

NLWJC - Kagan

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Poverty Measurements

Poverty measurements

Andrea Kane

Record Type: Record

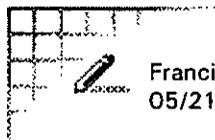
To: Elena Kagan/OPD/EOP

cc:

Subject: MAY 26-POVERTY MEASUREMENT MEETING

I think they really want you there. To be honest, most of the issues they've raised have not struck me as things that have huge, obvious policy implications, but I have not been able to devote much time to this. Becky and Pat Ruggles, along with folks at OMB, and to a lesser extent NEC, have given a lot of thought to the issues. I will go back through my notes and send you a note by Monday with any of the major issues flagged. I think they'd like to have you there if at all possible though I told them it was a tough day for me with our big welfare to work event the next day.

----- Forwarded by Andrea Kane/OPD/EOP on 05/22/98 08:24 AM -----



Francine P. Obermiller
05/21/98 04:50:00 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:

Subject: MAY 26-POVERTY MEASUREMENT MEETING



POVERTY.5

THIS IS A REMINDER THAT REBECCA BLANK'S NEXT POVERTY MEASUREMENT MEETING WILL TAKE PLACE ON TUESDAY, MAY 26, 3:30-5:00PM, IN THE OLD EXECUTIVE OFFICE BUILDING, ROOM 324.

THIS MEETING IS A DEPUTIES DECISION MEETING, AS DESCRIBED ON THE ATTACHED AGENDA, , AND DR. BLANK URGES EVERYONE TO ATTEND.

Message Sent To: _____

Poverty Measurement Policy Working Group -- May 26

The primary purpose of this meeting is to try and reach consensus around a key set of policy recommendations related to the issues our group has been discussing over the past three months. These are recommendations to the Census about how they might present their alternative poverty measurement calculations. Attached to this agenda is a one-page summary of the NAS recommendations for a new poverty line measure, and a one-page summary of the four policy issues we've discussed at our last four meetings.

AGENDA

I. Key issues to be discussed

A. How should the thresholds be determined in the first year an alternative measure is published? To be specific: should the alternative poverty rate be benchmarked in 1997 to be identical to the 1997 official poverty rate or is there an alternative "benchmark" that makes more sense?

(Note: We appear to have a general consensus within the group from our earlier discussions to support benchmarking the alternative poverty rate to the 1997 official rate.)

B. How should the poverty thresholds be updated over time? Specifically, (1) should they be adjusted on an annual basis by the overall CPI or by a CPI for food shelter & clothing only and revisited every 5-10 years for a more complete recalculation; or (2) Should they be completely recalculated each year as a share of current expenditures on food, clothing, and housing?

(Note: There seemed to be general consensus for the first approach, particularly if a CPI for food, shelter and clothing was used. OMB seemed reasonably confident that they and Census could establish a process to assure that poverty measurement is reviewed on a regular basis.)

C. Should the poverty thresholds be adjusted for geographic variations in the cost of living?

(Note: There seemed to be general consensus that any "base" alternative poverty measurement should not include geographical price variation, although Census may well want to publish an alternative that includes this as part of the NAS recommendations.)

D. How (if at all) should the adjustment for Medical out-of-pocket (MOOP) expenditures occur? Specifically, should the Census follow the NAS recommendations to impute MOOP and subtract it from individual income before calculating individual poverty status?

(Note: There is more disagreement on this issue than on any other. The three

deputies present at our last meeting generally agreed that the Census should follow the NAS recommendations for now, but that further work refining these calculations (and considering other alternatives) should go forward. But some of the staff present at the meeting were in less agreement.)

E. Do we have any recommendations to Census about how to present their alternative poverty calculations? Specifically, do we want to recommend they present a primary "base" alternative poverty calculation (for instance: benchmarked to 1997, updated by the CPI for necessities, without geographic price variation, and including MOOP), and then a few alternatives (with and without MOOP, with and without geographic price variation)?

II. Process from here.

NAS Recommendations on How to Measure Poverty

A poverty measure consists of two pieces: (1) A definition of family resources, and (2) A poverty threshold against which resources are compared. If resources are below the threshold, a family is considered poor.

(1) Defining Family Resources

Family resources = Cash income

+ Near money in-kind benefits (food stamps, housing subsidies, school lunch, LIHEAP, etc)

- Taxes

- Child care costs (for families in which there is no nonworking parent, with a cap, and not to

exceed the earnings of the parent with lower earnings)

- Work expenses (a flat amount per week of work)

- Child support payments

- Out of pocket medical care expenditures, including health insurance premiums.

