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**[06/05/1998-06/09/1998]**



June 5, 1998

DRAFT BACKGROUND MEMORANDUM FOR EOP PRINCIPAL'S MEETING

FROM: REBECCA BLANK  
ELENA KAGAN  
SALLY KATZEN  
JOE MINARIK

Subject: Meeting on Income and Poverty Measures

**Purpose of the Meeting**

In early 1999, the Census Bureau will publish alternative measures of poverty based on the proposals contained in the 1995 National Research Council (NRC) report, *Measuring Poverty: A New Approach*. The current official poverty measure dates back to the 1960s, and while it has been an important contributor to public debate and policymaking, the NRC report reflects a broad consensus that the measure is out-of-date and in need of revision.

Poverty measurement involves two concepts: (1) A definition of family income; and (2) A "threshold" against which income is compared to determine if a family is poor. Changes in these two concepts will have a direct impact on statistics used by the public for informational purposes. Changes will also likely have an effect on Federal programs as well.

Because of the importance of an independent statistical system, the Census Bureau plays the major role in deciding technical issues regarding poverty measurement. However, because of the important policy and political implications of the poverty concept, Census has asked for advice from the EOP (which, through OIRA's Statistical Policy Office, is the statutory arbiter of the "official" poverty measurement methodology) on the upcoming report.

In response to Census' request, CEA, DPC, NEC, and OMB formed a policy working group. (Among the agencies, only the Deputy Assistant Secretary for Human Services Policy at HHS was invited to participate because of her expertise on poverty measurement.) This working group has held a series of meetings, and prepared the attached memo to outline its tentative guidance to Census. The meeting of EOP Principals is intended to review the working group's conclusions before they are transmitted to Census. It is important to emphasize that we are only being asked to give advice to the Bureau of the Census; what it actually publishes is its decision.

There are four global issues to be decided; the first two are most pressing because we need to give guidance to Commerce as soon as possible:

1) Should the Census Bureau select or highlight a single alternative poverty measure, or present several equally in its forthcoming report? Do the principals have a single preferred measure that

they would like to see replace the current official measure? Would anointing a single measure at this time be premature, and prejudge the analytical process? Would it raise ire in the Congress? If we do not anoint a single preferred measure at this time, will it be difficult to select one later should we want to switch the "official" definition to one of the proposed alternatives?

2) There are also two technical issues (policy options 1 and 4 in the background memo) that require careful consideration.

- Should we advise Census to benchmark the new poverty measure to the old poverty rate in the current year (so that the number of people classified as poor would remain the same although the distribution would change)? Should Census implement the NRC recommendations, which would result in a higher poverty rate (e.g., 18% rather than 13.7% in 1996).
- If there is only one measure reported by Census, should it account for differences in medical out-of-pocket (MOOP) expenditures among households in the way recommended by the NRC, namely, subtracting them from income before a family's poverty status is calculated. (An alternative choice is to add them to the thresholds -- which of these methodologies should be used is a technical choice best left to Census.) If we believe that several measures should or more be equally reported by Census, should one of them account for medical expenditures using a different methodology?

3) How should the Administration proceed toward a new official measure of poverty? Should it proceed along a timetable to replace the current official measure before the end of this Administration? If so, what process do we need to establish to move forward on this in a timely fashion? Or, should the Administration proceed more cautiously, letting a consensus build around a preferred measure among the community of users of poverty statistics, but possibly lessening the chances that the official measure is ultimately changed?

4) In addition to OMB's designation of the "official" poverty measurement, HHS also issues administrative poverty guidelines, used in certain program eligibility calculations. If revised poverty thresholds are adopted as part of a new poverty measure, would the Administration continue the old administrative poverty guidelines, or make them consistent with the new threshold measure? If the guidelines are made consistent, would the Administration make programmatic changes to mitigate the effects on eligibility and spending of switching to the new guidelines?

## TECHNICAL BACKGROUND ON INCOME AND POVERTY MEASURES

### The Current Poverty Measure

The methodology by which current poverty thresholds are determined was developed in the early 1960s by Mollie Orshansky, a staff economist at the Social Security Administration. She developed a set of poverty thresholds that vary with the number of adults, the number of children, and the age of the family head. These thresholds represent the cost of a minimum diet multiplied by 3 to allow for non-food expenditures. The multiplier of 3 was chosen because the average family in 1955 spent one-third of its after-tax income on food. Since the late 1960s, the thresholds have simply been updated annually to adjust for price inflation -- i.e., the measure of poverty has remained virtually unchanged for 35 years, despite substantial changes in family behavior and government policy.

The NRC panel identified several weaknesses in the current poverty measure:

- The current poverty measure takes no account of changes in taxes (i.e., the expansion of the EITC) or in-kind benefits (i.e., Food Stamps).
- The current measure does not distinguish between the needs of working and non-working families. In particular, it does not reflect the cost of child care and other work expenses for working low-income families.
- The current poverty measure takes no explicit account of medical care costs, which vary significantly across families and have increased substantially since the current poverty measure was developed.

### The NRC Recommendations

In order to understand the NRC panel's recommended revisions, one must understand the basics of determining poverty. A family is considered poor when its resources fall below a predetermined poverty line or threshold. Therefore, one must develop a methodology for estimating family resources and for defining the threshold resource level below which a family is considered poor.

#### 1. Defining Family Resources

Under the current poverty calculation, the definition of family resources is cash income. The NRC recommendations would estimate family resources as:

Family resources = Cash income + Near-money in-kind benefits - Taxes - Child care costs - Work expenses - Child support payments - Out of pocket

medical care expenditures (including health insurance premiums)

The rationale for subtracting taxes, work and medical expenses from family resources is that these expenditures are typically not discretionary and reduce the family income available to achieve a basic quality of life.

There is near consensus among researchers that adjusting for near-money in-kind benefits (primarily Food Stamps and housing subsidies) and taxes would be an improvement in how poverty is measured. There is slightly less agreement on whether child care costs, work expenses, and child support payments should also be deducted because an unknown proportion of these expenses is likely discretionary. (The NRC proposes to cap the amount of child care and work expenses that can be subtracted to deal with this problem.) As discussed below, the adjustment for out-of-pocket medical care expenditures is more controversial.

## 2. Defining a Poverty Threshold

A threshold must be determined against which to compare a family's resources. The NRC panel recommends basing the threshold on expenditures on "necessities" (food, shelter, and clothing) plus a little more. Specifically, the NRC panel recommends selecting the 30th to 35th percentile in the distribution of annual expenditures on food, shelter, and clothing among families of four (two adults and two children), and then multiplying this expenditure level by between 1.15 and 1.25. Thresholds for other family sizes and types would be determined by an equivalency scale calculation.

The NRC recommends adjusting these thresholds to take into account geographic variation in cost of living, based on differences in housing costs by region and by city-size. It also recommends adjusting the thresholds over time by recalculating them from expenditure data on an annual basis.

## OPTIONS FOR DISCUSSION

### 1. **Recommendation regarding determining the level of the poverty threshold.**

The NRC panel acknowledges that the actual level at which the poverty threshold is set (and hence the final poverty rate) is inherently arbitrary and cannot be determined on the basis of purely statistical judgements. There are two primary options:

A. The NRC alternative. As described above, the NRC panel recommends establishing a threshold based on the 30th-35th percentile in the distribution of annual expenditures for a family of four, with a small multiplier to account for additional small personal expenditures. As shown in Tables 1 and 2, column 3, this would raise the 1996 poverty rate from 13.7% to 18%, and increase poverty among all subgroups.

B. **Benchmarking.** The NRC panel also considered poverty estimates that benchmark the alternative poverty rate to equal the old poverty rate in a given year. The Census has done a number of such benchmarked calculations for 1996, as shown in Tables 1 and 2, column 2. (The report issued early next year would benchmark to 1997.) Benchmarking would assure that the aggregate poverty rate is identical for the official and the alternative measure in the benchmark year. But the distribution of poverty among subgroups within each measure would differ (see Table 2). Similarly, both historical and future trends would differ. For instance, the alternative measure is identical in 1996 but higher in 1991. (The faster fall using the alternative measure is largely due to the expansion in the EITC.)

*Pros of using the NRC measure:*

- Incorporates the recommendations of the NRC panel, based on their professional judgement from the best available evidence.
- Generates dollar threshold levels that are quite similar to the current dollar thresholds (although the resources to which the thresholds would be compared are quite different).

*Cons of using the NRC Measure:*

- Results in a higher poverty rate (although the trends over time are similar.)

*Pros of Benchmarking:*

- May provide an easier transition to the new methodology because there will not be a change in the overall level of poverty.
- Focuses the arguments on the relative distribution of who is poor rather than how many people are poor.

*Cons of Benchmarking:*

- Violates the NRC recommendation that the threshold should be based on the 30th-35th percentile in the expenditure distribution. In order to benchmark, the threshold falls to (about) the 25th percentile of expenditures on food, shelter, and clothing.

## **2. Recommendation regarding updating the thresholds over time**

Currently the poverty threshold is updated annually using the CPI. This, however, does not allow for adjustments that reflect changes in underlying consumption patterns that might affect the revised thresholds. For instance, food prices have decreased relative to other goods over time, while housing prices have increased. There are two options:

- (A) Recalculate the thresholds annually as a share of consumption on food, shelter, and clothing. (This is recommended by the NRC panel.)

(B) Update the thresholds on a year-to-year basis using a price index (preferably one based only on food, shelter and clothing). Implement a regular process (every 5-10 years) of reviewing the poverty measure and recalculating the thresholds.

*Pros of Re-calculating the Thresholds:*

- Regular recalculation will allow the poverty thresholds to reflect more accurately changes in consumption patterns and standards of living.
- Without an expectation that the thresholds will be re-calculated regularly, it may be hard to update them at all.
- Under certain data circumstances, recalculation could move the threshold a large amount or in an unexpected direction. This might raise substantive and political concerns.

*Pros of Updating Using the CPI:*

- Using the NRC methodology, the poverty thresholds are somewhat relative (i.e., they are affected by changes in the distribution of household expenditures.) As a result, they are a moving target and do not provide an absolute standard of need. A CPI adjustment would make it easier to compare poverty from year-to-year against a constant standard.
- Because consumption patterns and standards of living change slowly, it may be better to take them into account periodically rather than annually.
- An update with a CPI for necessities only (food, clothing, and shelter) may capture most of the relevant changes and would make it easier in the short-run to understand the updating procedure.
- The data may not be good enough for an annual re-calculation of the thresholds.

NOTE: The EOP Policy Working Group recommends Option (B).

**3. Recommendation as to whether thresholds should be adjusted for geographic variation.**

The NRC panel recommended adjusting the poverty thresholds for cost-of-living differences across regions and by city size. Census proposes to make such adjustments based on housing cost differences (which have much greater regional/city size variation than food or clothing.)

