

Addendum to
Changes in the Economic Resources of
Low-Income Households with Children

September 19, 2007

In *Changes in the Economic Resources of Low-Income Households with Children*, the Congressional Budget Office (CBO) reports, “In 2005, inflation-adjusted income for low-income households with children averaged \$16,800, 35 percent above what it had been in 1991. Only the highest-income households with children (those averaging \$114,700 in 1991) saw larger percentage increases over the 15 years.”¹ That report examined money income, as defined by the Bureau of the Census, plus the earned income tax credit (EITC).² This addendum analyzes five measures of income to examine the sensitivity of those results to choice of income measure. The first, money income, is more narrow than that used in the paper. The second, money income plus the EITC, is identical to that used in the paper. The third subtracts other federal and state income taxes and payroll taxes and adds net realized capital gains. The fourth adds the value of food stamps. And the fifth, the most comprehensive measure, adds the value of school lunch and housing subsidies.³ The addendum focuses on the years 1991 to 2005, the period covered in the paper.

When income is defined broadly—the fifth measure described above—to include money income, the EITC, other taxes, net realized capital gains, the value of food stamps and school lunches, and the value of housing subsidies, low-income households with children had higher average income in 2005 (\$18,700) than they did under the narrower definition of income used in the paper (see Addendum Table 1). For that broader definition of income, income growth over the 15-year period was lower, at 25 percent, than was income growth under the narrower definition used in the paper (35 percent).

-
1. Congressional Budget Office, *Changes in the Economic Resources of Low-Income Households with Children* (May 2007), www.cbo.gov/ftpdocs/81xx/doc8113/05-16-Low-Income.pdf, p. 2.
 2. Money income includes earnings, unemployment compensation, workers’ compensation, Social Security payments, Supplemental Security Income, public assistance payments, veterans’ benefits, survivor benefits, disability benefits, pension or retirement income, interest, dividends, rents, royalties, estates and trusts, educational assistance, alimony, child support, financial assistance from outside the household, and money from other miscellaneous sources. See Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica Smith, *Income, Poverty, and Health Insurance Coverage in the United States: 2006*, Current Population Reports, P60-233 (Bureau of the Census, 2007), www.census.gov/prod/2007pubs/p60-233.pdf.
 3. The data for each measure of income, for each year, for each quintile, from 1979 to 2005 are available in the Excel spreadsheet that constitutes the data supplement to this addendum. At the time of publication, the tax and noncash benefit data were unavailable for the 2007 CPS; only money income can be examined in calendar year 2006. This analysis is based on the U.S. Census Bureau’s Current Population Surveys (CPS) from 1980 to 2007. The sample consists of children, age 17 or younger, who do not reside in group quarters. The analysis is child weighted. Children are ranked by household income, adjusted for household size. The adjustment is based on the poverty guidelines published by the Department of Health and Human Services, <http://aspe.hhs.gov/poverty/figures-fed-reg.shtml>.

By each of the five measures of income, only the highest-income households with children saw substantially larger percentage increases in income over the 15 years than did low-income households with children (see Addendum Figure 1).⁴

The income growth among low-income households with children differs significantly from that of households without children. In the paper, CBO noted “the lowest quintile of households without children experienced no real increase in income between 1991 and 2005” (p. 1). That holds true for each of the additional income measures examined here (results not shown).

Addendum Table 1.

Real Income for Low-Income Households with Children				
(2005 Dollars)				
	<u>Average Income</u>		<u>Percentage Change</u>	
	1991	2005	1991-2005	
Income Definition				
1	Money Income	11,700	14,500	24
2	Money Income + EITC	12,400	16,800	35
3	Money Income + EITC – Other Taxes + Net Realized Capital Gains	11,800	16,300	37
4	Money Income + EITC – Other Taxes + Net Realized Capital Gains + Food Stamps	14,200	18,000	27
5	Money Income + EITC – Other Taxes + Net Realized Capital Gains + Food Stamps + School Lunch + Housing Subsidies	15,000	18,700	25

Source: Congressional Budget Office based on the U.S. Census Bureau's Current Population Surveys, 1992 and 2006.

