An Open Letter on Revising the Official Measure of Poverty

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Dear Director Lew and Director Prewitt:

The signers of this letter, as academic researchers and as citizens interested in sound policy making, see an urgent need for improved measurement of American poverty. The flaws in the current official measure were thoroughly assessed by the Panel on Poverty and Family Assistance convened by the National Research Council in its 1995 report, *Measuring Poverty: A New Approach.* The current poverty measure does not reflect changes since the 1960s in consumption patterns, household composition, and the labor force patterns of American parents. It does not account for the impact of health insurance coverage and health status on the well-being of individuals and families. And it does not permit an accurate evaluation of the effect of in-kind government transfers or of tax benefits on poverty, because the official measure of poverty does not count these benefits in family resources.

The past three decades have seen major changes in the U.S. social safety net for low-income families. Many of the changes are poorly reflected – or not reflected at all – in the official measure, which was formally adopted by the government back in the 1960s. Unless we correct the critical flaws in the existing measure, the Nation will continue to rely on a defective yardstick to assess the effects of policy reform. Most of these flaws are widely recognized in the interested academic and statistics-using communities. The remedies for many of them are also widely known.

We think it is urgent that the Nation develop and adopt an alternative measure, one that will accurately reflect the extent of need among low-income households and appropriately calculate their available resources. Through a set of meetings, and commissioned work, the NRC proposal has been modified somewhat and we present the agreed upon recommendations below. Although not all of us agree with each element of the proposal, we endorse the general approach recommended by the Panel on Poverty and Family Assistance in its 1995 report as modified. In particular, we urge that the following elements of a an improved measure be incorporated in a new gauge of poverty:

A. Poverty thresholds

1. We recommend that the poverty thresholds be based on the panel's concept of a budget for food, clothing, shelter, with an additional small multiplier for other basic needs. The budget should be based on actual consumer

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expenditure data for a cross-section of the U.S. population. We recognize, as did the panel, that some judgement is involved in determining the exact level of the thresholds. We urge that the thresholds be set at a level that at least initially produces a total count of the number of people in poverty that does not vary substantially from the poverty count obtained using the existing official poverty measure.

2. The equivalence scale used to adjust the poverty threshold for family size should be the three-parameter scale developed by David Betson and examined in the Census Bureau's recent report, *Experimental Poverty Measures, 1990 to 1997* (Current Population Report P60-205).

3. While we agree in principle with the need to adjust poverty thresholds to take account of regional differences in the cost of housing, we do not believe that the data currently available to implement this proposal are adequate to the task. We therefore recommend that the poverty thresholds remain uniform across the Nation until better data have been developed to measure regional and local differences in housing costs.

4. The alternative poverty thresholds should be annually updated using the CPI-U, as is done with the current official poverty thresholds. In addition, government statistical agencies should periodically re-evaluate the threshold levels to ensure that they are consistent with trends in overall living standards.

B. Definition of family resources

1. Family resources should include the value of noncash benefits that provide food, clothing, shelter, and other basic needs. These would include food and housing benefits, such as food stamps, free school lunches, and public housing subsidies. Medical benefits would not be included. In addition, data should be collected in the future for new kinds of noncash benefits, if the new benefits meet family needs for food, clothing, shelter, and other basic needs.

2. In general, the market value of benefits should be used to establish their contribution to family resources. For housing benefits, however, the value imputed for these in-kind benefits should not exceed the housing budget share in the new poverty thresholds. The "excess" of in-kind housing subsidies over the housing budget share, which in some cases may be very large, cannot be used to pay for a family's food and clothing requirements.

3. Income and payroll taxes should be subtracted from gross family income to calculate the net family resources available to pay for food, clothing, and shelter.

