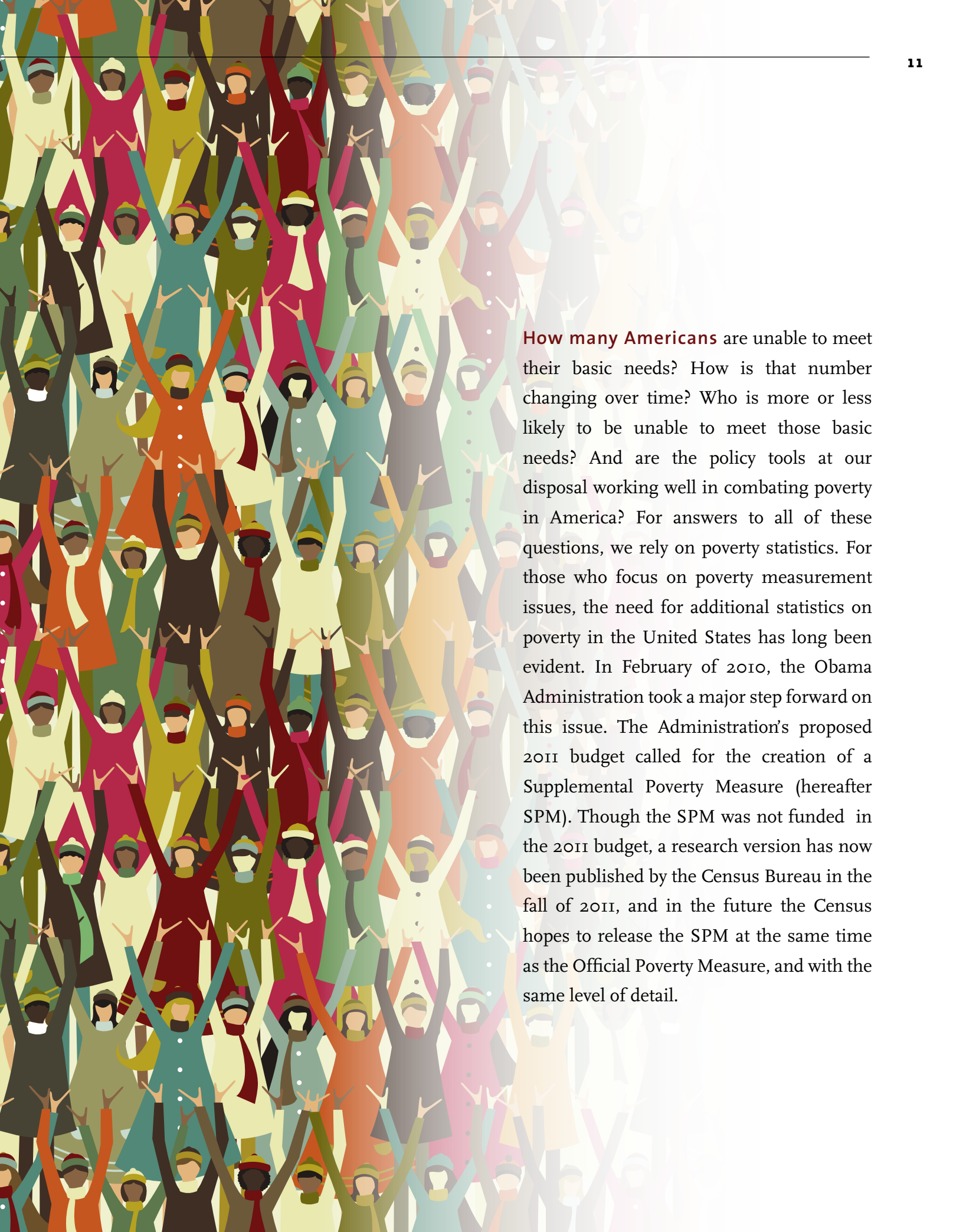


# THE SUPPLEMENTAL POVERTY MEASURE

A New Tool for  
Understanding U.S. Poverty

BY REBECCA M. BLANK





**How many Americans** are unable to meet their basic needs? How is that number changing over time? Who is more or less likely to be unable to meet those basic needs? And are the policy tools at our disposal working well in combating poverty in America? For answers to all of these questions, we rely on poverty statistics. For those who focus on poverty measurement issues, the need for additional statistics on poverty in the United States has long been evident. In February of 2010, the Obama Administration took a major step forward on this issue. The Administration's proposed 2011 budget called for the creation of a Supplemental Poverty Measure (hereafter SPM). Though the SPM was not funded in the 2011 budget, a research version has now been published by the Census Bureau in the fall of 2011, and in the future the Census hopes to release the SPM at the same time as the Official Poverty Measure, and with the same level of detail.

The SPM will provide a new statistical lens on who is poor and on trends in poverty over time. It is not meant to supplant the Official Poverty Measure, which remains unchanged. Nor will the SPM have any effects on policy dollars; a number of programs have eligibility formulas that use the relationship between household income and the official poverty line as one of the criteria for eligibility. For instance, states must provide Medicaid for children in families whose income is below 100 percent of the official poverty line. None of these provisions will change with the introduction of the SPM, since they all point to the Official Poverty Measure, which the Census Bureau is mandated to release under OMB Statistical Policy Directive 14.

