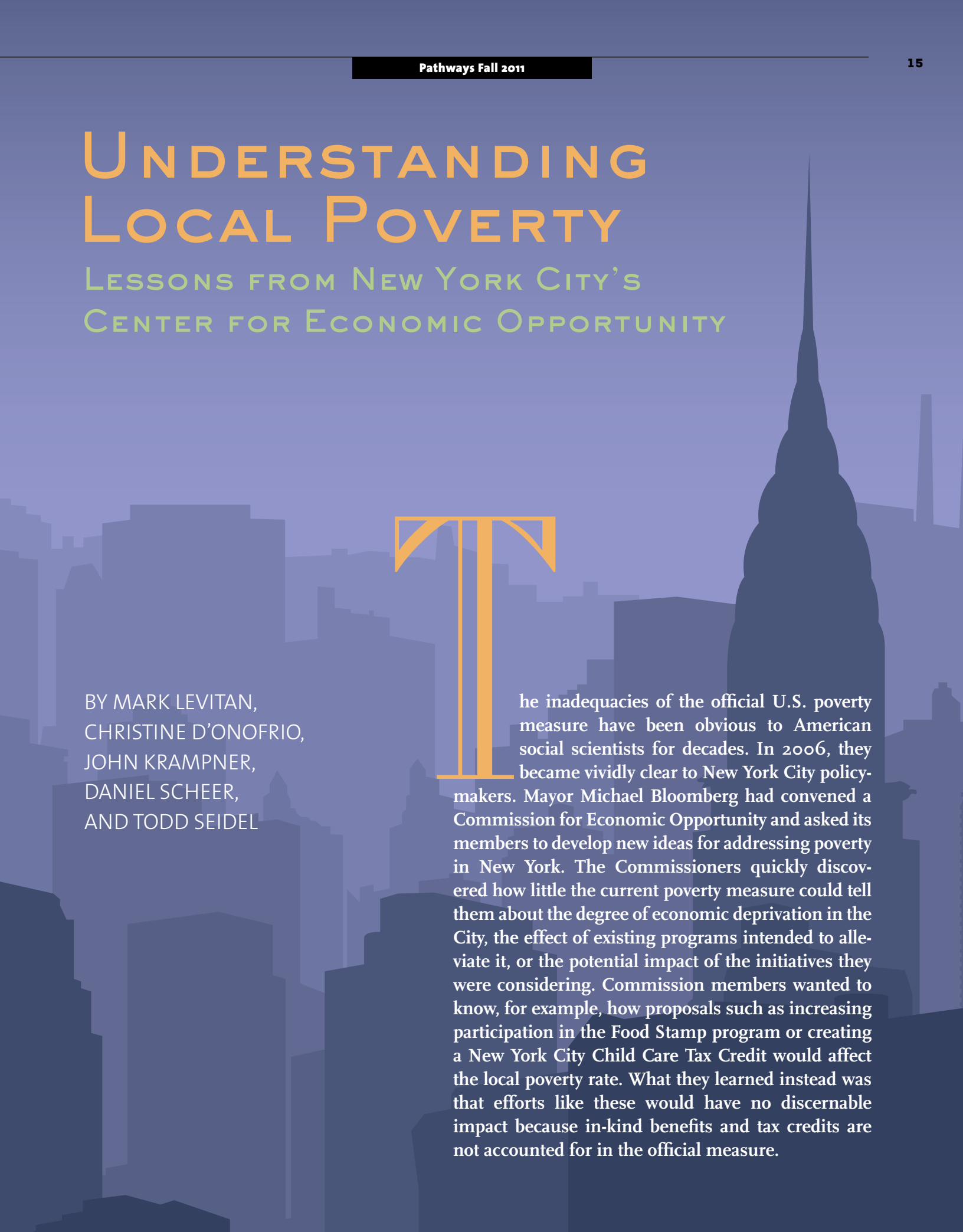


UNDERSTANDING LOCAL POVERTY

LESSONS FROM NEW YORK CITY'S
CENTER FOR ECONOMIC OPPORTUNITY

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The inadequacies of the official U.S. poverty measure have been obvious to American social scientists for decades. In 2006, they became vividly clear to New York City policy-makers. Mayor Michael Bloomberg had convened a Commission for Economic Opportunity and asked its members to develop new ideas for addressing poverty in New York. The Commissioners quickly discovered how little the current poverty measure could tell them about the degree of economic deprivation in the City, the effect of existing programs intended to alleviate it, or the potential impact of the initiatives they were considering. Commission members wanted to know, for example, how proposals such as increasing participation in the Food Stamp program or creating a New York City Child Care Tax Credit would affect the local poverty rate. What they learned instead was that efforts like these would have no discernable impact because in-kind benefits and tax credits are not accounted for in the official measure.