*Pros of Adjusting for Geographic Variation in Cost of Living:*

- Most statisticians and economists agree that such adjustments should be made if data are available.

*Cons of Adjusting for Geographic Variation in Cost of Living:*

- There is no one “right” way to make such adjustments and the issue could be highly politicized.
- The data available to make such adjustments are limited and may not be entirely reliable.
- Implementing such an adjustment in the poverty line threshold could lead to pressure to provide regional cost adjustments in a wide variety of other government programs, from Social Security benefits to tax payments.

NOTE: The EOP Policy Working Group recommends against geographic price adjustments.

**4. Recommendation regarding how to account for medical care expenditures.**

Since the mid-1970s, analysts have been concerned that the official poverty rate overstates the extent of poverty among beneficiaries of Medicare, Medicaid, and private health insurance. At the same time, the official poverty rate may understate the extent of poverty among populations with large medical expenditures. Most analysts agree that, in principle, medical care “needs” should be incorporated into the calculations of the threshold and family resources (i.e., families with higher medical needs should have higher thresholds; those with more generous medical benefits should be considered to have more resources; and those who must spend more to achieve “good health” should have those expenses subtracted from their resources). However we cannot observe a family’s medical need. In addition, it is not clear that one can simply impute the cash value of insurance benefits and add this to income. The “extra” benefits received from insurance to cover expensive medical services do not provide income that can be used for any other purpose.

To understand the difficulties, consider including medical benefits into the income calculations. Adding medical benefits to income, without also adjusting the poverty threshold, has the perverse effect of making sicker individuals appear better off. Other proposals to adjust the poverty threshold (without also adjusting resources) run into similar problems.

In the end, the NRC panel recommended subtracting all medical out-of-pocket (MOOP) expenses (including health insurance premiums) from income, without trying to value health insurance as a part of income or medical need as a part of the thresholds. Hence, family resources are measured net of MOOP. Those individuals with good insurance will have few out-of-pocket expenses; those without insurance who face health problems will have lower measured incomes as they pay more for medical care.

This adjustment accounts for the larger poverty rates using the NRC methodology. For example, in 1996 the poverty rate was 13.7% using the current methodology; it would have been 18%

using the NRC methodology, but only 13.2% using the NRC methodology without the medical expenses adjustment. This adjustment nearly doubles the poverty rate for the elderly, raising it almost to the rate for children. This adjustment is one of the most controversial of the NRC recommendations.

There is general agreement that ignoring medical care and medical expenses entirely is not a good idea, particularly given the rapid increase in medical costs in the past 30 years, the extent of uninsurance among the low-income population, and this Administration's concern with it. In addition, if we do not adjust for medical care (in some way) now, it may be much harder to do so in a few years when we will have better data (because the change will be so dramatic it will be viewed as another big methodology change).

There are three approaches to incorporating medical care and expenses:

(A) Follow the NRC recommendation and subtract MOOP from family resources. This makes families with unreimbursed medical expenses less well-off than other families.

(B) MOOP could be added to the thresholds rather than subtracted from resources. (The choice between options (A) and (B) is a technical decision that Census should address.)

(C) Try to impute the value of health insurance to resources, so those with insurance have higher resources. Health insurance should then also be imputed into the thresholds.

*Pros of Adjusting for MOOP (either options (A) or (B)):*

- While not perfect, under the NRC recommended adjustment families with higher unreimbursed medical expenditures will be "poorer." The NRC recommended adjustment would also be sensitive to changes in health care financing that would decrease MOOP and thereby increase disposable income and reduce poverty.

*Cons of Adjusting for MOOP (either options (A) or (B)):*

- The data that are currently available are out-of-date (but we should have updated information available in a more timely fashion within another year.)
- The NRC recommended approach relies on the controversial assumption that all medical care expenditures are nondiscretionary. (This concern could be mitigated to some extent by imposing a cap on the amount of medical expenses.)

*Pros of Imputing the Value of Health Insurance into Resources and Thresholds:*

- Provides a more complete accounting of all medical resources available to a family.

*Cons of Imputing the Value of Health Insurance into Resources and Thresholds:*

- There is no accepted "correct" way to do this. The data here are probably more

unreliable than the data needed to impute the value of MOOP to families.

- Many analysts agree with the NRC panel that the value of health insurance is quite different than (say) the value of food stamps, which are far more fungible. Mixing in health insurance coverage with economic need causes interpretational and conceptual problems to a measure of economic need.
- To date, Census has been following the NRC recommendation. If we asked them to switch to this approach, it might require substantial additional work and seriously delay their report.

NOTE: The EOP Policy Working Group recommends that Census incorporate medical care in some way and recognizes that option (A) is the most practical and realistic for the short-term. However, the group strongly recommends that Census thoroughly investigate the impact of option (B), and continue work on other approaches to incorporating medical care and expenditures, such as by valuing medical health insurance (option (C)).

##### **5. Recommendations regarding which alternatives Census should publish and/or how they should be presented.**

The current plan is to publish a small number (maybe 3) of alternatives. For instance, the Census could publish a 1997-benchmarked poverty rate and a NRC-alternative poverty rate, providing two alternatives. Or it could publish a 1997-benchmarked poverty rate including all of the NRC recommendations, and then publish the same thing without MOOP, or without geographical price variation. (There will be extensive appendices in this report that will report a wide variety of different poverty calculations, to demonstrate the statistical properties of the poverty measurement recommended by NRC.)

- Will it be confusing to publish multiple (even a small number of) alternatives, as opposed to only one alternative? How will this affect how the report is received? How should these be presented?
- What problems will it create to have multiple alternatives if at some future point we want to redefine the official poverty rate to one of these improved alternative measures?

Table 1. Poverty Rates and Thresholds under Alternative Measures, 1991-96, CPS

	Official measure	Benchmarked to 1996	NRC Experimental	
<b>Poverty Rates</b>				
1991	14.2	14.5		18.9
1992	14.8	15.3		19.6
1993	15.1	15.7		20.2
1994	14.6	14.7		19.0
1995	13.8		13.8	
1996	13.7	13.7		18.0
<b>Thresholds for 2 adults and 2 children (in dollars)</b>				
1991	13,812	11,891		13,891
1992	14,228	12,249		14,309
1993	14,654	12,616		14,738
1994	15,029	12,938		15,115
1995	15,455	13,305		15,543
1996	15,911	13,698		16,002

Table 2. Poverty Rates under Alternative Measures, 1996, CPS

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

### Attachment 1 (from HHS)

#### Use of the Federal Poverty Guidelines in Determining Program Eligibility and Benefits

The Federal poverty guidelines are a simplified version of the official poverty line thresholds which are used for program purposes. They are issued by HHS annually, and are based on the previous year's thresholds.

As Gordon Fisher, the analyst at HHS who oversees the production of the guidelines, notes in a recent paper:

A number of people believe that the poverty guidelines affect many big entitlement programs. That belief is an exaggeration of the actual situation. Most of the Federal programs using the guidelines are medium-sized or small, with only a few big programs. Moreover, most...are discretionary programs...Only a few programs using the guidelines are mandatory: Medicaid, the Food Stamp Program, and child nutrition programs (mainly the National School Lunch Program.)<sup>1</sup>

As Fisher notes, spending under discretionary programs, which are appropriated each year, would not be affected by any change in the guidelines, even if that change affected eligibility for the program. If eligibility for these programs expands, the appropriated funds are able to serve a smaller proportion of the eligible population, but total spending does not change. (Most of these programs already serve only a small fraction of those estimated to be eligible.) Only the three big mandatory programs Fisher mentions above would have spending changes associated with a change in the guidelines.

Even within these three programs, the impact of changes in the poverty guidelines is less than might be expected. In Medicaid, for example, most recipients qualify for coverage because of their participation in other means-tested programs such as TANF and SSI--programs that do not use the poverty line in their eligibility criteria. The major group whose coverage does depend on the guidelines is children in families below 133% of the poverty line who are not current or recent TANF recipients. In all, people whose eligibility for Medicaid is somehow related to the poverty line are estimated to account for about 20 percent of Medicaid recipients. Since most are in families with incomes well below the specified level, only a small fraction would actually be affected by a poverty line change.

Impacts in the Food Stamp Program and the National School Lunch Program would probably be even smaller. The poverty guidelines are used in the Food Stamp Program to set gross income eligibility--only families with gross incomes below 130% of the poverty line are eligible for food

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<sup>1</sup>G. Fisher, "Disseminating the Administrative Version and Explaining the Administrative and Statistical Versions of the Federal Poverty Measure." Clinical Sociology Review, vol. 15 (1997), p. 165.

stamps. Actual food stamp benefits are calculated based on net income, however--income after deductions for work expenses and other items. Net income is compared to a specific benefit allotment, determined nationally for each family size, and that benefit is reduced by 30 cents for every dollar of net income the family receives. In practice, the benefit allotment would reach zero for almost all families long before an income of 130 percent of poverty was reached. Thus, the gross income eligibility cut-off for food stamps is more theoretical than real--families at or near 130% of the poverty line will almost always be eligible only for zero benefits.

The National School Lunch Program has two cut-offs related to the poverty guidelines: Families with incomes below 130% of poverty are eligible for free lunches, and those below 185% are eligible for reduced-price lunches. Unlike the Food Stamp and Medicaid Programs, however, the school lunch program does not collect and verify detailed information on recipients' family incomes. Instead, families are asked at the beginning of each school year (or when their child enters a new school) to fill out a form certifying that their incomes are below the specified level. Because this process is relatively informal, it seems unlikely that small changes in the level of the income cut-off would have big impacts on the number of children applying for and receiving free and reduced-price school lunches. In any case, total spending on the school lunch program--a significant proportion of which is not means-tested--is much smaller than spending on Medicaid and food stamps. In 1996 Federal spending on the school lunch program was \$5.4 billion, compared to \$25.4 billion for food stamps and almost \$92 billion for the Federal share of Medicaid.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Rebecca M. Blank ( CN=Rebecca M. Blank/OU=CEA/O=EOP [ CEA ] )

CREATION DATE/TIME: 8-JUN-1998 17:08:01.00

SUBJECT: Options paper

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READ:UNKNOWN

TO: Sally Katzen ( CN=Sally Katzen/OU=OPD/O=EOP @ EOP [ OPD ] )  
READ:UNKNOWN

TO: Katherine K. Wallman ( CN=Katherine K. Wallman/OU=OMB/O=EOP @ EOP [ OMB ] )  
READ:UNKNOWN

TO: Elena Kagan ( CN=Elena Kagan/OU=OPD/O=EOP @ EOP [ OPD ] )  
READ:UNKNOWN

TO: Joseph J. Minarik ( CN=Joseph J. Minarik/OU=OMB/O=EOP @ EOP [ OMB ] )  
READ:UNKNOWN

CC: Paul Bugg ( CN=Paul Bugg/OU=OMB/O=EOP @ EOP [ OMB ] )  
READ:UNKNOWN

CC: Cecilia E. Rouse ( CN=Cecilia E. Rouse/OU=OPD/O=EOP @ EOP [ OPD ] )  
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CC: Mark A. Wasserman ( CN=Mark A. Wasserman/OU=OMB/O=EOP @ EOP [ OMB ] )  
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TEXT:

Attached is the final options paper for the Principal's meeting on poverty measurement. Sally Katzen's office will be scheduling this meeting in the near future. Note that the Appendix on program effects has been substantially edited, after extended negotiation between OMB and HHS. =====  
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## TECHNICAL BACKGROUND ON INCOME AND POVERTY MEASURES

### The Current Poverty Measure

The methodology by which current poverty thresholds are determined was developed in the early 1960s by Mollie Orshansky, a staff economist at the Social Security Administration. She developed a set of poverty thresholds that vary with the number of adults, the number of children, and the age of the family head. These thresholds represent the cost of a minimum diet multiplied by 3 to allow for non-food expenditures. The multiplier of 3 was chosen because the average family in 1955 spent one-third of its after-tax income on food. Since the late 1960s, the thresholds have simply been updated annually to adjust for price inflation -- i.e., the measure of poverty has remained virtually unchanged for 35 years, despite substantial changes in family behavior and government policy.

