Examining the Effect of the Supplemental "Poverty Measurement Unit": Using the American Community Survey

Background:

Since the publication of the first official U.S. poverty estimates in 1964, there has been continuing debate about the best approach to measuring income and poverty in the United States. Recognizing that supplemental estimates of income and poverty can provide useful information, in 2009, the Office of Management and Budget's (OMB) Chief Statistician formed an Interagency Technical Working Group on Developing a Supplemental Poverty Measure. This group asked the Census Bureau, in cooperation with the Bureau of Labor Statistics (BLS), to develop the new statistic. The measure is designed to obtain an improved understanding of the economic well-being of American families and how federal policies affect those living in poverty.

On March 2, 2010, the Interagency Technical Working Group (which included representatives from the Bureau of Labor Statistics (BLS), the Census Bureau, the Economics and Statistics Administration, the Council of Economic Advisers, the U.S. Department of Health and Human Services, and OMB) issued a series of suggestions to the Census Bureau and BLS on how to develop the Supplemental Poverty Measure. Their suggestions drew on the recommendations of a 1995 National Academy of Science report and the extensive research on poverty measurement conducted over the past 15 years.

The new measure will serve as an additional indicator of economic well-being and will provide a deeper understanding of economic conditions and policy effects. The official poverty measure, which has been in use since the 1960s, estimates poverty rates by looking at a family's or an individual's cash income. The new measure will be a more complex statistic incorporating additional items such as tax payments and work expenses in its family resource estimates. Thresholds used in the new measure will be derived from Consumer Expenditure Survey expenditure data on basic necessities (food, shelter, clothing and utilities) and will be adjusted for geographic differences in the cost of housing. The new thresholds are not intended to assess eligibility for government programs. Additional details can be found at http://www.census.gov/hhes/www/povmeas/SPM_TWGObservations.pdf.

If the President's budget initiative is approved, the Census Bureau will publish the first set of poverty estimates using the new approach in September 2011. Both the Census Bureau and the Interagency Technical Working Group consider the Supplemental Poverty Measure a work in progress and expect that there will be improvements to the statistic over time.

Currently, the official poverty measure uses the "family" as defined by Census Bureau, as the basic unit of analysis to determine poverty status of families and individuals. It uses total family income for those living in family households, and total personal income for those living by themselves or residing with householder but not related to, to determine their poverty status. In the family unit is i defined as:

"A group of two people or more (one of whom is the householder) related by birth, marriage, or adoption and residing together; all such people (including related subfamily members) are considered as members of one family." [1]

The ACS poverty universe excludes children under 15 years who are not related to the reference person and treats adult household members who are not related to the householder by birth, marriage or adoption (whether it is a family household or non-family household) as unrelated individuals.[2]

Excluding unrelated children under the age of 15 and foster children from the poverty universe and treating cohabiting partners as unrelated individuals impact the estimates of the poverty status of households and individuals. One suggestion made by the Interagency Working Group is to include unrelated children under the age of 15, foster children and unmarried partners in the poverty measurement unit for the Supplemental Poverty Measure.

Methodology:

This paper will use data from the American Community Survey (ACS) to identify households with unmarried partners, foster children and other co-resident unrelated children and reevaluate their poverty status, using the official thresholds and official income definition.[3]

The ACS questionnaire allows respondents to categorize the relationship of each individual in the householder to the "reference" person. Figure 1 shows the question that appears on the printed questionnaire. The first ten categories are currently included in the Census Bureau family definition. The new poverty measurement unit would add all individuals in the "unmarried partner" and "foster children" categories and those "unrelated individuals" ages 14 and younger.

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[1] Unlike the Current Population Survey Annual Social and Economic Supplement (CPS ASEC), the ACS does not identify unrelated subfamilies in a household. Individuals related to each other but not related to the householder are treated as unrelated individuals rather than unrelated subfamilies.

[2] Unrelated individual is a person who is a householder living alone or living with nonrelatives only, or who is a household member who is not related to the householder, or is a person living in group quarters which is not an inmate of an institution.

[3] Consistent with the suggestions of the Interagency Working Group, the Supplemental Poverty Measure will be estimated using CPS ASEC data and will utilize poverty thresholds derived from Consumer Expenditure Survey data which will be compared to a resource measure that takes into account noncash benefits, taxes, tax credits, work-related expenses and medical out-of-pocket expenses. Given the limitations of ACS data, this analysis will change only the unit of analysis and continue to utilize the official poverty thresholds as they compare to money income before taxes.