The Commissioners decided to address the issue. In their report to the mayor, they urged that, in addition to initiating new antipoverty programs, New York City should develop a better method to count the poor. Mayor Bloomberg embraced the idea, and poverty measurement has become part of the mission of the organization created to implement the Commission's recommendations: the New York City Center for Economic Opportunity (CEO).

CEO issued its first working paper on poverty in New York City in 2008. Its third and most recent report was released in March 2011. In the spring of 2010 the Obama administration announced plans for a Supplemental Poverty Measure (SPM) to be issued in the fall of 2011 that will remedy many of the problems inherent in the official, federal measure of poverty. But while the SPM will provide a much more informative gauge of how economic trends, demographic change, and public policy are affecting families at the bottom of the income ladder at the national level, the U.S. Census Bureau currently has no plan for estimating the SPM for local areas. As the work in New York City suggests, the federal measure should be complemented by local poverty measures, which can inform policy making at the city or state level in ways that a nationwide social indicator cannot.

Creating a New Poverty Measure for NYC

The reasons for the widespread dissatisfaction with the current, official measure of poverty are easy to understand. It is woefully out of date. The only economic resource it recognizes is pre-tax cash. Although tax credits and in-kind benefits have been a growing share of government antipoverty expenditures for decades, these supports to low-income families remain uncounted by the official poverty measure.

The official poverty threshold has also failed to keep up with a changing society and has become disconnected from any underlying rationale. The poverty line, which was based on the cost of food, no longer reflects family expenditures for necessities; housing has replaced food as the largest item in a typical family's budget. The threshold has also lost touch with

the American standard of living. In 1964, the poverty line for a family of four equaled 50 percent of median income for a family of that size. The poverty line now comes to less than 30 percent of the median. Finally, the official poverty line is uniform across the country. The official threshold that defines who is poor in Manhattan is the same as that in rural Mississippi. The need to account for New York City's relatively high cost of living is obvious in light of the tight squeeze that local housing costs put on family budgets.

If the primary reason for measuring poverty is to improve public policy, these weaknesses had to be addressed. The definition of resources would need to be expanded to include the effect of tax programs like the Earned Income and Child Care Tax Credits that support low-income working families. The value of in-kind benefits such as Food Stamps and housing subsidies that can be used, like cash, to secure more adequate food and shelter should also be included. The adequacy of a family's resources would also need to be measured against a more realistic set of poverty thresholds. CEO concluded that it should base its measure on recommendations that had been developed by the National Academy of Sciences' (NAS) Panel on Poverty and Family Assistance in 1995. CEO's adoption of the NAS method is summarized in Figure 1.

Drawing the New York City Poverty Line

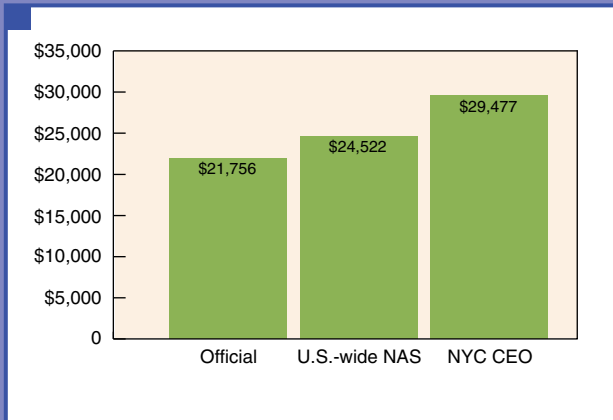
The NAS-style poverty threshold is based on family needs for clothing, shelter, and utilities, as well as food. The dollar value of the poverty line is established by taking a point in the distribution of two-adult, two-child family expenditures for these items. A factor equal to 1.2 is then applied to account for miscellaneous needs such as personal care, household upkeep, and non-work-related transportation. For 2009 (the most recent data at time of writing), this methodology produces a U.S.-wide poverty threshold for a family composed of two adults and two children of \$24,522.¹

Then CEO adjusts this threshold to reflect inter-area differences in living costs. We compare the New York City metropolitan area Fair Market Rent for a two-bedroom apartment to

