

The Census Bureau's Plans for Poverty Measurement Research: Attachment A

ATTACHMENT A: Summary of NAS Recommendations¹

Recommendation 1.1. The official U.S. measure of poverty should be revised to reflect more nearly the circumstances of the nation's families and changes in them over time. The revised measure should comprise a set of poverty thresholds and a definition of family resources--for comparison with the thresholds to determine who is in or out of poverty--that are consistent with each other and otherwise statistically defensible. The concepts underlying both the thresholds and definition of family resources should be broadly acceptable and understandable and operationally feasible.

Recommendation 1.2. On the basis of the criteria in Recommendation 1.1, the poverty measure should have the following characteristics:

- The poverty thresholds should represent a budget for food, clothing, shelter (including utilities), and a small additional amount to allow for other needs (e.g., household supplies, personal care, non-work-related transportation).
- A threshold for a reference family type should be developed using actual consumer expenditure survey data and updated annually to reflect changes in expenditures in food, clothing, and shelter over the previous 3 years.
- The reference family threshold should be adjusted to reflect the needs of different family types and to reflect geographic differences in housing costs.
- Family resources should be defined--consistent with the threshold concept--as the sum of money income from all sources together with the value of near-money benefits (e.g., food stamps) that are available to buy goods and services in the budget, minus expenses that cannot be used to buy these goods and services. Such expenses include income and payroll taxes, child care and other work-related expenses, child support payments to another household, and out-of-pocket medical care costs, including health insurance premium.

Recommendation 2.1. A poverty threshold with which to initiate a new series of official U.S. poverty statistics should be derived from Consumer Expenditure Survey data for a reference family of four persons (two adults and two children). The procedure should be to specify a percentage of median annual expenditures for such families on the sum of three basic goods and services--food, clothing, and shelter (including utilities)--and apply a specified multiplier to the corresponding dollar level so as to add a small amount for other needs.

Recommendation 2.2. The new poverty threshold should be updated each year to reflect changes in consumption of the basic goods and services contained in the poverty budget: determine the dollar value that represents the designated percentage of the median level of expenditures on the sum of food, clothing, and shelter for two-adult/two-child families and apply the designated multiplier. To smooth out year-to-year fluctuations and to lag the adjustment to some extent, perform the calculations for each year by averaging the most recent 3 years' worth of data from the Consumer Expenditure Survey, with the data for each of those years brought forward to the current period by using the change in the Consumer Price Index.

Recommendation 2.3. When the new poverty threshold concept is first implemented and for several years thereafter, the Census Bureau should produce a second set of poverty rates for evaluation purposes by using the new thresholds updated only for price changes (rather than for changes in consumption of the basic goods and services in the poverty budget).

Recommendation 2.4. As part of implementing a new official U.S. poverty measure, the current threshold level for the reference family of two adults and two children (\$14,228 in 1992 dollars) should be reevaluated and a new threshold level established with which to initiate a new series of poverty statistics. That reevaluation should take account of both the new threshold concept and the real growth in consumption that has occurred since the official threshold was first set 30 years ago.

Recommendation 3.1. The four-person (two-adult/two-child) poverty threshold should be adjusted for other family types by means of an equivalence scale that reflects differences in consumption by adults and children under 18 and economies of scale for larger families. A scale that meets these criteria is the following: children under 18 are treated as consuming 70 percent as much as adults on average; economies of scale are computed by taking the number of adult equivalents in a family (i.e., the number of adults plus 0.70 times the number of children), and then by raising this number to a power of from 0.65 to 0.75.

Recommendation 3.2. The poverty thresholds should be adjusted for differences in the cost of housing across geographic areas of the country. Available data from the decennial census permit the development of a reasonable cost-of-housing index for nine regions and, within each region, for several population size categories of metropolitan areas. The index should be applied to the housing portion of the poverty thresholds.

Recommendation 3.3. Appropriate agencies should conduct research to determine methods that could be used to update the geographic housing cost component of the poverty thresholds between the decennial censuses.

Recommendation 3.4. Appropriate agencies should conduct research to improve the estimation of geographic cost-of-living differences in housing as well as other components of the poverty budget. Agencies should consider improvements to data series, such as the BLS area price indexes, that have the potential to support improved estimates of cost-of-living differences.

Recommendation 4.1. In developing poverty statistics, any significant change in the definition of family resources should be accompanied by a consistent adjustment of the poverty thresholds.

Recommendation 4.2. The definition of family resources for comparison with the appropriate poverty threshold should be disposable money and near-money income. Specifically, resources should be calculated as follows:

- estimate gross money income from all public and private sources for a family or unrelated individual (which is income as defined in the current measure);
- add the value of near-money nonmedical in-kind benefits, such as food stamps, subsidized housing, school lunches, and home energy assistance;
- deduct out-of-pocket medical care expenditures, including health insurance premiums;
- deduct income taxes and Social Security payroll taxes;
- for families in which there is no nonworking parent, deduct actual child care costs, per week worked, not to exceed the earnings of the parent with the lower earnings or a cap that is adjusted annually for inflation;
- for each working adult, deduct a flat amount per week worked (adjusted annually for inflation and not to exceed earnings) to account for work-related transportation and miscellaneous expenses; and
- deduct child support payments from the income of the payer.

Recommendation 4.3. Appropriate agencies should work to develop one or more "medical care-risk" indexes that measure the economic risk to families and individuals of having no or inadequate health insurance coverage. However, such indexes should be kept separate from the measure of economic poverty.