The NRC panel identified several weaknesses in the current poverty measure:

- The current poverty measure takes no account of changes in taxes (i.e., the expansion of the EITC) or in-kind benefits (i.e., Food Stamps).
- The current measure does not distinguish between the needs of working and non-working families. In particular, it does not reflect the cost of child care and other work expenses for working low-income families.
- The current poverty measure takes no explicit account of medical care costs, which vary significantly across families and have increased substantially since the current poverty measure was developed.

### The NRC Recommendations

In order to understand the NRC panel's recommended revisions, one must understand the basics of determining poverty. A family is considered poor when its resources fall below a predetermined poverty line or threshold. Therefore, one must develop a methodology for estimating family resources and for defining the threshold resource level below which a family is considered poor.

#### 1. Defining Family Resources

Under the current poverty calculation, the definition of family resources is cash income. The NRC recommendations would estimate family resources as:

Family resources = Cash income + Near-money in-kind benefits - Taxes - Child care costs - Work expenses - Child support payments - Out of pocket

medical care expenditures (including health insurance premiums)

The rationale for subtracting taxes, work and medical expenses from family resources is that these expenditures are typically not discretionary and reduce the family income available to achieve a basic quality of life.

There is near consensus among researchers that adjusting for near-money in-kind benefits (primarily Food Stamps and housing subsidies) and taxes would be an improvement in how poverty is measured. There is slightly less agreement on whether child care costs, work expenses, and child support payments should also be deducted because an unknown proportion of these expenses is likely discretionary. (The NRC proposes to cap the amount of child care and work expenses that can be subtracted to deal with this problem.) As discussed below, the adjustment for out-of-pocket medical care expenditures is more controversial.

## 2. Defining a Poverty Threshold

A threshold must be determined against which to compare a family's resources. The NRC panel recommends basing the threshold on expenditures on "necessities" (food, shelter, and clothing) plus a little more. Specifically, the NRC panel recommends selecting the 30th to 35th percentile in the distribution of annual expenditures on food, shelter, and clothing among families of four (two adults and two children), and then multiplying this expenditure level by between 1.15 and 1.25. Thresholds for other family sizes and types would be determined by an equivalency scale calculation.

The NRC recommends adjusting these thresholds to take into account geographic variation in cost of living, based on differences in housing costs by region and by city-size. It also recommends adjusting the thresholds over time by recalculating them from expenditure data on an annual basis.

## OPTIONS FOR DISCUSSION

### 1. **Recommendation regarding determining the level of the poverty threshold.**

The NRC panel acknowledges that the actual level at which the poverty threshold is set (and hence the final poverty rate) is inherently arbitrary and cannot be determined on the basis of purely statistical judgements. There are two primary options:

A. The NRC alternative. As described above, the NRC panel recommends establishing a threshold based on the 30th-35th percentile in the distribution of annual expenditures for a family of four, with a small multiplier to account for additional small personal expenditures. As shown in Tables 1 and 2, column 3, this would raise the 1996 poverty rate from 13.7% to 18%, and increase poverty among all subgroups. In addition, (as described further in Option B) this

change will alter the composition of poverty among various subgroups.)

B. Benchmarking. The NRC panel also considered poverty estimates that benchmark the alternative poverty rate to equal the old poverty rate in a given year. The Census has done a number of such benchmarked calculations for 1996, as shown in Tables 1 and 2, column 2. (The report issued early next year would benchmark to 1997.) Benchmarking would assure that the aggregate poverty rate is identical for the official and the alternative measure in the benchmark year. But the distribution of poverty among subgroups within each measure would differ (see Table 2). In general, working families and families with large out-of-pocket medical expenses become poorer and non-working families with substantial in-kind benefits become less poor. This has geographic as well as subgroup poverty rate implications. Similarly, both historical and future trends would differ. For instance, the alternative measure is identical in 1996 but higher in 1991. (The faster fall using the alternative measure is largely due to the expansion in the EITC.)

*Pros of using the NRC measure:*

- Incorporates the recommendations of the NRC panel, based on their professional judgement from the best available evidence.
- Generates dollar threshold levels that are quite similar to the current dollar thresholds (although the resources to which the thresholds would be compared are quite different).

*Cons of using the NRC Measure:*

- Results in a higher poverty rate (although the trends over time are similar.)

*Pros of Benchmarking:*

- May provide an easier transition to the new methodology because there will not be a change in the overall level of poverty.
- Focuses the arguments on the relative distribution of who is poor rather than how many people are poor.

*Cons of Benchmarking:*

- Violates the NRC recommendation that the threshold should be based on the 30th-35th percentile in the expenditure distribution. In order to benchmark, the threshold falls to (about) the 25th percentile of expenditures on food, shelter, and clothing.

## **2. Recommendation regarding updating the thresholds over time**

Currently the poverty threshold is updated annually using the CPI. This, however, does not allow for adjustments that reflect changes in underlying consumption patterns that might affect

the revised thresholds. For instance, food prices have decreased relative to other goods over time, while housing prices have increased. There are two options:

(A) Recalculate the thresholds annually as a share of consumption on food, shelter, and clothing. (This is recommended by the NRC panel.)

(B) Update the thresholds on a year-to-year basis using a price index (preferably one based only on food, shelter and clothing). Implement a regular process (every 5-10 years) of reviewing the poverty measure and recalculating the thresholds.

*Pros of Re-calculating the Thresholds:*

- Regular recalculation will allow the poverty thresholds to reflect more accurately changes in consumption patterns and standards of living.
- Without an expectation that the thresholds will be re-calculated regularly, it may be hard to update them at all.
- Under certain data circumstances, recalculation could move the threshold a large amount or in an unexpected direction. This might raise substantive and political concerns.

*Pros of Updating Using the CPI:*

- Using the NRC methodology, the poverty thresholds are somewhat relative (i.e., they are affected by changes in the distribution of household expenditures.) As a result, they are a moving target and do not provide an absolute standard of need. A CPI adjustment would make it easier to compare poverty from year-to-year against a constant standard.
- Because consumption patterns and standards of living change slowly, it may be better to take them into account periodically rather than annually.
- An update with a CPI for necessities only (food, clothing, and shelter) may capture most of the relevant changes and would make it easier in the short run to understand the updating procedure.
- The data may not be good enough for an annual re-calculation of the thresholds.

NOTE: The EOP Policy Working Group recommends Option (B).

**3. Recommendation as to whether thresholds should be adjusted for geographic variation.**

The NRC panel recommended adjusting the poverty thresholds for cost-of-living differences

across regions and by city size. Census proposes to make such adjustments based on housing cost differences (which have much greater regional/city size variation than food or clothing.)

*Pros of Adjusting for Geographic Variation in Cost of Living:*

- Most statisticians and economists agree that such adjustments should be made if data are available.

*Cons of Adjusting for Geographic Variation in Cost of Living:*

- There is no one “right” way to make such adjustments and the issue could be highly politicized.
- The data available to make such adjustments are limited and may not be entirely reliable.
- Implementing such an adjustment in the poverty line threshold could lead to pressure to provide regional cost adjustments in a wide variety of other government programs, from Social Security benefits to tax payments.

NOTE: The EOP Policy Working Group recommends against geographic price adjustments.

**4. Recommendation regarding how to account for medical care expenditures.**

Since the mid-1970s, analysts have been concerned that the official poverty rate overstates the extent of poverty among beneficiaries of Medicare, Medicaid, and private health insurance. At the same time, the official poverty rate may understate the extent of poverty among populations with large medical expenditures. Most analysts agree that, in principle, medical care “needs” should be incorporated into the calculations of the threshold and family resources (i.e., families with higher medical needs should have higher thresholds; those with more generous medical benefits should be considered to have more resources; and those who must spend more to achieve “good health” should have those expenses subtracted from their resources). However we cannot observe a family’s medical need. In addition, it is not clear that one can simply impute the cash value of insurance benefits and add this to income. The “extra” benefits received from insurance to cover expensive medical services do not provide income that can be used for any other purpose.

To understand the difficulties, consider including medical benefits into the income calculations. Adding medical benefits to income, without also adjusting the poverty threshold, has the perverse effect of making sicker individuals appear better off. Other proposals to adjust the poverty threshold (without also adjusting resources) run into similar problems.

In the end, the NRC panel recommended subtracting all medical out-of-pocket (MOOP) expenses (including health insurance premiums) from income, without trying to value health

insurance as a part of income or medical need as a part of the thresholds. Hence, family resources are measured net of MOOP. Those individuals with good insurance will have few out-of-pocket expenses; those without insurance who face health problems will have lower measured incomes as they pay more for medical care.

This adjustment accounts for the larger poverty rates using the NRC methodology. For example, in 1996 the poverty rate was 13.7% using the current methodology; it would have been 18% using the NRC methodology, but only 13.2% using the NRC methodology without the medical expenses adjustment. This adjustment nearly doubles the poverty rate for the elderly, raising it almost to the rate for children. This adjustment is one of the most controversial of the NRC recommendations.

There is general agreement that ignoring medical care and medical expenses entirely is not a good idea, particularly given the rapid increase in medical costs in the past 30 years, the extent of uninsurance among the low-income population, and this Administration's concern with it. In addition, if we do not adjust for medical care (in some way) now, it may be much harder to do so in a few years when we will have better data (because the change will be so dramatic it will be viewed as another big methodology change).

There are three approaches to incorporating medical care and expenses:

(A) Follow the NRC recommendation and subtract MOOP from family resources. This makes families with unreimbursed medical expenses less well-off than other families.