## New measures provide new information; over time, this can affect people's perspectives on poverty in America.

Why publish a new measure if it has no direct policy effects? Measurement is critical to understanding and enables informed policy decision making. Our statistics provide us with important information about the well-being of American families and of the economy. New measures provide new information; over time, this can affect people's perspectives on poverty in America. The SPM complements the Official Poverty Measure, and will provide information on some aspects of economic need that the Official Poverty Measure does not cover.

There is a long history of research on alternative ways to measure poverty. There is no single "right" approach. The EU countries have a variety of measures which they refer to as "deprivation measures," all of which are quite different from the official U.S. poverty measure and from the SPM. The most

influential document on poverty measurement in the United States in the past several decades was a report by the National Academy of Sciences (NAS) in 1995; since that time, there has been an ongoing stream of research investigating the report's recommendations.<sup>1</sup> (Full disclosure: I was a member of the panel that wrote the 1995 report.)

In the past few years, a number of states and cities have moved forward to develop their own alternative poverty measures. New York City has released local poverty numbers for the past three years, based on the NAS recommendations, and other places have commissioned similar work. This validates the importance of and need for an addition to our Federal poverty statistics. The new SPM will provide an alternative measure that all can use at a national or regional level, and it will provide a statistical standard for those who want to estimate alternative poverty measures for smaller areas.