FIGURE 1 CEO's Adoption of the National Academy of Sciences' Poverty Measure

Thresholds	Resources
<p>Roughly 80 percent of the median of the distribution of two-adult, two-child family expenditures for:</p> <ul style="list-style-type: none"> • Food • Clothing • Shelter • Utilities <p>Plus a "little more" for miscellaneous needs. Then adjusted for inter-area differences in shelter and utility costs.</p>	<p>The annual flow of resources available to a family to obtain the items in threshold including:</p> <ul style="list-style-type: none"> • Pre-tax cash income • Net taxation • Nutritional assistance programs • An adjustment for housing status <p>Minus work-related expenses and out-of-pocket spending for medical care.</p>

FIGURE 2 Poverty Thresholds, Two-Adult, Two-Child Families, 2009



the national average for a similar unit. In 2009, New York City rents for such apartments were 1.46 times the national average. This factor is applied to the U.S.-wide shelter and utilities share of the threshold. When added to the non-shelter and utilities portion of the threshold (which remains unchanged), the total threshold for the reference family of two adults and two children comes to \$29,477. After a threshold for the reference family has been set, thresholds are created for families of other sizes and compositions.² We refer to this New York City-specific threshold as the CEO threshold.

The official threshold that defines who is poor in Manhattan is the same as that in rural Mississippi. The need to account for New York City's relatively high cost of living is obvious in light of the tight squeeze that local housing costs put on family budgets.

FIGURE 3 Comparison of NYC Poverty Rates, by Age Group, 2009

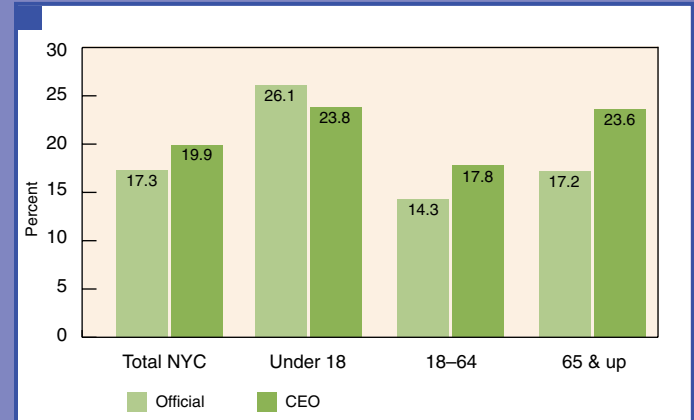


Figure 2 compares the U.S.-wide NAS threshold and the New York City CEO threshold with the official poverty threshold. Compared to the official poverty line, the U.S.-wide NAS and CEO thresholds are 12.7 percent and 35.5 percent higher, respectively. Most of the disparity between the CEO threshold and the official poverty line is generated by the geographic adjustment. If employing a more realistic poverty threshold was the only improvement that CEO had made, the resulting poverty rate could only have exceeded the proportion of New Yorkers counted as poor by the official measure.

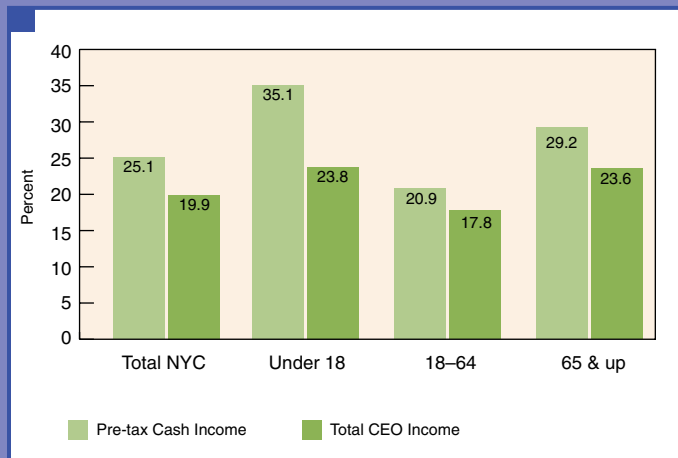
Measuring Family Resources

The appropriate poverty lines must be compared against a family's resources to determine if its members are poor. CEO employs the Census Bureau's American Community Survey (ACS) both to represent the City's population and as the principal source of information for calculating family resources. The ACS is now the largest of the Census Bureau's annual demographic surveys, and its sample is sufficiently large to analyze poverty across the city's demographic groups and neighborhoods. The ACS also contains much information relevant to poverty status, such as family composition, school enrollment, educational attainment, race, citizenship, and employment, as well as income from a variety of sources, such as earnings, social security, and public assistance.

