

Social Security Administration: Alternative Poverty Rates

This research creates a consumption-based poverty measure. This is relevant to the elderly population, who are likely to receive income-in-kind, such as Medicare, and have savings or home equity to draw from.

Lead Agency:

Social Security Administration

Agency Mission:

To advance the economic security of the Nation's people through compassionate and vigilant leadership in shaping and managing America's Social Security programs.

Principal Investigator:

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General Description:

This research uses income and consumption data from the Consumption and Activities Mail Survey (CAMS) and Health and Retirement Study (HRS) to calculate alternative poverty rates. These are compared to the poverty rates computed using pre-tax income from the Current Population Survey (CPS). The consumption-based measure is the sum of expenditures on non-durable goods and consumption flows from durable goods, such as cars and housing. It is related to income since consumption cannot exceed after-tax income. For groups such as the elderly, a consumption-based measure of poverty may be more reliable since it takes into account income-in-kind, such as Medicare, spending out of wealth, and consumption flows from durable goods. The authors check the validity of the CAMS data and find very high response rates for questions on different types of expenditures. In addition, the patterns of consumption are consistent with younger households saving more while the oldest spend more.

The authors find that poverty rates computed from pre-tax and after-tax incomes are similar for most age ranges. However, the consumption-based poverty rate is much lower than an income-based rate. Overall, 6.16 percent of households fall below the poverty threshold based on income, but when consumption is used, only 2.85 percent would fall below the poverty line. The consumption-based poverty measure accounts for differences in wealth. Of those in poverty based on income, those also in poverty based on consumption have, on average, \$187 of non-housing wealth. This is much lower than the average non-housing wealth of \$158,202 for those who are not in poverty according to consumption.

- Excellence:*** What makes this project exceptional?
- Significance:*** How is this research relevant to older persons, populations and/or an aging society?
- Effectiveness:*** What is the impact and/or application of this research to older persons?
- Innovativeness:*** Why is this research exciting or newsworthy?

Policy makers have long relied on income-based measures of poverty. Consumption is arguably a much more accurate measure of material well-being than income. For example, households can consume more than their income if they have savings. In this case, if we looked at income, we would form a different impression of the well-being of the household than if we looked at consumption. This project finds that consumption-based poverty rates are considerably lower than income-based rates, especially for single people. A consumption-based measure of poverty would actually decrease the percentage of people categorized as poor, and this is especially true in advanced old age as people spend increasingly out of savings.