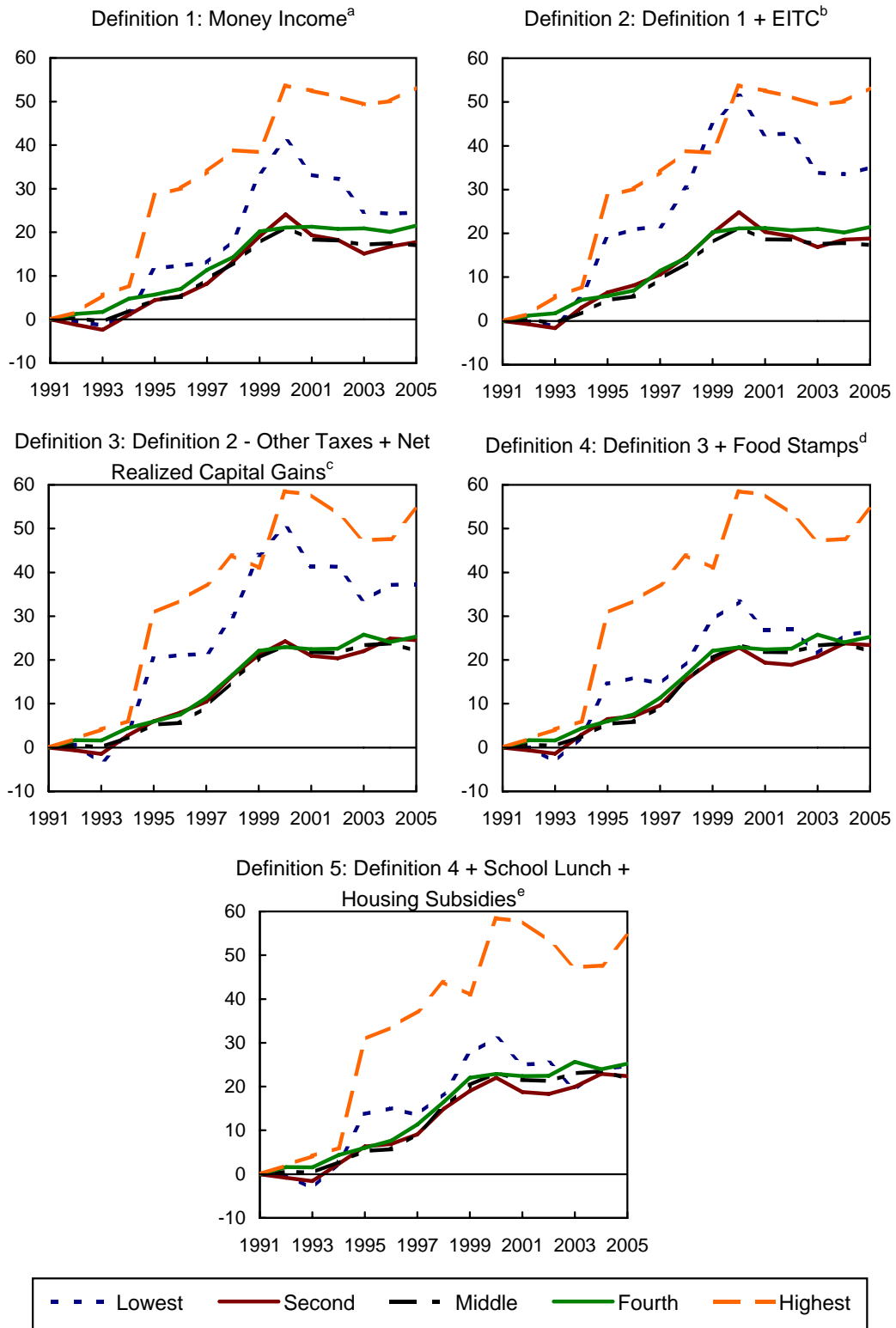
Notes: Annual income was adjusted for inflation using the research series for the consumer price index for all urban consumers.

EITC = earned income tax credit.

4. There were changes in the level at which earnings were topcoded (for instance, in 1994 earnings were topcoded at \$99,999; this increased to \$150,000 in 1995 and increased again, in 2002, to \$200,000) and in the manner in which earnings were allocated above the topcode in the CPS between 1992 and 2006. Caution should be used in interpreting growth rates, especially for the highest quintile.

Addendum Figure 1.

Growth in Real Income of Households with Children, by Quintile
(Percent)



Source: Congressional Budget Office based on the U.S. Census Bureau's Current Population Surveys from 1992 to 2006.

Notes: Annual amounts were adjusted for inflation using the research series for the consumer price index for all urban consumers. Data are subject to changing topcodes over time. As a result, caution should be used in interpreting growth rates, especially for those in the highest quintile. The sample consists of children, age 17 and younger, who do not reside in group quarters. Children are placed into quintiles based on the income definition of interest. There are equal numbers of children in each quintile.

EITC = earned income tax credit.

- a. The distribution of average household income, defined as money income, in 1991 was as follows: lowest quintile, \$11,700; second quintile, \$31,100; middle quintile, \$48,600; fourth quintile, \$69,000; highest quintile, \$114,700.
 - b. The distribution of average household income, defined as money income plus EITC, in 1991 was as follows: lowest quintile, \$12,400; second quintile, \$31,600; middle quintile, \$48,700; fourth quintile, \$69,100; highest quintile, \$114,700.
 - c. The distribution of average household income, defined as money income, EITC, other federal and state income taxes, payroll taxes, and net realized capital gains, in 1991 was as follows: lowest quintile, \$11,800; second quintile, \$28,400; middle quintile, \$41,400; fourth quintile, \$56,400; highest quintile, \$88,400.
 - d. The distribution of average household income, defined as money income, EITC, other federal and state income taxes, payroll taxes, net realized capital gains, and the value of food stamps, in 1991 was as follows: lowest quintile, \$14,200; second quintile, \$28,900; middle quintile, \$41,400; fourth quintile, \$56,500; highest quintile, \$88,400.
 - e. The distribution of average household income, defined as money income, EITC, other federal and state income taxes, payroll taxes, net realized capital gains, the value of food stamps, and the value of school lunch and housing subsidies in 1991 was as follows: lowest quintile, \$15,000; second quintile, \$29,400; middle quintile, \$41,600; fourth quintile, \$56,600; highest quintile, \$88,500.
-