Although the ACS provides data on pre-tax cash income, other elements of a family's resources that are vital to a NAS-type poverty measure are not collected in the survey. As noted in Figure 1, this includes taxes, the value of nutritional assistance, an adjustment for housing status, commuting costs, child care expenses, and out-of-pocket spending for medical care. These are estimated for each family through a variety of approaches utilizing program rules, administrative data, and imputation techniques. (A description of these techniques is beyond the scope of this article. They are detailed in CEO's reports, available at <http://www.nyc.gov/ceo>).

We refer to this more inclusive definition of family resources

FIGURE 4 Comparison of Poverty Rates Using CEO Poverty Thresholds with Pre-tax Cash and Total CEO Income



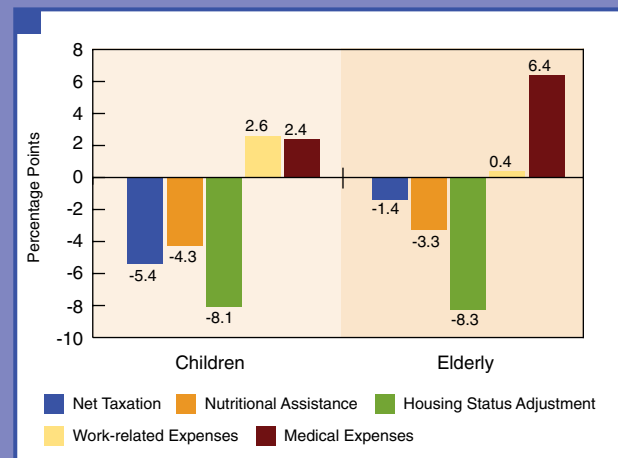
as CEO income. Although this income measure consists of reductions as well as additions, CEO income is higher for families in the lower tail of the income distribution than the official resource measure of pre-tax income. In 2009, CEO income at the 20th percentile equaled \$29,601. Pre-tax cash income at the 20th percentile was \$24,087. This implies that if the only change we had made to the official poverty measure was to expand the definition of resources, the CEO poverty rate would be lower than the official rate.

Findings from the CEO Poverty Measure

When we applied the expanded definition of resources against the higher poverty thresholds, CEO found that 19.9 percent of the New York City population was poor in 2009. This is 2.6 percentage points higher than the corresponding official poverty rate of 17.3 percent.³ This is an attention-getting difference, indicating that the effect of using a higher threshold outweighed the effect of using a more inclusive definition of family resources. But it is only the beginning of either a new understanding of poverty or a reassessment of the adequacy of anti-poverty programs. The value of the CEO measure for policy making is only apparent when we look beyond the headline numbers.

It is useful to ask whether the difference between the official and CEO poverty rate is uniform across the population. Figure 3 illustrates that, at least by age group, it is not. The gap between the official and CEO poverty rates for adults 18 through 64 years of age is not far from the citywide difference (3.5 percentage points compared to 2.6 percentage points). However, the CEO poverty rate for children (23.8 percent) is 2.3 percentage points less than the official poverty rate (26.1 percent). By contrast, the CEO poverty rate for New Yorkers 65 and older is 6.4 percentage points higher than the official rate, 23.6 percent compared to 17.2 percent.

FIGURE 5 Resource Effects on Poverty Rates, by Age Group



The Effect of Alternative Definitions of Income on the Poverty Rate

An informative way to understand this wide variation is to examine how differences in resource measures affect each age group's poverty rate. As noted above, CEO's more inclusive resource measure raises family incomes in the lower end of the income distribution. If we had merely raised the poverty threshold, but had retained the official resource measure limited to pre-tax cash, the poverty rate for the City would have stood at 25.1 percent, 5.3 percentage points above the rate when the more inclusive CEO resource measure is used. Figure 4 compares poverty rates (based on the CEO thresholds) derived from the narrow pre-tax cash definition against rates derived from the full CEO income measure. The most dramatic difference between them is for children; the inclusion of a wider range of income supports brings their poverty rate down by 11.3 percentage points. The corresponding declines for adults 18 through 64 and 65 and older are 3.1 percentage points and 5.6 percentage points, respectively.

Which elements of the more inclusive measure account for this pattern? Figure 5 provides some answers, illustrating the impact that specific elements of the CEO income measure have on the poverty rate for children under 18 and for the elderly.⁴ For example, the poverty rate for children using the full CEO income measure is 23.8 percent. If we omit the effect of the tax system on income, it would stand at 29.2 percent. The figure shows that net taxation lowers the poverty rate for children by 5.4 percentage points. The corresponding difference for the elderly is a modest 1.4 percentage points. The figure also makes clear that children benefit somewhat more from the poverty-reducing effect of nutritional assistance programs (4.3 percentage points against 3.3 percentage points). Both groups benefit nearly equally from housing programs, 8.1 percentage points for children and 8.3 for elderly adults.