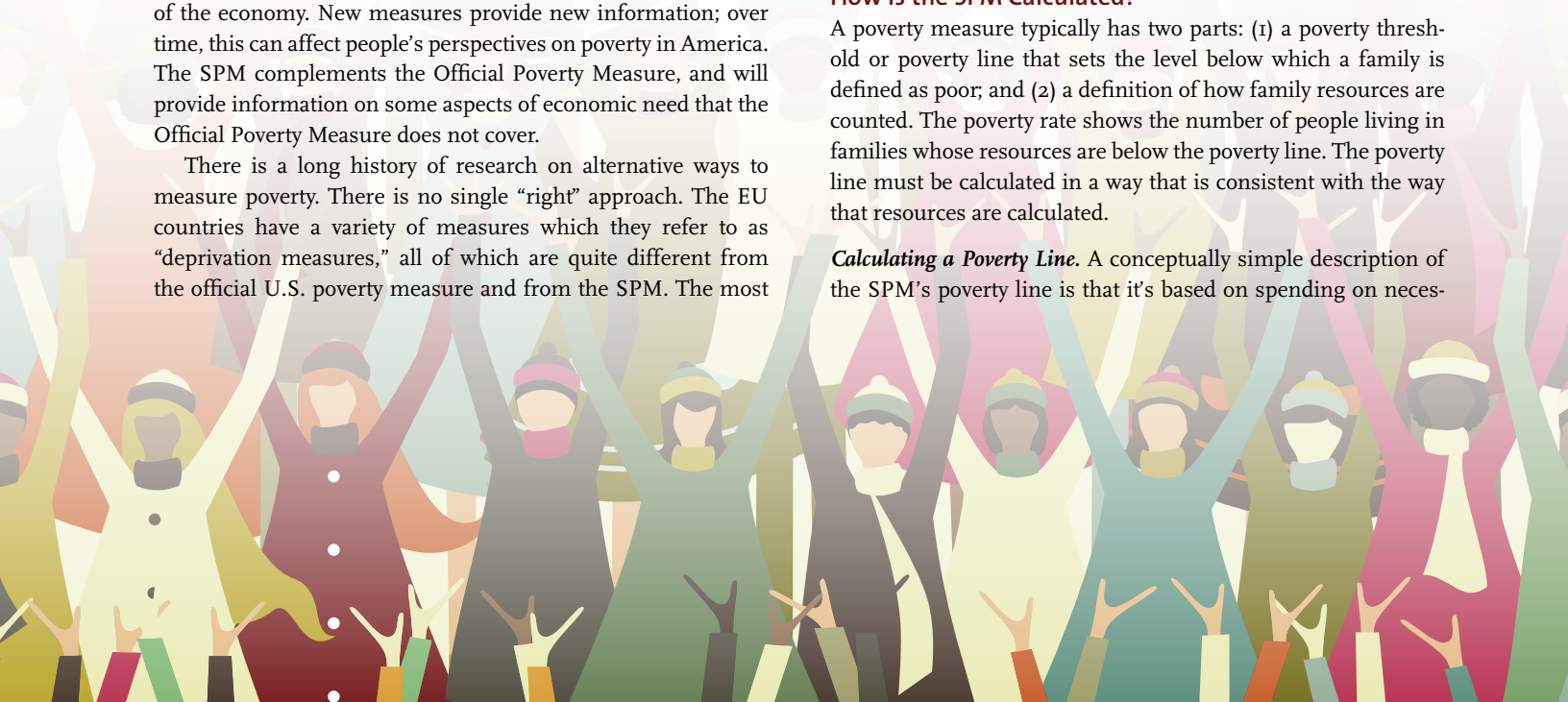
Early on, the Obama Administration made the decision to pursue development of an alternative poverty measure that would supplement the Official Poverty Measure. An interagency group met to make recommendations about the initial construction of such a measure. The group recommended the creation of the Supplemental Poverty Measure, based on the NAS recommendations, amended and informed by the past 15 years of research.<sup>2</sup> Once funded, the Census Bureau, working with the Bureau of Labor Statistics, will have ongoing authority to make methodological and data improvements in how the SPM is constructed over time, so that this statistic remains up-to-date.

A key concern in all of this work was to create an alternative poverty measure that was responsive to changes in government policies that affect low-income families. A primary benefit of the SPM is that it will reflect changes in tax, transfer and work-support programs, in contrast to the Official Poverty Measure, which only reflects changes in policies that affect before-tax cash income. While this will make the SPM a more complex statistic, it also makes it more useful in understanding policy effects.

### How Is the SPM Calculated?

A poverty measure typically has two parts: (1) a poverty threshold or poverty line that sets the level below which a family is defined as poor; and (2) a definition of how family resources are counted. The poverty rate shows the number of people living in families whose resources are below the poverty line. The poverty line must be calculated in a way that is consistent with the way that resources are calculated.

**Calculating a Poverty Line.** A conceptually simple description of the SPM's poverty line is that it's based on spending on neces-



sities among lower middle-income families. Necessities are defined as food, clothing, shelter, and utilities (hereafter FCSU). The threshold for the SPM is determined as the average level of spending on FCSU around the 33rd percentile of the distribution of all spending on FCSU, multiplied by 1.2 to allow for some spending on non-necessities. This bases the poverty line on spending among families who are not poor, but who are below median income (the 50th percentile). Most families spend far more on non-necessities than this calculation allows, but this conservative definition reflects a concept of poverty that assumes poor families face difficulties in affording the basic necessities of life.