(2) Defining a Poverty Threshold

The threshold should be determined for a family of four (two adults and two children) based on a point in the distribution of annual expenditures by such families on food, clothing, and shelter, plus a small multiplier. (This is based on Consumer

Expenditure Survey data, probably using a three-year average to guarantee adequate sample size.) The recommended percentage of annual expenditures is between 30 and 35 percent (i.e., 15 to 20 percentage points below the median); recommended multipliers are between 1.15 to 1.25.

Thresholds for other family sizes should be determined based on an equivalence scale calculation. The NAS panel recommends using

$$\text{Scale value} = (A + PK)F$$

where A is the number of adults and K the number of kids. P is the scaling for children (if P = 1, kids are treated the same as adults); and F is the scaling for family size. The NAS panel recommends P = 0.70 and F in a range of 0.65 to 0.75.

Geographic costs of living are taken into account, based on a regional index of housing costs (which varies by size of metropolitan area and region of country) which is weighted by the share of housing costs in the expenditure bundle.

Over time, new poverty threshold should be updated by recalculating annual expenditures on the most recent three years of data, and reapplying these other calculations using the most recent data available on housing costs.

Policy Issue 1: Determining the Threshold

Agenda

1. How does the NAS propose to determine thresholds?
How does this compare to the current poverty line?
2. Comments on the fundamental indeterminacy of the "right" threshold ...
Implies a range of thresholds are viable.
3. Benchmarking a threshold so poverty numbers in a specific year are unchanged.
 - A. How do this?
 - B. Why do this?
 - C. What are the implications of benchmarking?
 - a. Change history
 - b. Change who is poor, even if the aggregate number is unchanged
4. What are the alternatives to benchmarking?
NAS recommendations
5. What are the criticisms of these different approaches?

Pros of benchmarking:

There may be large political advantages to saying "We want to improve the measure of poverty, but to show you that we're doing this in a non-political manner, we'll benchmark so there is no change in the overall aggregate poverty rate in the year we implement this change." There are still those who will be upset about the changes in the distribution of poverty or in the past history of poverty rates, which will change (you can benchmark one year only.)

Cons of benchmarking

Backing out a threshold so that the current poverty rate is unchanged produces a threshold that is very far down in the percentile distribution of expenditures on food, shelter and clothing -- somewhere around 20-25% rather than the 30-35% range recommended by the NAS.

Pros of using the NAS alternative (which establishes a higher threshold and higher poverty rates)

Utilizes the recommendations of the NAS panel, based on their judgement about the accumulation of evidence.

Maintains threshold levels that are very similar to the current thresholds (it's not clear how much this matters given the resource definition has changed.)

Cons of using the NAS alternative

Results in a substantially higher poverty rate, which will draw an great deal of criticism. At the same time, it has the same problems as benchmarking, in that it also changes history and it changes the relative poverty share of different groups (although all subgroup poverty rates would go up.)

Policy Issue 2: Updating the Poverty Thresholds Over Time

Agenda

1. How have the poverty thresholds been updated?
CPI adjustments
2. What does the NAS recommend?
Recalculating the threshold
3. What are the implications of these different approaches?
Absolute poverty thresholds (current approach)
Relatively-absolutely poverty thresholds (NAS approach)
Relative poverty thresholds
4. What are the alternatives?
 - A. Adjust with CPI
 - B. Adjust with CPI but embed a commitment to recalculate thresholds on a regular basis.
 - C. Utilize the relatively-absolute (NAS) technique annually

5. What are the criticisms of these different approaches?

Pros of a more relative approach (B or C above):

1. CPI-adjusted thresholds become obsolete over time. As standards of living change, so do social norms.
2. If we don't create the expectation of a regular recalculation/update of the poverty line, we'll end up in 30 years exactly where we are today, using an outmoded statistic.
3. If we calculate the thresholds relative to some level of median expenditures on necessities, it is most consistent if we update in the same way, i.e., with a procedure that changes the thresholds relative to median expenditures on necessities.

Pros of CPI updating (A or B above):

1. Relative changes create a moving target of poverty. In the short run, one is most interested in knowing how many people have purchasing power above a pre-set level. If the level changes with standards of living, it's much harder to interpret the poverty statistics.
2. Standard of living changes (and social norm changes) occur only very slowly. Better to take them into account every-so-often, rather than to embed them

annually into the poverty rate.

3. If we update with a CPI for necessities only (food, shelter, & clothing), we might capture most of the relevant changes (since much of the change in expenditures on these items is due to price changes rather than quantity changes) and have an easier time explaining the short run updating procedure.