The figure also clarifies why the CEO poverty rate for the

elderly is so much higher than the official rate. Out-of-pocket medical expenses increase the poverty rate for seniors by 6.4 percentage points (compared to 2.4 percentage points for children). Despite near-universal coverage by Medicare, expenditures for premiums, co-pays, deductibles, and uncovered medical services have a considerable effect on the poverty status of the elderly.

This fairly simple analysis illustrates how the CEO poverty measure can cast poverty in a new and more informative light by capturing important aspects of the policy environment. One of these is the targeting of non-cash assistance to families with children. Tax credits such as the Earned Income Tax Credit are far more generous for families with children than for childless families and individuals. Families with children benefit from the National School Lunch Program and have a higher take-up rate for the Food Stamp program than the elderly. Families with children are also benefiting from means-tested housing programs to a greater extent than are older New Yorkers. Accounting for these resources is why, despite the much higher CEO poverty threshold, the CEO poverty rate for children is below the official rate. Had CEO continued the official poverty measure's omission of these items, we would have grievously mismeasured the effect of social policy on child poverty.

By contrast, much of the support low-income seniors receive takes the form of cash, either through Social Security or the Supplemental Security Income program. These are already counted by the official poverty measure. With the exception of housing programs, the positive effect of non-cash assistance for this group is small and their health care costs are high. When measured against the higher CEO threshold, the resultant poverty rate is 6.4 percentage points higher than the official rate. Given the widespread belief that progress against senior poverty was one place where New Deal and Great Society programs had their intended effect, our finding of a 23.6 percent poverty rate is unsettling. It will be important, and with this measure, possible, to gauge how the recently enacted health care legislation will affect senior poverty.

From Measurement to Antipoverty Policy

CEO's research raises the question as to how the new measure will affect city policy. While the new measure is stimulating new thinking, change will not be dramatic or rapid. Much of what New York, or any city, does to support low-income families is to administer programs that are subject to federal and state stat-

ute or regulation. CEO's poverty measure cannot affect federal or state funding formulas, eligibility requirements for means-tested programs, or their benefit levels.

CEO's poverty measure is a social indicator; its value lies in the extent to which it tells us something new about populations in need. Where the CEO measure is beginning to influence local policy is in the area of program innovation. Mayor Bloomberg established the Center for Economic Opportunity to initiate and evaluate new programs, and the Center has responded to its measure with plans to expand the populations it targets. In 2006, the Mayor's Commission had recommended that innovation focus on families with young children, youth (persons 16 through 24 years of age), and the working poor. Our findings have prompted the Center to expand its focus to the elderly.

The Center is now working with New York City's Human Resources Administration and Department for the Aging to find opportunities to fashion new programs or build upon existing ones that can reduce senior poverty. One initiative under consideration is an employment program targeted to older New Yorkers who have most, but not all, of the 40 quarters of earnings they need to qualify for Social Security benefits and eligibility for Medicare. This appears to be a particular problem for elderly immigrants who may have contributed to their families' well-being by providing child care or earnings from informal work and now find themselves without either pensions or medical insurance.

We expect that future poverty measurement work will continue to cast poverty in a new and more informative light and that, over time, the measure will become integral to the strategic planning of the many city agencies whose work addresses the needs of low-income New Yorkers. Some of what we learn will reflect issues that face any big city in the United States, but effective policy making requires a local take on national trends. Others have recognized this and have expressed interest in developing similar local poverty measures. The New York State Office of Temporary and Disability Assistance, the Urban Institute, and the University of Wisconsin's Institute for Research on Poverty have developed state-level poverty measures. CEO welcomes these efforts and extends an offer of assistance to other jurisdictions who wish to develop their own measures.

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Endnotes

1. The U.S.-wide NAS thresholds can be found at <http://www.census.gov/hhes/povmeas/data/nas/tables/2009/index.html>.
2. To avoid cumbersome language we use "family" to denote the unit of analysis in our studies. The term "family" includes one-person units, if the person is an unrelated individual. Unmarried partners are treated as spouses. Adjustment of the reference family threshold for other families is made using a three-parameter scale developed by David Betson.
3. To aid comparability, the official poverty rates provided in this article are based on the poverty universe and unit of analysis used to create the CEO poverty rates.
4. These are calculated by taking the difference between the poverty rate derived from the full CEO income measure and what the poverty rate would have been had a specific item been omitted from family resources.