Recommendation 5.1. The Survey of Income and Program Participation should become the basis of official U.S. income and poverty statistics in place of the March income supplement to the Current Population Survey. Decisions about the SIPP design and questionnaire should take account of the data requirements for producing reliable time series of poverty statistics using the proposed definition of family resources (money and near-money income minus certain expenditures). Priority should be accorded to methodological research for SIPP that is relevant for improved poverty measurement. A particularly important problem to address is population under coverage, particularly of low-income minority groups.

Recommendation 5.2. To facilitate the transition to SIPP, the Census Bureau should produce concurrent time series of poverty rates from both SIPP and the March CPS by using the proposed revised threshold concept and updating procedure and the proposed definition of family resources as disposable income. The current series should be developed starting with 1984, when SIPP was first introduced.

Recommendation 5.3. The Census Bureau should routinely issue public-use files from both SIPP and the March CPS that include the Bureau's best estimate of disposable income and its components (taxes, in-kind benefits, child care expenses, etc.) so that researchers can obtain poverty rates consistent with the new threshold concept from either survey.

Recommendation 5.4. Appropriate agencies should conduct research on methods to develop poverty estimates from household surveys with limited income information that are comparable to the estimates that would be obtained from a fully implemented disposable income definition of family resources.

Recommendation 5.5. Appropriate agencies should conduct research on methods to construct small-area poverty estimated from the limited information in the decennial census that are comparable with the estimates that would be obtained under a fully implemented disposable income concept. In addition, serious consideration should be given to adding one or two questions to the decennial census to assist in the development of comparable estimates.

Recommendation 5.6. The Bureau of Labor Statistics should undertake a comprehensive review of the Consumer Expenditure Survey to assess the costs and benefits of changes to the survey design, questionnaire, sample size, and other features that could improve the quality and usefulness of the data. The review should consider ways to improve the CEX for the purpose of developing poverty thresholds, for making it possible at a future date to measure poverty on the basis of a consumption or expenditure concept of family resources, and for other analytic purposes related to the measurement of consumption, income, and savings.

Recommendation 6.1. The official poverty measure should continue to be derived on an annual basis. Appropriate agencies should develop poverty measures for periods that are shorter and longer than a year, with data from SIPP and the Panel Study of Income Dynamics, for such purposes as program evaluation. Such measures may require the inclusion of asset values in the family resources definition.

Recommendation 6.2. The official measure of poverty should continue to use families and unrelated individuals as the units of analysis for which thresholds are defined and a resources aggregated. The definition of "family" should be broadened for purposes of poverty measurement to include cohabiting couples.

Recommendation 6.3. Appropriate agencies should conduct research on the extent of resource sharing among roommates and other household and family members to determine if the definition of the unit of analysis for the poverty measure should be modified in the future.

Recommendation 6.4. In addition to the basic poverty counts and ratios for the total population and groups-the number and proportion of poor people-the official poverty series should provide statistics on the average income and distribution of income for the poor. The count and other statistics should also be published for poverty measures in which family resources are defined net of government taxes and transfers, such as a measure that defines income in before-tax terms, a measure that excludes means-tested government benefits from income, and a measure that excludes all government benefits from income. Such measures can help assess the effects of government taxes and transfers on poverty.

Recommendation 7.1. Agencies responsible for federal assistance programs that use the poverty guidelines derived from the official poverty thresholds (or a multiple) to determine eligibility for benefits and services should consider the use of the panel's proposed measure. In their assessment, agencies should determine whether it may be necessary to modify the measure-for example, through a simpler definition of family resources or by linking eligibility less closely to the poverty thresholds because of possible budgetary constraints-to better serve program objectives.

Recommendation 8.1. The states should consider linking their need standard for the Aid to Families with Dependent Children program to the panel's proposed poverty measure and whether it may be necessary to modify this measure to better serve program objectives.

Elements of the Current and Proposed Poverty Measures²

Element	Current Measure	Proposed Measure	
Threshold Concept	Food times a large multiplier for all other expenses	Food, clothing, and shelter, plus a little bit more	
1992 level (two-adult/two-child family)	\$14,228	Suggest within range of \$13,700-\$15,900	
Updating method	Update 1963 level each year for price changes	Update each year by change in spending on food, clothing, and shelter over previous 3 years by two-adult/two-child families	
Threshold Adjustments	By family type	Separately developed thresholds by family type; lower thresholds for elderly singles and couples	Reference family threshold adjusted by use of equivalence scale, which assumes children need less than adults and economies of scale for larger families
	By geographic area	No adjustments	Adjusting for housing cost by regions and size of metropolitan area
Family Resource Definition (to compare with threshold to determine poverty status)	Gross (before-tax) money income from all sources	Gross money income, plus value of near-money in-kind benefits (e.g. food stamps), minus income and payroll taxes and other nondiscretionary expenses (e.g., child care and other work-related expenses; child support payments to another household; out-of-pocket medical care expenses, including health insurance premiums)	
Data Source (for estimating income)	March Current Population Survey	Survey of Income and Program Participation	

Time Period of Measurement	Annual	Annual, supplemented by shorter term and longer term measures
Economic Unit of Analysis	Families and unrelated individuals	Families (including cohabiting couples) and unrelated individuals

1. Summarizes page 4-15: Connie F. Citro and Robert T. Michael(eds.), ***Measuring Poverty: A New Approach, Washington, D.C.: National Academy Press, 1995.***
2. Table copied from Table 1-1, page 41: Connie F. Citro and Robert T. Michael (eds.), ***Measuring Poverty: A New Approach***, Washington, D. C.: National Academy Press, 1995.