(B) MOOP could be added to the thresholds rather than subtracted from resources. (The choice between options (A) and (B) is a technical decision that Census should address.)

(C) Try to impute the value of health insurance to resources, so those with insurance have higher resources. Health insurance should then also be imputed into the thresholds.

*Pros of Adjusting for MOOP (either options (A) or (B)):*

- While not perfect, under the NRC recommended adjustment families with higher unreimbursed medical expenditures will be "poorer." The NRC recommended adjustment would also be sensitive to changes in health care financing that would decrease MOOP and thereby increase disposable income and reduce poverty.

*Cons of Adjusting for MOOP (either options (A) or (B)):*

- The data that are currently available are out-of-date (but we should have updated information available in a more timely fashion within another year.)
- The NRC recommended approach relies on the controversial assumption that all medical care expenditures are nondiscretionary. (This concern could be mitigated to some extent by imposing a cap on the amount of medical expenses.)

*Pros of Imputing the Value of Health Insurance into Resources and Thresholds:*

- Provides a more complete accounting of all medical resources available to a family.

*Cons of Imputing the Value of Health Insurance into Resources and Thresholds:*

- There is no accepted “correct” way to do this. The data here are probably more unreliable than the data needed to impute the value of MOOP to families.
- Many analysts agree with the NRC panel that the value of health insurance is quite different than (say) the value of food stamps, which are far more fungible. Mixing in health insurance coverage with economic need causes interpretational and conceptual problems to a measure of economic need.
- To date, Census has been following the NRC recommendation. If we asked them to switch to this approach, it might require substantial additional work and seriously delay their report.

NOTE: The EOP Policy Working Group recommends that Census incorporate medical care in some way and recognizes that option (A) is the most practical and realistic for the short term. However, the group strongly recommends that Census thoroughly investigate the impact of option (B), and continue work on other approaches to incorporating medical care and expenditures, such as by valuing medical health insurance (option (C)).

**5. Recommendations regarding which alternatives Census should publish and/or how they should be presented.**

The current plan is to publish a small number (maybe 3) of alternatives. For instance, the Census could publish a 1997-benchmarked poverty rate and a NRC-alternative poverty rate, providing two alternatives. Or it could publish a 1997-benchmarked poverty rate including all of the NRC recommendations, and then publish the same thing without MOOP, or without geographical price variation. (There will be extensive appendices in this report that will report a wide variety of different poverty calculations, to demonstrate the statistical properties of the poverty measurement recommended by NRC.)

- Will it be confusing to publish multiple (even a small number of) alternatives, as opposed to only one alternative? How will this affect how the report is received? How should these be presented?
- What problems will it create to have multiple alternatives if at some future point we want to redefine the official poverty rate to one of these improved alternative measures?

Table 1. Poverty Rates and Thresholds under Alternative Measures, 1991-96, CPS

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

Table 2. Poverty Rates under Alternative Measures, 1996, CPS

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

## APPENDIX

### The Effect of the Poverty Measure on Program Eligibility and Benefits

The Congressional Research Service has identified 26 programs that are affected by the measure of poverty. Many of the program connections to the poverty definition are unique, and many are highly complex. Hence, we do not yet have a precise estimate of how program costs or coverage would be affected.

We should not leap to the conclusion that this large number of programs would dictate a large Federal cost impact of a new measure of poverty. Many of the affected programs are small, and many of the programs may be affected to only a limited degree by even a change in the measured aggregate incidence of poverty. Some of the programs are discretionary, meaning that their aggregate cost is set by appropriation; a change in the measure of poverty would affect only the geographic distribution of those funds (though that could, in itself, be a matter of political concern, if such reallocations should prove to be significant). However, where at least a few large programs are involved, it is essential to investigate the potential impact carefully.

There are two schools of thought on the potential budgetary or allocational effect of a change in the definition of poverty.

Gordon Fisher, the analyst at HHS who oversees the production of the poverty guidelines used in some programs, presents one perspective in a recent paper:

A number of people believe that the poverty guidelines affect many big entitlement programs. That belief is an exaggeration of the actual situation. Most of the Federal programs using the guidelines are medium-sized or small, with only a few big programs. Moreover, most...are discretionary programs...Only a few programs using the guidelines are mandatory: Medicaid, the Food Stamp Program, and child nutrition programs (mainly the National School Lunch Program).<sup>1</sup>

Offering a different perspective, a recent issue of *Focus*, the periodical of the Institute for Research on Poverty, notes:

For example, the NRC study panel proposed that the measure take into account work-related expenses in families where at least one person is employed. Such a change could have important implications for the allocation of federal funds between local areas where the proportions of working and nonworking families differ. Including geographic variations in housing costs might have similar far-reaching effects. Before introducing a new property measure for program purposes, policy makers must determine whether the

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<sup>1</sup>G. Fisher, "Disseminating the Administrative Version and Explaining the Administrative and Statistical Versions of the Federal Poverty Measure." Clinical Sociology Review, vol. 15 (1997), p. 165.

resulting redistribution of resources will be more equitable, or will have unexpected and capricious effects.

As Fisher suggests, the discretionary - mandatory distinction is important. As noted above, the issue for discretionary programs is not the amount of funding, which is determined by appropriations (though Congress could change future appropriations under the influence of a changed measure of poverty), but rather the geographic allocation of a fixed amount of appropriations. The geographic allocation of relevant discretionary program funds can depend upon the incidence of poverty in particular locations. Therefore, these programs are affected by the actual poverty measure, based on the official thresholds and income concept. The ties between these programs and poverty vary considerably, and staff are undertaking the task of determining how much effect a change in the poverty concept could have. These allocations may or may not change by much, depending upon the extent to which the new poverty measure reallocated poverty geographically; the role of poverty in the allocation of the discretionary funds (some programs use poverty as only one of several indexes by which to distribute funding); the lag between the measurement of poverty and the actual effect on the program (some programs use poverty as measured in the decennial census); and other factors that can be determined only through a program-by-program search.

Besides the official poverty thresholds and the income definition, there are poverty guidelines. The Federal poverty guidelines are the version of the official poverty measure used for program purposes. They are issued by HHS annually, and are based on a simplified and updated version of the previous year's Census poverty measure.

Staff are in the process of determining the potential effects of a change in the poverty measure on the two largest programs affected by the poverty measure, Medicaid and the Food Stamp Program, as well as the smaller programs. In Medicaid, while most recipients qualify for coverage because of their participation in other means-tested programs such as TANF and SSI (programs that do not use the poverty line in their eligibility criteria), changes in poverty thresholds could affect at least three major Medicaid eligibility groups: women, infants and children up to age 6 with family incomes below 133 percent of poverty and children from age 6 to 18 with incomes at or below the poverty level (this provision is being phased in for all poor children under age 19 by FY 2002); families, children and other uninsured in the Medicaid waiver States that have extended coverage beyond current law requirements based on income in relation to the poverty guidelines; and new groups of low-income Medicare beneficiaries who qualify for partial coverage under Medicaid. In all, people whose eligibility for Medicaid is related to the poverty line are estimated to account for about 20 percent of Medicaid recipients. Since most are in families with incomes well below the specified level, only a small fraction would actually be affected by a poverty line change. Further, most of the new enrollees would be children, whose average health care costs are low. Still, Medicaid is such a large program that even a small proportionate change in costs could involve a significant number of dollars.

The poverty guidelines are used in the Food Stamp Program to set gross income

eligibility--only families with gross incomes below 130% of the poverty line are eligible for food stamps. Actual food stamp benefits are calculated based on net income, however--income after deductions for work expenses and various other things. Net income is compared to a specific benefit allotment, determined nationally for each family size, and that benefit is reduced by 30 cents for every dollar of net income the family receives. In practice, the benefit allotment for most families with incomes near the gross income eligibility limit would be small. Many families would be eligible only for zero benefits. Even where families are eligible for some positive benefits, take-up rates among those eligible for small amounts of food stamp benefits tend to be low--the hassle of getting and using food stamps exceeds their value for most such eligibles. Thus, the gross income eligibility cut-off for food stamps is more theoretical than real--families at or near 130% of the poverty line will almost always be eligible only for very low or zero benefits, and are unlikely to participate in the program. For these reasons, we would expect the effect on Food Stamp costs to be smaller than that for Medicaid.



**Questions And Answers on Equal Pay  
June 10, 1998**

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**Q: What did the President announce today?**

**A:** Today the President commemorated the thirty-fifth anniversary of President Kennedy's signing of the Equal Pay Act. The President called for passage of legislation to strengthen the laws that prohibit wage discrimination against women and released a Council of Economic Advisers' (CEA) report on the gender wage gap, which shows that although the gap between women and men's wages has narrowed substantially since the signing of the Equal Pay Act, there still exists a significant wage gap. He also announced a Department of Labor report that provides a historical perspective of the wage gap. The President was joined by Dr. Dorothy Height, President Emeritus of the National Council of Negro Women, who was at the signing ceremony of the Equal Pay Act in 1963.

**Q: What are the highlights of the legislation?**

**A:** The legislation, sponsored by Senator Daschle and Congresswoman DeLauro, seeks to improve the enforcement of wage discrimination laws and to strengthen the remedy provisions in the Equal Pay Act by permitting victims of wage discrimination to seek compensatory and punitive damages. Currently, women who are the victims of wage discrimination receive only backpay and liquidated damages, which may not fully compensate them for their loss. This change will mean that the penalties for sex-based wage discrimination will be the same as those for race-based wage discrimination. In addition, the legislation contains a non-retaliation provision that prohibits employers from penalizing employees for sharing information about their salaries with co-workers. Finally, the bill provides for training for EEOC employees on matters involving the discrimination of wages, **research on discrimination in the payment of wages, and the establishment of the "The National Award for Pay Equity in the Workplace," which will recognize and promote the achievements of employers that have made strides to eliminate pay disparities.**

**Q: What does the Council of Economic Advisers' report say?**

**A:** This report shows that **a significant gap between the wages of women and men remains today although it has narrowed substantially since the signing of the Equal Pay Act. In 1963, the year that the Equal Pay Act was signed, women earned 58 cents for every dollar men earned. Today women earn about 75 cents for every dollar men earn, a 29 percent increase over the 1963 levels. Despite these gains, there continues to be a significant gap between men's and women's wages, even after accounting for factors such as educational attainment, work experience, and**

occupational choice.

Over the last twenty years, increases in women's accumulated labor market experience and their movement into higher-paying occupations has played a major role in increasing women's wages relative to men's. Even accounting for gender differences in education, labor market experience, broad occupational and industrial distributions, the female/male pay ration in the late 1980s rose only from about 72 to 88 percent, leaving around an "unexplained difference" of about 12 percent as of the late 1980s. This "unexplained" difference may be explained, in part, by continuing discrimination.