2 How is this person related to Person 1? *Mark (X) ONE box.*

☐ Husband or wife
☐ Biological son or daughter
☐ Adopted son or daughter
☐ Stepson or stepdaughter
☐ Brother or sister
☐ Father or mother
☐ Grandchild
☐ Parent-in-law

☐ Son-in-law or daughter-in-law
☐ Other relative
☐ Roomer or boarder
☐ Housemate or roommate
☐ Unmarried partner
☐ Foster child
☐ Other nonrelative

Figure 1

The following steps will be applied to create new family and reevaluate poverty status of households.

1. Identify presence of unmarried partners, unrelated children and foster children in all households, using the responses to the relationship question and create a new unit of analysis treating the households with unmarried partners, unrelated children and/or foster children as "poverty measurement units".

2. Add the income of unmarried partners to the income of the traditional family unit to create new "poverty measurement unit income".

3. Calculate the size of new poverty measurement unit according to the number of persons added.

4. Determine poverty status of the new poverty measurement unit using the threshold appropriate to the new poverty measurement unit size and new total poverty measurement unit income.

In order to independently assess the impact of each of these changes to the poverty measurement unit, the paper will report poverty rates for three different types of poverty measurement units:

- Type 1. A new poverty measurement unit adding only unmarried partners.

- Type 2. A combination of Type 1 families with residing unrelated children under 15 years who are not foster children.

- Type 3. A new poverty measurement unit which adds unmarried partners, all unrelated children under 15 years of age and all foster children.

Using ACS data for different years this paper will also examine trends in the prevalence and composition of these types of households. The paper concludes with a discussion comparing the current official poverty rates with the one calculated using the new "poverty measurement unit".

Discussion:

Including additional people in the poverty measurement unit can increase money resources but will also increase the threshold amount compared to money income to determine poverty status. While the higher threshold makes it more likely to be classified as poor, the additional income from the new individuals may keep the unit out of poverty.

The table below shows household data from 2008 ACS. There were about 6.2 million households which included an unmarried partner. Of these, 2.6 million were in family households (households that included at least one other person related to the householder) while 3.6 million were in non-family households. Preliminary results from the 2008 ACS data show that while the new unit of analysis results in only a small change in overall poverty rates, but the change in the poverty rates for units that include an unmarried partner can be dramatic. The poverty rate for all households dropped from 12.6 percent to 12.0 percent while poverty rate for female householders with no husband present living with unmarried partner dropped from 41 percent to 16.2 percent. Similarly, the poverty rate for male householders with no wife present living with unmarried partner dropped from 21.0 percent to 15 percent.

Table 1

Comparison of Poverty Status by Type and Composition of Households : 2008

Percentage of Households with Income Below Poverty Level

Type of Households	Total Number of Households	Official Poverty Measure	Only UMP's merged with Householder	UMP & UI Under 15 Merged with Householder	UMP , UI under 15 and Foster Children Merged with respective Households
Married Couple	55,692,103	4.6%	4.6%	4.6%	4.6%
Male Householder, No-wife w-UMP	1,195,329	21.2%	15.0%	15.4%	15.4%
Male Householder, No-wife w-No UMP	3,972,048	11.3%	11.3%	11.3%	11.3%
Total Male Householder, No-wife Present	5,167,377	13.6%	12.2%	12.3%	12.3%
Female Householder, No-husband w-UMP	1,456,115	41.0%	16.2%	16.3%	16.3%
Female Householder, No-husband w-NO UMP	12,710,000	26.5%	26.5%	26.5%	26.5%
Total Female Householder, No-husband Present	14,166,115	28.0%	25.4%	25.4%	25.5%
All Family Households	75,025,595	9.7%	9.1%	9.1%	9.1%
Male Householder Living Alone	13,868,938	15.3%	15.3%	15.3%	15.3%
Male Householder Not Living Alone, W-UMP	1,978,490	11.6%	5.0%	5.3%	5.3%
Male Householder Not Living Alone, W-No UMP	1,822,279	24.0%	24.0%	24.0%	24.0%
Total Male Householder Not Living Alone	3,800,769	17.5%	14.1%	14.2%	14.3%
Female Householder Living Alone	17,537,559	20.2%	20.2%	20.2%	20.2%
Female Householder Not Living Alone, w-UMP	1,583,608	19.8%	6.2%	6.2%	6.2%
Female Householder Not Living Alone, w-No UMP	1,279,904	30.8%	30.8%	30.8%	31.0%
Total Female Householder Not Living Alone	2,863,512	24.7%	17.2%	17.2%	17.3%
All Non-Family Households	38,070,778	18.5%	17.6%	17.6%	17.6%
All Households	113,096,373	12.6%	12.0%	12.0%	12.0%