These thresholds are calculated for all families with two children. An equivalence scale is used to determine what the thresholds should be for families with more or fewer household members. (An equivalence scale indicates the income levels at which families of different sizes have equivalent expenditure needs.) Because of economies of scale in living expenses, small families with one or two people typically need more per-person income than do larger families to achieve the same level of economic well-being.

These thresholds are also adjusted for differences in housing status, since there is a small group of poor families who own a home without a mortgage. These families are typically elderly or live in the south. They face lower monthly expenses, which should be reflected in their poverty thresholds.

Finally, these thresholds are adjusted for regional price differences. Ideally, one would like to adjust for price differences across all components of FCSU by region, but such data are not available. There are good data on differences in housing prices across areas, however. Until better price data are available, the SPM will adjust the thresholds only for housing price differences. These price adjustments will be calculated for each metropolitan statistical area (MSA) and for the non-MSA areas within each state.

The thresholds in the SPM should not be compared with those from the Official Poverty Measure, since poverty rates depend upon both the threshold level and the resource definition. Because the resource definitions are so different between the SPM and the Official Poverty Measure, comparing the threshold levels will reveal little about the resulting poverty rates.

**Calculating Family Resources.** Family resources should measure what can be used to purchase necessities. It is important for the definition of resources to be consistent with the threshold definition. For example, if food expenditures are included in the calculation of the poverty line, then both cash and in-kind ben-

efits that are available for spending on food should be included in the family resource count.

The SPM's definition of family resources includes all cash income that a family receives from employment or other sources. It also includes any in-kind benefits that help a family purchase food, shelter, or utilities, such as the Supplemental Nutrition Assistance Program (SNAP, formerly known as the Food Stamp Program) or rental subsidies for housing.

Subtracted from resources are necessary expenses that families must pay. This includes Federal and state taxes. It also includes work expenses, including transportation costs and child care. The intent is to calculate a "net wage," so that the earnings available to a family exclude the costs they incur to receive those earnings. Also subtracted are out-of-pocket health care expenses, which are viewed as necessary expenditures that reduce the resources available for purchasing food, clothing, shelter, and utilities.

There have been many debates over the question of how health insurance and health expenditures should affect a U.S. poverty measure. (Such a problem does not occur in countries with national health care systems, since all persons have access to equivalent care.) Some have proposed adding the dollar value of health insurance into family resources. Health insurance plans are widely variable in the United States, however, and it is difficult to get the comparable information on insurance coverage that would lead to reliable estimates from available data. The SPM instead proposes to subtract out-of-pocket medical expenses before calculating the resources available for other necessities. Persons with better or lower-cost health insurance coverage should have lower out-of-pocket expenses. Of course, some individuals without health insurance simply choose to avoid all medical care. In short, there is no fully satisfactory way to deal effectively with health care needs in an economic poverty measure. Anyone interested in the intersection of health and poverty should be concerned about the availability of good measures of health insurance coverage and of the adequacy of health care received by families.

**Updating the SPM over Time.** A new SPM will be calculated each year. Family resources will be based on the latest data available on families, which will change as work opportunities change and as government policies on taxes and benefits change. The threshold will also be updated over time as new data on expenditures are available.

Some have criticized the fact that the poverty threshold will move over time as expenditures on FCSU change among lower middle-income families, claiming that this creates a "moving



target” for poverty. As incomes rise, expenditures will rise, making it hard to make progress against poverty.

Realize that changes in expenditures on FCSU can occur for two reasons. Expenditures may rise because the prices of housing, utilities or food are rising. Clearly, in this situation, a rising threshold is appropriate. But expenditures on necessities can also rise as overall incomes rise. Over the long term, spending on necessities tends to rise more slowly than income. The SPM threshold is based on expenditures among families at the 33rd percentile of spending on necessities. This is well below the median, so increases in spending or income that occur only among median- or upper-income families will not affect the poverty threshold. Furthermore, the SPM thresholds are calculated on the past five years of data, so year-to-year movements in expenditures will not swing the poverty thresholds.