**Q: Why does the CEA report state that women earned more than 75 percent of what men earned in 1997, and recent AP and USA Today stories say that women earn 76 percent of what men earn, up from 73 percent a year ago?**

**A:** The figures are consistent. Slight differences in numbers are due to the fact that the numbers are based on different data sources. The CEA numbers are based on workers aged 25 to 64, while those in the AP story are based on workers aged 16 and over.

**Q: Why is this legislation necessary?**

**A:** More than three decades after the passage of the Equal Pay Act and Title VII of the Civil Rights Act, women and people of color continue to suffer the consequences of unfair pay differentials. The average woman works a full year, plus three more months, just to earn the same pay that men earn in one calendar year. According to the Department of Labor, as of 1997, the average woman who works full-time earns just 74 cents for each dollar that men earn. For women of color, the gap is even wider. On average, as of 1997, black women earned only 63 cents, and Hispanic women earned only 53 cents for each dollar earned by white men. Some wage differences exist due to differing levels of experience, education, and skill. However, studies show that even accounting for differences in education, experience, and occupation, there is still a significant wage differential.

**Q: Since the data show that the gender wage gap didn't start to close until the last 1970s, doesn't that mean that the Equal Pay Act had no effect?**

**A:** The fact that the wage gap didn't start to close until sometime after the Equal Pay Act was implemented does not mean that the Equal Pay Act had no effect.

First, it can take some time for legislation, like the Equal Pay Act, to have an effect on the workforce. For example, if the Equal Pay Act made younger women know that they would be protected against discrimination, it would provide an incentive for these women to invest more in their skills -- which would have a pay-off over the long term.

Second, as the CEA report makes clear, few studies have examined the effects of the Equal Pay Act or other policies in the 1960s on the gender pay gap. Isolating the effects of a single policy change from broader social and economic changes is difficult. However, although no such studies of the effect of policies on the gender pay ratio exist, it is clear that a role for these policy changes in both the increase in the gender pay ratio and in the other changes that have served to increase the gender pay ratio cannot be ruled out.

Third, what is important now is to strengthen the Equal Pay Act so that do more to combat the negative forces of discrimination. That is why the President strongly supports the Daschle-DeLauro bill.

- Q: What's wrong with the current scheme for collecting damages under the Equal Pay Act?**
- A:** Currently, the EPA allows only for liquidated damages and backpay awards. Liquidated damages usually are awarded in an amount equal to backpay. Such awards may not fully compensate a woman for real losses, such as damages for pain and suffering. In addition, women cannot receive punitive damages for wage discrimination, no matter how intentional and egregious the employer's conduct. The legislation the Administration is endorsing today will ensure that women are fully compensated when an employer discriminates against them in setting wages.
- Q: What is the Administration doing with respect to data collection?**
- A:** The endorsed legislation contains a Sense of the Senate that the President should take appropriate steps to increase the amount of information available with respect to wage disparities, while maximizing the utility of the data and protecting individuals' privacy and minimizing burdens on reporting entities. In addition, the Administration previously announced an annual report on the pay gap, by sex, to be produced by the Department of Labor. This easy-to-access report will raise the national prominence of wage disparities and will highlight the issue every year in order to spur Americans to achieve increased equal pay.
- Q: Is the Administration's policy on uncapped punitive and compensatory damages consistent with its position in other areas of the law such as tort reform?**
- A:** Yes, this is consistent with Administration's position on tort reform. Our proposals on tort reform have never sought to cap compensatory damages, which are necessary to remedy actual harm. And except in very exceptional circumstances, we have approved the use of punitive damage awards to deter intentional misconduct.
- Q: Why isn't the Administration supporting comparable worth?**

**A:** The Daschle-DeLauro bill is a significant step forward in solving the problem of unequal pay. The Administration believes there is no excuse for not taking these obvious steps towards providing better training and fuller remedies to help ensure women receive equal pay, while building a consensus on other ways to make sure every person receives the pay they deserve. The Administration is focusing on legislation that can be passed during this congressional session.

### **Questions of the Federal Work Force**

**Q:** What are some of the specific accomplishments of the Clinton Administration with respect to women appointees?

**A:** Here are some specific accomplishments:

- **Appointed the first women ever to serve as Attorney General (Janet Reno) and Secretary of State (Madeleine Albright). Including the Attorney General and Secretary of State, women make up 27 percent of the Clinton Cabinet. The Cabinet also include: Alexis Herman, Secretary of Labor; Donna Shalala, Secretary of Health and Human Services; Carol Browner, Administrator of the Environmental Protection Agency; Janet Yellen, Chair of the Council of Economic Advisors; and Charlene Barchevsky, United States Trade Representative.**
- **A third of all judicial nominees are women, the highest proportion ever.**
- **Nominated the second woman to serve on the Supreme Court. During his first year in office, President Clinton nominated Ruth Bader Ginsberg to the United States Supreme Court. Justice Ginsburg is only the second woman to serve on the nation's highest court.**

**Q:** What is the representation of women in the federal work force?

**A:** Women represented 42.8 percent of the Federal permanent workforce in 1997 compared to 46.4 percent of the Civilian Labor Force, a difference of a -3.6 percentage points.

**Q:** What is the average salary of female political employees versus that of male appointees? How does that average compare to comparable figures in the previous Administration?

**A:** In 1992, under President Bush, women made up 40 percent of the political ranks,

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and the average female political appointee's salary was 75 percent of the average male appointee's salary. In 1997, in the Clinton Administration, the percentage of women appointees increased to 45 percent, and the average woman's salary shot up to 85 percent of the average man's.

Number and Average Salary of Political Appointments (by Gender): 1992 (Pres. Bush) Compared to 1997 (Pres. Clinton)				
Gender	1992 (Bush) Appts	1997 (Clinton) Appts	1992 (Bush) Avg. Pay (\$)	1997 (Clinton) Avg. Pay (\$)
Women	1,361	1,331	\$61,554	\$69,979*
Men	2,055	1,628	\$82,490	\$82,860*
TOTAL	3,416	2,959	NOTE: Total Political Appointments exclude Ambassadors but include Noncareer SES, Schedule C and Other.	
Percent Women	39.8%	45.0%		

\* Rendered in constant (FY 1992) dollars



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**A:** Today the President commemorated the thirty-fifth anniversary of President Kennedy's signing of the Equal Pay Act. The President called for passage of legislation to strengthen the laws that prohibit wage discrimination against women and released a Council of Economic Advisers' (CEA) report on the gender wage gap, which shows that although the gap between women and men's wages has narrowed substantially since the signing of the Equal Pay Act, there still exists a significant wage gap. He also announced a Department of Labor report that provides a historical perspective of the wage gap. The President was joined by Dr. Dorothy Height, President Emeritus of the National Council of Negro Women, who was at the signing ceremony of the Equal Pay Act in 1963.

**Q: What are the highlights of the legislation?**

**A:** The legislation, sponsored by Senator Daschle and Congresswoman DeLauro, seeks to improve the enforcement of wage discrimination laws and to strengthen the remedy provisions in the Equal Pay Act by permitting victims of wage discrimination to seek compensatory and punitive damages. Currently, women who are the victims of wage discrimination receive only backpay and liquidated damages, which may not fully compensate them for their loss. This change will mean that the penalties for sex-based wage discrimination will be the same as those for race-based wage discrimination. In addition, the legislation contains a non-retaliation provision that prohibits employers from penalizing employees for sharing information about their salaries with co-workers. Finally, the bill provides for training for EEOC employees on matters involving the discrimination of wages, **research on discrimination in the payment of wages, and the establishment of the "The National Award for Pay Equity in the Workplace," which will recognize and promote the achievements of employers that have made strides to eliminate pay disparities.**

**Q: What does the Council of Economic Advisers' report say?**

**A:** This report shows that **a significant gap between the wages of women and men remains today although it has narrowed substantially since the signing of the Equal Pay Act. In 1963, the year that the Equal Pay Act was signed, women earned 58 cents for every dollar men earned. Today women earn about 75 cents for every dollar men earn, a 29 percent increase over the 1963 levels. Despite these gains, there continues to be a significant gap between men's and women's wages, even after accounting for factors such as educational attainment, work experience, and**

occupational choice.

**Over the last twenty years, increases in women's accumulated labor market experience and their movement into higher-paying occupations has played a major role in increasing women's wages relative to men's. Even accounting for gender differences in education, labor market experience, broad occupational and industrial distributions, the female/male pay ration in the late 1980s rose only from about 72 to 88 percent, leaving around an "unexplained difference" of about 12 percent as of the late 1980s. This "unexplained" difference may be explained, in part, by continuing discrimination.**

**Q: Why does the CEA report state that women earned more than 75 percent of what men earned in 1997, and recent AP and USA Today stories say that women earn 76 percent of what men earn, up from 73 percent a year ago?**

**A:** The figures are consistent. Slight differences in numbers are due to the fact that the numbers are based on different data sources. The CEA numbers are based on workers aged 25 to 64, while those in the AP story are based on workers aged 16 and over.

**Q: Since the data show that the gender wage gap didn't start to close until the last 1970s, doesn't that mean that the Equal Pay Act had no effect?**

**A:** The fact that the wage gap didn't start to close until sometime after the Equal Pay Act was implemented does not mean that the Equal Pay Act had no effect.

First, it can take some time for legislation, like the Equal Pay Act, to have an effect on the workforce. For example, if the Equal Pay Act made younger women know that they would be protected against discrimination, it would provide an incentive for these women to invest more in their skills -- which would have a pay-off over the long term.

Second, as the CEA report makes clear, few studies have examined the effects of the Equal Pay Act or other policies in the 1960s on the gender pay gap. Isolating the effects of a single policy change from broader social and economic changes is difficult. However, although no such studies of the effect of policies on the gender pay ratio exist, it is clear that a role for these policy changes in both the increase in the gender pay ratio and in the other changes that have served to increase the gender pay ratio cannot be ruled out.

Third, what is important now is to strengthen the Equal Pay Act so that do more to combat the negative forces of discrimination. That is why the President strongly supports the Daschle-DeLauro bill.

**Q: What's wrong with the current scheme for collecting damages under the Equal Pay**

**Act?**

**A:** Currently, the EPA allows only for liquidated damages and backpay awards. Liquidated damages usually are awarded in an amount equal to backpay. Such awards may not fully compensate a woman for real losses, such as damages for pain and suffering. In addition, women cannot receive punitive damages for wage discrimination, no matter how intentional and egregious the employer's conduct. The legislation the Administration is endorsing today will ensure that women are fully compensated when an employer discriminates against them in setting wages.