Policy Issue 3: Adjusting for Geographic Variations in Cost of Living

Agenda

1. How does the Census propose to do this?
2. What are the results of such an adjustment?
3. What are the alternatives?
 - A. Adjust for the official poverty counts, but don't adjust the guidelines
 - B. Publish an adjustment index for researchers who want to use it, but adjust
neither the official poverty counts nor the guidelines
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4. What are the criticisms of these different approaches?

Reasons to adjust for geographic variation:

If the poverty thresholds provide a measure of "income needs" they should reflect cost of living differences across regions. Theoretically, most statisticians/economists agree that such adjustments should be done if the data is available.

Reasons not to adjust for geographic variation:

Adjustments in the thresholds can lead to a "slippery slope", with advocacy groups arguing that such price adjustments should be done in a wide variety of program benefit payments as well. This can also lead to much greater efforts by legislators to intervene in exactly how the "correct" regional price adjustments are done.

Researchers would not be able to duplicate poverty counts based on geographic price variation because the detailed geographic information required to calculate these would violate privacy constraints in some cases.

Tentative consensus among the group:

* If Census decides that they want to publish a poverty count based on thresholds with geographical price variation, we recommend that such an adjustment not be part of the "base" alternative poverty count, but one of the alternatives.

* At some point in the future, should we discuss changing the poverty guidelines used for program purposes, these should not include geographical price variation.

Policy Issue 4: Accounting for Medical Out-of-Pocket (MOOP) Expenditures

Agenda

1. How does the NAS propose to deal with MOOP expenditures?
Why do it this way?
2. How does this affect poverty calculations?
3. What are the alternatives?
 - A. Account for MOOP in the resource count (NAS)
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4. How does this issue interact with our measures and data concerning the broader question of health and health care coverage?
5. What are the pros and cons of these approaches?

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- * The NAS argues (and some of our group strongly agree) that it is better to remove MOOP from the income side rather than add it into the threshold side.
- * This is the approach that Census has investigated and can implement in a timely fashion.
- * The alternative of ignoring MOOP entirely (neither taking account of it in the thresholds nor the income side) has real credibility problems, given extensive attention to the problems of lack of insurance and high out-of-pocket medical expenditures.
- * If we do this adjustment now, further changes that better take account of MOOP in the future will involve relatively small changes to the poverty numbers. If we don't do it now and want to take account of MOOP in the base alternative in the future, it will involve a major realignment of numbers.

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Poverty Rates and Thresholds under Alternative Measures, 1991-96, CPS

	Official measure	Benchmarked to 1996	Benchmarked to 1991	NAS Experimental
Poverty Rates				
1991	14.2	14.5	14.2	18.9
1992	14.8	15.3	15.0	19.6
1993	15.1	15.7	15.4	20.2
1994	14.6	14.7	14.3	19.0
1995	13.8	13.8	13.4	18.2
1996	13.7	13.7	13.4	18.0
Thresholds for 2 adults and 2 children (in dollars)				
1991	13,812	11,891	11,738	13,891
1992	14,228	12,249	12,091	14,309
1993	14,654	12,616	12,454	14,738
1994	15,029	12,938	12,772	15,115
1995	15,455	13,305	13,134	15,543
1996	15,911	13,698	13,522	16,002

Counting diff things

As a result, diff p. count as poor
fewer children, more elderly

Poverty Rates under Alternative Measures, 1996, CPS

	Official measure	Benchmarked to 1996	Benchmarked to 1991	NAS Experimental
All persons	13.7	13.7	13.4	18.0
Children	20.5	18.1	17.7	23.8
Nonelderly adults	11.4	11.5	11.2	15.0
Elderly	10.8	15.6	15.2	20.4
White	11.2	11.8	11.5	15.6
Black	28.4	25.2	24.5	32.0
Hispanic origin	29.4	28.5	27.8	37.7
One or more workers	9.5	10.0	9.7	13.6
Persons in family of type:				
Married couple	6.9	7.8	7.6	11.1
Female householder	35.8	32.3	31.6	40.4
Geographic regions:				
Northeast	12.7	14.3	13.9	18.8
Midwest	10.7	10.3	10.2	13.8
South	15.1	14.2	13.9	18.3
West	15.4	16.1	15.6	21.0
Metro/CC	19.6	19.2	18.6	24.7
Not CC	9.4	10.6	10.4	14.1
Nonmetro	15.9	13.5	13.3	17.5