4. A flat weekly amount for necessary work-related expenses should be subtracted from the earned incomes of workers.

5. Out-of-pocket child care costs should be deducted from the earned incomes of families with children under 12 in which all resident parents work. The

amount deducted can be based on information collected in the Survey of Income and Program Participation. The annual amount subtracted for child care costs should not exceed the earned income of the parent with lower earnings. The child care deduction guidelines used in the food stamp and AFDC programs do not provide an appropriate basis for determining child care costs, because they are not based on actual spending patterns in the general population. Ultimately, the goal of the adjustment for child care costs should be to subtract from earnings the necessary cost of child care expenses before any subsidies and to include government-provided child care subsidies in family resources.

C. Measurement of medical care costs

1. The measure of poverty should take account of the impact of out-of-pocket medical care costs on well-being by either subtracting medical out-of-pocket (MOOP) costs from resources or providing a budget for medical care costs in the poverty thresholds.

2. The measurement of medical care costs should include an estimate of medical-out-of-pocket spending, both for persons and families with insurance coverage and those who do not have any insurance coverage. For persons and families with insurance coverage, this calculation should include an estimate of contributions for insurance premiums as well as for out-of-pocket payments for medical services.

3. For persons without health insurance coverage, medical care costs should be based on the cost of a standard, unsubsidized insurance package plus added out-of-pocket spending on medical services. In order to avoid imputing an estimate of out-of-pocket spending that includes expenditures on nonessential care, we recommend that estimates of out-of-pocket spending be based on expenditure patterns in similar families which have incomes between one-half and one times the national median income. Similarity should be based on family size, age of family head, region of residence, and health status.

4. We do not recommend using the actual out-of-pocket medical expenses for those without insurance coverage, because their lack of insurance protection combined with low income may lead them to spend too little on necessary medical care.

D. Other issues

1. The new poverty measure is intended to be used as a statistical measure of the extent and severity of poverty. It is not intended for use in determining eligibility for government assistance programs. The current poverty guidelines should continue to serve as a basis for program eligibility and benefits and for the geographic allocation of federal funds.

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Using the new measure to determine program eligibility would add substantial complexity to these programs and place burdens on administrators and beneficiaries. Doing so would also have effects contrary to the purposes of the programs. Each assistance program has its own eligibility criteria that reflect the purpose of the program and do not simply reflect the definitions and methods used in the statistical measure of poverty. Changing the way poverty is measured for statistical purposes does not, and should not, affect the eligibility or benefit structure of these programs.

2. Foster children ought to be included in the family unit, and foster care payments to support such children should be included in the resources of the families that care for foster children.

3. Cohabiting but unmarried couples should be considered as a family unit if they have children in common.

We believe our recommendations enjoy broad support in the interested academic and policy communities. The recommendations do not address all legitimate concerns about the existing poverty measure. The adoption of our recommendations would nonetheless substantially improve the Nation's current yardstick of economic well-being. The goal of achieving an ideal poverty measure should not become the enemy of adopting a much improved measure. We urge the support of research that would produce future improvements in poverty measurement, particularly with respect to the treatment of housing and medical care costs and geographical differences in housing costs. But investments in such research should not prevent us from adopting the critical improvements in defining income and thresholds described above.

Priority areas for additional research

1. Develop data that better measure geographic variations in housing costs for low-income families to use in determining geographic variations in the housing budget of the poverty threshold.

2. Develop more sophisticated data on medical care costs, including better data on variations in costs by family characteristics, such as family size, age of family head, health status of family members, and insured status, for use in the poverty measure.

3. Determine how best to treat the flow of services from owner-occupied housing in measuring poverty.

4. Determine how resources are shared within households, including those headed by unmarried but cohabiting couples and those with adult roommates, with and without children.

5. Improve the Survey of Income and Program Participation, and increase the sample size of that survey so it can be used as the Nation's primary data source for estimating poverty.

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6. Implement the American Community Survey and include in that survey sufficient information to permit accurate measurement of poverty at the state level.

7. Develop better methods for identifying, measuring, and correcting under-reporting of income, particularly among low-income families. As a first step, the Census Bureau should regularly publish estimates of the total amount of under-reporting, by income source, in these surveys.

Thank you for your consideration of this proposal.

The Conveners of the Working Group on Revising the Poverty Measure

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