**Q: What is the Administration doing with respect to data collection?**

**A:** The endorsed legislation contains a Sense of the Senate that the President should take appropriate steps to increase the amount of information available with respect to wage disparities, while maximizing the utility of the data and protecting individuals' privacy and minimizing burdens on reporting entities. In addition, the Administration previously announced an annual report on the pay gap, by sex, to be produced by the Department of Labor. This easy-to-access report will raise the national prominence of wage disparities and will highlight the issue every year in order to spur Americans to achieve increased equal pay.

**Q: Is the Administration's policy on uncapped punitive and compensatory damages consistent with its position in other areas of the law such as tort reform?**

**A:** Yes, this is consistent with Administration's position on tort reform. Our proposals on tort reform have never sought to cap compensatory damages, which are necessary to remedy actual harm. And except in very exceptional circumstances, we have approved the use of punitive damage awards to deter intentional misconduct.

**Q: Why isn't the Administration supporting comparable worth?**

**A:** The Daschle-DeLauro bill is a significant step forward in solving the problem of unequal pay. The Administration believes there is no excuse for not taking these obvious steps towards providing better training and fuller remedies to help ensure women receive equal pay, while building a consensus on other ways to make sure every person receives the pay they deserve. The Administration is focusing on legislation that can be passed during this congressional session.

### **Questions of the Federal Work Force**

**Q: What are some of the specific accomplishments of the Clinton Administration with respect to women appointees?**

**A:** Here are some specific accomplishments:

- **Appointed the first women ever to serve as Attorney General (Janet Reno) and Secretary of State (Madeleine Albright). Including the Attorney General and Secretary of State, women make up 27 percent of the Clinton Cabinet:. The Cabinet also include: Alexis Herman, Secretary of Labor; Donna Shalala, Secretary of Health and Human Services; Carol Browner, Administrator of the Environmental Protection Agency; Janet Yellen, Chair of the Council of Economic Advisors; and Charlene Barchevsky, United States Trade Representative.**
- **A third of all judicial nominees are women, the highest proportion ever.**
- **Nominated the second woman to serve on the Supreme Court. During his first year in office, President Clinton nominated Ruth Bader Ginsberg to the United States Supreme Court. Justice Ginsburg is only the second woman to serve on the nation's highest court.**

**Q: What is the representation of women in the federal work force?**

**A:** Women represented 42.8 percent of the Federal permanent workforce in 1997 compared to 46.4 percent of the Civilian Labor Force, a difference of a -3.6 percentage points.

**Q: What is the average salary of female political employees versus that of male appointees? How does that average compare to comparable figures in the previous Administration?**

**A:** In 1992, under President Bush, women made up 40 percent of the political ranks, and the average female political appointee's salary was 75 percent of the average male appointee's salary. In 1997, in the Clinton Administration, the percentage of women appointees increased to 45 percent, and the average woman's salary shot up to 85 percent of the average man's.

Number and Average Salary of Political Appointments (by Gender): 1992 (Pres. Bush) Compared to 1997 (Pres. Clinton)				
Gender	92 (Bush) Appts	97 (Clinton) Appts	92 (Bush) Avg. Pay (\$)	97 (Clinton) Avg. Pay (\$)
omen	1,361	1,331	\$61,554	\$69,979*
en	2,055	1,628	\$82,490	\$82,860*

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DTAL	3,416	2,959	TE: Total Political Appointments exclude Ambassadors but include Noncareer SES, Schedule C and Other.
t. Women	39.8%	45.0%	

\* Rendered in constant (FY 1992) dollars

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Cecilia E. Rouse ( CN=Cecilia E. Rouse/OU=OPD/O=EOP [ OPD ] )

CREATION DATE/TIME: 9-JUN-1998 19:02:52.00

SUBJECT: Latest Draft of Poverty Memo

TO: Joseph J. Minarik ( CN=Joseph J. Minarik/OU=OMB/O=EOP @ EOP [ OMB ] )  
 READ:UNKNOWN

TO: Sally Katzen ( CN=Sally Katzen/OU=OPD/O=EOP @ EOP [ OPD ] )  
 READ:UNKNOWN

TO: Elena Kagan ( CN=Elena Kagan/OU=OPD/O=EOP @ EOP [ OPD ] )  
 READ:UNKNOWN

TO: Rebecca M. Blank ( CN=Rebecca M. Blank/OU=CEA/O=EOP @ EOP [ CEA ] )  
 READ:UNKNOWN

CC: Andrea Kane ( CN=Andrea Kane/OU=OPD/O=EOP @ EOP [ OPD ] )  
 READ:UNKNOWN

CC: Laura Emmett ( CN=Laura Emmett/OU=WHO/O=EOP @ EOP [ WHO ] )  
 READ:UNKNOWN

CC: Paul Bugg ( CN=Paul Bugg/OU=OMB/O=EOP @ EOP [ OMB ] )  
 READ:UNKNOWN

CC: Shannon Mason ( CN=Shannon Mason/OU=OPD/O=EOP @ EOP [ OPD ] )  
 READ:UNKNOWN

TEXT:

Attached is the latest draft of the poverty memo. The main change is that the first three pages have been substantially re-cast in an effort to better structure the main issues for the Principals. (We've also moved the placement of Tables 1 and 2.) This attachment does not include the Guideline appendix which will be sent under separate cover. However, you may want to know that the new appendix does include a range of estimates on potential budgetary impact of using the new poverty measures.

We would like to get this background memo to the Principals as soon as possible. Therefore, please send Ceci your comments by 3pm tomorrow; the full memo will be sent to the Principals at 5pm.

-- Ceci and Paul===== ATTACHMENT 1 =====  
 ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

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June 9, 1998

DRAFT BACKGROUND MEMORANDUM FOR EOP PRINCIPAL'S MEETING

FROM: Income and Poverty Measurement Working Group

Subject: Meeting on Income and Poverty Measures

This cover memo outlines the main issues related to revising our income and poverty measures to be discussed at the Principals meeting, and the attached background paper explains the more technical issues. The background paper was prepared by a policy working group consisting of CEA, DPC, NEC, and OMB. (Among the agencies, only the Deputy Assistant Secretary for Human Services Policy at HHS participated because of her expertise on poverty measurement.)

**Action Forcing Event and Purpose of the Meeting**

In early 1999, the Census Bureau will publish alternative measures of poverty based on the proposals contained in the 1995 National Research Council (NRC) report, *Measuring Poverty: A New Approach*. Census has asked for advice from the EOP on their proposed alternative measures (because OMB, through OIRA's Statistical Policy Office, is the statutory arbiter of the "official" poverty measurement methodology). It is important to emphasize that we are only being asked to advise the Bureau of the Census; what it actually publishes is its decision.

There are four questions to be discussed at the meeting: 1) At what pace should the Administration proceed toward the adoption of a new official measure of poverty? 2) Should the Administration initially propose a preferred option or a range of alternatives? 3) Should the new measure be benchmarked to the most current poverty rate? 4) If highlighting a preferred option is selected, what are the components of that preferred option? In considering these questions, it is critical that the Principals note that, at this time, we do not have definitive analyses of the budgetary and programmatic impacts of NRC-based alternative measures of poverty. We are unlikely to have such analyses before the Census publishes its report.

**Background**

The current official poverty measure dates back to the 1960s. And, although this measure has been an important contributor to public debate and policymaking, the NRC report reflects a broad consensus that the measure is out-of-date and in need of revision.

Poverty measurement involves two concepts: (1) a definition of family resources, and (2) a "threshold" against which resources are compared to determine if a family is poor. Changes in these two concepts will have a direct impact on statistics used by the public for informational and analytical purposes. Changes will likely have an effect on both Federal program budgets and participant eligibility as well.

As discussed in the technical background paper, the NRC's recommended new poverty measure has two important consequences for the poverty rate. First, it would increase the poverty rates of all groups. For example, as shown in Table 1, in 1996 the poverty level was 13.7% using the current measure; it would increase to 18% using the new measure.

Second, it would substantially alter the demographic composition of the poor as set out in Table 2. For example, the NRC measure nearly doubles the poverty rate among the elderly (from 10.8% to 20.4%), raising the rate to nearly that of children. Other groups with relatively large increases are Whites and Hispanics, and married couples.

It is important to keep in mind that the NRC panel cautioned that setting the level below which a family is considered poor is more of an art than a science. They therefore suggested a range of alternatives and left it to policymakers to determine the most appropriate levels.

### **Issues for Consideration**

#### **1. At What Pace Should the Administration Proceed Toward the Adoption of a New Official Measure of Poverty?**

The most important issue to be decided is whether the Administration should attempt to adopt a new official measure of poverty before the end of the second term. The advantage of acting during this Administration is that the second term of an Administration with a strong economy is an opportune time to make such a change. Also, the NAS made its recommendation three years ago and some might question our delay in implementation. On the other hand, by proceeding more cautiously, we would allow the community of users of poverty statistics to develop a better understanding of the pros and cons, both analytical and programmatic, of the various alternative measures. By establishing a more open process, we may also decrease the chance of a political backlash and of Congressional intervention. In addition, it will take at least another 4 years to develop fully the data needed to implement the NRC recommendations. Finally, selecting a preferred alternative measure and analyzing its programmatic and budgetary impacts is likely to be an iterative process that may take some time.

#### **2. Should the Administration Initially Propose a Preferred Option or a Range of Alternatives?**

Census' current plan is to publish a small number of alternatives. These would reflect the NAS recommendation and analytically interesting variations. (There will be extensive appendices in this report that will report a wide variety of different poverty definitions, to help demonstrate the statistical and analytical properties of the poverty measure recommended by the NRC.)

We need to determine whether we will recommend that the Census Bureau select or highlight a single alternative poverty measure, or present several equally in its forthcoming report. The advantages of highlighting a single alternative measure is that it may be less confusing than publishing multiple alternatives, and if we are correct in our choice, it may be easier for it to be

selected as the official poverty measure. In contrast, publishing a range of alternatives has many of the same advantages of proceeding cautiously in the adoption of a new official measure of poverty; that is, it would allow us more time to understand fully the analytical, programmatic, and budgetary implications of the different alternative measures, preserve the Administration's options to consider this issue further, and may be less likely to raise the ire of Congress.

3. If Highlighting a Preferred Option is Selected, Should the New Measure Be Benchmarked to the Most Current Poverty Rate? (This is issue number 1 in the technical background paper.)

If we select a single measure, we will need to decide whether to recommend that Census benchmark the new poverty measure to the old poverty rate in the current year (so that the number of people classified as poor would remain the same, although the distribution would change) or publish an NRC-like measure, which would result in a higher poverty rate (e.g., 18% rather than 13.7% in 1996). Some argue that benchmarking to the current poverty rate would diminish criticisms that the change is motivated by an effort to increase the estimated number of people living in poverty, and would also focus attention on the distribution of who is poor, rather than on how many people are poor. Others argue that since benchmarking to the current poverty rate does not follow the NRC recommendation (which would result in a higher poverty rate), it will be viewed as an effort to reduce artificially the estimated size of the poor population. Also, it could be argued that benchmarking alters the composition of the poor. For example, the Black poverty rate falls with benchmarking but rises with the NRC measure.