Over time, however, changes in American lifestyles that translate into changes in spending patterns on food and shelter will, appropriately, affect the poverty thresholds under the SPM. This recognizes the fact that poverty and deprivation are related to overall social needs. A poverty line based on spending 100 years ago, when most rural Americans still lacked electricity or indoor plumbing, would be archaic. Hence, the SPM adjusts its thresholds gradually over time, in response to changes in what Americans consider basic necessities.

### Moving Forward

The SPM is not yet fully approved. Congress was asked to appropriate \$5 million to the Census Bureau and \$2.5 million to the Bureau of Labor Statistics in the FY2011 and FY2012 budgets, which is the cost of collecting the necessary data, and producing and reporting the SPM on an annual basis. These budget requests must be approved if the SPM is to become a regularly reported statistic in the years ahead, and to date these requests have not been approved by Congress.

The poverty rates from a research version of the SPM were released in the fall of 2011. Although there have been many past estimates of alternative poverty numbers based on the NAS recommendations, these previous estimates differ from the SPM. First, there are differences between the SPM recommendations and the NAS recommendations, so most existing estimates are not consistent with the proposed SPM. Second, the Census Bureau has put several new questions on its Current Population Survey (CPS, the basis for both the Official Poverty Measure and the SPM calculations) to facilitate the calculation of the SPM, including questions on health care and child care expenditures. Initial research suggests that these questions do quite well in capturing people’s relevant expenditures on health and child

care. This means that estimates of the SPM will no longer need to use imputed data from other surveys that are matched to the CPS, an approach that typically produces less-reliable estimates.

The Official Poverty Measure has been calculated for almost 50 years. It shows how cash income is changing among lower-income families. This is a good indication of the availability of work and earnings for these families. It is also a statistic that is easily calculated. For the purposes of program eligibility, it is relatively easy to ask about (and to monitor the accuracy of) reported earnings. This makes the Official Poverty Measure attractive to use in program eligibility calculations.

In contrast, the SPM is a much more complexly calculated statistic. It would be extremely difficult to measure all of its components to determine program eligibility. Rather, it is designed as an aggregate statistic that will tell us something about changes over time in economic need among specific population groups and regions. In comparison to the Official Poverty Measure, the SPM should provide better information on the impact of changes in government policy on the well-being of low-income families, including changes in tax policy, in-kind benefits for food and housing, child care subsidies, and health insurance.

The most valuable attribute of any statistic is what it tells you about changes over time in the phenomenon it is intended to describe. We care less about the actual level of most things than about their rate of change. There are multiple ways to define industrial production, just as there are multiple ways to define poverty. As such, we should focus less on the actual level of production or poverty (which depends upon the definition selected) and instead focus on whether production is going up or poverty is going down. Many of the most important social and policy questions related to poverty are about whether or not well-being is improving or worsening, and which groups are showing the biggest changes.

The way we measure a phenomenon affects the way we think about it. The SPM will provide an alternative way to look at economic need among America’s lowest-income families. Although the official poverty statistics provide useful information, they are incomplete when it comes to reporting on the effect of government policy on the poor, and the SPM will help fill that gap. Multiple ways of looking at a problem can provide new insights and a better understanding of the nature of poverty in America. This is the hope with which the Obama Administration has proposed the Supplemental Poverty Measure as a new statistic.

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### Endnotes

1. Connie Citro and Robert Michael. 1995. *Measuring Poverty: A New Approach*. Washington, D.C.: National Academy Press.

2. The recommendations of that group can be found at [http://www.census.gov/hhes/www/poverty/SPM\\_TWGObservations.pdf](http://www.census.gov/hhes/www/poverty/SPM_TWGObservations.pdf)