4. If Highlighting a Preferred Option is Selected, What are the Components of that Preferred Option?

Issues relating to the choice of components are discussed in the technical background paper. They include: how the poverty rate should be updated over time; whether the poverty thresholds should be adjusted for geographic variation in the cost-of-living; and how to account for medical care expenditures. Of these, how to adjust for medical expenditures is the most controversial. At this time, the Census Bureau is prepared to account for differences in medical out-of-pocket (MOOP) expenditures among households in the way recommended by the NRC, namely, subtracting them from income before a family's poverty status is calculated. However, there is also interest in having medical expenditures added to the poverty thresholds. (Which of these methodologies should be used is a technical choice best left to Census.)

Table 1. Poverty Rates and Thresholds under Alternative Measures, 1991-96, CPS

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

Table 2. Poverty Rates under Alternative Measures, 1996, CPS

	Official measure	Benchmarked NRC to 1996	Experimental
<b>All persons</b>	<b>13.7</b>	<b>13.7</b>	<b>18.0</b>
Children	20.5	18.1	23.8
Nonelderly adults	11.4	11.5	15.0
Elderly	10.8	15.6	20.4
White	11.2	11.8	15.6
Black	28.4	25.2	32.0
Hispanic origin	29.4	28.5	37.7
One or more workers	9.5	10.0	13.6
Persons in family of type:			
Married couple	6.9	7.8	11.1
Female householder	35.8	32.3	40.4
Geographic regions:			
Northeast	12.7	14.3	18.8
Midwest	10.7	10.3	13.8
South	15.1	14.2	18.3
West	15.4	16.1	21.0
Metropolitan/Central City	19.6	19.2	24.7
Not Central City	9.4	10.6	14.1
Nonmetropolitan	15.9	13.5	17.5

## TECHNICAL BACKGROUND ON INCOME AND POVERTY MEASURES

### The Current Poverty Measure

The methodology by which current poverty thresholds are determined was developed in the early 1960s by Mollie Orshansky, a staff economist at the Social Security Administration. She developed a set of poverty thresholds that vary with the number of adults, the number of children, and the age of the family head. These thresholds represent the cost of a minimum diet multiplied by 3 to allow for nonfood expenditures. The multiplier of 3 was chosen because the average family in 1955 spent one-third of its after-tax income on food. Since the late 1960s, the thresholds have been updated annually with the CPI to adjust for price inflation. Thus, the definition of poverty has remained virtually unchanged for 35 years, despite substantial changes in family behavior and government policy.

The NRC panel identified several weaknesses in the current poverty measure:

- The current poverty measure takes no account of changes in taxes (e.g., the expansion of the EITC) or in-kind benefits (e.g., Food Stamps).
- The current measure does not distinguish between the needs of working and nonworking families. In particular, it does not reflect the cost of child care and other work expenses for working low-income families.
- The current poverty measure takes no explicit account of medical care costs, which vary significantly across families and have increased substantially since the current poverty measure was developed.

### The NRC Recommendations

In order to understand the NRC panel's recommended revisions, one must understand the basics of determining poverty. A family is considered poor when its resources fall below a predetermined poverty line or threshold. Therefore, one must develop a methodology for estimating family resources and for defining the threshold resource level below which a family is considered poor.

#### 1. Defining Family Resources

Under the current poverty calculation, the definition of family resources is cash income. The NRC recommendations would estimate family resources as:

Family resources = Cash income + Near-money in-kind benefits - Taxes - Child care costs - Work expenses - Child support payments - Out of pocket

medical care expenditures (including health insurance premiums)

The rationale for subtracting taxes, work, and medical expenses from family resources is that these expenditures are typically not discretionary and reduce the family income available to achieve a basic quality of life.

There is near consensus among researchers that adjusting for near-money in-kind benefits (primarily Food Stamps and housing subsidies) and taxes would be an improvement in how poverty is measured. There is slightly less agreement on whether child care costs, work expenses, and child support payments should also be deducted because an unknown proportion of these expenses is likely discretionary. (The NRC proposes to cap the amount of child care and work expenses that can be subtracted to deal with this problem.) As discussed below, the adjustment for out-of-pocket medical care expenditures is more controversial.

## 2. Defining a Poverty Threshold

A threshold must be determined against which to compare a family's resources. The NRC panel recommends basing the threshold on expenditures on "necessities" (food, shelter, and clothing) plus a little more. Specifically, the NRC panel recommends selecting the 30th to 35th percentile in the distribution of annual expenditures on food, shelter, and clothing among families of four (two adults and two children), and then multiplying this expenditure level by between 1.15 and 1.25. Thresholds for other family sizes and types would be determined by an equivalency scale calculation.

The NRC recommends adjusting these thresholds to take into account geographic variation in cost of living, based on differences in housing costs by region and by city-size. It also recommends adjusting the thresholds over time by recalculating them from expenditure data on an annual basis.

## TECHNICAL ISSUES

### 1. **Determining the level of the poverty threshold.**

The NRC panel acknowledges that the actual level at which the poverty threshold is set (and hence the final poverty rate) is inherently arbitrary and cannot be determined on the basis of purely statistical judgements. There are two primary options:

A. The NRC alternative. As described above, the NRC panel recommends establishing a threshold based on the 30th-35th percentile in the distribution of annual expenditures for a family of four, with a small multiplier to account for additional small personal expenditures. As shown in Tables 1 and 2, column 3, this would raise the 1996 poverty rate from 13.7% to 18%, and increase poverty among all subgroups. In addition, (as described further in Option B) this

change will alter the composition of poverty by changing the poverty rate among subgroups.

B. Benchmarking. The NRC panel also considered poverty estimates that benchmark the alternative poverty rate to equal the old poverty rate in a given year. The Census Bureau has done a number of such benchmarked calculations for 1996, as shown in Tables 1 and 2, column 2. (The report issued early next year could benchmark to 1997.) Benchmarking would assure that the aggregate poverty rate is identical for the official and the alternative measure in the benchmark year. But the distribution of poverty among subgroups within each measure would differ (see Table 2). In general, working families and families with large out-of-pocket medical expenses become poorer and nonworking families with substantial in-kind benefits become less poor. This has geographic as well as subgroup poverty rate implications. Similarly, both historical and future trends would differ. For instance, the alternative measure is identical in 1996 but higher in 1991. (The faster fall using the alternative measure is largely due to the expansion in the EITC.)

*Pros of using the NRC measure:*

- Incorporates the recommendations of the NRC panel, based on their professional judgement from the best available evidence.
- Generates dollar threshold levels that are quite similar to the current dollar thresholds (although the resources to which the thresholds would be compared are quite different).

*Cons of using the NRC Measure:*

- Results in a higher poverty rate (although the trends over time are similar.)

*Pros of Benchmarking:*

- May provide an easier transition to the new methodology because there will not be a change in the overall level of poverty. Critics, of course, will still charge that this level is arbitrary.
- Focuses the arguments on the relative distribution of who is poor rather than how many people are poor.

*Cons of Benchmarking:*

- Violates the NRC recommendation that the threshold should be based on the 30th-35th percentile in the expenditure distribution. In order to benchmark, the threshold falls to (about) the 25th percentile of expenditures on food, shelter, and clothing.

## **2. Updating the thresholds over time**

Currently the poverty threshold is updated annually using the CPI\_U. This, however, does not

allow for adjustments that reflect changes in underlying consumption patterns that might affect the revised thresholds. For instance, food prices have decreased relative to other goods over time, while housing prices have increased. There are two options:

(A) Recalculate the thresholds annually as a share of consumption on food, shelter, and clothing. (This is recommended by the NRC panel.)

(B) Update the thresholds on a year-to-year basis using a price index (preferably one based only on food, shelter and clothing). Implement a regular process (every 5-10 years) of reviewing the poverty measure and recalculating the thresholds.

*Pros of Re-calculating the Thresholds:*

- Regular recalculation will allow the poverty thresholds to reflect more accurately changes in consumption patterns and standards of living.
- Without an expectation that the thresholds will be re-calculated regularly, it may be hard to update them at all.

*Cons of Re-calculating the Thresholds:*

- Under certain data circumstances, recalculation could move the threshold a large amount or in an unexpected direction. This might raise substantive and political concerns.

*Pros of Updating Using the CPI:*

- Using the NRC methodology, the poverty thresholds are somewhat relative (i.e., they are affected by changes in the distribution of household expenditures.) As a result, they are a moving target and do not provide an absolute standard of need. A CPI adjustment would make it easier to compare poverty from year-to-year against a constant standard.
- Because consumption patterns and standards of living change slowly, it may be better to take them into account periodically rather than annually.
- An update with a CPI for necessities only (food, clothing, and shelter) may capture most of the relevant changes and would make it easier in the short run to understand the updating procedure.
- The data may not be good enough for an annual re-calculation of the thresholds.

*Cons of Updating Using the CPI:*

- Does not follow the NRC recommendations.
- Needs to be supplemented by a periodic updating and recalculation process that could prove difficult to implement.

NOTE: The EOP Policy Working Group recommends Option (B).

### **3. Should thresholds be adjusted for geographic variation.**

The NRC panel recommended adjusting the poverty thresholds for cost-of-living differences across regions and by city size. Following the NRC recommendation, the Census Bureau proposes to make such adjustments based on housing cost differences (which have much greater regional/city size variation than food or clothing.)

#### *Pros of Adjusting for Geographic Variation in Cost of Living:*

- Most statisticians and economists agree that such adjustments should be made if data are available.
- The Administrative poverty guidelines that currently exist are already adjusted for Alaska and Hawaii.

#### *Cons of Adjusting for Geographic Variation in Cost of Living:*

- There is no one “right” way to make such adjustments and the issue could be highly politicized.
- The data available to make such adjustments are limited and may not be entirely reliable.
- Implementing such an adjustment in the poverty line threshold could lead to pressure to provide regional cost adjustments in a wide variety of other government programs, from Social Security benefits to tax payments.

NOTE: The EOP Policy Working Group recommends against geographic price adjustments.

### **4. How to account for medical care expenditures.**

Since the mid-1970s, analysts have been concerned that the official poverty rate overstates the extent of poverty among beneficiaries of Medicare, Medicaid, and private health insurance. At the same time, the official poverty rate may understate the extent of poverty among populations with large medical expenditures. Most analysts agree that, in principle, medical care “needs” should be incorporated into the calculations of the threshold and family resources (i.e., families with higher medical needs should have higher thresholds; those with more generous medical benefits should be considered to have more resources; and those who must spend more to achieve “good health” should have those expenses subtracted from their resources). However we cannot observe a family’s medical need. In addition, it is not clear that one can simply

impute the cash value of insurance benefits and add this to income; the “extra” benefits received from insurance to cover expensive medical services do not provide income that can be used for any other purpose.

To understand the difficulties, consider including medical benefits into the income calculations. Adding medical benefits to income, without also adjusting the poverty threshold, has the perverse effect of making sicker individuals appear better off. Other proposals to adjust the poverty threshold (without also adjusting resources) run into similar problems.

In the end, the NRC panel recommended subtracting all medical out-of-pocket (MOOP) expenses (including health insurance premiums) from income, without trying to value health insurance as a part of income or medical need as a part of the thresholds. Hence, family resources are measured net of MOOP. Those individuals with good insurance will have few out-of-pocket medical expenses; those without insurance who face health problems will have lower measured incomes as they pay more for medical care.

This adjustment accounts for the larger poverty rates using the NRC methodology. For example, in 1996 the poverty rate was 13.7% using the current methodology; it would have been 18% using the NRC methodology, but only 13.2% using the NRC methodology without the medical expenses adjustment. This adjustment nearly doubles the poverty rate for the elderly, raising it almost to the rate for children. This adjustment is one of the most controversial of the NRC recommendations.

There is general agreement that ignoring medical care and medical expenses entirely is not a good idea, particularly given the rapid increase in medical costs in the past 30 years, the extent of uninsurance among the low-income population, and this Administration’s concern with it. In addition, if we do not adjust for medical care (in some way) now, it may be much harder to do so in a few years when we will have better data (because the change will be so dramatic it will be viewed as another big methodology change).

There are three approaches to incorporating medical care and expenses:

(A) Follow the NRC recommendation and subtract MOOP from family resources. This makes families with unreimbursed medical expenses less well-off than other families.

(B) MOOP could be added to the thresholds rather than subtracted from resources. (The choice between options (A) and (B) is a technical decision that Census should address.)

(C) Try to impute the value of health insurance to resources, so those with insurance have higher resources. Health insurance should then also be imputed into the thresholds.

*Pros of Adjusting for MOOP (either options (A) or (B)):*

- While not perfect, under the NRC recommended adjustment families with higher

unreimbursed medical expenditures will be “poorer.” The NRC recommended adjustment would also be sensitive to changes in health care financing that would decrease MOOP and thereby increase disposable income and reduce poverty.

*Cons of Adjusting for MOOP (either options (A) or (B)):*

- The data that are currently available are out-of-date (but we should have updated information available in a more timely fashion within another year.)
- The NRC recommended approach relies on the controversial assumption that all medical care expenditures are nondiscretionary. (This concern could be mitigated to some extent by imposing a cap on the amount of medical expenses.)

*Pros of Imputing the Value of Health Insurance into Resources and Thresholds:*

- Provides a more complete accounting of all medical resources available to a family.

*Cons of Imputing the Value of Health Insurance into Resources and Thresholds:*

- There is no accepted “correct” way to do this. The data here are probably more unreliable than the data needed to impute the value of MOOP to families.
- Many analysts agree with the NRC panel that the value of health insurance is quite different from (say) the value of food stamps, which are far more fungible. Mixing in health insurance coverage with economic need causes interpretational and conceptual problems to a measure of economic need.
- To date, Census has been following the NRC recommendation. If we asked them to switch to this approach, it might require substantial additional work and seriously delay their report.

NOTE: The EOP Policy Working Group recommends that Census incorporate medical care in some way and recognizes that the Census Bureau of prepared for option (A). However, the group strongly recommends that Census thoroughly investigate the impact of option (B), and continue work on other approaches to incorporating medical care and expenditures, such as by valuing medical health insurance (option (C)).

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CREATOR: Mary L. Smith ( CN=Mary L. Smith/OU=OPD/O=EOP [ OPD ] )

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SUBJECT: Final One-pager for Equal Pay event

TO: Kara Gerhardt ( CN=Kara Gerhardt/OU=WHO/O=EOP @ EOP [ WHO ] )  
READ:UNKNOWN

TO: Amy N. Finkelstein ( CN=Amy N. Finkelstein/OU=CEA/O=EOP @ EOP [ CEA ] )  
READ:UNKNOWN

TO: Miguel M. Bustos ( CN=Miguel M. Bustos/O=OVP @ OVP [ UNKNOWN ] )  
READ:UNKNOWN

TO: Cecilia E. Rouse ( CN=Cecilia E. Rouse/OU=OPD/O=EOP @ EOP [ OPD ] )  
READ:UNKNOWN

TO: Joshua Silverman ( CN=Joshua Silverman/OU=WHO/O=EOP @ EOP [ WHO ] )  
READ:UNKNOWN

TO: Elizabeth R. Newman ( CN=Elizabeth R. Newman/OU=WHO/O=EOP @ EOP [ WHO ] )  
READ:UNKNOWN

TO: Bruce N. Reed ( CN=Bruce N. Reed/OU=OPD/O=EOP @ EOP [ OPD ] )  
READ:UNKNOWN

TO: Nanda Chitre ( CN=Nanda Chitre/OU=WHO/O=EOP @ EOP [ WHO ] )  
READ:UNKNOWN

TO: Robin Leeds ( CN=Robin Leeds/OU=WHO/O=EOP @ EOP [ WHO ] )  
READ:UNKNOWN

TO: Audrey Choi ( CN=Audrey Choi/O=OVP @ OVP [ UNKNOWN ] )  
READ:UNKNOWN

TO: Audrey T. Haynes ( CN=Audrey T. Haynes/OU=WHO/O=EOP @ EOP [ WHO ] )  
READ:UNKNOWN

TO: Chandler G. Spaulding ( CN=Chandler G. Spaulding/OU=WHO/O=EOP @ EOP [ WHO ] )  
READ:UNKNOWN

TO: Jonathan Orszag ( CN=Jonathan Orszag/OU=OPD/O=EOP @ EOP [ OPD ] )  
READ:UNKNOWN

TO: Thomas L. Freedman ( CN=Thomas L. Freedman/OU=OPD/O=EOP @ EOP [ OPD ] )  
READ:UNKNOWN

TO: Elena Kagan ( CN=Elena Kagan/OU=OPD/O=EOP @ EOP [ OPD ] )  
READ:UNKNOWN

CC: Laura Emmett ( CN=Laura Emmett/OU=WHO/O=EOP @ EOP [ WHO ] )  
READ:UNKNOWN

CC: Melissa G. Green ( CN=Melissa G. Green/OU=OPD/O=EOP @ EOP [ OPD ] )  
READ:UNKNOWN

TEXT:



**THE PRESIDENT CALLS FOR PASSAGE OF EQUAL PAY  
LEGISLATION AND RELEASES COUNCIL  
OF ECONOMIC ADVISERS' REPORT ON THE WAGE GAP  
June 10, 1998**

Today the President will commemorate the thirty-fifth anniversary of President Kennedy's signing of the Equal Pay Act and will urge passage of legislation to strengthen the laws that prohibit wage discrimination against women. In addition, the President will release a Council of Economic Advisers' (CEA) report on the gender wage gap, and announce a Department of Labor report that provides a historical perspective of the wage gap. The President will be joined by Dr. Dorothy Height, President Emeritus of the National Council of Negro Women, who was at the signing ceremony of the Equal Pay Act in 1963.

**Legislation to Improve Enforcement of Wage Discrimination Laws.** The President will call on Congress to pass legislation, introduced by Senator Daschle and Congresswoman DeLauro, to strengthen laws prohibiting wage discrimination. The highlights of this legislation include:

- Increased Penalties for the Equal Pay Act (EPA). The legislation adds full compensatory and punitive damages as remedies, in addition to the liquidated damages and back pay awards currently available under the EPA. This proposal would put gender-based wage discrimination on equal footing with wage discrimination based on race or ethnicity, for which uncapped compensatory and punitive damages are already available.
- Non-retaliation provision. The bill would prohibit employers from punishing employees for sharing salary information with their co-workers. Currently, employers are free to take action against employees who share wage information. Without the ability to learn about wage disparities, it is difficult for women to evaluate whether there is wage discrimination.
- Training, Research, and Pay Equity Award. The Daschle-DeLauro bill provides for increased training for Equal Employment Opportunity Commission employees on matters involving the discrimination of wages; **research on discrimination in the payment of wages; and the establishment of the "The National Award for Pay Equity in the Workplace," which will recognize and promote the achievements of employers that have made strides to eliminate pay disparities.**

**CEA Report on the Wage Gap.** The President will announce a report by the CEA that shows that a significant gap between the wages of women and men remains today although it has narrowed substantially since the signing of the Equal Pay Act.

- Gender Pay Gap Has Closed: Today, Women Earn 75 Cents for Every Dollar Men Earn. In 1963, the year that the Equal Pay Act was signed, women earned 58 cents for every dollar men earned. Today, women earn about 75 cents for every dollar men earn -- a 29-percent increase over the 1963 levels. The gender gap has narrowed faster among

younger women and among married women with children. And relative to all male workers, wage gains have been faster for black and white women than for Hispanic women.

- Rise in Work Experience And Move To Higher-Paying Jobs Explain Part of Narrowing of Wage Gap. Over the past 20 years, increases in women's average work experience and movement into higher-paying occupations have played a major role in increasing women's pay relative to men's. Changes in family status, in industry structure, and unionization have also worked to narrow the wage gap, while the rising returns to skills and increased wage inequality would have, by themselves, widened the pay gap.
- Much of Gender Gap Is "Unexplained." In the 1980s, about one-third of the gender pay gap was explained by differences in the skills and experience that women bring to the labor market and about 28 percent was due to differences in industry, occupation, and union status among men and women. This leaves over one-third of the gender pay gap "unexplained" by factors such as educational attainment, work experience, and occupational choice.
- Labor Market Discrimination Persists. The evidence is that labor market discrimination against women persists. One indirect and rough measure of the extent of discrimination remaining in the labor market is the "unexplained" difference in pay. And academic studies -- whether looking at pay differences between men and women in very similar jobs or by comparing pay to specific measures of productivity -- have consistently found evidence of ongoing discrimination in the labor market.

**Department of Labor Report Provides a Historical Perspective on the Wage Gap.** The President also will announce a Department of Labor report that provides a thirty-five year perspective on the wage gap. This report focuses on three periods since the signing of the Equal Pay Act -- 1960-1975, 1975-1985, and 1985-1997 -- and highlights the increased participation of women in the labor force, the changing occupations of women, and the emergence of more women-owned businesses.

- Women's Labor Force Participation Has Increased. Women's labor force participation rate rose from 37.7 percent in 1960 to almost 60 percent in 1997.
- Increased Contributions by Women to Family Income. Between 1995 and 1996 alone, the number of families with two working parents increased by nearly half a million, making equal pay even more of a family issue. In these years, both parents were employed in 63.9 percent of married-couple families with children 18 and younger, while 28.2 percent of these families had an employed father and homemaker mother.